

Comparative Corporate Governance Structures in Developed and Emerging Economies of the World

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Abstract

There is no gainsaying that effective corporate governance is an enduring factor which enables corporate entities to evolve business excellence. However, the entrenchment of good Corporate Governance is more of self-regulatory effort than statutory framework in most countries of the world. The developments of Corporate Governance models and structures stems from the widespread corporate scandals, especially in the United States of America in the past decade, have been remarkable for the clamor of improvements in corporate behavior and managerial system. This study seeks to appraise the Corporate Governance models and structures in some developed and emerging economies of the world. Specifically, this study examined the Corporate Governance models and structures in the United States, the United Kingdom, Japan, China, India, South-Africa, Malaysia and Brazil. The methodology used in this study was mainly content analysis. The review of the literature revealed that the collapse of the Enron, the WorldCom, the Tyco, the Xerox and the Wal-Mart Stores in the United States, the Holdmark Inc. in Netherlands, the Pharmalet plc in Italy and the Cadbury Sweppes Confectionary in India companies were due to poor Corporate Governance structures and practices. Therefore, one may recommend that and international codes of corporate governance should be provided, probably under the auspices of the United Nations to be known as the UN Codes of Corporate Governance to enhance an enforcement of uniform corporate governance practices globally.

Keywords: Corporate Governance, Corporate Scandals, Industrialized Nations, Emerging economies.

Background to the Study

Corporate governance has recently received much attention due to the scandals of the collapsed Enron, WorldCom, the Tyco, the Xerox and the Wal-Mart Stores in the United States, the Holdmark Inc. in Netherlands, the Pharmalet plc in Italy, the Cadbury Sweppes Confectionary in India and other high profile scandals, serving as the impetus to such recent U.S. regulations as the Sarbanes-Oxley Act of 2002, considered to be the most sweeping corporate governance regulation in the past 70 years (Byrnes et al., 2003). If better corporate governance is related to better firm performance, better-governed firms should perform better than worse-governed firms. Managers have incentives to expropriate a firm's assets by undertaking projects that benefit themselves personally but that impact shareholder wealth adversely (Aminod and Lev, 1981; Fama and Jensen, 1983; Shleifer and Vishny, 1997). Effective corporate governance reduces "control rights" stockholders and creditors confer on managers, increasing the

probability that managers invest in positive net present value projects, (Shleifer and Vishny, 1997), suggesting that better-governed firms have better operating performance. Regulators and governance advocates argue that the stock price collapse of such former corporate stalwarts as Adelphia, Enron, Parmalat, Tyco, and WorldCom was due in large part to poor governance.

The issue of corporate governance has continuously attracted much attention and public interest all over the world as a result of its paramount importance in the economic health and growth of corporations. This structural mechanism called corporate governance defines the relationship among various stakeholders of a company. It is universally perceived to be the abuse of corporate power and poor governance that led to the collapse of Enron, the WorldCom, the Tyco, the Xerox, Wal-Mart Stores, Holdmark Inc. Parmalet plc and the Cadbury Sweppes Confectionary, the Arthur Andersen, etc. This is reflected in the passage of the Sarbanes-Oxley Act of 2002 in the United States, intended to restore public confidence in corporate governance (Backley & Holderness, 1992; Coffee, 1999; Friend and Lang, 1998). And it also necessitated the passage of the Commonwealth Codes of Corporate Governance (2003) by the Commonwealth Association on Corporate Governance (CACG).

In Nigeria, the collapse of the African Petroleum (AP), the Cadbury Nigeria Plc, the failed banks of the 1990s and the recent financial distress in banks led to increased shareholders and governmental interest in corporate governance. This was the rationale behind the introduction of the Code of Corporate Governance (2003) for Public Companies in Nigeria.

Similarly, in the face of the global economic meltdown, corporate scandals and continuous financial distress of companies should be a matter of major concern, especially that the economic health of companies enhance general growth and development of nations. Richardo (2000), opined that the Asian crisis, the recent financial scandals has been linked either directly or indirectly with lapses in corporate governance structures of those companies and institutions. If this opinion of Richardo (2000) is to be acknowledged, then; there is need to empirically examine those structures, processes, mechanism and procedures of corporate governance that if violated may affect the financial and economic health of companies.

The main aim of this study is to examine the corporate structures of some industrialized nations like the United States of America, the United Kingdom, Japan, China, Malaysia, Brazil, India, South- Africa and Nigeria. Specifically, this study will examine the rationale behind the development of Corporate Governance framework in these nations, the corporate and financial scandals leading to the development of Corporate Governance codes and the existing Corporate Governance structures in these nations.

Literature Review/Concept of Corporate Governance

In this section, relevant literatures related to the study were reviewed, local and international journals and scholarly publications on corporate governance in the United States of America, the United Kingdom, Japan, China, Malaysia, Brazil, India, South-Africa and Nigeria were consulted including the work of Barclay and Holderness (1991), Barclay and Holderness (1992), Bai et all (2003), (Allen, Qian & Qian, 2002), etc

Corporate governance is an evolving field which have gained popularity in the last decade after the demise of Enron, WorldCom, Arthur Anderson etc in the united states which have forced academics, legal practitioners, accounting and other professional, regulatory agencies, government institution and international financial institution to pay attention to corporate governance reforms, (Vinten,1998;2002; Aquiler and luervo-caruza,2004; Bhasa,2004; Mardjolo, 2005; Wieland,2005; Chambers,2006;; Malin,2008; Judge, Douglas and Kutan, 2008. Other countries have similar corporate scandals, for example Cadbury plc in Nigeria.

There is a global impetus to promote good corporate governance, accountability and ethical business practices in many countries (Gilson, 2000:) Pound,1998; Qian, 2009). thus many multilateral organization such as the organization of economic cooperation and development (OECD,1999; 2004), the commonwealth association of corporate governance. It has been widely acknowledge that good corporate governance helps most developing countries and emerging markets to attract domestic and foreign direct investment build their markets competitiveness restore investor confidence, promote economic growth and boost national development(Armstrong,2003; Koufopoulous,2006; Okhehalem and Akinboabe 2003).

According to Apoti (2006) defined corporate governance as the formal or informal structure which specifies the relationship between providers of finance and directors specifying what benefits accrue to finance providers as paramount. Ogunde (2006) also opined that corporate governance is the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Taking a broad perspective on the issues, Gillan & Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations of a company. While O'Donovan (2003) views corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity.

Bennett (1988), corporate governance can be viewed as business ethics and a moral duty. He added that well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. Shleifer & Vishny (1997) define corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Taking a broad perspective on the issues, Gillan & Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations of a company. While O'Donovan (2003) views corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Irrespective of the particular definition used, researchers often view corporate governance mechanisms as falling into one of two groups: those internal to firms and those external to firms (Gillan, 2006).

Comparative Highlight of Corporate Governance Structures

This section presents the review of some relevant highlight of corporate practices in industrialized and emerging economies like the United States, the United Kingdom, Japan, China, India, South-Africa, Malaysia, Brazil and Nigeria. A critical outlook is made on Corporate Governance models and structures in the United States, the United Kingdom, Japan, China, India, South-Africa, Malaysia, Brazil and Nigeria.

Corporate Governance in the United States

The widespread corporate scandals in the United States of America in the past few years have been remarkable for the clamour of improvements in corporate behaviour and managerial system. Perhaps, if not for the weak or complete absence of corporate governance structures, the financial and economic health of the collapsed Enron, the WorldCom, the Tyco, the Xerox and the Wal-Mart Stores in the United States would have also been avoided if not for poor adherence to codes of ethical standards and corporate governance structures. And that US companies were the hardest-hit, in face of weak or complete absence of corporate governance mechanism.

The wave of corporate scandals, especially in the United States of America, within the last few years, has been marked not only by the number of cases but also the effect which they have had on investor confidence and market values all over the world. Nigeria had its portion of the crises recently, with the financial institutions, when the prices of shares nose-dived, wiping out billions of naira in market value. Investor confidence, particularly in the shares of banks, the fairness of the capital market and the credibility of companies was rocked to its foundation.

According to The Code (IFAC 2003), the situation in (d) above was very apparent in the cases of companies like Enron, WorldCom and Zerox. In the United States of America, political fervour is there to revolutionize corporate governance in theory and practice, through improved legislation. However, it has to be admitted that the pre-requisites on the part of every board member and management are self-regulation and personal virtues, for pragmatic and near flawless corporate governance to manifest.

This is reflected in the passage of the Sarbanes-Oxley Act of 2002 in the United States, intended to restore public confidence in corporate governance (Osaze & Al-Faki, 2006; Pearce et al, 2008; Freeman, 2010). And it also necessitated the passage of the Commonwealth Codes of Corporate Governance (2003) by the Commonwealth Association on Corporate Governance (CACG).

Corporate Governance in the United Kingdom

The 1990s witnessed a major upheaval in the way corporations were governed in the UK. Beginning with the Cadbury Report in 1992 when many corporations were faced with a series of major changes in their board structure and their degree of reporting on issues of audit, concentration of powers on few executives, boards' composition, lack of risk assessment, remuneration and the process of appointment of directors and so on. The Cadbury Report was a response to the widespread view that UK corporate governance lagged behind those in other

countries and that this lack of best of practice had contributed to some of the spectacular collapses of listed corporations such as Asil Nadir's Polly Peck, BCCI, Coloroll and Maxwell Communications Corporation. That report was followed by three more major reports: Greenbury (1995), Hampel (1998) and Turnbull (1999). The Greenbury Report responded to concern about the level of executive pay rises, especially in the privatised utility corporations. The Hampel Report reviewed the progress of companies in response to the Cadbury and Greenbury Reports and made some suggestions for improvement. The Turnbull Report addressed the important issue of how to implement best practice systems of internal control.

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Corporate Governance in South Africa

By the late 1980s, many South Africa's corporations were bloated, unfocused and run by entrenched and complacent managers. These firms were sustained and tolerated by a very different environment from that in advanced economies and capital markets. The mainstay of the South African environment was isolated from rest of the world in the 1980s through the 1990s, as a result of the prolonged apartheid regime in South Africa. Tariffs and political isolation shielded firms from foreign product competition, while financial sanctions kept international institutions out of the domestic capital market, and South African firms out of international capital markets. Corporate practices fell behind international norms, as was also the case with South African laws and regulations.

In the wake of the 1990s, South African corporations, their managers and domestic shareholders became exposed to political reforms, engagements and change to a new political system, rapid trade liberalisation, demanding international investors, an emerging market and rapid-fire regulatory reform.

With the events of the corporate scandals in the U.S in 2001, corporate structures in South Africa changed irrevocably. Although the reminiscent of the Japanese pre-War Zaibatsu also triggered the South African Corporate structure.

At the wake of events, legislation, regulations, listing rules and accounting standards were developed in South Africa to converge with international norms, including the South African

Corporate structure. The rapid changes are explained by the development path chosen by South Africa since becoming a democracy. Upon taking power in 1994, the government chose to eschew confiscation of property, and instead to seek growth, which, among other things, could fund expanded social services and more employment. To attain higher growth, South Africa developed a corporate governance framework in line with international best practices in order to increase mobilisation of both domestic and foreign capital, as well as use that capital more efficiently.

Corporate Governance in Japan

Recently, many company scandals have occurred in Japan, the U.S., and the U.K. These scandals draw attention to the importance of the ethical monitoring aspect of corporate governance. From this perspective, the legality-check is one of the most important aspects of corporate governance.

Corporate governance currently plays two main roles in Japan. Firstly, it acts to deter company scandals, and secondly it lowers the possibility of corporate bankruptcy during the severe recession. This is particularly important; when we consider the fact that Japanese companies are increasingly compelled to compete with foreign companies.

Recently, corporate governance in Japan has become increasingly political, forcing the business world to seek reform. Business leaders have suggested regulation amendments to corporate governance. For example, the Liberal Democratic Party announced 'The Framework for Commercial Law Amendment for Corporate Governance' on 8th September 1997, and 'The Framework of Commercial Law Amendment on 1st June 1998. These reports are well known, and are collectively entitled 'The Liberal Democratic Party's Proposal' together. In addition to this, The Federation of Economic Organisations announced papers entitled 'An Urgent Proposal on Ultimate Corporate Governance' on 16th September 1998.

The Corporate Governance Forum of Japan and The Corporate Governance Committee announced 'Corporate Governance Principles -A Japanese View- for the Re-thinking of Regulation for Japanese style Company Control' on 30th October 1997, and the final reports was given on 26th May 1998. These are called 'principle reports.' In addition, there are also many other published articles and theses for corporate governance.

In Japan, employees-ownership-theory was popular. This theory held that employees should own their company. However, this theory has faded with the onset of recession. In the framework of current commercial law, nothing can support the claim that employees should own the company at which they work. Thus, it is reasonable that only stockholders should have company ownership even in Japan.

Corporate Governance in China

In China, State ownership is the dominant feature of a large proportion of the firms listed on the stock exchange. The State owns about 59 percent of all shares in the Chinese stock markets, and 75 percent of Chinese listed firms are ultimately controlled by the State (Tong, 2003).

Laffont and Tirole (1993) and Sappington and Stiglitz (1987) argue that, from a social welfare point of view, State ownership might benefit certain industries such as education and health care. However, recent evidence on the State ownership seems to tell a different story. Summarizing recent empirical evidence, Shleifer and Vishny (1997) conclude that State firms do not to serve the public interest better than private firms, while State firms are typically inefficient (Boycko, *et al*, 1995 and Shleifer, 1998). Shleifer and Vishny (1994 and 1997) attribute the inefficiency to the fact that State firms are usually controlled by bureaucrats, who have concentrated control rights but no significant cash flow rights. Moreover, the bureaucrats typically have goals that are dictated by their political interests and can be very different from profit maximization. Therefore, Shleifer and Vishny conclude that State ownership is an example of concentrated control with no cash flow rights and socially harmful objectives.

Corporate Governance in India

The history of the development of Indian corporate laws has been marked by interesting contrasts. At independence, India inherited one of the world's poorest economies but one which had a factory sector accounting for a tenth of the national product; four functioning stock markets (predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures.²⁴ In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies. The 1956 Companies Act as well as other laws governing the functioning of joint-stock companies and protecting the investors' rights built on this foundation. This section draws heavily from the history of Indian corporate governance in Goswami (2002). The beginning of corporate developments in India were marked by the managing agency system that contributed to the birth of dispersed equity ownership but also gave rise to the practice of management enjoying control rights disproportionately greater than their stock ownership. The turn towards socialism in the decades after independence marked by the 1951 Industries (Development and Regulation) Act as well as the 1956 Industrial Policy Resolution put in place a regime and culture of licensing, protection and widespread red-tape that bred corruption and stilted the growth of the corporate sector. The situation grew from bad to worse in the following decades and corruption, nepotism and inefficiency became the hallmarks of the Indian corporate sector. Exorbitant tax rates encouraged creative accounting practices and complicated emolument structures to beat the system. In the absence of a developed stock market, the three all-India development finance institutions (DFIs) the Industrial Finance Corporation of India, the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India together with the state financial corporation's became the main providers of long-term credit to companies.

In India, enforcement of corporate laws remains the soft underbelly of the legal and corporate governance system. The World Bank's Reports on the Observance of Standards and Codes (ROSC) publishes a country-by-country analysis of the observance of OECD's corporate governance codes. In its 2004 report on India²³, the ROSC found that while India observed or largely observed most of the principles, it could do better in certain areas. The contribution of nominee directors from financial institutions to monitoring and supervising management is one

such area. Improvements are also necessary in the enforcement of certain laws and regulations like those pertaining to stock listing in major exchanges and insider trading as well as in dealing with violations of the Companies Act the backbone of corporate governance system in India. Some of the problems arise because of unsettled questions about jurisdiction issues and powers of the SEBI. As an extreme example, there have been cases of outright theft of investors' funds with companies vanishing overnight. The joint efforts of the Department of Company Affairs and SEBI to nail down the culprits have proved to be largely ineffective. As for complaints about transfer of shares and non-receipt of dividends while the redress rate has been an impressive 95%, there were still over 135,000 complaints pending with the SEBI. Thus there is considerable room for improvement on the enforcement side of the Indian legal system to help develop the corporate governance mechanism in the country.

Corporate Governance in Brazil

Many Brazilian public firms use dual-class structures, with insiders retaining voting common shares and outsiders holding primarily non-voting preferred shares, which have economic rights similar to common shares. Valadares and Leal (2000) and Leal et al. (2000) find a high concentration of voting power in Brazilian firms, due in large part to this practice. Da Silveira et al. (2008) study firm-level corporate governance in Brazil from 1998 to 2004 using an index based on public data (see also Leal and Carvalhalda- Silva, 2007). They find no significant explanatory factors for firms' governance choices, but this might reflect the data limitations they faced in building their index. Dutra and Saito (2002) study the effect of cumulative voting on board composition as of 2000 for actively traded Brazilian firms, but find little use of cumulative voting. They use family names as a crude measure of director independence. Da Silveira et al. (2004) find a positive association between separation of Chairman and CEO and Tobin's q.

Several papers use legal changes in takeout rights as a natural experiment, and study the effect of these rights on share prices. Prior to 1997, Brazilian corporate law required a new controller, who acquired 50% of the common shares, to offer to buy all remaining common shares, at the per-share price paid when acquiring control. In 1997, Brazil removed this rule, but reinstated takeout rights in 2000, at 80% of the pershare price paid for the controlling shares. Nenova (2005) and Carvalhal-da-Silva and Subramanyam (2007) report conflicting results on how these law changes affected the premium accorded to common shares, relative to preferred shares (which the takeout rights rules never covered). Bennedsen et al. (2008), report that during 2000-2006, some Brazilian firms voluntarily provided additional takeout rights to common shareholders, preferred shareholders, or both, in connection with equity offerings.

In 1976, the Brazilian securities commission, *Comissao de Valores Mobiliarios (CVM)*, was created and a new Corporations Law was adopted, which included rules governing public companies and stock exchanges. During the 1970s and 1980s, the government granted tax incentives to firms that went public and investors who purchased shares in public companies, and required pension funds and insurance companies to invest in the shares of public companies. By the end of the 1980s, there were almost 600 publicly traded companies. In the late 1980s, the financial incentives for going public were eliminated; since then, many firms which went public due to tax incentives have returned to private ownership.

Corporate Governance in Malaysia

The financial crisis brought to the foreground the weak corporate governance practices: the weak financial structure of many companies; over-leveraging by companies; lack of transparency, disclosure and accountability; existence of a complex system of family control companies; little or no effective laws to ensure that controlling shareholders and management treat small investors fairly and equitably; assets shifting; conglomerate structures that were perceived to be given preferential treatment; allegations of cronyism “the aggrandizement of a politically connected few”³; lack of transparency and ambiguity in the regulatory processes; and weaknesses in the credit evaluation processes by the banks. Weak corporate governance practices by these companies, though did not cause the financial crisis, but certainly contributed to the economic crisis.

Against this backdrop, the Malaysian Code of Corporate Governance (the Code) was introduced in 2000, after detailed study and recommendations made by the high level Finance 1 “The financial panic view” as put forward by Jeffrey Sachs and Stephen Radelet in the “The Onset of the East Asian financial crisis” and Joseph Stiglitz, Chief Economist at the World Bank.

A Committee which was formed in 1998 with the objective of improving the corporate governance practices by the corporate sector. The Malaysian Legal and Institutional Framework in Malaysia, even before the financial crisis in 1997 had already in place a relatively high standard of corporate governance framework. Malaysia inherited a strong common law system together with a corporate law regime from the British and has largely followed the developments of other commonwealth jurisdictions with variations to suit local environment. Because of this strong heritage, the Malaysian capital market had a plethora of provisions designed to create a sound corporate governance framework. Further the KLSE listing rules have a number of provisions to provide for checks and balances to enhance transparency and accountability. For instance, it introduced the requirements for independent directors on boards of public listed companies in 1987 and for the establishment of audit committees in 1993 which took effect the following year.

The Malaysian Code on Corporate Governance (The Code) adopted the hybrid approach between the prescriptive and non-prescriptive models. The prescriptive model sets standards of desirable practices for disclosure of compliance. The Non-prescriptive model requires actual disclosure of corporate governance practices.⁵ The Code allows for a more “constructive and flexible response to raise standards in corporate governance as opposed to the more black and white response engendered by statute and regulation”.

Conclusion/Recommendation

The U.K. system is very similar to the American system. Under U.K. Company Law, a company can decide the structure of its management. However, several institutions have published their recommendations in order to promote proper business for large companies. The Cadbury report is a well-known example of these recommendations. The report highly estimated the functions of non-executive directors in order to ensure the power of the board of directors to

control the management. The non-executive directors are expected to be independent of the executive directors and to have significant influence in the board of directors. Germany, by contrast, adopts the dual system. According to the dual system, there are two organs in a company; an organ to exercise the business, and an organ to supervise it. Under this system, the board of auditors appoints the directors.

Every director has the power to represent the company and to carry out business. In big companies, the board of auditors consists of twenty members. Ten of these auditors represent the stockholders and the remaining ten represent the employees. The board of auditors has assent rights for certain aspect of business. The two systems are similar in that there are two independent organs; management and supervision. The difference between them is the control system. The single system is an internal control system, and the dual system is an external control system. The difference is whether interlocking directors are approved or not. What are the merits and demerits of each system? In the dual system, management supervision is ensured by the structure. Moreover, the supervision is strongly independent of the management. On the other hand, the single system is suitable for an efficiency-check.

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