

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

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31 January 2014

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, policy-makers, 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.

ACKNOWLEDGEMENTS

This thesis would not be possible without the supervision, guidance, help and love of a lot of people.

I began the thesis at Monash University in Victoria with the supervision of Dr George Gilligan and Associate Professor Helen Anderson. I thank them for their supervision of the genesis of the thesis and its early form. The thesis would not have been possible without them.

At the University of Adelaide, my profound gratitude to Associate Professor Chris Symes and Dr Suzanne Le Mire who took up the supervision of the mid and end points of the thesis - at short notice - when I moved to Adelaide. The accessibility of the thesis owes a great deal to their careful guidance. I thank them for a wonderful thesis experience rich in new knowledge and direction for me and many thoughtful discussions.

Truly great friends came to the aid and support of me and my family during an illness I suffered and I thank them for their great faith in me – Domenic and Sharon Carbone, Max and Nicole Haitana, Monica Soncin and Simon Jolly, Stefan Klæbe and Helen Gilbert, Associate Professor Bernadette Richards and Dr Paul Richards and Professor John Williams. There would be no completion without them.

My wider family was tireless support during the whole thesis and again during my illness and I count myself very lucky to have them – June de Zwart (grandma) and Peter Fitzpatrick (Papa) for their tireless help with my children; Fiona McLennan, David McLennan and Catherine and Nick Forge for their love of my children; Peter and Justine de Zwart at crux time; Del Sladdin for sending “flash money” when we needed a treat and Elivio and Kit Bonollo for their prayers.

It is difficult to express my love and admiration to my own family and I feel very undeserving of their great love and support of me. To my children – Bronte for being a grown-up at only 10 years old and Emily who is 8 who prayed every night at dinner time that Dad would finish his thesis.

Finally, to my wife Associate Professor Melissa de Zwart. I have admiring love for the tireless way you look after all of us, for your great enthusiasm and inclusiveness at everything you do, for the way you keep going when things get really difficult, for your amazing decision-making in pressure times, for your Dutch sense of humour (I still think you are telling me off), for thinking David Tennant is the best Dr Who when I think it is Matt Smith, for how you love Stephen Silvagni of Carlton and Jeronimo of Adelaide United, for how you never age and your steadfastness in all you do. You are the most wonderful and beautiful person I have ever met. Thanks for Loving.

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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Signed by Francesco de Zwart

Dated

TABLE OF CONTENTS

SECTION AND TITLE	PAGE
CHAPTER 1:	1
THE CHALLENGE OF CORPORATE GOVERNANCE	
1.1 <i>The Global Financial Crisis and Failures of Corporate Governance</i>	1
1.2 <i>Separation of Ownership from Management and the Role of Corporate Governance</i>	2
1.2.1 <i>The Balancing of Interests of ‘Insiders’ and ‘Outsiders’</i>	2
1.2.2 <i>Separation of Ownership, ‘Nexus of Contracts’, Agency Costs and the Shareholder Model</i>	4
1.2.3 <i>The Shareholder-Wealth Maximisation Principle</i>	6
1.3 ‘Core’ Areas of Corporate Governance and Corporate Failures	7
1.3.1 <i>Multiple Failures in Core Governance Variables</i>	8
1.3.2 <i>Key Fields and Research Questions in Firm Sustainability</i>	11
1.4 <i>Relational Corporate Governance</i>	15
1.5 <i>Agency Costs and Sustainability in this Thesis</i>	16
1.6 <i>Scope of the Thesis</i>	17
1.7 <i>Overview of Thesis</i>	17
1.7.1 <i>Overview of Relational Corporate Governance Approach</i>	17
1.7.2 <i>Introduction to Thesis Chapters</i>	18
CHAPTER 2:	21
THE FRAMEWORK OF THE RELATIONAL CORPORATE GOVERNANCE APPROACH	
2.1 <i>Approach to the Relational Corporate Governance Framework</i>	21

2.2	Overview of the Firm-Specific (Micro) and Macro-Economic Benefits of ‘Good’ Corporate Governance	26
2.3	The Components of the Relational Approach	28
2.3.1	<i>The Three Relational Axes of Good Governance</i>	29
2.3.2	<i>The Purpose and Interrelationship of the Three Relational Axes</i>	29
2.3.3	<i>The Weighing Process of the Three Relational Axes</i>	31
2.4	Introduction to the Governance Variables	32
	<i>Table 2.4: Summary of Governance Variables</i>	33
2.5	Principal Considerations in the Selection of the Governance Factors	35
2.5.1	<i>The Governance Factors are Drawn from the Key Fields</i>	35
2.5.2	<i>What is a Governance Factor?</i>	36
2.5.3	<i>Governance Factors Must Be Distinguished From Governance Variables</i>	37
2.6	The Governance Factors are Recurring Themes and Tensions From the Key Fields	37
2.6.1	<i>Reporting Factor No. 1: Transparency, Timing and Integrity of Financial and Other Reports</i>	37
2.6.2	<i>Compliance Factor No. 2: Corporate Governance and Legal Compliance</i>	41
2.6.3	<i>Alignment Factor No. 3: Alignment of Management and Shareholder Interests</i>	43
2.6.4	<i>Compensation Factor No. 4: Board, CEO and Management Compensation and Incentives</i>	46
2.6.5	<i>Monitoring & Audit Factor No. 5: Internal and External/Audit Monitoring Quality</i>	47
2.6.6	<i>Stakeholders Factor No. 6: Identification, Participation and Protection of Stakeholder Interests</i>	51
2.6.7	<i>Decision-making Factor No. 7: Quality of Board, CEO and Management Decision-Making</i>	53

2.6.8:	<i>Responsibility Factor No. 8: Delineation and Disclosure of Powers, Duties and Lines of Responsibility</i>	56
2.7	<i>Interrelationships between Governance Factors – The Interrelationship Schemes</i>	61
2.7.1	<i>The Two Interrelationship Schemes</i>	61
2.7.2	<i>The Direction of the ‘Effect’ in the Interrelationship Schemes</i>	61
	<i>Figure 2.7.2A: Shareholder Primacy Interrelationship Scheme</i>	64
	<i>Figure 2.7.2B: Stakeholder Model Interrelationship Scheme</i>	65
2.8	<i>Conclusion - The Relational Corporate Governance Framework</i>	66
	<i>Figure 2.8: The Relational Corporate Governance Framework</i>	67
CHAPTER 3:		69
GOVERNANCE VARIABLES IN PRACTICE		
3.1	<i>Purpose and Approach of Chapter Three</i>	69
3.2	<i>Operational Measures of the Relational Approach – Governance Factor ‘Coverage’ and ‘Relational Proximity Rating’</i>	70
3.3	<i>The Hypothesised Coverage Effect on Governance Factors by Individual Governance Variables</i>	71
3.3.1	<i>The Coverage Table</i>	71
	<i>Table 3.3.1. Coverage Table</i>	71
	<i>Hypothesised Significant Coverage Effect and Direction of Interrelationship between Governance Variables and Governance Factors</i>	
3.3.2	<i>The Hypothesised Relative Importance of Governance Variables – The Relational Proximity Table</i>	76
	<i>Table 3.3.2.1: Relational Proximity Table</i>	78
	<i>Hypothesised Relative Importance of Governance Variables in the Sustainability of the Firm</i>	

CHAPTER 4	80
KEY FIELD NO. 1:	
THE APPLICATION OF THE PRINCIPAL THEORIES OF THE FIRM TO THE RELATIONAL APPROACH	
4.1 <i>Problems Arising from the Separation of Ownership from Management</i>	80
4.2 <i>The Nexus of Contracts Foundations of the Three Relational Axes of Good Governance and Governance Factors</i>	82
4.2.1 <i>'Neoclassical' Model Shortcomings are Unsuitable for the Relational Approach</i>	84
4.2.2 <i>Relational Approach is Aligned with Nexus of Contracts Theory</i>	84
4.2.3 <i>The Components of the Relational Approach and Agency Costs</i>	88
4.2.4 <i>Director Primacy Model Reflected in the Governance Factors</i>	93
4.3 <i>Application of the Shareholder Primacy and Stakeholder Models to the Relational Approach</i>	95
4.3.1 <i>The Relational Approach and the Shareholder Primacy Model</i>	95
4.3.2 <i>Shareholder Primacy - The Precedence of the Shareholders' Residual Claims are Reflected in the Governance Factors</i>	95
4.4 <i>The Influence of Stakeholder Theory in the Relational Approach</i>	96
4.4.1 <i>Shortcomings of the Shareholder Primacy Model</i>	97
4.4.2 <i>Perceived Problems and Suggested Solutions in Balancing Competing Stakeholder Interests</i>	104
4.5 <i>Concluding Remarks for Chapter 4</i>	109

CHAPTER 5	111
KEY FIELD NO. 2:	
'AUTOPSIES' OF THE ENRON AND HASTIE CORPORATE COLLAPSES	
5.1 <i>The Enron Governance Failure Abyss and the Hastie Group Collapse</i>	111
5.1.1 <i>Purpose, Scope and Methodology of Chapter 5 – Enron and Hastie Case Studies of the Behaviour of Governance Variables and Governance Factors</i>	111
5.2 <i>Failures in 'Central' or 'Proximate' Governance Variables</i>	114
5.2.1 <i>Agency Theory and the Shareholder Model</i>	114
5.2.2 <i>Board and Director Variables</i>	116
5.2.3 <i>Earnings Manipulation</i>	124
5.2.4 <i>External or Independent Audit</i>	131
5.2.5 <i>Inadequate Disclosure Affects the Transparency and Timing of Financial Reporting and Monitoring</i>	141
5.3 <i>Summary - Some Recurring Themes in the Enron and Hastie Group Corporate Collapses</i>	142
5.3.1 <i>The Nexus of Contracts and Agency Theory in the Enron and Hastie Failure Scenarios</i>	143
5.3.2 <i>Director Independence, Monitoring and Risk Management</i>	144
5.3.3 <i>Earnings Manipulation</i>	148
5.3.4 <i>External/Independent Audit</i>	151
5.3.5 <i>Concluding Remarks</i>	153
CHAPTER 6	155
KEY FIELD NO. 3:	
COMPARATIVE CORPORATE GOVERNANCE CODES	
6.1 <i>The Purpose, Scope and Function of Chapter 6</i>	155
6.1.1 <i>Exploring Relative Importance</i>	155
6.1.2 <i>The Function of Commonality – How to Use Chapter 6</i>	157

6.1.3	<i>Justification for Selection of Global and National Corporate Governance Codes</i>	157
6.1.4	<i>The Governance Codes Examined in Chapter 6</i>	167
6.2	<i>Global/Cross-Border Corporate Governance Codes</i>	169
6.2.1	<i>Selection of the Global Sector and OECD Principles</i>	169
6.2.2	<i>Principal Governance Variables in Global Corporate Governance</i>	170
6.2.3	<i>Global ‘Core’ Variables - Comparison and Commonality of Global/Cross-Border Corporate Governance Codes</i>	173
6.3	<i>National Corporate Governance Codes</i>	177
6.3.1	<i>Focus on US, UK and Australian National Codes</i>	177
6.4	<i>United States Corporate Governance Codes</i>	178
6.4.1	<i>SOX Effects on Securities Exchange Act and NYSE Final Rules in Appendix C2</i>	178
6.4.2	<i>US National Corporate Governance Codes</i>	178
6.5	<i>United Kingdom Corporate Governance Codes</i>	182
6.5.1	<i>UK National Corporate Governance Codes</i>	182
6.6	<i>Australian Corporate Governance Codes</i>	186
6.6.1	<i>ASX 2003 Best Practice Recommendations, ASX 2007-10 Revised Principles and IFSA Blue Book</i>	186
6.7	<i>‘Core’ National <u>Listed</u> Governance Variables</i>	189
6.7.1	<i>Comparison of US, UK and Australian National <u>Listed</u> Corporate Governance Codes</i>	189
6.8	<i>Conclusion - Core Features and Aspects of Corporate Governance Codes</i>	190
6.8.1	<i>Core Features – Global and National <u>Listed</u> Governance Codes Combined</i>	190

CHAPTER 7	192
KEY FIELD NO. 4 (PART 1): NATIONAL SHAREHOLDER PROTECTION REGIME AND BOARD FACTORS I	
7.1 <i>Aims and Purpose of Chapter 7</i>	192
7.2 <i>Structure and Approach of Chapter 7</i>	194
7.3 <i>Firm-Specific Effects of ‘Good’ Corporate Governance – Firm Value and Operating Performance</i>	195
7.3.1 <i>‘Overall’ Governance Structure and the Level and Strength of the National Shareholder Protection Regime</i>	196
7.3.2 <i>Board Factors I – ‘Independence’ and the Proportion of Non-Executive/Independent Directors</i>	214
CHAPTER 8	230
KEY FIELD NO. 4 (PART 2): BOARD FACTORS II AND OTHER FIRM-SPECIFIC VARIABLES	
8.1 <i>Aims and Approach of Chapter 8.</i>	230
8.2 <i>Board Factors II - Board Size and Outside Board Positions</i>	231
8.2.1 <i>Determinants of Optimum Board Size</i>	231
8.2.2 <i>The Relationship between Board Size and Firm Operating Performance/Value is Inconclusive</i>	233
8.2.3 <i>Do Board Positions of Outside Directors Reduce Monitoring Quality?</i>	236
8.3 <i>Anti-Takeover Mechanisms and Market for Corporate Control – ‘Whole’ Board and ‘Staggered’ Board Elections</i>	239
8.3.1 <i>Overview – Anti-Takeover Mechanisms May Reduce the Effectiveness of the Market for Corporate Control and May Reduce Firm Value</i>	240
8.4 <i>Audit Sub-Committee – Presence, Independence and Expertise</i>	245
8.4.1 <i>Effect of Audit Committee Independence and Financial Expertise on Firm Value and Operating Performance</i>	246

8.4.2	<i>[AudCom] (+) Variable Relational Effect Path</i>	248
8.4.3	<i>[AudIndMon] (+): Audit Committee – Independence – Monitoring Effect and [AudIndInfo] (-): Audit Committee – Information Flow and Decision Quality ‘Trade-Off’</i>	249
8.4.4	<i>Likely Positive Effect between <u>Accounting</u> Financial Expertise and Firm Value and Operating Performance</i>	250
8.5	<i>‘Block’ and Institutional Shareholdings</i>	252
8.5.1	<i>Governance Effects Both Positive and Negative</i>	252
8.5.2	<i>[BlockMon] (+) and [BlockCosts] (-) Variables Relational Effect Paths</i>	257
8.6	<i>Division in CEO/Chairperson Roles</i>	259
8.6.1	<i>Enhanced Firm Knowledge and ‘Trade-off’ with Board Control/Monitoring</i>	259
8.6.2	<i>[DualTrade] (+/-) Variable Relational Effect Path</i>	260
8.6.3	<i>[DualDismiss] (-) and [DualStrat] (-) Variables Relational Effect Paths</i>	261
8.7	<i>Continuation of Empirical Studies Key Field No. 4 in Chapter 9</i>	263
	CHAPTER 9	264
	EMPIRICAL STUDIES KEY FIELD NO. 4 (PART 3): BOARD AND AUDIT COMMITTEE FACTORS AND EARNINGS MANIPULATION	
9.1	<i>Earnings Manipulation and Purpose and Approach of Chapter 9</i>	264
9.1.1	<i>Principal Aim of Reporting – To Reduce Information Asymmetry and Agency Risk</i>	264
9.1.2	<i>Transparency and the ‘Trade-Off’ Effect on the Quality of Board and Market Monitoring</i>	265
9.2	<i>Earnings Manipulation and Board and Committee Structures</i>	272

9.2.1	<i>Board and Audit Committee Independence, Time, Financial Expertise and Duality of CEO/Chairperson</i>	274
9.2.2	<i>Board and Audit Committee Size and Earnings Management</i>	283
9.2.3	<i>Review of Auditors, Non-Audit Services and Earnings Management</i>	284
9.2.4	<i>Summary and Conclusion of Empirical Studies Key Field No. 4 in Chapter 10.</i>	289
CHAPTER 10		291
	EMPIRICAL STUDIES KEY FIELD NO. 4 (PART 4): 'GOOD' CORPORATE GOVERNANCE AND DIRECTOR, CEO AND MANAGEMENT COMPENSATION	
10.1	<i>Overview of Governance Approaches and Purpose of Chapter 10</i>	291
10.1.1	<i>The Governance Issue - The Director/CEO Compensation Levels Variable: [DirCEO\$] (+/-)</i>	292
10.1.2	<i>Approaches to Governance of Compensation</i>	293
10.1.3	<i>'Alignment' of Performance, Option Compensation and the Purpose of Chapter 10</i>	295
10.2	<i>Compensation, the Level/Quality of Monitoring and Firm Value and Operating Performance</i>	296
10.2.1	<i>Proportion of Insider/Management Equity Ownership – 'Incentive Alignment' Effect Countered By 'Entrenchment' Effect</i>	296
10.2.2	<i>Studies Finding Positive Relationship Between Compensation and Firm Value and/or Operating Performance</i>	297
10.2.3	<i>Studies Finding No or Negative Relationship Between Compensation and Firm Value and/or Operating Performance for [DirCEO\$]</i>	299
10.2.4	<i>Summary of Studies and Relational Effect Paths for [DirCEO\$] (+/-), [EqOptIncent] (+) and [EqOptEntrch] (-)</i>	307
10.2.5	<i>Short-Term Options and the Risk of Earnings Manipulation</i>	310

10.2.6	<i>Possible Connection Between Director and CEO Compensation Level</i>	312
10.3	<i>Possible Connection Between Firm Size and Director/Executive Compensation</i>	313
10.4	<i>Compensation, Governance and Reputational Constraints</i>	314
10.4.1	<i>Reputational Constraints on Compensation are Dependent on Disclosure and Transparency</i>	314
10.5	<i>Concluding Remarks on the Recurring Themes and Tensions in Executive, CEO and Director Compensation</i>	316
10.5.1	<i>The Compensation 'Trade-off'</i>	316
10.5.2	<i>Compensation and the Level/Quality of Monitoring</i>	316
10.5.3	<i>Firm Operating Performance and Firm Value</i>	317
10.5.4	<i>Short-Term Options and Earnings Manipulation</i>	318
10.5.5	<i>Firm Size and Director/Executive Compensation</i>	319
10.5.6	<i>Compensation and Reputational Constraints</i>	319
10.6	<i>Conclusion of Empirical Studies Key Field No. 4</i>	319
CHAPTER 11		321
	RELATIONAL APPROACH CONCLUSIONS	
11.1	<i>Relational Approach Conclusions and Approach of Chapter 11</i>	321
11.2	<i>Key Aims and Developments of the Thesis from Chapter 1</i>	323
11.2.1	<i>To introduce a new definition of corporate governance</i>	323
11.2.2	<i>To create a simulated corporate governance environment which represents the 'real world' sphere of corporate governance</i>	325
11.2.3	<i>To identify, describe and map diagrammatically the interrelationships, themes and factors underpinning this environment</i>	326

11.2.4	<i>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</i>	328
11.2.5	<i>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</i>	329
11.3	<i>The Application of the Principal Theories of the Firm to the Relational Approach</i>	330
11.4	<i>Concluding Remarks for ‘Overall’ Governance and Board Factors I and II</i>	331
11.4.1	<i>‘Overall’ or ‘Multi-Variable’ Governance</i>	331
11.4.2	<i>Board Factors I - ‘Independence’ and Proportion of Non-Executive/Independent Directors</i>	331
11.4.3	<i>Board Factors II - Board Size</i>	332
11.4.4	<i>Audit Sub-Committee – Presence, Independence and Expertise</i>	332
11.4.5	<i>Independence and Earnings Management</i>	333
11.4.6	<i>Executive, CEO and Director Compensation</i>	333
11.5	<i>Observations on the Explanatory Power of the Relational Approach and Future Research</i>	335
11.6	<i>Concluding Remarks for the Thesis</i>	336

APPENDICIES

SECTION AND TITLE	PAGE
APPENDIX A	338
A1: GLOSSARY OF RELATIONAL CORPORATE GOVERNANCE APPROACH TERMS AND COMPONENTS	338
A2: GLOSSARY OF GOVERNANCE VARIABLES	345
APPENDIX B:	352
ADDITIONAL REFERENCES FOR CHAPTERS 1 – 5	
B1: The Operation and Efficacy of Corporate Governance Variables in the 2008 Global Financial Crisis	352
B2: Accounts of the Enron and Other Corporate Collapses	354
B3: References on the Separation of Ownership from Management	357
B4: Discussion of Models of the Firm and Corporate Governance Theories	359
APPENDIX C:	360
ADDITIONAL REFERENCES AND TABLES FOR CHAPTERS 6 – 10	
C1: Harmonisation or Convergence of Global and National Corporate Governance	360
C2: Summary of Content and Themes from SOX Reforms	362
<i>SOX Summary Table: Summary of SOX Content and Themes</i>	362
C3: Evaluations of the SOX Reforms	371
C4: Summary of Content and Themes from NYSE ‘Core’ Variables	373
<i>NYSE Summary Table: NYSE ‘Core’ Variables and Themes</i>	373

APPENDIX D1: **380**

**RECURRING THEMES AND TENSIONS IN EMPIRICAL STUDIES
KEY FIELD NO. 4 (PARTS 1 AND 2)**

<i>Summary Table D1: Benefits and Effects from the National Shareholder Protection Regime and Board Factors I and II</i>	381
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APPENDIX D2: **392**

**RECURRING THEMES AND TENSIONS IN EMPIRICAL STUDIES
KEY FIELD NO. 4 (PART 3)**

<i>Summary Table D2: Benefits and Effects from the Board and Audit Committee Factors and Earnings Manipulation</i>	393
------------------------------------------------------------------------------------------------------------------------	-----

APPENDIX E: **400**

**ADDITIONAL REFERENCES FOR EMPIRICAL STUDIES KEY
FIELD NO. 4 (PART 4)**

E1: Additional References on Director, CEO and Management Compensation	400
E2: References on the Practice of “Backdating” Options	401
E3: Recurring Themes And Tensions In Empirical Studies Key Field No. 4 (Part 4)	403
<i>Summary Table E3: Firm-Specific ‘Good’ Governance Variables and Director, CEO and Management Compensation</i>	403

BIBLIOGRAPHIES

SECTION AND TITLE	PAGE
BIBLIOGRAPHY F1:	410
KEY FIELD NO. 1 – THE APPLICATION OF THE PRINCIPAL THEORIES OF THE FIRM TO THE RELATIONAL APPROACH	
BIBLIOGRAPHY F2:	420
KEY FIELD NO. 2 - AUTOPSIES OF THE ENRON AND HASTIE CORPORATE COLLAPSES	
BIBLIOGRAPHY F3:	433
KEY FIELD NO. 3 – COMPARATIVE CORPORATE GOVERNANCE CODES	
BIBLIOGRAPHY F4:	442
KEY FIELD NO. 4 – EMPIRICAL STUDIES ON THE EFFECTIVENESS OF GOVERNANCE VARIABLES	