Index

Administrators’ Report of Hastie Group see Table of government and regulatory body reports, codes, rules and publications xv
agency costs
agent self-interest 6
Alignment Factor No. 3 41–46
board as restraint on agency costs 89 bonding costs 6, 87 reflected in market price for shares 87
Compensation Factor No. 4 46–47
components of relational approach and agency costs 84–85 ‘coverage’
board-dependent governance variables 89–90
high coverage governance variables 89–90
Decision-making Factor No. 7 55
direction of effect 71–74
director primacy model (Bainbridge) 88–89
discretion and agency costs 84–85, 87–88
‘dual direction’ governance variables 71–74
earnings manipulation or management
approach of chapter 9 258
principal aim of reporting – reducing information asymmetry and agency risk 258–259
see also ‘earnings manipulation or management’ in Key Field No. 4
‘empire building’ 6, 31, 84
Governance Factors
based on agency costs 85 incentives 77, 86
interrelationship schemes
based on agency costs 85
introduction to 6, 16
management misconduct and agency costs 30–31, 77–78
market for corporate control 80–84
market price of shares
reflects agency costs (Jensen and Meckling) 84–85, 87
Monitoring & Audit Factor No. 5 47
monitoring costs 6, 44, 48, 77, 84–87
countervailing governance variables
AudCom (+) 85–86
BrdAttend (+) 85–86
BrdIndMon (+) 85–86
CompCom (+/-) 85–86
ExtAudEarn (+) 85–86
TransTimeMon (+) 85–86
reflected in market price of shares 87
nexus of contracts and agency costs in Enron and Hastie collapses 130–133
agency costs 130
information asymmetry 130–131
complexity of structure and business plan 131
lack of disclosure in Enron harming market and board monitoring 131–132
ReputDiscl (+) 132
ReputRep (+) 132
TransTimeMon (+) 131–132
poor financial reporting in Hastie Group 132
financial reports materially misstated 132
hidden subsidisation of Middle East businesses 132
time lag and market monitoring 132
undermining of efficient market hypothesis 131
market for corporate control and efficient market hypothesis 130
‘overall’ governance and multiple governance variable studies 18–19
over-compensation 31, 84
(over) perquisites 31, 84
relational approach application to 91
relational corporate governance framework 66
relational proximity rating
board-dependent governance variables 89–90
high rating governance variables 89–90
Relational Proximity Table (Table 3.2) 72–73
‘residual’ costs or losses 6, 87
reflected in market price of shares 87
results of relational effect paths 67–68
separation of ownership and management 43, 76
shareholder primacy model 91–92
shareholders as residual claimants of corporation 6, 91–92
‘shirking’ 31, 84
sustainability 16
effectiveness of market for corporate control 83–84
minimising long-term agency costs 78
overriding goal of relational approach 78
theory 6–7, 85–87
Weighing Mechanism 30–31, 76, 78–79
alignment of management and shareholder interests see Alignment Factor No. 3
Alignment Factor No. 3
dispersed shareholding public company 43
identity, construction and articulation of 41–46
information asymmetry 83
Key Field No. 1 42
market for corporate control 83–84
monitoring costs 86–87
over-compensation 87
(over) perquisites 87
relational corporate governance framework 65–66
separation of ownership and management 43
Shareholder Primacy Interrelationship Scheme 63
shareholder primacy model ‘umbrella’ 45
shareholder primacy ‘mode’ of relational approach 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 95–96, 103
Figure 2.5 45
Stakeholder Model Interrelationship Scheme 64
stakeholder ‘mode’ of relational approach 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 and Stakeholders Factor No. 6 96, 105
Weighing Mechanism 30–31, 76, 78–79
see also governance factors
anti-takeover mechanisms see Key Field No. 4
see also Monitoring & Audit Factor No. 5
application of the principal theories of the firm to the relational approach see Key Field No. 1
Arthur Andersen
audit failure 48
Enron and 11
Enron hiring former employees of 11
internal audit undertaken by 11
non-audit services 48, 38
see also ‘auditor independence’ in Key Field No. 2; ‘external or independent audit’ in Key Field No. 2
Index

ASX 2003 Best Practice Recommendations
amendment of ASX 2003 Best Practice Recommendations 96–97
Principle 3 96–97
see also ‘governance codes’ in Key Field No. 3

ASX 2007–10 Revised Principles
composite shareholder-stakeholder model 52
interrelationship with Decision-making Factor No. 7 56
interrelationship with Stakeholders Factor No. 6 52
stakeholder interests acknowledged 96–98
amendment of ASX 2003 Best Practice Recommendations 96–97
no prioritisation of stakeholder-shareholder interests 98
Revised Principle 3.1
code of conduct for reasonable expectations of stakeholders 97
see also ‘governance codes’ in Key Field No. 3

ASX 2014 Principles and Recommendations
interrelationship with Decision-making Factor No. 7 56
interrelationship with Reporting Factor No. 1 38–39
interrelationship with Stakeholders Factor No. 6 52
Principle 3 97–98
act ethically and responsibly 97–98
no prioritisation of stakeholder-shareholder interests 97–98
single reference to stakeholders 97–98
stakeholder interests acknowledged 97–99
see also ‘governance codes’ in Key Field No. 3

AuditAccEarn (+) 32, 69, 73
board-dependent governance variables 89–90
‘core’ features of global governance codes 162
glossary definition 345
relational effect path 275–276

AuditCom (+) 32, 69, 73
board-dependent governance variables 89–90
‘core’ features of global governance codes 162
glossary definition 345
monitoring costs 85–86
‘overall’ governance studies 193
relational effect path 241–242

AuditExpAcc (+) 32, 69, 73
board-dependent governance variables 89–90
‘core’ features of global governance codes 163
external/independent audit 140
glossary definition 345
relational effect path 245

AuditFree (–) 32, 69, 73
‘core’ features of global governance codes 163
glossary definition 345
relational effect path 275–276

AuditIndFreq (+) 32, 69, 72
board-dependent governance variables 89–90
‘core’ features of global governance codes 160, 163
director independence 160
glossary definition 346
information asymmetry 83
‘overall’ governance studies 193
relational effect path 268

AuditIndInfo (–) 32, 69, 72
‘core’ features of global governance codes 160, 163
glossary definition 346
‘overall’ governance studies 193
relational effect path 242–243

AuditIndMon (+) 32, 69, 72
board-dependent variables 90
board subcommittees 163
‘core’ features of global governance codes 160–161
director/CEO and executive compensation 293
director independence 160
glossary definition 347
information asymmetry 83
‘overall’ governance studies 193
relational effect path 242
audit subcommittee
Monitoring & Audit Factor No. 5
effect on monitoring quality and
decision-making 49–50
financial expertise 49–50
independence proportion 49–50
presence 49–50
time and frequency of meeting 49–50
see also ‘audit subcommittee’ in Key Field No. 4
auditor independence see ‘auditor independence’ in Key Field No. 2
‘autopsies’ of the Enron and Hastie corporate collapses see Key Field No. 2

Behaviours Axis No. 2 see three relational axes of good governance
see also ‘overall’ governance studies 194
relational effect path 249–251
BlockCosts (–) 32, 69, 73
glossary definition 347
‘overall’ governance studies 194
relational effect path 249–251
BlockMon (+) 32, 69, 73
glossary definition 347
‘overall’ governance studies 194
relational effect path 249–251
board, CEO and executive/management compensation and incentives see Compensation Factor No. 4
see also ‘director/CEO and executive compensation’ in Key Field No. 4
board-dependent Governance Variables
Key Field No. 1
director primacy model
(Bainbridge) 89–90
see also ‘director primacy model’ in Key Field No. 1
high governance variable coverage 89–90
high relational proximity rating 89–90
Board Factors I see Key Field No. 4
Board Factors II see Key Field No. 4
board size see ‘board and committee size’ in Key Field No. 4
board skills ‘mix’ see ‘overall’ governance studies’ in Key Field No. 4
board structure
single-tier board model 163
BrdAttend (+) 32, 69, 72
board-dependent governance variables 89–90
glossary definition 348
information asymmetry 83
monitoring costs 85–86
‘overall’ governance studies 192
relational effect path 212
BrdCmEarn (+/-) 32, 69, 73
glossary definition 348
relational effect path 279–280
BrdCmSize (+/-) 32, 69, 73
glossary definition 348
‘overall’ governance studies 192
relational effect path 227–229
BrdIndInfo (–) 32, 72, 74
‘core’ features of global governance codes 160
glossary definition 348
‘overall’ governance studies 193
relational effect path 212–214
BrdIndMon (+) 33, 69, 72, 74
board-dependent governance variables 90
compensation, incentive schemes and the quality of monitoring 161
‘core’ features of global governance codes 160
director/CEO and executive compensation 293
glossary definition 349
information asymmetry 83
monitoring costs 85–86
‘overall’ governance studies 192–193
relational effect path 211
BrdReview (+) 33, 69, 72
board-dependent governance variables 90
‘core’ features of US governance codes 170–171
glossary definition 349
‘overall’ governance studies 194
relational effect path 211
BrdSkills (+) 33, 62, 69, 72
board-dependent governance variables 90
‘core’ features of US governance codes 169–170
glossary definition 349
‘overall’ governance studies 193
relational effect path 199–201
Business Roundtable (US) see ‘governance codes’ in Key Field No. 3

Cadbury Committee (UK)
definition of corporate governance 3, 28
Report of 3
Sir Adrian Cadbury 3
see also ‘governance codes’ in Key Field No. 3
California Public Employees’ Retirement System (CalPERS) see ‘governance codes’ in Key Field No. 3
Commonality see ‘Commonality Table’ in Key Field No. 3
see also glossary definition 358
Commonality Table see ‘Commonality Table’ in Key Field No. 3
see also ‘global/cross-border corporate governance codes’ in Key Field No. 3; ‘national corporate governance codes’ in Key Field No. 3
see also glossary definition 358
Commonwealth Association for Corporate Governance (CACG)
benefits of corporate governance 26–27
principles of corporate governance 26–27
see also ‘governance codes’ in Key Field No. 3
comparative corporate governance codes see Key Field No 3
comparative scheme of governance codes
‘core’ areas of corporate governance and corporate failures 8–9
key goal or aim 15
see also ‘Governance Code Table’ in ‘governance codes’ in Key Field No. 3
CompCom (+/-) 33, 69, 72
‘core’ features of global governance codes 160, 163
director/CEO and executive compensation 309
glossary definition 349
monitoring costs 86
‘overall’ governance studies 193
relational effect path 309
Compensation Factor No. 4 agency costs 46
‘core’ features of governance codes 46–47
employee/management/director incentive and participation schemes 46–47
timely disclosure of material information including remuneration policies 46–47
Enron collapse and 46
Enron director independence 46
Enron share and option holdings 46
identity, construction and articulation of 46–47
Key Field No. 2 46
Key Field No. 4 46–47
over-compensation 87
(over) perquisites 87
relational corporate governance framework 66
Shareholder Primacy Interrelationship Scheme 63
Stakeholder Model Interrelationship Scheme 64
Weighing Mechanism 78–79
see also governance factors; ‘director/CEO and executive compensation’ in Key Field No. 4

Compliance Factor No. 2
‘core’ features of corporate governance codes 42
Corporations Act 2001 (Cth) 42
diagram 41
Enron 42
Hastie Group 42
identity, construction and articulation of 41–43
information asymmetry 83–84
interrelationships with other Governance Factors 41
Key Field No. 1 42
Key Field No. 2 42
Key Field No. 3 42–43
Key Field No. 4 43
market for corporate control 83–84
monitoring costs 86–87
NYSE Final Rules 42
OECD Principles 42
overriding requirements 41
relational corporate governance framework 66
Shareholder Primacy
Interrelationship Scheme 63
Stakeholder Model Interrelationship Scheme 64
Weighing Mechanism 78–79
see also governance factors
comparison of US, UK and Australian national listed corporate governance codes 182–184
Commonality Table 184
components of relational approach components 27–31
using the relational corporate governance approach 21–25
Conference Board Principles see ‘governance codes’ in Key Field No. 3
convergence of governance codes see ‘harmonization or convergence of global and national governance codes’ in Key Field No. 3
‘core’ features of corporate governance codes
‘core’ set of governance variables 14, 15–16, 38, 42–43, 49, 183–186
‘core’ global and national listed governance codes combined (in item order) 183–185
Board functions and
independence – compliance with statutory and legal duties on organisation/directors (item 6.i) 42, 133, 185
Employee/management/director incentive and participation schemes (item 4.iv) 46–47, 185
Independent/external audit (item 5.ii) 49, 121, 185
Independence from management – non-executive/independent directors (item 6.v.a) 133, 185
Independence from management – responsibilities of board sub-committees delineated and disclosed (item 6.v.b) 134, 185
Interested or conflicted director disclosure (items 3.v and 6.iv.e) 185
Principal board responsibilities – corporate governance compliance (item 6.iv.b) 185
Principal board responsibilities – selection and monitoring of key management (item 6.iv.c) 185
Principal board responsibilities – fair and open election of directors (item 6.iv.d) 185
Principal board responsibilities – interested director or management conflicts or transactions (item 6.iv.e) 185
Principal board responsibilities
– reporting, audit, financial/operational control, risk management and internal audit (item 6.iv.f) 185
Quality and integrity of information (item 5.iii) 185
Questions and voting in meetings (item 2.iv) 185
Timely disclosure of material information including remuneration policies (item 5.i.b) 38, 47, 185
Timely/regular disclosure of information (item 2.iii) 185
‘core’ national listed governance variables 182–184
global ‘core’ variables 155–163
Commonality Table 159
board subcommittees 162–163
compensation, incentive schemes and quality of monitoring 161–162
director independence 158–160
independent/external audit 162
national regime and ‘overall’ governance 158
transparency and timeliness of information and quality of monitoring 160–161
UK ‘core’ governance variables 171–176
Commonality Table 176
US ‘core’ governance variables 169–171
Commonality Table 170
board/director performance review 170–171
competency/experience and skills of directors 169–170
purpose, scope and function of Key Field No. 3

comparative scheme in table-form 144
‘core’ set of governance variables 144
the function of commonality 144
reasons for focus on US, UK and Australian national governance codes 163–164
relational corporate governance framework 66
selection of global sector and OECD Principles 153–154
see also Key Field No. 3
corporate collapses see Key Field No. 2
corporate governance benefits of 25–27
firm operating performance 25
firm-specific benefits 25–26
firm value/share price 25
macro-economic benefits 26
reducing firm cost of capital 25
stakeholders 25
corporate governance and legal compliance see Compliance Factor No. 2
corporate governance code see Key Field No. 3
corporate social responsibility (CSR) CAMAC Social Responsibility Report 94–95
compliance approach 94
corporate benefit 94–95
business approach 94–95
justified on long-term value of corporation 95
philanthropic approach 94
social primacy approach 94
social obligation approach 94
relational corporate governance framework 66
Corporations and Markets Advisory Committee (CAMAC)
stakeholder interests 53
see also corporate social responsibility (CSR)
cost of capital reduction for firm 25–26
‘coverage’ see ‘Coverage Table’
see also glossary definition 358
Coverage Table
‘coverage’ 67–68, 71
board-dependent governance variables 89–90
divided by total number of governance factors 68–71
partial coverage of governance factors 74–75
Total Governance Variable Coverage 69–70, 72
Coverage Table (Table 3.1) 69–70
diagram 23
direction of effect 71–72
director primacy model (Bainbridge) 88–90
‘dual direction’ governance variables 71–74
separation of positive and negative effects 74
glossary definition 358
hypothesised effect of governance variable 71
intervening or confounding variables 73
operation 71
dot marking explained 71
direct and indirect effect 71
results for relational effect paths 69–70
decision-making see Decision-making Factor No. 7
Decision-making Factor No. 7
adequacy of risk management reports 56
agency relationship and agency costs 55
alignment with Monitoring & Audit Factor No. 5 54
anti-takeover mechanisms 57
ASX 2007–10 Revised Principles 56
ASX 2014 Principles and Recommendations 56
audit subcommittee 57
board size 57
board skills ‘mix’ 57
Corporations Act 2001 (Cth) section 198A 56
director independence and 55
dispersed shareholding and 55
division between shareholders and directors 55
division in CEO/Chairperson roles 44
division between ‘decision management’ and ‘decision control’ (Fama and Jensen) 87–88, 55
reputational constraints 81
Enron and 55–56
ethical decision-making 56
familiarity and deference 55
independence of committees 56
interrelationship with Key Fields 55–58
interrelationship with Key Field No. 1 55
interrelationship with Key Field No. 2 55–56
interrelationship with Key Field No. 3 56
interrelationship with Key Field No. 4 56–57
market for corporate control 57
monitoring and 56
outside board positions 57
proportion of insider/management equity ownership 56
reflexive relationship 54
relational corporate governance framework 66
reputational constraints 81–82
risk management 56
separation of ownership from management 55
share and option holdings 55
Shareholder Primacy
Interrelationship Scheme 63
‘spine’ of relational effect path 198–199
Stakeholder Model Interrelationship Scheme 64
Weighing Mechanism 78–79
see also governance factors
delineation and disclosure of powers, duties and lines of responsibility see Responsibility Factor No. 8
‘dense’ financial market
widely-dispersed shareholders 21–22, 77, 87, 163
director, CEO and executive compensation see Key Field No. 4
DirCEO\$ (+/–) 33, 69, 72
earnings manipulation or management 139
‘core’ features of global governance codes 161
director/CEO and executive compensation 290–291
glossary definition 349
‘overall’ governance studies 193, 195
relational effect path 305–308
director independence
consulting fees 133–134
‘core’ features of corporate governance codes
board functions and independence – compliance with statutory and legal duties on organisation/directors 133–134, 185
independence from management – non-executive/independent directors 133–134, 185
independence from management – responsibilities of board sub-committees delineated and disclosed 133–134, 185
effect of independence
monitoring 133–137
quality of acquisitions 133
replacement of CEO in falling profitability 133, 135
risk management 133
empirical studies
firm failure
inside directors 217
firm value and operating performance
studies showing no link 215–216
studies showing positive link 216–217
governance variables
BrdAttend (+) 212
relational effect path 212
BrdIndInfo (–) 220
relational effect path 212–214
BrdIndMon (+) 207–210
relational effect path 211
BrdReview (+)
relational effect path 211
OutBrdAdv (+)
relational effect path 212
intervening or confounding variables
equity ownership and director independence 217
size of the firm 218
monitoring
improvements in monitoring not certain 208–210
‘CEO centrality’ (Cremers, Bebchuk and Peyer) 210
enhancing monitoring quality by less independence 214
introduction 206–207
summary of director independence studies 207, 218–221
equity and option holdings
conflict of interest on audit or risk management committee 135
effect on monitoring 133–137
effect on earnings manipulation or management 135
‘incentive alignment’ and ‘entrenchment’ effects (Fuest and Kang) 134–135
AudShortOpts (–) 135
EqOptIncent (+) 134
EqOptEntrch (–) 134
ShortTOpts (–) 135
familiarity and deference
decline of independence of board 135
effects on independence and monitoring 135–137
governance variables
AudIndFreq (+) 133
AudIndMon (+) 133
AudShortOpts (–) 135
BrdIndMon (+) 133
BrdSkills (+) 136
EqOptIncent (+) 134
EqOptEntrch (–) 134
NomCom (+/–) 136
Enhancing firm sustainability through governance

NomInd (+) 104, 136
ShortTOpts (–) 135
‘incentive alignment’ and
‘entrenchment’ effects (Fuerst and Kang) 134–135

Monitoring & Audit Factor No. 5
49
‘overall’ governance 193
detailed ‘overall’ or ‘multi-variable’ studies 190–198
relative importance of CEO
(Cremers, Bebchuk and Peyer) 210
effects of ‘centrality’ 210
undermined by equity holdings and
share options 110–112
‘perverse managerial incentives’
(Gordon) 112

see also Key Field No. 2;
‘independent directors and
proportion of non-executive/
independent directors’ in Key
Field No. 4
director primacy model (Bainbridge)
agency costs 88–89
restraint on 89
Behaviours Axis No. 2 89
discretion in decision-making 88
reflected in governance factors
88–89
relational corporate governance
framework 66
restraint on agency costs 89
three relational axes of good
governance 89

see also Key Field No. 1
division of CEO/Chairperson roles see
Key Field No. 4
see also Monitoring & Audit Factor
No. 5

Dodge v Ford Motor Co 7
DualDismiss (–) 251–256
glossary definition 350
relational effect path 255–256
DualEarn (–) 268
glossary definition 350
relational effect path 276–277
DualStrat (–) 256
glossary definition 350
relational effect path 256
DualTrade (+/–) 253–255
glossary definition 350
relational effect path 253–254

earnings manipulation or
management
agency costs 137–138
‘aggressive’ accounting treatments
(Gillan and Martin) 118, 137
use of ‘mark-to-market’ or ‘fair
value’ 118
asymmetric information 137–138
dispersed-ownership factor 117
factors related to earnings
manipulation and fraudulent
financial reporting 117–121
CEO, executive and director
compensation 119–120
short-term options 120
Enron-specific factors 138–139
lack of uniformity in Hastie
financial reporting 117, 138
governance variables
AudShortOpts (–) 139
CompCom (+/–) 139
DirCEOS (+/–) 139
EqOptIncert (+) 139
EqOptEntrch (–) 139
NomCom (+/–) 139
ShortTOpts (–) 139
TransTimeMon (+) 138
ReputDiscl (+) 138
ReputRep (+) 138

Key Field No. 4 93
access and transparency
provisions of corporate
governance codes 261–262
approach of chapter 9 258
auditors and non-audit services
auditor independence 280–282
CLERP 9 auditor
independence reforms
282–283
ExtAudEarn (+)
relational effect path
286–287
non-audit services 283–286
NonAuditS (–)
relational effect path
286–287
board and audit subcommittee
size 278–280
BrdCmEarn (+/–)
factors affecting optimum
board and audit
subcommittee size
278–280
relational effect path
279–280
board and committee structures
267–272
board and audit
subcommittee
independence alone 268
board and audit
subcommittee financial
capitalism 273–275
accounting financial
capitalism but possible
disincentive effect 274
AudAccEarn (+)
relational effect path
275–276
AudFree (–)
relational effect path
276
recurring factors with
independence
combination or separation of
CEO/Chairperson roles
276–277
DualEarn (–)
relational effect path
276–277
financial expertise of
directors or committee
273–275
AudAccEarn (+)
relational effect path
275–276
time spent in review/
number of audit
subcommittee
meetings 272
AudIndFreq (+)
relational effect path
272–273
summary of board and audit
subcommittee structures
277–278
principal aim of reporting
– reducing information
asymmetry and agency risk
258–259
transparency and the ‘trade-off’
effect on board and market
monitoring 260–262
TransTimeMon (+)
relational effect path 262–265
TransTimeRed (–)
relational effect path
265–266
off-balance sheet transactions
118–119
short-term share options 119–121
‘aggressive accounting
manipulations’ to boost
option values (Armour and
McCahery) 120
failure of board monitoring 120
lack of financial transparency 120
risk-taking by executives 120
Special Purpose Entities (SPEs)
118–119
disguising of loans and debt 119
payments to CFO 119
‘self-hedging’ by Enron 119
tax minimisation 119
sustainability 137–140
see also Key Field No. 2; Key Field
No. 4
efficient market hypothesis 5–6
‘bounded rationality’ problem
(Dent) 81–81
combined effect with ‘reputational
constraints’ 81–82
disciplining effect 81–82
hostile takeover 81–82
‘information problem’ (Dent) 81–82
market for corporate control 81
nexus of contracts 81–82
perfect knowledge assumption 81
ratings agencies 81–82
‘reputational constraints’ 81–82
stock price and 81–82
time-lag problem (Dent) 82
see also Key Field No. 1
empirical studies on the effectiveness
of governance variables see Key
Field No 4
Enron corporate collapse see Key Field No. 2

EqOptEnrch (–) board-dependent governance variables 89–90
‘core’ features of global governance codes 161
director/CEO and executive compensation 293–294
director independence 134–135
earnings manipulation or management 139, 309–311
glossary definition 351
‘overall’ governance studies 193, 196
relational effect path 305–308

EqOptIncent (+) board-dependent governance variables 89–90
‘core’ features of global governance codes 161
director/CEO and executive compensation 293–294
director independence 134–135
earnings manipulation or management 139, 309–311
glossary definition 351
‘overall’ governance studies 193, 196
relational effect path 305–308
executive compensation see Compensation Factor No. 4
see also ‘director/CEO and executive compensation’ in Key Field No. 4

ExtAudEarn (+) CLERP 9 auditor independence reforms 282–283
‘core’ features of global governance codes 162
external/independent audit 47–51
information asymmetry 83
glossary definition 351–352
monitoring costs 84–85
‘overall’ governance studies 193
relational effect path 286–287
review from Key Field No. 2 281–282
external or independent audit see ‘external or independent audit’ in Key Field No. 2
see also ‘earnings manipulation or management’ and ‘overall’ governance studies’ in Key Field No. 4

Financial Reporting Council (FRC) (UK) see governance codes in Key Field No. 3
firm-specific benefits explained 25–27
relational corporate governance framework 66
firm sustainability see sustainability
‘gatekeeper’ failure (Coffee) see ‘external or independent audit’ in Key Field No. 2
global financial crisis (GFC) introduction to 1–2
comparison of Enron and Hastie Group 106–107
globalization see ‘harmonization or convergence of global and national Governance Codes’ in Key Field No. 3
governance codes see Key Field No. 3
see also glossary definition 359
Governance Code Table see ‘governance codes’ and ‘Governance Code Table’ in Key Field No. 3
see also glossary definition 359
governance factors
agency costs based on 85–88
definition 23–24
diagram 23
director primacy model (Bainbridge) 88–90
distinguished from governance variables 35–36
glossary definition 359
governance variable coverage of 67–71
‘coverage’ 68
Coverage Table (Table 3.1) 69–70
direction of effect 71–72
‘dual direction’ governance variables 71–74
Index

partial coverage of governance factors 74–75
Total Governance Variable
Coverage 69–70, 72–73
reflection of division between ‘decision management’ and ‘decision control’ (Fama and Jensen) 87–88
reflection of market for corporate control 83–84
relational corporate governance framework 66
relational effect path 67–68
shareholders’ residual claims precedence of 91–92
Weighing Mechanism 79
see also Reporting Factor No. 1; Compliance Factor No. 2; Alignment Factor No. 3; Compensation Factor No. 4; Monitoring & Audit Factor No. 5; Stakeholders Factor No. 6; Decision-making Factor No. 7; Responsibility Factor No. 8
governance variables
agency costs
alignment with 84–88
board-dependent governance variables 89–90
‘core’ failures of 9–11
‘core’ features of corporate governance codes 185
‘coverage’ 67–71
board-dependent governance variables 89–90
Coverage Table (Table 3.1) 69–70
partial coverage of governance factors 74–75
Total Governance Variable
Coverage 69–70, 72–73
diagram 23
director primacy model (Bainbridge) 88–90
distinguished from governance factors 35–36
‘dual direction’ governance variables 71–74
BrdCmEarn (+/–) 74
BrdCmSize (+/–) 74
CompCom (+/–) 74
DirCEOS (+/–) 74
DualTrade (+/–) 74
NomCom (+/–) 74
separation of positive and negative effects 74
empirical studies see Key Field No. 4
glossary definition 360
glossary of governance variables 31, 344–356
governance variables in practice 67–75
Coverage Table (Table 3.1) 69–70
Relational Proximity Table (Table 3.2) 72–73
‘overall’ governance 190–199
reflection of market for corporate control 83–84
relational corporate governance framework 66
relational effect path 67–68
start of relational effect path 68
Relational Proximity Rating 75
board-dependent governance variables 89–90
Relational Proximity Group 72–73
Relational Proximity Table (Table 3.2) 72–73
strength of national shareholder protection regime 202–206
summary of governance variables (Table 2.1) 32–34
AudAccEarn (+) glossary definition 345
relational effect path 275–76
AudCom (+) glossary definition 345
relational effect path 241–242
AudExpAcc (+) glossary definition 345
relational effect path 244–246
AudFree (–) glossary definition 345–346
relational effect path 275–276
AudIndFreq (+) glossary definition 346
relational effect path 272–273
Enhancing firm sustainability through governance

Enhancing firm sustainability through governance

harmonisation
relational corporate governance framework 66
see also 'harmonization or convergence of global and national governance codes' in Key Field No. 3

Hastie Group corporate collapse see Key Field No. 2

HIH Insurance collapse of 1

identification, participation and protection of stakeholder interests see Stakeholders Factor No. 6

internal and external/audit monitoring quality see Monitoring & Audit Factor No. 5 37

internal audit see Monitoring & Audit Factor No. 5
see also Key Field No. 2

internal controls see Monitoring & Audit Factor No. 5

International Corporate Governance Network (ICGN) see 'governance codes' in Key Field No. 3

interrelationship schemes agency costs
based on 85–88
Alignment Factor No. 3 41–46
assumptions underlying 62–65
diagrams 23, 63–64, 66
direction of effect 62
Figure 2.6 Shareholder Primacy Interrelationship Scheme 63
Figure 2.7 Stakeholder Model Interrelationship Scheme 64
glossary definition 360
reflexive relationship 62

relational corporate governance framework 66
relational effect path start of 65
‘ripple-effect’ 65
Stakeholder Factor No. 6 47–51
‘two-way’ arrow 62
‘umbrella’ or ‘guiding’ principle 44–45, 91–92
shareholder primacy ‘mode’ of relational approach 91–92, 95–96
stakeholder ‘mode’ of relational approach 95–96

Weighing Mechanism 79
see also Shareholder Primacy Interrelationship Scheme
Stakeholder Model Interrelationship Scheme

Investment & Financial Services Association Limited (IFSA) see 'governance codes' in Key Field No. 3

Key Fields
‘corporate governance’ search term 12–13
excluded from Key Fields 12–13
governance variables 31–34
introduction to 13–15
selection of 12–13
Social Science Research Network (SSRN) 12–13
search dates 12–13
see also glossary definition 361

Key Field No. 1 The Application of the Principal Theories of the Firm to the Relational Approach (Chapter 4)
agency costs theory 77–78, 84–90
bonding costs 87
countervailing governance variables 86–87
director primacy model 88–89
interrelationship schemes 85–86
market price of shares determined by (Jensen and Meckling) 87
monitoring costs 86–87
‘residual’ losses and costs 87
separation of ‘decision management’ and ‘decision control’ (Fama and Jensen) 87–88
Alignment Factor No. 3 42
influence in shareholder primacy ‘mode’ of relational approach 44–45
ASX 2003 Best Practice
Recommendations 96–97
ASX 2007–10 Revised Principles 96–97
composite shareholder-stakeholder governance model 97
no guidance on balancing or prioritising stakeholder-shareholder interests 98
ASX 2014 Principles and Recommendations
no guidance on balancing or prioritising stakeholder-shareholder interests 98
board-dependent governance variables 89–90
high governance variable coverage 89–90
high relational proximity rating 89–90
CAMAC Social Responsibility
Report 94–95
approaches to CSR 94–95
CSR enhancing firm value, operating profits, risk management and firm sustainability 94–95
Compliance Factor No. 2 42
Corporations Act 2001 (Cth) subsection 181(1)(a) 96–97, 101
Decision-making Factor No. 7 55
diagram 23
director primacy model (Bainbridge) 88–89
board an ‘institutional restraint’ on agency costs 88–89
nexus of contracts and 88–89
three relational axes of good governance
Behaviours Axis No. 2 89
efficient market hypothesis
‘bounded rationality’ problem (Dent) 81–82
combined effect with ‘reputational constraints’ 81–82
disciplining effect 81–82
hostile takeover 81–82
‘information problem’ (Dent) 81–82
market for corporate control 81–82
meaning 81
nexus of contracts 80–81
perfect knowledge assumption 81 problems 81–82
ratings agencies 82
Reporting Factor No. 1 37
‘reputational constraints’ 81–82
stock price and 81
timelag problem (Dent) 82
‘enlightened stakeholder theory’ (Jensen) 101–102
glossary definition 361
governance factors based on agency costs theory 85–86
comparison of influence of shareholder primacy and stakeholder models 91–98
countervailing governance variables 67
AudIndFreq (+) 90
AudIndMon (+) 90
BrdAttend (+) 90
BrdIndMon (+) 90
ExtAudEarn (+) 90
reflect precedence of shareholders’ residual claims 91–92
interrelationship schemes 85–87
key research questions 13
market for corporate control 81–82
governance variables
NationGov (+) 83
OtherATMs (–) 84
ReputDiscl (+) 83
ReputRep (+) 83
StagBrdElect (–) 83
TransTimeMon (+) 84
reflected in governance factors and governance variables 83–84
Monitoring & Audit Factor No. 5 48
neoclassical model 79–80
nexus of contracts 4–6, 80–81
relational approach
  alignment with nexus of contracts theory 80
  components of relational approach and agency costs 84–85
constituency and priority
  of shareholder vis-à-vis stakeholder interests 102–104
  overriding goal of firm in relational approach 102–103
  minimising long-term agency costs 102–103
influence of stakeholder theory 95–98
  overriding goal for firm 102–103
  minimising long-term agency costs 102–103
relational corporate governance framework 66
Reporting Factor No. 1 37
  ‘reputational constraints’
    combined effect with efficient market hypothesis 81–82
Responsibility Factor No. 8 55
shareholder primacy model
  application to relational approach 91–92
  constituency and priority
    of shareholder vis-à-vis stakeholder interests 102–104
    overriding goal for firm in relational approach 103
    minimising long-term agency costs 103
influence on governance factors 95–96
  Alignment Factor No. 3 96
  Stakeholders Factor No. 6 96
  problems and solutions in balancing competing stakeholder interests 98–100
  in-practice approaches to implementing stakeholder model 100–102
    ‘business judgement rule’ defence 101
CAMAC Social Responsibility Report approach 101–102
  ‘enlightened stakeholder theory’ (Jensen) 101
  ‘non-shareholder constituency statutes’ 100
principal stakeholders given seat on board (Capasso) 102
  ‘stakeholder panels’ (Turnbull) 102
  ‘managerial sin’ (Bainbridge) 100
  ‘many masters’ problem (Jensen) 99
undermines sustainability 99
  ‘umbrella’ or ‘guiding’ principle 96
shareholder wealth-maximisation principle 7, 92
  ‘default standard’ 92
ASX governance codes give no guidance on balancing or prioritising stakeholder-shareholder interests 98
stakeholder model
  application to relational approach 92
  constituency and priority
    of shareholder vis-à-vis stakeholder interests 102–104
    overriding goal for firm in relational approach 103
    minimising long-term agency costs 103
influence on governance factors 95–96
Alignment Factor No. 3 96
  Stakeholders Factor No. 6 96
problems and solutions in balancing competing stakeholder interests 98–100
in-practice approaches to implementing stakeholder model 100–102
  ‘business judgement rule’ defence 101
CAMAC Social Responsibility Report approach 101–102
  ‘enlightened stakeholder theory’ (Jensen) 101
  ‘non-shareholder constituency statutes’ 100
principal stakeholders given seat on board (Capasso) 102
  ‘stakeholder panels’ (Turnbull) 102
  ‘managerial sin’ (Bainbridge) 100
  ‘many masters’ problem (Jensen) 99
undermines sustainability 99
  ‘umbrella’ or ‘guiding’ principle 96
Walker v Wimborne 96
Stakeholders Factor No. 6
CAMAC Social Responsibility Report 53, 94–95
influence of stakeholder model 52, 92–93
maximising stakeholder interests critical for sustainability 94–95
sustainability
CSR enhancing firm value, operating profits, risk management and firm sustainability 94–95
‘managerial sin’ (Bainbridge) 100
‘many masters’ problem (Jensen) 99
undermines sustainability 99
relationships with stakeholders and 95
‘intangible assets’ (Capasso) 95
three relational axes of good governance 28–31
Behaviours Axis No. 2 28–29
Objectives Axis No. 1 28–29
Positional Conflict Axis No. 3 28–30
Walker v Wimborne 96
Weighing Mechanism 78–79
components of Weighing Mechanism 78–79
Figure 4.1 79
governance factors 79
interrelationship schemes 79
Key Field No. 2 ‘Autopsies’ of the Enron and Hastie Corporate Collapses (Chapter 5)
Administrators’ Report 85
see also Table of government and regulatory body reports, codes, rules and publications xv
agency theory and the shareholder primacy model 108–110
undermining of market for corporate control and efficient market hypothesis 108–110
complexity of Enron company structure and business model 110
evaluation of Enron value and solvency problematic 110
Hastie Group
banking covenants breached 109–110
charges against EBIT 109
danger signs prominent 9–11, 109–110
equity raising of $158 million 109
‘going concern’ doubt 109
introduction to facts 9–11
‘standstill’ agreement with bank 109
write-down of assets 109–110
time lag issues 109–110
information asymmetry 108–109
lack of integrity in Enron auditor certification 109
off balance-sheet transactions of Enron 110
variance between Enron share price and ‘intrinsic value’ (Gordon) 108
Alignment Factor No. 3 41–46
Arthur Andersen see ‘external or independent audit’ in this Key Field No. 2
auditor independence in Enron
‘attachment’ (Barrett) 124–125
strengthened by ‘integrated audit’ 124–125
‘gatekeeper failure’ (Coffee) 125
equity compensation and short-term options 125–126
non-audit services 125
threat to remove or reduce non-audit services 125–126
internal audit 123–124
conducted by external auditor 123–124
‘integrated audit’ (Barrett) 124–125
lack of integrity in auditor certification 109
non-audit services 109, 123–126
factors around performance of non-audit services 141
predicted results of performance factors 141
NonAuditS (–) 141–142
supported by ‘reputational constraints’ on auditor 109, 123
Arthur Andersen and 123–124 auditor reputation and equity prices 123
undermining factors
Enron was Andersen’s second-largest client 124
Enron hiring former Andersen employees 125
non-audit services 109, threat of removal or reduction in non-audit services 125–126
‘core’ features of collapses 8–11
corporate collapses
‘core’ areas and features of 8–11 introduction to 1 research questions posed by 13–14
Compensation Factor No. 4 46 Complianve Factor No. 2 42 diagram 23
director, CEO and executive compensation
Enron earnings manipulation and 119–121
effect on auditor independence equity compensation and short-term options 119–121
‘incentive alignment’ and ‘entrenchment effects’ (Fuerst and Kang) 110–111
director independence consulting fees 111 ‘core’ features of corporate governance codes
board functions and independence – compliance with statutory and legal duties on organisation/ directors 133–134
independence from management – non-executive/independent directors 133–134
independence from management – responsibilities of board sub-committees delineated and disclosed 133–134
effect of director independence monitoring 133 quality of acquisitions 133 replacement of CEO in times of falling profitability 133
risk management 133 equity and option holdings conflict of interest on audit or risk management committee 110–112
effect on monitoring 110–112 effect on earnings manipulation or management 119–121
‘incentive alignment’ and ‘entrenchment’ effects (Fuerst and Kang) 110–111, 134 AudShortOpts (–) 135 EqOptEntrch (–) 134 EqOptIncent (+) 134 ShortTOpts (–) 135
familiarity and deference decline of independence of board 112–114 effects on independence and monitoring 112–114
governance variables
AudIndFreq (+) 133 AudIndMon (+) 133 AudShortOpts (–) 135, 139 BrdIndMon (+) 133 BrdSkills (+) 136 CompCom (+/–) 139 DirCEOS (+/–) 139 EqOptEntrch (–) 134, 139 EqOptIncent (+) 134, 139 NomCom (+/–) 136, 139 NomDisc (+) 133, 136 ReputDisc (+) 132, 138 ReputRep (+) 132, 138 ShortTOpts (–) 105, 139 TransTimeMon (+) 131–132, 138
'incentive alignment' and 'entrenchment' effects (Fuerst and Kang) 110–111, 134 relative importance of CEO (Cremers, Bebchuk and Peyer) 136–137 'CEO centrality' 136 undermined by equity holdings and share options 110–112 'perverse managerial incentives' (Gordon) 112 disclosure Enron 128–129 Monitoring & Audit Factor No. 5 128 reflexive relationship with Reporting Factor No. 1 128 non-disclosure and reduced board monitoring 128 Enron 128–129 non-disclosure ignored or too complex? 129 Hastie Group 128–129 books and records inadequate 129 financial statements materially misstated 129 Reporting Factor No. 1 reflexive relationship with Monitoring & Audit Factor No. 5 128 Shareholder Primacy Interrelationship Scheme 128 earnings manipulation or management agency costs 108–110 'aggressive' accounting treatments (Gillan and Martin) 118, 137 use of 'mark-to-market' or 'fair value' 118 asymmetric information 118–119 director, CEO and executive compensation 119–121 short-term share options 120–121 'aggressive accounting manipulations' to boost option values (Armour and McCahery) 120 failure of board monitoring 121 lack of financial transparency 121 risk-taking by executives 120 dispersed-ownership factor 117 disguised liabilities and concealment 118–119 equity compensation and short-term options see 'director, CEO and executive compensation' in this Key Field No. 2 factors related to earnings manipulation and fraudulent financial reporting CEO, executive and director compensation 138–139 short-term options 138–139 Enron-specific factors 138 lack of uniformity 138 governance variables AudShortOpts (–) 139 CompCom (+/–) 139 DirCEOS (+/–) 139 EqOptIncent (+) 134, 139 EqOptEntrch (–) 134–135, 139 NomCom (+/–) 139 ShortTOpts (–) 139 TransTimeMon (+) 138 ReputDiscl (+) 138 ReputRep (+) 138 lack of uniformity in Hastie reporting 117 non-audit services of auditor 125–126 non-compliance with accounting standards by Hastie 118 off-balance sheet transactions of Enron 118–119 Special Purpose Entities (SPEs) of Enron disguising of loans and debt 118–119 payments to CFO 119 'self-hedging' by Enron 119 tax minimization 119 equity and share holdings and options affect on risk management 112
auditor acquiescence in earnings management 125–126
director independence undermined by 110–112
‘incentive alignment’ and ‘entrenchment’ effects (Fuerst and Kang) 110–111
‘perverse managerial incentives’ (Gordon) 112
external or independent audit
Arthur Andersen and 121–124 hiring former employees of Andersen 125
internal audit conducted by external auditor 123–124
rate of restatements of financial results 121–122
‘attachment’ (Barrett) 124–125 strengthened by ‘integrated audit’ (Barrett) 124–125
audit failure 121–123
Australian Auditing Standards Hastie Auditor’s failure to comply 122
sooner remedial action if Hastie had complied 122
‘core’ feature of corporate governance codes 121
supported by ‘reputational constraints’ on auditor 121
Decision-making Factor No. 7 51–56
‘familiarity’ between auditor and client 125
‘gatekeeper failure’ (Coffee) 125 equity compensation and short-term options 125
non-audit services 125–126 threat to remove or reduce non-audit services 125–126
‘going concern’ uncertainty for Hastie 122–123
goodwill assumptions by Hastie auditor 122
governance variables AudIndMon (+) 140 AudExpAcc (+) 140 BrdIndMon (+) 140
ExtAudEarn (+) 140 NonAuditS (–) 141–142
internal control failures of Hastie 122
Monitoring & Audit Factor No. 5 reflexive relationship with Reporting Factor No. 1 140–141
reflexive relationship with Decision-making Factor No. 7 140–141
non-audit services of auditing firm 141
factors around performance of non-audit services 141
NonAuditS (–) 141–142 predicted results of performance factors 141
NYSE Final Rules 49
performance and governance of accounting firm 121
rate of restatements of financial results 121–122
Enron and Arthur Andersen 121–122
Reporting Factor No. 1 137–38 reflexive relationship with Monitoring & Audit Factor No. 5 47
‘reputational constraints’ on auditor 123
Arthur Andersen and 123 auditor reputation and equity prices 123
overriding factors 125–126
Shareholder Primacy Interrelationship Scheme 140
undermining factors 97 equity compensation and short-term options 125–126
acquiescence of auditor in earnings management 125
Enron was Andersen’s second-largest client 124
Enron hiring of former Andersen employees 125
non-audit services 125 threat to remove or reduce non-audit services 125
write-downs of assets of Hastie
122
goodwill 122
receivables 122
work-in-progress (WIP) 122
familiarity 112–114
'dysfunctional deference'
(Sharfman and Toll) 113
of Enron board 113
of Hastie board 113–114
familiarity, deference and
independence of committees
113
hiring of former CEOs 112
'informational cascades'
(Sharfman and Toll) 113
glossary definition 361
information asymmetry
undermining of market for
corporate control and
efficient market hypothesis
108–110
internal audit
conducted by external auditor
123–124
key aims 107
key research questions 13–14
meaning of 13–14
'multiple' failures in corporate
collapses 8, 11
nexus of contracts and agency costs
in Enron and Hastie collapses
108–110
agency costs 108–110
information asymmetry 108–110,
130–133
complexity of Enron structure
and business plan 108–110,
130–133
lack of disclosure in Enron
harming market and board
monitoring 130–133
TransTimeMon (+) 131–133
ReputDiscl (+) 131
ReputRep (+) 131
poor financial reporting in
Hastie Group 108–110, 132
undermining of efficient market
hypothesis 108–110,
130–133
financial reports materially
misstated 132
hidden subsidisation of
Middle East businesses
132
time lag and market
monitoring 132
market for corporate control and
efficient market hypothesis
108–110
non-audit services see ‘external or
independent audit’ in this Key
Field No. 2
off-balance sheet transactions
undermining of market for
corporate control and
efficient market hypothesis
108–110
other gatekeepers 126–128
'decentralisation’ of US corporate
regulation (Roe) 126
lawyers 127–128
securities analysts, investment
banks, brokers and credit
rating agencies 126–127
'phantom' profits of Enron 110
each trader a 'stand-alone
profit center' (Baird and
Rasmussen) 110
quality of monitoring 111–112
undermined by equity holdings
and share options 111–112
relational corporate governance
framework 66
Reporting Factor No. 1 37–38
factors related to fraudulent
financial reporting 138
Responsibility Factor No. 8 60
risk management 114–117
company culture and 116–117
Hastie failure to review
forecasts and compare to
actual results 116–117
complexity of transactions 114
effects of inadequate risk
management reports and
procedures 114
inadequacies in Hastie Audit
and Risk Committee (ARC)
115
inadequate risk assessment and control by Hastie 115
‘innovation’ vs ‘control’ 114–115
poor management and monitoring of Hastie acquisitions 115
quality of risk management reports 114
significant failures in Hastie construction work-in-progress 115
‘self-hedging’ 119
‘Special Purpose Entities’ (SPEs) of Enron see ‘earnings manipulation or management’ in this Key Field No. 2
sustainability 130–142
director independence, monitoring and risk management 133–137
earnings manipulation 137–140
external/independent audit 140–141
non-audit services of external/independent auditor 141–142
see also sustainability
Key Field No. 3 Comparative Corporate Governance Codes (Chapter 6)
Commonality Table 148–150
Compensation Factor No. 4 46–47
Compliance Factor No. 2 42–43
‘core’ set of governance variables
‘core’ global and national listed governance codes combined (in item order) 183–185
Board functions and independence – compliance with statutory and legal duties on organisation/directors (item 6.i) 185
Employee/management/director incentive and participation schemes (item 4.iv) 185
Independent/external audit (item 5.ii) 185
Independence from management – non-executive/independent directors (item 6.v.a) 185
Independence from management – responsibilities of board sub-committees delineated and disclosed (item 6.v.b) 185
Interested or conflicted director disclosure (items 3.v and 6.iv.e) 185
Principal board responsibilities – corporate governance compliance (item 6.iv.b) 185
Principal board responsibilities – selection and monitoring of key management (item 6.iv.c) 185
Principal board responsibilities – fair and open election of directors (item 6.iv.d) 185
Principal board responsibilities – interested director or management conflicts or transactions (item 6.iv.e) 185
Principal board responsibilities – reporting, audit, financial/operational control, risk management and internal audit (item 6.iv.f) 185
Quality and integrity of information (item 5.iii) 185
Questions and voting in meetings (item 2.iv) 185
Timely/regular disclosure of information (item 2.iii) 185
Timely disclosure of material information including remuneration policies (item 5.i.b) 185
diagram 23
global/cross-border corporate governance codes
global ‘core’ governance variables 1155–163
Commonality Table 11 59
board committees 162–163
AudAccEarn (+) 162
AudCom (+) 162
Enhancing firm sustainability through governance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AudExpAcc</td>
<td>(+) 163</td>
</tr>
<tr>
<td>AudFree</td>
<td>(−) 163</td>
</tr>
<tr>
<td>AudIndFfreq</td>
<td>(+) 163</td>
</tr>
<tr>
<td>AudIndInfo</td>
<td>(−) 163</td>
</tr>
<tr>
<td>AudIndMon</td>
<td>(+) 163</td>
</tr>
<tr>
<td>AudShortOpts</td>
<td>(−) 163</td>
</tr>
<tr>
<td>CompCom</td>
<td>(+/−) 163</td>
</tr>
<tr>
<td>NomCom</td>
<td>(+/−) 163</td>
</tr>
<tr>
<td>NomInd</td>
<td>(+) 163</td>
</tr>
</tbody>
</table>

compensation, incentive schemes and quality of monitoring 161–162

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AudIndMon</td>
<td>(+) 161</td>
</tr>
<tr>
<td>AudShortOpts</td>
<td>(−) 161</td>
</tr>
<tr>
<td>BrdIndMon</td>
<td>(+) 161</td>
</tr>
<tr>
<td>DirCEOS</td>
<td>(+/−) 161</td>
</tr>
<tr>
<td>EqOptIncent</td>
<td>(+) 161</td>
</tr>
<tr>
<td>EqOptEntrch</td>
<td>(−) 161</td>
</tr>
<tr>
<td>ReputDiscl</td>
<td>(+) 162</td>
</tr>
<tr>
<td>ReputRep</td>
<td>(+) 162</td>
</tr>
<tr>
<td>ShortTOpts</td>
<td>(−) 161</td>
</tr>
</tbody>
</table>

director independence 158–160

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>AudIndFfreq</td>
<td>(+) 160</td>
</tr>
<tr>
<td>AudIndInfo</td>
<td>(−) 160</td>
</tr>
<tr>
<td>AudIndMon</td>
<td>(+) 160</td>
</tr>
<tr>
<td>BrdIndInfo</td>
<td>(−) 160</td>
</tr>
<tr>
<td>BrdIndMon</td>
<td>(+) 160</td>
</tr>
<tr>
<td>CompCom</td>
<td>(+/−) 160</td>
</tr>
<tr>
<td>NomInd</td>
<td>(+) 160</td>
</tr>
<tr>
<td>OutBrdPos</td>
<td>(−) 160</td>
</tr>
</tbody>
</table>

independent/external audit 162

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ExtAudEarn</td>
<td>(+) 162</td>
</tr>
<tr>
<td>NonAuditS</td>
<td>(−) 162</td>
</tr>
</tbody>
</table>

national regime and ‘overall’ governance 158

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>NationGov</td>
<td>(+) 158</td>
</tr>
</tbody>
</table>

transparency and timeliness of information and quality of monitoring 160–161

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TransTimeMon</td>
<td>(+) 160</td>
</tr>
<tr>
<td>TransTimeRedn</td>
<td>(−) 160</td>
</tr>
</tbody>
</table>

principal variables in global corporate governance 155–158

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>selection of global sector and OECD Principles</td>
<td>153–154</td>
</tr>
</tbody>
</table>

glossary definition 361

governance codes

global/cross-border governance codes
CAG Guidelines 151, 156–157
Commonality Table (Table 6.3) 159
ICGN Statement 151, 156–157
OECD Principles 151, 156–157
Governance Code Table (Table 6.2) 156–157

national governance codes
Australian governance codes
ASX 2003 Best Practice Recommendations 151, 177–181
ASX 2007–10 Revised Principles 151, 177–181
ASX 2014 Principles and Recommendations 151, 177–181
Governance Code Table (Table 6.8) 177–181
IFSA Blue Book 151, 177–181

United Kingdom governance codes 151, 172–175
Cadbury Report 151, 172–175
Commonality Table (Table 6.7) 176
FRC UK Combined Code 151, 172–175
FRC UK Corporate Governance Code 2010–12 151, 172–175
FRC UK Corporate Governance Code 2014 151, 172–175
Governance Code Table (Table 6.6) 172–175

United States governance codes 151, 165–168
Business Roundtable Principles 2012 151, 165–168
CalPERS Global Governance Principles 151, 165–168
Commonality Table (Table 6.5) 170
Conference Board Principles 151, 165–168
Governance Code Table (Table 6.4) 165–168
NYSE Final Rules 151, 165–168
harmonization or convergence of global and national governance codes 148–150
international governance codes see ‘global/cross-border governance codes’ in this Key Field No. 3
development of norms of behaviour 147–148
influence of pre-millennium corporate collapses 146–147
justification for 144–148
justification for selection of global and national codes 144–145
‘soft law’ – the prevalence of governance codes 145–146
key research questions 14
‘model’ or comparative scheme 15–16
national corporate governance codes 163–183
Australian corporate governance codes 136–139
ASX 2003 Best Practice Recommendations 151, 177–181
ASX 2007–10 Revised Principles 151, 177–181
ASX 2014 Principles and Recommendations 151, 177–181
enhancements to ASX codes 182
IFSA Blue Book 151, 177–181
‘core’ national listed governance variables 182–184
comparison of US, UK and Australian national listed corporate governance codes 182–184
Commonality Table (Table 6.9) 184
reasons for focus on US, UK and Australian national codes 163–164
SOX effects on Securities Exchange Act 1934 (US) and NYSE Final Rules 164
US corporate governance codes 164–171
US ‘core’ governance variables 169–171
Business Roundtable Principles 2012 151, 165–168
CalPERS Global Governance Principles 151, 165–168
Commonality Table (Table 6.5) 170
board/director performance review 170–171
BrdReview (+) 171
competency/experience and skills of directors 169–170
BrdSkills (+) 169–170
Conference Board Principles 151, 165–168
Governance Code Table (Table 6.4) 165–168
NYSE Final Rules 151, 165–168
UK corporate governance codes 171–176
UK ‘core’ governance variables 171, 176
Cadbury Report 151, 172–175
Commonality Table (Table 6.7) 176
FRC UK Combined Code 151, 172–175
FRC UK Corporate Governance Code 2010–12 151, 172–175
FRC UK Corporate Governance Code 2014 151, 172–175
Governance Code Table (Table 6.6) 172–175
purpose, scope and function of Key Field No. 3 comparative scheme in table-form 143–144
‘core’ set of governance variables 143–144
the function of commonality 144
relational corporate governance framework 66
Reporting Factor No. 1 38–39
Key Field No. 4 Empirical Studies of the Effectiveness of Governance Variables (Chapters 7–10)
‘alignment’ principle of compensation 291–294
anti-takeover mechanisms 232–238
reducing effectiveness of market for corporate control 233–234
reducing firm value 234–238
relational effect path
OtherATMs (−) 237–238
StagBrdElect (−) 237–238

types of anti-takeover mechanisms likely to reduce value 234–238
attendance (high) at board meetings 191–192, 212
BrdAttend (+) 212
audit subcommittee
direction and strength of effect 243–244
effect of accounting financial expertise on firm value and operating performance 239–241
effect of independence and financial expertise on firm value and operating performance 239–241
presence, independence and expertise 238
relational effect path
AudCom (+) 241–242
AudExpAcc (+) 245–246
AudIndInfo (−) 242–243
AudIndMon (+) 242–243
statutory and governance code mandated requirements 238–239
‘block’ and institutional shareholdings 246–251
governance effects both positive and negative 246–249
relational effect path
BlockCosts (−) 249–251
BlockMon (+) 249–251
Board Factors I 206–221
concluding remarks 220–221
Board Factors II 223–232
board and committee size 223–229
conflicting studies for board size and firm value/performance 225–226
determinants of optimum board size 223–225
governance variables
BrdCmSize (+/−)

compliance factors affecting board size 223–225
relational effect path 227–229
board skills ‘mix’ see ‘overall’ governance studies’ in this Key Field No. 4
common law regimes 202–205
Compliance Factor No. 2 43
diagram 23
director/CEO and executive compensation
alignment method of compensation 291–294
compensation effects on quality of monitoring and firm value and operating performance 294–299, 318–319
‘incentive alignment’ and ‘entrenchment’ effects (Fuerst and Kang) 296, 306, 317
no or negative relationship between compensation and firm value and/or operating performance for DirCEO$ (+/−) 298–299, 305–306
positive relationship between compensation and firm value and/or operating performance for DirCEO$ (+/−) with conditions 296–298, 306
independent directors 306, 318
incentive-based payments, equity or options 306, 318–319
simultaneous ‘block-holder monitoring’ 306, 319
proportion of insider/management equity ownership 295–298, 318
summary 318–319
compensation committee
CompCom (+/–) 309
nature and operation 309
relational effect path 309
concluding remarks 317–321
connection between director and CEO compensation level 312–313
link to difficulty of monitoring firm 312–313
director independence and monitoring relevant to compensation 318
director independence and the level of CEO compensation 304–305
equity and option holdings
effects identified in Enron collapse 310
short-term options and risk of earnings manipulation 309–312
summary 319–320
firm size and director/executive compensation 313–315
summary 320–321
governance variables
AudIndMon (+) 293
AudShortOpts (–) 293, 309
relational effect path 311–312
risk of earnings management 309–311
BrdIndMon (+) 293
CompCom (+/–) 309
relational effect path 309
DirCEO$ (+/–) 293
relational effect path 308
EqOptEntrch (–)
relational effect path 308
risk of earnings management 309–311
EqOptIncent (+)
relational effect path 305–308
risk of earnings manipulation 309–311
ReputDiscl (+)
relational effect path 315–316
ReputRep (+)
relational effect path 315–316
ShortTOpts (–) 222
relational effect path 311–312
risk of earnings manipulation 309–311
TransTimeMon (+)
significance for ‘reputational constraints’ 321
governance issue 290–291
‘reputational constraints’ on compensation 315–316
agency costs 315
dependent on ‘disclosure standards’ and ‘transparent reporting’ (Singh) 315–316
ReputDiscl (+)
relational effect path 316
ReputRep (+)
relational effect path 316
significance of TransTimeMon (+)
variable 316
summary 321
say-on-pay shareholder voting 299–304
is say-on-pay an effective governance tool? 302–304
advisory, unconditional or conditional votes 303–304
Dodd-Frank Act 2010 (US) 303
effect of CEO compensation level 302–303
degree of entrenchment of management 302
‘two-strikes approach’ 299–302
summary of studies 305–308, 317–321
no relationship between director and CEO/executive pay levels 305, 318
negative relationship between 
CEO/executive pay levels and 
firm value 305–306, 318
positive relationship between 
CEO/executive pay levels and 
firm value and/or operating 
performance with conditions 
independent directors 306, 
318
incentive-based payments, 
equity or options 306, 
318
simultaneous ‘block-
holder monitoring’ 
306, 318
director independence see 
‘independent directors and 
proportion of non-executive/ 
independent directors’ in this 
Key Field No. 4 below
division in CEO/Chairperson roles 
251–256
enhanced firm knowledge and 
‘trade-off’ with board 
control/monitoring 251–252
relational effect path 
DualDismiss (–) 255–256 
DualStrat (–) 255–256
DualTrade (+/–) 252–255
earnings manipulation or 
management
access and transparency 
provisions of corporate 
governance codes 261–262
approach of chapter 9 258
auditors and non-audit services 
auditor independence 280–287 
CLERP 9 auditor 
independence reforms 
282–283
ExtAudEarn (+) 281 
relational effect path 
286–287
non-audit services 281, 283–287
NonAuditS (–) 281 
relational effect path 
286–287
board and audit subcommittee 
size 278–280
BrdCmEarn (+/–)
factors affecting optimum 
board and audit 
subcommittee size 
279–280
relational effect path 279–280
board and committee structures 
266–278
board and audit subcommittee 
independence alone 
267–268
board and audit subcommittee 
financial expertise 
273–278
accounting financial expertise 
but possible disincentive 
effect 274
AudAccEarn (+) 268 
relational effect path 
275–276
AudFree (–) 
relational effect path 
275–276
recurring factors with 
independence 
combination or separation of 
CEO/Chairperson roles 
268, 276–278
DualEarn (–) 
relational effect path 
276–277
financial expertise 
of directors or 
subcommittee 268, 
272–276
AudAccEarn (+) 
relational effect path 
275–276
time spent in review/number 
of audit subcommittee 
meetings 268, 270–273
AudIndFreq (+) 
relational effect path 
272–273
summary of board and audit 
subcommittee structures 
277–278
principal aim of reporting 
– reducing information 
asymmetry and agency risk 
258–259
relational effect path
AudAccEarn (+) 275–276
AudFree (–) 275–276
AudIndFreq (+) 272–273
BrdCmEarn (+/-) 279–280
DualEarn (–) 276–277
ExtAudEarn (+) 286–287
NonAuditS (–) 286–287
TransTimeMon (+) 262–266
TransTimeRed (–) 262–266
TransTimeMon (+) relational effect path 262–266
TransTimeRed (–) relational effect path 262–266
transparency and the ‘trade-off’ effect on board and market monitoring 260–262
external/independent audit function see ‘earnings manipulation or management’ in this Key Field No. 4
glossary definition 362
governance variables glossary of governance variables 344–356
Table 2.1 Summary of governance variables 32–34
independent directors and proportion of non-executive/independent directors
Board Factors 1 206–221
conclusion 207, 218–220, 220–221
firm failure inside directors 217
firm value and operating performance studies showing no link with independence 215–216
studies showing positive link with independence 216–217
governance variables
BrdAttend (+) relational effect path 212
BrdIndInfo (–) relational effect path 212–214
BrdIndMon (+) 208–210 relational effect path 211
BrdReview (+) relational effect path 211
OutBrdAdv (+) relational effect path 212
intervening or confounding variables 217–218
equity ownership and director independence 217–218
size of the firm 218
introduction 206–207
monitoring improvements in monitoring not certain 208–210
‘CEO centrality’ (Cremers, Bebchuk and Peyer) 210 enhancing monitoring quality by less independence 214–215
summary of director independence studies 207, 218–221
interrelationship schemes 188–189
Shareholder Primacy Interrelationship Scheme 188–189
introduction to aims and purpose 187–189
firm-specific effects of ‘good’ corporate governance 25–27
key research questions 14–16 meaning of 14–15
outside board advisors OutBrdAdv (+) 212
outside board positions 229–232 outside board positions and monitoring quality 229–231
relational effect path 231–232 ‘overall’ governance studies 190–198
grouped governance variable or ‘multi-variable’ studies 190–198
annual review of board BrdReview (+) 191, 194
blockholding and activism variables BlockCosts (–) 194
Block Mon (+) 194
board and committee size BrdCmSize (+/-) 192
board skills ‘mix’ BrdSkills (+) 193, 198–201
director independence and the proportion of independent:
executive directors
AudIndFreq (+) 193
AudIndInfo (–) 193
AudIndMon (+) 193
BrdIndInfo (–) 193
BrdIndMon (+) 193


AudIndFreq (+) 193
AudIndInfo (–) 193
AudIndMon (+) 193
BrdIndInfo (–) 193
BrdIndMon (+) 193


DirCEO$ (+/-) 193, 195–196
EqOptEntrch (–) 193, 196
EqOptIncent (+) 193, 196
ShortTOpts (–) 193, 196

ext

ExtAudEarn (+) 193
BrdAttend (+) 192
OtherATMs (–) 194
OutBrdAdv (+) 194
OutBrdPos (–) 194
NomCom (+/-) 193
NomInd (+) 193
OutBrdAdv (+) 194
OutBrdPos (–) 194
NomCom (+/-) 201–202
NomInd (+) 202
OutBrdAdv (+) 212

proportion of non-executive/independent directors see ‘independent directors and proportion of non-executive/independent directors’ in this Key Field No. 4 above

proxies for sustainability measure 16–17

relational corporate governance framework 66

relational effect path governance variables
BrdAttend (+) 212

BrdCmSize (+/-) 227–229
BrdIndMon (+) 211
BrdReview (+) 211
BrdSkills (+) 199–201
NomCom (+/-) 201–202
NomInd (+) 202
OutBrdAdv (+) 212

‘spine’ of relational effect paths 198–201


shareholder-wealth measures 16
short-term options
EqOptEntrch (–)
relational effect path 305–308
EqOptIncent (+)
relational effect path 305–308
short-term options and the risk of earnings manipulation or management 309–312


AudShortOpts (–)
relational effect path 311–312
ShortTOpts (–)
relational effect path 311–312

staggered board elections 232–238
reducing effectiveness of market
for corporate control 233–234
reducing firm value 233–236
relational effect paths
OtherATMs (–) 237–238
StagBrdElect (–) 237–238

types of anti-takeover mechanisms likely to reduce value 233–236


start of relational effect path 188–189

Stakeholders Factor No. 6 53
strength of national governance regime 202–206
Compliance Factor No. 2 43
introduction 202–203
national regime studies 203–205
common law origins 204–205
NationGov (+)
relational effect path 205–206
relational corporate governance framework 66


key research questions for book 2
for Key Field No.1 13
for Key Field No. 2 13–14
for Key Field No. 3 14
for Key Field No. 4 14–15

long-term efficiency of firm agency
costs and sustainability 16

macro-economic benefits 25–27
relational corporate governance
framework 66
market for corporate control
agency costs 6–7, 77–82, 85–88
efficient market hypothesis 5, 81–84
governance variables 81–84
information asymmetry 81–84
countervailing governance
variables 83–84
AudIndFreq (+) 83
AudIndMon (+) 83
BrdAttend (+) 83
BrdIndMon (+) 83
ExtAudEarn (+) 83
NationGov (+) 83
OtherATMs (–) 84
ReputDiscl (+) 82
ReputRep (+) 82
StagBrdElect (–) 83
TransTimeMon (+) 83–84
Monitoring & Audit Factor No. 5 48
nexus of contracts 4–5, 80
reflected in governance factors
83–84
reflected in governance variables
83–84
Reporting Factor No. 1 37
Monitoring & Audit Factor No. 5
anti-takeover mechanisms 49
audit subcommittee 49–50
board skills 'mix' 49
board size 49
division in CEO/Chairperson roles
50
external audit 48–49
identity, construction and
articulation of 47–51
independence of directors 49
internal audit 47
internal controls 47
interrelationship with Decision-
making Factor No. 7 54

interrelationship with Reporting
Factor No. 1 47
Key Field No. 1 48
Key Field No. 2 48
Key Field No. 3 49
Key Field No. 4 49–50
market for corporate control 5–6,
83–84
monitoring costs 86–87
non-audit services 50
NYSE Final Rules 49
outside board positions 49
proportion of insider/management
equity ownership 49
reflexive relationship 47
relational corporate governance
framework 66
risk management 47
Shareholder Primacy
Interrelationship Scheme 63
SOX 38
'spine' of relational effect path
151–152
Stakeholder Model Interrelationship
Scheme 64
Weighing Mechanism 78–79
see also governance factors
NationGov (+)
'core' features of global governance
codes 158
glossary definition 352
market for corporate control 83
relational effect path 205–206
neoclassical model
competing interests of corporate
actors not resolved 79–80
model of the firm 79–80
relational corporate governance
framework 66
shortcomings 79–80
nexus of contracts
alignment of relational approach 80
avoidance of welfare and value-
reducing behaviour 5, 77, 84
'contractual' terms 4–5, 80
'default rules' of corporate law 78
director primacy model (Bainbridge)
88–90
efficient market hypothesis 81–82
intersection of voluntary obligations of corporate actors 4–5, 80
Key Field No. 1 76
management misconduct 77, 84
market for corporate control 80–84
meaning 4–5, 78, 80
nexus of contracts and agency costs in Enron and Hastie collapses 108–110, 130–133
agency costs 108, 130–131
information asymmetry 131–132
complexity of Enron structure and business plan 131
lack of disclosure in Enron harming market and board monitoring 131
ReputDiscl (+) 131–132
ReputRep (+) 131–132
TransTimeMon (+) 131–133
poor financial reporting in Hastie Group 109–110, 132
financial reports materially misstated 110, 132
hidden subsidisation of Middle East businesses 132
time lag and market monitoring 109–110, 132
undermining of efficient market hypothesis in Enron collapse 131
market for corporate control and efficient market hypothesis 108, 130–131
relational corporate governance framework 66
Weighing Mechanism 78–79
diagram 79
theoretical representation of nexus 78
NomCom (+/–)
‘core’ features of global governance codes 163
director independence 201–202
glossary definition 352
‘overall’ governance studies 193
relational effect path 201–202
NomInd (+)
board-dependent governance variables 89–90
‘core’ features of global governance codes 160, 163
director independence 201–202
glossary definition 352
‘overall’ governance studies 193
relational effect path 202
NonAuditS (–) 26,
‘core’ features of global governance codes 162
external/independent audit 125–126, 141–142, 280–285
glossary definition 352
non-audit services of auditing firm 125–126, 141–142, 280–285
relational effect path 286–287
review from Key Field No. 2 281–282
non-audit services see ‘external or independent audit’ in Key Field No. 2
see also NonAuditS (–)
NYSE Final Rules
Compliance Factor No. 2 42
Monitoring & Audit Factor No. 5 49
see also ‘national governance codes’ and ‘United States governance codes’ in Key Field No. 3
Objectives Axis No. 1 see three relational axes of good governance
see also glossary definition 362
off-balance sheet transactions see Key Field No. 2
operational tables see Coverage Table (Table 3.1); governance variables in practice (Chapter 3); Relational Proximity Table (Table 3.2)
options auditor independence and 125–126
director, CEO and executive compensation
equity and option holdings effects identified in Enron collapse 119–121
short-term options and risk of earnings manipulation 309–312
summary 319–320
governance variables
AudShortOpts (–)  
relational effect path 311–312  
risk of earnings management 309–311
DirCEO$ (+/–)  
relational effect path 305–308
EqOptEntrch (–)  
relational effect path 308  
risk of earnings manipulation 309–311
EqOptIncent (+)  
relational effect path 305–308  
risk of earnings manipulation 309–311
ShortTOopts (–)  
relational effect path 311–312  
risk of earnings manipulation 309–311
director independence
equity and option holdings  
conflict of interest on audit or risk management committee 112
effect on monitoring 111
effect on earnings manipulation or management 120–121
‘incentive alignment’ and ‘entrenchment’ effects (Fuerst and Kang) 110–111, 134
AudShortOpts (–) 135
EqOptEntrch (–) 134
EqOptIncent (–) 134
ShortTOopts (–) 1135
undermined by equity holdings and share options 110–112
‘perverse managerial incentives’ (Gordon) 112
earnings manipulation or management
equity compensation and short-term options see ‘director, CEO and executive compensation’ in Key Field No. 2
‘gatekeeper failure’ (Coffee) 125–126
equity compensation and short-term options 125–126
global/cross-border corporate governance codes
global ‘core’ governance variables 155–163
Commonality Table 159
compensation, incentive schemes and quality of monitoring 161–162
AudShortOpts (–) 161
DirCEO$ (+/–) 161
EqOptEntrch (–) 161
EqOptIncent (+) 161
ReputDiscl (–) 161–162
ReputRep (+) 161–162
ShortTOopts (–) 161
Organisation for Economic Co-operation and Development (OECD)
benefits of corporate governance 26
definition of corporate governance 4
OECD Principles 4, 26
see also ‘global/cross-border governance codes’ in Key Field No. 3 above
OtherATMs (–)
glossary definition 353
market for corporate control 232–238
‘overall’ governance studies 194
relational effect path 237–238
OutBrdAdv (+)
glossary definition 353
‘overall’ governance studies 194
relational effect path 211–212
OutBrdPos (–)
‘core’ features of global governance codes 160
glossary definition 353
monitoring quality and 229–232
‘overall’ governance studies 194
relational effect path 231–232
outside board positions see ‘outside board positions’ in Key Field No. 4
see also Monitoring & Audit Factor No. 5; OutBrdPos (–)
Enhancing firm sustainability through governance

perquisites (over) see Compensation Factor No. 4
Positional Conflict Axis No. 3 see three relational axes of good governance
see also glossary definition 362
quality of board, CEO and management decision-making see Decision–making Factor No. 7

relational approach and relational corporate governance approach see Key Field No. 1; Key Field No. 2; Key Field No. 3; Key Field No. 4
see also glossary definition 362–363
relational corporate governance framework 65–66
Figure 2.8 66
see also glossary definition 363
relational effect path ‘coverage’ 67–71
Coverage Table (Table 3.1) 69–70
partial coverage of governance factors 74–75
Total Governance Variable Coverage 69–70, 72–73
governance variable relational effect path for each 67–68
interrelationship schemes 68
key goal or aim 15
pre-eminence of shareholder primacy model vis-à-vis stakeholder model 68
relational proximity rating 68
relational proximity group 72–73
Relational Proximity Table (Table 3.2) 72–73
results for 69–70
Shareholder Primacy Interrelationship Scheme 68
starting point for 68
relational proximity group see Relational Proximity Table
relational proximity rating see Relational Proximity Table
see also glossary definition 363

Relational Proximity Table
diagram 23
introduction to 67–68, 75
relational proximity 67
relational proximity rating 68–71
calculated from ‘coverage’ 68–71
Coverage Table (Table 3.1) 69–70
partial coverage of governance factors 74–75
relational proximity group 72–73
Relational Proximity Table (Table 3.2) 72–73
Total Governance Variable Coverage 69–70, 72–73
rprox 68
Table 3.2 72–73
see also glossary definition 363–364
relative importance of governance variables see ‘core’ features of corporate governance codes Coverage Table (Table 3.1) glossary definition 364
Relational Proximity Table (Table 3.2)
‘reputational constraints’ auditor independence in Enron ‘reputational constraints’ on auditor 123–126
Arthur Andersen and 123–124 auditor reputation and equity prices 123
overriding factors 123–126
combined effect with efficient market hypothesis 81–82
division between ‘decision management’ and ‘decision control’ (Fama and Jensen) 87–88
division into ‘disclosure standards’ and ‘transparent reporting’ (Singh) 82
efficient market hypothesis combined with 81–82
external or independent audit supported by 123–126
introduction 6
‘reputational constraints’ on compensation 294, 315–316
agency costs 294
dependent on ‘disclosure standards’ and ‘transparent reporting’ (Singh) 315–316
ReputDiscl (+) relational effect path 316
ReputRep (+) relational effect path 316
significance of TransTimeMon (+) variable 316
summary 321
Reporting Factor No. 1
ASX 2014 Principles and Recommendations 38
‘core’ features of corporate governance codes 38
earnings manipulation or management 117–121
factors related to fraudulent financial reporting 117
lack of uniformity in Hastie reporting 117
identity, construction and articulation of 36–41
Key Field No. 1 37
Key Field No. 2 37–38
Key Field No. 3 38–39
Key Field No. 4 39
market for corporate control 37
Monitoring & Audit Factor No. 5 reflexive relationship with 38
OECD Principles 30
relational corporate governance framework 66
Shareholder Primacy Interrelationship Scheme 63
SOX 39
‘spine’ of relational effect paths 198–199
Stakeholder Model Interrelationship Scheme 64
three relational axes of good governance significance reflected in 36
Weighing Mechanism 79 see also governance factors
ReputDiscl (+) glossary definition 353–354
relational effect path 316
see also ‘reputational constraints’
ReputRep (+) glossary definition 354
relational effect path 316
see also ‘reputational constraints’
Responsibility Factor No. 8 accountability (Bovens) 58–59
Decision-making Factor No. 7 54
division between decision ‘management’ and ‘control’ (Fama and Jensen) 60
division in CEO/Chairperson roles 61
Enron and attendance at committees 60
Enron undermining of monitoring 60
governance codes 60–61
information asymmetry reduction of 83
interrelationship with other governance factors 54, 58–59
Key Field No. 1 60
Key Field No. 2 60
Key Field No. 3 60–61
Key Field No. 4 61
monitoring costs 86–87
reflexive relationship 58
relational corporate governance framework 66
separation of ownership and management of corporation 60
Shareholder Primacy Interrelationship Scheme 63
SOX 61–62
‘spine’ of relational effect path 198–199
Stakeholder Model Interrelationship Scheme 64
three relational axes of good governance undermining of other governance factors 58–59
Weighing Mechanism 79 see also ‘governance factors’
risk management company culture and 116
Enron ultra-competitive culture and pursuit of risk 116

Francesco de Zwart - 9781784715526
Downloaded from Elgar Online at 01/14/2019 12:48:41AM
via free access
Enhancing firm sustainability through governance

Hastie failure to review forecasts and compare to actual results 116–117
Hastie ‘inflated reporting and optimistic forecasting’ 116
complexity of transactions 114–115, 137
effects of inadequate risk management reports and procedures on board monitoring 137
board decision-making 114, 137
description of risks 114, 137
quality of risk management function of board 137
inadequacies in Hastie Audit and Risk Committee (ARC) 115
inadequate risk assessment and control by Hastie 115
‘innovation’ vs ‘control’ 114–115
poor management and monitoring of Hastie acquisitions 115
quality of risk management reports 114
significant failures in Hastie construction work-in-progress 115

see also Key Field No. 2; Monitoring & Audit Factor No. 5

rprox calculated from ‘coverage’ 68–71
Coverage Table (Table 3.1) 69–70
partial coverage of governance factors 74–75
relational proximity group 72–73
Relational Proximity Table (Table 3.2) 72–73
Total Governance Variable Coverage 69–70, 72–73

see also Relational Proximity Table

Sarbanes-Oxley Act (SOX) (US) see SOX
separation of ownership from management
agency costs and 4–7, 77–90
Alignment Factor No. 3
key feature of dispersed shareholding public company 43–44

key feature of shareholder primacy model 43–44
balancing interests of ‘insiders’ and ‘outsiders’ 3–4
Compensation Factor No. 4
reduction of agency costs by managerial compensation and incentive devices (Jensen and Meckling) 46–47
Compliance Factor No. 2
shareholder primacy model vis-à-vis stakeholder model 42

Walker v Wimborne 7, 42
Decision-making Factor No. 7
agency theory 55
division between ‘decision management’ and ‘decision control’ (Fama and Jensen) to reduce agency costs 55
key feature of dispersed shareholding public company 55
shareholders cannot interfere in decision-making of board 55
introduction 3–7
Monitoring & Audit Factor No. 5
agency costs and 48
division between ‘decision management’ and ‘decision control’ (Fama and Jensen) to reduce agency costs 48
monitoring costs 48
Reporting Factor No. 1
problems of imperfect knowledge or information asymmetry 37
Responsibility Factor No. 8
division between ‘decision management’ and ‘decision control’ (Fama and Jensen) to reduce agency costs 60
key feature of dispersed shareholding public company 60
Key Field No. 1 60
separation theories and agency costs 4–7, 77–90
Stakeholders Factor No. 6
shareholder primacy model vis-à-vis stakeholder model 52

see also agency costs
Director primacy model
(Bainbridge)

Nexus of contracts theory

Shareholder primacy model
Shareholder wealth-maximisation principle
Stakeholder model

Shareholder Primacy Interrelationship Scheme

See also interrelationship schemes
Alignment Factor No. 3
Predominance of 59
‘umbrella’ or guiding principle
59

Comparison between the two
Interrelationship Schemes
59–65
diagram 23, 63, 66
Figure 2.6 63

Relational corporate governance framework 66

Stakeholders Factor No. 6
‘umbrella’ or ‘guiding’ principle

Shareholder Primacy ‘mode’ of relational approach 95–96
Stakeholder ‘mode’ of relational approach
95–96

Weighing Mechanism 78–79
See also glossary definition 364

Shareholder primacy model

Competing shareholder and stakeholder interests 91–104
How to balance and order of precedence 99–104
‘managerial sin’ (Bainbridge) 100
‘many masters’ problem (Jensen) 99

Problems and solutions in balancing 99–102
Weight accorded to Stakeholders Factor No. 6 vis-à-vis Alignment Factor No. 3 99

Constituency and priority of shareholder vis-à-vis stakeholder interests 102–104
As one purpose of relational approach 102–104
Function of firm is to minimize long-term agency costs 102–103

Support from ‘enlightened stakeholder model’ (Jensen) 103
to enhance long-term efficiency and sustainability 102–104

Effect on
Governance Factors 91–92
Alignment Factor No. 3 91–92
Alignment Factor No. 3 91–92
Application of shareholder primacy model 91–92
Assumption of single residual claimant 93
COrporations Act subs. 181(1)(a) 96

Relational corporate governance framework 66

Shareholders’ residual claims precedence of 91–92
Shareholder wealth-maximisation principle 7, 92
Shareholder primacy ‘mode’ of relational approach 95–96
Shortcomings of shareholder primacy model 93–94
‘umbrella’ or ‘guiding’ principle
Diagram 45

Vis-à-vis stakeholder model 102–104
Walker v Wimborne 7, 42
Weighing Mechanism 78–79
See also ‘shareholder primacy model’ in Key Field No. 1
Shareholder protection regime see ‘strength of national shareholder protection regime’ in Key Field No. 4
Shareholder wealth-maximisation principle
Alignment of interests of shareholders and managers 92
‘default standard’ governing agent’s behaviour (Rhee) 92
Explanation of 7, 91–92
Introduction to 7
See also ‘shareholder primacy model’, ‘shareholder primacy model’ in Key Field No. 1
ShortTOpts (–)
Board-dependent governance variables 89–90
‘core’ features of global governance codes 161
director/CEO and executive compensation 309–312
glossary definition 355
earnings manipulation or management 309–312
‘overall’ governance studies 193
relational effect path 311–312
Social Science Research Network (SSRN)
search terms and dates 12–13
see also Key Fields
SOX
Alignment Factor No. 3
response to Enron collapse 46
effects on Securities Exchange Act 1934 (US) and NYSE Final Rules 164–168
Monitoring & Audit Factor No. 5
Key Field No. 3 49
reforms relating to directors and management and earnings manipulation
section 301 60
section 302 60
section 304 61
section 404 61
Reporting Factor No. 1
Key Field No. 3 39
Responsibility Factor No. 8
Key Field No. 3 60–61
‘Special Purpose Entities’ (SPEs) of Enron see Key Field No. 2
StagBrdElect (–)
board-dependent governance variables 89–90
glossary definition 354
market for corporate control 232–238
‘overall’ governance studies 193
relational effect path 237–238
Stakeholders Factor No. 6
ASX 2007–10 Revised Principles 96–98
composite shareholder-stakeholder governance model 97
amendment of ASX 2003 Best Practice Recommendations 96–97
Revised Principle 3.1
code of conduct for reasonable expectations of stakeholders 97
ASX 2014 Principles and Recommendations
Principle 3 97–98
act ethically and responsibly 97
single reference to stakeholders 98
application to relational approach 47, 51–53
comparison with Alignment Factor No. 3 47, 51
competing shareholder and stakeholder interests
how to balance and order of precedence 99–100, 102–103
‘managerial sin’ (Bainbridge) 100
‘many masters’ problem (Jensen) 99
problems and solutions in balancing 98–102
weight accorded to Stakeholders Factor No. 6 vis-à-vis Alignment Factor No. 3 95–96
effect of stakeholder model 92–96
‘intangible assets’ of firm (Capasso) 95
influence of stakeholder model in relational approach 92–96
in-practice approaches to implementation of stakeholder model
board seat for principal stakeholders (Capasso) 102
‘business judgement rule’ defence (Bainbridge) 100–101
‘enlightened stakeholder theory’ (Jensen) 101–102
maximizing total long-term firm market value 101
‘non-shareholder constituency statutes’ (CAMAC) 100
‘stakeholder panels’ (Turnbull) 102
‘intangible assets’ (Capasso) 95
relationships with stakeholders 95
OECD Principles 99
relational corporate governance framework 66
Shareholder Primacy
Interrelationship Scheme 102–104
stakeholder model
effect on governance factors 95–96
not merely ethical or moral call 94–95
stakeholder ‘mode’ of relational approach 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 and Stakeholders Factor No. 6 96
Stakeholder Model Interrelationship Scheme 64
Weighing Mechanism 78–79
see also governance factors
stakeholder model see Stakeholders Factor No. 6
Stakeholder Model Interrelationship Scheme
comparison between the two interrelationship schemes 59–65
diagram 23, 64
Figure 2.7 64
relational corporate governance framework 66
stakeholder ‘mode’ of relational approach 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 and Stakeholders Factor No. 6 96
Stakeholders Factor No. 6 47, 51–54
‘umbrella’ or ‘guiding’ principle 95–96
Weighing Mechanism 78–79
see also interrelationship schemes
‘stakeholder model’ in Key Field No. 1
Stakeholders Factor No. 6
glossary definition 364
sustainability
constituency and priority of shareholder vis-à-vis stakeholder interests 102–104
as one purpose of relational approach 102–104
function of firm is to minimize long-term agency costs 102–104
to enhance long-term efficiency and sustainability 102–104
earnings manipulation or management 266–267
glossary definition 364
information asymmetry
effect on sustainability 258–259
‘intangible assets’ (Capasso) 95
relationships with stakeholders 95
effect on sustainability 95
long-term efficiency and 16
market for corporate control 80–84
effect on sustainability 80–84
nexus of contracts 77
avoidance of welfare or value-reducing behaviour 77
overriding goal of relational approach 102–104
minimising long-term agency costs 102–104
relational corporate governance framework 66
relational proximity rating 67–75
calculated from ‘coverage’ 68–70
Coverage Table (Table 3.1) 69–70
partial coverage of governance factors 74–75
relational proximity group 72–73
Relational Proximity Table (Table 3.2) 72–73
Total Governance Variable Coverage 69–70, 72–73
research questions in 2, 13–16
stakeholder model see ‘Stakeholders Factor No. 6’
see also ‘stakeholder model’ in Key Field No. 1
three relational axes of good governance and 27–31
Weighing Mechanism 29–31, 78–79
three relational axes of good governance 27–31
accountability and responsibility 28–29
Behaviours Axis No. 2 28–29
CAMAC Social Responsibility Report 95
diagrams 23, 29–30
director primacy model
(Bainbridge) 88–89
functional purpose 28–29
relational corporate governance framework 66
Weighing Mechanism 78–79
component of the relational approach 27
control 28
diagrams 23, 29–30
director primacy model (Bainbridge) 88–89
entrepreneurism 28–29
external stakeholders 28–30
functional purpose 28–29
glossary definition 365
innovation 28–29
internal stakeholders 28–30
introduction to 15, 21–22
key goal or aim 15
monitoring of management 28–29
Objectives Axis No. 1 28–29
CAMAC Social Responsibility Report 95
functional purpose 28–29
relational corporate governance framework 66
Weighing Mechanism 78–79
performance assessment and reporting 28–29
Positional Conflict Axis No. 3 28–30
influence of stakeholder model 92
positional purpose 29–30
relational corporate governance framework 66
Weighing Mechanism 78–79
purpose 28–31
profit-maximisation 28–29
relational corporate governance framework 66
responsibility 28–29
risk management 28–29
risk-taking 28–29
significance in Reporting Factor No. 1 36, 41
three-dimensional representation of 30
value enhancement 28–29
value preservation 28–29
Weighing Mechanism 78–79
transparency, timing and integrity of financial and other reports see Reporting Factor No. 1
TransTimeMon (+) earnings manipulation or management 260–266
glossary definition 355
lack of disclosure in Enron and Hastie 130–133
market for corporate control 83–84
monitoring costs 86–87
relational effect path 262–265
‘reputational constraints’ on compensation 294, 315–316
significance of TransTimeMon (+) variable 316
TransTimeRedn (–) glossary definition 355–356
relational effect path 265–266
Troubled Assets Relief Programme (TARP)
Emergency Economic Stabilization Act 2008 (US) 1
UK Combined Code see ‘United Kingdom governance codes’ in Key Field No. 3
UK Corporate Governance Code 2010–12 see ‘United Kingdom governance codes’ in Key Field No. 3
UK Corporate Governance Code 2014 see ‘United Kingdom governance codes’ in Key Field No. 3
‘umbrella’ or ‘guiding’ principle
interrelationship schemes 59, 62
shareholder primacy ‘mode’ of relational approach 59, 62, 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 59, 62, 95–96
stakeholder ‘mode’ of relational approach 59, 62, 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 and Stakeholders Factor No. 6 59, 62, 95–96

Walker v Wimborne
shareholder primacy ‘mode’ of relational approach 59, 62, 95–96
‘umbrella’ or ‘guiding’ principle of Alignment Factor No. 3 59, 62, 95–96
shareholder primacy model 7, 96

Weighing Mechanism
‘calculus of negligence’ 30
Figure 4.1 79
glossary definition 366
governance factors 78–79
interrelationship schemes 79
management misconduct and foreseeable harm 30–31
negligence law and 30
nexus of contracts and 78–79
theoretical representation of nexus 78
‘reasonable’ director and 30
standard of care and 29–31
sustainability and 31
three relational axes of good governance 28–31
functional purpose 28–29
positional purpose 29–30
weighing process of three relational axes of good governance 29–31, 78–79

Wyong Shire Council v Shirt 30

WorldCom
collapse of 1

Wyong Shire Council v Shirt
standard of care in breach stage in negligence law 29–30
weighing process of three relational axes of good governance 29–31, 78–79

Weighing Mechanism 30