International Scholars Journals

Global Journal of Business Management ISSN 6731-4538 Vol. 13 (4), pp. 001-007, April, 2019. Available online at www.internationalscholarsjournals.org © International Scholars Journals

Review

Critical review of literature on corporate governance and the cost of capital: The value creation perspective

Zulkufly Ramly[1]* and Hafiz Majdi Abdul Rashid[2]

[1]Faculty of Business and Accountancy, University of Malaya, 50603 Kuala Lumpur, Malaysia. [2]Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, P. O. Box 10, 50728 Kuala Lumpur, Malaysia.

Accepted 06 January, 2019

Corporate governance encompasses a broad spectrum of mechanisms intended to mitigate agency risk by increasing the monitoring of managements' actions, limiting managers' opportunistic behaviour, and improving the quality of firms' information flows. A torrent of literature explains that corporate governance mechanisms are able to enhance a firm's value. A firm's value is commonly measured using either market or accounting performance measures. Alternatively, a value is created when a firm enjoys a reduction in its cost of capital. Theoretically, firms that have robust monitoring devices including strong protection of stakeholders' rights will be able to limit the extent of managerial power abuse and prudently allocate resources. This type of firm should have lower risk and access to cheaper sources of capital than other firms. This paper aimed to provide a critical review of literature on the effect of corporate governance on the cost of capital emphasising on the value creation perspective of corporate governance.

Key words: Corporate governance, agency theory, cost of capital, cost of equity capital, cost of debt.

INTRODUCTION

In modern public corporations, suppliers of finance do not have full control over the spending of their money and have limited influence over decision making process. The owners surrender the control to professional controllers or managers who exert immense control over the resources of a firm. In essence, in public firms the ownership is separated from control. The separation of ownership and control (Berle and Means, 1932) leads to conflicts of interest between managers and owners. Conflicts of interest between managers and owners arise when managers engage in activities that are not in line with the objective of maximizing shareholders' wealth. Rampant conflicts of interest ultimately reduce the value of the firm, ceteris paribus. These notions form the starting point for research in corporate governance. Jensen and Meckling (1976) in their renowned theory of the firm paper applied agency theory to the modern corporation and formally modelled the agency costs of outside equity. They established the need for corporate governance to mitigate agency costs arising out of the opportunistic managerial behaviour and to mitigate the adverse impact of incomplete contacting.

Corporate governance (CG) encompasses a broad spectrum of internal and external mechanisms intended to mitigate agency risk by increasing the monitoring of managements' actions, limiting managers' opportunistic behaviour and improving the quality of firms' information flows in the context of separation of ownership and control. Although, the significance of corporate governance in public corporations is widely acknowledged, its contribution to value creation for shareholders remains a subject of an open empirical question. Most common proxies for a firm's value are the market and accounting performances. However, there is

*Corresponding author. E-mail: zulramly@um.edu.my. Tel: +603 7967 3838, 6016 350 4041. Fax: +603 7967 3810.

Abbreviations: CG, Corporate governance; **COC,** cost of capital; **COEC,** cost of equity capital; **COD,** cost of debt.

an emerging brand of idea that a firm's value can also be viewed from the perspective of the ability of the firm to benefit from a reduced cost of capital (COC) as a result of robust corporate governance mechanisms (Donker and Zahir, 2008) . Hence, the objective of this paper is to critically review the limited but expanding body of literature on the effect of corporate governance on cost of capital emphasising on the perspective of value creation of corporate governance.

THEORETICAL UNDERPINNINGS

Agency theory

Agency theory is generally considered as the starting point for any discussion on corporate governance (CG). Jensen and Meckling (1976) define agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some services on the principal's behalf. The principal will delegate some decision-making authority to the agent. Based on this agency relationship and in the context of public listed companies, the directors are agents to the shareholders, who are the principals. The shareholders delegate authority to the directors to monitor the management of a company. According to agency theory, corporate governance problems arise out of the separation of ownership and control in corporate organisations and failure of widely dispersed shareholders and inactive debt holders to monitor the activities and behaviour of corporate managers perfectly and effectively. Agents tend to be self-interested, have ulterior motive or personal agenda other than pursuing shareholders' interest and tend to expropriate outside investors (Jensen and Meckling, 1976). The agents exert immense control over the running of the company, the allocation of resources on behalf of shareholders as well as controlling the information to be disclosed to capital providers. Self-interested motive induces managers to divert firms' resources to activities that are detrimental to the objective of maximising shareholders' wealth.

Given the existence of agency costs that are detrimental to capital providers' interests, it is important to establish effective governance mechanisms. The ultimate aim of corporate governance is to monitor the management activities and decision making so as to ensure that they are in line with shareholders' and debt holders' aspirations. Quality corporate governance can help to alleviate problems arising out of conflict of interest to some extent (Gursoy and Aydogan, 2002) because it promotes goal congruence (Conyon and Schwalbach, 2000). In addition, information asymmetry can be reduced because CG mechanisms can help to induce firms to disclose information in a timely and accurate manner (Ajinkya et al., 1999; Bhojraj and Sengupta, 2003).

Value creation goals of corporate governance

The effects of corporate governance (CG) on firm's value have been a subject of great research interest to many researchers in accounting and finance. It is argued that if firms put in place robust governance mechanisms they should be well managed and profitable. Indeed, robust corporate governance is expected to contribute to the overall value creation process (Shleifer and Vishny, 1997). A torrent of literature explains that corporate governance mechanisms such as quality of information disclosure, ownership structure, independent directors, audit committee and institutional shareholders are able to contribute toward improving firm's performance (Foerster and Huen, 2004; Drobetz et al., 2004; Brown and Caylor, 2006; Rubach and Picou, 2005; Bauer et al., 2008; Abdullah, 2004; Black et al., 2006).

Although, cost of capital (COC) is primarily a risk measure, it is also related to firm value and can be considered a key determinant of firm's value other than market and accounting performance measures. It is a widely accepted statement that robust corporate governance has a positive influence on cost of capital (Donker and Zahir, 2008). In general, robust corporate governance mechanisms will lead to lower firm risk and subsequently to a lower cost of capital, which implicitly increases a firm's market value. Value is created when the firm is able to enjoy a cheaper source of capital. In addition, the cost of capital is very important for a firm in order to assess future investment opportunities and to re-evaluate existing investments.

In the specific context of debt capital, cost of debt (COD) is mainly associated with the possibility of default and availability of credible information for accurately estimating the default risk. Corporate governance can reduce default risk by mitigating agency costs and monitoring managerial performance and by reducing information asymmetry between the firm and lenders. Prior studies on the influence of corporate governance on firms' cost of debt documented an inverse relation between the two variables. Furthermore, debt holders incorporate the effectiveness of firms' corporate governance mechanisms in their assessment of risk profiles when estimating default risk. Debt holders perceive that strong corporate governance can reduce default risk, which enables them to accept reduction in their risk premium. The willingness of debt holders to accept this reduction in itself creates value for the firm.

CORPORATE GOVERNANCE MECHANISMS

Internal governance mechanisms *The board of directors*

Owners appoint directors to the board and in theory; board of directors is the owners' first line of defence against any attempt to expropriate their wealth by

professional managers. In reality, however, the value of board's contributions is not apparent and in fact it is a subject of much debate. In the context of CG research, the primary board-related issues that have been extensively studied include the size and composition of the board. Size simply means the number of directors that comprise the board. Issues under board composition include the participation of independent directors in the board, the leadership structure in particular the posts of chairman and chief executive officer and the existence and roles of board committees to assist the board in decision making as well as supervising the management team.

Executive compensation

Research on executive compensation mainly concerns with the extent to which the managers are remunerated in ways that align their interests with those of their firms' owners. Jensen and Meckling (1976) underscore the importance of incentive alignment solution to agency problems when they propose that executive compensation should be designed in such a way that can reduce the degree of conflict of interest between shareholders and managers. Theoretically, effective compensation system is the one that motivates managers to forego their opportunistic behaviours and focus on value maximisation activities.

Ownership structure

According to Jensen (2000), ownership structure is a significant determinant of firm's objectives, shareholders' wealth and the extent of managerial opportunistic behaviour. Although, in general ownership is separated from control in most publicly held firms, it is rarely completely separated within any firm. Frequently, managers do own some shares in a firm effectively making them owner-manager. When directors and managers own firms' shares, it will help to change their attitude from purely manager to owner-manager mentality. Having owner-manager mentality pushes the managers to strive for value creation activities failing which the value of their share ownership may be impaired.

Block holders who own a substantial portion of a firm's shares can use their influence to discipline managers to work toward value maximisation. Managers are most likely compelled to minimise their opportunistic tendency for which the block holders can exercise their voting power to remove errant managers. Next, institutional shareholders are seen as an effective governance mechanism due to the fact that they normally hold substantial percentage of ownership, which gives them more clout in influencing the board in aligning management interest with those of the shareholder group. Large institutional shareholders, by virtue of holding large proportion of shares, have less incentive to simply exit a firm without affecting the share price. Hence, they tend to resort to voice, which means undertaking monitoring activities to ensure the management does not deviate from value maximisation activities.

In family-owned companies, the classic agency conflict between owners and managers is greatly alleviated due to less separation of ownership and control, which means lesser asymmetric information and greater alignment of owners-managers interest. In addition, larger family shareholder has greater incentives to monitor the manager because the family's wealth is closely related to firm welfare. Moreover, family owned-firms usually have longer investment horizons, which can help to mitigate the inclination of managers for myopic investment decisions. Finally, the government can be a very significant owner of public corporations in some countries. Firms with government as a controlling shareholder are more prevalent in developing countries where the government through its investment arms invest state funds in public firms. Government that typically owns higher proportion of ownership interest in public firms might be more concerned with value creation activities than individual shareholders. The government also has greater incentive to monitor and financially able to engage experts like investment analysts to scrutinise firm's performance than other non-government shareholders.

External governance mechanisms

Market for corporate control

The market for corporate control is considered an alternative disciplining mechanism when the internal governance mechanisms fail in curbing opportunistic managers and creating value for shareholders. Takeover market is seen as a solution to agency problems. It can be a potent disciplining mechanism because managers who feel threatened at the prospect of losing power and control have greater motivation to focus on value-maximising behaviour. Hence, managers have incentive to ensure firm's value is high enough to thwart any possible takeover attempt by competitors.

The legal system

Legal environment—as characterised by both legal rules and their enforcement— provides protection to both shareholders and creditors from expropriation by the managers and controlling shareholders of a firm. The extent to which legal environment is able to provide this protection influences the effectiveness of the corporate governance structure of firms in a particular country. La Porta et al. (2000) underscore the importance of investor

protection when they suggest that in many jurisdictions controlling shareholders have been known to expropriate minority shareholders' and creditors' wealth extensively. As such, a strong investor protection accorded by a country's legal system provides greater security to the property rights of shareholders. Moreover, strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms.

CORPORATE GOVERNANCE AND THE COST OF CAPITAL

Corporate governance and the cost of equity capital

In the U.S.A context, Ashbaugh et al. (2004) document the effect of corporate governance on the cost of equity capital (COEC) of U.S. firms by linking governance attributes to firm's expected returns, beta and realised returns. The governance attributes used in this research were related to (1) quality of firms' financial information, (2) ownership structure, (3) shareholder rights, and (4) board structure. These mechanisms are intended to reduce moral hazard and adverse selection problems present in public listed companies. They use two measures of COEC: (1) The target method using the average firm's expected return over its fiscal period as employed in Botosan and Plumlee (2002, 2005) and Francis et al. (2005), (2) The price-earnings growth ratio as developed in Easton (2004). A composite CG score for each firm is constructed to capture a firm's overall governance risk. Overall, they find that the governance attributes significantly affect firm's cost of equity capital (COEC) directly, as well as indirectly via systematic risk ( ), since most of the CG attributes are significantly associated with .

Using a sample of 8,836 firm-year observations, Huang (2004) investigates the effect of firm-level variation in shareholder rights on the ex-ante COEC. In this study, shareholder rights simply mean the ability of shareholders to remove managers. Weak shareholder rights indicates that poorly performing managers are able to entrench themselves, thus, raising the COC. An alternative hypothesis posits that weak shareholder rights creates job security among managers, thus reduces managerial myopia and motivates them to allocate funds for beneficial long-term projects. This helps to reduce cost of capital. Governance Score (G-score), which is adopted from Gompers et al. (2003) (later known as the GIM Index), represents the extent of shareholder rights. The five dimensions of the GIM Index include (1) tactics for delaying hostile bidders, (2) voting rights, (3) director/ officer protection, (4) other takeover defences and (5) state laws. Every provision of the GIM Index that restricts shareholder rights and increases managerial power are given one point. As such, high G-score indicates weaker level of shareholder rights in a firm. The COEC estimate is based on the Ohlson and Juettner-Nauroth (the OJ Model) (2005) abnormal earnings-based valuation model. Using both pooled and cross-sectional regression techniques, the results indicate that weak shareholder rights (higher G-score) is significantly associated with higher COEC. The study also finds that there is a significant association between the change in G-score and the change in COEC. The results support the notion that weak shareholder rights leads to higher agency cost and the efficient market captures this effect into the COEC.

Using the Gompers et al. (2003) data from 1992 through 2002, Cheng et al. (2006) investigate the effects of firm-level shareholder rights on the COEC of 8,281 U.S firms. They utilise the OJ Model to estimate the COEC. The proxy for shareholder rights level is a modified form of the GIM Index. Their findings indicate that the level of shareholder rights strength is significantly associated with the COEC. The results are significantly influenced by the protection and voting rights dimensions of the GIM Index. The protection dimension consists of four provisions namely blank check, contracts, golden parachutes, indemnification, liability and severance. The protection provisions basically shield directors and managers from legal liability and compensate them for job severance. The voting right dimension consists of 6 provisions namely bylaws, charter, cumulative voting, secret ballot, supermajority and unequal voting. The voting right provisions specify shareholders' voting rights in endorsing mergers, appointing directors and amending bylaws and charter. In fact, weak (strong) firm-level shareholder rights levels are associated with higher (lower) COEC. This evidence supports the theory that strong shareholder rights can possibly reduce discount rate because investors imposed higher discount rate for cash flows of firm with higher agency costs than firms with strong level of shareholders rights.

Using a multi-country approach study, Battacharya and Daouk (2002) examine the impact of the insider trading laws and its enforcement on the COEC in 103 countries. The existence of rampant insider trading affects cost of equity capital (COEC) in two ways. First, it creates liquidity problem in which investors increase the sell price and lower the buy price. This is known as the price-protect strategy, which can increase transaction costs and ultimately affect the COEC. Second, controlling large shareholders may be induced to make profit out of insider information rather than exercising the often difficult and ineffective monitoring. The effect of insider trading variables on cost of equity capital (COEC) is measured using four approaches namely the event-study, the international asset pricing factor model, the changes on the dividend yield, and the credit rating. This study discovers that a mere existence of insider trading laws does not affect COEC but a strict enforcement of the laws is significantly associated with a sharp decrease in the COEC.

Chen et al. (2003) explore the impact of firm-level

disclosures, corporate governance (non-disclosure variables) and country-level investor protection variables on the COEC of 545 firm observations in nine Asian countries for the period 2001 - 2002. The COEC estimate is based on the residual income valuation model (RIV) whilst the CG variables are adopted from the results of the two surveys from Credit Lyonnais Securities Asia. This study reports that all the three CG variables are negatively related to COEC. However, the firm-level governance variables are found to have a more distinctive effect on the COEC than the disclosure variables. In addition, country- level investor protection is also found to be a significant predictor of firms' COEC. Strong investor protection accords greater protection for security right and against any expropriation of wealth by managers and controlling shareholders.

Hail and Leuz (2002) examine the influence of a country's legal institutions and securities regulations on COEC. They test the notion that firms from countries with stronger securities regulations and stricter disclosure requirements enjoy cheaper cost of capital. There are 35,118 firm- year observations from 40 countries from 1992 - 2001 in the final sample. The COEC estimate is based the residual income valuation model (Ohlson, 1995; Claus and Thomas, 2001; Gebhardt et al., 2001; Ohlson and Juettner-Nauroth, 2005; Gode and Mohanram, 2003). They find support for the theory that firms from countries with effective legal system, to some extent, together with extensive disclosure requirements and strong securities regulations seem to enjoy smaller COEC effects.

In fact, as it appears, there were only a few studies conducted to examine the relationship between CG and COEC. An overview of these empirical findings suggests that there are positive shareholder value implications for firms with stronger CG mechanisms. In addition, prior studies also find empirical support for the view that firms with sound CG practices are perceived favourably by the market enabling them to enjoy lower cost of raising equity capital. These studies also demonstrate that CG ratings can be a valid assessment of the strength or weaknesses of firm's CG practices.

Corporate governance and the cost of debt

In the French context, Piot and Missonier-Piera (2007) report that CG quality and auditing structure of public firms have a significant reducing effect on the cost of debt. In this study, CG quality is represented by the ratio of independent directors on the board, the existence of a compensation committee composed of non-executive directors, and the presence of institutional shareholders with more than 5% of ownership. The study is largely motivated by the fact that in France although, banks and other financial institutions are the main capital providers, they rarely have direct influence over firm's CG structures. Thus, these external capital providers might take into account the robustness of monitoring mechanisms set up within firms coupled with the quality of financial reporting in determining their risk premium. The authors use the average interest on a firm's debt, which is calculated as its interest expense for the financial year divided by its average financial debt during the same year. It is worth noting that this measure of COD is similar to the one used by Francis et al. (2005). The results of this research reveal that three CG traits exhibit a significant reducing effect on COD: (1) Board involvement in the monitoring of CG issues, (2) The monitoring power of institutional investors, and (3) Board independence and ability to challenge manager's power.

Blom and Schauten (2006) empirically investigate the influence of CG on firm's COD based on the idea that debt holders take firm's CG in their assessment of risk profiles of firms and when estimating its default risk. This view is further supported by the argument that the risk profile determines the required return by debt holders, which in turn is the firm's COD. Prior studies (Sengupta, 1998; Francis et al., 2005) discover that when defaults risk is high so as the COD, they basically replicate, Sengupta's (1998) research model discovers that corporate governance is negatively related to COD. They utilise Deminor Rating as a proxy for the quality of CG performance of the 300 largest European firms (FTSE Eurotop 300). The rating is divided into four attributes: (1) Rights and duties of shareholders (2) Range of takeover defence, (3) Disclosure on corporate governance (CG) and (4) Board structure and functioning. Similar to Sengupta (1998), the proxy for COD is the yield of 77 bonds issued in the year 2001.

Using firm- level data from the Investors Research Responsibility Center (IRRC) for the period 1990 - 2000, Klock et al. (2005) examine the relationship between a governance index that contains various anti-takeover and shareholder protection factors, and the COD. They utilise the GIM Index that contained various anti-takeover and shareholder protection provisions as a measure of CG, and discover that strong anti-takeover governance factors lower the COD financing. On the other hand, weak anti-takeover provisions are associated with higher COD. The results of this study suggest that whilst the anti-takeover provisions may be costly to shareholders, they are considered as a beneficial tool to protect bond holders' interest.

Anderson et al. (2004) investigate the relationship between audit quality attributes and COD using a sample of Standard and Poor's 500 firms over the period of 1993 - 1998. The governance attributes included in this study are board independence, board size and audit committee independence, size and meeting frequency. This study reports that bondholders feel that board and audit committee's monitoring effectiveness give them assurance on the integrity of the firms' accounting information, thus, accepting reduction in their risk premium.

Anderson et al. (2003) examine the impact of founding family ownership on the COD in the U.S. This research is

driven by the theoretical argument that ownership structure is a potent control mechanism because it affects the manager-shareholder agency conflict. They test whether managers' and shareholders' interest are more closely aligned when firms are controlled by the founder and founding family members. In particular, their work examines the relation between ownership structure and the shareholder-bondholder agency conflict. They scrutinise firms' proxy statements and corporate histories for 252 industrial firms from the Lehman Brothers index database and the Standard and Poor's 500 to manually collect data on family ownership and family board representation. They assign a binary variable to denote firms with family ownership. The COD is measured using the yield spread, or the difference between the weighted-average yield to maturity on the firm's outstanding traded debt and yield to maturity on a Treasury security with corresponding duration. This research finds that there is an association between family ownership and lower agency cost of debt. Firms having less than 12% founding family ownership enjoy the greatest benefit in the COD reduction. In addition, it is also discovered that firms having family members holding the CEO position have higher COD than family firms with external CEO. Overall, this finding suggests that investors appreciate and have confident that family-owned firms can better protect their interest than non-family firms. As such, investors are willing to accept lower premium for their investment.

In a related study using a sample of U.S. firms that went public during 1977 -1998, Pittman and Fortin (2004) examine the relationship between external auditor reputation and firms' COD nine years after the Security and Exchange Commissions registration. External auditor reputation is considered as an important determinant in the quality of financial reporting of a firm. They use a binary variable to denote firms that engage Big Six auditors to perform an independent verification on the reliability and accuracy of their financial statements. This study discovers that firms that retained Big Six auditors (as a proxy for audit quality) showed a lower average COD. This finding suggests that debt holders consider auditor's reputation as a significant factor in determining the quality of financial information published by public listed firms.

Using U.S. data on all industrial bond issues during 1991 - 1996, Bhojraj and Sengupta (2003) examine the link between CG mechanisms and bond ratings and yields. This study is premised on the idea that effective CG mechanisms can reduce default risk by mitigating agency cost and enhancing monitoring of managerial opportunistic behaviour. In addition, CG mechanisms may help alleviate the existence of information asymmetry between the firm and the lenders. This study use the role of institutional shareholders and outside directors as proxies for CG attributes. The findings of this study suggest that firms having stronger external monitoring through greater institutional investor ownership and stronger outside control enjoy lower yields and superior bond ratings.

In summary, there seems to be growing but limited empirical investigations conducted on the effect of CG on firms' COD. Those studies found support for the idea that when making investment decisions, investors take into account firms' CG attributes in their assessment of firm's risk profile. The risk profile determines the required return by debt holders.

CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH

The impact of corporate governance (CG) on firms' value has been a subject of great empirical investigation in the accounting and finance field. A torrent of literature explains a positive influence of corporate governance (CG) on firm's performance from the market and accounting perspectives. Only in recent years have researchers begun to investigate the impact of corporate governance mechanisms on the other dimension of firms' value that is the cost of capital. It can be argued that if firms are able to enjoy cheaper cost of raising capital, a value has been created for shareholders. Based on the limited but growing literatures on the relationship between CG and COC, stronger internal and external CG mechanisms are able to mitigate agency costs arising from conflicts of interest between managers and shareholders and debt holders. Agency costs of equity and debt are partly mitigated through the power of CG to lower firm risk. It is also worth noting that most prior research was based in the U.S. and some of the CG mechanisms examined such as the anti-takeover defences and strong investor protection were unique to the country but not in emerging markets.

A few areas can be the focus of future research. First, empirical investigation into the impact of CG on COC in emerging markets such as the East Asia, Russia and Eastern Europe should be undertaken so as to enable generalisation of research findings. Second, a more comprehensive measure of CG mechanism should be developed as a proxy for quality of CG. Prior research had contributed a governance index such as the one developed by Gompers et al. (2003). The GIM index can be further expanded to include other important elements of CG such as the board structure and procedures, directors' remuneration, accountability and audit, disclosure level and social and environmental commitment. In addition, the use of specific CG attributes as in prior studies is subject to omitted variable problems and not inclusive enough. In reality, firms rely on a more broad-based governance mechanism to control behaviour of managers and ensure value-creation activities are undertaken. Third, research could also explore the link between earnings management and the cost of capital

(COC) in countries where many firms are family-controlled. The existence of controlling family groups may impinge over the rights of the minorities in which the former might have a tendency to extract private benefits from the latter. Lastly, future research could also draw on cross-countries comparisons by examining the impact of different level of accounting regulations and their level of enforcement on the CG.

REFERENCES

Abdullah SN (2004). Board composition, CEO duality and performance among Malaysian listed companies. Corp. Gov. 4(4): 47 – 60.

Ajinkya B, Bhojraj S, Sengupta P (1999). The effect of corporate governance on disclosure. Working Paper. The University of Florida, Gainsville.

Anderson RC, Mansi SA, Reeb DM (2004). Board characteristics, accounting report integrity and the cost of debt. J. Acc. Econ. 37(3): 315-342.

Anderson RC, Mansi SA, Reeb DM (2003). Founding family ownership and the agency cost of debt. J. Financ. Econs. 68: 263-285.

Ashbaugh H, Collins DS, LaFond R (2004). Corporate governance and cost of equity capital. Working Paper. University of Wisconsin-Madison, University of Iowa and Massachusetts Institute of Technology.

Bauer R, Frinjs B, Otten R, Tourani-Rad A (2008). The impact of corporate governance on corporate performance: evidence from Japan. Pacific-Basin Financ. J., 18: 236-251.

Berle A, Means G (1932). The modern corporation and private property. New York: Macmillan.

Bhattarcharya U, Daouk H (2002) The world price of insider trading. J. Financ., 57(1): 75-108.

Bhojraj S, Sengupta P (2003). The effect of corporate governance on bond ratings and yields: the role of institutional investors and outside directors. J. Bus. 76(3): 455-475.

Black BS, Jang H, Kim W (2006). Does corporate governance affect firms' market values? Evidence from Korea. J. Law. Econ. Org., 22: 366-413.

Blom J, Schauten MB (2006). Corporate governance and the cost of debt. Working Paper. Erasmus University Rotterdam and ABN-Amro Bank.

Botosan CA, Plumlee M (2002). A re-examination of disclosure level and the expected cost of equity capital. J. Acc. Res., 40(1): 21 – 40.

Botosan CA, Plumlee MA (2005). Assessing alternative proxies for the expected risk premium. Acc. Rev., 80(1): 21-53.

Brown LD, Caylor ML (2006). Corporate governance and firm valuation. J. Acc. Pub. Pol., 25: 409 -434.

Chen KCW, Chen Z, Wei KC (2003). Disclosure, corporate governance, and the cost of equity capital: Evidence from Asia's emerging markets. Working Paper. Hong Kong University of Science and Technology.

Cheng CS, Collins D, Huang HH (2006). Shareholder rights, financial disclosure and the cost of equity capital. Rev. Financ. Acc., 27: 175-204.

Claus J, Thomas J (2001). Equity premia as low as three percent? Evidence from analysts' earnings forecasts for domestic and international stock markets. J. Financ., 56: 1629-1666.

Conyon MJ, Schwalbach J (2000). Executive compensation: evidence from the UK and Germany. Long Range Plan. 33: 504-526.

Donker H, Zahir S (2008). Towards an impartial and effective corporate governance rating system. Corp. Gov., 8(1): 83-93.

Drobetz W, Schillhofer A, Zimmerman H (2004). Corporate governance and expected stock returns: evidence from Germany. Euro. Financ. Manage., 10: 267-293.

Foerster SR, Huen BC (2004). Does corporate governance matter to Canadian investors? Canad. Invest. Rev., 17: 19-25.

Francis JR, Khurana IK, Pereira R (2005). Disclosure incentives and effects on COC around the world. Acc. Rev., 80(4): 1125 - 1162.

Gebhardt WR, Lee CMC, Swaminathan B (2001). Toward an implied cost of capital. J. Acc. Res., 39: 135-176.

Gode D, Mohanram P (2003). Inferring the cost of capital using the Ohlson-Juettner model. Rev. Acc. Stud., 8: 399-431.

Gompers P, Ishii J, Metrick A (2003). Corporate governance and equity prices. Quart. J. Econ., 16(1): 107 – 131.

Gursoy G, Aygodan K (2002). Equity ownership structure, risk taking, and performance. Emerg. Mark. Financ. Trad. 38(6): 6-25.

Hail L, Luez C (2004). International differences in the cost of equity capital: do legal institutions and securities regulations matter? Working Paper. University of Pennsylvania.

Huang H (2004). Shareholder rights and the cost of equity capital. Working Paper. The University of Houston.

Jensen M (200). A theory of the firm: Governance, residual claims, and organizational form. Cambridge: Harv. Univ. Press.

Jensen M, Meckling W (1976). Theory of the firm: managerial behaviour, agency costs and ownership structure. J. Financ. Econ. 3: 305-360.

Klock MS, Mansi SA, Maxwell WF (2005). Does corporate governance matter to bondholders? J. Financ. Quant. Anal., 40(4): 693-719.

La Porta R, Lopez-de-Silanes F, Shleifer A, Vishny RW (2000) Investor protection and corporate governance. J. Financ. Econ., 58: 3-27.

Ohlson JA (1995). Earnings, book values and dividends in equity valuation. Contemp. Acc. Res., 11: 661-687.

Ohlson JA, Juettner-Nauroth B (2005). Expected EPS and EPS growth as determinants of value. Rev. Acc. Stud., 10: 349-365.

Piot C, Missonier-Piera F (2007). Corporate governance, audit quality and the cost of debt financing of French listed companies. Working Paper. Montpellier Business School and ESSEC Business School.

Pittman JA, Fortin S (2004). Auditor choice and the cost of debt capital for newly public firms. J. Acc. Econ., 37: 113-136.

Rubach M, Picou A (2005). The enactment of corporate governance guidelines: an empirical examination. Corp. Gov. Int. J. Bus. Soc., 5(5): 30-38.

Sengupta P (1998). Corporate disclosure quality and the cost of debt. Acc. Rev., 73(4): 459-474.

Shleifer A, Vishny RW (1997). A survey of corporate governance. J. Financ., 52: 737-783.