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Table of Contents

Alternative Dispute Resolution

An Appraisal of the Dispute Resolution Mechanisms under the Nigerian Telecommunication Act <i>Janet Mwuese Asagh</i>	2
Delineating Contract Claims and Treaty Claims in International Investment Arbitration <i>Arum Sasi</i>	11
Multi-Party Arbitration in International Trade: Problems and solutions <i>Kristina Maria Sigg</i>	21
Possibilities for Weaving Mediation into the Framework of International Dispute Settlement Systems <i>Bobette Wolski</i>	34

Company Law

The “Single-Person” Company in the New Amended Company Law Of the State of Qatar <i>Mosley Ahmad At Rawneh</i>	38
Social Disclosure: up to where should the regulation go ? <i>Rodrigo de Souza Gonçalves, Elionor Farah Jreige Weffort, Ivam Ricardo Peleias, Andréa de Oliveira Gonçalves</i>	51
State Ownership of Large Companies in China and the Protection of the Rights of Capital Suppliers <i>Guanghua Yu</i>	62
Transfer of family-owned companies by succession or by gift inter Vivos according to Belgian succession and registration taxes <i>Bertel dce Groote, Katrien Van Boxstael</i>	73

Social Disclosure: up to where should the regulation go?

Rodrigo de Souza Gonçalves, M.Sc.

UnB – Brasília University
rgoncalves@unb.br

Elionor Farah Jreige Weffort, PhD

FECAP – Business School Alvares Penteado / Brazil eweffort@directnet.com.br

Ivam Ricardo Peleias, PhD

FECAP – Business School Alvares Penteado / Brazil
ivamrp@fecap.br

Andréa de Oliveira Gonçalves, PhD

UNDP – United Nations Development Programme
andreaesilva@yahoo.com.br

Abstract – This study analyzed if the corporate governance requirements established by stock exchanges contribute to voluntarily evidence the resources allocated in social projects to investors. For this goal, an index of social disclosure was initially developed, which made it possible to assess the quality of the information on external social projects voluntarily published by the listed companies. Next, sample information of the sixty listed Brazilian companies was collected in BOVESPA and/or in NYSE, which, using the index of social disclosure, allowed for the classification of the companies and the search for relations with their governance practices. This study is expected to be useful for future research, replicating the social index for other countries and stock exchanges, and for capital market regulating organs, to support decisions on the convenience of the regulation (obligatoriness) on social disclosure.

Introduction

Corporate governance appears at the moment investors need trustworthy information on business administration, mainly related to the allocation of resources by managers. Principles like disclosure, accountability and compliance contribute to direct and guide the actions taken in the search to maximize the company's wealth and that of its shareholders. In order to ensure credibility to the capital market and, consequently, to become more attractive to investors, real estate commissions and stock exchanges establish listing requirements for their associated companies. Practices related to "good" corporate governance include accounting information disclosure. Naturally, such regulation implies a cost that should be confronted with the expected benefits by the competent organ at the time the standard is elaborated.

With respect to information disclosure about external social projects, we cannot usually find specific accounting standards, which leaves it up to the companies to decide on what, how much and how to publish such information. According to authors like Williams (1999), this could put the comparability and quality of information at risk.

It cannot be ignored that the movement of corporate social responsibility has been making several companies, among other actions, direct a large quantity of resources to external social projects, whose financial return is still controversial (see Cochran & Wood, 1984; Simerly, 1994;

McWilliams & Siegel, 2000, among others). In 2004 for instance, only Petrobrás S/A, a Brazilian oil company, destined more than R\$ 350 million to external social projects.

Concerns about regulating social responsibility reports are not new, as Ramanathan (1976) already mentions the existence of a North American study group in the 1970's, which aimed to analyze the need to standardize social information.

It should be highlighted that accounting standards and practices do not always coincide, which means saying that, even if high-quality, regulation will not always actually result in better social disclosure practices. Therefore, two fundamental and complementary aspects of social disclosure regulation disclosure need to be clearly identified: the elaboration of the legal text and its application.

In its elaboration, factors like the legal system – more or less formalist for example – and the influence of interested groups (shareholders, managers, financial statement preparers, government and stakeholders) will be decisive for the regulation's range. Another factor to be taken into account is the cost of this regulation for companies' compliance, as well as for the public power/society, in terms of fiscalization (see Gwilliam, Macve & Meeks, 2005; FASB, 1991; Meeks & Meeks, 2002; Boden & Froud, 1996).

With respect to its application, then, aspects like the above mentioned cost, besides the legal, political, economic environment and even cultural values must be considered (Zarzeski, 1994, Doupnik & Salter, 1995; Jaggi & Low, 2000). Studies like La Porta et al. (1998 and 1999), for example, indicate that the enforcement of investor protection standards differs among legal system families (English, French, German or Scandinavian origin).

In that context, the main objective of this article is to analyze if the corporate governance requirements established by stock exchanges, especially BOVESPA - São Paulo Stock Exchange and NYSE – New York Stock Exchange - contribute to voluntarily evidence the resources allocated in social projects to investors.

This study is justified not only by the gap found in empiric research literature in the area, but also by its practical application in capital market regulators, supporting decisions on the convenience of regulation (obligatoriness) on social disclosure.

To accomplish the proposed objective, initially, a social disclosure index was built, described in section 2, which enabled us to evaluate the quality of the information on external social projects, voluntarily published by the listed companies.

Next, sample information of the sixty listed Brazilian companies was collected from BOVESPA and/or NYSE. Using the index of social disclosure, this permitted the classification of companies and the search for relations with their governance practices (synthesis of the results presented in section 3).

1. Previous studies and Hypotheses Construction

Since the appearance of the social responsibility movement, there has been wide discussion on the limits of business responsibility among investors and academics, as well as on shareholders' satisfaction through the remuneration of the invested capital. It is questioned if companies should, before considering commitments to their shareholders, assist the so-called *stakeholders*, to the extent of allocating resources in the accomplishment of social projects in the community (see Anderson & Frankle, 1980; Friedman, 1982; Evan & Freeman, 1993; Clarkson, 1995; Donaldson & Preston, 1995; Mitchell, Agle & Wood, 1997).

The fact is that several companies have been taking initiatives to promote external social projects, demanding financial, economical, material and human resources which naturally produce an additional cost to their activities. In his conception of social responsibility, Carrol (1979) considers that the allocation of resources in social projects is the top of the pyramid, stimulating what he defined as "discretionary actions", that is, actions well addressed to the purpose of reaching results that, in fact, attend to the needs of people involved in the social projects.

Even if there is a consensus between shareholders and executives or controllers and minorities about the destination of resources in social projects, it is necessary to establish criteria on where, how, when and how much to allocate. These are some questions which can lead to a conflict, which is the agency problem (Jensen & Meckling, 1976; Jensen, 2001; Jensen, 2003). Corporate governance enables companies to minimize such conflicts through the practice of its principles, in which organizations develop actions in order to align their decisions with investors' interests.

It is in this scenario that the São Paulo Stock Exchange (BOVESPA) created, in December 2000, the Novo Mercado and the Differentiated Levels of Corporate Governance. If the company adheres to BOVESPA's Levels of Governance and complies with the established requirements, investors are expected to be able to invest with greater safety, reducing the uncertainty level attached to the expropriation of the invested capital. This is how the first hypothesis was defined:

H1: The companies listed in the Novo Mercado possess a larger disclosure of information on external social projects than other companies listed in Levels I and II of BOVESPA.

Additionally, there are Brazilian companies that look for investors' resources in international markets, such as the Brazilian companies listed in *NYSE - New York Stock Exchange*. Differently from BOVESPA, NYSE does not establish levels of corporate governance but, through section 303A, defines general guidelines for the companies to adopt corporate governance practices, in order to protect the investors. Due to the longer maturing process and pulverization of the North American capital market in relation to the Brazilian one, the listing requirements are expected to be more complex and rigorous, which guided the establishment of the second hypothesis:

H2: The companies listed in NYSE possess a larger information disclosure of external social projects than the companies listed in BOVESPA.

The following section describes the construction of the data collection instrument (social disclosure index) and the main methodological procedures adopted to test the proposed hypotheses.

2. Construction of the Social Disclosure Index

As mentioned before, to accomplish the proposed objective, a social disclosure index had to be constructed with a view to organizing, evaluating and classifying the information published by the sample companies in categories. Such instrument finds theoretical concepts in the information content of Corporate Social Accounting, proposed by Ramanathan (1976), and in the qualitative aspects of accounting information suggested by several theoretical and regulatory organs, including Glautier and Underdown (1994); Hendriksen and Van Breda (1992), Kam (1990), IASB (2006), FASB (1980, 2006). Table 1 shows the indicators and variables associated to each dimension / subdimension of the social disclosure index.

DIMENSIONS	SUBDIMENSIONS	INDICATORS	VARIABLES
Measurement	Materiality	Items that affect the net profit/lost	Values allocated in external social projects
			Impact on future results
		Details of items that affect the net profit/lost	Physical resources
			Human resources
Evaluation	Materiality	Society-firm relations	Local needs assessment
		Management plans and expectations	Relation between social projects and firm values
			Proposed objectives to the on-going social projects
Measurement	Relevance	Confirmative value	Obtained results on external social projects
Evaluation	Relevance	Predictive value	Description of future projects
		Opportunity	Information availability
			Disclosure frequency
Measurement	Reliability	Accuracy	Details of external social indicators
		Measurable and descriptive value	Projection of future cash flow to resources allocation in social projects
			Impact in the future results
			Value added statement
		Prudence	Contingency reserve for uncertain events
Evaluation	Reliability	Context	Adopted strategy according to economic scenario
		Neutrality	Specific points to be improved
		Prudence	Contingency plans due to internal or external factors

Table 1 – Dimensions, indicators and variables of the social disclosure index

For Ramanathan (1976), corporate social information should include aspects related to measurement and evaluation. According to this perception, the proposed social disclosure index contemplates two dimensions: measurement, related to the quantitative aspects of accounting information, such as values and results of the social projects; and evaluation, which refers to the qualitative elements of accounting information, with sentences and/or phrases that reveal the commitment and the way the social projects have been treated by the company to investors.

Once the dimensions of the instrument had been defined, subdimensions were determined for each of them, corresponding to the qualitative characteristics - materiality, relevance and reliability - of accounting information.

For each variable, the definition of theoretical categories in the index allowed for the classification of the analyzed companies, based on qualitative aspects. The adoption of the Likert scale allowed the accomplishment of statistical tests (descriptive statistics and multivariate analysis); the results are described in section 3.

3. Obtained Results and Analysis

3.1 Synthesis of Qualitative Analysis Results

For the sake of a general overview, table 2 was elaborated to summarize the results obtained per theoretical category and the amount of variables, by joining each variable with its respective result, based on qualitative analysis:

Groups	Theoretical Categories				Ratio of disqualified companies on total companies
	Restricted	Low	Medium	Wide	
<i>NYSE</i>	9	0	1	9	3/33 (9.09%)
Level 2	11	0	1	7	1/9 (11.11%)
Level 1	12	0	1	6	7/34 (20.59%)
Novo Mercado	13	0	2	3	4/15 (26.67%)

Table 2 – Synthesis of Qualitative Analysis Results per group classification

Novo Mercado companies obtained the worst result, not only in terms of the number of variables with wide tendency (only 3), but also with restricted tendency (13).

In view of the classification order proposed from the amount of variables with wide result, Brazilian companies listed in *NYSE*, with nine variables with wide tendency occupied the first place, followed by BOVESPA governance level 2 companies, presenting 7 variables with wide tendency.

The qualitative analysis reveals that companies listed in *NYSE* possess a larger level of social disclosure, as they displayed the smallest percentage of companies with restricted results. In fact, BOVESPA Novo Mercado stood out in the negative sense, as they obtained 13 variables with restricted result, occupying the last place among the research groups. In theory at least, these companies were expected to possess larger information disclosure, as proposed by Bovespa. However, that tendency was not confirmed in this study, as BOVESPA Novo Mercado companies presented a lower social disclosure index than Level 1 and Level 2 companies.

3.2 Synthesis of Statistical Test Results

In order to test the result of the variables and proceed with other statistical tests, Kolmogorov-Smirnov, Shapiro, Kaiser-Meyer-O (KMO) and the test of Communalities were carried out. After realizing and properly validating the previously mentioned tests, factorial, variance and descriptive analyses were used. The first two analysis techniques were chosen for their quality in assembling variables. They also allowed for the identification of variables with greater capacity to explain the results. The third analysis, descriptive statistics, made it possible to classify the groups that obtained the best social disclosure in decreasing order.

With the help of SPSS® software, it could be identified that variables were grouped in four factors. The variables that possess an inferior communality of 0.6 – variables 2, 4, 5, 7, 9 e 10 – were eliminated to accomplish the analysis. Therefore, among the four factorial analyses, Factorial 1 - variable 4 (0.529) and Factorial 2 - variable 2 (0.566), were not considered. Variance analysis identified that the first four variables explain 64.438% of the whole result, showing their relevance.

In order to contribute to the understanding of factorial analyses 1, 2, 3 and 4, averages were calculated by the individual addition of company results to obtain the average of each variable and, later, the average of each factorial variable.

The group of variables that composed factorial 1 is constituted as follows: var. 1 - values allocated in social projects; var. 8 - demonstration of value added; var. 14 - access to readiness information and var. 18 - itemization of external social indicators proposed by the Social Balance, IBASE model.

The result of the average obtained through the variables that compose factorial 1 reveals that the *NYSE* group obtained the best result (3.423), followed by Level 2 (3.128), Level 1 (3.11) and Novo Mercado (2.66). Once again, this shows the tendency of the *NYSE* group to possess

greater evidence of their social projects, especially in comparison with the qualitative result of variables 1 and 18, whose result is restricted only to Novo Mercado companies.

The result obtained by the referred group is preoccupying because it refers to the information variables considered basic in the context of social responsibility, particularly because these variables demonstrate the values and indicators allocated in social projects, which are also demonstrated in the Social Balance Sheet. The importance of the result reached by this factorial deserved emphasis, as its total variance amounted to 43.99%.

The second factorial assembled variables 2 (impact generated in the result of the exercise), 3 (material resources), 11 (relation between projects and company values) and 15 (publishing frequency). For the sake of analysis, variable 2 was removed from the composition of the factorial, as its communality was inferior to 0.6. The largest average in factorial 2 was obtained by Level 2 companies (2.378), followed by *NYSE* (2.35), Level 1 (2.11) and Novo Mercado (1.863). The total variance of factorial 2 (discarding variable 2) corresponded to 13.978%.

If this result were confronted with the result presented in the analysis of the dimensions of the *social disclosure*, it will be noticed, once again, the tendency of the *NYSE* companies and the ones of Level 2 possess a bigger social disclosure, once, in the variable 15, the referred companies obtained a wide result against a restricted result for the companies of Level 1 and of the Novo Mercado. In the variables 3 and 11, the result was equal to all of the groups, presenting a restricted tendency and a wide tendency, respectively.

In the third factorial, variables 12 - proposition of the objectives (goals) for ongoing social projects, 13 - description of future projects, and 17 - demonstration of points to be improved, were assembled; presenting a total variance of 6.517%. With respect to the obtained averages, for the first time, Novo Mercado companies presented a higher average (1.487) in relation to Level 1 (1.483) and Level 2 (1.337) companies. However, once again, it is noticed that Brazilian companies listed in *NYSE* obtained the highest (1.833).

In the results of the social disclosure dimension analysis of variables 13 and 17, the tendency was restricted for all companies. A wide tendency was only found in variable 12, for the *NYSE* group. Those results point to an important tendency of the referred companies, as it is related to the proposition of the objectives of ongoing social projects. However, the need to clarify the future objectives of the social projects remains. Thus, investors may have the proper conditions to evaluate the degree of success or failure of the business performance.

The fourth factorial grouped variables 6 - projection of the future cash flow of allocation in social projects; and 16 - strategy adopted in agreement with the economic scenario. In the latter, total variance is 6.869%. The result of the averages found in this factorial indicates that Level 2 companies (1.505) present larger evidence of social projects, followed by *NYSE* (1.265), Level 1 (1.225) and Novo Mercado companies (1.045). It is important to emphasize that variables 6 and 16 refer to the evidence of future information and that, in the dimension analysis, all groups presented a restricted tendency.

Table 3 summarizes the classification result of the companies in agreement with the averages of each group and also according to the elaborated factorials:

FACTORIAL 1	FACTORIAL 2	FACTORIAL 3	FACTORIAL 4
<i>NYSE</i> (Average - 3.423)	Level 2 (Average - 2.378)	<i>NYSE</i> (Average - 1.833)	Level 2 (Average - 1.505)
Level 2 (Average - 3.128)	<i>NYSE</i> (Average - 2.35)	Novo Mercado (Average - 1.487)	<i>NYSE</i> (Average - 1.265)
Level 1 (Average - 3.11)	Level 1 (Average - 2.11)	Level 1 (Average - 1.483)	Level 1 (Average - 1.225)
Novo Mercado (Average - 2.66)	Novo Mercado (Average - 1.863)	Level 2 (Average - 1.337)	Novo Mercado (Average - 1.045)

Table 3 – Company classification in agreement with the average obtained by the factorials

In agreement with Table 2, companies with larger evidence are grouped in *NYSE* and Level 2, which corroborates the tendencies previously shown in the qualitative analysis (section 3.1).

Likewise, the average obtained through the four factorials demonstrates that *NYSE* companies possess larger evidence of *social disclosure* (2.217), followed by Level 2 (2.087), Level 1 (1.982) and Novo Mercado (1.763) companies.

These results can support decision making about the convenience of social disclosure regulation for publicly-traded companies.

In Brazil, attempts have been made towards social disclosure regulation, involving the presentation of law projects about the Social Balance Sheets from 1997 onwards. This proposed statement is quite similar to the statement proposed by Williams (1999), aimed at covering labor, environmental and social information. Although facultative, the Social Balance Sheet is elaborated and disseminated by different publicly-traded companies who aspire to certification by IBASE – Brazilian Institute of Social and Economic Analyses, a private institute. It should be highlighted that the model established by IBASE and the information it contains were analyzed in this study and appeared to be very restricted, offering low information power to investors.

In view of these research results – especially the lower social disclosure level of companies subject to greater requisites by BOVESPA –, difficulties to enforce the standards and the current development stage of the local capital market, social disclosure regulation in this scenario does not seem to be desirable. Factors complicating the enforcement of standards in Brazil, able to dissociate social disclosure from the actual right to social disclosure, are the delay and high maintenance cost of the Legal Power (Ministério da Justiça, 2004; Pinheiro, 2002; Nóbrega *et al.*, 2000), corruption (La Porta, 1998), the large volume of standards (3.5 million standards over the last eighteen years), among others. The cost for companies, on the other hand, can inhibit the entry of new interested companies into the market (going public) or distance already listed companies (see comments above about the cost of regulation).

The fact that the obtained results confirmed the second hypothesis, that is, that Brazilian companies listed in the *NYSE* – a more mature and pulverized market – present higher social disclosure levels than those only listed on BOVESPA, also indicates that market forces can provide for the lack of regulation.

One alternative in this scenario is the facultative use of an instrument like the social disclosure index, proposed in this study, whether to support company assessment by investors or companies interested in improving their disclosure practices. In line with this idea, a study by Anderson and Frankle (1980) demonstrates that the voluntary disclosure of social actions actually contributes to reduce uncertainties, presenting positive tendencies for companies that elaborated their statements with this concern.

Conclusion and Expected Repercussions

The construction and application of a social disclosure index to the information of 60 Brazilian companies listed in BOVESPA and *NYSE* demonstrated that, although Bovespa establishes corporate governance levels, with the Novo Mercado as the highest and Level 1 as the lowest, this classification is not repeated in terms of voluntary social disclosure levels, as Level 2 companies obtained the best classification.

This result refutes, at least theoretically, what BOVESPA proposes, that is, that Novo Mercado companies would obtain a larger evidence index than Level 1 and 2 companies. The result is surprising, especially due to the fact that Level 1 companies obtained higher voluntary social disclosure than Novo Mercado companies.

With respect to Brazilian companies listed in *NYSE*, the results show greater social disclosure of the referred group in relation to non-listed Brazilian companies. This corroborates previous studies, which point out that, to satisfy a more developed stock market, companies tend to seek larger and better evidence of their information.

The obtained results are expected to be of use to shareholders, managers and, mainly, responsible controlling organs – with the possibility of replicating the social index in companies from other countries and in other stock exchanges; although some social disclosure aspects should be an object; if some aspects of social disclosure should be the object of specific regulation, in order to turn their adoption obligatory or if market forces are enough to impel companies to disclose processes with greater transparency.

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