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THE SEMANTICS OF GOVERNANCE

(The common thread running through corporate, public, and global governance)

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Abstract

This paper argues that the semantics of governance illustrates connections and provides a unifying view from which to understand much better its natural branches: corporate, public and global governance. In this regard, governance is presented from the point of view of a distinctive field of learning and practice. Further, three levels of analysis are carried out to drive the subject home. Firstly, it highlights the extent of corporate governance within an institutional framework, and also gives heed to some performance measurement devices: the governance index, the comparative-economics approach, and the governance slack model. Secondly, it frames the notion of public governance while due regard is given to the World Bank's methodology and the public governance wave of reforms in the 80s and 90s. Afterwards, the development goes further to handle the linkage among constituents, charters and representation, so as to later cope with the problems raised by accountability and reputational intermediaries. Thirdly, it addresses the semantics of global governance, country assessments and corporate governance in global settings.

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INTRODUCTION

The sum and substance in corporate, public and global governance lies on what the primary term "governance" amounts to. For the last thirty years, there has been a growing concern with the three topical branches that stems from such primary term, but there has also been a marked neglect to establish a clear semantic background for the whole subject. That such task might be worthwhile is the main contention of this paper, whose development will run along five stages.

To begin with, focus will be given on what is meant by a field of learning and practice. After that, the semantics of governance will be made explicit, coming straight to the point that although governance can be regarded as a propitious field of learning and practice, it seems to be only a discipline in the making.

In section 2, a functional definition of "corporate governance" will be set forth. Before doing that, however, we are going to review some earlier workable definitions, all of them based on particular issues, mainly linked to Corporate Finance and encompassing transaction costs, contracts and property rights. Those remarkable achievements could not prevent practitioners and academics from seeking negative and positive feedback in the realms of the Economic and Law approach, Organization Theory, and even Political Science. Therefore, an embracing definition will be attempted with three purposes in mind:

- firstly, to include under its scope not only corporations, but also any organization in the private sector, even state-owned companies;
- secondly, to make explicit the main problems addressed by this growing field of learning and practice;
- last of all, empirical attempts to measure governance will be fitted within the contextualized semantics conveyed in the paper.

Next, section 3 will be devoted to public governance. There is an increasing awareness that governing the public and the private sectors adds up to a relevant set of common ground problems that can be handled likewise, notwithstanding the fact that sectorial differences are of the essence. Besides, heed will be paid firstly to the World Bank's approach to these issues and, secondly, to the public governance reforms in the 80s and 90s.

Then, in section 4, we try to build up a bridge between corporate and public governance, by accounting for the relationship of Charts, constituents, and representation. Finally, due regard will be given to accountability and the role of reputational intermediaries.

Finally, global governance will be dealt with in section 5. In a world that becomes more and more interlinked, the whole system has to work meaningfully. This is proving to be a hard task to accomplish, because of national idiosyncrasies and conflicts of interest. The section also expands on some empirical methods for addressing keynotes in global governance.

1. GOVERNANCE AS A FIELD OF LEARNING AND PRACTICE

Governance is a point in question to which many contributors in social sciences and practitioners (including law-makers) have been giving their best effort and proficiency. However, it has still not become a full-fledged discipline.

In the corporate realm, for instance, research dates back only to twenty years. On the other hand, systematic study in global governance has evolved along an even shorter span of time. Whereas governance has been topical for ages, its expansion in a sort of independent branch of knowledge is not long past.

From a methodological viewpoint, therefore, mixed feelings arise when trying to set up a definition of governance. Rather than looking for a discipline, perhaps a more cautious frame of mind seems to regard the whole subject as an advancing field of learning and practice, a distinctive variety of what amount to be the scientific style of enquiry and validation.

By a **Field of Learning and Practice,** it is understood a purposeful, enduring and rational endeavor around a particular subject whose underlying tasks are

- to look for principles and goals attached to that subject;
- to provide an explicit semantics for the core of the subject;
- to draw basic and derived statements from a coherent logical system;
- to design reliable procedures to deal with focal problems in actual practice;
- to gather empirical evidence on which to ground their basic and derived statements.

Although we are going to stress how private, public and global governance become entangled in a common-ground semantics, differences of overriding latitude arise among the three former qualifications of governance, in spite of the nurturing similarities addressed all along this paper.

It goes without saying that a definition of governance ought to supply a framework as broad as to give account of private organizations (either for-profit or non-for profit), state-owned firms, governments (inclusive of all divisions, branches and agencies), international institutions [like the United Nations, the World Bank, the International Monetary Fund, the Organization for the Economic Cooperation and Development], and multinational arrangements among several countries (as in the case of EU, NAFTA, MERCOSUR).

Therefore, the notion of governance calls for a streamlined definition to embody the expected functions that intuition and scholarship attach to the tasks of governing organizations or systems.

By **Governance** we are to understand a field of learning and practice whose main tasks are

- the search of principles, rules and good practices that allow organizations to be efficiently run within the current institutions, at a certain date;
- the design of mechanisms of representation, legitimate modes of wielding power, enforcement of rules and procedures, accountability, control, incentives and standards of performance to be applied to organizations;
- the efficacious pursuit of goals and missions that stem from the foundational charter and statutes of the organization.

Against a more general background, beyond the one pertaining organizations, **Governance** may be defined as the art and techniques to care for the way a system or situation works.

Remark

"Institutions" here convey the meaning attached to the term in Institutional Economics, as it will be seen in section 2.1.

2. CORPORATE GOVERNANCE

For the last twenty years, Corporate Governance has become a topical subject matter. Although it can claim that a good job has been done in understanding and shaping up some failures in business organizations, there is still a long way to round up a discipline with particular features and purposes. Not surprisingly, we hardly can get a definition of Corporate Governance that could be met with strong consensus among scholars and practitioners. This unsettled question, far from disturbing, signals a rewarding line of research. Hence, we are going to advance a functional definition but, before doing that, it seems advisable to review earlier attempts to explain what Corporate Governance should be about.

Williamson (1988, 1996) saw that corporate finance and governance are deeply engaged with each other, because debt and equity can be regarded as alternative structures of governance, the former leading to rule-based structures and the latter to discretionary ones. The study of governance, in Williamson's words, is concerned with " *the identification, explication, and mitigation of all forms of contractual hazards*", while any single governance structure has to do with the institutional framework in which the integrity of transactions is decided (in other words, how transactions are negotiated and executed). From this viewpoint, grounded on the transaction-costs theory of organizations, it follows that governance provides the means to attain well-ordered organizations, whenever conflicts of interest threaten the accomplishment of mutual benefits.

In an inspired textbook, Monks and Minow (1995) contend that corporate governance actually deals with "*the relationship among various participants in determining the direction and performance of corporations*". Regarding shareholders, managers and Board of Directors as main actors, Monks and Minow carefully delved into the economic and law strands of the subject.

A mindset based on the agency theory of the firm is provided in Shleifer-Vishny (1997). In the authors' opinion, the matter to be settled was about "*the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment*". The mechanisms of corporate governance consist of institutions (legal and economic) and they may be improved by means of the political process.

Writing for the *New Palgrave Dictionary of Economics and the Law*, Zingales (1997) remarked that corporate governance should be predicated on the exercise of authority, direction and control. And defined a governance system as "*the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship*". Thus, his approach hinges on the incomplete contracts line of analysis. In particular, this author states that corporate governance means that instead of bargaining over the quasi-rents generated in the course of a general relationship, stress must be put on the "*quasi-rents generated by a firm*". In other words, the core issue is how rents are distributed in the firm.

In contrasting international experiences on how corporations actually care about their governance, Demirag (1998) suggests that *"corporate governance is here understood as the system by which companies are controlled, directed and made accountable to shareholders and other stakeholders; control is understood as including indirect influences of financial markets."*

In 1999, the Organization for Economic Cooperation and Development (OECD) came up with a set of Principles of Corporate Governance that intend to focus on the defining concerns of corporate governance, basically on five topics: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibility of the Board. The OECD sees as a common tenet in all governance systems "*a high degree of priority placed on the interests of shareholders, who place their trust in corporations to use their investment funds wisely and effectively."* It goes without saying that, for the OECD's suggestions to be successfully enacted, fundamental reforms must be brought about in each member country and all around the world [more background about this in OECD (1999)].

Summing up: earlier attempts to get a handle on which meaning should be attached to corporate governance are worthy of being noticed, but they stop short of depicting a workable semantics that might profit not only from financial foundations, but also from broader views conveyed by complementary disciplines in social sciences.

Trying to put the whole problem into some kind of perspective, the first thing to realize is that the expression **Corporate Governance** amounts to an unfortunate misnomer. In fact, all organizations in the private sector, by far, display a governance structure of one sort or another: sole ownerships, limited or general partnerships, venture capital and private equity endeavors, small and medium companies in general, limited liabilities companies and corporations, cooperatives, non-for-profit firms [for instance, interest groups, foundations, universities], even state-owned firms.

Remark

Informative background on the governance of non-for-profit firms can be found in Glaeser (2002), while Berry (1989) provides a comprehensive view on interest groups.

The second important point to keep in mind about a reliable definition of corporate governance, is that we need to make clear what the words "stakeholder" and "gatekeeper" stand for.

Everybody that is able to hold a claim on any organization becomes its **stakeholder**: owners and creditors (banks, investment funds, bondholders, institutional investors) and managers are the main stakeholders, followed by employees (through unions and pensioners), government (by means of taxes, regulations and complainants), suppliers (on bonding and trust concerns), customers (on quality and conveniences), and communities (mainly on the grounds of environmental damages or developmental issues). These qualifications have bearing upon for-profit companies, state-owned ones (a national bank, for instance), non-for-profit firms.

On the other hand, **gatekeepers** (or reputational intermediaries) are those organizations that should safeguard the interests and rights of different stakeholders: auditing and accountancy firms, investment banks, law firms, market regulators, institutional investors, creditors' trustees, NGOs (non-government organizations acting as watchdogs of organizations, markets, and government agencies). As global trends have been evolving steadfastly, rating agencies (for instance, Moody's, Standard and Poor's and Fitch) and multinational arrangements (like NAFTA), are gaining a stronger voice as global gatekeepers.

By ***Corporate Governance*** *is meant the governance within corporations and nearly alike organizations (including state-owned firms) that brings to focus the following subjects:*

- *Ownership structure*
- *Company's founding Charter by-laws, statutes, and codes of good practice*
- *Board of Directors and Trustees; allocation of control decision rights*
- *Managers' fiduciary duties towards owners and their management decision rights*
- *Investors' property rights and protective covenants*
- *Conflicts of interest between managers, creditors, owners and other stakeholders*
- *Managers' performance and incentives*
- *Rent-seeking and soft-budget constraints*
- *Production and disclosure of information to markets, regulators and stakeholders*
- *Accountability to regulators, stakeholders and investors*
- *Private, public and global gatekeepers (reputational intermediaries)*
- *National and international institutional constraints (the Judiciary, traditions, regulations, and law enforcement)*

For the purpose of this monograph, the definition above has some attributes that will also be shared with the similar ones of public and global governance to be introduced later in sections 3 and 5, namely

- it is assumed that we are dealing with distinguishable tasks of governance;
- it includes the most frequent problems that, under the label of corporate governance, have been the concern of most people engaged in the subject;
- it narrows down on the main goals corporate governance should address eventually;
- far from fixing a cut and dried meaning, it wants to provide useful guidelines instead.

2.1. INSTITUTIONAL ECONOMICS

Organizations in general, and corporations in particular, cannot be isolated from their institutional backgrounds. This linkage, suitably labeled "**Institutional Approach**" (or "institutional economics" for some quarters), has widely been studied for the last thirty years. Being North (1990) a foremost authoritative source, we are going to quote him so as to outline this distinctive point of view:

"Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change. [...]

[…] Organizations are created with purposive intent in consequence of the opportunity set resulting from the existing set of constraints (institutional ones as well as the traditional ones of economic theory) and in the course of attempts to accomplish their objectives are a major agent of institutional change "

When the study of corporate governance is framed within the institutional viewpoint, it can address some core issues (as shown in Exhibit 1) to which alternative approaches have failed to explain.

The scope of the analysis allowed by the Institutional Economics' point of view is broader enough to deal with overlapping matters arising in public and global governance, as will be developed in sections 3 and 5.

2.2. MEASURING CORPORATE GOVERNANCE

For the last two decades, not only research and debate have been carried out, but also extensive empirical efforts to track the record of companies in governance design and practices. In this section, a brief outline will be given to three tools designed to measure attributes of corporate governance: an econometric attempt of setting up a governance index, the approach of the comparative-economics, and the governance slack model grounded on incremental cash flows.

EXHIBIT 1
THE INSTITUTIONAL APPROACH CONTRIBUTION
TO CORPORATE GOVERNANCE PROBLEMS

a) What can be said about the ownership and control structure of any firm all around the world? Is there a fiduciary capitalism? [*This claim is well developed in Hawley and Williams,1997*]. To what extent does the capital structure of any corporation mirror the institutions of the country where the company runs its businesses?

b) Does the firm belong to the common law (anglo-saxon countries) or the civil law (continental European) tradition? [*Background on this in La Porta et al,1999*]. What about the regulations in capital markets on cash flows moving around within and between national boundaries? Are there regulations on cross and circuluar ownership?

c) How protected are the property rights of creditors and stockholders? How suitable is the law environment to enforce contracts? To what extent a legal framework holding in a country can be regarded as a competitive advantage for companies willing to invest in that country? How to factor transaction costs into a particular governance structure? [*More on this in Demirag, 1998*]

d) How transparent are accounting and reporting practices in each country? Is the information provided to owners and third parties accurate and reliable? How to prevent companies and managers from creative accounting, money laundering and self-dealing? Are there codes of best practice and to what extent they are complied with? Do they enhance the companies' value? Who are the reputational intermediaries and watchdogs? [*A handy reference is Black, 2000*]

e) To what extent managers are prevented from plundering owners or creditors? Do shareholders receive dividends not based on profits but on the sale of corporate assets? How good are the covenants that the company pledges on behalf of creditors, owners and other stakeholders? What are the incentives fostered by formal and informal institutions so that companies become more efficient and reputable? [*Useful insights in Coffee, 2001*]

f) Which corporate governance procedures and practices should be enacted so as to avoid crony capitalist countries, mafia-partnerships and terrorism linkages, from investing in corporations and banks through special purpose vehicles like those depicted and widely used by Enron, and many investment funds, all over the world? [*On the Enron's disgraceful affair see Apreda, 2002*]

a) The Corporate Governance Index

A promising attempt to give empirical weight to governance statements is the one carried out by Gompers, Ishi and Metrick (2001), who brought forth a Governance Index that uses 24 different governance provisions for about 1,500 firms per year, taking advantage of data collected by Investor Responsibility Research Center (IRRC) since 1990. Exhibit 2 supplies more details on the provisions that comprise the index.

For every firm they added 1 point for every provision that reduced shareholder rights. Firms in the highest decile of the index are placed in the "management portfolio" and are referred to as having

the highest management power, whereas those in the lowest decile of the index are placed in the "shareholders portfolio" and are referred to as having the strongest shareholder rights.

EXHIBIT 2
THE GOVERNANCE INDEX

Provision	Description
Anti-Greenmail	To prevent that a company could agree with a large shareholder to buy back his stock at a high price for the shareholder's promise not to seek control for a period of time.
Blank Check	Preferred stock over which the Board determine voting, dividend, conversion and rights.
Business Combination	Laws that impose a delay of certain transactions (asset sales, mergers).
Bylaws	They are amendment limitations to change governing documents of the corporation.
Charter	See "Bylaws".
Classified Board	The directors are placed into different classes and serve overlapping terms. It prevents an outsider from gaining control of a board in a short-term horizon.
Compensation Plans	Allowing participants to cash out options or accelerate the payout of bonuses should there be a change in control
Contracts	Indemnification contracts from legal expenses and lawsuits pertaining their conduct.
Control-Share Cash-Out	Laws that enable shareholders to sell their stakes to a controlling shareholder at a fair price.
Cumulative Voting	A shareholder can allocate his total votes in any manner desired, to elect favored directors.
Directors' Duties	They allow directors to consider constituencies other than shareholders when considering a merger (employees, host communities, suppliers).
Fair Price	These requirements limit the range of prices a bidder can pay in two-tier offers.
Golden Parachutes	Severance agreements which provide cash and non-cash compensation to senior executives upon a triggering event such as termination, demotion or resignation following a change in control.
Director Indemnification	To indemnify directors and executives from legal expenses and lawsuits pertaining their conduct. This provision uses the bylaws and charter of the company.
Liability	It limits the directors' personal liability, mainly for breaches of the duties of care but not for breaches of the duty of loyalty or for intentional misconduct.
Pension Parachutes	Surplus funds are required to remain the property of the pension fund and this prevents an acquirer from using these funds to finance an acquisition.
Poison Pills	Securities that provide their holders with special rights in the case of a triggering event such as a hostile takeover bid.
Secret Ballot	Independent third party or employees sworn to secrecy are used to count proxy votes and the management agrees not to look at individual proxy cards.
Executives Severance	Agreements to assure executives of their positions or some compensation, but they are not contingent upon a change in control.
Silver Parachutes	Similar to golden parachutes but on behalf of employees.
Special Meeting	They increase or decrease the level of shareholder support required to call a special meeting.
Supermajority	Charter provision for approval of mergers.
Unequal Voting	They limit the voting rights of some shareholders and expand those of others.
Written Consent	Limitations of action by written consent, for establishment of majority thresholders, unanimous consent, elimination of the right to take action.

Source: Gompers, Ishii and Metrick (2001).

Their major findings can be listed this way:

- Firms with weaker shareholder rights earned lower returns, were valued lower, had poor operating performance and engaged in greater capital expenditures and takeover activity.

- Corporate governance is strengthened by means of security regulation (at the federal level), corporate law (at the state level, or the federal level otherwise), and corporate by-laws, the Charter's provisions (at the firm level).

- Agency problems can be mitigated by means of legal protection of minority investors, the use of Boards as monitors of the senior management, also with an active market for corporate control.

b) The comparative-economics approach

For the last two decades and in a series of well-known papers, a group of scholars have been giving heed to institutional aspects of different governance regimes spread over the world, with the purpose of finding plausible measures to account for topical problems arising in this field of learning and practice. Among those contributions, we highlight below some relevant for the contents of this paper.

- *Large shareholders and corporate control* (Shleifer and Vishny, 1986): it was shown that controlling shareholders face strong incentives to monitor managers and maximize profits when they retain substantial cash flows rights in addition to control.

- *Law and finance* (La Porta et al. 1998): stressing the point that the development of financial markets is hindered whenever laws are unprotective of investors; five variables were tested, namely the efficiency of the judicial system, the assessment of the law and the order traditions, an index of government corruption, the risk of expropriation, and the risk of contract repudiation.

- *Corporate ownership around the world* (La Porta et al, 1999): that showed that only in economies with good shareholder protection there are firms widely held by many shareholders; in most countries, instead, firms are typically controlled by families or by the State.

- *Investor protection and corporate valuation* (La Porta et al, 1999): where evidence was found that higher valuation is to be expected for those firms performing in countries with better protection of minority shareholders.

- *Comparative economics* (Djankov et al, 2003): in which good economic institutions are regarded as those that secure property rights, grant the people to keep the returns on their investments, set up contracts and resolve disputes; the problem of disorder is suitable addressed, expanding on ethnic violence, squatter takings, bribes, investor expropriation, terrorism, public expropriation. Hence, the comparative economics deals with differences in institutional settings bringing about consequences for economic performance.

c) The governance slack model

Another contribution to the task of measuring governance issues has been supplied by Apreda (1999, 2002, 2003) who built up a model to cope with corporate governance problems based on incremental cash flows, by introducing a "governance-slack" so as to track governance malfeasances and enhance the managers' accountability. The proposal can be made more specific by noting three of its main components:

- The governance-slack is a complex of incremental cash flows where corporate rent-seeking and managerial soft-budget constraint obtain eventually. Its structure, as depicted in (1), can be regarded as a resources-provider if we shape it in residual form:

$$E[\Delta CF_{t+1}\,(\text{governance-slack})] = E[\Delta CF_{t+1}\,(\text{assets})] + E[\text{new debt issues}_{t+1}] + E[\text{new stock issues}_{t+1}] - E[\Delta CF_{t+1}\,(\text{bondholders})] - E[\Delta CF_{t+1}\,(\text{stockholders})] - E[\Delta CF_{t+1}\,(\text{internal mutual fund})] - E[\Delta CF_{t+1}\,(\text{management pay package})] \tag{1}$$

Here lays the remaining value brought about by assets and securities issued by the company eventually, after paying what the companies owes to bondholders and stockholders, namely interest, principal or dividends. Going further, the "*internal mutual fund"* is the place where cash assets (cash not required for operations, and short-term financial assets) and long-term financial assets and provides with liquidity through the management of a portfolio of financial assets issued by other companies or governments. Besides, the internal mutual fund allows for the financing of "*new growth opportunities*". Last of all, (1) gives heed to the incremental cash flows around the "*management pay package"*, that not only include the fixed components of their compensations, but also their performance bonus and contingent rewards (like stock options, phantom stock, preferred convertible stock and the like).

- Simultaneously, a dual structure is ingrained in the governance slack whenever it plays as a resources-allocator. Such structure follows from

$$E[\Delta CF_{t+1}\,(\text{governance slack})] = E[\Delta CF_{t+1}\,(\text{sinking funds})] + E[\Delta CF_{t+1}\,(\text{growth opportunities})] + E[\Delta CF_{t+1}\,(\text{asymmetric information and agency costs})] + E[\Delta CF_{t}\,(\text{risk management})] + E[\Delta CF_{t+1}\,(\text{ownership and control})] \tag{2}$$

Incremental cash flows directed to *"sinking funds"* include fixed assets replacement, sunk costs, bonds repayment, corporate venture capital, debt and stock repurchase provisions, internal pension fund portfolio. On the other hand, "*growth opportunities*" refer to cash flows appropriated for future capital asset investments, reorganization projects, mergers and acquisitions contingencies. By "*asymmetric information and agency costs*" are meant those incremental cash flows gathering around bond and stock covenants, agency contracts and incentives (most of the items embracing the Board of Directors and the management pay package), agency problems and

costs. Cash flows related to *"risk management"* encompass financial and credit risks mainly. Finally, "*ownership and control*" refers to the decision-making of going public or private, the board composition, allocation to gatekeepers expenses, and the issuance of convertible securities.

- Whereas on ex~ante basis, the Board can hold managers accountable for sensitive incremental cash flows in (1) and (2) that could give room for earnings contrivances, it will be on ex~post basis that managers can be held accountable for the performance of what (1) and (2) convey in actual fact: a budget and a contingency plan to deal with corporate governance problems.

Remarks

By earnings management is meant the procedures (anticipated incorme recognition, deferral of costs, depreciation and reserves cooking, off-sheet charges and provisions, special-purpose vehicles) that enable corporate managers to manipulate the firm's earnings opportunistically and with guile.

The incremental cash flows are expected ones, assessed at the beginning of the period (" t ").

Background, details, and derivations of this model can be found in Apreda (2002, 2003).

3. PUBLIC GOVERNANCE

Governance in the public sector of any country points to the running of the State, taking into account the mechanisms by which the government should work well.

As a matter of concern, Government has been a field of study and practice since human beings built up structures and arrangements for living in society. But it was when civil and representative governments sprung in the XVII century (being the Peace of Westfalia in 1648 a watershed) that the subject matter reached the stage of a scholarly field of inquiry and practice, to be undertaken independently from philosophical analysis.

On the other hand, the historical background of this development was provided by both the British contractual tradition and the Enlightment which brought about, among other things, landmark events or innovations like the Western Science, representative democracies, the Industrial Revolution, the American Independence, the limited-liability company and the legal category of corporation, the idea of countervailing powers, the claim of accountability of representatives, the budget-control tradition, the spreading all over the world of both the property-rights tradition and the political liberalism tenets.

Nevertheless, the interest in public governance goes further back only two or three decades. However, it focuses neither in what the nature of government adds up to, nor to provide a theory of how a government must be assessed, both topics in the realm of the Political Science. Instead, public governance attempts to cope with a set of distinctive issues that overlap with Economics, Political Science, International Relations and Law.

There has been a good deal of debate on Public Governance for the last twenty years, which was included in the agenda of governments, lawmakers and international institutions. We want to

highlight two practical achievements that sprang from multinational efforts: a benchmark for the analysis of public governance, drawn up by the Institute for Governance at the World Bank, and the widespread public governance reforms in the 80s and 90s. The former will be developed in section 3.1, whereas the latter in section 3.2.

After these prefatory remarks, we can set forth the semantics of Public Governance:

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*By **Public Governance** is meant the governance of organizations in representative democracies with a distinctive focus on the following matters:*

- The founding Charter and Bill of Rights
- The tradition and institutions by which the authority in a country is exercised
- Institutional design, division of powers, and bureaucracy to run the government
- The processes by which governments are selected, monitored and replaced
- Representation and accountability
- Protection of property rights
- Rent-seeking, Soft-Budget Constraint and corruption
- "State-Capture" by entrenched interests in the private sector
- Capacity to effectively formulate and implement sound policies, and deliver public services
- Judiciary integrity and law enforcement.
- The role of gatekeepers (reputational intermediaries), groups of interest and the media
- Respect of citizens and the state for the institutions that govern economic and social interaction among them.

Remark

By State-Capture is meant the efforts of firms to shape and influence the underlying rules of the game (i.e. legislation, laws, rules, procedures, soft-budget constraints) through private payments to public officials. Corruption is usually defined as the abuse of public officials for private gains. (Hellman et al. (2000) provides a good survey)

It is worthy of being remarked the efforts made by the United Nations in shaping a sound approach to public governance. In a contextualized definition, the UN states that

"Governance is the exercise of political, economic and administrative authority to manage a nation's affairs." [Discussion Paper number 2, 1997]

Such a notion encompasses mechanisms, processes, relationships and institutions through which citizens and groups match their interests, exercise rights and obligations, and mediate differences.

For the global institution, the challenge facing all societies is to create a system of governance that promotes, supports and sustains human development. Taking a further step, for the UN the main characteristics of good governance are:

"Being participatory, sustainable, accountable, legitimate, acceptable to the people, tolerating, and transparent. Promoting equity and equality, gender balance, able to develop the resources and

methods of governance, to define and take ownership of national solutions, to deal with temporal issues. Service-oriented, operating by the rule of law, efficient and effective in the use of resources". [same source as above]

3.1 THE WORLD BANK'S APPROACH TO PUBLIC GOVERNANCE ISSUES

This approach brings to light a sound methodological framework to deal with the manifold problems underlying the governance of the public sector. Exhibit 3 intends to give a picture of such benchmark.

EXHIBIT 3
AN ANALYTICAL FRAMEWORK
TO COPE WITH PUBLIC GOVERNANCE ISSUES
(The World Bank's Approach)

- **First dimension of analysis**

The process of selecting, monitoring, and replacing governments.

Associated measurable concepts:

a) Voice and external accountability through citizens feedback, democratic institutions and a competitive press.
b) Political stability and lack of violence, crime and terrorism.

- **Second dimension of analysis**

The capacity to formulate and implement sound policies, and deliver public services.

Associated measurable concepts:

a) Government effectiveness (including quality of policymaking, bureaucracy, and public service delivery).
b) Lack of regulatory burden.

- **Third dimension of analysis**

The respect of citizens and the state for the institutions that govern economic and social interactions among them.

Associated measurable concepts:

a) Rule of law (protection of property rights, judiciary independence).
b) Control of corruption.

Source: Fremond and Capaul (2002)

Governance matters, as Kaufmann et al. (1999) have argued, because there is a distinctive causal relationship between good governance on the one hand, national growth and development issues on the other hand.

3.2 PUBLIC GOVERNANCE REFORM IN THE 80s AND 90s.

Global developments brought about a movement of reform in countries all over the world that can be split down as belonging to two broad paradigms: the Westminster-Style Reforms and the American-Style Reinvention.

EXHIBIT 4
REFORMS IN THE PUBLIC GOVERNANCE

a) Core characteristics

- Productivity: how can governments produce more services with less tax money?
- Marketization: how can governments use market-style incentives to root out the pathologies of bureaucracies?
- Service orientation: how can governments better connect with citizens?
- Policy: how can government improve its capacities to devise and track policy?
- Accountability for results: how can governments improve their ability to deliver what they promise?

b) Westminster-style reforms

They were carried out firstly in New Zealand (as from 1978) and the United Kingdom (as from 1982,stressing the idea of an accountable management through the Financial Management Initiative), spreading to Canada and Australia afterwards. This movement focused in the following goals:

- new public management and shrinking of the government size
- market-style discipline in the government and sweeping change in government functions

The Westminster-style strategy was grounded on a set of driving ideas:

- redefining what government ought to do privatization of those tasks that government should no longer do
- new budgeting and personnel policies; new contractual procedures
- changes and restructure from top to bottom; downsizing

c) *American-style reinvention*

This paradigm entered the stage of global reform later than the countries following the Westminster reforms (actually as from 1992, under Bill Clinton's government and his National Performance Review), but offered impressive changes in the bureaucracy and administrative procedures (incremental reforms). Clinton charged his Vice-president as the man to shape this reinvention of the government and Al Gore focused on goals that were framed with catching expressions:

works better, costs less
review everything you do
America@ItsBest
safe and healthy America

The American-style strategy was fostered by the following driving ideas:

cheaper and effective government
shrinking the scope of government activities
incorporate the best practices of business, from customer services to a focus on results

Source: Kettle (2000)

Remarks

Kettle's monograph gives heed to sweeping and evolving reforms carried out by New Zealand, Australia, Canada, Ireland, Greece, Netherlands, Iceland, Mexico, Italy, United States, Belgium, Norway, Spain, Denmark, United Kingdom, Sweden, Austria, Germany, Finland, Turkey, Portugal, France, Switzerland, Japan and Korea. Background on Argentina's reform is given in Apreda (2001), Artana et al. (2001), and the Fiel Report on the Argentine Firms' Productivity and Competitiveness (2002)

On deregulation and governance Kole and Lehn (1997) is helpful whereas Tornell (1999) gives a deep analysis of the process of "privatizing the privatized companies" that faced the risk of replacing corrupt government bureaucrats with private managerial mafias.

4. CONSTITUENTS, CHARTS AND REPRESENTATION

As governance deals with organizations and how they should be designed to fulfill their purposes operationally, the metaphor of the contractual tradition may come in handy, not only to illustrate connections, but also to provide a common ground for understanding much better the three branches stemming from the notional trunk, that is to say, corporate, public and global governance.

In the beginning there is always a group of founders, the original constituency, who intend to set up an organization, and they contract in to a sort of founding charter by which the basic rights and duties of the constituents are laid down, as well as the declaration of purposes for the organization that comes into existence.

For the new entity to be run following the chart not only efficaciously but efficiently, most of the time the constituents elect representatives who must live up to founders' expectations and act on behalf of their interests, carrying out a fiduciary role on which the representative could be held accountable at the end of the day.

As soon as the organization starts working, the original chart must be complemented by rules, statutes, even laws. At this point, it becomes clear that the development and survival of any organization is constrained or fostered within a complex environment of traditions and institutions.

Modern for-profit organizations are structured under the shape of corporations regardless of its size, mainly because of the limited liability covenant. When the corporation reaches a threshold of scope and scale, separation of ownership and control becomes a fact of life. The corporate purporse is set out in the corporate Charter (or the Memorandum of Association, or any comparable constitutional document). At this point, it is useful to bring back the constitutional metaphor, viewing corporations as having enlarged constituencies and representatives with competing, although not necessarily conflicting interests.

- Shareholders, who will appoint representatives so as to become involved with the day-to-day running of the company, that is to say the managers. From a certain stage on, they will also appoint representatives to mediate between them and the managers, that is to say the Board of Directors.

- The Board of Directors has the manifold tasks of hiring, monitoring, rewarding and punishing managers. Besides, they audit that the company is run so as to enhance its value and increase the wealth of shareholders. Finally, they oversee the extent of the company's goals fulfillment.

- The managers are the doers in the company. Their role is fiduciary, in the sense that they must advance the company on behalf of their shareholders, keeping in such task the same prudence and diligence that they owe to their own businesses.

- The creditors, mainly represented through banks, institutional investors and bondholders. Although creditors are the more influential outside stakeholder of any company, they are not truly constituents of the private corporation because, in general, they had neither been signatories of the founding Charter nor been appointed to the Board or as managers. However, the more institutional investors or banks become involved with the financing of the company, the more "voice" they acquire, to the extent of sitting their own representatives in the Board and, in doing so, becoming part of the inside constituency albeit being recruited from outside.

The founding by-laws of any company almost always prescribe a procedure whereby some body representing the membership, for instance the Board of Directors or the Shareholders' Annual Convention, has final authority over major decisions.

This arrangement of rights and duties call to mind a system of checks and balances, like the one found in representative democracies by means of the so-called countervailing powers. The cast of actors listed above plays this game of founding, voting, financing, running and overseeing the government of the company.

Not to be surprised, this simile goes further and also becomes functional to a coherent analysis of Public and the Global Governance. On this regard, La Porta et al (2003), examined two distinct types of constitutional checks and balances on the power of parliament and the executive, provided by the judiciary, namely the judicial independence and the constitutional review. They concluded, after looking for data from 71 countries, that both judicial independence and constitutional review are associated with greater freedom. Besides, judiciary independence matters most for economic freedom, whereas constitutional review for political freedom.

Where does the corporate governance stem from in a market-oriented environment? From the basic contract, and the statement of rights and duties every corporation had previously enacted when they were born. That is to say, the Charter and the Articles of Incorporation, and also the provisions contained in the by-laws. By the way, this also holds for non-for-profit organizations and state-owned companies as far as their original constitution, statutes and self-regulations supply with meaningful background.

By the same token, where does the public governance stem from in a representative democracy? From the basic contract, and the statement of rights and duties every representative democracy had enacted when they were born (and occasionally amended thereafter). That is to say, the Constitution and the Bill of Rights provided with the primary source of governance, whereas legislative rules and other shared norms or regulations perform as second tier of governance.

Finally, where does global governance stem from in the sweeping globalization process led by representative democracies and multinational corporations? At the current stage, from the basic contract, the statement of rights and duties, and the statutes every global organization had enacted when they were born. A distinctive feature of global governance consists of different nations joining together and appointing representatives to run supra-state organizations. There is no conclusive evidence up to date that a second stage will show a supra-government to run all nations over the world, but the European experience could be a blueprint for the time ahead.

4.1. ACCOUNTABILITY AND REPUTATIONAL INTERMEDIARIES

Either in the private, the public or global environments, a core issue to grant sustainable governance seems to be accountability. It comes to be defined by the Black's Law Dictionary as the state of being responsible or answerable. Much more suitable to this paper's purposes, and according to Licht (2002), accountability should be regarded as a social norm of governance, because prescribes legitimate modes of exerting and responding to power, dealing with the use or abuse of power. On the other hand, Licht gives heed to four broad types of accountability systems and links each of them with an institution that "*plays a role as both a moral pull and a moral push"*:

- Legal (liability)
- Professional (responsibility)
- Organizational (answerability)
- Political (responsiveness)

Accountability practices set forth social order and good standards in organizations, providing for law and statutes enforcement.

When citizens in a country and shareholders in a company vote, they share the exercise of a fundamental power: to set the tasks, appoint, renew, or fire their representatives. They also share the power to choose a blueprint for governance for a definite span of time. But constituencies must face four problems at the core of governance: asymmetric information, transaction costs, opportunistic behavior, and the free-rider problem.

Asymmetric information refers to the advantage one party can enjoy by having different information than his counterpart, so as to improve either the trade or the relationship for his own benefit. When the economic or political agent realizes that he could get more from a trade or relationship by not fulfilling his commitments, by means of calculated effort to mislead, shirk, hide, deceive, misrepresent, confuse, we say that he follows an ***opportunistic behavior*** (Williamson, 1996). By the ***free-rider problem*** is understood a pattern of conduct that arises whenever some people do not spend resources on collecting information but can take advantage of others agents who had invested in such information, that is to say, they get a free-ride on somebody else's effort. Finally, ***transaction costs*** are, following Williamson (1996) "*the ex~ante costs of drafting, negotiating and safeguarding an agreement and, more especially, the ex~post cost of maladaptation and adjustment that arise when contract is misaligned as a result of gaps, errors, omission, and unanticipated disturbances. Also it refers to the costs of running the economic system."* (An extension of the transaction cost approach to the political analysis, is given by Dixit, 1996).

Voting by citizens and corporate shareowners convey similarities and differences alike:

- decision-making is delegated to elected representatives;
- opportunistic behavior, bounded rationality, transaction costs and the free-rider problem hamper selection and monitoring of representatives;
- shareowners usually agree on primary goals (unless a power struggle breaks out) but citizens and political parties may contest both goals and means.

Whereas the shareholders do not dissent from the basic goal of any company, citizens in democratic regimes usually dissent from the basic goals, the means and the ends of the political endeavor. The more liberal the system, the deeper the overlapping consensus that allows them to build up political stability in spite of disagreement and opposition stemming out of particular standpoints in politics, morals, philosophy or religion [the idea of overlapping consensues is carefully developed by John Rawls(1996) in his landmark book *Political Liberalism*]. While seldom do the shareholders contest the corporate issues at stake (and that would unleash a power struggle eventually), almost ever the voters contest adversarial political standpoints. As Przeworski et al (1999) put it: "*elections are a contingent renewal accountability mechanism, where the sanctions are to extend or not the government's tenure".*

Dealing with this subject, Latham (2003, 1999) argues that

"thus our greatest power structure – governments and corporations – are built on the shaky foundations of voting, with its free-rider weakness".

To cope with both of them, he suggests enhancing the role of the intermediaries in information (infomediaries). As regards corporations, a suitable vehicle would be the Proxy Advisory Firm (PAF) which can help shareholders to vote on the grounds of more information. Starting with helpful advice on how to vote, infomediaries could expand their line of business and also provide information to nominate directors, choose the auditor, or engineering compensation plans for high executives. At this stage, the infomediaries become corporate monitoring firms (CMFs). Designing a countervailing institution mirrors the political tradition of checks and balances.

At present, in handling these governance issues companies resort to the Board of Directors and internal auditing mechanisms to prevent management and staff from breaking their fiduciary and contractual duties. But accountability becomes reliable only when gatekeepers come from outside the company. They are usually referred to as the reputational intermediaries (Coffee, 2001) and it will be worth outlining the main characters below, referring the reader to Exhibit 5 for more details:

- Independent Directors
- Accountants
- Investment Bankers
- Lawyers
- Corporate Monitoring Firms (CMFs)
- Rating agencies
- Public regulators
- Self-regulatory organizations (SROs)
- Journalists

EXHIBIT 5
REPUTATIONAL INTERMEDIARIES FOR A SOUND CORPORATE GOVERNANCE

Disclosure		Securities laws on full disclosure of financial results and self-dealing transactions.
		Ownership disclosure rules.
		One-share, one-vote rule. In general, rules to prevent or restrict pyramid ownership structures.
		Strong, publicly enforced civil and criminal sanctions against insiders for violating the disclosure and self-dealing rules.
		Civil liability risk for insiders.
		Honest, sophisticated and well-functioning courts.
		Honest, sophisticated securities agency and prosecutors for criminal cases both furnished with staff, skills and budget to accomplish tneir tasks efficiently.
Board of Directors		Independent directors who can control self-dealing transactions.
		Procedural controls on self-dealing transactions with review by independent directors, noninterested shareholders, or both.
		Civil liability risk for independent directors who approve gross self-dealing transactions.
		Independent directors on auditing and compensations committees.
Market Environment		Market transparency rules (time, quantity and price of trades promptly disclosed to investors).
		Investor property rights protection.
		Stock Exchange with reliable listing standards and active surveillance of insider trading to fine or delist trespassers.
		Enforced ban on market manipulation.
		A culture of disclosure ("concealing bad news is a recipe for trouble")
		Active financial press and securities analysis profession.
		Reliable judiciary system and widespread law enforcement.
Reputational Intermediaries	**Accountants**	Good accounting and auditing rules.
		Accounting review of self-dealing transactions.
		Civil liability risk for accountants.
		An institution with competence and independence to write accounting rules.
		Sophisticated accounting profession.
	Lawyers	Securities lawyers to ensure issuers abide by the law and rules of disclosure.
		Civil discovery rules and class action procedure to protect minority rights.
		Liability risk
		Lawyers review of self-dealing transactions.
	Investment Bankers	Sophisticated banking profession to investigate the issuers of securities.
		Civil liability risk for investment bankers.
	Other reputational intermediaries	a) Rating agencies that furnish not only credit-risk ratings but also country-risk ratings worldwide. b) Venture capital funds that allow new enterprises to be financed and monitored, and also provide them with reputational capital. c) Public regulators, like central banks and securities exchange commissions. d) Self-regulatory organizations (SRO), either voluntary or mandatory, subject to regulatory oversight. d) Corporate Monitoring Firms (Latham, 1999)

Source: Black (2000).

With regard to public governance, the main reputational intermediaries are a fact of life in politics, namely

- Political Parties
- Political Action Committees (PAC)
- Civic Groups
- Corporations
- Unions
- Churches
- Other non-for-profit organizations
- Journalists

The structure of Corporate Monitoring Firms suggested by Latham (1999) could easily be applied to public governance, to the extent of monitoring the public functions of political infomediaries and the rent-seeking behavior of government officials.

As Ortiz and Issacharoff (1999) highlighted

"*Although individuals cast the ultimate vote, other actors, like political parties, political action committees, civic groups, corporations, unions, help choose the candidates the voters can pick, promote those candidates, and fund their campaigns.*"

Although liability, representation and reputation should hold gatekeepers and watchdogs within the scope of their expected mission, recent events in the United States and some European countries cast doubts on the extent to which deterrents could be successful. Some people argue [for instance, Coffee (2001)] that unless the governance of gatekeepers might be improved, little hope of real changes in corporate governance should be expected.

5. GLOBAL GOVERNANCE

As from the 80s, globalization processes reached such scope and scale as former globalization experiences never had. Not only were there technological innovations fostering a borderless world, but changes in the way companies and governments broadened their purposes, and involved themselves in worldly affairs. Demand and supply of goods and services became transnational endeavors. And security concerns followed suit as well. Therefore, a complex network of new relationships claimed for governance at a global extent.

Simultaneously, people witnessed the far-reaching growth of a global economy, whose main features were, according to Gilpin (2000),

- open markets;
- unrestricted capital flows;
- pervasive activity and influence from multinational corporations.

It was an upside of this perspective to stress that multinational corporations carried out a decisive bearing in single issues like trade levels and location of economic activities, issues that can easily be embedded in the field of corporate governance.

A downside of this approach consisted of a constraining focus on economic matters, leaving aside three distinctive trends that have been driving globalization ever since:

- the ***market-led globalization became intertwined with political nested interests***;
- the interstate system plus a composite made up of crony capitalism, mafia partnerships and mega-terrorism has shaped ***a world-system that depends not only on the capitalist world-economy but on its security-structure, as well***;
- there has been ***a growing role of some institutions in pursuing a global reach in world affairs***.

By giving heed to such broadly based issues, some scholars and analysts turned out to a systemic point of view of globalization as the best way to tracking down those developments. We are going to point up three single attempts to cope, in turn, with these emergent processes all over the world.

a) The ***market-led globalization and the political interests***, forcibly argued by Friedman (2000), is grounded on three wellsprings of conflicting interests:

- *The traditional balance between nation-states*: at present, it encompasses the United States on the one hand, and the remaining nations on the other.
- *Nation-states and global markets*: the latter are led by the Electronic Herd (millions of investors and dealers wired by means of communication networks) that gathers in the most important financial centers in the world, places that Friedman called "the Supermarkets".
- *Individuals and nation-states*: Some individuals can influence markets and nation-states in more powerful ways than any time before, and that is why they are called "Super-empowered individuals".

Within this standpoint, some corporate governance issues expand outright, namely global accountability, tight budget constraints for private and government debtors, investment grade ratings, debt collateralization, global portfolio diversification. Bear in mind that whenever a government issues a security to finance public investments, or refinance its fiscal gap, it mirrors down what any corporation does when issuing its bonds or shares. This is particularly meaningful as far as capital markets evolved towards a global environment.

b) Another encompassing approach has been introduced by Professor Escude (1999, 2002a, 2002b), who stresses the sum and substance of the "***Postmodern World-System***" as given by

- a capitalist world-economy;
- a fragmented security-structure with weapons of mass destruction.

Escude points out the structure of the international system as built up by:

- an interstate system that comprises those states that make the rules, those that takes rules, and "rogue" states that albeit they are not able to spell out rules for themselves, they are ready to reject those coming from the rule-makers;
- a dominant newcomer: the megaterrorism.

The advantages of this frame of reference to that field of learning and practice called governance are manifold:

- The states which make the rules are also those that enjoy the best practices in governance of private and public organizations, while states that take the rules exhibit a wide range of achievers, either outstanding or substandard countries (as transitional and emergent economies bear witness to the latter group).
- Rogue states gather as counterexamples of what might be understood by good practices in corporate and public governance.
- Hidden economic activities, first and foremost money laundering, drug dealing, and terrorism, find out their way through special purpose entities embedded in the governance of global companies, while investing in offshore affiliates.

c) Lastly, an ***institutional global governance point of view*** undertaken by the United Nations, the World Bank, the International Monetary Fund, and some scholars [like Scholte (2000) and Kettle (2000)] raised the following matters of concern:

- Globalization conveys the emergence of a sort of post-sovereign governance, because states cannot be sovereign in the traditional sense.
- The rise of supra-territoriality has promoted moves toward multi-layered governance, where regulatory competences are widely dispersed across the layers of sub-state, state, or supra-state arrangements and agencies.

It is worthy of being noticed how the Commission on Global Governance at the United Nations defines Global Governance:

"the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may accommodate, and cooperative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest. […]

[…] At the global level, governance has been viewed primarily as intergovernmental relationships, but it must now be understood as also involving non-governmental organizations, citizen's movements, multinational corporations, and the global capital market. Interacting with these are global mass media of dramatically enlarged influence."

After corporate and public governance have being defined, we take the last step and address the notion of global governance, following a similar pattern of contextualized semantics.

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*By **Global Governance** is meant the governance of supra-state organizations by means of a twofold design of issues and problems:*

a) those arising from the nature of each organization
- *Founding Charter, statutes and by-laws*
- *Institutional architecture, division of powers and bureaucracies*
- *Representations and accountability*
- *Reputational intermediaries*
- *National and international institutional constraints*
- *Mechanisms for the resolution of conflict of interests*

b) those arising from the interplay between companies and nations on a global perspective
- *Corporate Governance*
- *Public Governance*
- *Statements of good practices and performance yardsticks to be followed either in the private or in the public domains*

Remarks

Among the most important global governance agencies in the world, we can point to the following: IDEA (The International Institute for Democracy and Electoral Assistance) that was created by 14 countries; ECOSOC (Economic and Social Council, UN); IMF (International Monetary Fund); The World Bank; The World Trade Organization; The Bank for International Settlements; OECD (representing industrial countries); UNESCO (United Nations Educational, Scientific, and Cultural Organization).

Although the role of overseers has a distinctive place in the design of either corporate or public governance, globalization makes a claim for institutionalized watchdogs with the task auditing the quality of the representation, and the accountability of agents on behalf of their principals.

5.1. CORPORATE GOVERNANCE SYSTEMS AROUND THE WORLD

After reviewing different systems of corporate governance around the world, Prawse (1995) concluded that

- Public authorities can choose the type of corporate control system they would like to see in their country by their choice of the legal and regulatory framework they adopt eventually.

- Lack of information and human capital prevent good governance.

- Public authorities should realize that the legal and regulatory system underlying the corporate control system may not be viable in the long-term, and they have to manage the transition to a new legal and regulatory environment, as Japan is actually doing [an interesting review on the Japanese reform is found in Ahmadjian (2000)].

EXHIBIT 6
CORPORATE GOVERNANCE ALTERNATIVE SYSTEMS

FEATURE	***ANGLO-SAXON***	***GERMANIC***	***LATIN***	***JAPANESE***
Orientation	Market-oriented [an active external market for corporate control]	Market-oriented [relatively oligarchic, influenced by networks of shareholders, families and banks]	Network-oriented	Network-oriented
Representative countries	USA, UK, Canada, Australia	Germany, Netherlands, Switzerland, Sweden, Austria, Denmark, Norway, Finland	France, Italy, Spain, Belgium	Japan
Prevailing concept of the firm	Instrumental [as a means for creating shareholders value]	Institutional [autonomous economic units coming out of a coalition of shareholders, corporate managers, suppliers of goods and debts, and customers]	Institutional	Institutional
The Board system	One-tier [governance with one level of directors, making no distinction but executive and non-executives]	Two-tier [executive and supervisory board, the latter monitoring, appointing or dismissing managers] [large shareholders on the Board and high pressure from Banks]	Optional (France), in general one-tier	Board of Directors, offices of representative directors, of auditors, de facto one-tier
Main stakeholders to exert influence on managerial decision-making	Shareholders	Industrial banks [mainly in Germany] [in general, oligarchic group inclusive of employee's representatives]	Financial holdings, the government, families, in general oligarchic groups	City banks, other financial institutions, employees, in general oligarchic groups
Importance of stock and bond markets	High [requiring continued action and performance]	Moderate or high [legal and regulatory bias against nonblank finance]	Moderate or poor	High [legal and regulatory bias against nonbank finance
Is there a market for corporate control?	Yes	No	No	No
Ownership concentration	Low	Moderate or high [very high in Germany]	High	Low or moderate
Compensation based on performance	High	Low	Moderate	Low
Time horizon of economic relationships	Short-termism [management and governance myopia]	Long termism	Long termism	Long termism

Source: Keenan, J. and Aggestam, M. (2001)

Exhibit 6 sorts out the main governance systems around the world, namely those following the Anglo-Saxon, the Germanic, the Latin and the Japanese traditions. Bear in mind that almost two third of the nations in the world lack reliable and updated governance systems or are in a transition towards the attainment of good governance and practices, although for most of them the path becomes shaky and still not fulfilling.

5.2. THE WORLD BANK'S CORPORATE GOVERNANCE COUNTRY ASSESSMENTS

This global approach (background and details downloadable from *www.worldbank.org*) consists of a diagnostic instrument whose main features are:

- It can assess laws, rules, regulations and practices that govern the rights and obligations of listed companies, intermediaries and investors in a given county.
- It also intends to become a communicating vehicle for policy-makers, domestic and international investors to build up common ground and trust as required by healthy capital markets.
- It is most relevant to middle income countries and transitional economies.
- None of the assessed countries meet the OECD's Principles in all respects.
- A recent survey (Fremond and Capaul, 2002) showed that many counties were undertaking to bring their Judiciary and Regulations in compliance with OECD's Principles. For instance, Brazil, Croatia, Egypt, Georgia, India, Latvia, Lithuania, Malaysia, Philippines, Poland, Romania, South Africa, Turkey, Zimbabwe.
- According to the referred survey there is, in general, a distinctive gap between the letter of the Law and actual practices. There has been a widespread disregard for publicly available information.
- Performance of the Judiciary and law enforcement stands out as the weakest points in most of the countries.
- Stakeholders play an integral part in shaping the decisions of a company.

CONCLUSIONS

This paper intends to shape a conceptual tool that might enhance our understanding and our ability to cope with the interlinked issues that arise from corporate, public and global governance.

In the first place, it contends that governance has semantic and methodological precedence over its topical branches, clustering them into a field of learning and practice. In fact, it is the core subject to deal with.

In the second place, public and global governance are distinctive realizations of the core notion, but coalescing into a common ground perspective that allows the systematic study of each of them.

Last of all, the common thread that runs through corporate, public and global governance springs from the basic features nurturing the core of governance:

a) A founding charter shaped within an institutional environment
b) A system of rights and power, representation, management and fiduciary roles
c) Accountability mechanisms
d) Monitoring and performance measures
e) Contesting rights and procedures for stakeholders
f) A responsive set of good governance practices
g) Production and delivery of information
h) Independent gatekeepers

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