The Convergence of Global Corporate Governance Practices

July 11, 2012

Corporate governance practices vary widely from country to country. The myriad cultures and legal systems around the world influence not only how corporations are run, but also how shareholders respond to them. However, the fragmented global governance structure appears to be in a state of convergence, as the globalization of financial markets creates the need for international synchronization of corporate governance.\(^1\) Despite this movement, it is unlikely that a single international system of corporate governance will ever fully develop.

One of the primary reasons for the convergence in corporate governance practices is that the largest public pension systems in North America, Western Europe and Asia have developed substantial ownership and influence over corporate governance and corporate strategy.\(^2\) Public pension plans owned almost a tenth of the European market share in 2008, while U.S. pension funds own between 10% and 20% of the U.S. equity market.\(^3\) As large investors with significant assets, these pension plans have the power to exercise considerable influence over equity markets, and as such are increasingly using their ownership control to monitor corporate management. While there is a great diversity of investment and shareholder engagement policies in different countries, it is clear that engagement and activism are common tools among them, and their objectives are increasingly similar.

The global economic situation has also become a major force in how corporate governance practices are converging. With a widely held belief that failures in corporate governance contributed to the global financial crisis, this uncertainty and turbulence has made effective corporate governance exceedingly important on an international level. The excessive risk taking that started in the United States spread to hundreds of financial firms worldwide. These failures of risk management systems were made worse by incentive systems that encouraged and rewarded high levels of risk taking. Macroeconomic and structural conditions worldwide exposed the universal need for improved risk management, tightened incentive structures, and stricter board oversight worldwide, even when each country exhibits a unique system of corporate governance.

In an effort to improve global corporate governance practices, Robbins Geller is in the process of building international capabilities with U.S.-style securities practices, including hiring a new attorney in the U.K. in order to further establish corporate governance reforms in Europe through securities litigation. Robbins Geller is also working with internationally renowned GMI Ratings to expand this practice to other countries.
Despite the movement toward a convergence of corporate governance systems, complete harmonization is unlikely to occur. Cultural, political and legal constraints, which affect the system of corporate governance in different countries, will always constrain economic evolution in different ways and prevent a complete and formal convergence of international corporate governance practices.


3 Id.