

# Summary of Contents

List of Editors	v
List of Contributors	vii
CHAPTER 1	
Introduction	
<i>Hanne S. Birkmose, Mette Neville &amp; Karsten Engsig Sørensen</i>	1
PART I Duties of Directors	11
CHAPTER 2	
Mapping Directors' Duties: Strategies and Trends in the EU	
<i>Carsten Gerner-Beuerle &amp; Edmund-Philipp Schuster</i>	13
CHAPTER 3	
Directors' Conflicts of Interest: A Contribution to European Convergence	
<i>Paul Krüger Andersen &amp; Dorthe Kristensen Balshøj</i>	57
CHAPTER 4	
Directors' Duties in Groups of Companies: Legalising the Interest of the Group at the European Level	
<i>Pierre-Henri Conac</i>	75
CHAPTER 5	
Directors' Duties to Engage Shareholders	
<i>Hanne S. Birkmose</i>	103
CHAPTER 6	
The Risk Management Duties of the Board of Directors	
<i>Christoph Van der Elst</i>	129

## Summary of Contents

---

CHAPTER 7 Directors' Duties and Corporate Social Responsibility (CSR) <i>Beate Sjøfjell &amp; Linn Anker-Sørensen</i>	153
CHAPTER 8 The Many Roles of Boards of SMEs <i>Mette Neville</i>	179
PART II Organisation of the Board of Directors	219
CHAPTER 9 Independent Directors: After the Crisis <i>Wolf-Georg Ringe</i>	221
CHAPTER 10 Active Owners and Accountable Directors <i>Jesper Lau Hansen</i>	243
CHAPTER 11 Nomination of Members for the Board of Directors: A Swedish Version of Wag the Dog? <i>Jan Andersson</i>	263
CHAPTER 12 The Europe wide Movement towards a Gender Quota at Board Level <i>Christoph Teichmann &amp; Carolin Langes</i>	279
CHAPTER 13 Understanding the Role of the Board of Directors: What Is the Right Balance between Managerial Oversight and Value Creation? <i>Joseph A. McCahery, Erik P.M. Vermeulen &amp; Masato Hisatake</i>	301
CHAPTER 14 Disqualifying Directors in the EU <i>Karsten Engsig Sørensen</i>	327
CHAPTER 15 An Overview of the Executive Remuneration Issue across the Crisis <i>Guido Ferrarini &amp; Maria Cristina Ungureanu</i>	349
Bibliography	367

# Table of Contents

List of Editors	v
List of Contributors	vii
CHAPTER 1	
Introduction	
<i>Hanne S. Birkmose, Mette Neville &amp; Karsten Engsig Sørensen</i>	1
§1.01 A Renewed Focus on Boards of Directors in the EU	1
§1.02 Duties of Directors	3
§1.03 Organisation of the Board of Directors	7
PART I Duties of Directors	11
CHAPTER 2	
Mapping Directors' Duties: Strategies and Trends in the EU	
<i>Carsten Gerner-Beuerle &amp; Edmund-Philipp Schuster</i>	13
§2.01 Introduction	13
§2.02 Duty of Care	14
[A] Regulatory Structure	16
[B] Behavioural Expectations	17
[C] Business Judgment Rule	20
§2.03 Duty of Loyalty	23
[A] Regulatory Structure	24
[B] Related Party Transactions	25
[C] Corporate Opportunities	28
§2.04 Enforcement	34
[A] Derivative Action	36
[B] Ease of Enforcement	40

## Table of Contents

---

§2.05	Directors' Duties in the Vicinity of Insolvency	43
	[A] Duty to File and Wrongful Trading	47
	[B] Changes to the Core Duties Owed by Directors	48
	[C] The 'Re-capitalise or Liquidate' Rule	49
	[D] Additional Elements of a Regulatory Response to Near-Insolvent Trading	50
§2.06	Conclusion	51
CHAPTER 3		
Directors' Conflicts of Interest: A Contribution to European Convergence <i>Paul Krüger Andersen &amp; Dorte Kristensen Balshøj</i>		57
§3.01	Introduction	57
§3.02	EU Company Law	59
§3.03	National Models for Regulating Conflicts of Interest	61
	[A] The Duty of Loyalty as the Basis	61
	[B] Legal Paradigms	62
	[C] Duty to Avoid Conflicts of Interest	62
	[D] Disclosing Conflicts of Interest and Approval by Disinterested Directors/Shareholders	63
	[E] Executive Compensation (Remuneration)	63
	[F] Competition with the Company	64
	[G] Appointment and Dismissal of Directors	65
	[H] Transactions Which Need the Approval of the Shareholders	65
	[I] Benefits	68
	[J] Board Composition and the Division of Work	69
	[K] Consequences	70
	[L] Takeovers	70
§3.04	Some Core Elements Fostering European Convergence	70
CHAPTER 4		
Directors' Duties in Groups of Companies: Legalising the Interest of the Group at the European Level <i>Pierre-Henri Conac</i>		75
§4.01	Introduction	75
	[A] The Regulation of Directors' Duties in Groups at the European and Member States Level	76
	[1] The Failure to Address the Issue of Groups in Company Law at the European Level	76
	[2] The Regulation of Groups at the Member States Level	78
	[B] The Academic and Commission's Interest for the Regulation of Groups	80
	[1] The Academics' Support for the Regulation of Groups	81

	[2] The EU Commission's Interest for the Recognition of the Interest of the Group	82
§4.02	The Need to Legalise the Interest of the Group at the European Level	84
	[A] The Advantages of Recognising the Interest of the Group	84
	[1] The Arguments against the Recognition of the Interest of the Group	84
	[a] The Technical Arguments	84
	[b] The Political Arguments	85
	[2] The Arguments in Favour of Recognising the 'Interest of the Group'	87
	[a] Advantages from a Cross-Border Perspective	87
	[b] Advantages from a Member States Perspective	89
	[B] A Cautious Approach to Legalising the Interest of the Group	90
	[1] The Nature of the Legal Instrument	90
	[a] A Recommendation	90
	[b] A Limited Regime Included in a Directive on the SMC	91
	[2] The Scope of a Legal Instrument	91
	[a] At the European Level	92
	[b] At the Member State Level	93
§4.03	The Distinction between Wholly-Owned and Non-wholly-Owned Subsidiaries	94
	[A] Wholly-Owned Subsidiaries	94
	[1] Directors' and Managers' Liability at the Subsidiary	94
	[a] A Safe Harbour	94
	[b] A Simplified Rozenblum Test	95
	[2] Directors' and Managers' Rights and Duties at the Parent Company	96
	[a] When the Risk of Insolvency Is Not Present	96
	[b] When the Risk of Insolvency Is Present or Realised	97
	[B] Non-wholly-Owned Subsidiaries	97
	[1] The Improvement of the Functioning of the Group	97
	[a] The Right to Squeeze-Out Minority Shareholders	98
	[b] The Right to Give Instructions	98
	[2] The Protection of Minority Shareholders	99
	[a] Sell-Out Rights	99
	[b] Related-Party Transactions	100
§4.04	Conclusion	101
CHAPTER 5		
Directors' Duties to Engage Shareholders		
	<i>Hanne S. Birkmose</i>	103
§5.01	Introduction	103
§5.02	Active Ownership	104
§5.03	Engaging Shareholders in Active Ownership	106

## Table of Contents

---

	[A] Legal Obligations	107
	[B] Soft Law Duties	108
§5.04	Information	109
	[A] What Information Should the Board Disclose?	110
	[1] Periodical Information on the Financial Performance of the Company	110
	[2] Continuous Information Relating to Company Performance	111
	[3] Information Relating to the General Meeting	112
	[4] Board Members' Conflicts of Interest	114
	[5] Corporate Governance Issues	115
	[6] Summary	117
	[B] How to Disclose Information	117
§5.05	The Annual General Meeting and the Exercise of Shareholders' Rights	118
	[A] Agenda	119
	[B] Facilitating Shareholder Participation in the General Meeting	121
	[C] Cooperation	123
	[D] Voting	124
§5.06	Dialogue	126
§5.07	Concluding Remarks	127

### CHAPTER 6

#### The Risk Management Duties of the Board of Directors

*Christoph Van der Elst* 129

§6.01	Fiduciary Duties	130
§6.02	Specific Industry, Activity, and Compliance Requirements	131
§6.03	New Risk Management Duties	133
	[A] European Risk Management	134
	[B] National Risk Management Provisions	137
	[1] Substantive Provisions	138
	[2] Disclosure Requirements	139
	[3] Comply or Explain Best Practices	141
	[a] Refining and Completing the Legislative Provisions	141
	[b] Disclosure Best Practices	143
§6.04	European National Case Law	144
§6.05	Assessing the European (Member States) Models of Board Responsibility for Risk Management	147

### CHAPTER 7

#### Directors' Duties and Corporate Social Responsibility (CSR)

*Beate Sjøfjell & Linn Anker-Sørensen* 153

§7.01	A Convergence of Crises: Is CSR an Answer?	153
§7.02	Duties of the Board	156

	[A] The Role of the Board	156
	[B] The Concept of Duty	158
	[C] Legal Compliance, Business Case and Beyond	159
§7.03	European Developments: From Dichotomy to Convergence?	162
	[A] A Tentative New Understanding	162
	[B] A New Room for CSR?	163
	[C] Integrating CSR in the Duties of the Board	165
	[D] Reporting and Risk Management as CSR Tools	169
	[E] An Integrated European CSR Approach?	173
§7.04	A CSR Role for the EU?	174
CHAPTER 8		
The Many Roles of Boards of SMEs		
	<i>Mette Neville</i>	179
§8.01	Introduction	179
§8.02	Theories on the Roles of Boards	180
§8.03	Towards a Multi-theory Approach to the Roles of Boards	182
	[A] The Ownership and Control Structures of SMEs	183
	[B] The Implications of Ownership and Management Structures for a Theoretical Approach to the Role of Boards of SMEs	184
	[1] Agency-Based Roles	184
	[2] Resource-Based Roles of Boards	189
	[3] Stakeholder-Based Roles	192
§8.04	The Role of Boards of SMEs in Practice: New Empirical Data	194
	[A] The Danish Studies	194
	[B] What Does the Owner-Manager Perceive to Be the Most Important Role of the Board? (Expectation)	195
	[C] Does the Board Enhance Good Governance of SMEs?	199
	[1] Does a Board Contribute to the Performance of the Key Management Tasks of an Undertaking?	200
§8.05	Do Owner-Managers Regard the Board as a Resource?	206
§8.06	The Political Implications of the Role of Boards of SMEs	209
	[A] The Role of Boards in Company Law	209
	[1] Involvement in the Strategic Management of the Business	211
	[2] Shareholder Power	212
	[3] The Composition of the Board	213
	[B] Corporate Governance Codes	214
§8.07	Conclusion	216

## Table of Contents

---

PART II Organisation of the Board of Directors	219
CHAPTER 9	
Independent Directors: After the Crisis	
<i>Wolf-Georg Ringe</i>	221
§9.01 Independent Directors and the Financial Crisis	222
[A] The Regulatory and Quasi-Regulatory Push	224
[B] A Question Mark behind Independence	226
§9.02 Why Do We Have Independent Directors?	227
[A] Criteria of Independence	228
§9.03 Challenges to Independence	230
[A] Matching Independence to Industry and Ownership Structure	231
[B] Empirical Evidence	233
[C] Incentive Problems	234
[D] Substitutes for Independence	235
§9.04 Towards a Functional Understanding of Board Independence	237
[A] Improving Independence	237
[B] Combining Independence with Dependence	238
§9.05 Conclusion	241
CHAPTER 10	
Active Owners and Accountable Directors	
<i>Jesper Lau Hansen</i>	243
§10.01 Introduction	243
§10.02 The 1992 Cadbury Report and the Hegemony that Ensued	243
§10.03 The Emancipation of Management	246
§10.04 The Legacy of US/UK Corporate Governance	249
§10.05 Challenging the Legacy from a Nordic Perspective	250
[A] The Benefits of Dominant Shareholders	250
[B] Hard Ctr. Soft Law	252
[C] Board Composition	254
§10.06 A Reappraisal of Old Truths	258
§10.07 Conclusion	261
CHAPTER 11	
Nomination of Members for the Board of Directors: A Swedish Version of Wag the Dog?	
<i>Jan Andersson</i>	263
§11.01 Introduction	263
§11.02 The US Model	264
§11.03 The Swedish Model	268



§11.04	Do We Focus on Model or Facts?	270
§11.05	Earlier Research and the Swedish Voice	271
§11.06	Substantial Differences?	273
§11.07	Conclusion	276
CHAPTER 12		
The Europe Wide Movement towards a Gender Quota at Board Level		
<i>Christoph Teichmann &amp; Carolin Langes</i>		279
§12.01	Introduction	279
§12.02	Draft EU Directive	280
	[A] Legislative Basis	280
	[B] Quota	282
§12.03	Legal Situation in Other European States	282
	[A] One-Tier and Two-Tier Systems	283
	[B] Legal Comparison	284
	[1] Norway	284
	[a] Board System	284
	[b] The Statutory Quota Provision	284
	[c] Sanctions If the Quota Is Not Observed	285
	[2] Denmark	286
	[a] Board System	286
	[b] Equality on Company Organs	287
	[3] Sweden	288
	[4] France	288
	[5] Spain	289
	[6] The Netherlands	290
	[7] Belgium	290
	[8] Italy	291
	[9] Initiatives in Germany	292
	[a] Self-Regulation	292
	[b] Statutory Provision	292
§12.04	Comparison of the Different Quota Provisions	296
	[A] Companies Affected	296
	[1] Major Companies	296
	[2] Exceptions	297
	[B] The Quota to Be Achieved	298
	[C] Sanctions for Non-compliance	298
§12.05	Summary	300
CHAPTER 13		
Understanding the Role of the Board of Directors: What Is the Right Balance between Managerial Oversight and Value Creation?		
<i>Joseph A. McCahery, Erik P.M. Vermeulen &amp; Masato Hisatake</i>		301

## Table of Contents

---

§13.01	Introduction	301
§13.02	The Role of the Board of Directors in a Three-Dimensional Model of Corporate Governance	303
	[A] The Current Corporate Governance Debate	306
	[B] The Shortcomings of the Corporate Governance Debate	309
	[C] A Three-Dimensional Model of Corporate Governance	310
	[D] Understanding the Three-Dimensional Dynamics of the Board of Directors	312
§13.03	The Three-Dimensional Dynamics of the Board of Directors: Empirical Evidence	316
	[A] The Data	317
	[B] Board Dynamics and Composition	318
§13.04	Conclusion	324
CHAPTER 14		
Disqualifying Directors in the EU		
<i>Karsten Engsig Sørensen</i>		327
§14.01	Introduction	327
§14.02	Harmonising Disqualification in the EU	328
	[A] Company Law Harmonisation	328
	[B] Outside Company Law	330
§14.03	Overview of National Disqualification Rules	332
	[A] From Criminal Penalty to Civil Sanction	332
	[B] Conduct Which May Result in Disqualification	333
	[C] How Disqualification Orders Are Imposed and How Often	334
	[D] The Aim and Effect of a Disqualification Order	335
	[E] Between Company Law and Insolvency Law	336
	[F] Summary	336
§14.04	Imposing Disqualification in Cross-Border Settings	337
	[A] Which Companies Are Targeted for Disqualification Proceedings?	337
	[B] Which Persons Can Be Subject to Disqualification Orders?	340
	[C] The Status of Disqualification Orders in Cross-Border Situations	340
§14.05	Enforcing Disqualification in the EU	341
	[A] Which Companies Are Disqualified Persons Not Allowed to Manage?	341
	[B] Sanctions for Breach of Disqualification Orders in a Cross-Border Context	342
	[C] Ensuring Transparency	344
	[D] Ways to Improve Cross-Border Enforcement of Disqualification Orders	345
§14.06	Conclusion(s)	346

## CHAPTER 15

## An Overview of the Executive Remuneration Issue across the Crisis

<i>Guido Ferrarini &amp; Maria Cristina Ungureanu</i>	349
§15.01 Introduction	349
§15.02 The EU Regulatory Framework	351
[A] Evolution of the EU Regulatory Framework	351
[B] Say-On-Pay	354
[C] Financial Institutions	356
§15.03 Remuneration Policies	358
§15.04 Conclusions	366
Bibliography	367