

Table of Contents

Foreword	IX
An ever-new theme	IX
Uncertainty, freedom, fairness	IX
Transparency is worthwhile	XI
Introduction	1
What is corporate governance?	1
What is the content of this book?	3
How to use this book?	3
Acknowledgments	4
Part One	
Corporate Governance Theories and Frameworks	7
1 Corporate Governance	9
1.1 The Goldman Sachs case	9
1.2 Historical evolution of the debate on corporate governance	15
1.2.1 The 19th century and the early decades of the 20th century	16
1.2.2 The 1960s	18
1.2.3 The 1970s	19
1.2.4 The 1980s	22
1.2.5 The 1990s	24
1.2.6 The beginning of the 21 st century	31
1.3 Broad and narrow views of corporate governance	37
2 What is the Purpose of a Corporation?	45
2.1 The Body Shop case	45
2.2 Firm and its stakeholders	49
2.2.1 The production and distribution of value	49
2.2.2 The incompleteness of contracts	52
2.2.3 The mechanisms to regulate ex-post facto bargaining	55
2.3 Theory of shareholder value creation	57
2.3.1 The assumptions implicit in the theory of shareholder value creation	58
2.3.2 The advantages and limitations of the shareholder value creation theory	60

2.4	Theory of stakeholder value creation	61
2.4.1	Business ethics	61
2.4.2	Corporate Social Responsibility	63
2.4.3	Stakeholder theory	67
2.4.4	Is it possible to combine shareholder and stakeholder value?	73
2.5	Allocation of ownership rights to stakeholders	74
2.5.1	Stakeholders providing critical contributions	75
2.5.2	The allocation of ownership rights to stakeholders providing critical contributions	81
3	The Corporate Governance Mechanisms	93
3.1	The Parmalat case	93
3.2	Agency problems	97
3.2.1	The agency theory	97
3.2.2	The first type of agency problem	98
3.2.3	The second type of agency problem	99
3.2.4	The third type of agency problem	100
3.2.5	The private benefits of control	102
3.3	Possible remedies to the agency problems	103
3.3.1	External governance mechanisms	104
3.3.2	Internal governance mechanisms	115
3.4	Bundle of governance mechanisms	127
4	The Relationship Between Strategy, Ownership, and Governance	135
4.1	The Telecom Italia case	135
4.2	Relationship between strategy, ownership, and governance	144
4.2.1	Competitive and institutional environment	145
4.2.2	Strategy	147
4.2.3	Ownership structure	148
4.2.4	Governance structure	150
4.2.5	Governance of non-proprietary stakeholders	152
4.3	Company archetypes	154
4.3.1	The size of the company and the dispersion of the shareholding structure	156
4.3.2	Alternative legal forms to the limited company	159
4.3.3	The control or the influence of the State	163
4.3.4	The type and intensity of relations among enterprises	165
Part Two		
Corporate Governance Mechanisms in Large Listed Companies		171
5	Corporate Governance Models Around the World	173
5.1	The Satyam case	173
5.2	Comparative corporate governance	177
5.2.1	The Anglo-American governance model	178

5.2.2	The Rhineland or German-Japanese governance model	187
5.2.3	The Latin governance model	197
5.2.4	The main differences among the three governance models	205
5.2.5	Corporate governance in emerging economies	208
5.3	Comparative corporate governance: lessons learned	212
5.3.1	The relative performance of governance models	213
5.3.2	The convergence or divergence of governance models	214
6	The Ownership Structure	221
6.1	Hermes fund's challenge to Italmobiliare group	221
6.2	Relationship between ownership structure and company performance	229
6.2.1	Concentration or dispersion of shareholdings	230
6.2.2	Identity of controlling shareholders	233
6.2.3	Use of Control Enhancing Mechanisms (CEMs)	238
6.3	Ownership structures around the world	245
6.3.1	The ownership structure of listed companies around the world	245
6.3.2	The ownership structure of listed companies: stable characteristics and recent trends	247
6.4	The pyramidal groups	248
6.4.1	The pyramidal group as a mechanism to separate ownership and control	248
6.4.2	The pyramidal group as a mechanism to modify affiliated companies' profitability	253
6.4.3	The corporate governance of pyramidal groups	257
7	The Board of Directors	265
7.1	The Lehman Brothers case	265
7.2	The three roles of the board of directors	271
7.2.1	The board's strategic role	273
7.2.2	The board's control role	276
7.2.3	The board's resource dependence role	277
7.2.4	The relationship between the characteristics of the board of directors and company performance	279
7.3	The design of the board of directors	281
7.3.1	Board composition	281
7.3.2	Board structure	286
7.3.3	Board functioning	291
7.3.4	The importance of board processes in promoting board effectiveness	297
7.4	Characteristics of boards of directors around the world	299
7.5	A contingency perspective on boards of directors	304
8	The Remuneration of Top Management	315
8.1	The Home Depot case	315
8.2	Directors' remuneration	321

8.2.1	Executive directors' remuneration	321
8.2.2	Non-executive directors' remuneration	324
8.3	Top managers incentive plans	325
8.3.1	Short-term incentive plans for executives	325
8.3.2	Long-Term Incentive Plans (LTIP) for executives	326
8.3.3	The link between executive compensation and firm performance	330
8.4	Stock option plans	331
8.4.1	The incentive implicit in stock option plans	331
8.4.2	The design of stock option plans	331
8.4.3	The costs of stock option plans	336
8.5	The remuneration of executive and non-executive directors around the world	338
8.5.1	The remuneration of CEOs in the US governance model	338
8.5.2	The remuneration of executive and non-executive directors on the international level	340
8.6	The current debate on executive remuneration	342
8.7	Contingency design of top managers' compensation	346
8.7.1	The design of an executive compensation system	346
8.7.2	The design of executive compensation: an organizational perspective	350
	Afterword	357
	The Future of Corporate Governance	357
	Bibliography	361