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In the end, we think that ethical leadership is not determined by categorical formulae, but by the particular character and virtue set of individual leaders. Of course, this makes ethical decision making and leadership a messy and inexact science. And yet, life is a messy and an inexact experience. Perhaps the only thing we can really rely on is (and we mean this in a purely Kantian sense) the "goodwill" of the leader in question. In the end, perhaps James Rachels captured the fluidity of the issue best when he suggested that all areas of philosophy are "first and last an exercise in reason—the ideas that *should come out on top* are the ones that have the best reasons on their sides."[7]

Although we do not entirely agree with this text, scholars of leadership need to address it. Price has produced a serious work that deserves serious attention.

NOTES

1. Terry L. Price, *Leadership Ethics* (New York: Cambridge University Press 2008), 5.
2. Immanuel Kant, *Foundations of the Metaphysics of Morals*, trans. Lewis White Beck (Indianapolis: Bobbs-Merrill, 1876), 39.
3. Price, *Leadership Ethics*, 38.
4. Ibid., 217.
5. Immanuel Kant, "Perpetual Peace: A Philosophical Sketch," in *Kant's Political Writings*, ed. Hans Reiss (Cambridge: Cambridge University Press, 1970), 116, 125.
6. St. Augustine, *Basic Writings of St. Augustine*, V.II., *The City of God*, ed. W. J. Ortes (New York: Random House, 1948), Book XIX, Chapter XIV, 480, 491.
7. Plato, *The Republic*, translated and Introduction by Francis MacDonald Cornford (New York: Oxford Press, 1968), xxix.

***The Globalization of Corporate Governance*, by Alan Dignam and Michael Galanis. Farnham, England: Ashgate, 2009.**

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The Globalization of Corporate Governance is a timely and original comparative analysis, published at a critical time and written by lawyers, on the impact of economic globalization on corporate governance systems.

Alan Dignam and Michael Galanis explore pressures to change exerted by the process of economic globalization on 'insider' stakeholder-oriented corporate governance systems. They seek to answer the question whether these pressures are likely to cause them to converge/transform to a shareholder-oriented 'outsider' model.

The book is divided into two parts. In part 1, the authors set out the theoretical context for their examination, while in part 2, they examine evidence of change in the UK and US on the one hand and in Germany on the other. In doing so, they work

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across a number of different disciplines (including economics, economic history and political history) to get a broader view of change and transformation related to the process of economic globalization. This makes their comparative analysis a valuable and distinctive resource in the modern corporate governance debate.

The analysis begins with an in-depth description of the various theories that have been used to explain the nature of the corporation over the past 200 years (chapter 1). The reason for this theoretical and historical approach is that changes in the theoretical landscape and corporate governance transformation are closely linked in both UK and US experiences.

The authors first focus on the legal theories of the corporation (e.g., 'aggregate' and 'corporate realism' theories), then turn to the economic ones and analyze the neoclassical theory on the one hand and the managerial theories on the other. They point out that both law and economics, from which the abovementioned theories derive, can produce similar results at least as regards the corporate entity and its governance power. Thus, broadly two main conceptions of the corporation have emerged in the literature as solutions to the problems regarding the nature and governance of the corporation, which the authors describe as shareholder supremacy and managerialism. The former advocates that the focus of managerial power should be the shareholder and the shareholder's interests; the latter advocates broader accountability for managers to stakeholders and requires that managers use their discretion positively to promote the interests of all stakeholders.

The authors further note that shareholder supremacy has, over the past thirty years, come to ascendancy, particularly in the US, where the managerial corporation was characterized by a highly dispersed shareholding class accompanied by a controlling group of managers having a great deal of discretionary power. There, the domestic corporate accountability debate has been dominated over the same time period by shareholder-oriented solutions to accountability issues. In most of the rest of the world, on the contrary, the presence of a managerial class was not accompanied by dispersed ownership and the underlying accountability issue was not as acute as in the US. Because the globalization of financial markets has introduced Anglo-Saxon outsider capital into insider systems, the domestic Anglo-Saxon conception of accountability has been elevated to the global stage. As a result, the comparative debate became focused on claims that insider systems in countries such as Germany are inferior and will converge with or be transformed into (superior) shareholder-oriented outsider systems.

Dignam and Galanis begin to examine these convergence claims in the second chapter. They consider that institutional analysis is more effective than are theories based on neoclassical assumptions, and utilize it to compare corporate governance systems at the national and global level. This chapter is devoted to a static institutional analysis, while the dynamic analysis of institutions is left to the following chapter, where the potential causes of institutional change are explored.

The starting point of the authors' examination is the assumption that the nature of the corporate governance system is shaped by the institutional environment in which it operates. They think that, by operating as constraints that affect economic agents' choices of action, institutions can affect corporate decisions. The examination

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concerns some selected key institutional sub-systems which are central to corporate governance outcomes and seem to have the largest influence on the strategic choices of organizations: corporate law, the financial system, the industrial relations system and sub-systems related to the government demand function (particularly competition and effective demand).

While the authors note that fundamental elements of corporate law are similar across most major capitalist models, they identify two different types of financial systems, a market-based and a bank-based system, depending on whether or not securities markets play a significant role either in pooling savings or in corporate finance. They note that in a market-based financial system one expects to find a pattern of highly fragmented ownership of stock, whereas in a bank-based system the shareholdings of listed corporations should be more concentrated and illiquid. This divergence in ownership structures is highly significant for corporate governance outcomes because it is directly related to the corporate control channels available to shareholders ('voice' and 'exit'). Thus, to the extent that the financial system can determine the structure of share ownership it has an immediate impact on the choice of corporate control.

In analysing how an industrial relations system can affect the orientation of a corporate governance system, the authors distinguish between external and internal labour markets and show that firms' industrial relations choices have significant implications for managerial decision-making. They then highlight the important role of competition as a factor constraining managerial discretion and point out that institutional arrangements determining the structure of product markets as well as the nature and effects of competition can have a significant influence on corporate governance.

The authors' examination clearly shows the complementarities existing between the various sub-systems (institutions in one sub-system are only workable if institutional configurations in other sub-systems are compatible). They go on to demonstrate that the outsider shareholder model of corporate governance and the insider model based on enhanced managerial discretion, corresponding to the two main theoretical concepts of the firm outlined in chapter 1, are both workable combinations of complementary institutional sub-systems at the national level.

In the next chapter (chapter 3), Dignam and Galanis get to the heart of their exploration and seek to identify, within the process of economic globalization, the pressures on institutions in insider systems to conform to a shareholder orientation. In doing so they examine the economic history of globalization to gain a picture of the overall process they are dealing with. The subsequent paragraphs of the chapter identify, explain and assess the pressures of global financial integration on national institutional arrangements determining corporate governance.

The authors first indicate the effects of economic globalization on those institutions with primarily economic functions, such as finance, competition and effective demand, and industrial relations, then they mention the impact of globalization on corporate law.

As to the first issue, they point out that the reduction of trade barriers after a series of GATT negotiations during the second half of the 20th century increased competition in product markets and in turn squeezed managerial discretion concerning the allocation of retained earnings. This has two potential effects. First, the ability of

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managers to maintain commitments to stakeholders is reduced. Second, the managers' response to highly competitive markets has been to expand firms' operations abroad, mostly in the form of M&As and/or in the form of locating manufacturing in developing countries. As a result, commitments to labor are reduced and capital market funding introduces institutional investors with strong outsider shareholder-oriented expectations into the company.

The globalization of capital markets has also had an effect on the national policies because the governments over the course of the past thirty years have shifted macroeconomic policy from the objective of fostering employment and demand to maintaining given exchange rate parities or the levels of money supply. This has not only removed the government demand support that has historically supported managerial-oriented insider systems, but it has had the incidental effect of promoting both the privatization of state industries and private saving provision, which in turn promote securitization within the financial system.

As regards the effects of economic globalization on corporate law, Dignam and Galanis consider that there have been systematic efforts by international organizations (especially OECD) to institutionalize an outsider shareholder orientation as a globally accepted corporate governance norm.

The authors' conclusion is that the process of globalization has placed significant pressures on key aspects of insider managerial systems that might affect their institutional coherence.

Notwithstanding the existence of pressures to change, the outcomes when subsystems change can be surprisingly diverse. In the last chapter of part 1 (chapter 4), the authors bring together all the central elements of the previous chapters to examine the potential theoretical dynamic responses of national corporate governance systems to the abovementioned pressures to change.

They first consider the neoclassical theories of change and discuss the theory of institutional convergence toward a unique superior outcome and the complementary thesis of the convergence of national corporate governance systems to optimality. According to them, although the forces of globalization may push toward systemic convergence of some kind, a whole set of other institutional forces may simultaneously pull corporate governance systems toward their original positions.

Moving then to institutional theories of change, the authors concentrate on the institutional critique of the neoclassical analysis and highlight the emphasis of these theories on the role of institutions in either facilitating or blocking change. They finally conclude that national corporate governance models should be expected to react differently to common stimulants and not uniformly as neoclassical theories would predict. The degree, or lack, of global convergence toward an outsider model will ultimately depend on the nature and strength of complementarities within institutional systems that are particular to each nation.

Dignam and Galanis leave the theoretical analysis landscape to examine, in part 2, evidence of institutional change and transformation in the UK, US, and Germany. This part is perhaps the most interesting and challenging as it suggests a different perspective from which the evolution of corporate governance systems can be explored and comes to a persuasive conclusion about the interaction between

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economic globalization and corporate governance change. In addition, it offers a comprehensive and thorough overview of all three systems covered.

The authors deal with the UK and US first (chapters 5 and 6). Their premise is that the outsider corporate governance systems prevalent in these countries are unique among the world's corporate governance structures, so it is necessary to understand how they reached this exceptional status before examining changes to the German insider system that might be leading to its transformation to an outsider system.

The UK and the US constitute clear examples of what Dignam and Galanis perceptively observed in chapter 4. Even though they have a shared history of trade and investment, as the US was a former colony of the UK, they have reacted differently to common stimulants. These systems have been engaged in constant rearrangement in response to stimuli, but their experience has been characterized in a general sense by diversity in reaction in the institutions affecting corporate governance outcomes over time.

Despite the different corporate governance landscapes—which began to show some similarities on the eve of WWII—neither the UK nor the US conformed to a shareholder-oriented outsider system for most of their history. In both countries, although the stock exchange was important as a source of finance, banks, government, labor and, in the UK, families exerted significant influence at various points over managerial discretion. In addition, US companies had great protection through tariff barriers, whereas in the UK competition pressures were negated by government-instigated collusion or tolerance of collusion and from the 1930s protective tariff barriers diminished overseas competition.

In all, the authors conclude that the UK and US conformed more to an insider model than to an outsider one over the period from their initial colonial relationship until the early 1970s. The economic shock of WWII in Britain and of the Great Depression in the US did not cause institutional transformation to outsider systems but rather moved both countries toward stronger insider models. It was by the late 1960s that the seeds of future corporate governance transformation in the UK and the US from insider systems to outsider systems were evident. Indeed, competitive pressures increased and the response of companies to the changed competitive environment was a wave of mergers and the beginning of the hostile takeover as a management threat. In both countries, the merger wave had the effect of companies growing in size and operating in many different industries with the resultant loss of control by senior management over operating units.

The 1970s marked a turning point for the UK and US corporate governance systems. The post-war partnership among government, business and labor collapsed and transformation came through the introduction of monetarist and deregulatory policies by Margaret Thatcher and Ronald Reagan. In both countries, labor ceased to have a significant impact on management discretion, the government's role in the marketplace was reduced and financial systems were deregulated. In this environment, a very active market for corporate control was established and institutional investors emerged as a significant force in equity markets.

The institutionalization of shareholding and the emergence of a market for corporate control with an absence of government and labor influence allowed shareholders to

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become the major influence on management within the corporate governance systems and complete the transformation to outsider systems. Consequently, a re-orientation has occurred in managerial motivation toward creating value for the shareholders. A deep but short recession in both countries in the early 1980s further facilitated change by softening up any remaining resistance to systemic transformation. In turn, from 1979 onward, in the face of the increasing importance of institutional investors, the NYSE and the LSE have been engaged in a constant regulatory competition.

As a result, by the end of the 1980s both countries emerged as shareholder-oriented outsider systems and their integrated capital markets, based on an outsider shareholder orientation, assumed nascent global market status.

It is noteworthy that, although the experiences of the UK and the US indicate a diversity of reaction in institutional structures to stimuli over time, in the 1980s both systems reoriented themselves to produce similar outcomes in reaction to a similar shock. The authors go back to explore this commonality of response in the final chapter.

In the next chapters (7 and 8), they turn to consider the evidence of systemic change in Germany as a result of the pressures exerted by the process of globalization. Their intention is to evaluate whether or not the German insider model is indeed converging/transforming into an outsider shareholder-oriented model.

The authors first set out the traditional German insider model to establish a base against which they can judge the evidence of such convergence/transformation. They observe that the German model has not been based on the idea that managers act solely in the interests of shareholders. Labor co-determination, industry cross-shareholdings, family shareholding, state shareholding and bank shareholding were significant internal features of the traditional model. Externally a weak securities market, bank-based finance, deficient disclosure and minority shareholder protection rules, the absence of hostile takeovers and the subsequent insignificant role of the market for corporate control, and collusive relationships between companies were important complementary aspects of the institutional system. All of these aspects indicated a strong insider bias to the corporate governance system.

In examining the evolution of the German corporate governance model, the authors concentrate on the part the share ownership structure of German companies have played in this evolution. The shareholdings' analysis shows that corporate ownership is highly concentrated and the market for corporate control is dominated by large blockholders (other non-financial companies, families, banks and the German government).

According to the authors, neither outsider shareholders nor banks as proxy-vote custodians or non-financial companies holding cross-shareholdings seem to be able or willing to enforce outsider shareholders' interests. On the one hand, the German system, which is characterized by labour co-determination and a deficient investor protection regime when it comes to minority shareholder rights and disclosure, has been specifically designed to discourage outsider shareholders. On the other hand, banks do not seem to have exercised the corporate control role that has sometimes been attributed to them. Indeed, they mainly use their voting power to further their interests as creditors rather than as shareholders. Moreover, where a non-financial corporation has a strategic blockholding in another company, industrial strategy considerations or management entrenchment will tend to prevail over the desire to

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maximize financial returns on equity. The major shareholders other than banks and non-financial corporations are families who normally have non-financial considerations or, when they do have financial considerations, are capable of engaging in private benefit extraction. In all, managers within the traditional German model have significant discretion upon which the major constraint is the interests of employees followed by the interests of families, banks, affiliated companies and the government, all sustained historically by a notion of long-term commitment between the company and its various stakeholders.

The authors further focus on the effective demand conditions and point out that, contrary to expectations, demand targeting has not been a central feature of German macroeconomic policy-making during the post-war era as it has been in the UK and the US.

The conclusion of this analytical overview is that the German model of corporate governance has been based on the workable complementarity of its institutional components. The interaction among underdeveloped capital markets, corporate ownership concentration, co-determination provisions and collective bargaining as well as the role of universal banks has provided the foundations for a workable system that has performed extremely well for most of the post-war era and that has achieved and maintained a high level of social welfare and cohesion.

From the late 1980s onward, greater pressures for change have emerged in Germany because of the process of globalization.

The authors first examine developments in industrial relations resulting from increased global and regional competition and the globalization of production. The response within the German industrial relations system to these pressures reveals a somewhat mixed picture. Although domestic legal change was highly path dependent and led to the fortification of co-determination provisions that were already in place, at the same time functional changes moved to more flexibility in negotiating on the part of unions. Additionally, developments at the EU level such as the adoption of the *Societas Europaea* (SE) regulation may have brought some formal erosion of co-determination. As a result, labor co-determination has come under stress and has changed. However, the institutions of co-determination, though altered, still remain a functioning and important part of the German corporate governance model and highly valued by workers and the general public.

The authors then consider financial markets globalization. As the liberalization of capital controls progressed during the 1980s, the interaction between domestic and foreign financial markets through regulatory arbitrage created a need for a gradual reorienting of the German financial system to a more market-oriented model. Large German companies increasingly sought capital in global capital markets and the country's largest banks were increasingly operating outside Germany. The direct exposure of its largest companies and banks to the effects of global capital markets created significant pressures to reform and integrate German capital markets into these global capital markets. In response, since the late 1980s Germany has been engaged in a process of developing its financial markets.

This 'reorientation' of the German financial system has been associated with a series of legal changes that are closely related to corporate governance outcomes

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and have the effect of promoting outsider norms within the traditional German corporate governance model. The authors examine the key legal reforms, then turn to determine the extent to which the traditional insider model has been affected by these changes and the degree of penetration of outsider shareholder-oriented norms in German corporate governance.

They conclude that reactions to pressures from the process of globalization have occurred and are still occurring in differing institutional sub-systems. The question is whether these changes have resulted in convergence/transformation to an outsider system or have represented an accommodation of the new economic environment according to the German insider system's internal logic. Indeed, the introduction of considerable outsider norms into the German corporate system reveals little about whether these norms have had a convergence/transformation effect because institutional sub-systems rearrange themselves in complex ways when pressures are applied.

Whether the German insider model is moving to or is transforming into an outsider system is a complex question that the authors try to answer in the final chapter along with the parallels with the UK and the US experience.

In this chapter, Dignam and Galanis draw their conclusions and examine the future of globalization as a continuing agent of change. They consider their findings from parts 1 and 2 on the causes of systemic corporate governance change generally, how globalization causes changes, the dynamics of change that led to the UK and the US emerging as unique outsider systems and whether the changes they identified in the German corporate governance system have caused or are likely to cause it to transform/converge to an outsider system.

The starting point of their final observations is that, in general, change within corporate governance sub-systems seems to be a constant process of stimuli and reaction within a complementary workable set of institutional sub-systems. However, sometimes shocks to individual sub-systems or to the systems as a whole can align forces for change in a particular direction removing path dependent reactions and pushing it rapidly in a different direction. This leads to two general observations. First, the similarity of reactions in the UK and the US in the 1980s indicates that their shared institutional history has played a role in the common response to shock. Second, a diversity of reaction to similar economic pressures to change occurred in Germany.

The authors persuasively consider that it is correct to observe that the German insider system is subject to pressures to change from the process of globalization and indeed that change has occurred, but convergence/transformation to an outsider system does not seem to be playing out as a result of that process. Instead, the German corporate governance system is altering to accommodate the economic environment in a manner that is consistent with its own internal constraints. In other words, although change is constant within all three corporate governance systems, movement from one system to another is unusual and predicting the systemic outcome of change is very difficult. Similarly, the authors doubt that the process of globalization will produce a future shock which will destabilize the German system, as it is more likely that events bringing about the end of the current process of

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globalization could cause such a destabilizing shock either moving Germany to a stronger insider system or to an outsider one.

Dignam and Galanis conclude their comparative analysis by considering that in 2008 the two pillars upon which the process of economic globalization has been built, the liberalization of trade and capital markets, were badly shaken because of the recent crisis in integrated global capital markets. Given the strong link between crisis and change in corporate theory, the legitimacy of the outsider shareholder model, designed by and for this process of globalization, also comes into question. In such a changed environment, the insider model may, according to the authors, once more have 'its day in the sun.'

This review has emphasized the strong interdisciplinary approach of Dignam and Galanis in exploring the evolution of corporate governance systems. The authors' distinctive and modern approach as well as the evident topicality of the argument makes their comparative analysis worthy to be read not only by scholars of corporate governance from all disciplines but also by policymakers worldwide. In other words, it is essential reading for all those involved in the corporate governance debate.

Additionally, the details and the accuracy of the analysis make the book a useful and important source of historical, economic and legal information about key countries characterized by different corporate governance models.

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