International Journal of Management Research

Volume 4, Number 1 & 2 December 2013

International Journal of Management Research (IJMR) is a peer reviewed biannual journal published jointly by Apeejay School of Management, New Delhi (India) and Philadelphia University, Philadelphia (USA). IJMR is published in June and December every year.

IJMR aims at providing an intellectual platform for high quality research encompassing all the sub-domains of Management. In the process, as a joint academic initiative, it would not only cause dissemination of knowledge across the world but also foster collaborative research. Poised to nurture creativity, innovation and forward-looking management practices it aspires to improve the quality of life of people across the globe.

Subscription Rate (Overseas)

Subscription Period	Institutional Subscription	Institutional Subscription with Shipping Charges	Individual Subscription	Individual Subscription with Shipping Charges
1 Year	$ 50	$ 55	$20	$ 25
2 Years	$ 90	$ 100	$ 35	$ 45
3 Years	$ 120	$ 135	$ 40	$ 55

Subscription Rate (Domestic)

Subscription Period	Institutional Subscription for India	Individual Subscription for India
1 Year	Rs. 800.00	Rs. 300.00
2 Years	Rs. 1500.00	Rs. 500.00
3 Years	Rs. 2000.00	Rs. 700.00

Editorial & Subscription Enquires: ijmr.asm@apeejay.edu

Disclaimer: The views expressed in the articles/reviews are those of the contributors and not necessarily of the Editorial Board or Apeejay Education Society/Philadelphia University. Articles/reviews are published in good faith and the contributors will be liable for any copyright infringements.

Published by the Director, Apeejay School of Management, Sector 8, Institutional Area, Dwarka, New Delhi –110077.

Contents

Contents

of Work Life on Employee Trust'. The authors have probed the effect of quality of work life on core dimensions of trust such as cognition-based trust and affect-based trust.

Sunita Mehla & S.K. Goyal have investigated seasonality in the stock returns and volatility in Indian stock market by using close monthly return data on three selected indices of Bombay Stock Exchange in their empirical research titled 'Monthly Effect in Stock Market Returns & Volatility: Evidence from Indian Stock Market'. The data has been analyzed using GARCH (1, 1) model on returns and conditional variance (volatility) by introducing intercept in the dummy variables. The study indicates that month of the year anomaly is absent in returns of all the three indices of BSE. Therefore, the weak form of efficiency shows its presence in the returns of Indian stock market and thus it cannot be out-performed by the investors.

Readers are invited to send their comments on the published research papers and contribute original empirical/theoretical/conceptual papers for the forthcoming issues of the journal.

–Editors

Corporate Governance Practices in the Fashion and Retail Industry in the United States

Nioka Wyatt, Natalie W. Nixon & D.K. Malhotra
School of Business Administration, Philadelphia University, Philadelphia
Email: wyattn@philau.edu, nixonn@philau.edu, MalhotraD@philau.edu

Abstract

Fashion firms offer a unique lens on corporate governance. In the past ten years, a number of high profile corporate scandals have occurred revealing poor corporate governance standards, and other lapses in business ethics, including greed, lying, breaches of trust, conflicts of interest, a lack of transparency, insider dealings and fraud by directors and others (Thomas, 2005). Since the Enron and WorldCom debacle led to the Sarbanes-Oxley Act (SOX) of 2002, and the financial failure on Wall Street in 2008 initiated the passing of the Dodd-Frank bill in 2010, companies have taken measures to improve corporate governance by creating transparency, audit committees, and board committees. The fashion industry is not exempt from such complications and noteworthy news around Ralph Lauren's executive compensation, Nike's code of conduct violations; Joseph Abboud's licensing nightmare and Yves Saint Laurent's legal coup over Christian Loubiton point to the specificity of legal snags for fashion firms. Executives who serve on the Board of Directors have a fiduciary responsibility to its internal and external stakeholders that invest in the company. In this paper, we use the data between the years 2003 to 2008, to examine recent trends in various aspects of corporate governance in the fashion and apparel industry. Specifically, we include board issues, audit committees, poison pills, and executive compensation as tools to evaluate the quality of corporate governance among fashion firms.

Keywords: Corporate Governance, Trends, Fashion and Retail Firms, DODD-FRANK, SOX

Introduction

The concept of running a corporation is that a governor should benefit all stakeholders and create value for them. Fashion firms must deal with a plethora of legal issues including intellectual property infringement, conduct violation and executive compensation. The unique characteristics of the fashion industry and its increasing complexity have meant that more directors serving on boards at fashion firms need to be knowledgeable about the law so that transparency, fairness of standards and awareness about intellectual property issues can be continuously maintained (Jimenez & Kolsun, 2010). Ideally, fashion firms should have directors serving on corporate conduct, compensation and audit committees in order to ensure transparency.

In fact, transparency is the greatest challenge in corporate governance of fashion firms and the one that is a theme in the issues we address in this paper. For example, the issue of executive compensation is different for a start-up company which is smaller in size and may have more limited resources, than a large, global fashion brand. Compensation is also treated differently for those fashion firms that are private versus those that are publicly held. Additionally, press reports have recently highlighted the total compensation of Ralph Lauren, the founder, chairman and chief executive officer of Polo Ralph Lauren Corp. In 2010, increases in his stock options were responsible for a 7% boost to his overall compensation to just over $29 million (Karr, 2011). While his base salary remained unchanged at $1.25 million, details of the compensation document highlight the fortuitousness of sound legal counsel for Ralph Lauren, given that his is an industry fraught with bad press about disparity in compensation between the executive ranks and the common worker. Such a high compensation could be called into question and thus transparency, which only comes from sound legal guidance and oversight committees, is essential (Heide, 2011; Traub, 2011).

There are three major characteristics unique to the fashion industry which makes the issues around corporate governance particularly interesting. These include its 1) global nature, 2) the legacy of a "mom-and-pop" family business culture in some firms, and 3) the challenges of scaling up (Heide, 2011; Traub, 2011). First, apparel fashion firms are part of a complex international value chain and supply chain, where public policies and laws spanning multiple countries must be adhered to in order for the execution of manufacturing, sourcing, branding and retail initiatives to succeed. Second, many fashion firms- both large and established ones as well as small and emerging ones- started as family run businesses, where documentation of procedures and allowances was not necessarily objective, formalized or consistently maintained. As a result, a lack of clarity exists in such cases, such that when an external legal advisor attempts to assist with a problem there is very little recourse. Additionally, the cost of setting up and managing all of the legal protocol is expensive for the smaller and less-financially endowed fashion firms. Third, there are issues around strategy and execution for fashion firms when they are ready to expand through scale and scope. For example, one of the most popular ways that fashion firms expand internationally is through licensing. Licensing must be carefully managed in order to avoid dilution of brand value and to vet laws around ownership of licenses to avoid loss of brand control in the manufacturing country.

In this paper we have surveyed a number of fashion and apparel firms to identify the most common types of oversight committees and develop models of boundaries that fashion firms use to establish transparency in corporate governance. This study examines the most recent developments in corporate governance in the fashion industry. In section II, we discuss previous studies on various aspects of corporate governance. We use previous studies to postulate the pillars of corporate governance in section IV. In section V, we discuss our data sources and an empirical analysis of the recent trends in corporate governance and section V summarizes and concludes our study.

Literature Review

Previous scandals in the fashion industry at Nike Inc., Gap Inc., Wal-Mart, and Levi's have prompted the industry to adopt models of corporate practices to sustain the organizational structure of the company. Studies on corporate governance have focused on board of directors, executive compensation, audit related issues, takeover defenses and corporate social responsibility. When the Sarbanes-Oxley Act (SOX) went into effect in 2002, it prompted corporations to standardize and update their procedures for documentation compliance. Although the SOX is a key focus for many organizations, private, public and nonprofit organizations are expanding their risk management efforts into areas such as holistic risk assessments, company-level governance programs and executive risk management training (Meiselman, 2007). While SOX was implemented because of Enron, WorldCom, Tyco and other financial scandals, the DODD-FRANK Act was enacted into legislation because of the financial meltdown in 2008. The fairly new Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law in July 2010 and is the latest doctrine supported by President Barack Obama. The purpose of the bill is to protect consumer's rights, highlight rules for executive compensation, and whistle blowing. As an extension of SOX, DODD-FRANK has resulted in changes to the regulatory framework, operations and supervision of the financial services industry. A few of these changes include the new Financial Stability Oversight Council, the new Consumer Financial Protection Bureau, and a new mechanism for seizing and liquidating large financial companies on the verge of failure. (Wilmarth, 2011).

Meiselman (2007) reported that one of the methods that senior management will implement is to identify formal training programs for internal audit committees. Meiselman (2007) also stated that the newly issued Committee of Sponsoring Organizations (COSO) Internal Control over Financial Reporting will conduct a comprehensive fraud risk assessment to identify the various ways that fraud and misconduct can occur. Initially, COSO was for small public companies, however, larger and non-profit organizations will adopt the principles of COSO by creating online self-study programs and integrated framework presentations at board meetings and formal classroom training.

When corporate fraud occurs, enforcement can come from multiple sources, including the Securities Exchange Commission (SEC), state and federal prosecutors, and class-action lawsuits by private plaintiffs. Several titles of SOX strengthen the SEC's ability to obtain meaningful remedies, expand its authorities and add new criminal sanctions to the SEC's enforcement arsenal including (Marden and Edwards, 2005):

- The Corporate Responsibility Act (Title MI)
- The Corporate and Criminal Fraud Accountability Act (Title VIII)
- The White-Collar Crime Penalty Enhancement Act of 2002 (Title IX)
- The Corporate Fraud Responsibility Act (Title III)

Nakano (2007) has posited trends in the ethical enigma of corporate governance. Arguments were actually put forward for the need to create an ethical organizational culture in America from the mid-1990s onwards. These arguments began when people started to realize that even though business ethics systems had been created at most major companies, these systems did not necessarily function effectively within those organizations.

Shortridge and Yu (2011) define control systems as a group of principles and processes that result in an environment which encourages executives, managers, and employees to focus on value creation for company owners and other stakeholders. The researchers find that high-quality corporate governance helps assure shareholders that executives make choices to maximize owners' interests when creating management control systems. The audit committee is responsible for providing oversight of the financial reporting process and internal controls, and managing the relationship with the external auditor. In a recent study by Zheng and Cullinan (2010), they found that the size and independence of audit committees is associated with positive outcomes, such as financial reporting quality.

The Shortridge-Yu study reports that the three main themes necessary for developing good corporate governance and management control systems include: (1) the independence of the board, (2) the attentiveness of the board and (3) the quality of the audit committee. Further, for management control systems to work efficiently, it's necessary for the board of directors to be actively involved in establishing the tone and culture of the organization through strong corporate governance practices.

On the other hand, Zhao (2006) notes that anti-takeover provisions such as classified boards, poison pills[1], and golden parachutes[2] insulate managers from external market control while reducing shareholders' chances of receiving valuable takeover offers and introducing more efficient management teams. An agency relationship exists between the two parties whenever one party (the principal) delegates decision making authority to another (the agent). Zhao also studied the agency theory which focuses on the effectiveness of the control mechanisms that align the interests of principals and agents.

One of the challenges of implementing corporate governance is moving from silo to holistic programs. Integrating sustainable governance structures begins with the support and leadership of upper management. The type of leadership should conform to what would make organizations more responsive to society's requirements (Shahin and Zairi, 2007). According to Wilson (2000), new rules of corporate conduct should include legitimacy, governance, ethics, equity, environment, employment and public/private sector relationships.

Due to the number of allegations against fashion companies accused of engaging in child labor and sweatshops, Wilson's rules could support not only corporate governance structures, but could also infuse a model for holistic corporate sustainability practices at fashion companies. Studies reveal that major retailers no longer own manufacturing facilities but contract with multiple suppliers, usually in less developed countries (LDCs), and often play them against each other to achieve the best price, highest quality, and quickest delivery (Lim and Phillips, 2007). As the supply chain is extended through multiple resources, selecting the appropriate leadership, authority structure, partnerships and codes of conduct are integral to corporate governance structures. Over the past few years, companies such as Nike have implemented activities of Corporate Social Responsibility (CSR) and Codes of Conduct that serve as guidelines for factories and employees to follow.

The first significant CSR critique of Nike's suppliers appeared in a 1992 *Harper's Monthly* article by Jeff Ballinger, the country Program Director for the Asian-American Free Labor Institute in Indonesia (Ballinger, 1992). Nike had to face labor activists accusing them of contributing to child labor. As a result, a series of code of conduct directives were developed to facilitate CSR and to highlight their fiduciary responsibility to stakeholders. Recognizing the need for public relations management, Nike distributed its initial Codes of Conduct Memorandum of Understanding in 1992 (Lim and Phillips, 2007).

Miles et al. (2006) argue that strategic conversations and collaboration with stakeholders are a fundamental mechanism for better shaping and integrating CSR in the companies' strategic intent. The researchers discussed a three stage module of postures[3] that could create consistency in outlining factors of change for managers and researchers in analyzing the current situation of firms and helping firms to further develop CSR. CSR is seen as a tool to protect reputational value. In the risk management posture, firms start to develop the first technologies to measure and control environmental and societal issues. While technology serves as a driver for CSR, audit programs, codes of conduct, measurement systems and CSR-specific policies are also key trends in corporate governance (Castello and Lozano, 2009).

Our research highlights recent trends in corporate governance practices in the fashion industry in the United States which includes a series of models and illustrations. We extend previous studies on corporate governance by analyzing the recent trends in various aspects of governance in the fashion and retail industry using available data between the years 2003 to 2008.

Empirical Analysis

Based on previous studies and Dodd-Frank, we can postulate that effective corporate governance is driven by the board of directors, audit committees, and takeover defenses. Figure 1 illustrates the four boundaries enclosing corporate governance. Out of the four drivers of corporate governance listed in Figure 1, previous studies on corporate governance consider the corporate board as the single most important variable that can distinguish good governance from bad governance. All other variables of corporate governance such as disclosure and transparency, financial reporting, takeover defenses, and executive compensation are to some extent dependent on the board of directors and the composition of the board.

In this paper, we evaluate trends in corporate governance on the basis of the data on the four walls (or boundaries) of governance collected by Institutional Shareholder Services (ISS). ISS collects data from SEC EDGAR filings (i.e. Proxy Statement, 10K, 8K, Guideline Press Releases and Company web sites). We have compiled data on the four broad drivers of corporate governance—board of directors, audit committee, takeover defenses, and executive and director compensation between December 31, 2003 to December 31, 2008.

Corporate governance begins with the establishment of a governance committee. The governance committee ensures that the company has appropriate checks and balances to avoid many of the pitfalls of doing business today. Table 1 shows the percentage of firms in the fashion industry that adopted governance committee during the period 2003 to 2008.
As shown in Table 1, there was an explosion in the adoption of governance committees among fashion firms. In 2003, 58.49% of the firms did not have a governance committee. In 2008, there was a marked difference in the corporate culture on this issue with 70.33% of the firms reporting that they did have a governance committee and that it had met in the last year.

The corporate board is the first and most important pillar of effective governance. Independence of the board members is the most critical aspect of effective corporate governance. Directors with ties to management may be less willing and less able to effectively evaluate and scrutinize company strategy and performance. Furthermore, boards without adequate independence from management may have inherent conflicts of interest.

The first step toward board independence is the nomination of directors on the board. Director independence and improved corporate governance can be ensured if directors are nominated by a committee that consists of independent external directors. Table 2 shows that the percentage of fashion firms that use nominating committees consisting solely of independent external directors had gone up by slightly less than three folds from about 26% in 2003 to 72% in 2008. Also, in 2003, 43% of the firms did not have a nominating committee, but in 2008 this percentage declined to 15.31%. Similarly, the percentage of firms with insiders on the nominating committee has gone down significantly in 2008.

Another variable that impacts the quality of governance is embedded in representation of external directors on the board. We analyze the representation of outside directors on the board based on the following criteria:

- A majority of independent external directors (50% < IO <= 66.7%)
- A supermajority of independent external directors (66.7% < IO <= 75%)
- A supermajority of independent external directors (75% < IO <= 90%)
- A supermajority of independent external directors (IO > 90%)

Table 3 shows that the majority of firms in the fashion and retail industry ranging from 69% in 2003 to 96% in 2008 have more than 50% of their directors serving as external directors. The percentage of outside directors increased significantly from 69.14% in 2003 to 79.99% in 2004. However, there is a significant drop in the percentage of firms that have more than 50% outside directors in 2005 and the percentage continues to decline in 2006, 2007. In 2008, there is a huge increase in the percentage of fashion and retail firms that have more than 50% of their directors as outside directors. There is a significant increase in the supermajority of independent outsiders (more than 90%) that served on corporate boards from 2.64% in 2003 to 7.17% in 2008.

Executive compensation is another important issue relating to governance in fashion and retail firms. Therefore, the board committee that determines the executive compensation should consist of independent directors. There has been a significant improvement in this area. Table 4 shows that more than 86% of the firms have a committee that consists of independent external directors to decide on the executive compensation.

The board structure committee reviews how the board is elected. For example, "Are they elected annually or in a classified manner?" A firm that has a classified board is one in which directors are divided into 3 classes, with each class serving a three year term. Each class is on a different re-election cycle. Annually-elected boards are comprised entirely of members who serve one year terms and each member stands for election each year. It is more difficult to change the control of a company with a classified board because only a minority of directors is elected each year. Usually, annual election boards receive better governance grades in comparison to the classified method of electing board members.

As shown in Table 5, the annual election of board members, an indicator of good governance, has been gaining popularity since 2003. In the year 2003, 50.95% of the fashion companies surveyed had board members annually elected and 49.05% members were elected through a classified process. This number increased slightly in 2008 with 55.02% of the companies following annual election of board members. This is consistent with the reporting of *The Wall Street Journal* that shareholders are pressuring boards of directors to declassify board elections and move towards annually elected boards[4].

The board size represents the number of directors serving on the board. Boards that become too large may find it difficult to effectively conduct the business of the board. On the other hand, if the board is too small, they may lack the necessary skills to fulfill all the responsibilities. Table 6 shows that more than 70 percent of the firms in our sample have maintained a board size in the range of 6 to 12 board members. The size of boards is getting slightly bigger with 31.30% of the firms reporting a board size between 9 and 12 in 2008 in contrast to 28.27% of the firms in 2003. There is also a small increase in the percentage of firms with a board size between 13 and 15. The percentage of firms with a board size less than 8 (considered too small) and a board size of more than 15 (considered too large) is on the decline.

In an effective governance environment, shareholders should have the right to vote to make changes (expand or contract the size of the board) in the board. More than 95 percent of fashion firms do not require shareholder approval to make changes in the board size. Table 7 shows that the percentage of firms that required shareholder approvals to make changes in board size has gone down significantly from 3.03 percent in 2005 to 2.87 percent in 2008.

Table 8 shows that a review of director compensation shows that the percentage of firms paying directors in cash has gone up and payment of directors' fees in stock has gone down from 2003 to 2008. Similarly, as shown in Table 9, fashion firms that conduct an annual review of directors performance has also gone up significantly from 2005 and at the same time, the percentage of firms that did not engage in any disclosure as to whether the company conducts performance reviews doubled since 2005.

Another important aspect of corporate governance relates to the role of internal and external auditors. Audit variables include evaluation along the following lines:

- Audit Committee
- Audit Fees
- Auditor Rotation
- Auditor Ratification

Table 10 shows that about 94% of the retail and fashion firms in 2008 had an audit nominating committee represented solely by independent outsiders. This is a significant improvement since 2003 when only 64.15% of the firms had committee comprised solely of independent outsiders. Therefore, companies are realizing the significance of independent audit committees in corporate governance.

In order to maintain the independence of the auditors, consulting fees should be less than the audit fees. Are shareholders permitted to ratify the selection of auditors? The entire audit committee should consist of financial experts who understand the financial issues. In

2008, more than 95% of the fashion firms were maintaining independence of the auditors by paying less than 50% of the total fees for non-audit related issues. Also, more than 80% of the firms had auditors that were ratified at the most recent annual meeting in comparison to 66.23% in 2005.

Another method to evaluate an effective governance record is to examine the adoption of poison pills and whether bylaws give power to management to amend the charter without shareholder approval. In 2005, 74.02% of the firms did not have a poison pill in place and this percentage has gone up to 82.77% in 2008. Therefore, shareholder activism was forcing management to get rid of poison pills. Investors and shareholders view tiered boards and poison pills as formidable defenses against corporate takeover maneuvers. Additional roadblocks to hostile takeovers include the prevalent practice among U.S. firms to stagger the elections of board members[5]. Since shareholders are forcing management to move away from classified boards and adopt more annually-elected boards, it is now easier for disgruntled shareholders to get rid of takeover defenses and wrest control of firms. However, in those cases, where poison has been adopted, the percentage of firms in which poison pill was approved by shareholders is still low at 0.47%.

Companies usually protect against hostile takeovers by issuing dual class shares that have super voting power. These shares are tightly held by a controlling family or a group of investors. The risk is that these shares can be used to prevent hostile takeovers by an outsider or even by other disgruntled shareholders of the firm and may weaken governance in the firm. More than 90 percent of the retail firms do not have dual class capital structure in place and there has been a marginal increase in the percentage of firms that do not have a dual class capital structure, a sign of small improvement in corporate governance. Another tool that is used by the board to prevent hostile takeover is by issuing blank check preferred stocks. In a blank check preferred stock, the board has the authority to determine voting, dividend, conversion, and other rights. It can also be used to meet special financial needs of a firm. In 2008, about 90 percent of the firms show blank check provisions in place. Therefore, the board has the authority to issue this special class of shares without any approval from shareholders. In fact, this percentage has marginally gone up since 2005.

Summary and Conclusions

Fashion and retail firms continue to target board-related issues so as to advance their governance quotient. A significant majority of firms (96%) in our sample have outside directors (more than 50%) on their board and this is a considerable improvement over the previous year percentage of around 71%. With regard to the election of the board, there is only a slight change towards annual board elections instead of classified board elections. Similarly, board compensation in the form of cash payment has gone up slightly. Furthermore, with regard to takeover defenses also, the results are mixed for the fashion industry firms. While the percentage of firms that do not have a poison pill has gone up, blank check preferred stock authorization percentage is still very high and is slightly gone up. When fashion and retail firms integrate corporate governance structures, this process will increase transparency and improve the quality of communication throughout the company. In turn, shareholders and others that have a fiduciary role in the company can experience rewarding results.

Acknowledgements
The authors wish to acknowledge Nannette Heide, Partner at Duane Morris, LLP and Felicia Traub. Special Counsel at Duane Morris, LLP for participating in a telephone interview on August 12, 2011.

End Notes

[1] A poison pill is when a targeted company in a hostile takeover attempts to make its stock look less attractive in order to discourage the takeover.

[2] A clause in a contract stating that if the company is acquired, the employee will receive large benefits such as: stock options, bonus or severance pay

[3] The postures studied in Castello and Lozano's research were: risk management, integrated posture and citizenship posture.

[4] The Wall Street Journal, June 8, 2005.

[5] The Wall Street Journal, June 2005

References

Adams, R. & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics, 94* (2), 291-309.

Ballinger, J. (1992). The new free-trade heel. *Harper's Magazine*, 285 (1701).

Baue, W. (2003). The key to director independence: Equal access to corporate board elections. *SRI World Group.*

Belkhir, M. (2009). Board structure, ownership structure and firm performance: Evidence from banking. *Applied Financial Economics, 19* (19), 1581-1593.

Cadbury, A. (1999). What are the trends in corporate governance? How will they impact your company? *Long Range Planning, 32* (1), 12-19.

Castello, I & Lozano, J. (2009). From risk management to citizenship corporate social responsibility: analysis of strategic drivers of change. *Corporate Governance*, 9 (4), 373-385.

Causey, D. (2008). The Worth of Good Corporate Governance. *Community Banker*, 17 (8), 50-52.

Cheeseman, H. (2006). *Business Law*, Prentice Hall, New Jersey.

Chen, Y. & Chuang, W. (2009). Alignment or entrenchment? Corporate governance and cash holdings in growing firms. *Journal of Business Research, 62* (11), 1200-1206

Chhaochharia, V. & Grinstein, Y. (2007). The Changing structure of US corporate boards: 1997-2003. *Corporate Governance: An International Review, 15* (6), 1215-1223

Desender, K. (2009). The relationship between the ownership structure and the role of the board. *SSRN Working Paper Series.*

Farinha, J. & Viana, L. (2009). Board structure and modified audit opinions: Evidence from the Portuguese Stock Exchange. *International Journal of Auditing, 13* (3), 237-258

Florou, A. & Pope, P. (2008). Are boards and institutional investors active monitors? Evidence from CEO dismissal. *Managerial Auditing Journal, 23* (9), 862-872

Heide, Nanette. Partner, Duane Morris, LLP. Telephone Interview. 12 August 2011.

Hermalin, B. (2005). Trends in corporate governance. *The Journal of Finance, 60* (5), 2351-2384

Jackling, B. & Johl, S. (2009). Board structure and firm performance: Evidence from India's top companies. *Corporate Governance : An International Review, 17* (4), 492-509

Jimenez, Guillermo C. and Barbara Kolsun (2010). *Fashion law: A guide for designers, fashion executives and attorneys.* New York: Fairchild Books.

Karr, Arnold J. (2011). Ralph Lauren pay package up 7.2%." retrieved September 6, 2011, from http://www.wwd.com/business-news/financial/ralph-lauren-s-pay-package-up-7-2--3682132

Kaur, G. & Mishra, R. (2009). Corporate governance-regulatory & cultural issues. *SSRN Working Paper Series.*

Krivogorsky, V. (2006). Ownership, board structure, and performance in continental Europe. *The International Journal of Accounting, 41* (2), 176-197

Leahy, J. (2009). Better governance pays off in India, S&P study finds. *Financial Times, October 2, p.* 20.

Lim, S., & Phillips, J. (2008). Embedding CSR values: The global footwear industry's evolving governance structure. *Journal of Business Ethics*, 81 (1), 143-156.

Marden, R. & Edwards, R. (2005). The Sarbanes-Oxley 'Ax' . *The CPA Journal*. New York; 75 (4), 6.

McCabe, M. & Nowak, M. (2008). The independent director on the board of company directors. *Managerial Auditing Journal, 23* (6), 545-566

Meiselman, J. (2007). Risk, governance and compliance trends for 2007. *Risk Management*, 54 (2), 40.

Miles, M., Munilla, L. & Darroch, J. (2006). The role of strategic conversations with stakeholders in the formation of corporate social responsibility strategy. *The Journal of Business Ethics*, 69: 195-2005.

Mintz, S. & Krishnan, S. (2009). A comparison of corporate governance in China and India with the U.S. *The Business Review, Cambridge, 13* (1), 60-67.

Murray, A. (2007). *Revolt in the boardroom: The new rules of power in corporate America*. HarperCollins, New York.

Murti, B. (2005). More boards may end staggered terms. *The Wall Street Journal (Eastern Edition)*, June 8, p. 1.

Nakano, C (2007). The significance and limitations of corporate governance from the perspectives of business ethics: Towards the creation of an ethical organizational culture. *Asian Business and Management.* 6 (2).

O'Donovan, G. (2003). Change management – A board culture of corporate governance. *Mondaq Business Briefing*, Issue 3.

O'Toole, J. & Bennis, W. (2009). What's needed next: A culture of candor. *Harvard Business Review*, 87 (6), 54-58.

Persons, O. (2009). Audit committee characteristics and earlier voluntary ethics disclosure among fraud and no-fraud firms. *International Journal of Disclosure and Governance, 6* (4), 284-297.

Roosenboom, P. & Goot, T. (2005). The effect of ownership and control on market valuation: Evidence from initial public offerings in The Netherlands. *International Review of Financial Analysis, 14*(1), 43-59.

Shahin, A. & Zairi, M. (2007). Corporate governance as a critical element for driving excellence in corporate social responsibility. *The International Journal of Quality Reliability Management.* Bradford: 24 (7).

Switzer, L. & Tang, M. (2009). The impact of corporate governance on the performance of U.S. small-cap firms. *International Journal of Business, 14* (4), 341-355.

Traub, Felicia, Special Counsel, Duane Morris, LLP, Telephone Interview, 12 August 2011

Verschoor, C. (2006). Tyco: An ethical metamorphosis. Strategic Finance, 87: 10-15.

Webb, E. (2006). Relationships between board structure and takeover defenses. *Corporate Governance*, 6 (3), 268-280.

Webb, E. (2008). Sarbanes-Oxley compliance and violation: An empirical study. *Review of Accounting & Finance, 7* (1), 5-23.

Wegman, J. (2006). Sarbanes-Oxley: A new era of government regulation of accountants. *Allied Academies International Conference.Academy of Legal, Ethical and Regulatory Issues Proceedings*, 10 (2), 35-39.

Wei, J. & Anandarajan, A. (2009). Shareholder rights, corporate governance and earnings quality :The influence of institutional investors. *Managerial Auditing Journal, 24* (8), 767-791.

Wilmarth, A. E. (2011). The Dodd-Frank Act's expansion of state authority to protect consumers of financial services. *Journal of Corporation Law, 36* (4), 893-893-954.

Wilson, I. (2000). The new rules: Ethics, social responsibility and strategy. *Strategy and Leadership*, 28, 12-16.

Zheng, X. & Cullinan, C. (2010). The Compensation/ audit committee overlap and the design of compensation systems. *International Journal of Disclosure and Governance,* 7 (2), 136-152.

Figures & Tables

Figure 1: Four drivers of corporate governance

Table 1: Fashion and Retail Firms: Governance committee composition for the period between 2003 and 2008

Governance committee composition	2003	2004	2005	2006	2007	2008
Number of Firms	265	235	231	228	221	209
Governance committee exists and met in the past year	26.79%	47.08%	50.64%	64.91%	66.96%	70.33%
No governance committee or panel	58.49%	37.44%	30.30%	27.19%	26.24%	22.96%

Table 2: Fashion and Retail Firms: Board of directors nominating committee composition for the period between 2003 and 2008

Nominating committee composition	2003	2004	2005	2006	2007	2008
Full board fulfills function	0%	0%	0.00%	0.00%	0%	0%
Committee includes affiliated outsiders	9.05%	14.04%	11.25%	8.33%	6.33%	7.65%
Committee comprised solely of independent outsiders	26.03%	2.26%	64.06%	67.54%	71.49%	72.24%
No committee	43.01%	22.97%	20.34%	19.29%	19%	15.31%
Committee includes insiders	9.81%	5.96%	4.39%	4.82%	3.16%	4.78%

Table 3: Fashion and Retail Firms: Composition of the Corporate Boards from 2003 to 2008

	2003	2004	2005	2006	2007	2008
Majority of independent outsiders (50%<IO<=66.7%)	29.05%	43.40%	48.05%	45.61%	41.17%	36.36%
A supermajority of independent outsiders (66.7%<IO<=75%)	16.60%	9.36%	7.79%	8.33%	10.41%	36.36%
A supermajority of independent outsiders (75%<IO<=90%)	20.85%	22.55%	11.68%	13.15%	13.57%	16.26%
A supermajority of independent outsiders IO>90%)	2.64%	4.68%	5.19%	6.57%	6.78%	7.17%
Total	69.14%	79.99%	72.71%	73.66%	71.93%	96.15%

Table 4: Fashion and Retail Firms: Composition of Compensation Committee for the period between 2003 and 2008

Compensation Committee Composition	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Full board fulfills functions	0.37%	0%	0.00%	0.00%	0%	0%
Committee includes affiliated outsiders	15.47 %	14.89 %	11.25 %	8.77%	8.14%	6.22%
Committee comprised solely of independent outsiders	56.22 %	6.38%	81.81 %	84.64 %	85.06 %	86.12 %
No committee	3.39%	1.70%	1.29%	1.75%	3%	1.91%
Committee includes insiders	9.81%	7.65%	5.62%	4.82%	4.07%	5.74%

Table 5: Fashion and Retail Firms: Election of board of directors: classified board versus annually elected board for the period between 2003 and 2008

Board Structure	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Classified Board	49.05%	49.36%	48.05%	42.98%	44.34%	44.49%
Annually Elected Board	50.95%	50.64%	51.94%	52.63%	53.84%	55.02%

Table 6: Fashion and Retail Firms: Size of the Board for the period between 2003 and 2008

Board size	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Board size is less than 6	17.35%	14.89%	12.12%	11.40%	14.93%	13.87%
Board size is >=6 and <=8	49.05%	48.93%	52.81%	50.87%	47.51%	46.41%
Board size is >=9 and <=12	30.56%	33.19%	32.90%	36.84%	36.65%	35.88%
Board size is >=13 and <=15	3.01	2.97%	2.16%	0.87%	0.90%	3.82%
Board size is greater than 15	1.00%	0.00%	0.00%	0.00%	0%	0.00%

Table 7: Fashion and Retail Firms: Role of shareholders in voting for change in Board Size from 2005 to 2008

	2003	2004	2005	2006	2007	2008
The board is authorized to increase/ decrease the board size without shareholder approval	94.71%	95.74%	96.96%	96.92%	97.28%	97.12%
Shareholder approval is required to increase/decrease the size of the board	5.28%	4.25%	3.03%	3.07%	2.71%	2.87%
Information regarding the board's ability to change its size is not specified	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Table 8: Fashion and Retail Firms: Summary of Directors compensation: cash payment versus stock payment for the period between 2003 and 2008.

Director Compensation	2003	2004	2005	2006	2007	2008
Directors are paid solely in cash	12.83%	9.78%	8.22%	10.96%	14.47%	13.87%
Directors receive all or a portion of their fees in stock	87.16%	90.21%	91.77%	89.03%	85.52%	86.12%

Table 9: Fashion and Retail Firms: Individual Director Performance Reviews for the period between 2005 and 2008

Individual Director Performance Reviews	2005	2006	2007	2008
The company conducts performance reviews of individual directors	16.88%	19.29%	20.81%	29.18%
The company does not conduct performance reviews of individual directors	37.66%	36.40%	37.10%	36.84%
There is no disclosure as to whether the company conducts performance reviews of individual directors	16.88%	44.29%	42.08%	33.97%

Note: Data is available for year-end 2005 to year-end 2008 only.

Table 10: Appointment of Audit Committee for period between 2003 and 2008

Audit Committee	2003	2004	2005	2006	2007	2008
Full board fulfills functions	0%	0%	0.00%	0.00%	0%	0%
Committee includes affiliated outsiders	18.11%	12.76%	6.49%	4.38%	3.61%	3.34%
Committee comprised solely of independent outsiders	64.15%	8.93%	92.20%	93.85%	94.11%	94.73%
No committee	0.00%	0.00%	0.00%	0.87%	1.81%	1.43%
Committee includes insiders	3.01%	0.85%	1.29%	64.91%	0.45%	0.47%

Table 11: Fashion and Retail Firms: Audit Fees and other auditor related issues

	2005	2006	2007	2008
Non-audit related & other fees represent more than 50% of the total fees paid to the audit firm	1.29%	0.43%	0.45%	0.47%
Auditors ratified at most recent annual meeting	66.23%	71.05%	76.92%	80.38%
Auditors not ratified at most recent annual meeting	33.76%	28.94%	23.07%	19.61%
All of the audit committee members are financial experts	11.25%	11.84%	14.02%	14.83%
One or more of the audit committee members are financial experts	79.22%	80.26%	78.28%	77.99%
There are no financial experts in the audit committee	9.52%	7.89%	7.69%	7.17%

Table 12: Fashion and Retail Firms: Takeover Defenses and Capital Structure

	2005	2006	2007	2008
The company has does not have a poison pill and is not authorized to issue blank check preferred stock				
The company's poison pill was not approved by shareholders	25.54%	23.24%	21.71%	16.74%
The company's poison pill was approved by shareholders	0.43%	0.44%	0.00%	0.47%
The company does not have a poison pill in place	74.02%	76.31%	78.28%	82.77%
Dual class capital structure, super voting shares closely held by insiders	6.93%	7.45%	5.88%	6.69%
Dual class capital structure, both classes freely traded and not concentrated with insiders	0.43%	1.31%	1.35%	1.43%
There is not a dual class capital structure in place	92.64%	91.22%	92.76%	91.86%
Blank check preferred stock is authorized	89.61%	90.35%	90.50%	90.43%
Blank check preferred stock is not authorized	10.38%	9.64%	9.50%	9.56%