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ABSTRACT

The use of stock options as executive compensation, after having developed in the United States in the 1980s and 1990s, has spread to continental Europe in the past fifteen years. The increasing weight of stock options in this region of the world raises various issues and feeds a vast literature dealing with the relationship between corporate managers' pay and performance. A good chunk of that literature is based on agency theory. In this line of thought a principal (the shareholder) delegates the management of the firm to an agent (the manager) and simultaneously sets up a series of control devices to make sure that the agent will act in his (the shareholder's) interest (Jensen and Meckling, 1976). Agency theory does not limit itself with identifying potential conflicts of interests between managers and shareholders: it also explores the various means through which the firm's owners try to make sure that managers seek to maximize their (the owners') objectives. Optimal contracting theory precisely aims at identifying such means. According to that theory, the firm's compensation policies should contribute to align the managers' interests on those of the shareholders – to make sure, in other words, that the agent behaves in the interest of the principal (Murphy, 1999).

Such a view, applied to executive compensation plans, has been recently exposed to a strong scepticism. The optimal contracting theory has a weak empirical basis, especially when applied to stock options – whose adoption does not seem to lead to a significant improvement of firms' corporate governance. Several authors have underlined the importance of "pay without performance" (Murphy, 1999). Most empirical studies cannot find a positive relationship between the adoption of stock option plans and a significant improvement in firms' performance.

Several explanations have been proposed to explain that puzzle (such as, for instance, Bebchuk & Fried, 2004), all linked to rent extraction theory. According such theory, managers extract a rent from their position: concretely, they increase their capacity to change their own remuneration. In this scheme, stock-options, by nature, cannot succeed in aligning the agent's interests on the principal's; on the contrary, they strengthen or create new agency problems.

This discussion can be linked to the theme of stock-options accounting and disclosure, which has been recently transformed by the adoption of international accounting standards in most developed economies. Indeed, according to the IFRS 2, stock-options are to be accounted for as labour costs, implying an increase of net liabilities within a specific reserve, with a value equal to the fair value of the options. This accounting method breaks significantly with the past, when disclosure of stock-options plans were left to the discretion of firms. Such a change in disclosure rules might have an impact on the corporate governance of European firms. Indeed, according to a growing literature (see Verrecchia, 2001, for an exhaustive review), disclosure (which can be defined as the publication of previously private relevant information) mediates the relation between a firm's

owners and managers. When disclosure is failing, corporate governance worsens, in that managers are able to hide the decisions which damage or threaten owners' interests.

In fact, in the current context, characterized by national and international regulatory reforms in favour of a more stringent disclosure, the academic discussion has shifted its focus from the causes to the consequences of disclosure, especially related to corporate governance (see Bushman & Smith, 2001). Turning the previous reasoning on its head, one can argue that, in presence of information asymmetries and agency conflicts between owners and managers, disclosure acquires a strategic value (Healy & Palepu, 2001). In particular, a better disclosure could help reduce contractual problems linked to agency relations (Lo, 2003), through, for instance, corporate reputation. In the (international) context of the adoption of more stringent norms on stock option disclosure (that is their recognition, meaning, as seen above, accounting stock-options as costs in a firm's financial statement), both discussions are relevant. The new disclosure of stock-options could help reduce the risks of rent extraction tied to that form of compensation and bring them closer to their role as incentives assumed in the optimal contracting theory.

The aim of the present work is to understand whether the aforementioned change in stock option accounting regulation has had an impact, and what impact, on the corporate governance of European firms, in the light of the twin literatures cited above. The sample considered here includes all listed Italian and French firms, excluding financial institutions, which have carried out stock option plans in 2005 and 2006, and therefore underwent the change in accounting regulation mentioned above. The analysis relies on qualitative and quantitative data, and focuses on a few key indicators.

The findings of the present research suggest that the impact of new accounting rules and more stringent disclosure on listed French and Italian firms is not significant. The firms under study have not shown any substantial change in their management or governance structure, which appear to be still largely driven by the peculiar power distribution proper to each country. Besides, such firms have not received any market premium for introducing executive compensation schemes that theoretically provide incentives for top management to maximize owners' interests. In any event, those plans remain a minority among listed firms.

One could argue, therefore, that in Italy and France, like other countries in the world and the United States in particular, stock options plans have become another instrument used by executive managers to obtain higher remuneration with no link to the true performance of the firm and the interests of its owners. Such a logic is much closer to the rent extraction theory mentioned above (see, for the US, Dechow, Sutton, Sloan, 1996).

Introduction

The use of executive stock-option plans (henceforth ESOPs) has led to intense academic and non-academic discussions about their real capacity to improve corporate performance and governance. At the time those remuneration instruments were introduced, they appeared like a sound way of align managers' interests on those of shareholders. Over time, however, and with a more ample diffusion of stock-options, the value of the latter has been questioned and they have been increasingly perceived as yet other ways to top up executive pay [1]. In particular, their widespread use in the "new economy" has been criticized, and especially the lack of adequate disclosure in corporate financial statements: specifically the missing disclosure of stock options' true costs in financial statements.

New accounting rules have been recently devised at the international level to precisely address those issues. In particular, IFRS 2 requires that stock-options be accounted for at fair value in companies' financial statements. That rule, together with other IASB principles, were adopted by member countries of the European Union in 2005, and began to be implemented in 2005 for consolidated financial statements, and in 2006 for ordinary financial statements.

The aim of the present work is to assess whether those new rules regarding the accounting of stock-options have had a positive impact on listed firms' corporate governance, bringing back those remunerations instruments in line with their original objective.

As will be clear in the following sections, that has not happened. On the contrary, top executives, shareholders and investors themselves have been unfettered by the more stringent disclosure rules. Firms have not shown any substantial changements in their management policies, and corporate governance has not markedly improved – both in Italy and France, firms continue to be controlled and governed by small interlinked power groups. Besides, the new rules have not led to increased trust from the market, and there has been no market premium for those firms who, with the adoption of new stock-option plans, have shown, at least in theory, their willingness to introduce a pay-for-performance system for top management (as, on the contrary happened for USA companies, see Abbody, Barth Kasznik, 2004). In any case, those still represent a minority.

The logic that prevails, therefore, still refers to *rent extraction theory*, since ESOPS exert little influence on firms' economic and market performance, while resulting mostly from internal corporate lobbying.

[1] For instance, in 2002 Larry Ellison, CEO of Oracle, became the highest-paid executive in the United States with a basis salary of $0, tank to the $706 million earned through the exercise of his stock-options.

1 – Accounting for stock-options in firms' financial statements

Since the introduction of IAS/IFRS principles in 2005, listed firms at the Borsa Italiana and at the Euronext Paris having issued stock options are subject to the rules container in IFRS 2 – Stock-based payments.

Italy

Prior to the adoption of the new rule, however, Italian listed companies had to comply to minimal disclosure obligations related to stock-based remuneration. In 2000, the Italian stock market regulatory authority, the Consob, had formulated several recommendations regarding information to be disclosed at the shareholders' meetings and in financial statements[2]. Specifically, the Consob recommended that the information provided by directors at the shareholders meeting include:

- The laying out of the rationale behind the adoption of a stock option plan
- The beneficiaries of the plan;
- The modalities and conditions of the plan;
- The responsibilities of executive management for the adoption of the plan;
- The characteristics of the issued stock;
- The plan's bylaws, if available.

Information about stock-based remuneration plan presented in firms' financial statements had to contain instead:

- The description of plans adopted or in process of being adopted in the exercise;
- The rationale behind their adoption;
- The main characteristics of every plan;
- The operations to be conducted for subscription or acquisition of stock.

Those recommendations were generic and offered a very limited disclosure, whereby the information disclosed was often unfrequent and of little use.

France

Before the adoption of IAS/IFRS principles, there wasn't any specific rule about the valuation and inscription of ESOPs in the financial and consolidated statements of quoted French companies.

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[2] See Comunicazione Consob from February 15th, 2000, n. 11508, "Raccomandazioni in merito alle informazioni riguardanti i piani di *stock options*"

But, as for Italy, there were a requirement of information, addressed to three different subject for three different aims.

- Information for the Public Administration, mainly to obtain the fiscal advantages related to this kind of operations, for the issuing companies and for the beneficiaries;
- Information for shareholders, presented in a different document separated from the management report of the CEO. It had to contain:
  - The number and the price of options;
  - The beneficiaries of the plan;
  - The number of stocks bought or subscribed
- Information for financial statement readers: in the notes to the statements had be presented until the last period in which the SO could be exercised,
  - The number of potential stocks;
  - The effect of potential dilution on EPS;
  - The options that can be exercised in the period;
  - The number of options that can be exercised at the moment.

With IFRS 2, information obligations are certainly more stringent, with the shift from a simple disclosure to a true "recognition". Indeed, the principle states that the issue of new stock options will be accounted for by an increase in personnel costs in front of a rise of net equity in a specific reserve. In addition, options will be accounted for at fair value. That last rule may be understood by the little reliability of calculating the fair value of services produced by employees and, therefore, as laid out in the accounting principle, it is necessary to use the fair value of stock options.

That accounting mode, which is still today widely discussed, can be seen as the main innovation of IASB principles compared to previous accounting standards such as the United States SFAS 123, which has been modified following the publication of IFRS 2, incorporating the contents of international accounting rules[3].

To be noted, the IASB principle also foresees the inclusion, within the notes to the financial statements, of a series of detailed information that should be provided so as to make the user (of the financial statement) to understand:

- The nature and the extent of stock-based pay contracts in existence during fiscal year;

[3] In the previous version, firms had the ability to choose between the use of fair value and that of "implicit value", equal to the difference between the value of stock at grant date and the exercise price. It gave firms the possibility to continue to follow the recommendations contained in APB 25 of 1972. It is important to note that such choice was introduced following stark reactions from both the business and the political world. See DECHOW-HUTTON-SLOAN, 1995.

- The modalities of determining the fair value of goods and services received and the representing instrument
- The impact of stock-based pay operations on the economic results and equity of the firm.

For each of these types of information, the rule sets a list of data to be provided for more detailed analysis.

In the light of what has just been said, it is clear that for both French and Italian firms, the disclosure of stock options in information documents is doubtlessly more ample and stringent. In addition, with the inscription of costs in the economic accounts, the issuance of such instruments for the first time has also an economic and financial impact on the firm's results.

It is now necessary to understand the effects of those new rules on firms' corporate governance; in order to so, it is useful to go through the theoretical discussions on the relationship between stock options and corporate governance.

2. 2 – *STOCK-OPTIONS*, *GOVERNANCE* and *DISCLOSURE*

The increasing use of stock options as executive compensation in continental Europe raises various issues and feeds a vast literature dealing with the relationship between corporate managers' pay and performance. A good chunk of that literature is based on agency theory. In this line of thought a principal (the shareholder) delegates the management of the firm to an agent (the manager) and simultaneously sets up a series of control devices to make sure that the agent will act in his (the shareholder's) interest (Jensen and Meckling, 1976). It is well known, indeed, that when ownership and control are distinct (a phenomenon first observed in the United States by Berle and Means, 1932), divergences between principal and agent's interests may appear. In particular, as Berle and Means have written, "the group that controls the firm may better serve its own interests taking advantage from the firm rather than making profits for the firm" (Berle and Means, 1932). There are various reasons which could explain why managers could take decisions that run contrary to the shareholders – reasons that have been explored by the "managerial theory of the firm" for some time: empire building (see Williamson, 1964 and Jensen, 1974); the unwillingness of manages to re-distribute cash when the firm does not have investment opportunities (Jensen, 1986); managers' entrenchment (REF?).

Agency theory does not limit itself with identifying potential conflicts of interests between managers and shareholders: it also explores the various means through which the firm's owners try to make sure that managers seek to maximize their (the owners') objectives. Optimal contracting theory precisely aims at identifying such means. According to that theory, the firm's compensation policies should contribute to align the managers' interests on those of the shareholders – to make sure, in other words, that the agent behaves in the interest of the principal (Murphy, 1999).

Such a view, applied to executive compensation plans, has been recently exposed to a strong scepticism. The optimal contracting theory has a weak empirical basis, especially when applied to stock options – whose adoption does not seem to lead to a significant improvement of firms' corporate governance. Several authors have underlined the importance of "pay without performance" (Murphy, 1999; Bebchuk & Fried, 2004). Most empirical studies cannot find a positive relationship between the adoption of stock option plans and a significant improvement in firms' performance. The few studies which find a positive correlation between the two have been criticized for failing to distinguish firms' financial performance from windfall effects (an increase in the price of stocks due to industry or market effects). In addition, as Habib and Ljunqvist (2000), most of executive compensation plans include at-the-money options rather than out-of-the-money options, which tend to have a major impact on firms' performance. Finally, in many cases managers who benefit from those plans are free to exert their own options (Core & Larcker, 2002). To sum up, the optimal contracting theory has not been confirmed empirically.

Several explanations have been proposed to explain that puzzle (such as, for instance, Bebchuk & Fried, 2004), all linked to *rent extraction theory*. According such theory, managers extract a rent from their position: concretely, they increase their capacity to change their own remuneration. In this scheme, stock-options, by nature, cannot succeed in aligning the agent's interests on the principal's; on the contrary, they strengthen or create new agency problems.

This discussion can be linked to the theme of stock-options accounting and disclosure. There is now a large literature on the relationship between disclosure and corporate governance (see Verrecchia, 2001, for an exhaustive review). In such a view, disclosure (which can be defined as the publication of previously private relevant information[4]) mediates the relation between a firm's owners and managers. When disclosure is failing, corporate governance worsens, in that managers are able to hide the decisions which damage or threaten owners' interests. Information asymmetries are central in voluntary disclosure: managers holding more information on the firm (than shareholders) may reveal or hide such information (according to Verrecchia, 2001 and Jovanovic, 1982, part of the information is made public, part remains hidden). Such a choice is influenced by various factors: the dimension of the firm, the importance of reported profits, and so on (see Lang & Lundholm, 1993). The quality of regulation also influences disclosure, as Clarkson et al. (2006) in the Australian case. The same authors argue that it is unlikely that voluntary disclosure produces

[4] Here disclosure is conceived lato sensu, not, that is, in reference to the normative distinction between disclosure and recognition, which will be addressed subsequently.

quality information ("good quality disclosure"), which can be guaranteed only by external constraints, that is regulation.

In fact, in the current context, characterized by national and international regulatory reforms in favour of a more stringent disclosure, the academic discussion has shifted its focus from the causes to the consequences of disclosure, especially related to corporate governance (see Bushman & Smith, 2001). Turning the previous reasoning on its head, one can argue that, in presence of information asymmetries and agency conflicts between owners and managers, disclosure acquires a strategic value (Healy & Palepu, 2001). In particular, a better disclosure could help reduce contractual problems linked to agency relations (Lo, 2003), through, for instance, corporate reputation. In the (international) context of the adoption of more stringent norms on stock option disclosure (that is their recognition, meaning, as seen above, accounting stock-options as costs in a firm's financial statement), both discussions are relevant. The hypotheses formulated on the impact of disclosure could help address the current scepticism bearing on the positive role of stock-options in firms' corporate governance. In other words, the new disclosure of stock-options could help reduce the risks of rent extraction tied to that form of compensation and bring them closer to their role as incentives assumed in the optimal contracting theory.

A few empirical studies have explored the potential cross-fertilization between those two theoretical strands. In the Italian context, one can mention the work of Melis & Carta (2007), which, however, focuses on the nature of stock-option plans, not on the real effects of those plans (an their disclosure) on firms' governance, aim of the present work.

3 – Hypotheses of the research

Hypothesis 1: The adoption of the accounting rule IFRS 2 makes the informational constraint faced by listed firms more stringent and results in a better alignment of top managers' interests on those of the shareholders, which can be measured through an improvement in the stock performance of companies having adopted ESOPs in the period following the adoption of the new disclosure rules.

Hypothesis 2: A more stringent disclosure on stock options enables shareholders to exert a more stringent control on top managers' remuneration, and therefore a tighter control on earnings management by executives.

4 – Methodology and data

4.1 Samples

Italy

The sample considered includes all Italian listed firms, excluding financial institutions (banks and insurance firms), which from 2005 (for those writing a consolidated financial statement) or 2006 on (for those writing an unconsolidated financial statement) issued new ESOPs, and therefore accounted for those plans following the recommendations of IFRS 2.

It is relevant to note that a sizeable number of listed firms has not accounted for the cost using the faculty, offered by the same accounting principle, to avoid such accounting for stock option plans issued prior to November 7th, 2002, but still extant upon the date of the first implementation of IFRS 2. The analysis has also excluded those firms that did not accounted for stock options explicitly enough in their financial statements, or whose plans presented insignificant values with respect to the firm's activities (generally because targeted to one or two top managers or directors). Finally, the sample excludes three firms that used, for various reasons, such methodology prior to the mandatory implementation of IAS/IFRS principles. Table 1 refers to the construction of the sample:

	N.	%
Firms with SO plans prior to 7/11/2002	18	*19,00*
Firms with SO plan not explained or with insignificant values	14	*15,00*
Firms with fair value accounting prior to 2005	3	*3,00*
Number of firms in the sample	59	*63,00*
Total number of firms with SO plans in 2005 & 2006	94	*100,00*

France

The French sample has been built along similar lines, although it was based on the CAC40 index – which includes the 40 largest capitalizations on the Paris stock-market. Of those 40 firms, all of them offered ESOPs.

	N.	%
Number of firms in the sample	29	*63,00*
Total number of firms in CAC 40	40	*100,00*

4.2 Indicators and data

In line with the literature, the indicators chosen to verify the above hypotheses are of two types: market indicators on the one hand, and governance indicators on the other. Those indicators have been used in order to understand the causes and effects of the information innovation spearheaded by the implementation of IFRS 2. It is important to note that economic & financial indicators have been excluded from the present analysis. Indeed, previous empirical research has found that the economic/financial impact, in Italian firms' financial statements, of the cost accounting of stock-options, is not significant (see Quagli, 2006).

The first category of indicators consists of measures of firms performance on the stock market – namely, stock prices. We collected data on weekly stock prices two years before and two years after the approval of the financial statement containing the new accounting rules. Data come from the Thomson Financial database.

The second category of indicators measures the various effects that the new disclosure regime of stock options could have on firms' corporate governance. In particular, the following aspects have been investigated: (i) the reactions (if any) of shareholders to the new stock option plans following the adoption of new disclosure rules; (ii) changes given by the board of directors to the committees in charge of conceiving new ESOPs; (iii) the issuance of new ESOPs, or the renewal of those already in existence.

As far as the first measure is concerned, the minutes of shareholders meetings, if available, have been analyzed, with specific attention paid to votes and questions related to new or existent ESOPs, in the year after disclosure rules were changed. It is a qualitative indicator, that gets a 1 value if there have been critical interventions by shareholders, 0 if not. Data has been collected from the minutes disclosed by single firms on their website.

As far as the second governance indicator is concerned, possible changes in the board committees following the adoption of the new accounting rules allows u sto assess whether more disclosure leads to a tighter control of shareholders on ESOPs, following the intuition by Lo (2003) who argues that disclosure might work as an empowerment mechanism of owners with respect to managers. That indicator has been broken down in three micro-indicators: (i) the existence, or not, of a specific remuneration committee within the board of directors; (ii) the advent of changes in the composition of such committees after the adoption of the new accounting rules; and (iii) the increase of the number of independent directors within the membership of such committees. Data comes from annual reports (France), and, in the case of Italy, annual corporate governance reports filed with the *Borsa Italiana* (and available on its website).

Finally, the issuance of new stock options or the renewal of existing plans could reveal whether the executive management truly believes in the pay-for-performance rationale behind them, or whether it merely represents a way to increase their own remuneration. It is assumed that tighter disclosure rules would expose managers to stricter monitoring from shareholders, and therefore disincentivize the former to adopt new plans or renew existing ones. Data comes from firms' financial statements.

4.3 Limitations

The choice of the above mentioned indicators bears various limitations. First of all, as is well known to economists, it is hard to attribute variations in stock prices. Specifically, the impact on stock prices of a change in the independent variable (disclosure of stock options) cannot be distinguished from the more general impact of the disclosure of financial statement indicators and of all the information presented and discussed at shareholders' meetings.

Secondly, governance indicators might be influenced by a whole range of factors, beyond the new accounting rules on stock-options. Indeed, those rules have been adopted in the context of stronger push for more ample transparency and communication on firms' corporate governance. In Italy, several reforms prior or concomitant to the 2005 adoption of IAS/IFRS rules have introduced principles inspired from Anglophone corporate governance into the national legal framework: one can cite a 1998 reform of financial regulation[5]; a 2005 law on savings regulation[6]; a self-regulation code adopted in March 2006 by the Committee for Corporate Governance of Borsa Italiana, whose article 7 is entirely dedicated to executive pay. In particular, the latter recommends that pay must be sufficient to (i) "attract, keep and motivate" top managers most able to manage the firm and (ii) align their interests with those of the shareholders in a "medium-long term horizon". In the application criteria of those principles, the committee emphasizes the need to link managers' pay and performance, with reference to economic and specific objectives set by the Board of directors.

In addition, the Code specifies that the remuneration of executive directors and top managers should be decided by a remuneration committee, "composed of non-executive directors, the majority of whom should be independent", following the aforementioned 2005 law, which added to article 147 of the TUF the requirement that at least one director should be independent, in the firms where Boards of directors have more than 7 directors.

Data analysis is exclusively qualitative.

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[5] "Testo unico delle disposizioni in materia di intermediazione finanziaria", decree-law of February 24th, 1998, n. 58 (henceforth TUF).

[6] Law of December 28th, 2005, n.262, bearing "Disposizioni per la tutela del risparmio e la disciplina dei mercati finanziari".

5 – Research findings

5.1 Market indicators

Regarding the market reaction to more stringent disclosure rules, the analysis focused on variation of stock price after the introduction of IFRS 2. Table 2 & 3 present the results in terms of descriptive statistics.

Italy	N. of firms	%
Significant improvement	17	*29,00*
Significant worsening	31	*52,50*
No significant change	11	*18,50*
Sample	59	*100,00*

France	**N. of firms**	**%**
Significant improvement	*6*	*21,00*
Significant worsening	*5*	*17,00*
No significant change	*18*	*62,00*
Sample	*29*	*100,00*

The data shown above does not allow us to confirm Hypothesis 1. In fact, the new disclosure of ESOPs has led to an improvement of stock performance of surveyed firms only for 29% of the Italian sample and 21% of the French sample, while in other cases there has been either a negative change (52% of the Italian sample, 17% of the French one), or no change at all (18.5% of the Italian sample, 62% of the French one).

It appears clearly that markets have not in either case reacted positively to the increate transparency in firms' financial statements, which could explain an apparent lack of correlation between cost accounting of stock options and stock performance.

5.2 Governance indicators

As far as governance indicators are concerned, the adoption of new disclosure rules does not seem to have led to specific reactions from shareholders. Findings are synthesized in Tables 4 & 5, in relation to the three governance indicators, taken separately and jointly.

Italy	N.	%
Critical shareholders' intervention at annual meeting	14	*24,00*
Change in remuneration committee	12	*20,00*
Issue of new ESOPs, or renewal of existing ones	14	*24,00*
Shareholder's intervention **and** *change in committee*	5	*8,50*
Shareholder's intervention **and** *new ESOPs*	7	*12,00*
Sample	59	*100,00*

France	**N.**	**%**
Critical shareholders' intervention at annual meeting	7	*24,00*
Change in remuneration committee	8	*27,50*
Issue of new ESOPs, or renewal of existing ones	29	*100,00*
Shareholder's intervention **and** *change in committee*	2	*7,00*
Shareholder's intervention **and** *new ESOPs*	7	*24,00*
Sample	29	*100,00*

As the tables show, neither country registers a high number of critical shareholder's intervention at annual meeting – even though the number is not altogether insignificant – 25% of cases in Italy and 24% in France. However, it is useful to point out that, as a more detailed content analysis of those interventions shows, the criticisms do not arise from cost accounting of stock options, but rather from mere disclosure in notes.

A similar result can be found looking at changes in remuneration committees. In 20% of cases in the Italian sample, and 27,5% in the French sample, there has been a change in the composition and almost in the ¾ of these cases there has been an increased in the number of independent members in such committees; but that trend might be attributed not only to the newly adopted IASB rules, but to a broad range of factors associated with the adoption of the Anglophone corporate governance model in continental European countries (such as the regulatory reforms mentioned above).

In the light of the aforementioned findings, the data regarding the issue of new ESOPs and the renewal of existing ones raise interpretative problems. A significant number of sampled Italian firms (25%) and ***all*** the sampled French firms have indeed adopted new ESOPs in the two years following the adoption of IFRS 2. However, it is difficult to assess whether such new issues / renewals derive from an increased effectiveness in aligning managers' and shareholders' interests, consistent with the optimal contracting theory. It is unlikely to be the case, but a more definitive answer to that question might arise only from a more detailed inquiry.

Moreover, analyzing the various indicators jointly and not separately, it appears that there is a very low concomitance of positive answers on both of those accounts (such as the intervention of shareholders AND the issue of new ESOPs).

From what has been said above, it appears therefore that the introduction of new accounting rules and a tighter disclosure on listed French and Italian firms has not led to significant changes in terms of their corporate governance.

CONCLUSION

Our research does not confirm the two hypotheses presented and discussed above. One cannot, however, exclude that such hypotheses could be useful to conduct more detailed research on the relationship between remuneration policies, accounting rules and corporate governance. Moreover, the results presented here certainly reflect the specific characteristics of the French and Italian contexts. In other words, firms' corporate governance is strongly influenced, if not shaped, by institutional factors often associated with national frameworks. The United states context, characterized by dispersed ownership, public companies, a tradition of shareholder activism, an active market for corporate control, could offer a more favourable field to test the hypotheses discussed here, as other works hint, such as, for instance, the study of dividend policies in US and Japanese firms by Dewenter and Warther (1998).

Nevertheless, as pointed out in the previous section, the present research has shed light on the increased scrutiny faced by stock option plans, both in France and Italy, which could give support to a looser version of Hypothesis 1, whereby closer scrutiny on executive pay, fed by tighter disclosure rules could lead to a higher correlation between pay and performance, more consistent with the optimal contracting theory delineated above. In particular, the new accounting rules on stock options could increase executive directors and top managers' caution in resorting to such forms of remuneration, given the potential damage they could give to firms' reputation, which, as pointed out in the first section, constitutes a relevant part of firms' immaterial assets.

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