TAKING STOCK OF RESEARCH ON CODES OF GOOD GOVERNANCE[*]

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Abstract

This chapter reviews the literature of codes of good corporate governance, the set of best practice recommendations regarding the behavior and structure of board of directors of a firm. The review shows that a lot of research progress has been made in recent years, but there are still large gaps in knowledge. That is, although there is a good understanding of the diffusion of codes of good governance around the globe and of the different determinants of this diffusion, there is need for more research on the specific contents of the codes, and of whether codes of good governance are an appropriate tool to improve corporate governance practices.

Key words: codes of good governance, corporate governance, board of directors

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I. INTRODUCTION

Corporate governance has become a critical issue in recent years for policy makers, business practitioners, media, and academia. A couple of reasons explain this. First, the globalization of the world economy has resulted in the opening to international investors of capital markets across countries. These international investors require better and more standardized corporate governance practice to protect their interests and benefit from scale economies. Second, high profile corporate scandals in many countries have significantly undermined public trust in firm's accountability. As a result, demands on solid corporate governance structures and practices have been formed and endorsed.

Among the many tools available for improving corporate governance practices, the codes of corporate governance have quickly diffused around the world. Codes of corporate governance are defined as a set of 'best practice' recommendations with regard to the behavior and structure of the board of directors of a firm (Aguilera and Cuervo-Cazurra, 2004). Although the first code of corporate governance was issued over three decades ago, it was not until the early 1990s, after the influential British Cadbury Report was published in 1992, that codes started to quickly spread around the world and to influence both policy and firm behavior. Codes of good governance are a voluntary tool on the basis of complain or explain designed to improve corporate governance and as such they have been presented in contrast to attempts at improving governance through hard legislation (e.g., the U.S. Sarbanes-Oxley Act of 2002).

Despite the importance and influence of codes of good governance, the academic literature has not kept up with advances in the real world. Only in the early 2000s did academic articles emerged trying to understand the codes, their spread, and their value-adding effects. However, this literature has moved in different directions partly because not only financial economists, but also political scientists, sociologists, and management scholars have studied them. These efforts have resulted in a rich but partly incoherent body of literature mostly because the different disciplinary discussions do not speak to each other. As a result, it is not clear what we know and what do not know about codes of corporate governance.

Therefore, in this chapter, we review the literature of codes of corporate governance to understand what we know about this phenomenon and where there is need for additional research. Our objective is to highlight the major topics and issues discussed in existing studies of codes of good governance and organize them in a systematic fashion. Thus, we provide a selective review of articles, complementing other reviews of codes of good governance that have appeared in Becht, Bolton and Roell (2003). We discuss the existing research by level of analysis and research question answered into four sections. The first section focuses on cross-country studies. Starting from a broader perspective, this section covers how codes of governance have diffused and have been institutionalized across countries. The second section studies country-level analyses. After reviewing the general characteristics of the codes, it describes how different countries have adopted and encouraged firm to comply by their country codes. The third section deals with firm-level studies, focusing on the most controversial area, the relationship between codes of good governance and firm performance, and the emerging field of corporate governance in small and medium sized firms and the not-for-profit sector. The last section offers suggestions for future research on codes of good governance.

II. CROSS-COUNTRY STUDIES OF CODES OF GOOD GOVERNANCE

Codes of corporate governance have spread around the world at a relatively fast pace, given that their development and adoption require changes in corporate governance systems that differ markedly across countries. We now discuss studies that have analyzed the global diffusion and institutionalization of codes, and evaluate whether there are signs of convergence or divergence among the corporate governance systems as a result of such diffusion. This is the research area that has received the most attention and where there has been most progress made in terms of our understanding of codes of good governance. The existing studies suggest that not only the institutional setting (e.g., legal, political systems) but also cultural characteristics, influence the diffusion of codes of good governance across countries, with both efficiency (i.e., need) and legitimacy (i.e., imitation) explaining the diffusion of codes.

Worldwide Diffusion of Codes of Good Governance

A great deal of attention has been devoted to the diffusion of codes of good governance around the world. In Table 1, we summarize the studies in this topic. The decision to issue a code of good governance indicates adoption of new best practices in an existing corporate governance system (Aguilera and Cuervo-Cazurra, 2004; Zattoni and Cuomo, 2008). After the Cadbury Report of 1992 built a cornerstone for voluntary regulation of corporate governance, the worldwide adoption rate of codes of governance significantly proliferated (Enrione, Mazza, and Zerboni, 2006). According to Zattoni and Cuomo (2008), only 13 countries issued a code before 1998, and it exponentially accelerated at the end of the decade and by 2005, 95 countries had issued a total of 144 codes.

Insert Table 1 about here

A set of studies has analyzed the determinants of the diffusion of codes of good governance, with Aguilera and Cuervo-Cazurra (2004) being the first study to examine the diffusion of codes. They argue that a combination of efficiency and legitimacy induces countries to adopt codes of good governance. The analysis of the adoption of codes of good governance in 49 countries reveals that codes of good governance are more likely to emerge in countries with a common-law legal system, that lack strong shareholders' protection rights, high government liberalization, and a strong presence of foreign institutional investors. In a follow up study, Cuervo-Cazurra and Aguilera (2004) explore the speed of adoption of the codes, finding that codes are more likely to develop faster in countries where there is more understanding of, willingness of, and exposure to foreign knowledge. More recently, Zattoni and Cuomo (2008) have conducted a study that directly speaks to Aguilera and Cuervo-Cazurra (2004) article in that it examines the major triggers, such as efficiency and legitimacy behind code adoption in different country's legal systems. Using a sample of 60 countries, Zattoni and Cuomo (2008) conduct a comparative analysis of scope, coverage, and strictness of recommendations of codes in civil and common law systems. Their findings show that for the most part civil law countries such as France issue codes of good governance later than common law countries (such as the United Kingdom or the United States), issue fewer codes, and state more lenient and ambiguous recommendations. This appears to support Aguilera and Cuervo-Cazurra's (2004) finding that issuing codes in civil law countries is done with legitimation motivations. It is important to note, however, that civil law countries extend the scope of code to non-listed companies more often than common law countries, which would imply efficiency motivations. In that regard, Zattoni and Cuomo (2008)'s findings support Aguilera and Cuervo-Cazurra (2004)'s argument that both legitimacy and efficiency can explain the adoption of codes good governance, yet extending the sample in a broader scope.

Haxhi and Ees (2008) expand the scope of Zattoni and Cuomo (2008) into a combined approach of cultures and institutions. Based on Hofstede's (1997) cultural constructs and institutional theory, they argue explore the diversity of processes in the development of codes of corporate governance. Their findings reveal that: 1) cultural characteristics, such as individualism, power distance, uncertainty avoidance, and masculinity, and 2) institutional characteristics, such as financial markets and legal systems, are strongly associated with the frequency and issuance of codes of good corporate governance. Their empirical findings suggest that the frequency in the issuance of codes is positively related to individualism, common law legal system, and negatively related to ownership concentration. Concerning 'issuance' of codes, the authors uncover that 1) in common-law countries, stock exchange and investor groups are more likely to be the first issuers of codes, 2) in the presence of French civil law system, the government has a high likelihood to be the first issuer, and 3) in countries with high level of power distance, directors' associations have high chances to be the issuers of corporate governance codes within a country.

A related stream of research has analyzed the stages of diffusion rather than the determinants of such diffusion. Enrione et al. (2006) discuss the stages by which codes of governance become institutionalized worldwide. On the basis of new institutional theory, they propose six stages leading to the full institutionalization of a practice: (1) precipitating jolts, (2) deinstitutionalization, (3) pre-institutionalization, (4) theorization, (5) diffusion, and (6) reinstitutionalization. To briefly explain each stage, "precipitating jolts" represents external shocks followed by events which draw public attention. The external events change the present institutional context by "deinstitutionalizing" present practices or facilitating new ones. In "pre-institutionalization," new institutional player may enter in the field or present actors may gain legitimacy by supporting new practices. Then isomorphic pressures decrease and organizations can follow paths of innovation, leading to the stage of "theorization." During theorization, emerging innovative practices are framed and structured to meet present social requirements. If the theorization is successful, it leads towards "diffusion." In the final stage, the innovative practice can be "fully institutionalized." The rate of adoption in a field becomes so high that it reaches a stage in which the practice is taken for granted. In this last stage, the adoption of fully institutionalized practices is taken as a requirement for organizations to display social conformity and legitimacy. Enrione et al. (2006) apply these different stages on a sample of 150 codes of governance in 78 countries from 1978 to 2004. They suggest that many precipitating jolts occurred at the end of the 1980s as organizational strategies moved from conglomerates to core competencies. Deinstitutionalization was accompanied by major abuse of minority stakeholders and followed by shareholder activism. Then this process triggered the network of new actors (institutional investors, market regulator, and professional associations). As they started developing rules of internal functioning of boards of directors, institutionalization of codes is supported by the need to increase both the legitimacy and effectiveness of corporate governance systems. Pre-institutionalization was formed when the Cadbury report was published in 1992. Indeed, the Cadbury report provided a global guideline on how to apply a regulatory frame to governance and as a result, the worldwide adoption rate of codes proliferated (Maassen, van den Bosch, and Volberda, 2004). The increase in the adoption rate represents the beginning of the diffusion stage of the institutionalization process. Within this stage, it is likely that early adopting countries will follow an efficiency rationale and late adopters apply legitimacy reasons. As explained above, full institutionalization is accomplished when the codes of governance become established as a normative rule within organization. Gregory and Simmelkjaer (2002) suggest that in this fully institutionalizing stage, most companies pursue the prescription closely despite not being mandatory.

In sum, the analyses of the diffusion of codes of good governance reveal that factors such as the characteristics of the legal system, external pressures, and culture affects the adoption of codes worldwide in terms of frequency and issuance of codes. Such diffusion appears to have further evolved as countries adopt codes and institutionalize their practices.

Convergence vs. Divergence across Countries

There has always been a heated debate on whether the diffusion of codes of good governance worldwide has resulted into greater convergence towards a particular system of corporate governance (market oriented or large-shareholder oriented[1]) or whether, on the contrary, differences in corporate governance system have been reinforced by the issuance of codes of corporate governance. This discussion is particularly important in the sociology literature. Table 2 summarizes the existing research on this topic. However, the debate on convergence and divergence is more complex than it seems and there are also interactions at multiple-levels that complicate the discussion.

Insert Table 2 about here

A common debate in the varieties of capitalism literature as well as more generally in comparative political economy, has been whether corporate governance systems and business systems in general are converging toward the Anglo-Saxon model (Aguilera and Jackson, 2003; Hall and Soskice; 1992; Morgan, Whitley, and Moen, 2005; Yoshikawa, Tsui-Auch, and McGuire, 2007). This question arises because despite a high level of difference in the adoption of corporate governance codes across countries, both Cuervo (2002) and Reid (2003) note that increasing external forces, such as globalization, market liberalization, emergence of powerful foreign investors, and recommendations on global best practices by international organizations such as the World Bank, appear to facilitate increasing confluence. For example, Collier and Zaman (2005) analyze recent corporate codes in 20 countries in order to show evidence of

[1] Corporate governance systems have been traditionally characterized as being of two types (Aguilera and Jackson, 2003; Cuervo, 2002; Shleifer and Vishny, 1997). The market-oriented model, also known as the Anglo-Saxon model or shareholder-oriented model, is characterized by 1) diffused ownership, 2) control by board of directors, and 3) developed capital market for corporate control. The large-shareholder model, also known as the Continental or stakeholder-oriented model, has the features of 1) concentrated ownership by banks, companies, or families, 2) control by large shareholders, and 3) limited capital market for corporate control.

convergence in corporate governance systems in Europe. Their findings reveal that there has been a level of convergence towards the Anglo-Saxon model in areas such as the audit committee, which was a strategic governance in the Anglo-Saxon corporate governance systems, but was rather uncommon within Europe before the early 1990s (Birkett, 1986; Collier, 1996). Thus, although at this point there is little agreement in the corporate governance debate on the role and structure of the audit committee within the board of directors at an operation level, its presence is becoming widely accepted in large public firms in most of countries.

European harmonization has been an important trigger of governance convergence (Reid, 2003; Hermes, Postma, and Zivkov, 2007). The European commission published a report, Communication 284 (COM-284), in 2003 with important governance implications. The report discusses how to enhance corporate governance in the European Union countries and provides recommendations in terms of corporate governance disclosure, reinforcement of shareholder's rights, and modernization of the board of directors. As such, the contents of the report is likely to symbolize internationally accepted best practices of corporate governance and possibly may place external pressure on disseminating the contents of codes in the European Union countries. This is consistent to studies of the country codes. For example, Cromme (2005) notes that there are 47 different corporate governance codes in Europe and they display a high degree of agreement. In central Europe, for instance, Spiro (2005) argues that shareholders' rights are being taken more seriously, as their weak capital markets are strengthened and institutional investors become more assertive in promoting Anglo-Saxon style of corporate governance.

In specific countries there have been efforts to encourage adoption of global standards of corporate practices towards the Anglo-Saxon model (Roberts, 2004). In particular, the attempts have been prominent in developing countries, as their firms are being privatized and seek more foreign investment. To help developing economies to create and adopt codes of good governance, the OECD (Organization for Economic and Country Development) developed the OECD principles of corporate governance which has been serving as a guiding rule for much of the corporate governance reforms (Coombes and Watson, 2001; Krambia-Kapardis and Psaros, 2006). For example, the new Russian code of good governance issued in 2002 is seen as an attempt to impose an Anglo-Saxon model of governance on Russian domestic businesses, by emphasizing the principle of shareholder protection (Roberts, 2004). Likewise, Krambia-Kapardis and Psaros (2006) argue that the code of good corporate governance in Cyprus, as an emerging economy, largely draws on Anglo-Saxon principles of corporate governance. Germany also adopted codes with some governance practices more typical of the Anglo-Saxon corporate governance system such as disclosure of individual executive compensation which was controversial given the two-tier system board system and co-determination legislation (Cromme, 2005).

Although there exists some evidence in the convergence trend in principles of corporate governance, it is also the case that a code of governance captures the salience of country-specific factors (Aguilera and Cuervo-Cazurra, 2004; Hermes et al. 2007). For example, using the contents of codes in seven Eastern European countries, Hermes et al. (2007) assess whether external forces are main drivers of the content of codes of these countries, in comparison with the recommendations of the European Commission (EC) (COM-284). Their findings reveal that codes of the Eastern European countries overall cover only about half of the recommendations of

European Commission. Hungary and Poland, especially, have greatly deviated form the EC recommendations. Hermes et al. (2007)'s study demonstrated the influence of domestic forces in shaping the contents of codes of good governance.

Indeed, there is a common claim among scholars that there is "no one single model that fits all" and a wide diversity of approaches to corporate governance should be expected due to the very different national contexts where firms operate (Sargent, 1997; Cuervo, 2002; Reid 2003; Okike, 2007; Reaz and Hossain, 2007; Balgobin, 2008). From this perspective, Reaz and Hossain (2007) argue that more careful attention should be paid to the developing and transition economies, as they are less advanced in areas of corporate governance. It is claimed that it is not always appropriate to replicate Western governance practices in these countries. A code of good governance must reflect the socio-political and economic environment in which firms operate (Cuervo, 2002; Roberts, 2004; Okike, 2007; Reaz and Hossain, 2007).

As we can see from the above discussions, the debate on convergence versus divergence is not straightforward as one might think and hence it is important to move it beyond this dichotomy and pay more attention to the dynamics of how firms apply codes of good governance. For example, Yoshikawa et al. (2007) conducted a study using a sample of Japanese firms, and discovered intriguing results of the diffusion of governance innovation. According to their findings, Japan's corporate governance system neither fully converges to, nor completely diverges from the Anglo-Saxon model. The authors argue that pressure from foreign capital or product markets may not always lead to convergence to international standards. Instead, when innovating governance practices, Japanese companies decoupled from the original context and customized their governance practices to their particular circumstances. Thus, well-governed firms exposed to foreign product and capital markets, such as Toyota, Honda, and Canon, rejected the straight forward adoption of the Anglo-Saxon model, and eventually the Japanse Ministry of Justice revised the Commercial code to justify a different system. In this sense, the firm-level interaction with the code issuers and enforcers is a dimension that should not be overlooked. According to Yoshikawa et al. (2007), firm financial performance, positioning in the business community and organizational culture play important roles in shaping corporate governance reforms.

In sum, some aspects of codes of good governance signal convergence towards the Anglo-Saxon model, but country-specific factors also strongly influence the specific codes of good governance. There is no single recipe that satisfy all conditions of different countries, with firm interactions at multiple-levels adding complexity to the convergence-divergence debate.

III. COUNTRY-LEVEL STUDIES OF CODES OF GOOD GOVERNANCE

We now turn to study the implementation dimension of codes of good governance once it has been developed and adopted as a guiding principle either at the government level or within different institutions such as the stock market. There are two main mechanisms for code implementation: compliance and regulation. Most codes are based on principles of voluntary disclosure, which is referred to as "comply or explain," but there are countries which have governance issues under mandatory compliance systems such as the governance rules included in the U.S. "Sarbanes-Oxley Act." One important trend in the adoption of codes is that despite their voluntary nature firms' compliance has increased over time. However, concerns associated with non-compliance issues remain in the form of the insufficient monitoring role of market, unclear link to firm performance, and barrier created by weak institutional systems existing in developing and transition countries. Despite some advocates favoring more stringent regulatory rules, the extent of enforcement tends to reflect country-specific situations in perceived corporate governance problems. In Table 3, we summarize the studies related to the content of codes as well as comparative studies of country compliance with codes.

Insert Table 3 about here

Contents of Codes of Good Governance

Corporate governance practices differ across countries reflecting country-specific factors, such as culture, national economy, and institutional setting (Fernandez-Fernandez, 1999). However, codes of good governance have some key universal principles for effective corporate governance which are common to most countries. O'Shea (2005) shows that most codes have some recommendations on the following six governance practices explicitly or implicitly: (1) A balance of executive and non-executive directors, such as independent non-executive directors; (2) a clear division of responsibilities between the chairman and the chief executive officer; (3) the need for timely and quality information provided to the board; (4) formal and transparent procedures for the appointment of new directors; (5) balanced and understandable financial reporting; and (6) maintenance of a sound system of internal control. Furthermore, detailed descriptions as well as systematic summaries of the content of codes have appeared in Gregory (1998, 1999), who reviewed the content of codes in developed and developing countries, and in Van den Berghe and de Ridder (1999). Later, Gregory and Simmelkjaer (2002) integrated these studies on the content of codes on a report on codes of good governance that served as the base for the European Union recommendation on codes of good governance for its member states.

Level of Compliance with Code within Countries

Although codes of good governance have been developed around the world for more than a decade, the decision to adopt a given code does not automatically guarantees good corporate governance practices. Actual compliance by firms will enable the realization of the expected benefits from these self-regulatory codes. The level of compliance with codes has varied significantly across countries. For example, in the UK, Canyon and Mallin (1997) and Weir and Laing (2000) show that British firms listed in the London Stock Exchange, to a large extent, comply with the Cadbury Report's recommendations. MacNeil and Li (2006) note that the scale of compliance with the UK Combined code has increased over time. Similarly, O'Shea (2005) reports that only two-thirds of the top 100 UK listed companies had audit committees in 1992 prior to the Cadbury report, while by June 1995, every single FTSE 100 company (the 100 most capitalized firms in the London Stock Market) had an audit committee and almost 98 percent of mid 250 UK companies also adopted the committees. However, MacNeil and Li (2006) also found significant evidence of non-compliance. They show that compliance is not properly monitored, and argue that investors' tolerance of non-compliance is related to some extent with superior financial performance. Extremely brief and uninformative explanation makes it difficult for investors to make a reasonable assessment of whether non-compliance is justified. Investors seem to rely on financial performance as a proxy for non-compliance rather than engaging in the tedious task of evaluating merits of corporate provisions. MacNeil and Li (2006)'s study further suggests that financial performance has some form of influence over excusing non-compliance in reverse.

In Germany, Pellens, Hillebrandt, and Ulmer (2001) survey companies in the DAX100 and find that 95.6 percent of the firms comply with the provisions in the German code of good governance and 48.5 percent have already fully implemented the German code as a company guideline. More recently, Werder, Talaulicar, and Kolat (2005) examined the overall acceptance of the code recommendations, including critical recommendations which generated non-compliance. By using the compliance declarations of firms listed in the stock exchange, these authors identified a high degree of acceptance of the code as well as significant predictions for high level of expected future conformity. Yet, the literature also reveals that the German code of good governance includes some controversial and not so popular recommendations which are not followed by the majority of companies and which will also be rejected in the future by more than ten percent of listed companies. These recommendations fall into the following categories: 1) the personal liability and compensation of management/supervisory board; 2) the staffing of the boards; 3) the structure of the supervisory board; and 4) the accounting requirements. Bebenroth's (2005) empirical analyses of compliance also reveal similar rates of non-compliance of some code recommendations. In particular, similar to Werder et al.'s (2005) findings, it shows that there exist four recommendations leading to non-compliance: 1) director and officer liability, 2) individualized open board compensation system, 3) performance oriented compensation, and 4) timely disclosure of accounting information. In particular, concerning board member compensation exposure, Bebenroth (2005) argues that disclosure of individual compensation may bring more negative impact on the organization than it serves. Although the largest DAX listed companies comply mostly with all code recommendations, it is still questionable whether all code recommendations are helpful for firms. Consistent with arguments from MacNeil and Li (2006), the fundamental punishment for companies that do not comply with code recommendations could be a stock price decline; however, based on research by Nowak, Rott, and Mahr (2004), there is no correlation between listed companies who comply with the recommendations in the codes of good governance and their impact on the capital market performance. However, studies by both Werder et al. (2005) and Bebenroth (2005) frequently indicate that company size is positively associated with relatively higher level of compliance.

As it is to be expected, in developing countries, compliance with codes is scared. For example, research on the Cyprus code of good governance by Krambia-Kapardis and Psaros (2006) finds a low level of compliance with all significant aspects of the code. This is in the context of Cyprus which not only has weak capital markets and legal support, but also low degree of free market controls, such as highly concentrated ownership, and unreliable information flow. Their findings suggest that corporate governance codes in other developing economies might need to be strengthened by explicit institutional initiatives.

In sum, at the country level, there has been an increasing level of compliance over time despite the voluntary nature of the codes. The "comply or explain" approach allows for the possibility of non-compliance, with examples of market tolerance on non-compliance and of institutional resistance. Regarding non-compliance, it seems critical as research moves forward to study the link between firm's governance structures and firm performance, mostly because research shows that financial performance can justify non-compliance. In emerging economies, on the other hand, it appears to be important that other institutional settings should be strengthened in order to increase the effectiveness of codes.

Mandatory versus Voluntary Implementation of Codes

Once a code of good governance is developed, the next step is how to implement the codes so that firms comply by it. Implementation can either be done through mandatory or voluntary regulation. The classic examples of the two alternative approaches to implement codes are legislation (e.g., the U.S. Sarbanes-Oxley Act of 2002) and a "comply or explain" approach (e.g., the U.K. Combined Code of 2003) as suggested by Balgobin (2008).

One mechanism to implement codes is through development of stringent corporate legislation. However, such compulsory approach is rarely found in codes of good governance and is more commonly associated with laws and regulations. The most well-known example is the 2002 Sarbanes-Oxley Act (SOX). After several accounting scandals rocked financial markets in the U.S., the Accounting Industry Reform Act of 2002, known as Sarbanes-Oxley Act was enacted to prevent further corporate failure (Maassen et al., 2004). The federal SOX in 2002 and new listing requirements have a form of mandatory rules, and companies have no other alternative but to comply with them (MacNeil and Li, 2006). Under the New York Stock Exchange (NYSE) rules, Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) are required to certify quarterly and annual reports for their legal compliance (O'Shea, 2005; Balgobin, 2008). The underlying philosophy of SOX is that corporate governance practices need to be mandated rather than left to self-regulation of companies and markets to prevent devastating corporate governance failures such as Enron (Taylor, 2003; MacNeil and Li, 2006).

Voluntary firm compliance is the other mechanisms used to implement the codes. This approach was taken in the influential U.K. Cadbury Report. It is based on the rule of "comply or explain" where it is not required for listed companies to comply with the entire code. Instead, companies are required to: 1) state how they have applied the principles in the code; and 2) and in the cases that companies have not complied with the provisions, then they need to explain the reasons for any non-compliance (O'Shea, 2005). According to MaNeil and Li (2006), this approach has two underlying considerations: flexibility and the role of the capital market. First, flexibility is based on the judgment that there is not "one size fits all" approach to compliance with the codes. Due to different size, structure, and organizational characteristics of firms, the principle allows firm's self-regulation. The second consideration is the role of the capital market. One assumption of "comply or explain" principle rests on the assumption that the market will monitor compliance and will either penalize non-compliance through declining stock price or accept non-compliance under justified circumstances. Thus, companies have incentives to comply with the code, expecting benefits of higher share price. Maassen et al. (2004) state that the voluntary self-regulation principle has had a significant impact on the development of corporate governance codes around the globe. They note that it has been favored by most international financial markets in adopting modern corporate governance standards.

The “comply or explain” principle has been changing over time, however. Although the “comply or explain” principle is based on self-regulation, O’Shea (2005) argues that as codes get revised, the requirements have become more prescriptive and stringent. Dewing and Russell (2004) introduce Baggott’s classification of types of regulation in order to demonstrate how self-regulation of codes has changed. They argue that it had a characteristic of informal self-regulation during 1990s, but corporate governance has progressed to formal and direct self-regulation since. They explain that in the revising process codes get modified in response to public concerns, and this has led to more formal regulation. For example, while the previous UK Cadbury report in 1992 recommends the separation of the role of Chairman and Chief Executive, the revised Combined Code in 2003 requires that Chief Executive should not become Chairman of the same company.

Despite the greater specificity of the governance recommendations in the codes, the debate on the need for regulation of corporate governance is still very much alive. Dewing and Russell (2004), MacNeil and Li (2006), and Maassen et al. (2004) note that some scholars and organizations have expressed their concerns on weak monitoring and enforcing mechanisms of corporate governance codes. As a monitor for effective voluntary disclosure, MacNeil and Li (2006) argue that the market does not seem to play its role. Originally, the market is supposed to penalize unjustified non-compliance with lowering share price. However, as indicated by the MacNeil and Li’s (2006) study, financial performance appears to excuse non-compliance, casting a doubt that compliance does not necessarily lead to positive financial performance.

In response to the concerns on lack of monitoring and enforcement role, several authors suggest solutions to the issue. Dewing and Russell (2004) argue that an appropriate structure of regulations of corporate governance may be better based on regulation of financial services. Cuervo (2002) proposes that, for countries characterized by a large shareholder-oriented system, it is necessary to expand formal market control mechanisms to compensate for deficiencies in legal system rather than developing codes of good governance. MacNeil and Li (2006) advocate for the need of more research on the link between governance structure and performance to justify greater stringent regulation.

The selection of regulation or voluntary compliance with codes is decided at the country level, usually by the regulators of the stock exchange markets. Maassen et al. (2004) discuss two relevant factors in choosing regulatory forms: the nature of the corporate governance problem and the risks related to these problems. By understanding the nature of corporate governance problems and associated risks, they argue that policy makers can evaluate the degree of regulation through either legislation or voluntary regulation. In the U.S., for example, the high risks and its large impact of corporate failure on investors’ confidence can justify the more stringent company legislation, such as SOX. On the other hand, the impact of non-compliance does not seem to justify corporate legislation in many EU countries in which firms might be more motivated by legitimation pressures within their industry or field. In contrast, in the developing and transition economies, Krambia-Kapardis and Psaros (2006), Okike (2007), and Reaz and Hossain (2007) agree in suggesting more stringent legal regulation. As emerging countries need foreign investment for their economic development, sound corporate governance is essential in attracting investors. However, at the same time they face difficulties in successfully implementing codes because of weak institutional systems, undeveloped legal system reform, opaque audit environment, ineffective disclosure procedure, and highly concentrated ownership (Reaz and Hossain, 2007). Transition economies also raise the similar claim that major legal system reforms and enforcement of rule of law should precede the implementation of voluntary codes of good governance (Spiro, 2005, Bobirca and Miclaus, 2008).

In sum, although most codes of good governance share similar issues, the specific content of the codes of good governance does vary significantly across countries, reflecting different needs for improvement in corporate governance. The implementation of the codes has increased over time, with country-level studies showing that firms tend to adopt the practices of codes despite the voluntary nature of the codes. This voluntary nature and the associated "comply or explain" principle has given rise to a heated debate over whether codes are an effective governance mechanism or whether more stringent governance rules with mandatory implementation are needed to increase compliance, especially in countries which have weak institutions and governance systems.

IV. FIRM-LEVEL STUDIES OF CODES OF GOOD GOVERNANCE

Since compliance with codes of good governance entail significant implementation costs (Aguilera, Filatotchev, Gospel, and Jackson, 2008), it is reasonable for companies to expect benefits from compliance in the form of improved firm performance and eventually positive market reaction. In this section, we discuss the literature that examines the relationship between codes of good governance and firm performance. This literature shows for the most part inconclusive results on the relationship, suggesting the need for additional research. We review in separate subsections the issue of codes of good governance in small and medium sized enterprises (SMEs) and in not-for-profit organizations. These two types of organizations face slightly different governance issues and the need for codes to adjust to their concerns. For corporate governance in SMEs, full versions of codes of good governance do not seem to be appropriate and in fact, there has been demand for a more flexible approach. Nevertheless, corporate governance codes have positive influence on stock market of SMEs. Non-for-profit organizations face unique challenges in that they have diverse stakeholder and discrete missions and thus, simple application of shareholder-value oriented approach is not appropriate. In Table 4 and 5, we summarize findings of studies on firm performance and on codes in SMEs and non-for-profit firms. .

Insert Tables 4 and 5 about here

Codes of Good Governance and Firm Performance

A key question that needs to be answered in research on codes of good governance is whether they do have an impact on firm performance, or whether they merely serve to calm investors' complaints. Some studies reveal a positive relationship between codes and earnings management. Benkel, Mather, and Ramsay (2006) analyze whether independent directors on the board and audit committee are related to lower levels of earnings management. Using a sample of the top 300 Australian firms, the results reveal that a higher proportion of independent directors on the board and in the audit committee is associated with reduced levels of earnings management. This finding is consistent with those of previous US and UK research which illustrate the critical monitoring role of independent directors in corporate governance practices. For example, Weir and Laing (2000) tested a sample of 200 British firms in 1992 and 1995 and show that market returns are higher when firms follow the Cadbury Report and establish a remuneration committee. Machuga and Teitel (2007) investigate whether there is an improvement in earnings quality after implementing the codes. Based on a variety of earnings quality characteristics of Mexican firms, such as income smoothing, timely loss recognition, abnormal accruals, the findings indicate that the quality of earnings improve after implementation of the codes.

Other studies find positive associations with codes of good governance and more traditional measures of performance such as returns and market value. Fernández-Rodríguez, Gómez-Ansón, and Cuervo-García (2004) examine the market reaction to announcements of compliance with the code of best practice in Spain (Olivencia Code). They identify a positive reaction in the form of positive abnormal returns to the firms' announcements of compliance. Investors appear to highly value those announcements on significant restructuring the boards of directors. Similarly, Del Brio, Maia-Ramires, and Perote (2006) analyze the effects of recommendations of the code and the value of the Spanish firms, showing that the degree of compliance increases firm's value. It suggests that as a company is more transparent and receives more favorable audit reports, the more the firm's value increases. Alves and Mendes (2004) analyze the relationship between the level of compliance and equity returns for Portuguese firms. They uncover a positive relationship; particularly, there is a positive relation between compliance with recommendations on the structure and functioning of the board of directors and abnormal returns. However, globally, the Portuguese Securities Market Commission's code of best practice does not have a systematic impact on returns. This suggests that the results of these analyses are very sensitive to what recommendations in particular are related to firm returns.

Codes of good governance also affect other variables in addition to performance. Dahya, McConnell, and Travlos (2002) illustrate that the adoption of the Cadbury report in 1992 increased CEO turnover in the UK, triggered by the need for separation of Chairman and CEO. At the same time, this UK code recommendation also heightened the sensitivity of the CEO turnover to poor performance.

However, other studies show either inconsistent or negative relationships between the compliance with codes of good governance and their recommendations and firm performance. Park and Shin (2001) did not find that the compliance with the Toronto Stock Exchange's Corporate Governance Guidelines is associated with reductions in accruals management. The meta-analysis of Dalton, Daily, Ellstrand, and Johnson (1998) finds that neither board composition (inside vs. outside directors) nor board leadership structure (separation of CEO and Chairman) has been systematically linked to financial performance. Bhagat and Black (1997) state that there is no convincing evidence that increasing independence will increase firm performance. In fact, they argue, there is the opposite case, that firms with independent directors perform poorly than other firms and that firms with more inside directors than outside directors perform just as well as firms with majority independent directors (Bhagat and Black, 1997; Maassen et al., 2004).

Several reasons have been advanced for the mixed and inconclusive findings. First, other factors related to governance and broader than governance may affect the relationship between code compliance and firm performance. The attribution to other uncontrolled factors is clearly stated by Machuga and Teitel (2007). Likewise, Alves and Mendes (2004) propose that different return-generating factors, such as profitable portfolio strategy for value creation can have an influence. In this sense, they argue that it is important to study the extent of influence on firm performance between compliance and other return-generating factors. Mura (2007) points out that many studies failed to control for the endogeneity of the explanatory variables due to unobserved firm heterogeneity (fixed effects). It indicates that if the studies have not controlled for this condition, the results may generate biased and inconsistent estimates.

Second, firm-specific characteristics influence the relationship. Fernández-Rodríguez et al. (2004) find that the wealth effects are greater for firms with lower leverage rates and where managers dominate the board. Benkel et al. (2006) also show that reduced levels of earnings management through the monitoring role of independent directors are mostly associated with large firms, but not with small firms. They suggest that it may the result from higher public scrutiny of large firms which provide independent directors with more incentives to be better monitor and from more resources to recruit better directors with more experience and expertise. Litvak (2007) also finds that more profitable, riskier, well-governed, and smaller companies experience more declined cross-listing premium. These results illustrate that relative benefits and costs of compliance may rest on companies' pre-governance structure and firm-level characteristics.

Third, an important issue is the concept of independent directors. Although most corporate governance codes underscore the independence of boards of directors, Maassen et al. (2004) question whether independent directors are truly independent enough to be effective monitors. This is particularly the case because the definition of director independence varies across countries and even firms. And depending on their expertise/experiences and given incentives, some boards may be more motivated to be more effective monitors (Benkel et al., 2006).

In sum, although investors value positively firm's compliance with recommendations on board structure, there has been mixed results of the codes' impact on firm performance. Other factors and firm characteristics seem to affect the relationship, requiring more careful analyses to distill the value of codes of good governance on firms.

Codes of Good Governance for Small and Medium Sized firms

Although compliance with the codes has increased over time, there has been an issue of the chasm of compliance between large and smaller companies (Parsa, Chong, and Isimoya, 2007). After examining current practices of SMEs under the Cadbury Code, Doble (1997) argues that most companies have not fully complied with the codes. In fact, the market seems to accept the fact that the features of "three non-executive directors" and "separation of the role of chairman and CEO" are not always required in SMEs. By discovering the trend that companies with at least two non-executive directors continued to increase, he suggests that there may be an optimal number of non-executives for SMEs. Needless to say, compliance with a recommendation of having three non-executive directors could incur additional financial costs, but not necessarily guarantee equal or more benefits. From this perspective, it triggers the question of whether full compliance with the codes is appropriate for SMEs.

Parles, O'Sullivan, and Shannon (2007) also raise a similar concern that compliance for small companies imposes significant financial burden and it may even result in withdrawal from the market—which would entail the opposite result of facilitating market listing of SMEs. Adressing this issue of code appropriateness, Doble (1997) and Parsa et al. (2007) propose a more flexible approach to compliance of SMEs. For SMEs under SOX in the U.S., there has been a proposal of amendment to the section of SOX (i.e., exemption or waiver from certain sections) (Parles et al., 2007). Later, the newly revised UK Combined Code (2003), for example, gives special attention to board composition, by recommending that small companies should have at least two independent non-executive directors (Parsa et al., 2007).

Despite the suitability issue of codes in SMEs, however, there are studies which reveal positive aspects of codes on SMEs. By providing better management guidelines, Abor and Adjasi (2007) argue that the recommendations of the codes, those of especially non-executive and independent directors can enhance the value of the firm and competitiveness. Mallin and Ow-Yong (1998) also notice that companies equipped with both audit and remuneration committee and clear statement of corporate governance policies successfully raised new capital on admission in the AIM (Alternative Investment Market)—a market that was established in 1995 in order to provide smaller and fast growing companies with opportunities to raise new capital and trade new shares. Likewise, Parsa et al. (2007) suggest that the proportion of non-executive directors and degree of board independence are positively related to the quality and transparency of governance disclosure. Particularly, for fast growing firms or firms with a plan to advance to a major market, code of good governance structures could be essential to attract new investment and increase market price. As Parsa et al. (2007) point out, considering a gloomy atmosphere in AIM with declining interests of investors, compliance with the codes may be a turning point, by boosting investor confidence.

In sum, full compliance with the codes does not seem to be appropriate for SMEs. Indeed, SMEs have different circumstances in terms of available firm resources and different expectation from investors, which are not of equality to those of large companies. However, it appears to have a positive influence on SMEs to equip with good corporate governance structures in that it can enhance transparency of information and help raise new capital in the market.

Codes of Good Governance for Non-for-Profit Organizations

Traditionally, the notion of corporate governance has been applied to the for-profit and publicly traded firms, with a major focus on a firm's accountability towards shareholders (Dawson and Dunn, 2006) and stakeholders (Aguilera et al., 2008). The role of corporate governance in nonprofit organizations is increasingly coming to light. Unlike for-profit firms, nonprofit organizations operate funds donated from public with a principle of preventing any profit to be redistributed. Hence, the stakeholders' trust lied in charity organizations require more transparency and accountability of the firm, considering the fact that stakeholders in nonprofit firms are not entitled to the same rights other shareholder have in for-profit firms (Dawson and Dunn, 2006). As the non-for-profit sector is also expected to grow (Mulligan, 2007), it is worth reviewing the literature with an attention on whether code of corporate governance can fit into this sector.

In accordance with arguments of several studies, the new code or reform for nonprofit sector (Governance Hub Code of practice published in 2005) is viewed as an important step to expand the current scope beyond the for-profit sector. Despite this valuable initial step, the new code has issued that it is not sufficient to identify and unify the associated diverse constituency. Thus, it is recommended to customize corporate governance practices to the nonprofit sector without applying the shareholder-oriented market perspectives.

Dawson and Dunn (2006) point out current efforts to provide guidelines for nonprofit organizations lack consistency, resulting in discrete and inconsistent results. In their study, they examine whether a new code (Governance Hub Code of practice published in 2005) is appropriate for not-for-profit firms as a regulation tool. Their findings suggest that despite great value in this new initiative, the new code faces issues of lack of clarity; difficulty in identifying relevant stakeholders and clarifying the goal of the code. For example, a wide range of stakeholder charity organizations have made it complex to identify the scope of stakeholders. And the many diverse perspectives within the nonprofit sector are also attributable to confusion in consistent application to this sector. Taken as a whole, it is then questionable that compliance with the code would be successful in practice.

Mulligan (2007) focuses on SOX inspired nonprofit reform which has been currently under way in seven states of the U.S. He also views the reform initiative as a valuable step to the previously neglected corporate governance of non profit sector. Nonetheless, he claims that the corporate governance reform of nonprofit sector should not replicate a shareholder-value approach into nonprofit sector. Rather, he suggests that more tailored perspectives, such as stakeholder theory need to be considered in order to make effective nonprofit sector reform in the future. We can see the consistent arguments from Mulligan and Dawson and Dunn that application of the code to nonprofit sector without appropriate customization creates more problems due to present disparity between two sectors.

In conclusion, even though scholars in the non-for-profit sector seem to appreciate the attention that these organizations have received in the development of a new code and its equivalent reform as a significant step to move forward in the non-for-profit sector. However, this process is viewed only as the beginning of the reform process because the new governance code for non-for-profit firms still needs to resolved issues surrounding the scope of constituency and goals of the code. However, shareholder market-based approach instilled in current codes should not directly be applied and rather, a broader perspective need to be taken.

V. CODES BEYOND CORPORATE GOVERNANCE

Research on codes of good governance has been firmly established as a governance research topic of critical relevance among academics, business practitioners, and policy makers.

In this chapter, we have reviewed the literature on codes of good governance, concentrating on how they have come into play around the world. Whilst we hope to have provided a useful review of the extensive literature regarding role and influence of current codes of good governance, it is also critical that we question whether it is sufficient to adhere to the formal aspects of codes of good governance. To engage in effective corporate governance, it is suggested that ethical aspects need to be instilled into the code. In particular, social responsibility issues as well as individual ethical mindsets should be cascaded into a company culture.

For a long time, economic/market-based approaches have been prominent in the area of codes of good governance with a goal of protecting shareholders' benefits (Reaz and Hossain, 2007). However, as long-term views of the firm such as social responsibility or employee involvement, come to be integrated into the firm, the scope of corporate constituency needs to be widen. Incorporating the specific interests of relevant stakeholders (parties who are affected by activities of corporations, such as employees, consumers, and community members) with those of shareholders can at times be conflicting with the firm's fiduciary goal of maximizing market value. However, Reid (2003) argues that interests of shareholders and stakeholders can be compatible in terms of long-term firm success. Reaz and Hossain (2007) also support the idea, claiming that other relevant stakeholders including employees and creditors can make critical contributions. For example, Peters (2004) highlights the relevance in incorporating attitudes of company employees in embedding code of good governance into a company culture. He argues that a company needs to be sensitive to employees' attitudes towards codes and company ethics, which may be critical for sustainable corporate governance. In order to achieve long-term success of corporate governance, he argues that a company is responsible to create an open culture in which employees clearly understand how a company operates within a code and freely raise issues of company governance. It shows a good example of how relevant stakeholders contribute to implementing successful codes of good governance along with stakeholders' interests.

If interests of other relevant stakeholders should be addressed, Reid (2003) claims that ethical and social responsibilities need to be integrated as an acceptable objective of corporate governance. Fernandez-Fernandez (1999) presents, as an example, the Spanish Olivencia Code to show how ethical aspects could be applied to codes of good governance. By challenging issues pertaining to an ethical nature in the code, Fernandez-Fernandez argues that problems of corporate governance are closely related to moral accountability. The author suggests that universally applicable ethical principles could provide valuable guidance for effective corporate governance regardless of diverse situations of country, and thus it should be absorbed into corporate governance and company mission. Dawson (2004) claims that corporate governance needs to go beyond compliance with formal codes. To nurture a moral framework into the corporate culture, Dawson suggests that individual moral responsibilities of all relevant stakeholders (i.e., shareholders, directors, employees or consulting analysts) should be precedent.

In sum, stakeholders and ethics are closely related to corporate governance and corporate mission. It is not enough to formally follow the corporate governance structures. Rather, for long-term success of corporate governance, it seems to be important to align interests of other relevant stakeholders with an objective of a company as well as to embed ethical framework into code of good governance.

VI. SUMMARY AND CONCLUSIONS

In this chapter, we have reviewed extensive studies about codes of good governance, highlighting the main issues that the studies of codes of good governance cover. We organized the review of the literature in three main areas: cross-country comparisons, country level analysis and firm level analysis.

At the cross-country level, studies provide a good understanding of diffusion and institutionalization of codes worldwide. Although there are signals of convergence towards the Anglo-Saxon model, there is no single model that fits all and there must be some extent of divergence in adopting codes. Indeed, the debate on convergence and divergence is more complicated than it seems and it is seen necessary to move beyond simple dichotomy.

At the country level, compliance with codes has increased over time and the future prospects on compliance are also bright. However, there are still issues of the weak monitoring of non-compliance and not sufficient peer firm legitimation pressures. For developing and transition countries, efforts to promote compliance with the codes do not appear to be sufficient; there is need for additional reforms in supporting institutions.

At the firm level, the most controversial area lies in the area of the relationship between codes and firm performance. This relationship is crucial to determine the value provided by the codes. Many studies examine the relationship between codes and firm performance, but have failed to show consistent results, requiring additional studies. This hypothesized relationship between compliance with codes and performance is more poignant in the case of SMEs and non-for-profit organizations. Both types of organizations appear to require different types of codes to deal with their particular characteristics, a smaller size and less complicated structure in the case of SME, and a non profit objective in the case of non-for-profit. However, this does not mean that codes do not provide value to both organizational types, but merely that they need to take into account the special organizational characteristics.

Lastly, we extended the scope of the debate to position codes of good governance within the broader context of ethics in business. As the importance of long-term partnership and social responsibility has been recognized, there has been a growing consensus that codes of good governance need to integrate a broader range of stakeholder interests and company ethics. Indeed, it is the spirit deeply engraved in a company culture that makes a difference.

In conclusion, the existing literature on code of good governance has grown a great deal to capture how codes of good corporate governance have come into practice worldwide. Although it is promising that the world continues to adopt and comply with codes as a regulation tool, it is also important to understand complex firm-level characteristics and interactions which may produce variances in results. Perhaps, it may be too early to evaluate the efficacy of codes yet, as we still need to observe to what degree investors pay attention to different levels code compliance and how it ultimately affects firm performance broadly understood.

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Table 1. Diffusion/ Institutionalization Studies

Reference	***Research Questions/ Purpose***	***Arguments and findings***
Aguilera and Cuervo-Cazurra (2004)	Identify the determinants of adoption of codes of good governance	Legitimation and efficiency explain adoption of codes of good governance. Countries with a common law legal system, weaker protection of property rights, higher government liberalization, and more presence of foreign institutional investors are more likely to adopt a code of good governance.
Cuervo-Cazurra and Aguilera (2004)	Analyze the determinants of the speed in the adoption of codes of good governance	Understanding of, willingness of, and exposure to foreign knowledge explain speed of adoption of codes of good governance Countries with WWW are more likely to earlier adopt a code of good governance.
Zattoni and Cuomo (2008)	Study whether legitimation or efficiency explain adoption of codes in civil law countries	1) Diffusion of Codes: Civil law countries issued codes later and were less prone to issue codes than common law countries. (H1b,2b) 2) Scope of Codes: Codes by civil law countries extended their recommendations to non-listed companies more often. (H3a) 3) Coverage of Codes: There was no significant difference in total number of items (H4b) However, in terms of single item, common law included 'evaluation of board performance and separation of chairman and CEO' more often. In codes in civil law countries, 'shareholder rights, employee's roles, conflict of interest' were more often covered. 4) Strictness of Codes: Codes in civil law countries issue stricter recommendations on board of directors. (H5b)
Haxhi and Ees (2008)	To examine cross-national diversity of processes of creating corporate governance codes	<u>Hypotheses</u> Corporate governance codes (CGCs) are more likely to develop in countries with a common-law legal systems compared to civil-law systems (H1a), CGCs are more likely to develop in countries which combine effective protection of property rights with dispersed ownership (H1b), CGCs are more likely to develop in individualist countries (H2), The stock exchange and investor groups are more likely to be the first issuer of CGCs in common law countries(H3), The directors associations are more likely to be the first issuers of CGCs in countries with higher PDI(H4), The governments are more likely to be the first issuers of CGCs in nations with a French civil law system. <u>Findings</u> H1a, H2 (robust), H4, H5 were supported and H1b and H3 were partially supported.
Enrione, Mazza, and Zerboni (2006)	To study the process of the institutionalization of codes of governance and the role of different actors involved in issuing the codes	<u>Findings/Arguments</u> This study examines the process of the institutionalization of codes of governance and the role of the different actors involved in issuing codes: law makers, model makers, market makers, and governance enactors. Using the data collected, it described stages of institutionalization -precipitation jolts, theorization, diffusion, and reinstitutionalization. Description of how institutionalization occurs means developing a model (e.g. CG) to monitor waves of a model and practices emerging from globalized corporate governance.

Table 2. Convergence and Divergence Studies

Author	*Research Questions/ Purpose*	*Hypotheses/ Findings, Arguments*
Collier and Zaman (2005)	To examine the development of audit committee concept in Europe for evidence of convergence in corporate governance systems in Europe	Findings This paper analyses recent corporate governance codes issued by 20 countries for evidence of convergence in corporate governance systems in Europe. It shows that there has been a degree of convergence towards Anglo-Saxon model as audit committee is widely accepted in countries with both unitary and two-tier systems (except for pan-European codes) The reasons can be traced to the globalization, importance of audit committee in transparent financial reporting following recent corporate scandals. However, at an operational level, there is limited consistency in recommendation of structure and role of audit committee.
Roberts (2004)	To reveal 1)the tensions of new codes in the between of embodiment of universal good corporate governance behaviors an embedding in Russian business culture; 2) make an conclusion of construct of capitalism in post-Soviet Russia	Arguments In the midst of rapid organizational and institutional chance in Russia, it was internationalization of financial market that led the change. These international markets are typically Anglo-Saxon model in their governance and when countries draft their national corporate governance codes, they are influenced by (geo) political power. The authors argue that new Russian code was shaped based on the politics of corporate governance around the world. Indeed, Russian code is an attempt to claim hegemony of Anglo-Saxon shareholder capitalism, failing to address many problem related to country and its business culture. They suggest project the transposed western management theory and business culture to Russia both politically loaded and problematic.
Reid (2003)	To discuss the internationalization of corporate governance principles and code of conduct	Arguments Good corporate governance also needs to ensure that corporations take into consideration the interests of external constituencies such as stakeholder. As the most controversial debate, author supports the view corporate governance principles should cover needs of stakeholder in addition to that of shareholder. The author here argues that with union harmonization attempts, internationalization of commerce and information technology advances are enabling an international agreement that the reconciliation (integration) of shareholder and stakeholder concerns are not necessarily mutually exclusive. In addition, in spite of the factors inhibiting convergence (e.g. difference in legal systems, political power of interest groups, a different level of development of capital markets and acceptance of stakeholder model, corporate governance in the long-term will become established as the dominant international rule.
Cuervo (2002)	To provide a comparative analysis of corporate governance mechanisms in Anglo-Saxon and Continental European systems of corporate governance and show what mechanisms need to be promoted to maximize value of firm.	Arguments This paper compares two corporate governance systems-Anglo-Saxon model (market control) and Continental European model (large shareholder-oriented system (e.g. Germany, French, Spain, etc). Although deficiencies in shareholder protection in legal system in Continental European model promoted the use of code of good governance, lower enforceability of norms hinders the application of those codes (e.g., weak market control of corporate governance with strong core shareholder, manager defenses and socio-cultural variation). Thus, the author claims more market control is necessary to increase efficiency of corporate governance rather than extending the use of code of corporate governance. The positive forces are introduced such as needs for greater transparency, increasing number of U.S. investors in Europe and globalization of capital markets for a trend of convergence of corporate governance.
Spiro (2005)	To review the role of new corporate governance code of Central Europe in improving shareholders' rights	Arguments It shows that a concept of corporate governance is being firmly established in central Europe. As central Europe's weak capital markets deepen, institutional investors-both foreign and domestic- and regulators become more assertive, shareholders' rights are being taken more seriously. However, the author also addresses that there are tensions in Central European corporate governance between company law in German model and regulatory framework in Anglo-Saxon model. Some problems still exist (e.g. perception of board to represent particular stakeholders rather than shareholders as a whole, shortage of qualification of boards, and difficulty in achieving independence due to concentrated ownership). The author also illustrates the challenge of enforcement and importance of major legal reform.
Okike (2007)	To examine the mechanism of corporate governance and review the current state in Nigeria, one of the developing countries.	Arguments This paper provides a comprehensive review of the state and mechanisms of corporate governance in Africa's most populous country, Nigeria. In an attempt to attract foreign investors into country, government has initiated as an effective corporate governance system, such as through adoption of code of governance in 1999; however, effectiveness of corporate governance mechanism is still in doubt. There is an issue of weak enforcement mechanisms which produce non-compliance. Although there is pressure for global corporate governance standards, code in one country should appreciate the differences in and reflect its own socio-political and economic environment while providing the right assurance to prospective and existing shareholders.
Reaz and Hossain (2007)	To provide a comparative study of corporate governance around the world on the context of four corporate governance systems- Anglo-Saxon, Germanic System, Latin system, and Japanese system.	Arguments In the middle of growing recognition of sound governance, different countries address different corporate governance issues and thus a corporate governance system refers to a country-specific framework of legal, institutional and cultural aspects. Country specific systems are categorized into four corporate governance systems as main determinants of practices -Anglo-Saxon, Germanic, Latin, and Japanese system. Above all, it indicates that developing economies are less advanced in the area of corporate governance and need a more stringent focus on their practices as their corporate sector traits differ from those in developed world. The author argues that it is not wise to completely transfer Western governance practices to developing countries. Rather, a detailed picture of their corporate governance should be developed in a prudent governance framework by identifying the underlying problem areas.

Table 3. Level of Compliance

Author	*Research Questions/ Purpose*	*Hypotheses/ Findings, Arguments*
Balgobin (2008)	To discuss some of measures taken to restore trust in corporate governance-legislation (SOX) and revision of codes and voluntary standards and consider possible impact of the measures on corporate governance practice globally.	Findings/arguments After financial scandals of recent years (Enron, WorldCom, etc), this paper divides some of measures taken to restore trust into two categories-legislation (Sarbanes-Oxley Act) and revision of codes and voluntary standards (Combined code in 2003 and OECD principles of corporate governance in 2004). The findings indicate that it is too early to evaluate efficacy of either approach. Also, the findings suggest that there is considerable level of contextual distinctions across nations and thus it is difficult to make universal corporate governance rules in current circumstances. However, the authors argue that the rules will have to be aligned in some aspects as globalization and international business activities grow.
Hermes, Postma, and Zivkov (2007)	To examine to what extent the contents of corporate governance codes of seven Eastern European countries are congruent with the recommendations of European Commission to assess a degree of external forces on contents of codes in those countries	Findings/Arguments This paper analyzes and compares the code contents of seven Eastern European (EE) countries in a transition to a market economy. Based on analysis of comparison between code contents of seven EE countries and generally accepted best practice recommendations, the results reveal that for some countries, the contents of country code are highly different compared to these best practices, suggesting domestic forces related to country-specific characteristics may have played a role of shaping the contents of code, despite external harmonization efforts of code by European Commission.
Yoshikawa, Tsui-Auch, and McGuire (2007)	To analyze the diffusion of governance innovation in Japan along with the convergence-divergence debate in corporate governance	Findings Authors argue that a Japanese system of corporate governance is neither fully converge to, nor completely diverge from Anglo-Saxon model. In fact, pioneer and followers of corporate governance reform selectively adopted elements from the model, decoupled them from the initial context, and customized them to suit their own situations. Eventually, the state, the Ministry of Justice revised the Commercial Code to legitimize different systems which led to emergence of diverse corporate governance practices.
Sargent (1997)	To show the update of codes of best practices around the world	Argument It shows that good corporate governance is not a 'one size fits all' approach and a wide range of approaches to corporate governance should be expected and entirely appropriate.
Cromme (2005)	To discuss recent changes in the German system of corporate governance and the role of code	Findings/Arguments This paper deals with recent changes in the German system of corporate governance in terms of international context such as business and finance, and global investors. German Corporate Governance Code (GCGC) meets this requirements in terms of self-regulation. The code was widely accepted and companies are already complying with the Code's recommendations to a large extent. Furthermore, many companies have declared that they intend to adopt more of Code's features in the future. It helps avoid new boundary of legal regulations and preserves freedom of entrepreneurial action.
O'Shea (2005)	To show why the current corporate governance requirements occurred and to check the trends in corporate governance codes	Arguments It reviews basic principles of corporate governance and how it has been applied at national level as well as firm level (e.g. charities, private companies) It also shows raised concerns/issues of codes including "one size fits all approach", how to run a board, excessive costs of compliance, and delisting of non-US companies under SOX. It projects a next step in corporate governance, addressing the deficiency in current code and a need for improvement in codes.
Bebenroth (2005)	To identify the most commonly unaccepted recommendations	Findings/Arguments The study shows that the biggest DAX listed companies comply mostly with all of the recommendations; however, the critical recommendations of non-compliance turned out to be, 1)Director and officer liability (D &O insurance); 2)Open individualized compensation system of BOD directors;3)Performance based compensation to auditor; and 4)Timely disclosure of accounting information. Following non-compliance, it is crucial to ask whether all recommendations by German Corporate Governance Code are helpful for companies in any case especially in the part of board member disclosure of compensation.
v. Werder, Talaulicar, and Kolat (2005)	To examine overall acceptance of the code recommendations and identify less agreed standards among German companies	Findings Their findings show that there are a high degree of compliance with the recommendations of the GCGC. As expected, the acceptance of the code was positively related to size of the companies. However, the code also contains some recommendations with which more than ten percent of all companies declared that they will not comply with in the future. Neuralgic norms concern the personal liability, compensation of the board members, the staffing of the boards, the structure of supervisory board as well as accounting requirements.

Table 3. Level of Compliance (continued)

Author	***Research Questions/ Purpose***	***Hypotheses/ Findings, Arguments***
Krambia-Kapardis, and Psaros (2005)	To identify levels of compliance with the Code by companies listed on the Cyprus Stock Exchange.	Findings/Arguments This paper examines level of compliance with the code by companies listed on Cyprus stock exchange. This finding indicates that only a small minority complied with all significant aspects of code. This might be due to weak Cyprus equity market, corresponding legislative support pertaining to corporate governance, and free market controls (concentrated ownership and low reliable information flow). It suggests that code should be supported by other initiatives such as education, more stringent listing rules.
MacNeil and Li (2005)	To examine the nature of explanations given by companies with a record of non-compliance and the role of market in allowing the deviation from the code.	Consideration Significance of share price performance as a factor in justifying non-compliance and the level of reliance of investors on this indicator Findings Although the scale of compliance has increased over time, the analysis found a significant incidence of non-compliance. The more problems lie in “how non-compliance is monitored and excused.” The explanation given by non-compliance companies was extremely brief, and uninformative which make it difficult for investors to judge appropriateness of non-compliance. This study shows that there is a prima facie link between share price information and investor's tolerance of non-compliance with the Combined Code.
Parsa, Chong, and Isimoya (2007)	To examine the extent of compliance with the governance regulatory requirements by small and medium sized companies (SMEs) listed on the alternative investment market (AIM)	Hypotheses: There is positive association between board size and corporate governance disclosure(H1); There is a positive relationship between board independence and corporate governance disclosure(H2);There is a negative relationship between CEO duality and corporate governance disclosure (H3); There is a positive association between the number of non-executive directors on the audit committee and corporate governance disclosure (H4);There is a positive relationship between the presence of a founder-CEO and corporate governance disclosure (H5);There is a positive association between financial leverage and corporate governance disclosure(H6);There is a positive association between dispersed ownership and corporate governance information disclosure(H7) Findings Two hypotheses were supported (board independence-H2 and composition of audit committee-H4) The analysis supports that higher the number of non-executive directors, the more fully SMEs report on their governance mechanisms. This indicates the presence of non-executive directors is a key determinant in the transparency of a given governance mechanisms. As for larger companies, there is a positive relationship between the number of non-executive directors in governance mechanisms and the extent of disclosure.
Maassen, van den Bosch, and Volberda (2004)	To examine the link between self-regulation and the compliance of voluntary codes	Findings/Arguments The great risks including high profile scandals can justify the development of more stringent legislation such as SOX. However, the voluntary corporate governance codes do not seem to justify company legislation as impact of corporate governance standards on financial performance of corporations and absence of quantifiable data are controversial. In fact, Winter Report clearly states that market is the right place to enforce compliance with standards. Indeed, compliance itself does not lead to a competitive advantage. However, each company might have to assess risks associated with non-compliance and its impact on its reputation from investors.
Sheridan, Jones, and Marston (2006)	To examine the change in the level of corporate news announcements by UK companies following the introduction of corporate governance codes.	Hypothesis Ho: There is no relationship between the number of corporate news announcements issued and publication of corporate governance codes adopted by the London Stock Exchange. Finding The flow of corporate news increased following publication of corporate governance codes. The relationship shown assumes that the corporate governance codes were the primary drivers of any change in the quantity of corporate news announced (strategy and operations of the firms appeared in the annual reports)

Table 4. Codes and Firm Performance

Author	*Research Questions/ Purpose*	*Hypotheses/ Findings, Arguments*
Dalton, Daily, Ellstrand, and Johnson (1998)	To address the relationships between board composition and board leadership structure, and firm financial performance	Findings The meta-analysis review of existing research identifying the relationships between board compositions, board leadership structure, and firm financial performance shows little consistency in results. Neither board composition nor board leadership structure has been consistently related to firm financial performance. The moderators analysis (firm size, nature of firm financial performance indicator, and various operationalization of board composition) also provides little evidence of systematic governance structure/financial performance relationships.
Del Brio, Maia-Ramires, and Perote (2006)	To examine the effects (suitability and compliance) of recommendations of the Spanish Olivencia Codes on the value of the firm	Hypotheses H1: The greater the compliance with the CGC recommendations, the higher a firm's value (From H2-H5) the relationship between corporate governance related variables and a firm's value) H2: The more favorable the audit report, the higher a firm's value. H3: The greater the transparency, the higher a firm's value H4: The higher the directors' compensation, the higher a firm's value H5: The bigger the firm, the smaller a firm's value Findings H1, H2, H4, H5 were significant and H3 were least important. The more favorable audit report, the higher directors' compensation, the smaller the firm size, and the more transparent the firm is, a firm's value increases.
Fernandez-Rodriguez, Gomez-Anson, and Cuervo-Garcia (2004)	To analyze the market reaction to announcements by Spanish firms of compliance with the code of best practice, and to determine how characteristics of firms explain the excess returns.	Findings The result shows a positive market reaction to announcements of compliance with the code of best practices. It suggests that investors value positively those announcements that imply a significant restructuring of the board of directors. However, there were no significant wealth effects observed for the firms that only adopt specific recommendations. For characteristics of firms, it reveals that firms with low debts and with boards with a higher percentage of executive directors experience more abnormal returns. These findings indicate that investors value highly the monitoring role of the recommendations, especially for firms with lower leverage and where managers may dominate the board.
Alves and Mendes (2004)	To analyze the relationship between the level of compliance of the code of best practice by firms issued by the Portuguese Securities Market Commission and the returns of those companies	Findings By using a multifactor model, the results reveal that there is a positive relationship between the compliance of some of the recommendations and the returns. The recommendations include the structure and functioning of board of directors. However, they also show CMVM's (the Portuguese Securities Market Commission) code of best practices universally does not have a systematic effect on returns. the different groups of recommendations show contrasting effects and the total effect of those recommendations is negligible. For example, there was a negative relationship between disclosure of company's dividend policy and companies' performance.
Goncharov, Werner, and Zimmermann (2006)	To examine whether there is a pricing effect related to the declared degree of compliance for publicly traded German companies	Hypothesis There are capital market pressures to force companies to comply with the recommendations (or at least incentives) Findings The study reveals that there the degree of compliance with the code is the consistent value-relevant information for the capital market. Firms with higher compliance are priced at an average premium. This suggests that the capital markets accept the rules of the code to be meaningful and there is capital market pressure to adopt the code.
Benkel, Mather, and Ramsay (2006)	To examine whether independent directors on the board and audit committee are associated with reduced level of earnings management	Hypotheses H1: Firms with boards comprising a higher proportion of independent directors will be associated with reduced earnings management H2: Firms with audit committees comprising a higher proportion of independent directors will be associated with reduced earnings management. Findings The hypotheses are supported. It reveals that both boards and audit committee comprising a higher proportion of independent directors are associated with reduced level of earnings management. The results, however, are applied to large firms, not small firms. The difference may result from the higher scrutiny of large firms and the notion that independent directors have stronger incentives to be better monitors due to the public scrutiny. This is consistent with the view that large firms have capability to attract directors with superior expertise and experience.

Table 4. Codes and Firm Performance (continued)

Author	*Research Questions/ Purpose*	*Hypotheses/ Findings, Arguments*
Mura (2007)	To investigate the relation between firm performance and both ownership structure and board composition	Hypotheses H1: There is a cubic relation between board ownership and firm performance H2: A large proportion of outside directors on the board may be associated with more effective monitoring and better performance H3: Different types of blockholders-institutional, non-institutional ownership- may have a different impact on firm performance Findings H1:The results indicate that there is a relation between directors' proportional ownership and firm performance, and the direction of causality runs from ownership to performance. This also supports the cubic relation predicted by the alignment/entrenchment hypothesis in previous studies. However, the proportional ownership of non-executive directors and performance is insignificant. H2: The proportion of non-executive directors on the board turns out to have a positive impact on firm performance. H3: There was a negative relation between performance and the proportion of shares by blockholders (for both institutional and non-institutional owners).
Litvak (2007)	To examine whether the SOX affected the premium that investors are willing to pay for shares of cross-listed foreign companies in the U.S.	Hypotheses Main H1: Cross-listing premium for foreign companies subject to SOX declined during the period of SOX adoption, relative to cross-listing premium of foreign companies not subject to SOX Sub H2a: Cross-listed companies that were well-governed before SOX adoption experienced larger declines in cross-listing premium during the period of SOX adoption Sub H2b: Cross-listed companies from countries with high quality corporate governance and institutional environment experienced larger declines in cross-listing premium during the period of SOX adoption Sub H3: Larger cross-listed companies experienced smaller declines in cross-listing premium during the SOX adoption than smaller cross-listed companies Sub H4: Faster growing cross-listed companies experienced smaller declines in cross-listing premium during the period of SOX adoption than slower-growing cross-listed companies Sub H5: Riskier cross-listed companies subject to SOX experienced larger declines in cross-listing premium during the adoption of SOX Findings H1: In all single-company specifications, cross-listing premium of foreign firms subject to SOX decline significantly, compared to non cross-listed firms from the same country, the same industry, and similar size. Sub H2a,b: Well-governed firms and firms from countries with high-quality laws, well established institutional systems experienced more declines Sub H3, 4, 5: Larger firms experienced less decline, but riskier and more profitable firms declined more.
Machuga and Teitel (2007)	To investigate whether there is an improvement in earnings quality after the implementation of the Code	Findings By using various earnings quality characteristics, the results indicate that for Bolsa sub-sample of firms, earnings quality generally improves through working capital accruals in the post-code period. However, for ADR sub-sample, the significant improvement in earnings quality occurred for characteristics (income smoothing and timely loss recognition) in which the pre-code measures are not the significantly different from that of Bolsa sub-sample. Overall, the increase in earnings quality during post-code implementation, after controlling firm-specific, market specific, and other variables suggest that the Code did change management behavior and achieved its objective of improving earnings quality.

Table 5. Codes in SMEs and Not-for-profit firms

Author	*Research Questions/ Purpose*	*Hypotheses/ Findings, Arguments*
Doble (1997)	To investigate compliance practices of small and medium sized companies with Cadbury Code in terms of board structures	Findings Most of smaller companies have not fully complied with the Cadbury code. Current practices in smaller companies represent that the Cadbury code is not the only one model and market accepts that full compliance with board structures is not always appropriate.
Mallin and Ow-Yong (1998)	To examine the practices of corporate governance in small companies listed on the Alternative Investment Market (AIM)	Findings It shows a clear difference between AIM companies advised by a nominated advisor who acts as a broker and AIM companies with a nominated advisor who does not. The companies with a broker who acts a broker have more focused on the Cadbury code on corporate governance. AIM companies failing to raise new capital on admission have weaker governance structures.
Parsa, Chong, and Isimoya (2007)	To investigate the extent of compliance with the corporate governance requirements of small and medium-sized companies	Hypotheses H1: There is a positive association between board size and corporate governance disclosure H2:There is a positive relationship between board independence and corporate governance disclosure H3: There is a negative association between CEO duality and corporate governance disclosure H4: There is a positive association between the number of non-executive directors and the audit committee and corporate governance disclosure H5: There is a positive association between the presence of a founder-CEO and corporate governance disclosure H6: There is a positive association between financial leverage and corporate governance disclosure H7: There is a positive association between dispersed ownership and corporate governance information disclosure Findings Only H2 and H4 were supported. Relatively for larger companies in AIM, there is a positive relationship between the number of non-executive directors and the degree of disclosure.
Abor and Adjasi (2007)	To examine how corporate governance can be applied to small and medium enterprises (SMEs)	Findings The corporate governance, especially external non-executive directors improves SMEs' enterprising spirits and competitiveness. The codes of good governance seem to compensate for the issues of credit restriction and managerial incompetence in the Ghanaian SME sector.
Dawson and Dunn (2006)	To examine the new Code for not-for-profit sector is appropriate as a regulator	Findings Although the new code is valuable as a governance and regulatory tool, critical parts of the code are still unclear, especially in terms of the scope of the code's target audience and the balance in relative to compliance issue
Mulligan (2007)	To review current SOX like nonprofit reforms in seven states in the U.S.	Arguments It focuses on the unique challenges the nonprofit sector faces. It argues that shareholder-oriented approach towards the nonprofit sector is inappropriate and more customized construct to non-profit field (i.e., stakeholder theory) should be considered in order to make more effective nonprofit sector reforms in the future.