Financ Mark Portf Manag (2012) 26:403–404
DOI 10.1007/s11408-012-0193-2

BOOK REVIEW

David Larcker and Brian Tayan: Corporate governance matters—a closer look at organizational choices and their consequences

Pearson Prentice Hall, 2011, 480 pages, approx. 65 USD

Tanja Artiga González

Published online: 6 July 2012

The last several years have witnessed the publication of a great many newspaper articles about the organizational failures of firms, ranging from corporate fraud and accounting scandals to excessive compensation. Many of the issues discussed in these articles, such as boards of directors, top executives, and compensation structures, are covered in *Corporate Governance Matters*. The authors succeed in writing a book that provides theoretical background for central corporate governance issues combined with up-to-date research and numerous real-world examples that illustrate key points of the text. In 14 chapters, Larcker and Tayan give a broad overview of governance characteristics, organizational choices, and their consequences. Various figures and tables illustrate the statistics presented. Each chapter ends with an extensive reference list that enables the reader to deepen his or her understanding and take a closer look at the studies presented. Chapter 1 contains a comprehensive introduction to the book's topic. The authors define corporate governance and explain how corporate governance mechanisms can affect shareholders. They highlight the importance of control mechanisms and how they can be used to diminish agency costs. The first chapter closes with a section on how to interpret empirical research results. In Chapter 2, the authors focus on international governance, stressing that a company's governance system strongly depends on the economic, legal, and cultural environment. They start by explaining which factors generally shape a firm's governance system. To illustrate the differences in national governance structures, the authors outline the actual economic, legal, and cultural realities in the United States, the United Kingdom, Germany, Japan, South Korea, China, India, Brazil, and Russia.

T. Artiga González (✉)
Swiss Institute of Banking and Finance, University of St. Gallen, Rosenbergstrasse 52, 9000 St. Gallen, Switzerland
e-mail: tanja.artigagonzalez@unisg.ch

Chapters 3 to 5 focus on one of the main entities in corporate governance: the board of directors. Larcker and Tayan start by discussing the directors' responsibilities, liabilities, and some key features, for example, the board's independence and the board's committee structure. The reader is introduced to the processes of selecting and removing directors from the board. The market for directors and different recruitment processes are described, as well is the compensation structure of directors. Chapter 5 finishes this section of the book by examining the question of which board characteristics influence the board's effectiveness. Several board attributes, some of which have been the focus of recent political discussions, for example, outside independent directors or female directors, are presented.

Each of Chapters 6 to 13 focuses on one corporate governance characteristic. Chapter 6 focuses on corporate strategy, the oversight of which is one of the board of directors' most important duties. The authors review how the strategy affects shareholder value, and discuss performance measures and risk management. The labor market for executives is presented in Chapter 7. In this chapter, the authors focus on the CEO. They analyze how the CEO succession process works, which factors contribute to CEO turnover, and how CEO talent should be evaluated and priced. In Chapters 8 and 9, Larcker and Tayan examine executive compensation and incentives and executives' equity ownership. They discuss the often-debated issue of whether executives who hold equity in the companies they manage have more incentive to improve the firm's economic value in the long run. Chapter 10 deals with the process of internal and external auditing and how this is connected to the board's responsibility for the financial statement. In Chapter 11, the authors concern themselves with the market for corporate control and summarize some of the basic results of the research on acquisitions, corporate governance, and antitakeover protection. Chapter 12 highlights the role of different institutional investors, their objectives, and their influence on corporate governance mechanisms. Different governance ratings are introduced and evaluated in Chapter 13. The authors examine commercial governance ratings from RiskMetrics/ISS, GovernanceMetrics International, and The Corporate Library, as well as governance ratings developed by academic researchers. Finally, in Chapter 14 Larcker and Tayan summarize and conclude.

Corporate Governance Matters can be used as a textbook, seeing as it starts with the basic concepts of the topic and subsequently discusses different governance features. Readers familiar with the topic can read and understand the chapters as stand-alone pieces. In each chapter, gray sidebars present anecdotal evidence and important facts or definitions. These sidebars might prove useful to readers browsing through the book. The authors managed to write an easy-to-read book that is well-suited for practitioners, as well as for students interested in corporate governance. As a junior researcher in the field of corporate governance, I especially enjoyed the numerous references to academic and nonacademic studies as well as the real-life examples. Summing up, *Corporate Governance Matters* is a well-structured overview of corporate governance that addresses all the main issues and includes findings from state-of-the-art research.