

# Contents

Preface	xi
Introduction	xiii
Possible paths through this book	xix
Author's acknowledgements	xx
Publisher's acknowledgements	xxi
<b>Part I – Introduction to Corporate Governance</b>	<b>1</b>
<b>1 Defining corporate governance and key theoretical models</b>	<b>3</b>
1.1 Introduction	3
1.2 Defining corporate governance	4
1.3 Corporate governance theory	7
1.4 Agency problems	9
1.5 The agency problems of debt and equity	11
1.6 The classic agency problem versus expropriation of minority shareholders	13
1.7 Alternative forms of organisation and ownership	16
1.8 Defining ownership and control	19
1.9 Conclusions	20
1.10 Discussion questions	21
1.11 Exercises	21
Notes on the chapter	22
Reading list	23
<b>2 Corporate control across the world</b>	<b>25</b>
2.1 Introduction	25
2.2 The evolution of control after the initial public offering	26
2.3 Corporate control in Western Europe and the USA	28
2.4 Corporate control in Asia	34
2.5 Corporate control in transitional economies	38
2.6 Conclusions	39
2.7 Discussion questions	39
Notes on the chapter	39
Reading list	40
<b>3 Control versus ownership rights</b>	<b>41</b>
3.1 Introduction	41
3.2 Combinations of ownership and control	42
3.3 Combination A: dispersed ownership and weak control	43

3.4	Combination B: dispersed ownership and strong control	43
3.5	Combination C: concentrated ownership and weak control	45
3.6	Combination D: concentrated ownership and strong control	46
3.7	How to achieve dispersed ownership and strong control	46
3.8	The consequences of dispersed ownership and strong control	51
3.9	Conclusions	56
3.10	Discussion questions	56
3.11	Exercises	56
	Notes on the chapter	57
	Reading list	57
<b>Part II – International Corporate Governance</b>		<b>59</b>
<b>4</b>	<b>Taxonomies of corporate governance systems</b>	<b>61</b>
4.1	Introduction	61
4.2	The economic and political context giving rise to global capitalism	62
4.3	First attempts to classify corporate governance systems	68
4.4	Legal families	70
4.5	Political determinants of corporate governance	74
4.6	The varieties of capitalism literature	76
4.7	How do the various taxonomies perform?	77
4.8	Conclusions	79
4.9	Discussion questions	80
	Notes on the chapter	80
	Reading list	82
<b>5</b>	<b>Incentivising managers and the disciplining of badly performing managers</b>	<b>84</b>
5.1	Introduction	84
5.2	Product market competition	85
5.3	The incentivising and disciplining of managers in the insider system and the outsider system	86
5.4	The market for corporate control	87
5.5	Dividends and dividend policy	89
5.6	Boards of directors	90
5.7	Institutional investors	97
5.8	Shareholder activism	98
5.9	Managerial compensation	99
5.10	Managerial ownership	102
5.11	Large shareholder monitoring	104
5.12	Bank and creditor monitoring	105
5.13	Conclusions	106
5.14	Discussion questions	107
	Notes on the chapter	107
	Reading list	111

<b>6</b>	<b>Corporate governance, types of financial systems and economic growth</b>	<b>113</b>
6.1	Introduction	113
6.2	The functions of financial markets and institutions	114
6.3	Bank-based versus market-based systems	114
6.4	The link between types of financial systems and economic growth	116
6.5	Other factors influencing economic growth	119
6.6	Conclusions	124
6.7	Discussion questions	125
	Notes on the chapter	125
	Reading list	126
<b>7</b>	<b>Corporate governance regulation in an international context</b>	<b>128</b>
7.1	Introduction	128
7.2	UK codes of corporate governance	129
7.3	The UK approach versus the US approach	136
7.4	The OECD Principles of Corporate Governance	140
7.5	The harmonisation of corporate governance regulation across the European Union	142
7.6	Policies on positive discrimination	144
7.7	Conclusions	147
7.8	Discussion questions	148
	Notes on the chapter	148
	Reading list	149
	<b>Part III – Corporate Governance and Stakeholders</b>	<b>151</b>
<b>8</b>	<b>Corporate social responsibility and socially responsible investment</b>	<b>153</b>
8.1	Introduction	153
8.2	Corporate social responsibility and financial performance	154
8.3	CSR indices	157
8.4	Socially responsible investment	158
8.5	Conclusions	159
8.6	Discussion questions	160
	Notes on the chapter	160
	Reading list	161
<b>9</b>	<b>Debtholders</b>	<b>162</b>
9.1	Introduction	162
9.2	Benefits and costs from relationship-based banking	163
9.3	Addressing conflicts of interests created by bank ownership and bank board representation	166
9.4	Expropriation of debtholders	167

9.5	Conclusions	169
9.6	Discussion questions	170
	Notes on the chapter	170
	Reading list	171
<b>10</b>	<b>Employee rights and voice across corporate governance systems</b>	<b>172</b>
10.1	Introduction	172
10.2	The law and finance literature	174
10.3	The varieties of capitalism literature	175
10.4	Employee stock ownership	177
10.5	Employee board representation	179
10.6	Breaches of trust and employee expropriation	186
10.7	Conclusions	186
10.8	Discussion questions	187
	Notes on the chapter	188
	Reading list	190
<b>11</b>	<b>The role of gatekeepers in corporate governance</b>	<b>191</b>
11.1	Introduction	191
11.2	The role and duties of gatekeepers	192
11.3	The ideal attributes of a gatekeeper	194
11.4	Types of gatekeepers and limitations to their role	195
11.5	Is industry regulation a substitute for corporate governance?	201
11.6	Conclusions	203
11.7	Discussion questions	204
	Notes on the chapter	204
	Reading list	205
	<b>Part IV – Improving Corporate Governance</b>	<b>207</b>
<b>12</b>	<b>Corporate governance in emerging markets</b>	<b>209</b>
12.1	Introduction	209
12.2	Are large equity markets combined with strong property rights the only way to achieve economic growth?	210
12.3	Inherited wealth	214
12.4	The role of the government	216
12.5	The design of corporate governance in formerly state-owned enterprises	222
12.6	Conclusions	224
12.7	Discussion questions	225
	Notes on the chapter	225
	Reading list	227

<b>13 Contractual corporate governance</b>	<b>228</b>
13.1 Introduction	228
13.2 Cross-border mergers and acquisitions	230
13.3 (Re)incorporations	231
13.4 Cross-listings	233
13.5 Conclusions	235
13.6 Discussion questions	236
Notes on the chapter	236
Reading list	237
<b>14 Corporate governance in initial public offerings</b>	<b>239</b>
14.1 Introduction	239
14.2 Asymmetric information, pricing anomalies and the separation of ownership and control in IPOs	240
14.3 Problems of asymmetric information and ways to mitigate them	244
14.4 The power of the CEO	246
14.5 Spinning of IPOs	248
14.6 The role of venture capitalists in IPOs	250
14.7 Conclusions	253
14.8 Discussion questions	254
Notes on the chapter	254
Reading list	256
<b>15 Behavioural biases and corporate governance</b>	<b>258</b>
15.1 Introduction	258
15.2 Bounded rationality	259
15.3 Heuristic simplification	260
15.4 Emotions	263
15.5 Social interactions	263
15.6 Self-deception	264
15.7 Risk taking and decision making according to gender and age	267
15.8 How can these behavioural issues be addressed?	268
15.9 Reflexive loyalty	268
15.10 Conclusions	272
15.11 Discussion questions	273
15.12 Exercises	274
Notes on the chapter	274
Reading list	275

<b>Part V – Conclusions</b>	<b>277</b>
<b>16 Learning from diversity and future challenges for corporate governance</b>	<b>279</b>
<b>Glossary</b>	<b>285</b>
<b>Index</b>	<b>301</b>