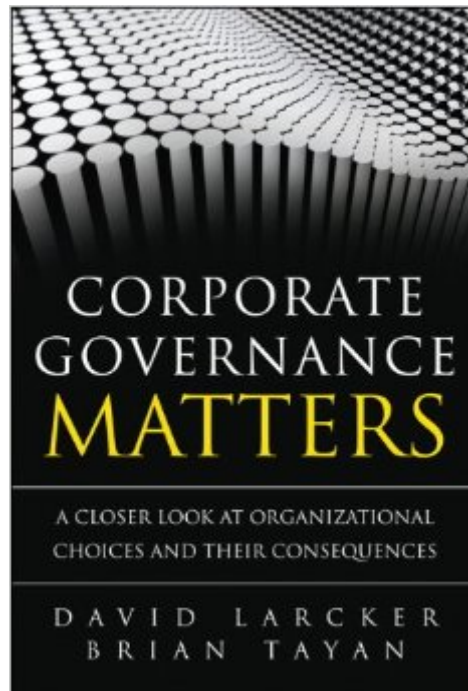


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# Corporate Governance Matters: A Closer Look At Organizational Choices And Their Consequences



## Synopsis

Corporate Governance Matters gives corporate board members, officers, directors, and other stakeholders the full spectrum of knowledge they need to implement and sustain superior governance. Authored by two leading experts, this comprehensive reference thoroughly addresses every component of governance. The authors carefully synthesize current academic and professional research, summarizing what is known, what is unknown, and where the evidence remains inconclusive. Along the way, they illuminate many key topics overlooked in previous books on the subject. Coverage includes: International corporate governance. Compensation, equity ownership, incentives, and the labor market for CEOs. Optimal board structure, tradeoffs, and consequences. Governance, organizational strategy, business models, and risk management. Succession planning. Financial reporting and external audit. The market for corporate control. Roles of institutional and activist shareholders. Governance ratings. The authors offer models and frameworks demonstrating how the components of governance fit together, with concrete examples illustrating key points. Throughout, their balanced approach is focused strictly on two goals: to get the story straight, and to provide useful tools for making better, more informed decisions.

## Book Information

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## Customer Reviews

The authors work at the Stanford University's Graduate School of Business. David Larcker is James Irvin Miller Professor of Accounting. Brian Tayan is a member of the Corporate Governance Research Program. Some governance books are written from a legal perspective. Some books

about boards are written from personal observations. Some publications are "Best Practice" guides. This book is different. It is a dispassionate review of evidence based research in the field of corporate governance. It is designed for practitioners who are serious about understanding the complexity they must confront. It is a book for Board members and students of governance to have at the ready. When the appropriate topic presents itself to the reader, this book will provide a thorough overview and present relevant studies to the topic at hand. In addition to the physical book, there are web based resources to keep the material fresh. The good news about this book is that it is wise and comprehensive. There is no "one best way." There is a presentation of different and sometimes conflicting research. Readers must be comfortable enough with themselves to draw their own conclusions from the evidence. For example, the chapter on executive compensation covers internal inequity of CEO pay, the role of compensation consultants in creating high levels of CEO compensation, short term incentives, long term incentives, pay for performance, deferred payouts, performance-based stock options, etc. The authors manage to deal with these topics in almost a conversational tone and never get into preaching. They are informed guides and will show how reputable studies might contradict each other and why.

This review was originally published by me at Forbes.com on September 13, 2011. Corporate governance matters. That's the thesis of a new book of the same name by Professor David Larcker and his co-author Brian Tayan, *Corporate Governance Matters: A Closer Look At Organizational Choices and Their Consequences*. Larcker directs the Corporate Governance Research Program at Stanford University where he holds the James Irvin Miller Professorship. Tayan is a member of the Corporate Governance Research Program and holds an MBA from Stanford. The authors try to avoid ideology or an agenda. Rather, they review the key topics and debates in the corporate governance discussion amongst practitioners, not just lawyers. The book provides statistical and research evidence where possible to support, and sometimes refute, commonly held beliefs and "best practices." I have been writing more about corporate governance practices beyond the audit committee's role and responsibilities and its management of internal and external audit resources. There's been a lot to talk about. Companies like Berkshire Hathaway, models of corporate governance in some eyes because of their frugal and stock ownership-centric pay practices, stumbled recently. Chairman and CEO Warren Buffett and his board weren't monitoring heir-apparent David Sokol's personal investing closely enough and stumbled again when their Audit Committee investigated that case. HP, Yahoo, and Apple have hiccupped handling issues at the CEO level, resulting in negative press and even doubts about the companies' futures. The major banks

and financial institutions in the U.S. and the U.K.

The authors make a good case that corporate governance "suffers from considerable rhetoric." Using available empirical evidence, they spend a considerable portion of the book debunking what are currently considered "best practices." Fortunately, it doesn't read like a diatribe, but rather a grounded framework that should be a valuable resource to anyone interested in this important subject. After introductory chapters placing corporate governance in context, they devote substantial attention to the board: their duties and liabilities, selection, compensation, removal, structure. They also take a good hard look at CEOs: the labor market for CEOs, succession planning, compensation, and equity ownership. Other chapters cover organizational strategy, financial reporting and audits, market for control, investors, and ratings. In 1994 the Council of Institutional Investors (CII) released *Does Ownership Add Value?: A Collection of 100 Empirical Studies on the Effectiveness of Ownership Structures and Initiatives*. Studies cited in that slim volume mostly supported shareholder activism or were inconclusive, while those cited by Larcker and Tayan lean even more to the inconclusive side. Perhaps the low hanging fruit reforms have mostly been implemented and those that some of us believe hold great promise, like proxy access, remain mostly untested. One nice feature of the CII book that I would recommend to Larcker and Tayan for future editions was an appendix with a one line summary of each study grouped by topics, including a table indicating if the researchers found support for value added, subtracted or if the findings with respect to a practice were unclear.

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