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Why Effective Corporate Governance Matters

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Abstract: The subject of corporate governance leapt to limelight from relative obscurity after a string of collapses of high-profile companies at the start of this century, when events at a Houston-based energy giant Enron and at a global telecom behemoth WorldCom in Mississippi, USA, shocked the business world with both the scale and age of their unethical and illegal operations. Worse, they seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the USA came under the scanner, it appeared that the problem was far more widespread. Relatively similar issues at a large and reputed food group Parmalat in Italy, Europe, at a multinational newspaper group CanWest in Canada and at an Indian technology giant Satyam, revealed significant and deep-rooted problems, which inexplicably creep in at times and places where they are least expected. Subsequently, the need for the identification and adoption of good tenets for corporate governance have been reinforced from time to time and efforts to this end have gathered further momentum with every new disclosure of a corporate scandal. Effective corporate governance is characterised by the firm commitment and adoption of ethical practices by an organisation across its entire value chain, in all of its dealings with a wide group of stakeholders, encompassing employees, customers, vendors, regulators and shareholders (including minority shareholders). To achieve this, certain checks and balances must be adopted whole-heartedly. Trust and integrity play an essential role in economic life and for the sake of future prosperity, both boards of directors and management need to ensure that these attributes are promptly recognised and practised throughout the organisation.

Key words: Effective corporate governance, ethical practices, stakeholders, trust, integrity.

1 INTRODUCTION

In one of his writings, James D. Wolfensohn, the former President of the World Bank made the following observations about the significance of corporate governance today:

"The governance of the corporation is now as important in the world economy as the government of countries". (p.38)

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This attests to the important position corporations have come to play in our economic and social lives as well as the global reach and political power of corporations, which often exceed the reach and power of governments.

Furthermore, according to Gregory and Simms (1999), the prevailing interest among policy makers for corporate governance reform as well as the related interest in reducing corruption and cronyism in business affairs is primarily grounded in economics and a belief in the allocative efficiency of free markets. With globalization and the removal of barriers to the free flow of capital, policy makers have come to recognize the importance of corporate governance in attracting capital inflows. Conversely weak corporate governance systems together with corruption and cronyism distort the efficient allocation of resources thereby undermining the level playing field and ultimately hindering investment and economic development.

The Chairman of the United States Federal Reserve Board Alan Greenspan in his remarks to the World Bank and International Monetary Fund Program of Seminars in 1999 touched on some of the lessons gleaned by policy makers in the aftermath of the Asian Economic Crisis, which started in July 1997. They included the systematic failure of investor protection mechanisms, weak capital market regulation as well as the existence of "crony capitalism". These in turn led to crises of confidence, which spread, from individual firms to entire nations.

As noted by the renowned governance expert Ira M. Millstein (1998) [henceforth referred to as Millstein], insufficient financial disclosure and capital market regulation, lack of minority shareholder protections, and failure of board and controlling shareholder accountability all supported lending and investing practices based on relationships rather than on a prudent analysis of risk and reward. Amongst others, Harvey and Roper (1999) have observed how this state of affairs eventually led to over-investment in non-productive and speculative activities by corporations.

2 THE DEFINITION OF CORPORATE GOVERNANCE

The providers of finance to corporations be it individuals, mutual/pension funds, banks, financial institutions or even governments require assurances that their investments are both productive and protected. Effective corporate governance is about providing those assurances. According to Millstein (1998), the term corporate governance can be defined both narrowly as well as more broadly.

Millstein (1998), in the narrow version of her definition, describes corporate governance as the relationship between managers, directors and shareholders. This narrow definition encompasses also the relationship of the corporation to stakeholders and society.

Whereas in the broader version of her definition, corporate governance encompasses the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit and meet both legal obligations as well as the expectations of society generally. Furthermore, she states that, no matter what the definition, corporate governance concerns the means by which a corporation assures investors that it has in place well performing management who ensure that corporate assets provided by investors are being put to appropriate and profitable use.

Millstein (1998) further found when looking at the question of 'for whom the corporation was governed' a number of different models of corporate governance. Some nations, in particular the continental Europeans, focus on the need to satisfy societal expectations, in particular, the interests of other "stakeholders", defined to include suppliers, creditors, tax authorities as well as local communities. Whereas others mostly the Anglo-Saxon countries gave precedence to the primacy of ownership and property rights and focus the corporate objective on returning a profit to shareholders over the longer term.

In addition, the report issued in 1998 by the OECD Business Sector Advisory Group on Corporate Governance, which was chaired by Millstein [henceforth called the Millstein Report (1998), found that maximizing long-term shareholder value encourages investment capital to be put to the most efficient economic use and this benefits society.

The Millstein Report (1998) goes on to add however that stakeholder and shareholder interests are not necessarily mutually exclusive. She observes that corporations do not succeed by consistently neglecting the expectations of the other stakeholders but at the same time, can neither attract much needed capital from the equity markets if they fail to meet shareholders' expectations of a competitive return. Hence, the most successful corporations from the corporate governance perspective are those that are able to strike the right balance between the interests of shareholders and the interests of the other stakeholders.

The Malaysian Code of Corporate Governance (MCCG) first issued in 2000, then reviewed and updated in 2007 and 2012 with the latest version updated in April 2017 now defines corporate governance 'as *the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders.* (MCCG 2017, p.1)

The first version of the UK Corporate Governance Code (the Code) was published in 1992 by the Cadbury Committee. The Code, which was reviewed in July 2018, defines corporate governance as *'the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.'* This remains true today, but the environment

in which companies, their shareholders and wider stakeholders operate continues to develop rapidly. (UK Code 2018, p.1).

3 THE IMPORTANCE OF EFFECTIVE CORPORATE GOVERNANCE

Because of globalization and the increasing complexity of business, there is a greater reliance on the private sector as the engine of growth in both developed and developing countries. Corporations are legal entities created by societies because they are an efficient form of organization and society benefits from their existence. Corporations contribute to economic growth and development, which in turn leads to improved standards of living as well as the alleviation of poverty. The result of all this activity is the creation of more stable political systems.

The MCCG 2017, when elaborating why governance matters, states that corporate governance provides a framework of control mechanisms that support the company in achieving its goals, while preventing unwanted conflicts. The pillars of corporate governance such as ethical behaviour, accountability, transparency and sustainability are important to the governance of companies and stewardship of investors' capital. Companies that embrace these principles are more likely to produce long-term value than those that are lacking in one or all. Proper governance identifies the distribution of rights and responsibilities among different participants in the company and outlines among others the rules and procedures for decision-making, internal control and risk management. Corporate governance is not only concerned with shareholder interests but requires balancing the needs of other stakeholders such as employees, customers, suppliers, society and the communities in which the companies conduct their business.

Homayoun (2015) studied the overview of research in the field of agency theory and corporate governance to extend existing research contributions to the agency theory literature and particularly, the growing body of literature of corporate governance mechanisms. The agency theory suggests that corporate governance can reduce agency costs, which in turn leads to improved firm performance. The problem that occurs is known as the principal-agent problem between two parties, the principal and the agent. The separation of ownership and control in the open financial system can result in the agency problem between management and shareholders. The separation of control and ownership in corporations has caused agency problems and a series of corporate governance mechanisms have been implemented to mitigate them. The primary objective of corporate governance is to minimize the agency problem and ensure that management's interests are aligned with those of shareholders.

Furthermore, as noted by Gregory and Simms (1999), the quality of corporate governance is important since it has a direct impact on:

a. The efficiency with which a corporation employs assets.
b. Its ability to attract low-cost capital.
c. Its ability to meet the expectations of society.
d. Its overall performance.

3.1 The efficiency with which a corporation employs assets

Effective corporate governance ensures the optimal use of resources both intra-firm and inter-firm. With effective systems of corporate governance, debt and equity capital will go to those corporations capable of investing it in the most efficient manner for the production of both highly demanded goods and services as well as those with the highest rate of return. This helps to protect and nurture scarce resources thereby ensuring that societal needs are met. In all probability, this will mean that incompetent managers are replaced. These efficiency effects, as to both scarce resources and the quality of managers, should apply whether a firm is a state-owned enterprise, a private closely held firm owned by a family group or a publicly traded corporation on a stock exchange.

3.2 Its ability to attract low-cost capital

Effective corporate governance also helps to lower the cost of capital by improving the confidence of both foreign and domestic investors that their assets will be used for the purposes agreed. A survey of institutional investors by Felton et al. (1996) found that they would willingly pay on average well over ten percentage points more for a "well-governed" company, all other things being equal. In competitive markets, this means that managers must constantly evolve new strategies to meet the changing circumstances. This requires that managers be empowered to make decisions. However, as observed by that famous 18th century economist Adam Smith, managers may have incentives to act in their own self-interest under such circumstances. Jensen and Meckling (1976) found that when firm ownership is separated from control, the manager's self-interest might lead to the misuse of corporate assets, for example through pursuit of overly risky or imprudent projects. Therefore, we need to have in place rules and regulations to protect the best interests of the providers of capital. They include the following:

1. Independent monitoring of management
2. Transparency about the performance, ownership and control of the corporation
3. Participation in certain fundamental decisions by the shareholders.

3.3 Its ability to meet the expectations of society

For long-term success, corporations must comply with the laws, regulations and expectations of societies where they operate. Many corporations take their role as

corporate citizens seriously thus contributing to civil society. Regrettably, however, some corporations are opportunistic and seek to profit from child labor or act without regard for the environment. Millstein and MacAvoy (1998) observe that the latter are not merely failures of corporate governance but are symptomatic of the larger failures of government to provide the framework needed to hold corporations responsible for issues that are also important for society.

3.4 Its overall performance

When corporate governance is effective, it provides managers with oversight and holds boards and managers accountable in their management of corporate assets. This oversight and accountability combined with the efficient use of resources, improved access to lower-cost capital and increased responsiveness to societal needs and expectations should lead to improved corporate performance. Effective corporate governance should make it more likely that managers focus on improving firm performance and are replaced when they fail to do so. A study carried out by Millstein and MacAvoy in the United States (U.S.) analyzing data from 1991-1995 found that U.S. corporations with active and independent boards of directors generated higher economic profit hence supporting the reasonable assumption that corporate governance matters to corporate performance. Effective corporate governance also helps to reduce corruption in business dealings by making it difficult for corrupt practices to develop and take root in a company.

The importance of effective corporate governance is undeniable. However Yong (2017) observes that the practice of corporate governance (CG) worries some small and medium enterprises (SMEs) as it is often associated with huge corporations, compliance costs and a lot of reporting requirements but they fail to appreciate that these enhancements in their CG practices will do them more good than harm in the long run. The adoption of CG practices definitely adds value to SMEs, even if they are not aiming to be listed. Good CG is not just about following a given set of rules or standards. It is about cultivating the right corporate culture and the attitude of the board. The board of directors should have an in-depth understanding of CG principles and be accountable for implementing them. This applies to all companies, listed or otherwise. If an SME applies for a bank loan for business expansion, it may help to show the bank that it has adopted sound CG practices. Hence, the importance of having good CG for SMEs as well as listed companies for it is about creating and protecting shareholder value, which in turn helps to enhance sustainability in the end.

4 THE COMPONENTS OF EFFECTIVE CORPORATE GOVERNANCE

Gregory and Simms (1999) observed that corporate governance practices vary across countries and industries, reflecting both differing societal values as well as differing ownership structures, business and competitive conditions. It can also be due to differences in the strength and enforceability of contracts, the political standing of shareholders and debt holders as well as the development and enforcement capability of the legal system.

Millstein and MacAvoy (1998) note that in developed countries, the elements of effective corporate governance include well positioned and regulated securities markets; laws which recognize shareholders as the legitimate owners of corporations whilst at the same time ensuring the equitable treatment of minority and foreign shareholders; enforcement mechanisms protecting the rights of shareholders; laws to protect against fraud on investors; sophisticated courts and regulators; an experienced accounting and auditing sector and significant corporate disclosure requirements. In addition to this, the developed countries also have well-developed private sector institutions such as organizations of institutional investors, professional associations of directors, corporate secretaries and managers, as well as rating agencies, securities analysts and a sophisticated financial press.

Millstein and MacAvoy (1998) further note that on the other hand, many emerging countries have not yet developed fully their legal and regulatory systems, enforcement capacities and private sector institutions required for effective corporate governance. There is in many of these countries, a need for further development of the stock exchange, systems for registering share ownership, enactment of laws for the protection of minority shareholder interests, the empowerment of a vigilant financial press, the improvement of audit and accounting standards and a paradigm shift in the mindset against the widespread tolerance of bribery and corruption as an unavoidable cost of doing business in some of these countries.

On top of differences in the stage of development of each countries legal and regulatory system, they also differ remarkably in their cultural values, which underpin their financial infrastructure as well as their chosen model of corporate governance. Greenspan (1999) in his remarks to the World Bank and the IMF Seminar Program noted that the development of financial infrastructure and all the institutions that support it is "invariably molded by the culture of a society". In the final analysis, corporate governance and the framework underpinning it must be pertinent to each country's unique legal environment and cultural values.

According to the Millstein Report (1998), corporate governance takes place within the corporation and as such, it depends very much on investors, boards and

managements for its successful implementation. The report noted that for corporate governance to be effective in attracting capital, it must focus on four important areas:

a. Fairness by ensuring the protection of shareholder rights in particular the rights of minority and foreign shareholders. These rights can be strengthened by ensuring the enforceability of contracts made by the providers of capital.
b. Transparency by the timely disclosure of adequate, clear and comparable information concerning corporate performance, governance and ownership.
c. Accountability by clarifying governance roles and responsibilities and by means of voluntary efforts to ensure the convergence of managerial and shareholder interests as monitored by the board of directors.
d. Responsibility by ensuring corporate compliance with other laws and regulations reflecting the extant society's values.

In summary therefore, the Millstein Report (1998) urged the promotion and articulation of the four core standards of corporate governance: fairness, transparency, accountability and responsibility.

As a response to the Millstein Report (1998) recommendations to promote and articulate the four core standards, the OECD set up a Task Force to operationalize the findings. In April 1999, the Task Force issued a set of corporate governance principles building on the four essential components articulated by the earlier Millstein Report (1998). The principles provide useful working guidelines to countries seeking to further strengthen the foundations of their corporate governance practices by expanding on the core concepts identified earlier by the Millstein Report (1998).

4.1 Fairness

In relation to this core concept, two separate principles were developed. The first principle states that 'the corporate governance framework should protect the rights of shareholders'. This includes both their proprietary as well as their participatory rights. Effective corporate governance depends on laws, procedures and practices that protect their property right and ensure the security of ownership as well as the unfettered transferability of shares. This principle also recognizes their participatory rights on key corporate decisions such as the election of directors and the approval of major mergers or acquisitions.

The second principle states that 'the corporate governance framework should ensure the equitable treatment of all shareholders including the minority and foreign shareholders and that all shareholders should have the opportunity to obtain effective redress for violation of their rights'. This means that the legal framework should include laws that protect the rights of the minority shareholders against misappropriation of assets or self-dealing by the controlling shareholders, managers or directors.

4.2 Responsibility

The third principle states that 'the corporate governance framework should recognize the rights of stakeholders as established by law and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises'. This means that corporations must abide by the laws and regulations of the countries in which they operate. However, laws and regulations impose only minimal expectations as to conduct and corporations should be encouraged to act responsibly and ethically with special consideration for the interests of stakeholders particularly the employees. It is now acknowledged that socially responsible corporate conduct is consistent with the principle of shareholder wealth maximization. In numerous countries around the globe, the practice of corporate social responsibility accounting is now well established with corporations going beyond the legal requirements to provide health care and retirement benefits, financially supporting education and formulating and adopting environmentally friendly technologies. Similarly, other companies strive to avoid practices, which are socially undesirable even if not prohibited under the law.

4.3 Transparency

The fourth principle states that 'the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation including the financial situation, performance, ownership and governance of the company'. This is in recognition of the fact that both investors and shareholders need information regarding the financial and operating performance of the company as well as information about their corporate objectives and material risk exposures. This information should be prepared in accordance with internationally acceptable accounting and auditing standards and should be subject to an independent audit, which is conducted annually. The use of internationally accepted accounting standards would enhance comparability and assist both investors and analysts in comparing corporate performance and decision-making based on their relative merits. Likewise, information about the company's governance such as share ownership, voting rights, identity of board members, key executives and executive compensation is also a critical component of transparency.

4.4 Accountability

The fifth principle states that 'the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board as well as the board's accountability to the company and the shareholders'. This principle implies a legal duty on the part of the directors to the company and its shareholders. The directors are said to have a fiduciary relationship to both the shareholders and the company, which requires that they avoid self-interest in their

decision-making and act diligently and on a fully informed basis. This principle also recognizes the duty of the board to oversee the professional managers who have been entrusted to run the company and who are accountable to the board for the use of firm assets. Thus, the board acts as a mechanism for minimizing the agency problem inherent in the separation of ownership and control. If the board is to be an effective monitor of managerial conduct it must be suitably distinct from the management in order to be objective in its assessment of management. This requires that some of the directors are neither members of the management team nor closely related to them through family or business ties. A critical aspect of effective corporate governance is the quality of the directors. Objective oversight therefore necessitates the participation of professionally competent non-executive and independent directors on the board. The latter must have the capability, fiduciary commitment and objectivity to provide strategic guidance and monitor performance on behalf of the shareholders. In order for the board to be able to play their roles effectively, they should meet often, at least once every three months and if possible, more often. Additionally, for the non-executive directors to be effective and to ensure that independent oversight has meaning, they must have access to important information in advance of board meetings. In the developed countries, board committees have played an important role in performing detailed board work. In these countries, it is common to rely on an audit committee, remuneration committee and a nomination committee staffed either wholly or primarily with non-executive or independent directors.

The four core principles of effective corporate governance enunciated by the Millstein Report (1998) namely, fairness, transparency, accountability and responsibility as subsequently expanded into the five OECD Principles of Corporate Governance require both regulation and private sector initiatives for implementation. The former to ensure that minimum standards are met and the latter private sector effort to make sure those codes of conduct and voluntary behavior exceed the minimum legal requirements.

5 SOME PRACTICAL IMPLICATIONS ARISING FROM EFFECTIVE CORPORATE GOVERNANCE PRACTICES

The Malaysian Code on Corporate Governance which was revised and updated in April 2017 under the sub-heading *Why Governance Matters*, defines Corporate Governance as '*the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value while taking into account the interest of other stakeholders*. (p.1, MCCG 2017). Principle A of the MCCG 2017 (p.12) elaborates on the subject of Board Leadership and Effectiveness. One of the important aspects

of Board Leadership and Effectiveness referred to in MCCG 2017 is the subject of Directors remuneration. In this regards MCCG 2017 states explicitly that *'Directors' remuneration, which is well structured, clearly linked to the strategic objectives of a company, and which rewards contribution to the long-term success of the company is important in promoting business stability and growth. However, pay policies, which do not appropriately link directors' remuneration to company strategy, and performance can diminish shareholders' returns, weaken corporate governance and reduce public confidence in business'* (p.30 MCCG 2017). MCCG 2017 makes a direct link between directors' remuneration and effective corporate governance structures and their role in promoting business stability and growth.

A number of papers studied the nexus between directors remuneration and compensation within the context of their overall corporate governance structures and arrangements. For instance, Watkins-Fassler (2017) looked at the relationship between CEOs' monetary incentives and the performance of Mexican Firms using a sample of 88 non-financial companies listed in the Mexican Stock Exchange. Her study concluded that greater CEOs' compensations, which are not particularly based on goals; do not constitute effective corporate governance schemes for non-financial companies listed in the Mexican Stock Exchange as per the reminder in MCCG 2017 referred to earlier. Watkins-Fassler (2017) concludes by saying that continuing to promote mostly monetary recompenses as a means of good corporate governance could lead to more disappointing results and that it is time to change the paradigm. The take away from the Watkins-Fassler (2017) paper is that an important element of effective corporate governance is to ensure alignment between the intrinsic motivations of CEOs and the extrinsic motivations of companies.

Altuwaijri and Kalyanaraman (2017) studied the relationship of top management team's (TMT) pay with firm performance using a sample of 80 firms listed on the Saudi stock market. They found that firm performance and firm size emerge as significant variables in explaining TMT compensation. This is in line with many of the earlier studies which proxy the firm performance as the ability of the firm to pay higher compensation and firm size as a proxy for complexity of operations. They found that large firms and firms with better financial performance pay higher compensation to their TMT. When they grouped the firms into large firms and small firms, they found that firm size and firm performance are significant variables that influence TMT pay only in case of large firms. Their results showed that firm size does not influence TMT pay and only firm performance impacts TMT pay. This reinforces the message that an important element of effective corporate governance therefore is ensuring alignment between the intrinsic motivations of TMT and the extrinsic motivation of companies.

Manzaneque, Merino & Ramírez, Y. (2015) conducted a study looking at the existence of a relationship between directors' compensation and business performance by analysing a sample of 76 Spanish firms over the period 2004-2009. The compensation received by directors has attracted a lot of interest regarding the

need for good corporate governance practices related to remuneration matters, with particular emphasis on the need to link the remuneration of directors with the business performance. However, the question remains whether this relationship is actually being implemented in practice or otherwise. The analysis of a sample of 76 Spanish firms over the period 2004-2009 showed the existence of this relationship if book-based indicators of business performance were taken into account. However, this relationship does not exist with those indicators made according to market data. These results should make researchers and regulators think about the need for new ways of remuneration that convey confidence to compensation systems. This reinforces the earlier message that an important element of effective corporate governance is to ensure alignment between the intrinsic motivations of CEOs, directors, TMT and the extrinsic motivations of companies. Hence, the earlier reminder in MCCG 2017 of the direct link between directors' remuneration and effective corporate governance structures as well as their role in promoting business stability and growth.

6 CONCLUSIONS

There is a heightened awareness worldwide that effective corporate governance as manifested by transparency, accountability as well as the just and equitable treatment of shareholders is now a pre-requisite towards efforts to promote sustainable development. Towards this end, there is a need for both public (as represented by governments) and private sector partnership to raise the awareness of the importance of corporate governance improvements and to assist in implementing corporate governance reform.

Amongst the practical implications of effective corporate governance practices is to keep a check on the principal-agent problem, i.e. to minimize conflict of interest between the managers and shareholders. Other practical implications include making sure that the management is deploying the company's assets with the best interests of the shareholders and other stakeholders. Finally, yet importantly, effective corporate governance helps to attract and keep the cost of capital low. A number of papers (refer to Appendix) studied the positive link between effective corporate governance and firm performance within the context of their overall corporate governance structures and arrangements.

The subject of corporate governance leapt to limelight from relative obscurity after a string of collapses of high profile companies at the start of this century, when events at a Houston-based energy giant Enron and at a global telecom behemoth WorldCom in Mississippi, USA, shocked the business world with both the scale and age of their unethical and illegal operations. Worse, they seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the USA came under the

scanner, it appeared that the problem was far more widespread. Relatively similar issues at a large and reputed food group Parmalat in Italy, Europe, at a multinational newspaper group CanWest in Canada and at an Indian technology major Satyam, revealed significant and deep-rooted problems, which inexplicably creep in at times and places where they are least expected. Subsequently, the need for the identification and adoption of good tenets for governance have been reinforced from time to time and efforts to this end have gathered further momentum with every new disclosure of a corporate scandal. Good governance is characterised by a firm commitment and adoption of ethical practices by an organisation across its entire value chain, in all of its dealings with a wide group of stakeholders, encompassing employees, customers, vendors, regulators and shareholders (including minority shareholders). To achieve this, certain checks and practices need to be whole-heartedly embraced. Trust and integrity play an essential role in economic life and for the sake of future prosperity, boards and management need to ensure that these attributes are adequately recognised.

However, such efforts must be mindful of the fact that each country has its own culture as well as differing social and economic priorities. Similarly, every corporation has its own corporate culture and business goals. All of these differences will impinge on questions regarding the most practical corporate governance structures and practices to be adopted by both sovereign nations and individual corporations. Therefore, now, to get a consensus on a single model of corporate governance or a single set of detailed governance rules is both unlikely and unnecessary. It is expected that over time the dictates of the capital market will lead to increasing convergence in practice between countries. This together with globalization and the attendant fall in regulatory barriers between countries will ensure that investment capital flows to those corporations that have adopted efficient corporate governance standards including internationally acceptable accounting and auditing standards, adequate investor protection mechanisms as well as board practices designed to provide independent and accountable oversight of managers.

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Appendix:

1. Studies that find a positive link between effective corporate governance and firm performance in the USA:

   Gompers, Ishii and Metrick (2003)
   Bebchuk, Cohen and Ferrell (2006)
   Brown and Caylor (2008)
   Larker et al. (2007)

2. Studies that find a positive link between effective corporate governance and firm performance in other countries:

Chong and Lopaz-de-Silanes (2007)	Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.
Nenova (2005)	Brazil
Wahab et al., (2007) Haniffa and Hudaib (2006)	Malaysia
Toudas and Karathanassis (2007)	Greece
Gruszczynski (2006) Kowalewski at el. (2007)	Poland
El Mehdi (2007)	Tunisia
Black (2001) Black, Love and Rachinsky (2006)	Russia
Bae et al. (2006) Black, Kim, Jang and Park (2006) Black & Kim (2007)	Korea
Zheka (2006)	Ukraine
Kyereboah-Coleman (2007)	Africa
Reddy et al. (2008)	New Zealand
Bai et al. (2003) Bortolotti and Belratti (2007)	China.
Erickson, Park, Reising and Shin (2005)	Canada
Atanasov et al. (2007)	Bulgaria
Black and Khana (2007)	India

3. Cross country studies that find a positive link between effective corporate governance and firm performance:

   Klapper and Love (2004)
   Durnev and Kim (2005)
   Bauer et al. (2003)

Baker et al. (2007)
Aggarval et al. (2007)
Chhaochharia, and Laeven (2007)
De Nicolo, Laeven, and Ueda (2007)
Doidge, Karolyi and Stulz (2007)
Durnev and Fauver (2007).
Bruno and Claessens (2007).