



Conference in Milan, Italy, May 8, 2014

Corporate Governance: a Search for Advanced Standards in the Wake of Crisis

Clan Governance and Landless Social Capital: an Anthropological Stakeholdership Model

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Key Words

- **nexus of contracts;**
- **property rights;**
- **culture;**
- **poverty traps;**
- **family governance;**
- **microfinance;**
- **globalization**

Abstract

- **Traditional corporate governance models in Western countries have been severely shaken by the still ongoing recession, whereas in developing countries backward and unrefined stakeholder models have provided an involuntary shelter from financial shocks.**
- **Clan governance rotates around informal relationships, which concern also untitled land, intrinsically unfit for collateral lending.**
- **Comparison between the West and the Rest does not suggest automatic dominance of formal governance patterns, but rather painfully converging standards, under the centripetal influence of disordered globalization, which may flatten cultural differences, up to the point of spoiling valuable “biodiversities”.**

Beyond Western Corporate Governance

- **There is the standard playfield of corporate governance issues, within typical corporations.**
- **Lesser attention is however traditionally dedicated to informal economic gatherings, such as family clans, which are not legally incorporated, especially in under-investigated developing countries. But this lack of formal boundaries does not mean that undetected problems do not exist: they are simply disguised and ill represented.**

Contents

- **The interdisciplinary contents of this eclectic paper goes beyond the traditional pathway of standard corporate governance issues, being linked to anthropological methodologies that describe unusual governance patterns, such as those concerning ethnic clans in developing countries.**

Paper Organization

- 1. After a description of social capital, derived from informal ethnic clan relationships, its survival legacies, normally taking place in unforgiving environments, are critically examined.**
- 2. Social trust is then thoroughly examined as a necessary mean to overtake corruption, so composing otherwise troublesome governance issues.**
- 3. Cultural differences and legacies, so meaningful in order to discriminate between different clans (an ethnic surrogate for corporations), are then considered, again stressing their governance implications.**

Tribal Social Capital

- **Social capital derives from meta-economic social gatherings such as family or ethnic clans and it refers to local connections and forms of association that express trust and norms of reciprocity and support within and between communities.**
- **Separation of ownership and control, so meaningful in traditional corporate governance, is here much less clear cut.**
- **Within informal societies, social capital is the connecting economic glue among otherwise scattered stakeholders, presiding over un-codified governance enforcement.**

Family Clan Survival Legacies

- In hard and unforgiving environments, where struggle for survival leaves little space for other more sophisticated worries (including governance ruminations), people, who typically belong to a common family or tribe, live together in **comprehensive clans**, scattered over vast and hostile territories.
- **Sharing and solidarity** come out as culturally rooted survival values within clans.

Beyond Social Trust: from Amoral Familism to Corruption

- **The stronger the ties within the family clan, the weakest the relationship outside it.**
- **Clan governance shows a radically different stakeholder paradigm, with less clear cut principal – agent dichotomy, a pivoting theoretical concept within Western governance principles.**
- **Family governance of Western companies, typically less sophisticated than that of listed public companies, is less dissimilar to clan governance.**

The Mystery of Hidden Capital: an Informal Nexus of Property Contracts

- Hernando De Soto's *Mystery of Capital* tries to explain "*why Capitalism Triumphs in the West and Fails Everywhere Else*".
- According to the Peruvian economist "*the poor inhabitants of [underdeveloped] nations—five-sixths of humanity— do have things, but they lack the process to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not codified statutes of incorporation. (...) This is the mystery of capital*".

Collateral Governance, Beyond the Property Trap

- **Illiterate informal landowners**, whose rights to occupy the land are hardly opposable, **lack any formal title of property**, and so they are hardly able to convert their property capital into a working guarantee.
- **The property trap has serious drawbacks which hinder development: unavailable as collateral.**

Conclusion

- **Links and synergies between corporate governance systems in Western and developing countries may be found in microfinance institutions, where guarantees for debt underwriting are cash flow based, in the absence of worthy collateral.**
- **Family governance is another insightful bridging issue, to the extent that Western family businesses can share their know-how with clan governance paradigms.**

Conclusion

- **Key governance issues** such as corporate control, accountability, management monitoring, audit, regulation, best practices, risk management, etc., which occupy since decades the discussion arena in Western countries, **are still incubating in less sophisticated societies, backwarded in their informal financial systems.**