## CORPORATE GOVERNANCE AT THE CROSSROADS A Book of Readings

**EDITED BY** 

Donald H. Chew, Jr. and Stuart L. Gillan

## McGraw-Hill I Irwin

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogota Caracas Kuala Lumpur Lisbon London Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto

## TABLE OF CONTENTS

FO	KEWORDX
	by Charles M. Elson
IN	TRODUCTIONxii
_	APTER 1: CORPORATE GOVERNANCE PERSPECTIVES
	CTION 1.1 AN OVERVIEW OF CORPORATE GOVERNANCE
1.	VALUE MAXIMIZATION, STAKEHOLDER THEORY, AND THE CORPORATE OBJECTIVE
	FUNCTION
2	
2.	THE MODERN INDUSTRIAL REVOLUTION, EXIT, AND THE FAILURE OF INTERNAL CONTROL SYSTEMS
	by Michael C. Jensen
3	IS AMERICAN CORPORATE GOVERNANCE FATALLY FLAWED?
٥.	by Menon H. Miller
4.	THE POLITICAL ROOTS OF AMERICAN CORPORATE FINANCE
••	by Mark J. Roe
5.	INTERNATIONAL CORPORATE DIFFERENCES: MARKETS OR LAW?
	by Frank H. Easterbrook
6.	THE STATE OF U.S. CORPORATE GOVERNANCE: WHAT'S RIGHT AND WHAT'S WRONG? $\dots$ 71 by Bengt Holmstrom and Steven N. Kaplan
SE	CTION 1.2 ETHICS AND INCENTIVES
7.	THE NATURE OF MAN
	by Michael C. Jensen and William H. Meckling
	CORPORATE GOVERNANCE, ETHICS, AND ORGANIZATIONAL ARCHITECTURE
9.	INCENTIVES, RATIONALITY, AND SOCIETY
	by Michael J. Brennan
10.	SELF-INTEREST, ALTRUISM, INCENTIVES, AND AGENCY THEORY
11.	BAYLOR UNIVERSITY ROUNDTABLE ON INTEGRITY IN FINANCIAL REPORTING
CH	IAPTER 2: INTERNAL GOVERNANCE
SE	CTION 2.1 BOARDS OF DIRECTORS
12.	THE DIRECTOR'S NEW CLOTHES (OR, THE MYTH OF CORPORATE ACCOUNTABILITY)15. by Robert Monks and Nell Minoiu

13.	CONTINENTAL BANK ROUNDTABLE ON THE ROLE OF CORPORATE BOARDS IN THE 1990s  Panelists: James Birle, Wade Cable, Michael Jensen, Roger Lee, John Roach, William Roper, Fred Simmons, Bennett Stewart, and John Teets.	158
14.	THE ACTIVE BOARD OF DIRECTORS AND ITS EFFECT ON THE PERFORMANCE OF THE LARGE PUBLICLY TRADED CORPORATION	177
	by Paul W. MacAvoy and Ira M. Millstein	
	CTION 2.2 COMPENSATION	
15.	CEO INCENTIVES—IT'S NOT HOW MUCH YOU PAY, BUT HOW	192
16.	THE CASE FOR EXPENSING STOCK OPTIONS AGAINST EARNINGSby Merton H. Miller and GraefS. Crystal	206
17.	HAS PAY FOR PERFORMANCE GONE AWRY? VIEWS FROM A CORPORATE GOVERNANCE FORUM	209
18.	GOLF TOURNAMENTS AND CEO PAY—UNRAVELING THE MYSTERIES OF EXECUTIVE COMPENSATION	219
19.	OPTION-BASED COMPENSATION: PANACEA OR PANDORA'S BOX?	232
20	TWELVE WAYS TO STRENGTHEN YOUR INCENTIVE PLAN	246
20.	by David Glassman	240
21.	EVIDENCE ON EVA.	257
	by Gary C. Biddle, Robert M. Bowen, and James S. Wallace	
22.	SIX CHALLENGES IN DESIGNING EQUITY-BASED PAY	268
SE	CTION 2.3 INCENTIVES AND ORGANIZATIONAL STRUCTURE	
	THE CEO: A VISIBLE HAND IN WEALTH CREATION?	283
	by C.K. Prahalad and Yves Doz	
24.	DECENTRALIZATION, INCENTIVES, AND VALUE CREATION: THE CASE OF JLG INDUSTRIES . by Heidi E. Treml and Kenneth Lehn	298
25.	ADDING VALUE FOR SHAREHOLDERS IN SOUTH AFRICA: AN ANALYSIS OF THE REMBRANDT RESTRUCTURING	309
	by Brian Kantor	
26.	LEVERAGED RECAPS AND THE CURBING OF CORPORATE OVERINVESTMENT	318
27.	PERFORMANCE, LEVERAGE, AND OWNERSHIP STRUCTURE IN REVERSE LBOs	330
	IAPTER 3: EXTERNAL GOVERNANCE	
	CTION 3.1 OWNERSHIP AND CONTROL	
	THE GROWTH OF INSTITUTIONAL STOCK OWNERSHIP: A PROMISE UNFULFILLED by Franklin R. Edwards and R. Glenn Hubbard	
29.	CORPORATE OWNERSHIP AND CONTROL IN THE U.K., GERMANY, AND FRANCEby Julian Franks and Colin Mayer	360
30.	LARGE BANK STOCKHOLDERS IN GERMANY: SAVIORS OR SUBSTITUTES?by William]. Carney	376

## SECTION 3.2 MARKETS 31. TAKEOVERS, MANAGEMENT REPLACEMENT, AND POST-ACQUISITION OPERATING PERFORMANCE: SOME EVIDENCE FROM THE 1980s. 385 by James D. Parrino and Robert S. Harris 32. THE CORPORATE RESTRUCTURING OF THE 1980s—AND ITS IMPORT FOR THE 1990s...... 395 by Gordon Donaldson 33. RECENT DEVELOPMENTS IN GERMAN CAPITAL MARKETS AND CORPORATE GOVERNANCE 410 by Eric Nowak by Asher Blass, Yishay Yafeh, and Oved Yosha SECTION 3.3 FINANCIAL REPORTING by Christine A. Botosan by Baruch Lev 37. GOODWILL ACCOUNTING: EVERYTHING HAS CHANGED AND NOTHING HAS CHANGED .......462 by Martin Ellis by G. Bennett Stewart III by George J. Benston 40. JUST SAY NO TO WALL STREET: PUTTING A STOP TO THE EARNINGS GAME.......506 by Joseph Fuller and Michael C. Jensen