

Legal Origins of Corporate Governance: Choice of Law in Egypt, 1887–1913

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Abstract

This paper revisits the classic question of legal origins: whether laws originating from common or civil law traditions are more effective in promoting shareholder-friendly governance rules in corporations and whether these rules lead to better firm outcomes. Corporate governance cannot be easily disentangled from other sources that can influence firm outcomes. This paper takes up the challenge of disentangling these effects by assembling a new dataset of corporations in Egypt between 1887 and 1913. Egypt had an unusual system of incorporation. The main legal system was a close and effective French transplant but entrepreneurs—Europeans and Egyptians alike—had the option of incorporating their firms under any European law. This extraordinary legal flexibility resulted in a great deal of variation in choice of law, governance provisions, and board composition. The new findings show that companies incorporated under British law provided weaker shareholder protection than companies incorporated under French laws, especially in giving weaker voting rights to minority shareholders, preventing oversight over directors' borrowing powers, and limiting director rotation. These rules mattered for firm survival. Corporations with weaker investor protection had significantly higher failure risk, amplified during periods of aggregate financial distress.

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The dominant view in the corporate governance literature stresses that countries whose legal systems are derived from common law traditions provide stronger investor protection than those whose with civil law traditions. Legal systems based on common law provided more robust protections for minority shareholders against insiders' potential self-dealing, and so facilitated wider ownership structures, larger and more active stock markets (La Porta et al., 1997, 1998). The remarkable contractual flexibility of British and American law encouraged incorporators to adopt shareholder-friendly rules in response changing economic conditions in order to attract more investment; statutes in French and other continental European legal traditions locked companies into fixed governance structures that in time could become obsolete and not react to effectively serve shareholders' interests. These differences between legal families, this scholarship argues, can explain important differences in financial development across countries today (Beck et al., 2003; La Porta et al., 2008). The legal origins thesis has also generated critique that contends whether British law provided shareholder-friendly rules early in its history, or whether a country's legal regime can be separated from country-specific histories that simultaneously determined the adoption of these laws and economic outcomes (Cheffins, 2001; Berkowitz et al., 2003; Licht et al., 2005; Klerman et al., 2011).

This paper revisits the classic question on the relation between legal origins and the degree of investor protection in corporate governance by assembling a novel dataset on corporations in Egypt before 1913 under different legal systems. Egypt provides an unusual setting to effectively disentangle different effects that are inevitably bundled into having common or civil law institutions. At the outset, Egypt was a civil law country; it applied an up-to-date transplant of the French commercial code. But incorporators could choose to incorporate under British law by choosing a British address as the company's domicile. Similarly for French, Belgian, and in theory, any European country with which Egypt had written agreements called the capitulations. This extraordinary legal flexibility

resulted in a diversity of legal choices, governance rules, and the composition of founders that might not be possible in cross-country comparisons or case studies.

I take advantage of this variation by tracing incorporators' reveal preferences conditional on the founders' national make-up and show that, relative to the corporations that incorporated under the French tradition, "British" companies in Egypt provided broadly weaker shareholder protection, assigned more power to directors and less oversight to minority shareholder. Furthermore, by estimating log-logistic duration models, I show that corporations with weaker shareholder protection, regardless of their legal origin, composition of founders, industry, or capitalization, suffered from significantly higher exit risk, remaining in the market half as long before failure. The most relevant governance rules for survival were shareholders' voting rights and oversight over the directors' borrowing powers. The risk was amplified during the panic of 1907, which erupted due to a speculative securities bubble in Alexandria and Cairo. When the courts repealed the practice of legal pluralism in 1908, corporations that resembled the British companies of the pre-repeal era ended up writing more shareholder-friendly rules and, as a result, enjoyed longer duration before exit. My new evidence shows that, even though shareholders might not have cared about the degree of protection the companies provided, such rules mattered for firm outcomes; the statutory regime of French legal traditions were more effective in making sure new corporations adopted these rules that helped these companies survive.

This historical setting is revealing in important dimensions for the law and finance debate. First, the availability of both common and civil law regimes allows studying the choices of incorporators, and their companies' performance, in the same economy, facing the same aggregate shocks. So, my empirical exercise can exploit within-country variation that cross-country analyses could not, but without the cost of restricting the analysis to a single legal system, as is the case in other country-specific studies. Second, Egypt's context is informative for shareholder protection in corporate governance in industrialization,

especially for late industrializers, who have to grapple with encouraging the formation of large corporations and the consequences of mismanagement of these novel enterprises (Ağır and Artunç, 2021). In the late nineteenth century, Egypt was enjoying a relatively booming open economy that had attracted significant European investment (Tignor, 1984; Rajan and Zingales, 2003; Musacchio, 2010). It had one of the world's oldest stock exchanges, a high level of stock market capitalization, a diverse local and European population, and a robust legal system that succeeded in meeting the demands of that population (Artunç, 2019). With many high-return but speculative investment opportunities available, and a diverse class of European and local investors, the protection of outsiders could be especially important for organizational success.

This paper contributes to a growing literature that has been studying specific dimensions of corporate governance in companies, whether focusing on a few key provisions, constructing indices to compare against earlier studies, or demonstrating the multifaceted interactions that different provisions can have (Hilt, 2008; Hannah, 2007; Campbell and Turner, 2011; Rutterford, 2012; Guinnane et al., 2017; Acheson et al., 2019). These studies provide important insights about the development of corporate governance and ownership structures by tracing contracting practices in American and British history. But corporate governance in French legal traditions have remained relatively absent, notwithstanding the studies that investigate shareholder rights or firm's choices of enterprise forms more broadly (Lamoreaux and Rosenthal, 2005, 2006; Guinnane et al., 2007). Even then, comparing histories of incorporation statutes might not be able to account for broader country-specific conditions bundled into legal institutions. I complement this scholarship by analyzing an extensive set of governance rules with the additional dimension of choice of law. This new layer of flexibility allows me to develop a deeper understanding about incorporators' choices over governance provisions and legal traditions in a way that the average British or French company would not be able to in the early 1900s. My results broadly support Guinnane et al. (2017) in providing robust evidence on how incorporat-

ing British law was closely linked to adopting governance rules with weak investor protection, and that these choices did not seem to have mattered for the market's decision to invest in these companies even when such rules did matter for firm survival.

My findings also support the view that managing corporations in the interests of their shareholders raise organizational efficiency (Hansmann and Kraakman, 2001, 2012) but contradict this view's proponents that Anglo-American law is more effective at promoting shareholders' interests than countries with civil law tradition (Morck, ed, 2005; La Porta et al., 1997, 1998). Corporations with stronger voting rights for minority shareholders, where directors were less entrenched, and where shareholders could exercise more effective monitoring on directors' borrowing discretion enjoyed significantly better survival outcomes. French legal traditions were more effective in facilitating these rules than British law, where companies sorted to write rules that were broadly less shareholder friendly. But as noted earlier, shareholders did not necessarily base their investment decisions on these rules, which might explain why the decidedly less flexible nature of statutory law might have been more effective in promoting these governance structures. Of course, survival is just one important aspect of firm outcomes. In the next iteration of this paper, I will provide more evidence using corporations' balance sheets, dividends, and profits between 1901 and 1907.

This article also contributes to the debates on the corporation's role in development and industrialization. That the corporation conferred important advantages in long-term and large-scale financing thanks to concentrated management, legal personhood, limited liability, and entity shielding, convinced many that it was key to sustained economic growth (Chandler, 1977; Hansmann and Kraakman, 2000). Other studies extended this idea by linking the relative underdevelopment of regions outside of Western Europe to barriers to incorporation (Owen, 1991; Kuran, 2011). While economic historians have challenged the primacy of the corporation, the form was distinctively important for raising capital in late industrializers (Guinnane et al., 2007; Nicholas, 2015; Gregg, 2020). The novelty of

these forms, and the exercise of limited liability in large-scale enterprises, gave policymakers pause about how free incorporation should be. My findings show that the state paid special attention to governance issues. Egypt had a remarkably free and liberal economic environment just before World War I. After the financial crisis of 1907, the government required more corporations to adopt shareholder-friendly rules. I show that these rules helped firm survival, especially during the financial crisis. Wide adoption of shareholder-friendly rules can be significant for tampering such crises and solve monitoring problems especially in economies that rely on foreign investment and feature companies whose management and investors might be distant.

The paper proceeds as follows. Section 1 provides information about the evolution of legal pluralism and commercial law in Egypt. Section 2 describes the paper's data and the collection of governance rules. Section 3 provides the empirical exercises on choice of law, choice of governance provisions, and how legal regime and specific provisions affected firm survival. Section 5 summarizes the findings with concluding remarks.

1 Historical Background

The availability of different legal regimes in Egypt was a product of the capitulations, concessionary agreements signed between European powers and the Ottoman Empire. Formally being part of the Ottoman Empire at the time, these treaties naturally extended to Egypt, as well. The capitulations provided a number of privileges to Europeans, most notably extraterritorial rights that allowed European nationals living in Egypt to use their consular jurisdiction—and their country's law—for personal, civil, and commercial matters.

As Egypt transformed from a traditional, agricultural economy to an export one focusing on cotton cultivation financed by European investment, foreign presence and businesses grew. Total European population had increased to about 150,000 by 1907 and made

up 20 percent of the population Alexandria and 10 percent of Cairo where they were concentrated.¹ Consular jurisdictions developed extensively to support the needs of a growing number of European migrants and investors, who took up a substantial role in Egypt's trade. However, the proliferation of diverse European jurisdictions within Egypt led to considerable judicial disarray by creating uncertainty about which law would apply in any transaction or dispute (Hoyle, 1991, pp. 6–8).²

In 1875, the Egyptian government undertook a comprehensive legal reform to modernize the country's legal structure and provide a robust court system that could exercise competence over a wide range of civil and commercial matters between different European nationals. The new Mixed Courts, which consisted of European and Egyptian judges, succeeded in solving the abuses of legal pluralism, curbing the executive's power on the judicial system, and thus were widely seen as successful (Brown, 1993; Wilner, 1975).

In commercial matters, the Mixed Courts applied a close transplantation of the French commercial code, as amended by the Law of 1867. The only significant departure was the incorporation process. France, in 1867, passed general incorporation law and removed all barriers to the corporate form beyond certain capital requirements and number of founding shareholders. In contrast, Egypt retained the older, more restrictive system, by mandating all prospective companies to acquire a decree of authorization from the sovereign (Artunç, 2019). Securing the government's approval was certainly difficult after the First World War.³ However, especially before 1908, the process was mostly a formality. Lord Cromer reported that the government approved all charters automatically, regardless of their business objective, riskiness, scale or scope, as long as the articles of association contained certain clauses—as specified in the decree of 1889—that gave some oversight to shareholders over the board of directors. These regulations were meant to curb potential

¹Egypt, *The Census of Egypt Taken in 1907*, Tignor (1984).

²See Artunç (2014) for a broader analysis of legal pluralism in the Middle East until the early twentieth century.

³Issa (1970) describes the process after the 1920s as a long and costly process with no guarantee of success (p. 69). During this period, the government also introduced a host of other requirements that made the authorization process highly political; see Artunç (2019).

fraud by promoters and were taken from the more recent revisions of the French and German commercial codes (Hoyle, 1991, pp. 85–86).⁴ In fact, commercial laws and policies, both broadly under the control of British occupiers after 1882, were non-interventionist and as unrestrictive as possible (Owen, 1993, pp. 224–25).

Initially, the Mixed Courts, consistent with the capitulations, gave recognition to the “foreign” status of European companies, allowing them to operate in Egypt as “foreign” persons and without going through the authorization process. This deference essentially granted all entrepreneurs choice of company law. A group of entrepreneurs in, say, Alexandria, could write the articles of association according to the company law applied by the Mixed Courts and submit them to the Egyptian government for authorization. They could also set up a head office in London, incorporate under the Companies Act, and thus become a “British” company, whose administrative center was located in Alexandria. Most of these “British” companies held their general shareholder and board meetings in Egypt, and in fact, only retained a single employee in London for the purpose of maintaining the legal head office and filing the annual paperwork. Companies could similarly be incorporated under other European legal systems, though British was the most common alternative. Since the different consular jurisdictions had always served as the primary court system for Egypt’s European population, there was significant institutional support for applying different European laws on corporations.

By the end of the nineteenth century, Egypt had attracted substantial foreign capital, which was invested in new joint-stock companies. French capital in Egypt just before World War I reached £47 million, mostly in large corporations such as Crédit foncier and Egyptian Sugar Company. British capital followed with £31 million and was invested in a

⁴Specifically, a quorum of three-fourths of share capital was required to deliberate changes to the articles of association, new shares could not be issued at a discount, unpaid bearer shares could not be transferred, the nominal value of issued debentures could not exceed the paid-up capital in the most recent balance sheet. See House of Commons Parliamentary Papers, *Reports by Her Majesty’s agent and consul-general on the finances, administration, and condition of Egypt and the Soudan in 1899* (London: Harrison and Sons, 1900), p. 32. Similar articles existed in French law. For instance, the Law of 1867 required one-half of the share capital to be represented in order to deliberate modifications to the charter (Art. 31).

wide range of credit, development, commercial, and manufacturing firms. Belgian capital was £14 million, mostly in land, transportation, and manufacturing. The rate of return was high. In 1906, the average dividend payment was 9.5 percent, with many companies paying over 12 percent (Tignor, 1966, p. 358).⁵

The highly speculative environment and investors' optimistic outlook fostered a financial bubble, especially following the Anglo-French treaty of 1904 that recognized British rule over Egypt indefinitely. Lord Rathmore, a director of the Bank of Egypt, noted the market's exuberance:

"The gambling spirit had been in land and in shares; people were apparently mad; I do not know what other word to use; they seemed to think that every company that came out was worth double its value before it even started business."⁶

The speculation spree crashed in the wake of the financial crisis of 1907. Already in January, 1907, London credit markets were too strained to meet the demands of investments in Egypt. In May, runs at the Egyptian capital began, and Bank Sconto e di Risparmio, one of the largest banks in Egypt, went into liquidation (Hoyle, 1991). 24 percent of all joint-stock companies active in the beginning of 1907 dissolved by the end of the year. Just as many companies were liquidated over the following two years.

In the aftermath of the panic, the (mostly European) local creditors of these defunct companies took legal action in order to receive their payments. In one such case against the British company City and Agricultural Lands in 1908, the Mixed Court of Appeals in Alexandria, made up of mostly European judges, declared that the said company was, in fact, an "Egyptian" person on account of primarily operating in Egypt and being managed in Egypt. This decision effectively extended all Egyptian company law and regulations to all foreign corporations whose principal sphere of activity was in Egypt, repealing the ar-

⁵These figures only describe investments in company capital and exclude funds invested in Egyptian public debt.

⁶Originally cited in Noyes (1909, p. 203).

rangement that had previously allowed remarkable choice of law. From 1908 onwards, all corporations had to go through the authorization process. At the same time, the government tightened the incorporation process by processing filed articles longer and banned the practice of issuing founders' shares.

For this paper's empirical strategy, several points from the historical context are important. First, choice of law before 1908 was not a loophole or a nefarious activity; it was a legal arrangement that had institutional support through a robust system of consular courts and justified to attract more European investment ([Grandguillot, 1909](#)). Second, while many important European countries' laws were available for incorporation in theory, the vast majority of companies incorporated under British law, followed by a much smaller incorporations under Belgian and French laws. This is likely due to the fact that Egyptian law was almost identical to the French code with the exception of the general incorporation statutes of 1867, and even with the authorization process, incorporating in Egypt was likely easier than incorporating in France. The German consular mission was likely too small to support incorporation under German law.⁷ Egypt's relatively more larger Greek population had become naturalized Greek subjects by the end of the nineteenth century, incorporating under Greek law was significantly more difficult and Greek commercial law had a number of problems that prevented it from being an attractive option ([Ağır and Artunç, 2021](#)). As a result, the paper focuses on the choice between French legal traditions (primarily, Egyptian law) and British law. Third, the authorization system, while not completely costless, was not arbitrary. Finally, the repeal of 1908 was effectively enforced. While there was a small number of incorporations under British law after 1908, these did not primarily operate in Egypt. Some companies that were incorporated during the 1907 panic, but never started their operations, were forced to reincorporate under

⁷According to the Population Census of 1907, there were about 1,600 German residents in Egypt. In contrast, there were more than 10,000 French (excluding Algerians or Tunisians), 15,000 British, 32,000 Italians, and 50,000 Greeks.

Egyptian law. Thus, the repeal of 1908 was an important turning point useful for investigating incorporators' choices.

2 Data

This paper relies on assembling new datasets of firm histories and governance rules of corporations using archival sources and official publications. First, I start with constructing the universe of corporations ever founded in Egypt before World War I. Since companies that incorporated under Egyptian law had to be authorized by a decree, they are listed in annual lists of laws and executive orders. Furthermore, the Egyptian Ministry of Finance published a list of every corporation in Egypt ever founded until the end of 1907 in the statistical yearbooks, *Annuaire de la finance égyptienne 1907* (from now on, *Annuaire*). Most importantly, this list contains all companies incorporated under British, French, and Belgian law.

All Egyptian corporations had to receive an authorization decree. The charters were published, along with their authorization decrees, as supplemental issues in the official newspaper of the government, *Journal officiel du gouvernement égyptienne* (from now on, *Journal officiel*). Companies that incorporated under different laws did not need to go through this process and so their charters did not appear in the newspaper. Under the Companies Act, British companies were still required to submit articles of association during registration and so their charters became public record. After identifying all British companies from the list in *Annuaire*, I collected the relevant charter information from the U.K. National Archives.⁸ Not every charter was available. The National Archives did not

⁸BT 31, Board of Trade: Companies Registration Office: Files of Dissolved Companies. Searching the archive catalogue with Egypt-related keywords (e.g. Egypt, Egyptian, Alexandria, Cairo, Port Said, Nile, etc.) revealed many other companies that did not appear in the *Annuaire*'s list. But these companies were exclusively "stillborn," which did not proceed beyond the registration stage. So, they are not included in the sample.

receive some companies' records, so these firms are missing from the sample.⁹ *Journal officiel* did not distribute supplemental issues in 1900 and 1903 or before 1898, so corporations established under Egyptian law in these years are not in the sample, either.¹⁰ The small number of French and Belgian charters are also missing since their charters were deposited in their respective archives. Figure 1 shows the number of new corporations by legal traditions before 1913, comparing the population of corporations with the charter sample used in this paper. In the end, the sample makes up 77 percent of all corporations under British law, and 68 percent of corporations under French legal traditions. It is possible that, due to the peculiar way the National Archives received company records, the selected British companies had shorter duration than the British corporations with no charter data. And short duration might be correlated with weaker investor protection as my empirical analysis will show. However, the association between incorporating under British law and higher exit rate is robust to using the *Annuaire* sample, which gives the full population of corporations active in the beginning of 1907.¹¹ Using the charter information, I hand-coded each company's articles of association pertaining to general meetings, directors' powers and tenure, as well as disclosure procedures for the company's financials. I also collected information about each company's industry, capital structure, and name and nationality of their founders and first boards of directors.

Since the survival analysis requires firm histories, I needed to establish entry and exit dates. For British charters, this is the registration date. For Egyptian charters, this is the date of authorization. The Ministry of Finance uses the same convention, as evident from the statistical yearbooks such as the *Annuaire*. I collected exit dates from a variety of sources. In theory, corporations had to give notice of their dissolution and almost

⁹See Guinnane et al. (2017, pp. 273–75) for the somewhat complicated procedure that the National Archives followed for receiving and retaining company records.

¹⁰These supplemental issues were not available in the Egyptian National Library and Archives, even in Arabic, the British Library, the Bibliothèque nationale de France, or the Library of Congress.

¹¹50 percent of British companies in the charter sample failed during the 1907 crisis but 45 percent of British companies that were only in the *Annuaire* sample; the number of observations is 86 and 33, respectively. The t-statistic for the null hypothesis that sample means are not equal is -0.44.

all defunct corporations under Egyptian law did. These notices, along with the date in which the general meeting voted to approve liquidation, were published in either *Journal officiel* or in the official newspapers of the Mixed Courts: *Gazette des tribunaux mixtes* until 1921 and *Journal des tribunaux mixtes* afterwards. When available, I used the same date for British companies. The statistical yearbooks published by the Egyptian Ministry of Finance, *Statistique des sociétés anonymes par actions travaillant principalement en Égypte* (from now on, *Statistique*), also provide a survey of all incumbent corporations in Egypt, regardless of legal regime, between 1925 and 1939. They also provide dissolution dates for companies, which allowed me to fill in the gaps. Finally, I was able to use the same source, as well as the *Egyptian Directory* (which is a comprehensive business directory), to verify that each corporation without a dissolution notice or general meeting decision to that effect survived until 1950. So, this procedure yields an entry date for every corporation, and an exit date for any corporation that failed before 1950. All companies without an exit date were verifiably active in 1950.

Whether the British companies in this sample are comparable to British companies in Britain is a natural question. Qualitatively, they were not. These companies kept minimal presence in Britain—just enough to incorporate under the Companies Act and fulfill the annual filing requirements—but were otherwise Egyptian companies. Their operations were in Egypt, their administrative head office was (usually) in Egypt, and many of their directors lived in Egypt. So they should be evaluated as Egyptian companies who chose to incorporate under British law. Quantitatively, we can compare them with the company samples in [Guinnane et al. \(2017\)](#) and [Acheson et al. \(2019\)](#). The British companies in this paper's sample had an average nominal capital of £157,000; the median was £100,000. This is notably larger than the average of the 1892 registration sample (£40,000) in [Guinnane et al. \(2017, p. 236\)](#) but more comparable to the median—£115,000—of the sample companies founded between 1862 and 1899, in [Acheson et al. \(2019, p. 45\)](#). Arguably, Egypt was at an earlier stage in its corporate development between 1887 and 1907, resulting in cor-

porations that looked more like older British companies. Overseas companies might also be larger, in general. Information about shareholders beyond founders is not available for companies under Egyptian law in my sample, but only a small fraction of companies in the sample was listed in any exchange.

2.1 Description of Governance Rules

This paper's empirical analysis relies on a large number of governance rules coded from articles of association on three sets of issues: shareholders' voice, directors' powers, and disclosure of company financials. Having incorporated under different company laws, British and Egyptian charters could contain many articles that did not easily compare with one another. In this paper, I concentrate on rules that both classes of charters reported consistently and rules that the literature views as significant (Guinnane et al., 2017; Acheson et al., 2019).

Capital structure Firm size can be an important factor in determining what kind of rules incorporators adopt and the subsequent performance of the enterprise. Large corporations (or those that planned to get large) might set up more shareholder-friendly rules in order to attract investment, but small corporations with concentrated ownership might not. Large firms—whether a partnership or a corporation—might deal with adverse economic shocks more easily and enjoy longer duration (Artunç and Guinnane, 2019). I capture size through nominal capital. While paid-in capital would have been ideal, this information is not systematically available for British charters. But the company was still liable up to the full value of nominal capital even if it was partially paid, discouraging incorporators from specifying an unrealistic magnitude (Guinnane et al., 2017).

Two other variables capture important aspects of capital and governance: the incidence of preference and founders' shares. Preference shares had guaranteed cumulative dividend payments and holders of preference shares enjoyed seniority of payment

in bankruptcy. But this class did not give any voting rights. So, the existence of preference shares might allow incorporators to give less voice to outside investors even if the voting rules for the owners of common stock was shareholder-friendly. Founders' shares were issued to the incorporators at the company's inception. Founders' shares could have different voting rights, though in this setting, they almost never had voting rights. More importantly, directors could assign greater payouts to founders' shares. Promoters could sell these shares, which did not have any nominal value, with the promise of high returns and no liability in bankruptcy. Contemporary sources suggest that the proliferation of founders' shares was critical in propagating the securities bubble and the government prohibited the practice after the financial crisis (Noyes, 1909; Hoyle, 1991).

Voting rights Voting rule was an important aspect of shareholder voice and protection. Assigning one vote per share could shift power to large shareholders; graduated scales limited the number of votes large shareholders could cast. Companies could also set fixed ceilings on the number of votes any one could have regardless of the number of shares they held. Any one graduated scale implied different voting rights in companies with different total number of shares. The most common graduated scale provision in the sample allocated one vote for five shares up to 100 shares, one vote per 20 shares in excess of 100 shares up to 1,000 shares, and one vote per additional 100 shares above 1,000. This standard rule was less effective in shifting power away from majority shareholders in a company with 2,000 shares in total than one with 10,000. In order to capture this nuance in voting rights, I calculate Hilt's voting rights index for each company in addition to distinguishing fixed and graduated scale (Hilt, 2008). Formally, this index V is defined as

$$V = \frac{1}{N} \sum_{n=1}^N \frac{v(n)}{n} \quad (1)$$

where n is the number of shares held, N is the total number of shares, and $v(\cdot)$ is the voting scheme that maps number of shares held by an individual to the number of votes they can

cast. The closer the index is to 0, the more large shareholders' voting power is diluted. Under one share-one vote, $V = 1$ and large shareholders' voting power is not limited. In the few instances where a company had two classes of shares with different voting powers, I calculated the index for each class and weighted them by their contribution to total nominal capital.

The voting rights, no matter how much protection they provide to minority shareholders on paper, could be rendered ineffective if companies adopted rules that allowed a fixed number of members to make up a quorum in the general meeting. In conjunction with other barriers to participate, such as not mailing notices of general meetings to shareholders or disallowing proxy voting, fixed quotas for quorums could diminish minority shareholders' power significantly. Incorporators could also make it harder for minority shareholders to call extraordinary general meetings by requiring greater shares of capital to do it.

Directors Incorporators could also limit minority shareholders' participation in governance through restricting their ability to monitor directors. To capture these aspects, I collected information about the minimum share qualification to become a director as a proportion of total number of shares. The first board of directors was appointed at the time articles were registered and named in the charter. These directors, almost always a subset of incorporators, were not (and could not) be elected. Incorporators could indirectly entrench these directors by giving them a longer tenure—say, by delaying the first election for more than two years—or by rotating only a fraction of the board in the first election. They could also hold the regular board elections over two (or more) years rather than holding them annually. So, I coded the time until first election after registration as well as dummies to indicate whether the entire first board was rotated and whether the regular board elections were more than one year apart.

I coded two other variables regarding directors. The first is a dummy variable that indicates if there was no restriction on directors' borrowing discretion. Without any restriction, directors could borrow on behalf of the company, or issue bonds, without the approval of the general meeting. When introduced, a common restriction was discretionary borrowing up to the value of issued capital (not necessarily paid), after which the approval of the general meeting was needed. Second, I collected information about directors' remuneration and constructed a variable that indicated if directors were guaranteed some minimum, fixed pay regardless of the company's performance. If directors' compensation did not effectively scale with profits, they might not be encouraged to act in the interests of shareholders, whose dividends earnings or capital gains did.

Disclosure of financials Shareholders needed to have access to up-to-date financial information about the company to effectively monitor directors. But companies could control the flow of this information in many ways. They could send less than a full balance sheet, send the financials too close to the general meeting, or not send them at all. I represent these dimensions with three variables that indicate whether anything less than a full balance sheet was made available, whether the financials were not mailed or published in a newspaper (so had to be picked up at the head office), and the number of days before the general meeting they were made available.

3 Empirical Analysis

3.1 Choice of Law

To evaluate incorporators' choices of legal regimes and governance structures, I start by describing selection into different laws and estimate the correlates of this sorting in a set of descriptive regressions. As noted earlier, before 1908, incorporators were free to register their companies under British or Egyptian laws. Figure 1 shows the evolution of new

corporations between 1887 and 1913. The first graph plots the universe of corporations and the second graph restricts to the charter sample. Both cases demonstrate similar patterns. The number of incorporations ramped up significantly until 1907, with a more or less even split between British law and French-origin laws. After the panic, new incorporations plummeted and after the court decision in 1908, incorporations under British law stopped.

Given that incorporation required authorization from the government, some sorting into British law could be driven by an incentive to avoid legal obstacles. Empirically, the cost of incorporation can be estimated by measuring the time delay between filing the articles of association and receiving the authorization decree. Both dates were reported in the published charter. The box-whisker plot in Figure 2 shows that, before 1908, most companies were approved within 20 days. The delay was short with some variation across firms. This is consistent with the qualitative evidence noted earlier. When the government tightened its control over the incorporation process, the delays became longer and more uncertain. After 1918, the median delay would increase to 200 days, with considerable heterogeneity across cases in each year (Artunç and Saleh, 2021). While incorporation under Egyptian law was not costless, the authorization process was not significantly expensive. Regardless, the marginal incorporator could shift to British law in response to small changes in these costs, which is an implication that I can test with these data.

There was no significant selection into legal regimes by capitalization. Figure 3 shows that while British companies were more heavily capitalized on average, the capital distributions of the two legal regimes were broadly similar before 1908. The corporations founded after the panic were significantly smaller, especially after 1909. As noted in Figure 1, foreign investment cooled down significantly after the panic, causing a slowdown in entry and deterioration in capital formation. The pre-1908 sample also includes some naturally large companies in land and transportation, driving some of the difference in the size distribution.

Most industry categories had close proportions of companies in British or French law traditions, especially in important sectors such as finance, land, manufacturing, and to a lesser extent, trade. The important exceptions were mining and utilities, where the distribution was significantly lopsided. This is likely due to the unique circumstances in these sectors. In French legal traditions, including Egyptian law, mining enterprises were organized as *sociétés civiles*. Furthermore, the British mining companies still required concessions from the government to set up their firms. Similarly, utilities also required special concessions, and the government could have condition the grant of these concessions to incorporation under Egyptian law.

The national composition of founders, however, was significantly more salient in how incorporators sorted into different legal regimes. The histograms in Figure 5 show that about 50 percent of British companies were made up of entirely British founders. In contrast, almost 40 percent of corporations in the French legal tradition had no British founders. There were not many local founders, overall. This could be partly driven by the need to add at least one British subscriber to incorporate under British law. It could also be due to stand-in founders who merely filed the articles, then were replaced by the actual promoters and the first board. The promoters could well comprise a more mixed group of people. However, my analysis accounts for this issue by using the information on the first board whenever available. Figure 6 compares the nationalities of founders in the charter sample with the composition of directors in 1907 in the *Annuaire* sample. The patterns are broadly similar except that the *Annuaire* sample demonstrates selection in Belgian and French laws, concentrated in companies whose directors were mostly continental Europeans.

I take up the question of legal choice more systematically in a series of corporation-level descriptive regressions that estimate the linear probability models. In each model, the dependent variable is a dummy that indicates whether the company incorporated under British law. Each estimation includes controls for the proportion of British founders,

nominal capital in logs, and the average time gap in days between filing and authorization decree in the year that the corporation was registered. Other controls include dummies for industry categories, an indicator for each distinct founder that appeared in at least four corporations, and birth-year dummies. The paper's preferred model includes all controls except founder dummies and birth-year dummies. There are too few years in any individual year before 1900, and the inclusion of repeating founders hurt power. In all regressions, the sample is restricted to corporations founded in 1907 or before. The results are reported in Table 2.

The regressions confirm that nominal capital and industry were not associated with incorporating as a British company, in contrast with the observation that contemporaries made (Grandguillot, 1909). By far the most important and robust predictor was the proportion of British nationals among founders. A 10-percentage-point increase in the British share of founders corresponded to about 9 percentage point higher chance choosing British law. The average decree delay also had a statistically significant effect. Each additional day incorporators waited after they filed the articles before receiving authorization on average depressed the likelihood of a company incorporating under Egyptian law by 1.3 percentage points that year. If the average delay increased by a month, the probability of registering under Egyptian law would decrease by almost 40 percentage points. Table A.1 in the Appendix provides additional regressions for the *Annuaire* sample, which shows similar patterns of selection. Both effects are robust across specifications, even after controls for individual founders are included and entry years are included.

Incorporators responded to economic costs. British nationals incurred lower costs to register in Britain; if there were more British founders, the company would more likely take advantage of British law. If the legal cost of incorporation increased in Egypt, more companies switched to British law, independent of industry or size. Capital and industry were not important drivers of selection. In the next section, I will assess if choices of law led to the adoption of different governance rules.

3.2 Choice of Governance Rules

The responsiveness of incorporators' choice of law suggest that legal regime was an important dimension as founders set up their enterprises. To evaluate if these choices were associated with a particular set of governance structures, I analyze how certain provisions with stronger shareholder protection varied between companies incorporated under the common and civil law traditions.

I start by comparing the take-up of these provisions across three categories: British, Egyptian before 1908, Egyptian after 1908. I distinguish the Egyptian-law companies that were founded after 1908, when incorporating in Britain ceased to be an option. Table 1 reports the descriptive statistics.

The first panel gives an overview of each category's capital structure. As noted earlier, British and Egyptian companies had similar nominal capital but after 1908, new corporations were considerably smaller. A significant share of companies under either legal tradition issued founders' shares, Egyptian companies more so than British. Following the financial crisis, the government prohibited the practice. The incidence of issuing preference shares was almost zero, even though it was never disallowed.

Shareholders enjoyed broadly better representation under Egypt's civil-law tradition. The majority of Egyptian corporations adopted a graduated voting scale for polls in general meetings; almost all British corporations chose one share, one vote. As a result, British companies scored 0.85 in Hilt's voting rights index. In contrast, Egyptian corporations scored 0.05. Furthermore, 73 percent of British charters allowed a fixed number of shareholders (usually less than five) to form a quorum in the general meeting. Twenty percent of Egyptian corporations included such provisions before 1908, the rest requiring some share of issued capital to be present. Fixed quotas almost vanished after the panic, indicating that the authorities paid attention to this rule. More than 80 percent of both categories made it more difficult for minority shareholders to call extraordinary meetings by

requiring more than five percent of capital to do it. In fact, a slightly higher share of new Egyptian companies adopted such provisions after 1908.

Similar patterns emerge in provisions regarding directors and their powers. On most issues, British charters shifted oversight away from shareholders. Compared to Egyptian companies before 1908, British corporations mandated higher share ownership cut-offs for director eligibility, more often guaranteed fixed minimum annual compensation to directors, and did not introduce any limit to how much the company could borrow. Rotation rules were more complicated. British charters adopted a much shorter tenure, two-and-a-half years, for the first, unelected, board of directors compared to more than four years in Egyptian companies. However, a considerable share of Egyptian companies rotated the entire first board in the first election; almost no British charter adopted this rule. Overall, for the median board size (five members), the first board is rotated in its entirety at the same pace under either rule. Egyptian charters also included longer election cycles, more than one year, than the British. But these Egyptian companies rotated a greater proportion of the board as well (as opposed to the one-third rule in almost every company—British or Egyptian—with annual rotation).

Finally, a higher share of British corporations opted out of sending full balance sheets before the annual general meeting, usually sent or published the annuals financials closer to the day of the meeting. Many Egyptian corporations, however, did not send or publish financials at all; shareholders were required to pick the contents up at the company head office. While only seven percent of British companies adopted this rule, 45 percent of British charters also included provisions that explicitly precluded mailing contents to addresses outside of Britain, or publish in a newspaper, in any language, circulating in Egypt. To the extent that these companies promoted in Egyptian markets, this rule became stricter. Shareholders residing in Egypt could not easily to visit these companies' headquarters in London to get the company balance sheet.

Next, I estimate a series of linear probability models to better assess how the adoption of governance rules varied with legal regime. All regressions are at the corporation level. I analyze the following provisions: whether the company issued founders' shares, Hilt's voting rights index, whether directors were guaranteed a fixed remuneration, whether the shareholders never elected a full board of directors, if directors' discretion over borrowing was not restricted in any way, and if the annual financials were neither mailed nor published. For each variable, I estimate three specifications across two samples: before and after the repeal in 1908. In the pre-1908 sample, I start with using the British law dummy as the main regressor. Second, I capture a more plausible causal relationship by instrumenting company *i*'s choice of law with the average delay between filing the articles and receiving the authorization decree across every other company (that is, excluding corporation *i*) registered within six months of company *i*. As demonstrated earlier, the decree delay is a strong predictor of incorporation decisions and since the government approved all applications, the average decree gap that other companies faced should not affect incorporators' governance choices.¹² Then, I use the British share of founders as the main regressor for the pre-1908 and post-1908 samples to compare firms that would have incorporated under British law after 1908 but could not to firms that did before the repeal. There is no post-1908 sample for the model in which the dependent variable is the founders' share dummy since this was prohibited after 1908. All models include controls for nominal capital and industry. Estimation results are reported in Tables 3, 4, 5, and 6.

The empirical exercise confirm the earlier observations. British companies were associated with worse (0.77 points higher) scores in Hilt's voting rights index, though the magnitude goes down under the 2SLS estimator. British companies were about 40 percentage points more likely to adopt fixed quotas for quorum but the 2SLS regression suggests that this might be driven by the high proportion of British founders. Corporations under British law were also 31 to 54 percentage points more likely to make it harder to call ex-

¹²The exclusion restriction would likely fail in the post-1908 period, when the authorization procedure was tightened and the Ministry of Finance started to evaluate charters more thoroughly.

traordinary meetings, 33 to 54 percentage points less likely to rotate the first board entirely, and 25 percentage points less likely to restrict borrowing in any way. The results extend to proxying legal choice with British founders. After 1908, the coefficients on British founders vanish. The companies that would have incorporated under British law if given the option adopted rules with stronger investor protection under the civil law tradition.

3.3 Survival Analysis

The corporate governance literature has long argued that corporations are more organizationally effective if they are managed in the long-run interests of their shareholders. This thesis implies that companies that adopt stronger shareholder protection and give shareholders more oversight enjoy better outcomes, including lower exit risk (Hansmann and Kraakman, 2001, 2012). This was especially relevant in the historical context, where information asymmetries between directors and minority shareholders could be wide. I now show that several dimensions of shareholder protection mattered for firm survival, especially during the financial panic of 1907.

I start with plotting survival functions over 20 years using the Kaplan-Meier estimator, a non-parametric method that approximates the true survival function with few assumptions. Figure 7 shows the estimated survival curves. First, I estimate survival for companies under Egyptian law and British law using the full sample. In the second panel, I separate companies that incorporated under Egyptian law into pre-1908 and post-1908 groups. British companies were significantly more frail; only 25 percent survived the first 10 years. In comparison, more than 50 percent of companies under the civil law tradition were alive after the first 10 years. The post-1908 group was somewhat more frail than the earlier cohort, but this was likely associated with their smaller capitalization. Regardless, this cohort was still more robust than British companies. Perhaps, British companies' frailty was due to the cohort that was established closer to the panic. These corporations could be especially fragile; perhaps, even weaker companies were able to get financing thanks to

the exuberance of this period. In the third panel, I attempt to control for this by restricting the sample to firms established in 1904 or earlier. Both categories were more robust in this specification but relative fragility of British corporations persists.

The differences in survival could be due to firm-specific factors. To dig deeper into the determinants of survival, I estimate accelerated failure-time models with a log-logistic specification for the underlying survival function.¹³ The British law and the founders' share dummies are the main regressors. The founders' share indicator is included because it is a distinct governance dimension that is not correlated with legal regime and because contemporaries viewed the practice to be responsible for the panic's severity. I also include controls for the proportion of British founders, nominal capital, industry, individual founders that appear in four or more corporations, and the year of entry. My preferred specification includes industry controls but not individual founder or entry-year dummies. These regressions are descriptive and not necessarily causal. Table 7 reports the estimates of failure-time ratios.

British corporations had much shorter durations controlling for other observables. Depending on the specification, the failure-time ratio of British companies over Egyptian companies was between 0.35 to 0.15. In other words, companies that incorporated under British law had 65 to 85 percent shorter lives before they dissolved relative to companies under Egyptian law. Whether a company issued founders' shares also had a strong association with more risk. Companies with founders' shares had 36 to 52 percent shorter duration than companies that did not issue founders' shares. Not surprisingly, nominal capital had a strong positive correlation. The preponderance of British founders was associated with longer survival.

¹³Semi-parametric models like Cox involve similarly strong assumptions. In this case, the critical assumption of proportional hazards—that different values of a regressor have constant hazard ratios over time—is violated in key covariates, most notably in the British law dummy. The details of this test are provided in the Appendix. See Figure A.1 and Table A.3. Among the duration models, the log-logistic specification had the lowest value of AIC and the highest log-likelihood.

Next, I restrict the sample to companies established in 1907 or before to better capture frailty over the 1907 financial crisis. Again, I estimate an accelerated failure-time model with log-logistic survival function. I also use OLS and 2SLS to estimate linear probability models where the dependent variable is whether a given company established in 1907 was alive by the end of 1908. The 2SLS estimator uses the average decree delay of other companies established within six months as an instrument for incorporating under British law. Table 8 reports the results. We see that now the British dummy is associated with even higher frailty. Within the cohort that established before 1908, British companies had 85 percent shorter duration. This was driven by the panic. If a company was incorporated under British law, it was 49 to 53 percentage points less likely to survive the panic of 1907, regardless of the composition of founders or the industry. The effect is robust to using the 2SLS estimator, suggesting that the effect is not spurious. Table in A.2 in the Appendix reports estimates for the *Annuaire* sample, showing similar magnitudes.

Next, I estimate duration models with governance rules as the main regressor. Each specification includes controls for founders' shares, nominal capital, and industry. The estimations are then repeated with controls for the year of entry. Table 9 reports the estimates of failure-time ratios. Three governance provisions stand out. Hilt's voting rights index had a strong association with shorter survival; companies that scored 1 on the voting rights index by adopting a one-share-one-vote rule lived half as long as firms that scored closer to 0. Companies that rotated their first boards lived almost twice as long as corporations in which shareholders never elected a full board. And companies with at least some restriction on the board's borrowing power had 75 percent longer duration, but the effect is not as robust to the inclusion of entry-year controls. Fixed quota for quorum and director remuneration did not affect firm survival.

These effects could be driven by changes to the incorporation process, repeal of incorporating under foreign laws, or the tightening of authorization procedures. I account for these issues by restricting the sample to firms that were established before 1908. This

specification also has the advantage of focusing on surviving the financial crisis. I find that the failure-ratio of Hilt's voting rights index has a similar magnitude. But the effects of board rotation and borrowing restriction are amplified. In the pre-1908 subsample, firms in which shareholders elected a full board enjoyed 143 to 171 percent longer duration than those that did not. Companies with at least some borrowing restriction lived 63 to 115 percent longer. Limits on board discretion were critically important for surviving the panic.

4 Conclusion

Egyptian legal environment offered a great deal of freedom to incorporators. They could choose two paths: incorporate under common law, which allowed considerable flexibility in writing the articles of association, or civil law, which put statutory restrictions on what rules founders could write. This provided an unusual opportunity to study how legal origins affected shareholder protection in the same economy, at the same time, across the same group of potential entrepreneurs, promoting to the same investors. To evaluate incorporators' revealed preferences over law and governance rules, and how these rules affected firm outcomes, I collected the articles of every company with an available charter, established before 1914, and primarily operating in Egypt. The analysis demonstrated significant contrast between legal regimes. Companies that sorted into British law adopted rules that assigned more discretion to directors and less monitoring power to shareholders. These corporations wrote provisions that diluted minority shareholders' voice through fixed quotas for quorum, making it harder to call extraordinary meetings, or adopting fixed scale voting rules such one share, one vote. They also did not put any restriction on directors' borrowing. Companies that incorporated under Egyptian law gave relatively more voting power to minority shareholders, made it easier to call extraordinary

meetings, did not adopt fixed quotas for quorum, and introduced at least some restriction on directors' borrowing power.

These rules mattered for firm outcomes. At the outset, investors did not seem to be concerned about the details of governance structures. Companies in either legal tradition were equally successful in raising capital and attracting investors. Shareholders were probably content as long as they received dividends and cared more about the potential returns of a new enterprise, as was the case in Britain at the same time (Guinnane et al., 2017). In part, this investor behavior explains why the securities bubble emerged after 1906. But the rules mattered for firm survival, especially during the panic. Companies with stronger shareholder rights and stricter limits on directors enjoyed remarkably less risk of failure. My findings support the view in the literature that the managing corporations in the interests of shareholders leads to better survival outcomes if not raising more capital, but in contrast, the common law tradition is not necessarily better in facilitating these governance structures. The evidence shows that statutory law can be important in establishing robust shareholder monitoring over directors and solving the agency problems between directors and investors.

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Table 1: Comparison of Governance Rules Across Common and Civil Law Traditions

	British			Egyptian pre-1908			Egyptian post-1908		
	Mean	SD	N	Mean	SD	N	Mean	SD	N
<i>Capital structure</i>									
Nominal capital (thousands £)	158	230	135	195	376	79	52.5	85.8	43
=1 if issued founders' shares	0.43	0.50	131	0.52	0.50	73	0	0	43
=1 if issued pref. shares	0.07	0.25	131	0.04	0.20	73	0	0	43
<i>General meetings and shareholders' voting rights</i>									
=1 if voting is graduated scale	0.08	0.27	136	0.86	0.35	79	0.98	0.15	43
Hilt's voting rights index	0.84	0.35	126	0.046	0.060	73	0.056	0.038	42
=1 if fixed number is quorum	0.73	0.45	136	0.20	0.40	79	0.023	0.15	43
=1 if more than five percent needed to call EGM	0.87	0.34	136	0.81	0.39	79	0.86	0.35	43
<i>Directors and board rotation</i>									
Fraction of capital each director must hold	0.016	0.058	117	0.011	0.012	73	0.030	0.045	43
N. years until first election	2.54	1.55	117	4.30	1.51	73	4.07	1.49	43
=1 if shareholders never elect full board	0.93	0.25	120	0.59	0.50	49	0.84	0.37	38
=1 if no annual rotation	0.03	0.16	121	0.22	0.42	72	0.21	0.41	43
=1 if unrestricted borrowing	0.89	0.31	136	0.63	0.49	79	0.28	0.45	43
=1 if directors receive a fixed min. remuneration	0.39	0.49	136	0.30	0.46	79	0.51	0.51	43
<i>Contents of annual financials</i>									
=1 if no full balance sheet	0.12	0.32	120	0	0	30	0	0	13
=1 if not mailed/published	0.07	0.26	136	0.38	0.49	79	0.23	0.43	43
No. days before general meeting contents available	6.7	2.7	108	12	3.2	31	15	9.6	14

Source: TNA BT 31, Journal Officiel 1887–1913

Table 2: Determinants of Incorporating under British Law

	(1)	(2)	(3)	(4)	(5)	(6)
Prop. British founders	0.91*** (0.056)	0.87*** (0.065)	0.78*** (0.11)	0.90*** (0.060)	0.76*** (0.11)	0.73*** (0.12)
Log(K)	0.012 (0.016)	0.0047 (0.018)	0.021 (0.016)	0.0060 (0.016)	0.021 (0.020)	0.012 (0.021)
Avg. decree delay	0.013*** (0.0035)	0.013*** (0.0035)	0.0085* (0.0050)	0.011*** (0.0021)	0.0072 (0.0048)	0.017** (0.0066)
Manufacturing		-0.34 (0.26)			0.050 (0.46)	0.010 (0.43)
Trade		-0.33 (0.28)			0.20 (0.47)	0.17 (0.44)
Transport		-0.28 (0.26)			0.42 (0.48)	0.48 (0.44)
Finance		-0.22 (0.27)			0.30 (0.49)	0.35 (0.46)
Mining		-0.17 (0.26)			0.23 (0.46)	0.30 (0.44)
Utilities		-0.45* (0.26)			-0.083 (0.49)	-0.13 (0.46)
Land		-0.28 (0.25)			0.15 (0.46)	0.12 (0.43)
Hotels, tourism		-0.40 (0.27)			-0.024 (0.47)	-0.047 (0.44)
Repeat-founder controls	No	No	Yes	No	Yes	Yes
Entry-year controls	No	No	No	Yes	No	Yes
Obs	172	172	172	172	172	172
R^2	0.52	0.54	0.74	0.57	0.77	0.82
Mean dep. var.	0.53	0.53	0.53	0.53	0.53	0.53

Note: The dependent variable is a dummy that takes a value of 1 if the company incorporated under British law. Prop. Brit founders indicates the proportion of British individuals over all founders. Log(K) is nominal capital in log pounds sterling. Repeat-founder controls is a set of dummy variables for each real person that appeared in four or more corporations as a founder. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913.

Table 3: Determinants of Founders' Share and Voting Rights

	=1 if founders' shares			Hilt's voting rights index			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908
=1 if British law	0.044 (0.081)	-0.0075 (0.28)		0.74*** (0.044)	0.33** (0.15)		
Prop. British founders		-0.15 (0.25)	-0.24** (0.10)		0.59*** (0.14)	0.85*** (0.061)	-0.0092 (0.014)
Log(K)	0.028 (0.024)	0.038 (0.029)	0.022 (0.023)	-0.013 (0.013)	-0.0092 (0.017)	0.00019 (0.016)	-0.022*** (0.0035)
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	191	167	191	185	163	185	42
R^2	0.07	0.10	0.10	0.69	0.70	0.58	0.51
Mean dep. var.	0.49	0.49	0.49	0.51	0.51	0.51	0.06
KP Wald F -stat		24.59			23.98		

Note: The dependent variable is equal to 1 if the company issued founders' shares (columns 1–3) or Hilt's voting rights index (columns 4–7). The 2SLS is conducted in the pre-1908 sample only. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913.

Table 4: Determinants of Quorum Rules and Calling EGMs

	=1 if fixed quorum				=1 if harder to call EGM			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908
=1 if British law	0.44*** (0.067)	-0.040 (0.27)			0.034 (0.058)	0.086 (0.20)		
Prop. British founders		0.46* (0.25)	0.41*** (0.092)	0.11 (0.12)		-0.038 (0.18)	-0.030 (0.075)	-0.35 (0.35)
Log(K)	0.070*** (0.020)	0.083*** (0.025)	0.072*** (0.021)	-0.0042 (0.0087)	0.028 (0.023)	0.019 (0.019)	0.027 (0.023)	0.026 (0.068)
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	203	174	203	43	203	174	203	43
R^2	0.35	0.22	0.28	0.34	0.09	0.11	0.09	0.24
Mean dep. var.	0.50	0.50	0.50	0.02	0.84	0.84	0.84	0.86
KP Wald F -stat		22.97				22.97		

Note: The dependent variable is equal to 1 if a fixed number of members form a quorum in the general meeting (columns 1–4) or if more 10 percent of capital is required to call for an extraordinary general meeting. The 2SLS is used in the pre-1908 sample only, whenever Egyptian charter data was available. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913.

Table 5: Determinants of Director Remuneration and Rotation

	=1 if min. director comp.				=1 if full board is never elected			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908
=1 if British law	0.096 (0.075)	0.37 (0.28)			0.33*** (0.076)	0.54** (0.23)		
Prop. British founders		-0.41 (0.26)	-0.050 (0.098)	-0.54* (0.29)		-0.16 (0.18)	0.24*** (0.089)	-0.47 (0.37)
Log(K)	-0.0030 (0.023)	0.00040 (0.026)	-0.0068 (0.023)	0.049 (0.068)	0.040** (0.019)	0.050** (0.024)	0.046** (0.020)	-0.013 (0.069)
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	203	174	203	43	155	135	155	38
R^2	0.04	0.05	0.03	0.25	0.31	0.24	0.21	0.29
Mean dep. var.	0.34	0.34	0.34	0.51	0.84	0.84	0.84	0.84
KP Wald F -stat		22.97				15.32		

Note: The dependent variable is equal to 1 if directors are guaranteed a fixed minimum remuneration (columns 1–4) or if the entire board is rotated in the first election (columns 5–8). The 2SLS estimator is used in the pre-1908 sample only, whenever Egyptian charter data was available. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913.

Table 6: Determinants of Borrowing and Disclosure Provisions

	=1 if borrowing is not restricted				=1 if financials not sent			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908	OLS Pre1908	2SLS Pre1908	OLS Pre1908	OLS Post1908
=1 if British law	0.25*** (0.066)	0.36 (0.22)			-0.28*** (0.066)	-0.57** (0.23)		
Prop. British founders		-0.22 (0.20)	0.084 (0.085)	-0.29 (0.20)		0.22 (0.21)	-0.17** (0.087)	-0.33* (0.19)
Log(K)	0.044** (0.022)	0.040* (0.021)	0.041* (0.022)	-0.0026 (0.043)	0.0045 (0.019)	-0.0097 (0.021)	0.0057 (0.020)	0.054 (0.065)
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs	203	174	203	43	203	174	203	43
R^2	0.16	0.21	0.09	0.40	0.14	0.16	0.07	0.13
Mean dep. var.	0.77	0.77	0.77	0.28	0.20	0.20	0.20	0.23
KP Wald F -stat		22.97				22.97		

Note: The dependent variable is equal to 1 if there is any restriction on directors' borrowing discretion on behalf of the company (columns 1–4) or if the company does not mail the financials to the shareholders or publish them in a newspaper (columns 5–8). The 2SLS estimator is used in the pre-1908 sample only, whenever Egyptian charter data was available. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913.

Table 7: Failure-Time Ratio Estimates by Choice of Law

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if British law	0.35*** (0.06)	0.36*** (0.06)	0.18*** (0.04)	0.20*** (0.05)	0.18*** (0.07)	0.24*** (0.06)	0.28*** (0.08)	0.16*** (0.08)
=1 if issued founders' shares		0.61*** (0.10)	0.64*** (0.11)	0.58*** (0.10)	0.65* (0.15)	0.72 (0.15)	0.66* (0.14)	0.77 (0.21)
Prop. of Brit founders			2.86*** (0.79)	2.89*** (0.89)	3.19*** (1.32)	1.99** (0.58)	1.86** (0.57)	3.51** (1.75)
Log(K)			1.23*** (0.07)	1.29*** (0.09)	1.28*** (0.10)	1.21*** (0.08)	1.26*** (0.10)	1.33*** (0.12)
γ	0.76*** (0.05)	0.74*** (0.05)	0.70*** (0.05)	0.68*** (0.05)	0.56*** (0.05)	0.65*** (0.05)	0.64*** (0.05)	0.48*** (0.05)
Industry controls	No	No	No	Yes	No	No	Yes	Yes
Repeat-founder controls	No	No	No	No	Yes	No	No	Yes
Entry-year controls	No	No	No	No	No	Yes	Yes	Yes
N	247	238	238	238	238	238	238	238
N Failures	179	174	174	174	174	174	174	174
Log-likelihood	-365	-350	-337	-332	-292	-320	-316	-262

Note: The table reports estimated failure-time ratios from accelerated failure-time models with loglogistic survival functions. Repeat founder controls describe distinct dummy variables for each founder that appeared in at least four corporations. γ denotes the ancillary parameter of the loglogistic distribution. Robust standard errors are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

Table 8: Determinants of Surviving the Panic of 1907

	Failure-time ratio		=1 if survived the crisis of 1907			
	(1) AFT	(2) AFT	(3) OLS	(4) 2SLS	(5) OLS	(6) 2SLS
=1 if British law	0.20*** (0.06)	0.22*** (0.08)	-0.51*** (0.09)	-0.55** (0.22)	-0.51*** (0.09)	-0.52** (0.21)
=1 if issued founders' shares	0.59** (0.13)	0.57*** (0.12)	0.01 (0.07)	0.01 (0.08)	-0.01 (0.07)	0.01 (0.08)
Prop. of Brit founders	1.61 (0.66)	1.91 (0.88)	0.31** (0.12)	0.35* (0.21)	0.34*** (0.12)	0.30 (0.20)
Log(K)	1.29*** (0.10)	1.27*** (0.11)	0.01 (0.02)	-0.02 (0.02)	0.02 (0.03)	0.00 (0.03)
γ	0.66*** (0.06)	0.63*** (0.06)				
Industry controls	No	Yes	No	No	Yes	Yes
N	143	143	167	151	167	151
N Failures	99	99				
Log-likelihood	-189	-184	-83	-72	-81	-69
Mean dep. var.			0.74	0.74	0.74	0.74
KP Wald F -stat			.	25.91	.	28.08

Note: The sample is restricted to firms established in 1907 or earlier. Columns 1 and 2 report failure-time ratio estimates from accelerated failure-time models with loglogistic survival functions. Columns 3 through 6 report estimates from linear probability models in which the dependent variable is a dummy that equals 1 if the firm was alive by the end of 1908. The 2SLS estimator is used only with firms founded in years for which Egyptian charter data was available. γ denotes the ancillary parameter of the loglogistic distribution. Robust standard errors are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1907, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

Table 9: Failure-Time Ratio Estimates by Governance Rules, Full Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Hilt's voting rights index	0.48*** (0.10)	0.52*** (0.11)								
=1 if fixed quorum			0.75 (0.15)	0.84 (0.17)						
=1 if min. director pay					0.98 (0.19)	0.93 (0.17)				
=1 if full board is never elected							0.54** (0.15)	0.56** (0.16)		
=1 if borrowing is not restricted									0.57** (0.13)	0.70 (0.16)
=1 if issued founders' shares	0.46*** (0.09)	0.60** (0.13)	0.45*** (0.09)	0.58** (0.13)	0.43*** (0.09)	0.57** (0.13)	0.34*** (0.07)	0.48*** (0.13)	0.48*** (0.09)	0.59** (0.13)
Log(K)	1.27*** (0.10)	1.27*** (0.10)	1.27*** (0.09)	1.25*** (0.10)	1.24*** (0.09)	1.23*** (0.10)	1.17* (0.09)	1.17* (0.10)	1.28*** (0.10)	1.25*** (0.10)
γ	0.75*** (0.05)	0.67*** (0.05)	0.76*** (0.05)	0.68*** (0.05)	0.77*** (0.05)	0.68*** (0.05)	0.71*** (0.05)	0.64*** (0.05)	0.75*** (0.05)	0.68*** (0.05)
Industry controls	Yes									
Entry-year controls	No	Yes								
N	231	231	238	238	238	238	198	198	238	238
N Failures	169	169	174	174	174	174	148	148	174	174
Log-likelihood	-337	-314	-352	-328	-353	-328	-286	-269	-349	-327

Note: The reported figures are estimated failure-time ratios from accelerated failure-time duration models with loglogistic survival functions. γ denotes the ancillary parameter of the loglogistic distribution. Robust standard errors are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1913, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

Table 10: Failure-Time Ratio Estimates by Governance Rules, Pre-1908 Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Hilt's voting rights index	0.39*** (0.10)	0.40*** (0.10)								
=1 if fixed quorum			0.74 (0.18)	0.81 (0.19)						
=1 if min. fixed director comp.					1.14 (0.28)	1.10 (0.24)				
=1 if full board is never elected							0.39*** (0.13)	0.45** (0.16)		
=1 if borrowing is not restricted									0.44*** (0.13)	0.59* (0.17)
=1 if issued founders' shares	0.47*** (0.10)	0.60** (0.13)	0.46*** (0.10)	0.57** (0.13)	0.45*** (0.10)	0.56*** (0.12)	0.38*** (0.09)	0.49*** (0.13)	0.48*** (0.10)	0.58** (0.13)
Log(K)	1.27*** (0.11)	1.24** (0.10)	1.32*** (0.11)	1.26** (0.11)	1.30*** (0.11)	1.24** (0.11)	1.23** (0.12)	1.18* (0.11)	1.31*** (0.11)	1.25*** (0.11)
γ	0.73*** (0.05)	0.63*** (0.05)	0.76*** (0.05)	0.66*** (0.05)	0.77*** (0.05)	0.66*** (0.05)	0.69*** (0.05)	0.61*** (0.05)	0.75*** (0.05)	0.65*** (0.05)
Industry controls	Yes									
Entry-year controls	No	Yes								
N	175	175	181	181	181	181	146	146	181	181
N Failures	128	128	132	132	132	132	111	111	132	132
Log-likelihood	-252	-229	-265	-241	-266	-242	-207	-192	-262	-240

Note: The reported figures are estimated failure-time ratios from accelerated failure-time duration models with loglogistic survival functions. γ denotes the ancillary parameter of the loglogistic distribution. Robust standard errors are in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: TNA BT 31, Journal Officiel 1887–1907, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

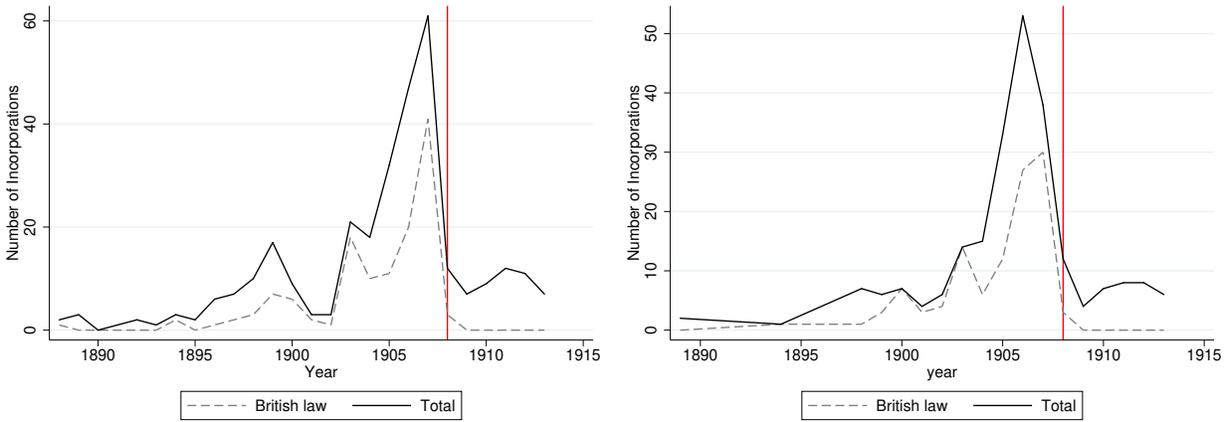


Figure 1: New Corporations by Legal Regime, 1887–1913

Note: The first graph uses the universe of corporations that primarily operated in Egypt. The second graph uses the charter sample. The vertical red line indicates 1908, when the Court of Appeals repealed option to incorporate under British law.

Source: Annuaire de la finance 1907, TNA BT 31, Journal Officiel 1887–1913

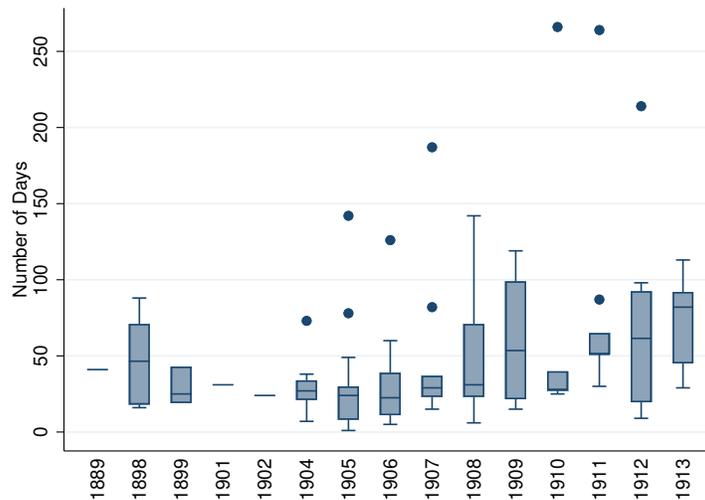


Figure 2: Delay between Filing and Authorization

Note: Delay describes the number of days between the date the incorporators submitted the articles and the date their authorization decree was granted.

Source: Journal Officiel 1889–1913.

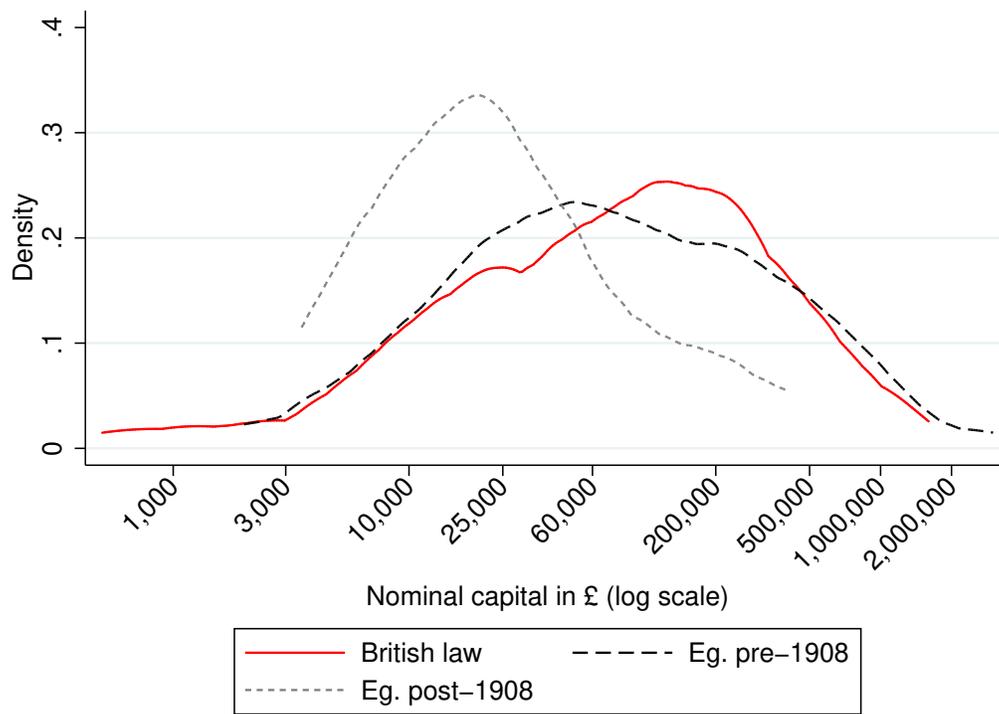


Figure 3: Distribution of Nominal Capital

Note: The pre-1908 Egyptian sample is made up of companies registered under Egyptian law in 1907 or earlier. The post-1908 sample spans companies founded in 1908 or later, up to 1913 (inclusive).
 Source: TNA BT 31, Journal Officiel 1887–1913.

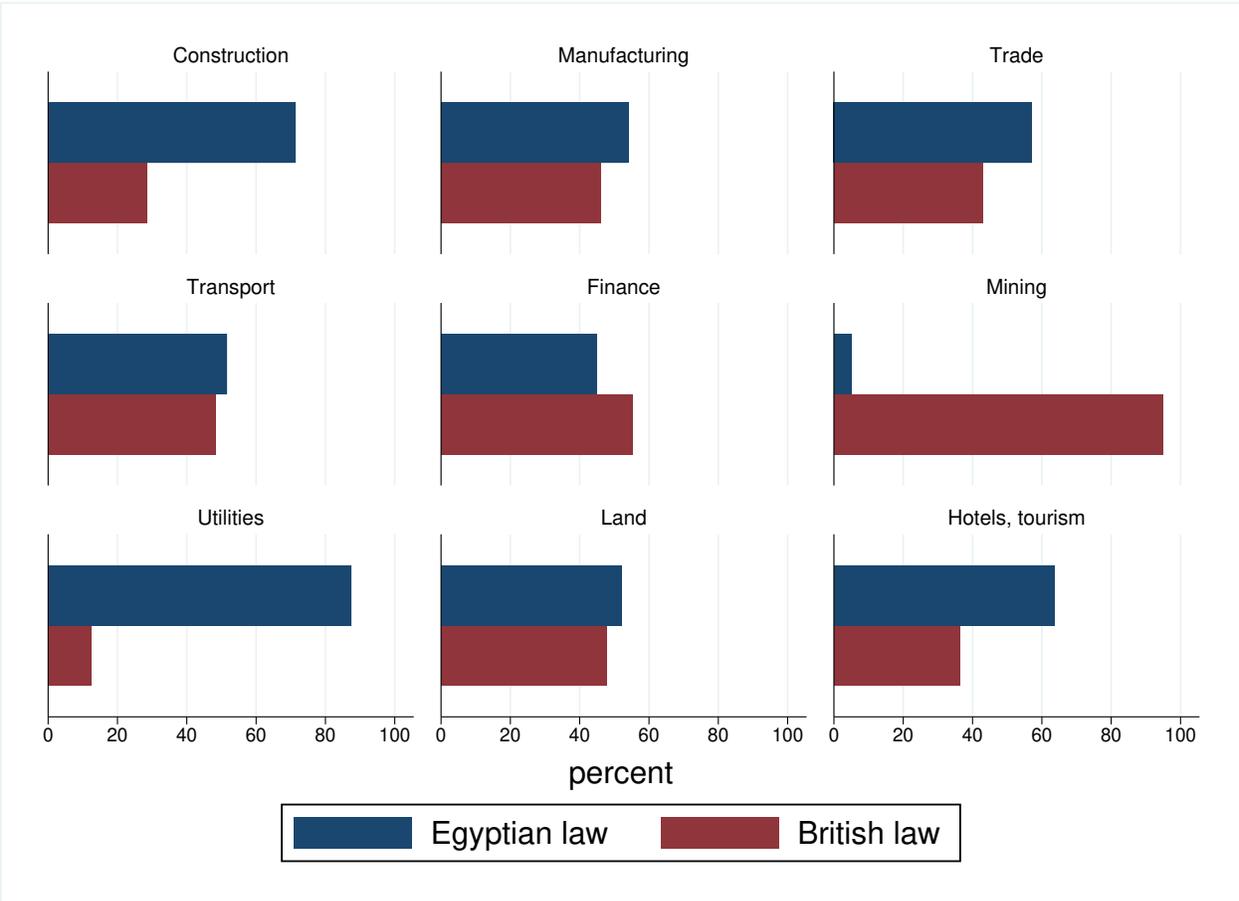


Figure 4: Legal Distribution by Industry

Note: Industry groups are slightly modified from the official classification of the *Statistique des sociétés anonymes* using NAICS categories. Manufacturing includes cotton ginners since these establishments were organized as factories in Egypt. Trade includes wholesalers and retailers. Transport includes railroads, steamships, canals, support activities such as stevedoring, and warehousing. Finance includes commercial banks, mortgage banks, non-depository credit institutions, and insurance companies. Mining includes all kinds of mining, quarrying, and oilfields. Utilities include irrigation, water companies, and power plants. The total sample size in each group is the following: Construction = 7, Manufacturing = 37, Trade = 27, Transport = 28, Finance = 27, Mining = 36, Utilities = 8, Land = 69, Hotels = 11.

Source: TNA BT 31, Journal Officiel 1887–1913.

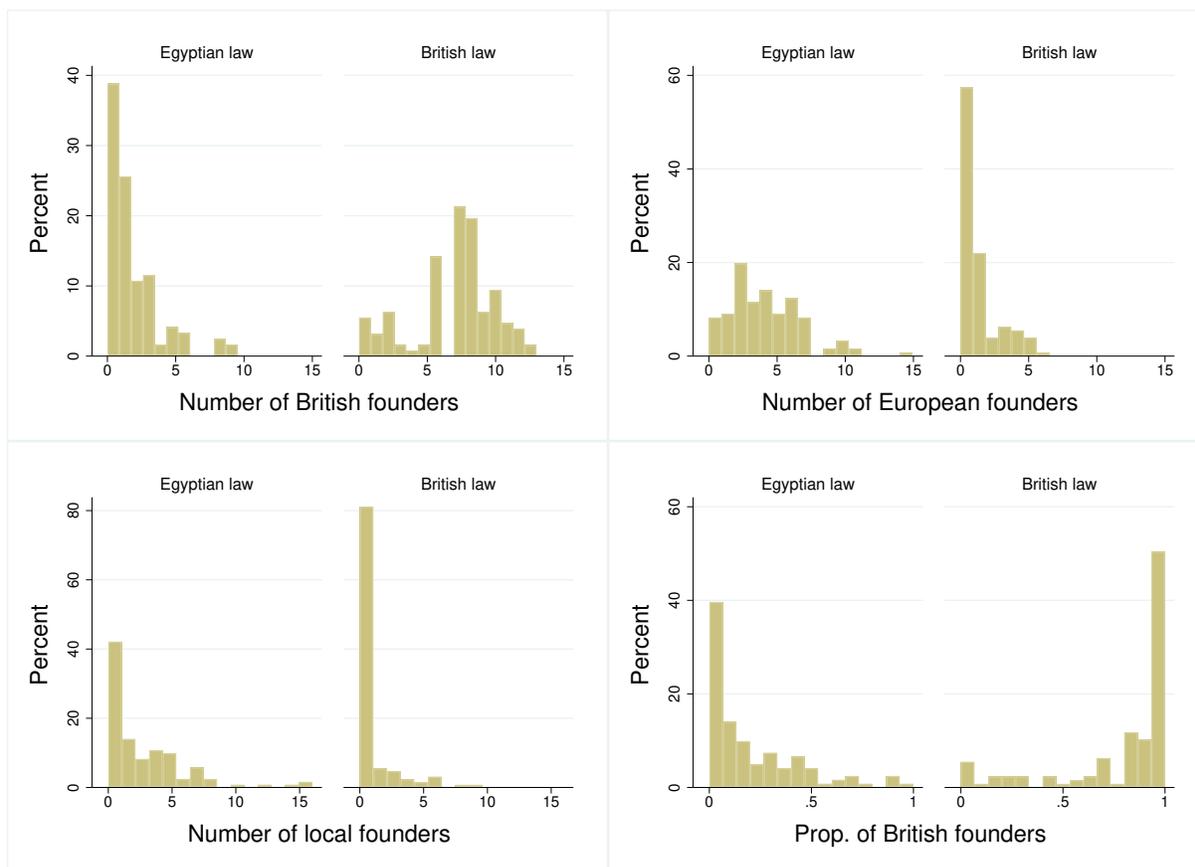


Figure 5: Founder Composition by Legal Regime

Note: British founders include British nationals or individuals with English names. This category also includes Maltese founders, who were British subjects. European founders include individuals reported as a French, Belgian, Swiss, German, Italian, or Austrian national or, if not, had a clearly French, German, or Italian name. Local founders include individuals with Arabic, Coptic, Levantine Christian, Greek, Armenian, Jewish, or Turkish names. Greeks were categorized as local because it was impossible to distinguish subjects of Greece from Greek natives of Egypt. French charters refer to companies that incorporated under Egyptian law.

Source: TNA BT 31, Journal Officiel 1887–1913.

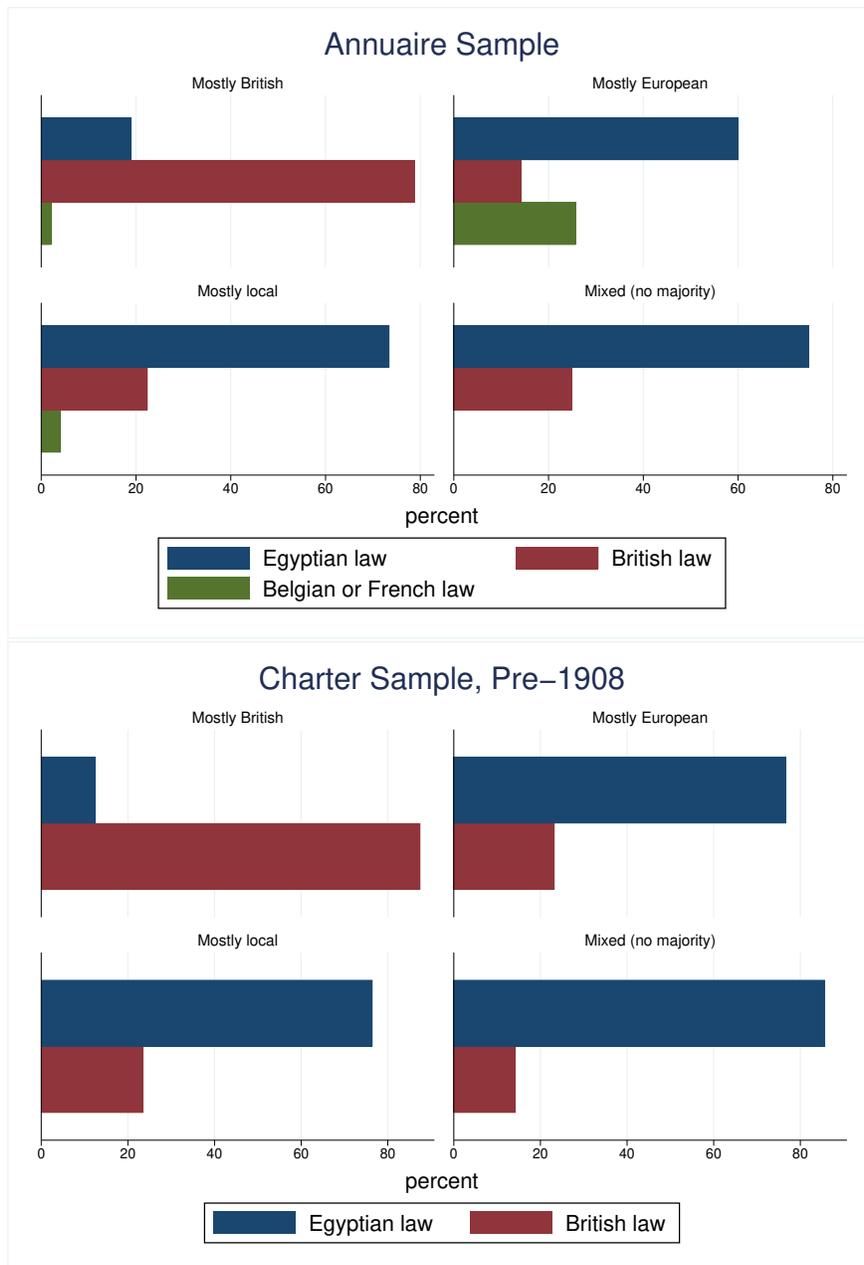


Figure 6: Choice of Law by Founder or Director Composition across Samples

Note: The *Annuaire* sample includes every corporation ever founded between 1887 and 1907 (inclusive) and chiefly operating in Egypt. The pre-1908 charter sample is made up of companies founded between 1887 and 1907 (inclusive) and for which charter information is available. Each panel describes whether more than half of the directors (in the *Annuaire* sample) or the founders (in the charter sample) belonged to one of the nationality categories. British founders/directors include British nationals or individuals with English names. This category also includes Maltese founders, who were British subjects. European founders/directors include individuals reported as a French, Belgian, Swiss, German, Italian, or Austrian national or, if not, had a clearly French, German, or Italian name. Local founders/directors include individuals with Arabic, Coptic, Levantine Christian, Greek, Armenian, Jewish, or Turkish names. Greeks were categorized as local because it was impossible to distinguish subjects of Greece from Greek natives of Egypt. French charters refer to companies that incorporated under Egyptian law.

Source: *Annuaire de la finance 1907*, TNA BT 31, *Journal Officiel 1887–1913*.

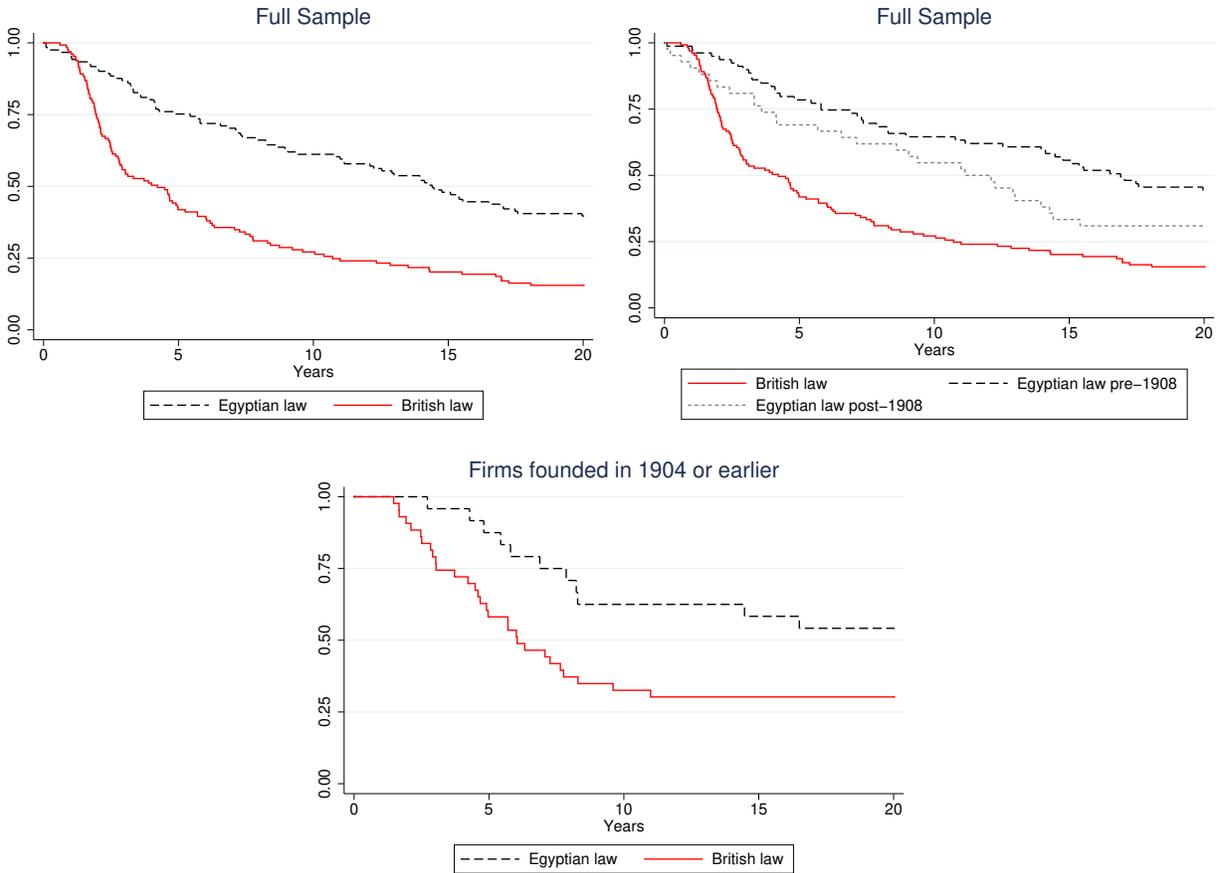


Figure 7: Kaplan-Meier Survival Estimates

Note: The pre-1908 sample includes firms founded in 1907 or earlier. The post-1908 sample is made up of firms registered between 1908 and 1913 (both inclusive).

Source: TNA BT 31, Journal Officiel 1887–1913, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

Appendix

Table A.1: Choice of Law Regressions across Samples

	Charter Sample		<i>Annuaire</i> Sample	
	(1)	(2)	(3)	(4)
Prop. British founders	0.87*** (0.065)	0.90*** (0.060)		
Prop. British directors			0.96*** (0.056)	0.91*** (0.064)
Log(K)	0.0047 (0.018)	0.0060 (0.016)	0.032** (0.014)	0.024* (0.013)
Avg. decree delay	0.013*** (0.0035)	0.011*** (0.0021)		
Manufacturing	-0.34 (0.26)		-0.18 (0.14)	-0.095 (0.14)
Trade	-0.33 (0.28)		-0.044 (0.15)	-0.029 (0.14)
Transport	-0.28 (0.26)		-0.16 (0.15)	-0.13 (0.15)
Finance	-0.22 (0.27)		-0.17 (0.14)	-0.10 (0.13)
Mining	-0.17 (0.26)		-0.042 (0.13)	0.17 (0.14)
Utilities	-0.45* (0.26)		-0.22 (0.16)	-0.20 (0.13)
Land	-0.28 (0.25)		-0.22 (0.14)	-0.16 (0.13)
Hotels, tourism	-0.40 (0.27)		-0.23 (0.17)	-0.19 (0.15)
Repeat-founder controls	No	No	No	No
Entry-year controls	No	Yes	No	Yes
Obs	172	172	276	276
R^2	0.54	0.57	0.55	0.67
Mean dep. var.	0.53	0.53	0.49	0.49

Note: The dependent variable is a dummy that takes a value of 1 if the company incorporated under British law. Prop. British founders or directors is the proportion of British individuals over all founders or over directors, respectively. Log(K) is nominal capital in log pounds sterling. Repeat-founder controls is a set of dummy variables for each real person that appeared in four or more corporations as a founder. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: *Annuaire de la finance 1907*, TNA BT 31, *Journal Officiel 1887–1913*.

Table A.2: Determinants of Surviving the Panic of 1907

	Charter Sample				Annuaire Sample	
	(1)	(2)	(3)	(4)	(5)	(6)
	OLS	2SLS	OLS	2SLS	OLS	OLS
=1 if British law	-0.49*** (0.084)	-0.61*** (0.23)	-0.50*** (0.089)	-0.57** (0.22)	-0.58*** (0.076)	-0.56*** (0.077)
Prop. British founders	0.33*** (0.11)	0.42** (0.21)	0.36*** (0.12)	0.35* (0.21)		
Prop. British directors					0.23** (0.11)	0.28** (0.11)
Log(K)	-0.014 (0.015)	-0.026 (0.019)	-0.0057 (0.020)	-0.014 (0.022)	0.062*** (0.020)	0.073*** (0.023)
Industry controls	No	No	Yes	Yes	No	Yes
Obs	187	164	187	164	204	204
R^2	0.18	0.19	0.20	0.23	0.26	0.32
Mean dep. var.	0.76	0.76	0.76	0.76	0.62	0.62
KP Wald F -stat	.	22.54	.	22.44	.	.

Note: The dependent variable is a dummy that takes a value of 1 if the company was active by the end of 1908. Both samples are restricted to companies that were active in the beginning of 1907 or were registered in 1907. Prop. British founders or directors is the proportion of British individuals over all founders or over directors, respectively. Log(K) is nominal capital in log pounds sterling. The 2SLS estimator is used only with firms founded in years for which Egyptian charter data was available. Standard errors robust to heteroskedasticity are reported in parentheses.

Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: Annuaire de la finance 1907, TNA BT 31, Journal Officiel 1887–1913.

Table A.3: Proportional Hazards Test

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if British law	0.031	0.019	0.001	0.002	0.001	0.000	0.028	0.000
=1 if issued founders' shares		0.047	0.732	0.534	0.001	0.133	0.268	0.725
Prop. of British founders			0.003	0.005	0.000	0.000	0.020	0.000
Log(K)			0.070	0.126	0.473	0.101	0.076	0.055
Industry controls	No	No	No	Yes	No	No	Yes	Yes
Founder controls	No	No	No	No	Yes	No	No	Yes
Entry-year controls	No	No	No	No	No	Yes	Yes	Yes
Global test	0.031	0.022	0.002	0.028	0.000	0.031	0.220	0.000

Note: Reported figures are the p-values associated with testing the null hypothesis of zero slope after regressing Schoenfeld residuals from Cox proportional hazards estimations on time. Each column corresponds to a distinct specification with the variables and control as indicated. The British law dummy violates the proportional hazards assumption in all specifications.

Source: TNA BT 31, Journal Officiel 1887–1913, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.

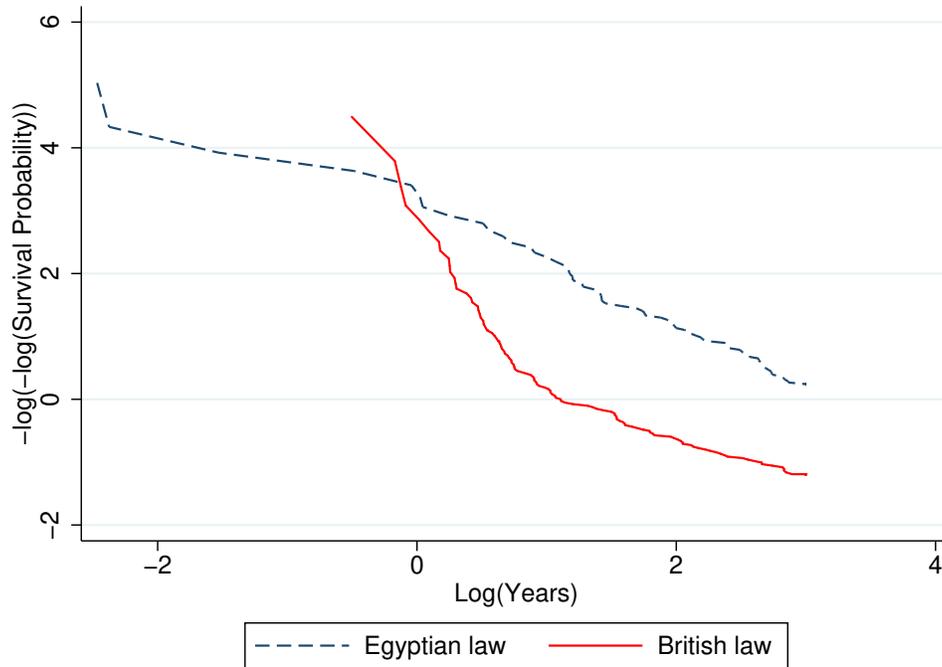


Figure A.1: Assessment of the Proportional Hazards Assumption

Note: This figure plots $-\log\{-\log(\text{survival})\}$ curves for corporations under each legal regime against $\log(\text{years})$. The curves have clearly different slopes in the beginning and, in fact, cross in the data region. The proportional hazards assumption is violated.

Source: TNA BT 31, Journal Officiel 1887–1913, Gazette Tribunaux des Mixtes 1911–21, Journal Tribunaux des Mixtes 1921–49, Egyptian Directory 1908–11, 1912–25, Statistique des sociétés anonymes 1911, 1925–40.