

Chapter 41

CORPORATE GOVERNANCE

Or on being politically correct

You may be surprised to find a chapter on corporate governance in a corporate finance textbook. Corporate governance is not, strictly speaking, a financial issue and is based on the legal considerations underlying the framework within which a company is run. However, as you may by now have come to expect, we approach the subject mainly from the angle of value. In other words, we attempt to find answers to the question “Will good corporate governance foster the creation of value and will poor corporate governance necessarily destroy value?”

The idea of corporate governance first arose in the 1990s and has been given a boost by the eruption of several major financial scandals in 2001–2003 (Enron, Worldcom, Parmalat). More fundamentally, corporate governance is a natural by-product of the changing economy. For example, a change in the shareholding structure of firms (with a shift away from family-owned firms to a more widely-held shareholding structure made up of institutional and retail investors) leaves management with greater freedom. The issue of shareholder control over management has thus become more pressing. Corporate governance was first introduced at listed companies in the UK and the USA (where firms are generally more widely held) before spreading to countries where the frequent cohabitation of family shareholders and minority shareholders also raises issues of corporate governance.

Section 41.1

WHAT DOES CORPORATE GOVERNANCE MEAN?

1/DEFINITION

Broadly speaking, corporate governance is the organisation of the control over and management of a firm. It covers:

- the definition of the legal framework of the firm: specifically, the organisation, the functioning, the rights and responsibilities of shareholders’ meetings and the

corporate bodies responsible for oversight (board of directors or executive board and supervisory board);

- the rules for appointing managers and directors;
- management rules and any conflicts of interest;
- the organisation of control over the management and the running of the company: internal controls, regulatory controls, auditing;
- the rights and responsibilities of other stakeholders (lenders, customers, suppliers, employees);
- the disclosure of financial information on the firm and the role and responsibility of external analysts: financial analysts, rating agencies and legal and financial advisors.

In a more narrow definition, the term “corporate governance” is used to describe the link that exists between shareholders and management. From this point of view, developments in corporate governance mainly involve the role and functioning of boards of directors or supervisory boards.

We would suggest¹ **that corporate governance covers all of the mechanisms and procedures surrounding decisions relating to the creation and sharing of value.** They concern four main areas: shareholders’ rights, transparency of information, organs of management and control and the alignment of compensation.

¹ Based on the OECD approach.

At this stage, we’d like to emphasise that corporate governance is a system that necessarily differs from one firm to the next, depending on its shareholding structure and its nationality. Strictly speaking, it is a bit of a misnomer to refer to “good” or “bad” corporate governance. There is only corporate governance that in practice either inspires investors’ confidence (or not), on the way in which decisions are taken within the firm based on whether the following five principles are respected: efficiency, responsibility, transparency, fairness and ethics.

2/ RECOMMENDATIONS AND GUIDELINES

It should always be remembered that the organisation of corporate governance is determined first and foremost by company law, which defines the field of possibilities. The legal framework is constantly being updated and refined in line with the evolution of corporate governance. For example, in the USA, the Sarbanes Oxley Act has reinforced the responsibility of management and also led to a root-and-branch overhaul of how accountants are overseen.

Over the years, a number of recommendations and guidelines have been added to the purely regulatory and legislative framework, in the form of reports and best practice codes (commissioned and/or drafted by employer bodies, investor associations, governments and government agencies, stock exchanges, etc. in various countries). It is important to note that these codes remain recommendations and guidelines only² and are not legally binding laws or regulations.

² In some countries, such as the UK or France, listed companies are required to disclose whether or not they implement codes of corporate governance, which is clearly a very strong incentive for them to do so!

These are the main reports that have been drafted in Europe:

[@
download](#)

Country	Title	Author	Date
Germany	German Code of Corporate Governance	Berliner Initiativkreis	2000
	Corporate Governance Rules for German Quoted Companies	Grundsatzkommission Corporate Governance	2000
	Deutscher Corporate Governance Kodex	Regierungskommission Deutscher Corporate Governance Kodex	2001
	Cromme Report		2002
Belgium	Corporate Governance Recommendations	VBO/FEB	1998
	Recommendations of the Belgian Banking & Finance Commission	CBF	1998
	Cardon Report	Bruxelles Stock Exchange	1998
	Directors' Charter	Directors' Foundation	2000
Spain	Olivencia Report	Comisión Especial para el Estudio de un Código Etico de los Consejos de Administración de las Sociedades	1998
France	Vienot I Report	MEDEF & AFEP	1995
	Hellebuyck Report		1998
	Vienot II Report	MEDEF & AFEP	1999
	Hellebuyck II Report		2001
	Bouton Report		2002
Italy	Preda Report	Comitato per la Corporate Governance delle Società Quotate	1999
UK	Cadbury Report		1992
	Greenbury Report		1995
	Hampel Report	London Stock Exchange	1998
	Combined code (Smith and Higgs reports)		2003
Multinational	OECD Principles of Corporate Governance	OECD	1999
	Statement on Global Corporate Governance Principles	ICGN	1999
	Euroshareholders Corporate Governance Guidelines 2000	The European Shareholders Group	2000
	Comparative Study Of Corporate Governance Codes Relevant to the European Union and its Member States	European Commission	2002

We can see that the main recommendations and guidelines in terms of corporate governance all focus on key issues: transparency in the way that the board and management operate, the role, composition and functioning of the board and the exercise of shareholder power at general meetings.

However, each country has its own very specific features when it comes to companies and their shareholders:

- employee rights in Germany (and also in Denmark, Austria and Sweden);
- the role of banks in Germany and Japan;
- cross-shareholdings in Italy;
- very widely-held shareholdings in the UK or USA;
- etc.

(a) Transparency

The first recommendation is for transparency in the way the company's management and oversight bodies operate.

There has been a huge increase in transparency in the way the boards of listed groups operate over the last 15 years.

For example, this is the way transparency was evolved in France.

TRANSPARENCY FOR THE TOP 40 LISTED GROUPS IN FRANCE

	1995	1999	2004	2007
Firms disclosing the number of board meetings per year	0	34	40	40
Average number of board meetings	3	5.6	7	7.5
Number of boards with internal regulations	0	15	40	40
Number of boards with a board of directors' charter	n/a	n/a	10	22
Number of boards that carry out assessments of their performances	0	0	21	38

Source: Korn/Ferry International and AMF.

Transparency surrounding the compensation of managers and directors is also recommended. For a long time, this was a taboo subject, and most listed companies have only recently started disclosing clear figures on the compensation paid to their managers and directors. As we saw in Chapter 31, the way in which firms compensate management plays a key role in reducing conflict between shareholders and managers.

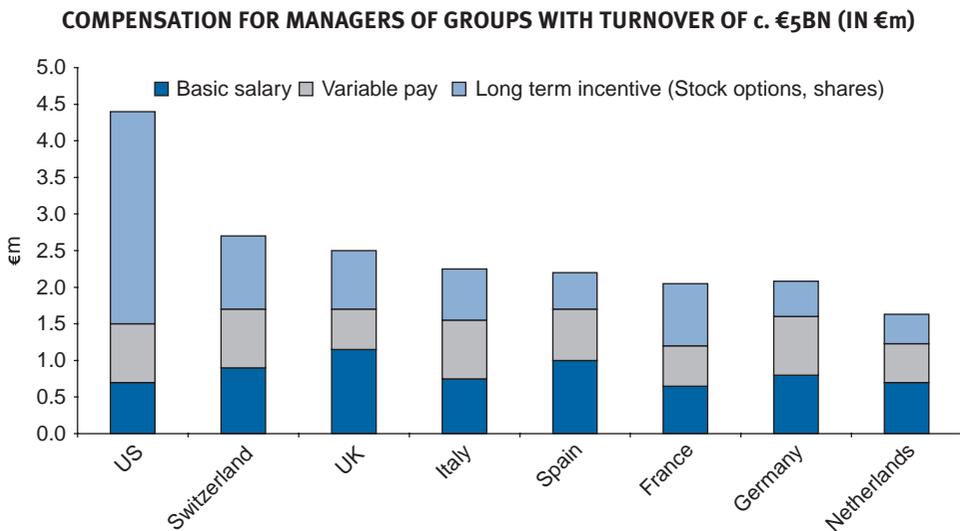
With the granting of variable compensation or stock options, managers have a financial interest that coincides with that of shareholders, to whom they are accountable. Since stock options are options to buy or subscribe shares at a fixed price, managers have a direct financial stake in the financial performance of the company, i.e. the higher the share

3 For an explanation of the accounting treatment of stock options, see Chapter 7.

price the larger their capital gains will be. Accordingly, there is a major incentive to make decisions that will create value.³

Stock options are not, however, a cure all, as the short-term vision they encourage may sometimes tempt management to conceal certain facts when disclosing financial information and, in extreme cases, they may even consider committing fraud. This has resulted in the development of alternative products, such as the granting of free shares, the payment of part of their compensation in shares, etc.

Between 1/3 (in France) and 2/3 (in the USA) of management compensation of large firms is linked to economic performance and share price.



Source: Towers Perrin 2006.

(b) The role of an independent board

Corporate governance codes all recommend that a firm's corporate strategy be defined by a body (board of directors or supervisory board) which enjoys a certain degree of independence from management.

Independence is achieved by limiting the number of managers who sit on the board, and by setting a minimum number of independent directors.

For example, in the United Kingdom the latest recommendation is that at least half of the directors of listed companies should be independent. There are very few companies with no or hardly any independent directors on the board. One such example is Ubisoft, the video game company, with the founding family controlling 13% of the capital and occupying six out of seven seats on the board.

The definition of the term "independent director" is the subject of much controversy. The Bouton report defines an independent director as follows: "Directors are independent when they have no link of any nature whatsoever with the company, the group or management, which could compromise them in the exercise of their free will." Even though this

definition makes it clear that a member of management or a shareholder representative would not be considered as independent, it allows for a great deal of leeway, which means that deciding whether or not a director is indeed independent is not as easy as it might appear.

The importance given to the need for independent directors on the board tends to overshadow the importance of other more vital matters, such as their competence, their availability and their courage when it comes to standing up to management. These qualities are indispensable throughout the financial year, whereas their independence only becomes an issue in situations of conflict of interest, which fortunately are the exception rather than the rule.

Lawyers will surely forgive us for pointing out that the development of corporate governance has brought an end to the idea of the board of directors as an entity invested with the widest of powers, authorised to act in all circumstances, in the name of the company. This gives the impression that the board was responsible for running the company, which was quite simply never the case. This erroneous idea put management in a position where it was able to call all of the shots. These days, boards are designed to determine the direction the company will take and to oversee the implementation of corporate strategy. This is a much more modest mandate, but also a lot more realistic. The board is asked to come up with fewer but better goods.

(c) The functioning of the board and the creation of directors' committees

Corporate governance codes insist on the creation of special committees which are instructed by the board to draw up reports. These committees generally include:

- an audit committee (inspects the accounts, monitors the internal audit, selects the external auditors);
- a compensation committee (managers, sometimes directors);
- a selections or appointments committee (paves the way for the succession of the managing director and/or CEO, puts forward proposals for new directors);
- a strategic and/or financial committee (large capex plans, mergers and acquisitions, financing issues).

(d) The exercise of shareholder power during general meetings

It is clear that anything that stands in the way of the exercise of shareholder power will be an obstacle to good corporate governance. Such obstacles can come in various forms:

- the existence of shares with multiple voting rights, that may enable minority shareholders with only a tiny stake in the capital to impose their views by wielding their extra voting rights. One such example occurred as recently as 2004, when the Wallenberg family and Industrivärden were able to control 66% of the voting rights in Ericsson, when they held only 7.3% of the share capital, thanks to the existence of *A* shares (with 1000 voting rights attached to each share) and *B* shares (with only one voting right attached);
- the existence of preferred shares with no voting rights attached.⁴ The control held by Porsche over Volkswagen is facilitated by the existence of preferred shares with a guaranteed dividend but no voting rights attached, accounting for 27% of the share capital;

⁴ See chapter 29.

5 Depending on whether the shares the investor holds carry double voting rights or not.

6 This restriction will no longer apply if, following a takeover, a third party is in possession of more than 66.7% of the shares.

- the restriction of voting rights in meetings by introducing caps on the number of votes cast during general meetings. For example, at Alcatel-Lucent, a single investor cannot represent more than 8% or 16%⁵ of the voting rights;⁶
- administrative or material restrictions on exercising voting rights by proxy or by postal vote.

On the other side, making it compulsory for institutional shareholders to vote in general meetings of shareholders, or allowing shareholders to vote without having to freeze their shares a few weeks before the meeting, have clearly improved voting habits and enhanced shareholder democracy.

3/A ONE-TIER OR A TWO-TIER BOARD: AN UNRESOLVED ISSUE

The way in which power within the board is organised is in itself a much debated topic. The need for a body that is independent from the management of the company remains an open question. Today, the French system is the most flexible, offering three types of organisation:

- board of directors with a chief executive officer acting also as chairman of the board. This means that a great deal of power is concentrated in the hands of one person who is head of the board and who also manages the company. This is known as a one-tier structure and is in place at groups such as Exxon Mobil, Roche and Telefónica;
- board of directors with an executive or a non-executive chairman and a separate chief executive officer. This sort of dual structure has been adopted by Infosys, Sony and Vodafone;
- board of directors and executive board: this two-tier structure is in place at Peugeot, Vale and Philips.

Country	Main type of board	Separation of management and board	Employee representation on board
France	One-tier or two-tier	Optional	Can be provided for in articles of association (consultative)
Germany	Two-tier	Yes	Yes
Italy	One-tier	Optional	No
Japan	One-tier	Optional	No
Netherlands	Two-tier	Yes	Consultative
Spain	One-tier	Optional	No
Switzerland	One-tier	Optional	No
UK	One-tier	Optional	No
USA	One-tier	Optional	No

Source: Weil et al., 2007.

A board on which the control and management roles are exercised by two different people should, in theory, be more effective in controlling management on behalf of the shareholders. Is this always the case in practice? The answer is no, because it all depends on the quality and the probity of the men and women involved. Enron had a chairman and chief executive officer, and Google has a chief executive officer also acting as chairman of the board. The former went bankrupt in a very spectacular way as a result of fraud and the latter is seen as a model for creating value for its shareholders.

So it's much better to have an outstanding manager, and possibly even compromise a bit when it comes to corporate governance, by giving the manager the job of both running the company and chairing the board, rather than to have a mediocre manager. Even if extremely well controlled by the chairman of the board, a mediocre manager will remain a mediocre manager!

There is no straight answer to the question of whether it is best to combine the functions of management and control. Each case has to be assessed on its merits, taking into account the shareholder structure and the personality of the managers. Nothing is written in stone.

It cannot be denied that great strides forward have been taken in the area of corporate governance even if there still is progress to be made in some emerging countries with less experience in dealing with listed companies and minority shareholders. Associations of minority shareholders, or minority shareholder defence firms such as ISS or Deminor, which also provide shareholders with advice on how to vote in general meetings, have often acted as a major stimulus in this regard.

The fact that, in developed countries, many groups have simplified their structures has made this a lot easier:

- these days, it is usually only the parent company that is listed, which eliminates the possibility of conflicts of interest between the parent company and minority shareholders of its subsidiaries.⁷
- cross-holdings between groups which used to swap directors have been unwound;⁸
- assets used by the group but which belong to the founders have been contributed to the group;⁹
- etc.

It's now up to researchers to determine whether this simplification was the cause or the consequence of the spread of corporate governance.

Section 41.2

CORPORATE GOVERNANCE AND FINANCIAL THEORIES

1/THEORY OF MARKETS IN EQUILIBRIUM

The classic theory is of little or no help in understanding corporate governance. What it does is reduce the company to a black box, and draws no distinction between the interests of the different parties involved in the company.

7 Take the example of Allianz and Generali which have bought out the minority shareholders of most of their listed subsidiaries, making them wholly-owned subsidiaries.

8 For example, Deutsche Bank is no longer a large shareholder in large German groups.

9 The Axa trademark is now property of the Axa Group.

2/ AGENCY THEORY

Agency theory is the main intellectual foundation of corporate governance. The need to set up a system of corporate governance arises from the relationship of agency that binds shareholders and managers. Corporate governance is the main means of controlling management available to shareholders. What corporate governance aims to do is to structure the decision-making powers of management so that individual managers are not able to allocate revenues to themselves at the expense of the company's shareholders, its creditors and employees and, more generally, society as a whole.

Given the information asymmetry that exists between management and shareholders, corporate governance also covers financial communication in the very broadest sense of the term, including information provided to shareholders, work done by auditors, etc.

A good system of corporate governance, i.e. a good set of rules, should make it possible to:

- limit existing or potential conflicts of interest between shareholders and management;
- limit information asymmetry by ensuring transparency of management with regard to shareholders.

Corporate governance can help to resolve potential conflicts between shareholders and management in the same way as stock options, restrictions arising from a large debt¹⁰ or a hostile takeover bid¹¹ do. The difference is that corporate governance is a preventative measure.

¹⁰ See Chapter 34.

¹¹ See Chapter 42.

¹² Initially developed by A. Shleifer and R. Vishny.

¹³ When Alcatel and Lucent merged, Serge Tchuruk and Patricia Russo, respectively chairman and CEO of Alcatel-Lucent, negotiated a clause in their contracts that excludes their dismissal by the board of directors unless it is approved by 10 out of 12 directors (themselves not included).

Unsurprisingly, agency theory shows that in firms where there are few potential conflicts of interest between shareholders and management and where information asymmetry is low, i.e. in small- and medium-sized companies where, more often than not, the manager and shareholder is one and the same person, corporate governance is not an issue.

3/ ENTRENCHMENT THEORY

Agency theory suggests mechanisms for controlling and increasing the efficiency of management. Entrenchment theory¹² is based on the premise, somewhat fallacious but sometimes very real, that mechanisms are not always enough to force management to run the company in line with the interests of shareholders. Some managers' decisions are influenced by their desire to hold onto their jobs and to eliminate any competition.¹³ Their (main) aim is to make it very expensive for the company to replace them which enables them to increase their powers and their discretionary authority. This is where the word "entrenchment" comes from. Managerial entrenchment and corporate governance do not make good bedfellows. But we live in a world that is less than perfect, and perhaps entrenchment is just a natural reaction on the part of management when corporate governance starts to play a major role in the firm.

Section 41.3

VALUE AND CORPORATE GOVERNANCE

An initial response to the question “Does good corporate governance lead to the creation of value?” is provided by a survey of institutional investors carried out by McKinsey.¹⁴ The investors surveyed stated that they would be prepared to pay more for shares in a company with a good system of corporate governance in place. The premium investors are prepared to pay in countries where the legal environment already provides substantial investor protection is modest (12–14% in Europe and North America), but it is very high in emerging countries (30% in Eastern Europe and Africa).

The very large number of studies on the subject focus on the problem of coming up with a definition of good corporate governance. Existing studies merely rely on ratings provided by specialised agencies to back up their conclusions, which in our view provides no new insight into the subject.

Their results¹⁵ show that good corporate governance does lead to the creation of shareholder value. Bauer, Guenster and Otten have shown that the shares of groups listed on the FTSE 300 that were given a good rating for their corporate governance (by the agency Deminor) performed significantly better than groups with “weak” corporate governance. These results tie in with results for US companies put forward by Gompers.

The results are all the more revealing when one considers that local law does not guarantee satisfactory corporate governance. For example, it would appear that a Russian group that adopts (and communicates) an efficient system of corporate governance, will create value.¹⁶

More generally, Anderson and Reeb in the USA, and Harbula in France have shown that the financial performances of companies with one main shareholder (for example a family) are better than average. But the best performing companies are those with one major shareholder and also a fairly large free float. Ideally, the main shareholder should hold a stake of between 30 and 50% in the company’s share capital. This may seem counter-intuitive in as far as family-owned companies are generally less transparent and comply less willingly with the rules of corporate governance.

On the other hand, majority or dominant shareholders are very motivated to ensure that their firms are successful, given that such firms often represent both the tools of their trade and their entire fortune! This is the reason why the only French company that declined to bid in the auction for UMTS licences at the height of the Internet boom was a family-owned company (Bouygues), reticence that clearly paid off as far as its minority shareholders were concerned. The minority shareholders of France Télécom (a state-controlled company) and Vivendi Universal (a widely-held company) probably wish that their managers had been a little less gung ho!

We can thus see that there are limits to the systemisation of corporate governance, even though compliance with a certain number of basically simple, commonsense rules¹⁷ will help prevent disreputable behaviour on the part of managers and the inequitable treatment of minority shareholders.

Research has shown that the best guarantee for the creation of shareholder value is the strong motivation of the management team, rather than a perfect system of corporate governance. If a company manages to achieve both at the same time, so much the better, but let’s get our priorities straight!

¹⁴ McKinsey Investor Opinion Survey, 2002.

¹⁵ See bibliography.

¹⁶ See the work done by Black (2001).

¹⁷ Relevant documents should be submitted to the board in good time to enable them to study them, the members of the audit committee should have an understanding of finance and accounting, directors with a conflict of interest on a given issue should not be involved in decisions relating to this issue, etc.

To conclude, we shouldn't lose sight of the fact that it is too soon yet to say whether the introduction of recent innovations in terms of corporate governance has really made a difference. Research focuses mostly on the correlation between good corporate governance and high valuations. Very few studies have been able to demonstrate any real correlation between corporate governance and the long-term financial performance of the company. But then nobody has shown that corporate governance has a negative impact on financial performance either!

SUMMARY

@
download

Broadly speaking, corporate governance is the organisation of the control over and management of a firm. A narrower definition of corporate governance covers the relationship between the firm's shareholders and management, mainly involving the functioning of the board of directors or the supervisory board.

Corporate governance is determined first and foremost by company law, but there are also a number of reports and best practice codes that complement the recommendations and guidelines contained in the strictly legal framework.

These recommendations and guidelines, most of which are contained in all of the reports, deal with subjects such as transparency in the functioning of the board of directors, the choice of directors, the role and independence of the board, and the setting up of specialised committees to help the board in its work.

Corporate governance is one of the main means of reducing agency costs arising out of the potentially damaging relationship between shareholders and management.

Studies on corporate governance and value tend to demonstrate that good corporate governance will create value. This is even more the case for large firms based in countries where the legal framework is very loose. For small firms, the cost of introducing a sophisticated system of corporate governance can be prohibitive. Generally, there is less need for such a system in smaller firms where the managers are often the main shareholders (which prevents conflict of interest) and there are very rarely minority shareholders.

QUESTIONS

@
quiz

- 1/Which financial theory best explains the development of corporate governance?
- 2/Why has corporate governance mainly developed at listed companies?
- 3/How do stock options help in aligning the interests of managers with those of shareholders? What are their limitations?
- 4/Name a firm where practically all of the directors were independent, which did not prevent it from experiencing severe financial difficulties in 2002, the result of a lack of control over managers.
- 5/What is the danger when a board has specialised committees?
- 6/What should an overworked director who has only been able to attend every other board meeting do?

- 7/What is the most important – an independent director, a hardworking director, a competent and courageous director? What is the ideal?
- 8/In which countries is it more important for a firm to have a system of corporate governance in place?
- 9/What is the link between corporate governance and the cost of capital?
- 10/Does the regular rotation of a firm's statutory auditors improve corporate governance?
- 11/Is corporate governance relevant at companies over which the state exercises full control?
- 12/What are your views on a firm that replaces its one-tier board with a two-tier board and then, a few years later, reverts to a one-tier board, like Suez did, or which asks its chief executive officer to be chairman of the board as well before reverting to the previous system a few years later, like Nestlé did?
- 13/Is it a good idea, with a view to providing directors with better information, for the auditor to be a director of the company as well?
- 14/What are the pros and cons of separating the position of chairman of the board from that of CEO?

- 1/Agency theory.
- 2/Agency costs are lower at unlisted companies (less widely-held capital, shareholders closer to management). It could be too expensive for small firms to introduce sophisticated corporate governance systems.
- 3/They provide an incentive to managers to create value for shareholders of which they will capture a part through their stock options. Drawbacks are focusing management's attention on the value of their stock options and not on the value of the share: no dividend, high risk taken, especially since they were given for free to managers and not acquired.
- 4/Enron.
- 5/The other directors may not always assume their full responsibility and the committee may turn into a decision-making body instead of a body that prepares all of the directors for making decisions.
- 6/Resign. The position of director is not a just a fancy title, it's a job like any other.
- 7/A competent and courageous director. If possible, all four!
- 8/In countries where ownership rights are less secure, i.e. emerging countries.
- 9/Good corporate governance should reduce the cost of capital, because it eliminates the risk of poor management and/or fraud, which would penalise minority shareholders.
- 10/On paper, yes, because it means that a new set of eyes will be looking at recurrent problems. But this has not been borne out by academic research.
- 11/Yes, there is no reason why not, since conflicts of interest can also exist between the state and the managers of state-run companies.

ANSWERS

- 12/ *It's an intelligent move, demonstrating the ability to adapt to change. Sometimes a change in structure is needed when there's a new manager at the head of a group.*
- 13/ *No, as a matter of fact, it's not allowed. Nobody can be a judge and a party to the project.*
- 14/ *Separating the role of control and management, of long-term decisions and day-to-day management, doubles the number of corporate officers. Personal conflicts may arise which make it unmanageable.*

BIBLIOGRAPHY

On corporate governance:

- R. Chara, *Boards that Deliver*, Jossey-Bass, 2005.
- Th. Clarke, *Theories of Corporate Governance*, Routledge, 2004.
- S. Gillian, Recent developments in corporate governance: An overview, *Journal of Corporate Finance*, **12**(3), 381–402, June 2006.
- Y. le Fu, P. Quiry, New developments in corporate governance, The vernimmen.com Newsletter, **37**, 1–4, December 2008.
- F. Lipman, L. Lipman, *Corporate Governance: Best Practices*, John Wiley & Sons Inc., 2006.
- R. Monks, N. Minow, *Corporate governance*, John Wiley & Sons Inc., 2007.
- R. Mork, *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, University of Chicago Press, 2007.
- Weil, Gotshal, Manges, International comparisons of selected corporate governance guidelines and codes of best practice, Powerpoint presentation, March 2007.
- www.ecgi.org, the website of the European Corporate Governance Institute.
- www.icgn.org, the website of the International Corporate Governance Network.
- www.oecd.org, the website of the OECD which devotes a large section to corporate governance issues.

On stock options and variable remunerations:

- A. Morgan, A. Poulser, Linking pay to performance-compensation proposal in the S & P 500, *Journal of Financial Economics*, **62**(3), 489–523, December 2001.

On directors and managers:

- B. Nguyen-Dang, *Corporate Elite's Small World and Effectiveness of Board of Directors*, EFA Paper, 2006.
- A. Shleifer, R.W. Vishny, Management entrenchment: The case of manager-specific investments, *Journal of Financial Economics*, **25**(1), 123–139, 1989.

On value and corporate governance:

- R. Albuquerque, N. Wang, Agency conflicts, reinvestments and asset pricing, *Journal of Finance*, **63**(1), 1–40, February 2008.
- R.C. Anderson, D.M. Reeb, Founding-family ownership and firm performance: Evidence from the S & P 500, *The Journal of Finance*, **58**(3), 1301–1328, June 2003.
- R. Bauer, N. Guenster, R. Otten, Empirical evidence on corporate governance in Europe. The effect on stock returns, firm value and performance, *Journal of Asset Management*, **5**(2), 91–104, August 2004.

- L. Bebchuk, A. Cohen, A. Ferrell, *What Matters in Corporate Governance*, Harvard Discussion Paper, No. 491, September 2004.
- B. Black, The corporate governance behavior and market value of Russian firms, *Emerging Markets Review*, **2**(2), 89–108, 2001.
- V. Chhaochharia, Y. Grinstein, Corporate governance and firm value – The impact of the 2002 Governance Rules, *Journal of Finance*, **62**(4), 1789–1825, August 2007.
- J. Core, W. Guay, T. Rusticus, Does weak corporate governance cause stock returns? An examination of firm operating performance and analysts' expectations, *Journal of Finance*, **61**(2), 655–687, April 2006.
- H. Demsetz, The structure of ownership and the theory of the firm, *The Journal of Law & Economics*, **26**(2), 375–390, June 1983.
- C. Doidge, G. Karolyi, R. Stulz, Why countries matter so much for corporate governance? *Journal of Financial Economics*, **86**(1), 1–39, October 2007.
- A. Durnev, E. Han Kim, To steal or not to steal: Firm attributes, legal environment and valuation, *Journal of Finance*, **60**(3), 1461–1493, June 2005.
- P. Gompers, J. Ishii, A. Metrick, Corporate governance and equity prices, *The Quarterly Journal of Economics*, **118**(1), 107–155, February 2003.
- M. Jensen, W. Meckling, Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics*, **3**(4), 305–360, October 1976.
- R. La Porta, F. Lopez de Silanes, A. Shleifer and R. Vishny, Law and finance, *Journal of Political Economy*, **106**(6), 1133–1155, December 1998.
- R. La Porta, F. Lopez de Silanes, A. Shleifer, R. Vishny, Investor protection and corporate valuation, *Journal of Finance*, **57**(3), 1147–1170, June 2002.
- R. Stulz, R. Williamson, Culture, openness, and finance, *Journal of Financial Economics*, **70**(3), 313–349, December 2003.