

# OWNERSHIP AND BOARD STRUCTURES TO ENSURING EFFECTIVE CORPORATE GOVERNANCE THROUGH OWNERSHIP AND BOARD CONTROL SYSTEMS

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## Abstract

In order to promote accountability, probity and transparency, corporations must indulge in good corporate governance practices. This paper reviews extant literature on corporate governance, construct a framework that links corporate governance mechanisms to good corporate governance through board and ownership control systems and thereafter, develops a testable propositions. It also indicates ways in which the various variables in the framework can be measured. The principal recommendation is since most of the variables in the framework cannot be measured quantitatively, this paper recommends corporate governance investigators to adhere to qualitative research approach.

**Keywords:** Ownership, Board, Control, Corporate Governance

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# Although this paper is the work of the two authors, sections 1.0, 2.2, 2.3, 3.2 and 5.0 are ascribable to M. Castellini- and sections 2.1, 2.3, 3.1 and 4.0 are ascribable to O.S. Agyemang.

## 1.0 Introduction

Corporate governance is an application of a set of powerful micro-policy instruments (or an effective lever) in a corporate business to ensure an efficient and effective use of resources in order to achieve the main object of capital providers, succeed in the competitive market, as well as respecting the interests of other stakeholders (managers, employees, creditors, suppliers, customers, labour union and the local community). A country's corporate governance structure has a meaningful influence on the profitability, growth, access and cost of capital of its corporate businesses (Halpern, 1999).

A good Corporate governance practice influences a corporate business' decisions and eventually, impacts on a country's created wealth (Halpern, 1999). According to Okpara (2010), if a country's governance structure results in low risk investments, projects with low expected returns, or in investments that decrease risk for some capital providers but at a considerable cost, the wealth of that particular country will decrease or experience low growth rate. A company's capability to entice or attract capital providers is subject to how effective its corporate governance practice is. In the sense that,

capital providers are encouraged to invest with the hope that, they are entering into a venture with a credible company that will safeguard their investments and in the end reward them appropriately. McGee( 2009) posits that an effective corporate governance through ownership and board control aids to increase share price and at the same time makes it easy to attract capital. This is because (international) capital providers are likely not to provide money or buy stocks in a corporation that does not acquiesce to good corporate governance.

Financial scandals that are currently happening in the globe and the recent collapse of major corporations (such as Enron, Adelphia, World Com, Commerce Bank, XL Holidays and so on) in the US, Europe and other parts of the world have psychologically disturbed the faith of capital providers in the capital markets and the effectiveness of the mechanisms of corporate governance in promoting accountability, probity and transparency. This has resulted in once again the need to carry out a good corporate governance.

A substantial volume of researches have been carried out on corporate governance practice and the hindrances associated with its development. Despite the number of empirical studies, there is no general

agreement on how to ensure good governance. Most of these studies have concentrated on how corporate governance mechanisms serve as determining forces of corporate performance, which is a product of a good corporate governance (See table 1). Therefore, since it has been argued that corporate performance and firm value are outcomes of good corporate governance, making a direct link from corporate governance mechanisms to corporate performance is neither here nor there (Donaldson & Davis, 1991; Denis, 2001). It is against this backdrop that this study seeks to construct a framework that links corporate governance mechanisms to good corporate governance via a (board and ownership) control

system and to indicate ways in which organisational investigators can use the insights of this framework. The paper is arranged around two main important questions that are useful to corporate governance investigators. These are: how does an ownership structure result in good corporate governance?; and how does a board structure lead to good corporate governance?.

The main contributions of this paper are to evaluate the existing empirical literature, construct a framework that will link ownership and board structures to good corporate governance, present a testable propositions and suggest how the variables in the propositions are measured.

**Table 1.** Examples of Studies based on Performance

Author (year)	Details of the study
Hugh, Lorenzo, Lisa & Pisun (2011)	How board size, board meetings, affiliated nature of committee and average director age affects financial performances of 236 public commercial banks in the US
Ponnu (2008)	How CEO duality and Independent directors impacts on performance of 100 Bursa Malaysian Companies comprising 30 large firms and 70 mid-sized firms.
Bhajat & Bolton (2008)	How board independence, board ownership, CEO-Chair duality and board size determines corporate performance of companies listed on NASAQ and NYSE
Sunday (2008)	It seeks how board size, audit committee, board composition and CEO status determines performances of twenty Nigerian listed firms between 2000-2006
Kyereboah (2007)	How board independence, board activity intensity, CEO duality, Non-duality structure, CEO tenure, Audit Committee and Institutional Ownership determines performances of 103 listed firms drawn from Ghana, Kenya, South Africa and Nigeria.
Andres-Alonso & Vallelado-Gonzales (2006)	How board size, board composition, meetings per year, and ownership structure determines performances of the banking industry in six OECD countries
Ahmadu, Aminu & Tukur (2005)	How board size, outside directors, ownership concentration, Role of CEO and Board size affects firm performance in 93 listed firms on Nigerian Stock Exchange for the period 1996-1999.

Source: compiled by the authors from other corporate governance investigators, working papers and books. Even though the list is not comprehensive in scope, it includes a lot of important studies.

The structure of the remainder of the paper is as follows: the second section provides a review of extant literature on ownership and board structures. Section three explains the ownership and board control systems. The framework that connects ownership and board structures to good corporate governance through ownership and board controls is presented and discussed in the fourth section. It then proceeds to the fifth section that discusses the testable propositions and how the various variables in the

framework are measured. The last section deals with recommendations and conclusions.

## 2.0 Literature Review

### 2.1 Board of Directors

Discussions on corporate governance has more often than not been shaped by the conditions and developments in the United Kingdom and the United States. A large volume of this discussion has been

concentrated on the board and how it contributes to ensuring good corporate governance. For instance, whether a corporate business should have more non-executive directors or not, should a corporate entity adopt a duality structure (ie. should the positions of the Chief Executive Officer and the board's chairperson be held by a single individual) or not and so on.

Discussions on corporate governance in Europe has been highlighted on whether or not a two-tier system is more important than that of a one-tier system (Huse, 2007). A two-tier systems are present if boards have to delegate their duties and responsibilities for conducting daily activities to executives chaired by the Chief Executive Officer. Both the Anglo-American system of corporate governance and the Intercontinental Europe system are concerned with accountability (Huse, 2007) probity and transparency. As a result of these three principles, the onus lies on the board to ensure that they are met.

Corporate governance is about maximizing corporate business' value subject to corporate business' financial, and other legal and contractual obligations (Iskander & Chamlou, 2000). In order to ensure imbalances between stockholders' interests and other stakeholders' interests, there is a need for board of directors to ensure effective corporate governance through long-term sustained value of the firm. Corporate managers need to account effectively to some independent, competent, effective and well motivated board to ensure credibility and legitimacy (Peasnell et al, 2001; Higgs, 2003; Monks & Minow, 2004; Marnet, 2008). ). For instance, a corporation's board of directors have the responsibility to supervise the corporation's management. And if the board refuses to painstakingly supervise its management, it may not be difficult for management to conduct itself dishonorably.

There are four (4) main board member characteristics that have enjoyed a commanding control not just research but also public discussions. These features are; equity holding of the board members, board size, insider/outsider ratio and leadership structure of the board. For the purpose of this discussion, our analysis may be concentrated on the last two features. However, the paper adds two main features that are also essential when dealing with good corporate governance. These are: Board Committees and Board Meetings.

### **2.1.1 Board Composition**

Baysinger and Butler (1985) argue that discussing the functions of the board in a theory of corporate governance without discussing board composition is as unsuitable as discussing the theory of the firm without placing much emphasis on the internal structure of the corporation. The secret to any efficient and effective board depends on the quality and competencies of the people who constitute the

board. Whilst each member of the board role is to monitor management decisions, the effectiveness of this monitoring depends on the experiences and affiliations of the members. Huse (2007) argues that board member quality and competence is regarded as a resource for the corporate entity. The Author suggested seven main types of competence and knowledge. The first type of competence is firm-specific knowledge that comes from experience in the same industry as the corporate entity in question.

The second is general and function-oriented competence that may perhaps, for instance, be in finance, accounting, law, marketing, organisational behaviour, human resources and so on. This type of knowledge is important for advisory duties of the board. Process-oriented competence is the third and may include knowledge about how to conduct board activities. The fourth type is relational competence and it constitutes the 'sum of actual and potential resources embedded within, available through and derived from the network of relationships processed by an individual or social unit'. This requires acquiring important resources outside the corporate entity. Personal characteristics and personalities of the directors constitute the fifth competence. This type may be the capability to think analytically, imaginatively, critically and so on.

Furthermore, members ought to have negotiation skills. In accordance with agency theory, board members need to represent outside stakeholders, but more often than not, the focus is on representing shareholders. Board members are the agents of external principals (ie. shareholders) and for that matter, they must have the competence to serve as controllers and monitors of management in order to make sure that management make decisions that would result in long term value creation. Lastly, ownership is also considered to be a kind of competence. In many corporate entities, shareholders want to serve on the board. Their task is to monitor and control managerial behaviour to ensure long term value creation. They should be able to make proper checks and balances in order to make sure that the corporate entity grows in a sound manner.

In addition to the above competences discussed, boards that consist of inside directors have valuable knowledge when it comes to the operations of the firm, and that each advice they give is valuable to the Chief Executive Officer (CEO) and the corporate business as a whole (Mace, 1986). However, it has been argued that a board consisting of inside directors may be hesitant to point out issues or criticise the CEO when he or she is acting contrary to the firm's goals. . In order to avoid this, a considerable number of well-qualified and independent directors are supposed to be on the board in order to foster well-informed and impartial debate. Fama and Jensen (1983a) surmise that an optimally constituted board ought to have a combination of executive and non-executive directors. It has been argued by corporate

reformers that in order to ensure board effectiveness, the board must be composed mostly by non-executive directors. For instance, the larger the proportion of outside directors on boards, the likelihood that a) the appointment of an outside executive as Chief Executive Officer; b) a non-performing CEO to be dismissed; and c) significant positive share relations (Babatunde & Olaniran, 2009). Kaplan and Minton (1994) conducted a study on effectiveness of outside directors on Japanese boards. This study was conducted after a poor stock performance and earning losses in Japanese firms, and was found that outside directors are better monitors and controllers of management. Despite the fact that some investigators are skeptical about the well-grounded of these supposed roles of directors (Bhagat & Black, 1999, 2000; Hermalin & Weisbach, 1991; Yermack, 1996; Metrick & Ishii, 2002), a lot of studies do suggest debate on corporate governance should not downplay the notion that the appointment or selection of specific individuals to serve on boards promotes good corporate governance. As a result, board composition is a very relevant mechanism to ensuring good corporate governance.

### **2.1.2 Leadership Structure of the board**

The CEO-Chairperson separation depicts the board leadership structure. In theory, the Chief Executive Officer of a corporate business has been given power to take decisions on investment, whereas the board with the chairperson as the head is responsible when it comes to CEO monitoring, by putting in place goals, designing suitable compensation packages and evaluating the performance of management. There are lots of arguments that the principal-agent problem is intensified when one person takes these roles and responsibilities. Jensen (1993) notes without an independent leader, it is difficult for the board to carry out its functions effectively. Millstein and McAVoy (2003) advocate that the separation of the two positions with an independent director as chairperson is vital to position the board as an objective monitoring mechanism. Pease and McMillan (1993) postulate that in order to ensure objectivity by avoiding concentration of power in the hands of one individual, there is the need to separate the roles of the board chairperson and the CEO. The combination of the roles of the chairperson and CEO will lead to a compromise (finding the middle ground) between them, but their separations will enrich the board's independence while monitoring the CEO. Berghe and Levrau (2004) also support the argument that agency theory endorses this separation, thus reducing the supremacy of management on the board. In Germany, Switzerland, Holland and the Scandinavian countries, the two positions (CEO and chairperson) are separated by law.

However, it has also been argued that such a separation produces a new stratum of agency cost and

raises information transfer cost from the CEO to the Chairperson (Brickley, Coles & Jarrell, 1994). As long as the CEO controls the quality, quantity and timing of available information to the directors, it is quite difficult for directors to be sure of getting what they really need for true independent supervision. Baliga, Moyer and Rao (1996) and Daily and Dalton (1997) conclude that there is no dissimilarities in the financial performance between corporations with and without combined positions, describing them as either 'fussing about' or 'much ado about nothing'. However, FinKelstein and D'Aveni (1994) find that the combined structure and separated structure could determine higher or lower performance of a corporate business, depending on how they are fit with the internal and external conditions of a corporation.

### **2.1.3 Board Committees**

Cadbury Report (2002) pronounces that the establishment of board committees is one way to avoid board meetings from being otherwise burdened. Charkham (2005) also notes that the main objective of board committees is to effectively and efficiently manage board issues in a more detailed manner than would otherwise be appropriate to the whole board. Another objective is to increase objectivity either because of inherent conflict of interest such as executive remuneration, or the more responsive affair of disciplining personal favourites as in the exercise of patronage in the appointment of new members. The author also posits that the setting up of board committees give an opportunity for NEDs to involve themselves in a more detailed aspects of corporate governance, which is considered to be key, and "the confidence to intervene when they should and knowledge about when not to" (Charkman, 2005, p.322). Furthermore, when the board delegates some of its responsibilities to board committees, it would have much more time to concentrate on strategic issues (Lechem, 2002). Some of these committees are the audit committee and remuneration committee.

The audit committee is perhaps the most significant board committee in that it is responsible for overseeing the corporation's dealings with its external auditors and supervising the corporation's financial reporting procedure as well as assessing the financial statements of the corporation (Lipman & Lipman, 2006; Jacques du Plessis, Hargovan & Bagaric, 2011; Felo, 2011). Massen (1999) contends that audit committees are connected to the control functions of the board. Canyon and Mallin (1997) also point out that audit committees potentially offer numerous benefits. These include; higher quality financial reporting, putting in place a climate of discipline and control which limits the chances of fraud, strengthening the positions of both internal and external auditors by making available much more independent channels from management influence, and increasing public confidence in the credibility of

financial statements when published. In order to ensure these benefits, members of the audit committee must consist of independent directors who have both the aptitude and the zeal to appreciate the full twists and turns in accounting and auditing concepts. The sustainability of the veracity of the audit process depends on the manner in which the committee employ and settle on the compensation plan of the independent auditor and pre- endorse all services (both auditing and non-auditing) made available by the auditor (Lipman & Lipman, 2006).

Remuneration committee is also considered important in that it acts in a manner in which larger firms could be in a position to control the levels of remuneration. It is a committee that monitors the level and structure of remuneration of directors and senior management. Knell (2006) asserts that the remuneration levels are supposed to be adequate to attract, keep and induce directors and managers of the quality needed to administer the firm in a successful way. However, a firm is suppose to be careful of not paying more than it is needed for this purpose. The rationale behind this is to avoid a remuneration plan that unjustly enrich management at the expense of stockholders. Due to this, concerns have been made regarding the levels of remuneration, and as a result, most remuneration committees in large corporations now rely on remuneration consultants to assist them design their remuneration plans. A study conducted by Cadman, Carter & Hillegeist (2008) points out that, 86% of remuneration committees in large corporations used consultants to assist them in designing remuneration plans. Ethical matters arise when there is a would-be conflict of interest when the consultant hired by the remuneration committee also provides remuneration services to the corporation's management team. The implication is, there is a likelihood that the consultant will suggest a somewhat large remuneration packages for the CEO and other senior managers as an approach to guarantee that management will employ him or her to conduct other services for the corporation. In order to curb this conflict of interests, recommendations have been made that regulators should put forward extra disclosures surrounding the use of remuneration consultants to guarantee that using them does not denigrate the interests of shareholders (Felo, 2011).

#### **2.1.4 Board Meetings**

Board meetings are when the board directors meet to discuss and exchange ideas on how they wish to monitor management and on company strategy. Melyoki (2005) defines board meetings as those board gatherings in which discussions are made concerning the discharge of the decision rights delegated by shareholders. They establish actions to monitor management as well as company strategies. The manner in which these meetings are conducted shows how boards serve as effective mechanism. Demb and

Neubauer (1992) suggest that when board meetings are not thoroughgoing, and members do not partake in deliberations concerning the operations of the company, the effectiveness of the board cannot be anticipated to be high. In such instances, agency problems are more likely to set in at the board level. Cadbury recommends that meeting agenda ought to be arranged in three subjects: 1) information on the firm's progress growth: "periodic reports on sales, profits, shares of markets and cash come under this heading..." (Cadbury, 2003: 84) as would surveys of workers and other stakeholders; 2) issues that need board decisions; and 3) and other relevant deliberations on "...matters which need resolution, or on which the executives are looking to the board for guidance" (Cadbury, 2003: 84).

Demb and Neubauer (1992) point out that the crucial facets that influence board's effectiveness during meetings include timeliness and adequacy of information made available to outside directors coupled with the number of meetings. Directors should be in a position to decide what type of information are essential to their work. The various principles of corporate governance (for example, OECD and CACG) around the world stress on the significance of passing information to members when the need be. This means that timeliness and adequacy of information can serve as significant indicators of effectiveness of board. Vafeas (1995) advocates frequent board meetings is one of the indicators that can be used to measure effectiveness of board with special emphasis on control. This assertion has also been supported by Andres-Alonso and Vallelado-Gonzalez (2006) that the more frequent the meetings, the more detailed the control and monitoring of management as well as a more significant advisory role, which finally has a direct effect on performance.

#### **2.2 Ownership Structure**

There are two main essentials of ownership structure that provides incentives to actively monitor management thus improving corporate governance. These are identities of shareholders and the size of equity held by shareholders. The first benchmark of ownership structure is the size of equity held by one person relative to the total number of remaining stocks of equity capital (Shleifer & Vishny, 1986; Roe, 2003). Roe (2003) posits ownership structure determines shareholder control due to the fact that shareholding concentration creates strong and effective shareholders that can monitor management. Carlsson (2003) affirms when large chunk of stocks are in the hands of a single or small member of shareholders, it induces the owners to change managers when the need arises, and match the corporation with the existing competitive environment. This assertion is also supported by Denis & McConnel (2003) that stockholders who hold a sizeable number of shares of equity capital regularly

monitor management because they have the incentive and resources to pursue that. The systems of Japan and German depict that shareholders with a sizeable number of share of equity are actively involved in monitoring management and taking decisions when needed.

A number of studies support the suggestion of the agency cost literature with special emphasis on the advantage linked to high concentration of ownership. Morck, Nakamura & Shivdasani (2000) in a study report that the value of firms in Japan have the propensity to rise with increased large block holders. Melyoki (2005) in a study on Tanzania-China Textile Company (FTC) Limited in Tanzania fines large shareholders take corrective action by replacing management teams when they discover that incentive problems are in existence. Okpara (2010) examined the ownership structure and effective corporate governance for 100 firms listed on Nigerian Stock Exchange and Equity Security. It was revealed that special treatment is accorded to large block holders whilst minority stockholders are not allowed to put across their views or are overlooked by chairpersons. The implication is large block holders have the right to monitor board since special treatments are accorded them.

The other benchmark of ownership structure mentioned in the related literature is the identities of stockholders. Banks and other financial institutions play more important roles in corporate governance in Germany and Japan. Hirschey (2003) posits concentration of ownership on the part of institutions results in effective monitoring incentives cum monitoring activity. For instance, the possibility that NEDs will be in a position to notice evidence or proof of managerial malpractices is increased when there is a substantial institutional ownership. Denis (2003) affirms German banks have more voting rights than their equity ownership would suggest by virtue of the fact that they vote the proxies of many individual stockholders. He further goes on that these banks and other financial institutions have a large amount of control over firms in Japan and Germany. If a company is making profits, these banks and other financial institutions act as monitors and guardians, but when it is performing poorly, they intervene in their corporate governance practices. These interventions come when these banks and other financial institutions have an interest in the company. Rubach and Sebor (1998) point out these banks and other financial institutions may also appoint board directors of companies in which they invest, based on efficiency-related determinants of poor stock performance and low returns. John and Vasudevan (2003) carried out a study on voting results of 169 stockholder proposals from 1990-1995. These proposals were about a situation under which shareholders sought to have annual general elections for all the members serving on the corporate board. They linked the voting results to a sequence of

dissimilar ownership structure characteristics, including institutional ownership, insider ownership and outside block holders. The pattern of support reveals proposals in general are successful when they get their large support from institutions that hold a substantial part of a company's shares.

## **2.3 Shareholder and Board Control**

Herman (1981) defines control as a word used in a lot of disciplines as well as in common parlance. It relates to power. For instance, the capacity to initiate, circumscribe, constrain, or cease action, either directly or by influence. Stock (1997) also defines control in an exact viewpoint as a term that designate a structural relation in which particular person or collective actors have the *de facto* capability to mobilise the powers that are legally vested in the corporate entity. For the purpose of our analysis, control would be limited to ownership or shareholder control and board control.

### **2.3.1 Ownership or Shareholder Control**

The idea of shareholder control refers to how shareholders directly or indirectly (influencing through board of directors) exercise control over the operations of a corporation. This thought is indicated by four main components: influencing the corporate business through election of board directors, CEO as well as external auditors; obtaining timely and regular information; controlling of vote; and influencing corporate decisions. Shareholders can exert control over a corporation via influencing the appointments of 'important' personalities of the corporation: the chairperson of the board; the CEO; external auditors and others (Denis & McConnell, 2003). Herman (1981) points out the fundamental issue in instituting those who have influence over important corporate decisions gyrates ultimately on determining those who have power to appoint the top executives of a corporation. Therefore, if those people have the power to appoint those key executives, then there is no doubt that they can influence management decisions of a corporation to act on their behalf.

Accessibility of timely and regular information about the activities of a corporation by its large shareholders implies that there is a shareholder control over management decisions (Stock, 1997). Large shareholders do have access to timely and regular information and that information irregularity between large shareholders and management is not relevant (Denis & McConnell, 2003). A study conducted by Melyoki (2005) in Tanzania affirms that access to timely and regular information is an important component of shareholder control because it helps in decision-making. The author further notes that the presence of mechanisms that accelerate timely and regular flow of information to large shareholders is a key indication that large shareholders exercise

control over management of a corporation. Also Large shareholders exert control over management of a corporation through vote control. When there is an existence of the principle, one-share-one-vote, stockholders who have more than 50% shares would exercise control over management thus influencing decisions of the corporation.

**2.3.2 Board Control**

Board of directors function at the apex of a corporation with a considerable potential to influence decisions on the direction and performance of the corporation (Mintzberg, 1983; Zahra & Pearce, 1989; Gabrielsson & Diamanto, 2006). One of the most important ways for boards to control the directions of a corporation is through “decision control”, encompassing board operations such as the determination of the basic long-term goals of the corporation as well as adopting the paths of actions and the allotment of resources required for carrying out those goals. Board of directors also have control over reporting of audited financial reports of the corporate business, the usage of external auditing of the corporate business’ state of affairs in terms of finance, and compliance with Generally Accepted Accounting and Auditing rules and principles (Marnet, 2008).

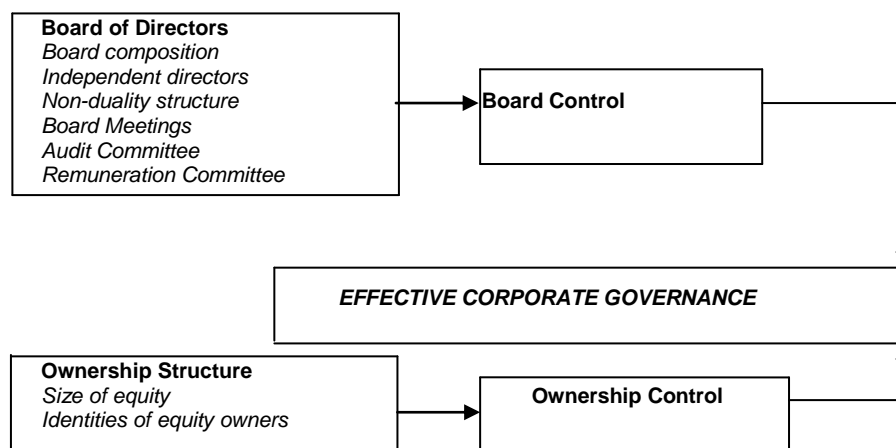
The Anglo-American model suggests the legal obligation of the board to stockholders includes a fiduciary duty to oversee management to ensure that they operate in accordance with the interests of stockholders. The supervisory role implies a degree of opposition between executive and non-executive (Maasen, 1999; Stiles and Taylor, 2002). Two corporations in the United States, The Business Roundtable and the American Law Institute have recommended important actions for the board in respect of board control (Melyoki, 2005). The Business Roundtable suggests the operations of the board in relation to board control involve selecting, dismissing CEO, determining management’s

compensation and reviewing succession planning. The American Law Institute also asserts similar list of responsibilities: electing, reviewing and where necessary dismissing and replacing senior executives, oversee the conduct of the firm’s operations with a view of assessing, on an on-going basis, whether the firm’s assets are properly used in a way that maximizes shareholders’ wealth (Monks and Minow, 2002).

**3.0 Framework: Connecting Ownership and board Structures to Shareholder and Board Control**

Good corporate governance practices reduce agency problems by narrowing the gap between the interests of shareholders and that of management. Macey (2008) opines the objective of good corporate governance is to persuade, compel, induce or encourage management to keep the promises they make to shareholders. The author further points out that from an economic context, corporate governance mechanisms can be evaluated or assessed base on how effective they are in controlling corporate deviance (that is, any actions by corporate anagers or directors that are not centrally to the legitimate, investment-backed expectations of shareholders). Marnet (2008) also suggests the value of a firm does not depend only on its future economic potentials, or how resources are effectively and efficiently managed, but also on the effectiveness of control mechanisms, which aid guarantee that shareholders’ funds are not expropriated or wasted in value lessening ventures. Therefore, effectiveness is defined in this study as how the ownership structure and board structure serve as internal control mechanisms (ie. shareholder control and board control) to narrow the gap between the interests of shareholders and managers (Jensen & Meckling, 1976; Hart, 1995). This then leads the paper to the framework as illustrated below.

**Fig 1. The Framework**



The above framework evinces how the ownership and board structures solve the agency problem. The ownership structure (Independent variable) determines ownership control whilst the board of directors (Independent variable) determines board control. The ownership structure looks at the size of equity held by shareholders and the shareholder's identities. The Board of directors also looks at the composition of the board, independence of directors, CEO-Chairperson separation, board meetings and the board audit and remuneration committees. Effective corporate governance is achieved when there are ownership and board controls. The indicators of Board control are reviewing and guiding firm strategy, ensuring compliance with the law, select and replace CEOs, reviewing CEO remuneration, credibility of independent audit and assessing CEO performance. The indicators of Ownership control are shareholder's influencing the corporate business such as election of board of directors, CEO as well as external auditors, obtaining timely and regular information and voting control (veto) and influencing the decisions of corporation.

### **3.1 Propositions**

In order to test our framework, five main propositions have been proposed to be tested against it. The first proposition addresses the ownership structure and links it with shareholder or ownership control as portrayed in figure 1 above. In formal terms,

*Proposition 1: Shareholders with larger shares exert shareholder control in a company.*

The second proposition addresses how effective board meetings are linked to board control. In formal terms,

*Proposition 2: An effective and efficient board meetings lead to a panoptic board control in a company.*

The third proposition shows how board independence is linked to board control. In other words, how Chief Executive Officer-Chairperson separation leads to board control. In formal terms,

*Proposition 3: The non-duality structure with an independent chairperson results in panoptic board control in a company.*

The fourth proposition addresses how an independent board audit committee leads to board control. In formal terms,

*Proposition 4: Instituting a board audit committee with independent directors leads to a panoptic board control in a company.*

The final proposition addresses how an independent remuneration committee leads to board control. In formal terms,

*Proposition 5: Establishing a board remuneration committee with independent directors leads to a panoptic control in a company.*

### **3.2 Operationalisation of variables**

Bryman (2001) opines that the major task of empirical social research is the accurate and detailed operationalisation of variables. Operationalisation refers to the specification of how, in practice, the constituents indicated in a framework are to be examined (Verschuren & Doreeward, 1999). We therefore, present below (see table 2) the various indicators that could be used to measure the various variables in the above stated propositions. These indicators were extracted from the existing literature on corporate governance.



**Table 2.** Definition of the various variables in the framework

Variable	Explanation	Indicator	Literature
Shareholder control	how shareholders directly or indirectly exert control over the operations of the firm	1.exerting power over decisions, 2. influence the appointment of 'important personalities' such as the CEO and Chairperson, 3.influence corporate decisions taken by the board or management, 4. direct partaking in the running of the corporate entity	Denis & McConnel (2001); Melyoki (2005); Babatunde & Olaniran (2009).
Board Control	undertaking actions to exert control and monitor management	1.selection of, and ability to dismiss the CEO 2.assessing the performance of the CEO, activities of the board and other top executives 3. Approval of corporate strategy 4. setting the CEO's remuneration package	Jensen and Meckling (1976), Mintzberg (1983), OECD (1999), CACG (1999), Monks &Minow (2004), Brink (2011)
Ownership Structure	are identities of shareholders and the size of equity held by shareholders	1.identities of shareholders 2. the size of equity held by shareholders	Shleifer & Vishny (1986), Roe (2003), Carlsson (2003), Denis & McConnell (2003)
Board composition	The percentages of outside and inside directors	1.Executive directors 2.Non-Exexutive directors	Mace (1986), Babatunde & Olaniran (2009), OECD (1999), CACG (1999), Solomon (2007).
Board/Director independence	Not employed by the company or have a significant social or economic independence to management.	1.Non-existence of social ties with the CEO 2. Non-existence of business association with the firm or management 3. Not representing or elected by a major equity holder.	Lorsh & Mclver (1989), Denis &McConnel (2001), Baysinger and Butler (1985),
Non-duality structure	Separation of the positions of the CEO and the Chairperson.	CEO-chairperson separation	Jensen (1993), McAvoy (2003), OECD (2004), CACG (1999),
Board meetings	Meetings by the board to discuss and exchange ideas on how they would be in a position to serve as monitors as well as to undertake key strategic issues concerning the firm	1.timeliness of meetings 2. adequacy of information available to outside directors	Demb & Neubauer (1992), OECD (1999), CACG (1999).
The Board Audit Committee	Committee to effectively and efficiently manage financial affairs of the firm	1.how functioning is the committee 2. kind of directors on the audit committee	Massen (1999), Canyon and Mallin (1997), OECD (1999), CAGG (1999)
board remuneration committee	The committee that sets the CEO's and other top executives' remuneration packages	1.how functioning the committee is 2. sort of directors that constitutes the committee	Felo (2011), OECD (1999), CACG (1999)

Source: Compiled by the author from other agency researchers, working papers, books and moving along the path of referenced articles. Even though the list is not comprehensive in scope, it includes a lot of important studies and also has a bearing on the matter at hand.

#### 4.0 Recommendations for corporate governance researchers

As argued above, this framework makes contributions to recent discussions on corporate governance globally. It is testable and has an extensive empirical backing. Overall, it seems reasonable to recommend the adoption of this framework when investigating the numerous problems in corporate businesses that have a principal-agent structure. Two main specific recommendations are outlined for using this framework in corporate governance investigations. Since most of the variables in the framework cannot be quantified, our recommendation here is to take a qualitative research approach when investigating issues on corporate governance. A case study qualitative research approach is recommended since it allows an investigator to thoroughly evaluate or examine a data within a particular context. Also, unlike other approaches it adds two sources of evidence: direct observation of the events studied as well as interviewing individuals engaged in specific events (Yin, 2003).

Corporate governance researchers should look beyond the body of knowledge that only concentrates on economics. Hirsch, Michaels and Friedman (1987) argue that the benefits of economics are the development of theoretical propositions and careful assumptions. Eisenhardt (1989), however, points out that much of these logical propositions and assumptions have already been carried through. Therefore, placing much emphasis on economics with its restrictive assumptions and logical propositions, and its single-outlook approach is too dicey in the sense that concentrating on it is to risk doing second-rate economics without making any first-rate contribution. In order to curb this, we recommend that corporate governance investigators should consider economics as an addition to more conventional empirical work.

#### 5.0 Conclusion

This paper began by identifying a gap in the extant literature on corporate governance. After a careful review, it was found that most studies on corporate governance have concentrated on how corporate governance mechanisms serve as determining forces of corporate performance. However, it has been argued that corporate performance and firm value are outcomes of good corporate governance. Therefore, making a direct link from corporate governance mechanisms to firm performance is neither here nor there. Due to this, this paper constructed a framework to rectify this flaw. The framework links corporate governance mechanisms to good corporate governance through a control system (ie. Board and Shareholder control systems). This paper also indicates ways in which corporate governance researchers can use the insights of the framework. The

intent of the paper is to clarify some of the confusion surrounding researches on corporate governance and to lead corporate governance researchers to use this framework in their studies with regard to principal-agent issues facing corporate entities.

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