PREDICTING FIRM SUSTAINABILITY THROUGH GOVERNANCE:
THE RELATIONAL CORPORATE GOVERNANCE APPROACH

Francesco de Zwart
B Comm (Melb), LLB (Hons) (Melb), Grad Dip Ed (Monash), LLM (Monash)
Adelaide Law School
Faculty of the Professions
The University of Adelaide

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ABSTRACT
PREDICTING FIRM SUSTAINABILITY THROUGH GOVERNANCE: THE RELATIONAL CORPORATE GOVERNANCE APPROACH

The relational corporate governance approach presented in this thesis is a tool which complements and enhances the explanatory power of the existing principal ‘law and economics’ theories and models of the firm. It maps the effectiveness of corporate Governance Variables in use in corporate Governance Codes and laws around the world and assesses reform proposals in the field. The approach can be used by regulators, policymakers, law reformers and corporate actors as a diagnostic tool to analyse the governance health of individual companies and the governance actions required to remedy sub-optimal governance and management arrangements. The principal aim of the relational approach is to describe and evaluate the interrelationships between the most significant fields of corporate governance study and practice and the Governance Variables to which these fields give rise. In this way, the relational approach can be used to make predictions in relation to the relative importance of Governance Variables inter se in reducing (or increasing) agency costs and enhancing (or reducing) the long-term efficiency and survival of the for-profit firm.

The relational approach is built from an artificial environment that simulates the real world sphere of corporate governance and is comprised of the four Key Fields drawn from the Social Science Research Network database: (1) application of the principal theories of the firm to the relational approach; (2) ‘autopsies’ of the Enron and Hastie corporate collapses; (3) comparative corporate Governance Codes; and (4) empirical studies of the effectiveness of Governance Variables. From these Key Fields a ‘Weighing Mechanism’ is constructed comprising four theoretical components.

First, the thesis introduces a new definition of relational corporate governance known as the Three Relational Axes of Good Governance. These Three Relational Axes act like a set of scales to theoretically ‘weigh’ the competing interests of those ‘inside’ the corporation and those ‘outside’. Second, the thesis establishes a set of eight Governance Factors which are the principal or central themes underlying the four Key Fields. These eight Governance Factors are the eight most common themes in the thesis’ simulated representation of real world corporate governance. The theoretical ‘weighing’ of the Governance Factors in the Three Relational Axes of Good Governance is already completed and presented for the reader. Thus the interrelationships between the eight Governance Factors are presented in two diagrams called Interrelationship Schemes, one for the shareholder (primacy) model and the other representing the stakeholder model. From these Interrelationship Schemes the thesis constructs – for each of 39 Governance Variables – a relational effect path that seeks to explain which Governance Factors are affected by each Governance Variable and the direction of the effect.

The interrelationships depicted in a relational effect path for each Governance Variable are then summarised in operational tables. The greater the number of Governance Factors affected by a Governance Variable in either direction, then the greater is the relative importance of that Variable in affecting agency costs and the long-term efficiency and survival/sustainability of the for-profit corporation.
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THESIS DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree.

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11.2.3 To identify, describe and map diagrammatically the interrelationships, themes and factors underpinning this environment
11.2.4 To create a comparative table or scheme system upon which to compare across sectors and over time the Governance Variables utilised in the major US, UK, Australian and global Governance Codes and schemes.

11.2.5 As an over-arching aim, to propose an approach or tool for regulators and policy-makers to predict and measure the relative importance of Governance Variables in reducing (or increasing) agency costs and enhancing (or reducing) the long-term efficiency and sustainability of the for-profit firm.

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