# Corporate Governance

MODULE: C344 M444 | PRODUCT: 4550

# Corporate Governance

# Module Introduction and Overview

## Contents

## 1 Introduction to the Module

This module, *Corporate Governance*, is specially designed for the postgraduate study of such areas as management, finance, financial law, corporate law, economics and related subjects. The module is designed to increase the depth of your understanding of corporate governance issues. As corporate governance is a multi-disciplinary subject – covering such topics as law, politics, management, finance, and economics – you will find that the module will add to previous study of any of these disciplines. A previous knowledge of corporate governance is not required.

Upon successful completion of this module, it is hoped that students with a variety of backgrounds will understand the key elements of corporate governance and its importance to the international economy. In order to achieve this, a strong emphasis is placed on the relationship between theoretical concepts and real world issues. It is therefore hoped that the module can make a real contribution to your in-depth understanding of the relevant corporate governance issues.

## 2 The Module Authors

**Laixiang Sun** is Professor of Chinese Business and Management at the Centre for Financial and Management Studies, SOAS University of London. He is also affiliated with the International Institute for Applied Systems Analysis in Laxenburg, Austria, and Guanghua School of Management at Peking University, Beijing, China. He has published several academic books and a large number of research articles in international peer-reviewed journals. One of his textbooks, *Ownership and Governance of Enterprises: Recent Innovative Developments*, from which extracts are used in this module, is based on a research project directed by him at the United Nations University.

**Damian Tobin** is Lecturer in Chinese Business and Management at the Centre for Financial and Management Studies, SOAS University of London and is academic director of the International Management for China Distance Learning programme. He has published topics related to China's enterprise reform, corporate governance and public finance. His articles have appeared in such academic journals as *World Development*, *Corporate Governance: An International Review*, and *Asian Case Research Journal*. He has also contributed to private sector studies on such topics as corporate governance practices in Hong Kong and China, the relationship between big business and the political system, and Ireland's economic performance.

## 3 Study Resources

This study guide is your central learning resource as it structures your learning unit by unit. Each unit should be studied within a week. It is designed in the expectation that studying the unit and the associated core readings will require 15 to 20 hours during the week, but this will vary according to your background knowledge and experience of studying.

## Key texts

In addition to the study guide you must read the assigned chapters in the following key texts:

Hansmann H (2000) *The Ownership of Enterprise*, Boston MA and London, The Belknap Press of Harvard University Press.

Monks RAG and N Minow (2011) *Corporate Governance*, 5th Edition, John Wiley & Sons.

Henry Hansmann's book is a very reader-friendly book, particularly its description of the theoretical concepts of ownership and control. The book by Robert Monks and Nell Minow (2011) was chosen for its up-to-date description of recent corporate governance events. It also provides some useful case studies.

## Module readings

In your module readings, you are provided with a selection of academic articles and extracts from books, which you are expected to read as part of your study of this module. You will note from reading them that the topics covered in these articles often vary widely from the study guide. The module readings articles are often more technical or adopt a more in-depth approach. This should not put you off, as many were written with an academic audience in mind. These articles were selected so that the central arguments and concepts could be understood and appreciated at a level appropriate to this module.

## Optional reading

You are provided with all the reading essential for this module, and we do not expect you to undertake extra reading on your own, partly because not all students have ready access to good libraries or bookshops. However, the reference section of each unit lists academic articles, book chapters or web based sources that you can choose to read if you wish to further investigate a particular topic. These readings can be accessed on the Internet, but it is important to note that they will not be assessed in examination or assignments.

Although not mandatory, we think that you will enrich your study of this module by looking at such articles. Indeed, you are encouraged to choose your own additional reading on topics related to corporate governance. You can do this through searching the Internet and by making use of the online academic journals through the Library resources on the CeFiMS Virtual Learning Environment (VLE).

You are also recommended to browse through your key texts (Hansmann, and Monks and Minow) for additional coverage of the topics studied in this module.

# 4 Module Overview

## 5 Learning Outcomes

When you have completed your study of this module you will be able to:

- outline and discuss the key legal, political and economic features of the major corporate governance systems found around the world
- analyse how corporate governance systems influence performance, including both the performance of individual firms and the allocation of capital within a country
- discuss the evolution of diverse ownership and governance structures across different economies
- evaluate theories of the firm, and explain how they are relevant to the diverse range of ownership structures that exist in reality
- address such practical questions, as how should the board of directors and executive teams be composed; how should executives and board of directors be remunerated given the legal, political and economic framework in the country; how do CEOs decide about the mix of debt and equity finance and how does the mix affect their discretion and control over cash flow?
- explain why the quality of corporate governance is relevant to capital formation
- describe why systematic failure of corporate governance can lead to failure of confidence that could spread from individual firms to entire markets or economies
- discuss the role of corporate governance codes and evaluate their usefulness in achieving better corporate governance practices.

# Assessment

Your performance on each module is assessed through two written assignments and one examination. The assignments are written after Unit 4 and Unit 8 of the module session. Please see the VLE for submission deadlines. The examination is taken at a local examination centre in September/October.

## Preparing for assignments and exams

The examinations you will sit are designed to evaluate your knowledge and skills in the subjects you have studied; they are not designed to trick you. If you have studied the module thoroughly, you will pass the exam.

## Understanding assessment questions

Examination and assignment questions are set to test your knowledge and skills. Sometimes a question will contain more than one part, each part testing a different aspect of your skills and knowledge. You need to spot the key words to know what is being asked of you. Here we categorise the types of things that are asked for in assignments and exams, and the words used. All the examples are from the Centre for Financial and Management Studies examination papers and assignment questions.

### Definitions

Some questions mainly require you to show that you have learned some concepts by setting out their precise meanings. Such questions are likely to be preliminary and will be supplemented by more analytical questions. Generally, 'Pass marks' are awarded if the answer only contains definitions. These questions will contain words such as:

- describe
- define
- examine
- distinguish between
- compare
- contrast
- write notes on
- outline
- what is meant by
- list.

### Reasoning

Other questions are designed to test your reasoning, by asking you to explain cause and effect. Convincing explanations generally carry more marks than basic definitions. These questions will include words such as:

- interpret
- explain
- what conditions influence
- what are the consequences of
- what are the implications of.

### Judgement

Others ask you to make a judgement, perhaps of a policy or a course of action. They will include words like:

- evaluate
- critically examine

- assess
- do you agree that
- to what extent does.

### Calculation

Sometimes you are asked to make a calculation using a specified technique; these questions begin:

- use indifference curve analysis to
- using any economic model you know
- calculate the standard deviation
- test whether.

It is most likely that questions that ask you to make a calculation will also ask for an application or interpretation of the result.

### Advice

Other questions ask you to provide advice in a particular situation. This applies to law questions and to policy papers where advice is asked in relation to a policy problem. Your advice should be based on relevant law, applicable principles, and evidence of what actions are likely to be effective. The questions may begin:

- advise
- provide advice on
- explain how you would advise.

### Critique

In many cases the question will include the word 'critically'. This means that you are expected to look at the question from at least two points of view, offering a critique of each view and your judgement. You are expected to be critical of what you have read.

The questions may begin:

- critically analyse
- critically consider
- critically assess
- critically discuss the argument that.

### Examine by argument

Questions that begin with 'discuss' are similar; they ask you to examine by argument, to debate and give reasons for and against a variety of options. For example:

- discuss the advantages and disadvantages of
- discuss this statement
- discuss the view that
- discuss the arguments and debates concerning.

---

## The grading scheme: assignments

The assignment questions contain fairly detailed guidance about what is required. All assignments are marked using marking guidelines. When you receive your grade, it is accompanied by comments on your paper, including advice about how you might improve, and any clarifications about matters you may not have understood. These comments are designed to help you master the subject and to improve your skills as you progress through your programme.

## Postgraduate assignment marking criteria

The marking scheme for your programme draws upon these minimum core criteria, which are applicable to the assessment of all assignments:

- understanding of the subject
- utilisation of proper academic or other style (*eg* citation of references, or use of proper legal style for court reports)
- relevance of material selected and arguments proposed
- planning and organisation
- logical coherence
- critical evaluation
- comprehensiveness of research
- evidence of synthesis
- innovation/creativity/originality.

The language used must be of a sufficient standard to permit assessment of these aspects.

The guidelines below reflect the standards of work expected at postgraduate level. All assessed work is marked by your tutor or a member of academic staff, and a sample is then moderated by another member of academic staff. Any assignment may be made available to the external examiner(s).

**80+ (Distinction).** A mark of 80+ will fulfil the following criteria:

- very significant ability to plan, organise and execute independently a research project or coursework assignment
- very significant ability to evaluate literature and theory critically and make informed judgements
- very high levels of creativity, originality and independence of thought
- very significant ability to critically evaluate existing methodologies and suggest new approaches to current research or professional practice
- very significant ability to analyse data critically
- outstanding levels of accuracy, technical competence, organisation and expression.

**70–79 (Distinction).** A mark in the range 70–79 will fulfil the following criteria:

- significant ability to plan, organise and execute independently a research project or coursework assignment
- clear evidence of wide and relevant reading, referencing and an engagement with the conceptual issues
- capacity to develop a sophisticated and intelligent argument
- rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues. Materials are evaluated directly, and their assumptions and arguments challenged and/or appraised

- correct referencing
- significant ability to analyse data critically
- original thinking and a willingness to take risks.

**60–69 (Merit).** A mark in the 60–69 range will fulfil the following criteria:

- ability to plan, organise and execute independently a research project or coursework assignment
- strong evidence of critical insight and thinking
- a detailed understanding of the major factual and/or theoretical issues and direct engagement with the relevant literature on the topic
- clear evidence of planning and appropriate choice of sources and methodology with correct referencing
- ability to analyse data critically
- capacity to develop a focused and clear argument and articulate clearly and convincingly a sustained train of logical thought.

**50–59 (Pass).** A mark in the range 50–59 will fulfil the following criteria:

- ability to plan, organise and execute a research project or coursework assignment
- a reasonable understanding of the major factual and/or theoretical issues involved
- evidence of some knowledge of the literature with correct referencing
- ability to analyse data
- examples of a clear train of thought or argument
- the text is introduced and concludes appropriately.

**40–49 (Fail).** A Fail will be awarded in cases in which there is:

- limited ability to plan, organise and execute a research project or coursework assignment
- some awareness and understanding of the literature and of factual or theoretical issues, but with little development
- limited ability to analyse data
- incomplete referencing
- limited ability to present a clear and coherent argument.

**20–39 (Fail).** A Fail will be awarded in cases in which there is:

- very limited ability to plan, organise and execute a research project or coursework assignment
- failure to develop a coherent argument that relates to the research project or assignment
- no engagement with the relevant literature or demonstrable knowledge of the key issues
- incomplete referencing
- clear conceptual or factual errors or misunderstandings
- only fragmentary evidence of critical thought or data analysis.

**0–19 (Fail).** A Fail will be awarded in cases in which there is:

- no demonstrable ability to plan, organise and execute a research project or coursework assignment
- little or no knowledge or understanding related to the research project or assignment
- little or no knowledge of the relevant literature
- major errors in referencing
- no evidence of critical thought or data analysis
- incoherent argument.

## The grading scheme: examinations

The written examinations are 'unseen' (you will only see the paper in the exam centre) and written by hand over a three-hour period. We advise that you practise writing exams in these conditions as part of your examination preparation, as it is not something you would normally do.

You are not allowed to take in books or notes to the exam room. This means that you need to revise thoroughly in preparation for each exam. This is especially important if you have completed the module in the early part of the year, or in a previous year.

Details of the general definitions of what is expected in order to obtain a particular grade are shown below. These guidelines take account of the fact that examination conditions are less conducive to polished work than the conditions in which you write your assignments. Note that as the criteria for each grade rise, they accumulate the elements of the grade below. Assignments awarded better marks will therefore have become comprehensive in both their depth of core skills and advanced skills.

### Postgraduate unseen written examinations marking criteria

**80+ (Distinction).** A mark of 80+ will fulfil the following criteria:

- very significant ability to evaluate literature and theory critically and make informed judgements
- very high levels of creativity, originality and independence of thought
- outstanding levels of accuracy, technical competence, organisation and expression
- outstanding ability of synthesis under exam pressure.

**70–79 (Distinction).** A mark in the 70–79 range will fulfil the following criteria:

- clear evidence of wide and relevant reading and an engagement with the conceptual issues
- development of a sophisticated and intelligent argument
- rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues

- direct evaluation of materials, and challenging and/or appraisal of their assumptions and arguments
- original thinking and a willingness to take risks
- significant ability of synthesis under exam pressure.

**60–69 (Merit).** A mark in the 60–69 range will fulfil the following criteria:

- strong evidence of critical insight and critical thinking
- a detailed understanding of the major factual and/or theoretical issues and direct engagement with the relevant literature on the topic
- development of a focused and clear argument, with clear and convincing articulation of a sustained train of logical thought
- clear evidence of planning and appropriate choice of sources and methodology, and ability of synthesis under exam pressure.

**50–59 (Pass).** A mark in the 50–59 range will fulfil the following criteria:

- a reasonable understanding of the major factual and/or theoretical issues involved
- evidence of planning and selection from appropriate sources
- some demonstrable knowledge of the literature
- the text shows, in places, examples of a clear train of thought or argument
- the text is introduced and concludes appropriately.

**40–49 (Fail).** A Fail will be awarded in cases in which:

- there is some awareness and understanding of the factual or theoretical issues, but with little development
- misunderstandings are evident
- there is some evidence of planning, although irrelevant/unrelated material or arguments are included.

**20–39 (Fail).** A Fail will be awarded in cases which:

- fail to answer the question or to develop an argument that relates to the question set
- do not engage with the relevant literature or demonstrate a knowledge of the key issues
- contain clear conceptual or factual errors or misunderstandings.

**0–19 (Fail).** A Fail will be awarded in cases which:

- show no knowledge or understanding related to the question set
- show no evidence of critical thought or analysis
- contain short answers and incoherent argument.

[2015–16: Learning & Teaching Quality Committee]

**DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL**

**UNIVERSITY OF LONDON**

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

*MSc Examination*
*MBA Examination*
*Postgraduate Diploma Examination*
for External Students

**91DFMC244**
**91DFMC344**

FINANCE (BANKING)
FINANCE (ECONOMIC POLICY)
FINANCE (FINANCIAL SECTOR MANAGEMENT)
FINANCE (QUANTITATIVE FINANCE)
FINANCE AND FINANCIAL LAW
INTERNATIONAL BUSINESS ADMINISTRATION

## Corporate Governance

***Specimen Examination***

---

*This is a specimen examination paper designed to show you the type of examination you will have at the end of the year for **Corporate Governance**. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success in your final examination.*

The examination must be completed in **THREE** hours.

Answer **THREE** questions, selecting at least **ONE** question from **EACH** section. The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

**PLEASE TURN OVER**

Answer **THREE** questions; *at least* **ONE** from **EACH** section.

## Section A

*Answer at least* ***ONE*** *question from this section.*

**1.** Summarise the historical, evolutionary perspective on the debate over the role of law and the state in the rise of dispersed ownership and equity market. Explore some lessons for transition economies from the historical experience.

**2.** Outline and discuss the major merits and pitfalls of the "equity market-based", "bank-led", and "family-based" corporate financing and governance systems in their adaptation to different legal, political, and economic histories.

**3.** Discuss how in a family-controlled large corporation with the pyramid structure, the internal capital market could be used either to expropriate or to protect minority shareholders. How does this differ from the external capital market?

**4.** Critically evaluate the importance of self-regulation in the development of corporate governance practices. Use appropriate examples to justify your conclusions.

## Section B

*Answer at least* ***ONE*** *question from this section.*

**5.** Outline the key emphases in both agency theory and resource-dependence theory. Discuss their application to the board of directors? How well do these theories reflect reality?

**6.** How important is corporate culture for success? What is the role of the CEO in developing a corporate culture and how should this role be rewarded? You should use appropriate case study material to justify your answer.

**7.** Based on the case materials of General Motors (GM), discuss the extent to which the GM's problem was one of "culture" or of bureaucratisation, or of corporate governance failure? Is there such a thing as "large company disease"? How can it be treated?

**8.** Summarise the key guidelines in the OECD Principles of Corporate Governance. Should international investors regard the Principles as the best they can hope to expect, or should they represent the minimum acceptable standards?

**[END OF EXAMINATION]**

# Corporate Governance

# Unit 1 Introduction to Corporate Governance

## Contents

# Unit Overview

The main purposes of Unit 1 are to introduce the basic concepts of corporate governance and examine why interest in corporate governance has exploded around the globe. In studying the unit, you will chart the evolution of corporate structure and learn to describe corporate governance in terms of such issues as capital formation, corporate finance and economic growth.

## Learning outcomes

When you have completed your study of this unit and its readings, you will be able to:

- explain the key concepts underpinning the study of corporate governance
- discuss the concept of the corporation, explain why it exists and how it functions
- define corporate governance and discuss reasons for its recent increase in popularity
- evaluate the relationship between corporate governance and the macro economy.

## Reading for Unit 1

Aguilera R and R Crespi-Cladera (2016) 'Global corporate governance: on the relevance of firms' ownership structure'. *Journal of World Business*, 51 (1), 50–57.

Hansmann H (2000) 'An analytic framework'. In: *The Ownership of Enterprises*. Cambridge MA, Harvard University Press. pp. 11–23.

Monks RAG and N Minow (2011) 'What is a corporation?' In: *Corporate Governance.* 5th Edition. West Sussex, John Wiley & Sons. pp. 3–100

# 1.1 Introduction

Concern with governance issues and their focus has increased dramatically in recent years. This module is designed to enable you to gain an in-depth understanding of the key theoretical and practical issues underpinning the study of corporate governance, and how they affect the governance of the modern corporation. A previous knowledge or study of corporate governance is not essential for this module, although a familiarity with recent governance issues will help put your study in context. If you have previously studied subjects such as economics, finance, sociology of organisations, or law, you will find that this module will further contribute to your existing knowledge of these areas.

## 1.1.1 Ownership and control

Although recent discussion and interest in corporate governance has tended to focus on issues relating to financial crises and such high profile corporate scandals as Enron and WorldCom, corporate governance has in fact been of concern ever since the foundation of the joint-stock company. Much of this concern centred on the separation of ownership from control. Adam Smith, in the eighteenth century, was one of the first economists to express unease over the governance of joint stock companies:

> The directors of such [joint-stock] companies, however, being the managers of other people's money than their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnery frequently watch over their own. Like the stewards of rich men, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.
>
> Source: Smith ([1776] 1990)

Indeed, the separation of ownership and control was the central topic of Adolf Berle and Gardiner Means' (1932) seminal study, which has underpinned much of the recent debate on corporate governance structures. They proposed that the evolution of the modern corporation was such that it produced a condition where the interests of owners and managers diverged. The consequences were a surrender of investor's control, a breaking of traditional property relations and a demand for a completely new definition framework. Such a framework would need to take account of the fact that persons other than those who controlled wealth could now shape industry and individual corporations. Berle and Means regarded this evolution of economic activity as being underpinned by two developments:

- *The factory system*: this formed the basis of the industrial revolution and was responsible for bringing large numbers of workers under a single management.

- *The modern corporation*: the advent of the modern corporation placed the wealth of many individuals under the same central control.

Authors, such as Eugene Fama (1980), later came to view the separation of ownership as a move from the classical model of an entrepreneur or owner-manager single-mindedly operating the firm to maximise profits, to the development of 'behavioural' and 'managerial' theories that focus on monitoring and control. In this manner, the separation of ownership and control was viewed as an efficient form of organisation. The separation of ownership and control was effectively a separation of decision-making and risk-bearing functions, allowing organisations to benefit from specialising in management and risk bearing.

Separating ownership and control also meant new costs for the firm. These are the monitoring costs associated with aligning the interests of owners and managers. Much of the study of corporate governance is concerned with how to minimise these costs and better align the interests of owners and managers. These costs form the basis of agency theory, which sought to explain the transaction or agency costs associated with reconciling the interests of shareholders as principals and managers as agents.

---

**Review Question 1.1**

Berle and Means (1932) were highly sceptical of the separation of ownership and control. However, the literature on organisational form later illustrated the efficiency benefits of separating ownership and control. Organisational theories that viewed the firm as a 'nexus of contracts' provided new insight into how the firm could contract in an efficient manner for the governance issues that arose.

Before proceeding further, you might like to take a moment to write down the likely costs for owners associated with monitoring managers, and how you think these costs might be reduced.

You can compare these with your thinking as it develops during your study of the module.

---

More recently, the expropriation of investors' funds and large-scale corporate and banking failure, as illustrated by the collapse of Enron and the recent Global Financial Crisis, has resulted in a greater focus not just on shareholder-value, but also the effects of corporate governance failure on society generally. Corporate governance is now viewed as an important issue both as a criterion for investment and as a method for improving the allocation of rewards in society.

The globalisation of the international economy has also provided challenges for corporate governance structures. The global repercussions of the recent Global Financial Crisis are a case in point. Large multi-national financial institutions increasingly rely on more complex external and international methods of financing. This results in a growing informational distance between shareholders and management. Large banks and financial institutions have become simultaneously more complex and vulnerable to economic shocks, and the effects of their collapse tend to be felt far beyond their shareholders. This has once again raised questions over whether the separation of ownership and control, with its emphasis on the relationship between the board of directors and shareholders, really is the optimal form of governance. Many argue that instead of being an efficient organisational form, it has instead encouraged excessive risk taking in order to maximise shareholder value, while the costs of failure are borne not necessarily by the board of directors, but rather by society as a whole.

Along with these developments there has been an increasing tendency for governments, regulators and other international organisations to involve themselves in governance issues. The Global Financial Crisis not only witnessed an increasing effort by governments and regulators to design more efficient monitoring and regulatory structures, but in some cases witnessed states once again becoming major shareholders in large banks and corporations. While the latter had the effect of preventing a complete collapse of large financial institutions, from a corporate governance perspective it also suggested that many financial institutions had become so interconnected that the likely contagion from their collapse meant that they had become in effect 'too big to fail'.

### 1.1.2 Systems of corporate governance

Just as in other disciplines, strong divisions have marked the study of corporate governance over different approaches. One of the main areas of contention concerns the main corporate governance systems. The governance literature has largely focused on two main systems:

- *The dispersed or outsider system of governance*, which is characterised by dispersed ownership and shareholder protection and is associated with the UK and US.
- *The concentrated or insider system*, on the other hand, which is characterised by concentrated ownership and weaker shareholder protection, and is associated with European systems of governance.

In this module we also consider a third system of governance – the *family-based system*, which tends to be associated with East Asian countries.

While these systems tend to dominate the core governance literature, we would also like you to understand that these systems are not rigid. Recent developments have seen the emergence of 'unconventional' governance structures in response to changes in the market place. The emergence of human-capital intensive firms, typically associated with Silicon Valley, is one example of this. For these firms, it is human capital rather than physical assets that need to be contracted for. The new challenge is therefore 'to explain what happens when there are no physical assets involved or when the assets are simple commodities and easily replaceable' (Zingales, 2000: p. 31). Similarly, employee ownership, convergence of governance systems and the upward (or downward) devolution of monitoring challenge traditional theories of the firm.

One of often-overlooked characteristics of the corporate form is its ability to adapt. A rigid interpretation of governance systems could lead to a very pessimistic view of the prospects of governance reform, particularly for developing and transition economies. A key feature of recent developments in corporate governance has been the increasing tendency of countries with weak governance institutions to converge towards better practice.

From this brief introduction to corporate governance, you should begin to understand how the study and practice of corporate governance continues to evolve and respond to new developments. The following sections outline the key concepts, definitions and implications of corporate governance. Please note that these definitions and examples are not exhaustive, and you should feel free to reconcile them with your own knowledge and experience.

**Reading 1.1 and 1.2**

You should now read Sections 1 and 2 (pages 50–53) of the article by Ruth Aguilera and Rafel Crespi-Cladera (2016) on the relevance of firms' ownership structure. You will revisit the issue of ownership in Unit 2 and study the remainder of this article in Unit 3 when we look at comparative systems of corporate governance and the question of convergence.

When you have finished reading the article sections note the evolution of studies globally on the relationship between ownership structure and corporate governance.

You should also read pages 11–16 of Henry Hansmann's *The Ownership of Enterprises* in order to familiarise yourself with the concept of ownership and control. These concepts are essential to the understanding of corporate governance. You should note the various forms of ownership that Hansmann identifies.

When you have finished reading, please answer the following questions.

- How does ownership differ from control?
- Why does *formal* control not always mean *effective* control?

Aguilera and Crespi-Cladera (2016) 'Global corporate governance: on the relevance of firms' ownership structure'. *Journal of World Business*

Hansmann (2000) Chapter 1 'An analytic framework' from *The Ownership of Enterprises.*

## 1.1.3 Key conceptual issues

As a subject, corporate governance transcends and encapsulates many different disciplines. Accountants have typically been concerned with the regulatory and compliance aspects of corporate governance. Economists tend to be concerned about how to align the interests of shareholders and managers in order to minimise the costs associated with organisation. More recently, the legal discipline has become increasingly concerned with governance issues.

You should not, however, be overwhelmed by this. The next section will examine some of the key concepts that will help you approach the study of corporate governance. First, the alternative approaches to governance issues are examined; second, the section looks at the nature of the corporation, and thirdly, it defines corporate governance.

## 1.2 Approaches to Corporate Governance

There are two main traditional approaches to the study of corporate governance: institutional and functional.

An *institutional* approach to corporate governance involves examining the existing institutions to see how they can produce the services they offer more efficiently. In corporate governance, institutions generally refer to the regulatory, legal and financial framework that underpins the governance system. An institutional approach would therefore look at each of these areas and see how they could be improved upon in order to improve governance generally. More recently, there has been increasing focus on legal institutions to see how they can be strengthened to protect investors against corporate fraud.

A *functional* approach looks at how different institutional arrangements can function in different ways. This type of approach takes the view that there are different ways to address similar governance concerns. It implies a more open-minded approach to examining different possibilities. The core function is to facilitate investment. However, there are many different ways by which investment can be facilitated.

As you study different units of this module, you will become more aware of the various institutional arrangements that facilitate investment. This will be apparent both in terms of different countries and different theoretical approaches.

### 1.2.1 What is a corporation?

As its name suggests, corporate governance is primarily concerned with the study of the governance of corporations. However, there are many alternative definitions of what exactly a corporation is. In this manner, corporations mean different things to different people. Here are some definitions presented by Monks and Minow (2004: p. 9):

- 'An ingenious device for obtaining individual profit without individual responsibility' Ambrose Bierce, *The Devil's Dictionary*.
- '… one person in law – a person that never dies: in like manner as the River Thames is still the same river, though the parts which compose it are changing every instant' *Blackstone*.
- 'A mechanism established to allow different parties to contribute capital, expertise, and labour, for the maximum benefit of all of them.'

None of these definitions is necessarily better than the others. What you understand at this stage is that the diversity of definitions is illustrative of the many different perspectives and approaches to the corporation. For example, economists have typically viewed the corporation as a 'nexus' or collection of contracts. Those from the management discipline may, however, prefer to see it as a series of complex business relationships.

Another example illustrates how the corporation is viewed by different classes of stakeholders. Take the case of investors, managers and workers:

- Investors are mainly concerned with access to the corporation's profits. They have no responsibility for operational matters. This responsibility is delegated to managers.
- Managers run the company on behalf of investors. They have no responsibility for personally providing funds. Providing funds is the responsibility of investors.
- For workers, the corporation represents a job opportunity and a wage. They have no responsibility for providing funds or for running the business.

---

**Review Question 1.2**

The distinction between the roles and responsibilities of investors, managers and workers is not a rigid one. Recent developments in corporate governance have challenged the conventional understanding of the corporation. Many corporations now provide management with share options, thereby making them investors. You will already know from your reading that there exist many different forms of corporate structure. Worker representatives on the board of directors are common under some governance systems. Worker-owned cooperatives are common in such countries as Spain and Italy. These developments will be examined in greater detail in the following units. However, for the moment, you should consider the fact that one characteristic of a corporation that is often neglected is its ability to adapt.

- How important do you think the ability of the corporation to adapt is in the modern business environment?
- Can you think of examples?

---

## 1.2.2 Essential characteristics of the corporate form

This section examines essential characteristics of the corporation:

- limited liability
- transferability of investor interests
- legal personality
- centralised management.

### Limited liability

One of the key features of the modern corporation is limited liability. Limited liability has its origins in the separation of ownership and control. The corporation is separate from its owners and employees. If a corporation goes bankrupt, its individual members are not individually liable.

This is important for investors, as whatever happens, the risk of loss is limited to the amount of their investment. The downside of limited liability is that it comes with limited control. Remember how we noted in the introduction that the separation of ownership and control led to a specialisation in risk bearing and management. Limited liability comes with limited authority: shareholders' low-level risk corresponds to the low-level control by shareholders.

---

**Review Question 1.3**

Under limited liability, the liability of shareholders is limited to the amount they invest. Risk is spread across individual investors, depending on the size of investment. While this lessens the risk to individual shareholders, it also lessens their control over the corporation. Now consider the following and make note of your answers:

- Compare the limited liability corporation form with partnership form. Adam Smith argued that the partners in a private co-partnery could watch over their investments with much greater vigilance than the owners of joint stock corporations. Why do you think this is?
- What are the advantages of the limited company over an unlimited company? Why do we need limited liability?
- A final question you might consider is whether there is a social cost to limited liability? This is because limited liability is a privilege granted by society that also comes with obligations. We will return to this question when we consider executive remuneration in Unit 6.

---

### Transferability of investor interests

A second important characteristic of the corporate form is the ability of the investor to exit the company with ease. In listed corporations, stock is almost as liquid as cash. In other words, investors can easily sell their investment for cash. Because of this, shareholders possess *exit rights*: they can 'vote with their feet' and sell their shares.

### Legal personality

Not only is the corporation separate from its owners and employees, it also has a legal entity of its own. The following points are important:

- A corporation lives on for as long as it has capital.
- Corporate structure protects its individual participants from direct legal responsibility in its business operation.
- 'Shareholders own shares, not the corporation': this enables limited collective control by shareholders.
- A corporation owns its own assets and property.

To help you answer the next set of questions, please read the following citation from Douglass Bandow, a former aide of US President Ronald Reagan:

> Corporations are specialized institutions created for a specific purpose. They are only one form of enterprise in a very diverse society with lots of different organizations. Churches exist to help people fulfil their responsibilities toward God in community with one another. Governments are instituted most basically to prevent people from violating the rights of others. Philanthropic institutions are created to do good works. Community associations are to promote one or another shared goal. And businesses are established to make a profit by meeting people's needs and wants.

> Shouldn't business nevertheless 'serve' society? Yes, but the way it best does so is by satisfying people's desires in an efficient manner… Does this mean that firms have no responsibilities other than making money? Of course not, just as individuals have obligations other than making money. But while firms have duty to respect the rights of others, they are under no obligation to promote the interest of others. The distinction is important.
>
> Source: Bandow (1992) p. 95

**Review Question 1.4**

- The corporation is a legal person but is it also a *moral person*? What is the extent of the social responsibility of corporations?
- Is there a trade-off/balance between profits and social goals?

## Centralised management

In partnerships, each partner has an equal say in the management of the company. In a corporation, shareholders delegate this responsibility to the board of directors and management. It would be difficult, if not logistically impossible, to find consensus among dispersed individual shareholders on issues concerning the day-to-day affairs of the corporation. Delegation of responsibility works in the following manner:

- The power to determine the company's overall direction is given to the board of directors.
- The power to control the company's day-to-day operation is given to the managers.
- In order to allow the company to operate with maximum efficiency, the shareholders give up the right to make decisions on all but the most general issues facing the company.

**Reading 1.3**

Monks & Minow (2011) *Corporate Governance,* Chapter 1 'What is a Corporation?

Please read the first chapter of *Corporate Governance* by Monks and Minow.

While reading, you should study carefully and take notes on the following issues:

- the evolution and features of the corporation (pages 5–9)
- the corporation as 'a person', 'complex adaptive system' and 'moral' decision taker (pages 12–15)
- the corporation's responsibility to society (pages 16–17).

To help you understand these issues, Monks and Minow have provided a number of interesting case studies that you should read. In particular, the cases of Wrigley Corporation (pages 15–16) and Stride Rite (pages 59–60) provide useful examples of the dilemmas faced by corporations. When reading these cases, you should make notes on the trade-off between social responsibility and profit faced by corporations.

### 1.2.3 What is corporate governance?

At its most basic, corporate governance refers to 'the ways suppliers of finance to corporations assure themselves of getting return on their investment' (Shleifer and Vishny, 1997: p. 736). However, just like the corporation, corporate governance can be defined or interpreted in numerous ways. Traditionally, corporate governance has focused on the shareholder/management relationship. This concerns mainly the internal governance relationships.

> Corporate governance refers to the systems, processes, and responsibilities involved in running and building value in a firm or organisation, and the way in which these are organised and directed at board level.
>
> Source: CMI. (n.d.)

More recently, corporate governance has been used to describe a much broader relationship between institutions and stakeholders.

> Corporate Governance is concerned with the systems of laws, regulations, and practices which will promote enterprise, ensure accountability and trigger performance.
>
> Source: World Council for Corporate Governance (n.d.)

Today, corporate governance is increasingly concerned with the role of stakeholders, and its impact on the collective welfare of society. For example, the OECD views the role of corporate governance as twofold:

- firstly, it covers the manner in which shareholders, managers, employees, creditors, customers and other stakeholders interact with one another in shaping corporate strategies
- secondly, it relates to public policy, and an adequate legal regulatory framework, which are essential for the development of good systems of governance.

Taking these points into account, corporate governance is viewed as a key element in improving the microeconomic efficiency of a firm, affecting the functioning of capital markets and influencing resource allocation. Megginson and Netter (2001) thus defines corporate governance as a nation's 'set of laws, institutions, practices and regulations that determine how limited liability companies will be run and in whose interest' (Megginson & Netter, 2001: p. 377).

From an academic perspective, a corporate governance system is the complex set of socially defined constraints that affect expectations for how authority in firms will be exercised or how the system affects the willingness to make investments in corporations in exchange for promises (e.g. Williamson, 1985).

- A 'good' governance system supports a continual process of mobilising scarce resources to their most promising uses.
- The major components of the governance system are the legal, political, economic and social institutions that either constrain or enable the corporation. According to Holmstrom (1999), under this set-up the firm is viewed as a 'sub-economy', and is dependent on the macro environment.

- There is no perfect corporate governance structure that is able to provide optimal solutions to all trade-offs.

Less academically defined, corporate governance encompasses the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to:

- attract capital
- perform efficiently
- achieve the corporate objective
- meet both legal and obligations and general societal expectations.

Narrowly defined, corporate governance concerns the interactive relationships between corporate managers, directors and the providers of equity capital. However, such a narrow interpretation is not enough to take account of the complex relationships between the corporation and its various stakeholders. Stakeholders include workers, suppliers, creditors and investors. In fact, stakeholders can, in a broad sense, refer to anyone whose life is affected in one way or another by the existence of the corporation.

A more constructive or long-term approach to defining corporate governance should therefore take account of the relationship of the corporation to stakeholders and society. Such an approach should take account of the interests of both shareholders and stakeholders. Viewed in this manner, stakeholder interests (societal expectation) and shareholder interests are not mutually exclusive. Instead, they would appear to be dependent on each other in the long-term.

> Corporate governance deals with the rights and responsibilities of a company's management, its board, shareholders and various stakeholders. How well companies are run affects market confidence as well as company performance. Good corporate governance is therefore essential for companies that want access to capital and for countries that want to stimulate private sector investment. If companies are well run, they will prosper. This, in turn, will enable them to attract investors whose support can help to finance faster growth. Poor corporate governance, on the other hand, weakens a company's potential and, at worst, can pave the way for financial difficulties and even fraud.
>
> Source: McGill and Patel (2008) p. 174

### 1.2.4 Why has interest in governance issues exploded?

Scandal certainly arouses interest, and the following quotation gives one answer to this question:

> Spectacular business failures, the build-up of huge excess capacities, unscrupulous managers expropriating shareholders by paying themselves fantastic salaries, and the roles played by the market for corporate control and institutional investors in generating apparently short-term investment objectives has led to a renewed interest in corporate governance.
>
> Source: Gugler (2001) p. 6

You will probably be aware of the controversy surrounding recent high profile corporate scandals. There is little doubt that these have contributed to the increased focus on governance issues. There are a number of important factors underpinning the recent rise in interest in the subject of corporate governance. The following text cites some of the factors that you should note.

### The international economy

The global expansion of the market economy has meant that many large corporations now operate in an international environment, which is often very different from the domestic market. The transition of former centrally planned economies has also created significant opportunities for further expansion. Consequently, corporations are much more exposed to the institutional structures and practices of the international economy.

### The growth of corporations

Some of multi-nationals have a global reach and economic and political power that transcend the reach and power of governments. Corporations can use this political power to influence regulators and governments.

### Deregulation and globalisation

The deregulation of markets has meant that corporations can now compete across borders with much greater ease. Deeper and broader cross-border business relationships between nations signal significant changes to all aspects of society. Establishing international business relationships means corporations must exhibit a greater understanding of international governance systems and practices. Corporations can also raise funds on international capital markets. This provides the corporation with more diverse funding opportunities, but also increases the distance between shareholders and directors.

### Shareholder activism

One of the features of recent developments in corporate governance has been the rise of institutional investors. Institutional investors have more influence than small shareholders, as they tend to control larger shareholdings. Emerging trends suggest that institutional investors see a link between sound corporate governance and lower investment risk. Smaller shareholders also have become more active in voting against executive compensation of their Chief Executive Officers (CEOs).

### Corporate scandals and financial crises

The systematic failure of investor protection mechanisms, combined with weak capital market regulation, can lead to failure of confidence. As suggested at the beginning of this section, the significant coverage given in the media to such corporate scandals as Enron and WorldCom, and their consequent effect on investor confidence, has effectively raised interest in the issue of corporate governance.

The above issues have propelled corporate governance to the forefront of investment decisions. The strength of this trend can be seen from investors' awareness of and willingness to pay for good governance practice. One noteworthy event is the decision in 2003 of CalPERS, the largest pension fund in the US, to rule out the possibility of investing in China, India and Russia. It also ruled out returning to other emerging markets, including Thailand and Malaysia. CalPERS cited stability and disclosure concerns as the prime reason for rethinking its investment strategy. A 2002 survey by McKinsey, a global consultancy group, found that investors were willing to pay a premium of up to 30% for good corporate governance. More recently, Hermes Asset Management confirmed this trend in a 2016 study of the relationship between investor returns and corporate governance standards. Take a moment to examine some of the findings of Hermes' study in the figures below.

---

**Review Question 1.5**

As you study the charts, write down your answers to the following questions:

- Why do you think that investors are willing to pay for good governance?
- In which regions does poor corporate governance have the biggest negative effect on returns?

You might also note that in Japan poor corporate governance did not have a large negative effect on returns (as in other regions). We will return to the issues surrounding corporate governance reform in Japan in Unit 4.

---

**Figure 1.1 Environmental, social and governance value remains strongly influenced by corporate governance concerns**

Average monthly dispersion in total returns between companies in top-decile and lowest-decile on environment, social and governance scores from 31st December 2008 to 30th June 2016

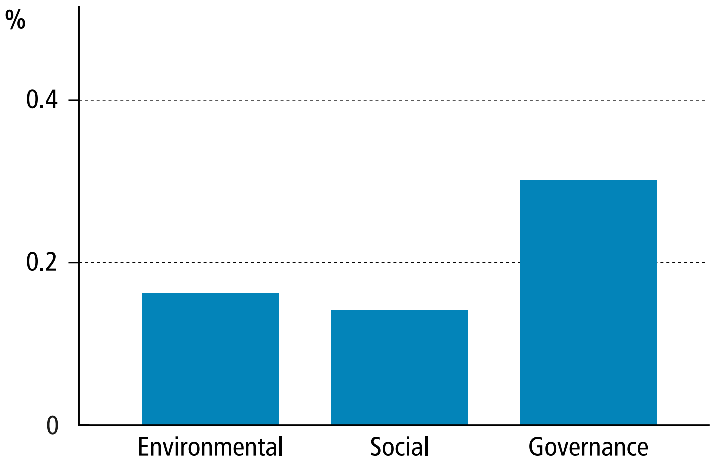
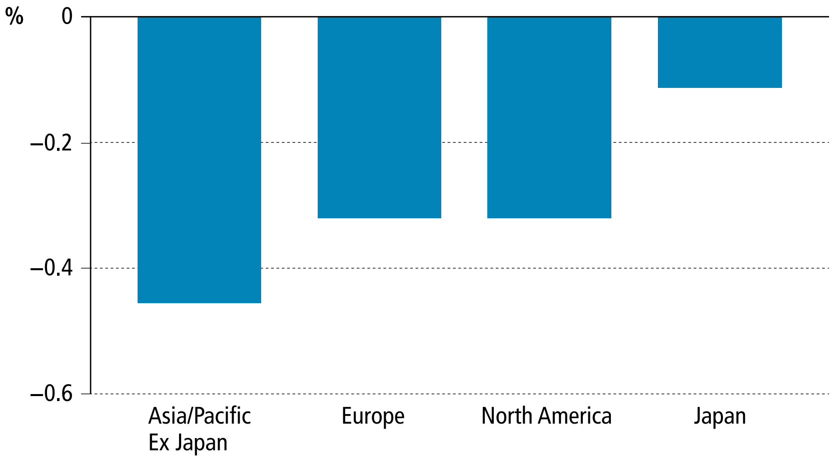


**Figure 1.2 Relative returns of the most poorly governed companies by region**

The average monthly return of stocks in the lowest governance decile relative to the return of the average company in the MSCI World, from 31st December 2008 to 30th June 2016




Source: Hermes Investment Management (2016) pp. 3–4

## 1.3 The Evolution of Corporate Structure

Until now, you have mainly examined contemporary issues in corporate governance. But where did it all start? This section addresses the history of the corporation, which will allow you to put the current structure in a historical context.

### 1.3.1 The first corporations in the Middle Ages

In the Middle Ages, corporations were more like municipalities than business. They included towns, universities and monastic orders. They existed as a form of collective organisation, and they represented a way to create a source of wealth and power that was free from royal domination. In this sense, they provided their members with a structure that protected them from the centralised power of autocrats.

A key feature of the first corporations was that all assets and holdings belonged to the corporation itself, independently of any particular membership. This was facilitated by the development of double-entry bookkeeping, which represented a key technique to separate a man's business from his private life.

### 1.3.2 The first joint-stock companies and the Bubbles Act

In response to the rapidly expanding markets of the East Indies and West Indies, British East India Company was granted a royal Charter in 1600 and Dutch East India Company was established in 1602. Chartered companies could issue shares with unlimited duration.

Unchartered companies followed suit for 120 years without any regulation. The Bubbles Act of 1720 was a response to excessive speculation in the shares of these companies, which resulted in the crash of the South Sea

Bubble. The Act forbade unchartered companies to issue shares and established a certificate of incorporation.

Although corporate power in the beginning was a threat to the power and wealth of monarchy and church, the corporate form soon emerged as the government's ally. Why was this? If the state permits private property, then society needs the government to protect citizens in the useful enjoyment of that property. The rise of the joint stock company necessitated a greater role for the state in regulation and legislating for its operation.

**Study Note 1.1**

**Specialisation and the corporate structure**

The emergence of the corporate structure is as important in transforming commerce as the assembly line is in mass production. Both are based on 'specialisation'. Specialisation is at the core of the corporate form. For example, you don't need to know how to make a complete chair to work in a chair factory – your job is likely to be simply to put the chair leg into the seat. You don't need to know how to make a chair to invest in a chair company. All you need to do is to buy some shares. The corporation form – in particular, the joint-stock company – is necessary for the efficient organisation of talent, money and other factors and energies in the pursuit of technological and industrial progress.

The practical and theoretical considerations underpinning the rise of the modern corporation will be examined in greater detail in Units 2 and 3.

## 1.4 Corporate Governance, Capital Formation, Corporate Finance and Economic Growth

Before you proceed to study the following units, it is a good idea to familiarise yourself with the relationship between corporate governance and other aspects of finance and economics. Because corporate governance affects such a broad range of stakeholders, you should consider its impacts on the macro economy. Important questions to consider include the following:

- How does corporate governance affect capital formation?
- How does it affect the financing of corporations?
- How does it impact on economic growth?
- Can we say there is a link between good governance and economic growth?

While it is difficult to establish a direct empirical link between good corporate governance and economic performance, we can look at the consequences of poor corporate governance in terms of financial crises in Asia in 1997–1998 and the Global Financial Crisis in 2007–2009.

The Asian Financial Crisis illustrated how the vital institutional architecture, which underpins investor confidence, simply did not exist. The result was a massive flight of funds from these markets to the relative safety of developed markets. The consequences for developing economies were catastrophic. Currency, bond and equity markets collapsed, large numbers of companies were declared bankrupt and western investors withdrew large quantities of much needed capital. However, it did have the effect of kick-starting a debate in these counties over how best to improve corporate governance.

Just as the Asian Financial Crisis challenged the economic assumptions underpinning that region, the Global Financial Crisis has raised significant questions over whether the Anglo Saxon system offers the optimal solution to corporate governance problems. Although the supposed strength of the Anglo Saxon system was its delegation of control to the board of directors, the Global Financial Crisis exposed a fundamental flaw in the view that the board of directors was best placed to manage risk.

In the rest of this section, you will now consider some of the main lessons from the Asian and Global Financial Crises, and the contribution good governance can make to avoid these problems.

### 1.4.1 Lessons from the financial crises

The Asian Financial Crisis in 1997/1998 provided the following lessons:

- Weak corporate governance system characterised by cronyism and corruption distorts the efficient allocation of resources.
- It undermines opportunities to compete on a level playing field.
- It leads to failure of confidence, which spreads rapidly from individual companies to entire economies.
- It ultimately hinders investment and economic development.

Although the long term implications of the Global Financial Crisis have yet to be fully understood, some early lessons that might be considered include the following:

- Increasing complexity and interconnectedness of financial institutions meant that they became in effect 'too big to fail'.
- Increasing complexity also meant that regulators were willing to tolerate a certain amount of moral hazard in financial regulation. A moral hazard is typically understood as one where a responsible party, such as a bank making a loan, has an incentive to put their own interests above those of other stakeholders. Because the bank is 'too big to fail', moral hazard is said to lead to excessive risk taking. It was assumed that banks and their boards were best placed to manage this risk.
- Incentives within the financial system were distorted at both the individual and institutional levels. At both levels private rewards and social returns were misaligned (Stiglitz, 2010).
- Firms with more independent directors and greater institutional ownership, features often regarded as the cornerstone of good corporate governance under the Anglo Saxon system, did not necessarily perform any better than those that did not meet these criteria (Erkens *et al*, 2012).

- Boards of directors and shareholders may have placed too much emphasis on maximising shareholder returns which in turn led to excessive risk taking, while the importance of corporate culture, ethics and professionalism were routinely overlooked as valuable characteristics of corporate governance.

We will examine the implications of the recent financial crisis on areas such as executive compensation and global reforms in later units.

### 1.4.2 The contribution of effective corporate governance

How does good governance practice overcome these problems? Just like any approach, there are limits to what better corporate governance can achieve in the absence of a credible institutional structure. However, there are a number of ways in which we believe better corporate governance can contribute to economic improvements. These include the following:

- Good corporate governance promotes the efficient use of resources both within the company and the economy.
- It helps debt and equity capital flow to the most efficient users.
- It is capable of the timely replacing of those managers who do not put scarce resources to efficient use, or are incompetent, or corrupt.
- It helps to boost both domestic and international investors' confidence, and thus assists companies (and economies) to attract lower-cost investment capital (both debt and equity).
- It provides incentives to the board to ensure compliance with the laws, regulations and societal expectations.

Although better governance does not guarantee improved performance at the individual firm level, it makes companies more actively respond to changes in business environment. It is a check on the power of the relatively few individuals within the corporation who control large amount of other people's money, thus reducing the likelihood of corrupt behaviour.

**Reading 1.4**

Monks & Minow (2011) Extract from Chapter 5 'International Governance', in *Corporate Governance.*

The Asian Financial Crisis provided a costly lesson on the dangers of weak governance for both the economies of Asia and the investors who invested in them during the late 1990s. It also resulted in a coordinated domestic and international effort to improve governance in the region. These included changes at both the firm level and the macro level environment. You should now read Monks and Minow's brief account of the changes that occurred after the crisis, 'World Bank and G7 Response', on pages 458–59 of *Corporate Governance*. You might like to compare these efforts with the response to the Global Financial Crisis, over a decade later.

## 1.5 Conclusion

Interest in corporate governance has continued to gather momentum around the globe due to a host of factors, but mainly driven by the demand of investors. You should now understand the key concepts relating to the subject of corporate governance, and the developments that have occurred. It is important for you to understand that the study of corporate governance is the study of connections among relationships across a wide variety of corporate 'constituents'. It is bound to be interdisciplinary. You will benefit by adopting a broad analytical perspective and by taking a practical approach to the issues you encounter.

## References

Aguilera R and R Crespi-Cladera (2016) 'Global corporate governance: on the relevance of firms' ownership structure'. *Journal of World Business*, 51 (1), 50–57

Berle AA and GC Means (1932) *The Modern Corporation and Private Property*. New York, Macmillan.

Bandow D (1992) 'What business owes to cure society's woes'. *Business and Society Review*, 81 (Spring issue), 94–96.

CMI. (n.d.) Chartered Management Institute. Homepage. [Online]. Available from: http://www.managers.org.uk/

Erkens D, M Hung and P Matos (2012) 'Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide'. *Journal of Corporate Finance*, 18. Available from: http://ssrn.com/abstract=1397685

Fama E (1980) 'Agency problems and the theory of the firm'. *Journal of Political Economy*, 88 (2), 288–307.

Gugler K (Ed.) (2001) *Corporate Governance and Economic Performance*. Oxford, Oxford University Press

Hansmann H (2000) 'An analytic framework'. In: *The Ownership of Enterprises*. Cambridge MA, Harvard University Press. pp. 11–23.

Hermes Investment Management (2016) *ESG Investing*. Quarter 3, 2016.

Holmstrom B (1999) 'The firm as a sub-economy'. *Journal of Law Economics and Organization*, 15, 74–102.

McGill RK and NJ Patel (2008) *Global Custody and Clearing Services*. Hampshire, Palgrave Macmillan.

McKinsey & Company (2002) *Investor Opinion Survey 2002*. Washington DC and Worldwide: M,Kinsey Global Institute.

Megginson WL and JM Netter (2001) 'From State to market: a survey of empirical studies on privatization'. *Journal of Economic Literature*, 39 (2), 321–89. Available from: http://ssrn.com/abstract=262311

Monks RAG and N Minow (2004) *Corporate Governance*. 3rd Edition. Oxford, Blackwell.

Monks RAG and N Minow (2011) *Corporate Governance*. 5th Edition. West Sussex, John Wiley & Sons.

Shleifer A and R Vishny (1997) 'A survey of corporate governance'. *The Journal of Finance*, 52 (2) 737–83. Available from: http://uk.jstor.org

Smith A ([1776] 1990) *An Inquiry into the Nature and Causes of the Wealth of Nations*. London, Encyclopedia Britannica.

Stiglitz J (2010) *Incentives and the Performance of America's Financial Sector*. House Committee on Financial Services, 22nd January 2010. Available from: http://financialservices.house.gov/media/file/hearings/111/stiglitz.pdf

Williamson O (1985) *The Economic Institutions of Capitalism*. New York, Free Press.

Zingales L (2000) 'In search of new foundations'. *The Journal of Finance,* 55 (4), 1623–53.