

Review for Feature in the AMR

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Effective Corporate Governance: An Emerging Market (Caribbean) Perspective on Governing Corporations in a Disparate World. Author: Vindel L. Kerr.

This coherent work addresses improving the climate of corporate governance in Jamaica, particularly, and throughout the region, generally, and brings to mind the words of John Keynes: “Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.” The book develops an admirable progression from current practice to theory to normative prescription. But keeping in mind that regulatory reform for corporate leadership is reactive rather than proactive, worry abounds that the region will fall prey to repeated cycles of mismanagement before decisive government intervention. Steadfastly promoting improved transparency, renewed attention to strategy, and focused economic purpose, this book from the author’s Centre for Corporate Governance and Competitive Strategy (GovStrat) envisions regional progress through more competent management. But if Keynes’ comments pertain, good corporate governance cannot rely exclusively on the profit motive to enhance the quantity and distribution of goods and services throughout the region. The role of regulatory reform persistently presents itself.

On the one hand, the careful and intuitive treatment of corporate structures and effects on leadership draws us in to believe that competent leadership will lead to economic growth and broader prosperity. For that is the thrust of this well-written and thoughtful treatise on transforming corporations into more efficient and responsive entities. On the other hand, reading through the book, one continues to flip back to the overleaf which presents a map of the region annotated with identification of regulatory bodies. Moving due south from just east of the tip of Florida down to the northeast coast of South America, we observe an inconsistent pattern for the force of regional law. Much like the present push to harmonize financial reporting standards to advance world wide capital markets, we cannot help but observe inconsistent and sometimes absent governmental structures to temper John Keynes’ “wickedest of men.”

Vindel Kerr presents a personal background broad and deep. His international experience combined with academic insight enhances the analysis. He includes a cogent and concise mechanism for any director or CEO who wishes to improve strategic focus and refine direction. Further, the author includes a framework for evaluating the board of directors’ performance through Vindel Kerr’s Board Evaluation Scorecard. © This instrument covers well the many aspects of governing a firm: communication, social responsibility, profitability, flexibility, and regulatory compliance. Anyone in a leadership position will find value here, reviewing both board accomplishments and shortcomings. The book will appeal to a broad range of directors, as it contains an entire chapter with practical advice for when and how to evaluate boards.

While undoubtedly useful for self-evaluation, this reader was again concerned about the focus on voluntary improvement in an environment without sufficient regulatory support.

Will corporate responsibility and performance advance with the thorough application of Dr. Kerr's contemplative scorecard? It will without doubt. But the nagging question persists: will the region experience an improved flow of international investment capital in the absence of financial transparency and without more heavily regulated capital market disclosure?

In established capital markets, we rely upon corporate self-interest to insure transparency in communications and efficient disclosures about corporate performance. Information economics instructs us that if management renders biased, incomplete, or inaccurate disclosure, the capital market responds by removing existing capital or failing to invest new capital. As such, the flow of capital depends upon effective governance and efficient performance disclosure. However in the case of Jamaica, Dr. Kerr observes that many corporations are family-owned and closely held and employ only local labor. These circumstances yield distinctive corporate governance anomalies. For example, transparency becomes more difficult as owner-families wish to avoid: giving away competitive position, inviting government intervention against monopolistic or concentrated economic power, and disclosing wealth. In addition, objectivity becomes an elusive goal when the board contains insiders, relatives, and close friends. This backdrop leads us to ponder whether self-interest manifests itself the same way in the emerging economy of Jamaica as in more established capital markets; and it further suggests a regulatory solution. Again, the question of cross-Caribbean harmonization of capital markets and stronger government materializes.

Governmental and cultural challenges persist in the region. The author cites evidence that politicians bent on reelection sometimes value loyalty over honesty in government. He explains that excessive compensation in bureaucratic positions and misuse of public funds result from political officials who adopt a short run rather than long view; furthermore, he finds a culture of non-disclosure, particularly for state-owned enterprises, passively accepted by undemanding citizens. Unlike the furor that erupted over U.S. scandals such as Enron, Adelphia, Tyco and others, citizens react more complacently. The author provides an interesting reference to Berle-Means corporations. It stimulates us to speculate that the challenges of the Caribbean environment extend beyond that paradigm. In traditional Berle-Means corporations, management holds the power. Because, without institutional monitoring from, for example, a central bank, individual investors are more likely to sell their stock when disenchanted with management than demand reform. In the Caribbean context, Kerr notes that institutional investors contribute little to a watchdog role. While he informs us that some existing bodies perform monitoring, such as the Financial Services Commission, the Jamaican Stock Exchange, and the Private Sector Organization of Jamaica, he expresses impatience for a more effective culture.

The author provides an expansive treatment of corporate governance, and enhances readability by using several formats in the book. He includes relevant academic and descriptive literature, an historic perspective on the evolution of progress in governmental and private management, and an analysis of theoretical constructs. He amplifies this discussion by presenting an applied local case analysis, several in-depth interviews with corporate leaders, and concrete suggestions for the future. Drawing in a broad discussion of the British culture, the author defines precedents which impact the Jamaican economy. Carefully explaining the special case of emerging economies, he develops a framework for effective directorships appropriate to the region. Throughout, he exhorts existing and future

leaders to become more sensitive to transparency, social responsibility, and economic development.

In a particularly thoughtful section the author examines the limited applicability of traditional management theories to the region. Drawing us in to consider resource dependency theory, stakeholder theory, agency theory, and managerial hegemony theory, we realize that two systemic and underlying assumptions are somewhat inappropriate to the region today. First, limitations exist for efficient disclosures of corporate performance. This constraint necessarily confines new international capital investment. Second, from his meaningful examination of expropriation theory, we accept his thesis that traditional agency theory is less than representative here. He cites OECD research which informs us that the traditional conflict between managers and owners describes regional corporations poorly. Rather, the relevant conflict here exists between primary owners and managers, who are one and the same, and absent minority owners on the other hand. The incentive for power by the primary owner/manager is enhanced by frequent situations in which the CEO also serves as chairman of the board, actively manages on-site, and displays more loyalty to local employees than distant minority shareholders.

This interesting and well-developed work reminds us of the admonition from management auditors and operational auditors: “Do the right things and do things right.” The author combines personal experience, personal interviews, normative advice, case studies, and a theoretical framework to foster a better understanding of corporate governance roles in the emerging economy of Jamaica. Those interested in fostering change in transformational economies, directors operating closely held companies, regulators searching for an understanding of the potential effects of good government on economic development, and students learning the applied case method will discover a gem in this book.

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