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An empirical research on a global sample**

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# **Governance codes and types of issuer. An empirical research on a global sample**

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## **Abstract**

We study the relationship between the types of issuer and the governance codes contents in the neo-institutional social theory perspective, using a global sample of over 70 national governance codes. We hypothesize that the code recommendations are influenced by the nature of isomorphic pressure to embrace new social practices, exerted by the different types of issuer. The findings show that codes issued involving multiple stakeholders' groups and organizations into hybrid committees are more likely to: (1) include recommendations that take into account multiple political and social institutional demands; (2) adapt the mainstream agency-theory-based governance model to the national setting features. Overall, the policy-making negotiations among different stakeholders' groups in the local institutional setting appear to be determinant in shaping the code recommendations and in improving the promotion of good governance practices among firms. To the best of the authors' knowledge, this study is the first to systematically investigate the relationship between the types of issuer and the codes contents.

**Keywords:** governance codes, types of issuer, policy-making negotiations.

JEL Code: G3, G18

## **1. INTRODUCTION**

The worldwide diffusion of good governance codes answers to the need of improve the governance practices. Good governance codes represent a set of recommended best practices, aimed at improving the transparency and accountability of the directors for the company's conduct and performance (Gregory and Simmelkjaer, 2002; OECD, 2004a).

The benefits expected from the issuance of a code range from the prompt answers to corporate scandals, to the need to attract investors in the capital markets, to the

accountability reasons for companies (Shleifer & Vishni, 1997; Gordon & Roe, 2004; O'Shea, 2005; Allegrini & Greco, 2011).

The diffusion of codes is constantly growing, with a faster pace since the mid-1990s, and there seems to be no signs of slowing down. Aguilera & Cuervo-Cazurra (2009) finds 64 Countries with at least one code of good governance by the middle 2008 (three times the number of the late Nineties). We found 78 Countries with at least one code of good governance in the ECGI database (accessed in 2011). Following this spread, academics are spending a significant research effort on the topic.

This paper aims at answering to calls for research on the nature of the issuers of good governance codes (Aguilera & Cuervo-Cazurra, 2009:385; Enrione, Mazza & Zerboni, 2006:971). In particular, we study the relationship between the nature of the issuers and the codes contents in the new institutional social theory perspective (DiMaggio & Powell, 1983, 1991; Scott, 2001).

The current research project follows on three influential studies. The paper of Aguilera & Cuervo-Cazurra (2004) investigated the determinants of the diffusion of governance codes across 49 Countries. The work of Enrione, Mazza and Zerboni (2006) studied the process of institutionalization of governance codes and the role of different actors involved in issuing the codes. The paper of Zattoni & Cuomo (2009) explored the efficiency and legitimacy motivations behind the codes adoption in Countries with different legal systems. Neither of these studies, though, undertook a direct investigation of the relationship between the codes contents and the type of issuer.

The type of the issuer denotes a specific category of institutional isomorphic pressure to embrace new governance practices (Aguilera & Cuervo-Cazurra, 2004; Enrione, Mazza & Zerboni, 2006). In our paper, we hypothesize that the nature of the isomorphic pressure, exerted by the type of issuer, influences the code contents. The type of issuer can therefore provide a predictor of the governance codes contents. We developed four hypotheses predicting either the codes coverage and the strictness according to the type of issuer.

The types of issuer are classified into six categories, derived from Gregory and Simmelkjaer (2002) comprehensive study: (1) governmental or government-related entities; (2) stock exchanges; (3) hybrid committees including different subjects (i.e. stock exchanges, business, investor, professional and/or academic associations); (4) investors' association; (5) firms' associations; (6) directors' association.

The codes contents is investigated calculating two indexes (Zattoni & Cuomo, 2009). The first index measures the code coverage, that is the number of recommendations addressed. The second index measures the strictness of six key recommendations (board composition, board assessment, separation of Chairman and CEO, audit/remuneration/nomination committee composition). The strictness measure is

based on the adherence to the dominant agency-theory governance model, centred on the idea that the board of directors (and its committees) should ensure an active and independent control over the company's management (Jensen & Meckling, 1976; Fama and Jensen, 1983; Lipton & Lorsch, 1992; Jensen, 1993; Greco, 2011).

We collected the most recent corporate governance codes from the ECGI database. We regressed the codes coverage and strictness on the types of issuer and three control variable (size of the capital market, strength of legal right and legal system). We employed probit models for the multivariate analysis. Further checks show that the results are robust to alternative data modelling.

The findings show that the hybrid committee type of issuer is positively associated with both the codes coverage and strictness, whilst there is no significant associations for the other types of issuer (government and government-related entities, stock exchanges, firms' and directors' association). Taken together, the results poorly support the idea that the type of issuer by itself is a predictor for the governance codes contents. The local institutional setting appears to be determinant in shaping the code contents.

This study can contribute to the research on corporate governance codes, investigating how the nature of the issuer may affect the codes contents. The paper can also contribute to the growing stream of research investigating the role of hybrid organizations in triggering innovation in the social practices in complex and conflicting institutional environments.

This paper can also have some practical implications. Codes are being issued in increasingly more complex and demanding institutional environments. The involvement of multiple stakeholders and organizations into hybrid committees can be useful to take into account multiple institutional demands and to adapt the mainstream agency-theory based governance model to the national setting, in which the code is issued. This can enhance the codes effectiveness in improving the governance practices.

Some future research directions can be suggested. Future field research could study the process of creation of a governance code, rather than focusing on the finished products or on the lifecycle of issued codes. In this process, it could be possible to observe the interplay among different institutional logics and their combined impact on the nature of the recommendations included in the codes. Future research could expand the knowledge of the governance codes contents, with content analysis tools.

The remainder of the paper is organized as follows. Section 2 includes the literature review and the hypotheses development. Section 3 describes the methodology. The empirical results are presented in Section 4, whilst Section 5 is dedicated to the discussion of the findings. The conclusions are included in Section 6.

## 2. LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

Academic studies assimilated the issuance of a governance code to the adoption of new organizational practices. The spread of the governance codes has been explained basing on two theoretical perspectives: efficiency theory and institutional theory (Strang and Macy, 2001; Di Maggio and Powell, 1983; Tolbert and Zucker, 1983; Westphal *et al.*, 1997). These perspectives has been considered as complementary rather than alternative, in explaining the diffusion of governance codes (Aguilera & Cuervo-Cazurra, 2004; Zattoni & Cuomo, 2009).

In our paper, we investigate the relationship between the code contents and the type of issuer, using the framework provided by the institutional social theory (DiMaggio & Powell, 1983, 1991; Scott, 2001). Efficiency theory appears to be useful to explain why a code is adopted. It has however a limited usefulness in providing further insights on the possible relationship between the type of issuer and the code contents.

Regardless of the technical and efficiency reasons behind a code adoption, the “nature of the issuer denotes the type of existing institutional pressure to embrace new practices” (Aguilera & Cuervo-Cazurra, 2004:421; Enrione, Mazza & Zerboni, 2006). The codes content can vary according to the nature of the institutional isomorphic pressure, exerted by the type of issuer. Our overall hypothesis is that the type of issuer can provide a predictor of the code contents, in terms of coverage and strictness.

Coercive isomorphic pressure is typically exerted by organizations that exercise rational control over social and economic life (DiMaggio&Powell, 1983). The more such type of control is expanded, the more organizations upon which the pressure is exerted are increasingly homogeneous and reflect institutionalized and legitimated rules (DiMaggio&Powell, 1983; Cole, 1985; Guler *et al.*, 2002). Prior research found evidence of large rational organizations (such as states, multinational organizations) being responsible for coercive isomorphism (Tolbert & Zucker, 1983; Cole, 1985; Guler *et al.*, 2002).

National governments (or their agencies) and stock exchanges issuing governance codes are expected to carry coercive institutional pressure (Enrione, Mazza & Zerboni, 2006). Also, investors are one of the most important source of demand for institutionalized and legitimated rules and for compliance with governance codes. The coercive isomorphic pressure exerted by investors can result either in pressure to issue a code on legitimated organizations upon which they are dependent (such as the regulating entities stock exchanges or governments), or in codes issued directly by investors’ associations.

The dominant shareholder-value oriented governance model can be used by these issuers to produce recommendations legitimated for both the national companies,

expected to adopt the new practices, and for the global financial market and the international trade (Zattoni & Cuomo, 2009; Aguilera & Cuervo-Cazurra, 2009).

We expect increased adherence to the dominant agency-theory based governance model in codes issued by these types of subjects. Stricter recommendations to a widely accepted model can be functional to the coercive pressure exerted. We therefore hypothesize more stringent recommendations in codes issued by stock exchanges, national governments (or their agencies) and investors associations. Given the probable focus on some key recommendations, we do not expect more coverage. We formulate the following hypothesis:

*Hypothesis 1: there is a positive association between the code strictness and its issuance by a stock exchange, a national government (or its agencies) or an investors' association.*

Academic literature have widely documented mimetic behaviour among firms, with regard to several practices: competitive strategies, technology and R&D investments, financial, social and environmental reporting (DiMaggio&Powell, 1983; Haveman, 1993; Fligstein, 1985, 1991; Burns & Wholey, 1993). Firms' associations issuing codes of good governance are likely to exert mimetic isomorphism pressure. Mimetic processes take place in contexts dominated by uncertainties (Cyert & March, 1963; DiMaggio&Powell, 1983; DiMaggio, 1991). Imitation can be an effective solution to the problems an organization faces in an institutional environment dominated by ambiguity and uncertainty. We expect more coverage in codes issued by firms' associations. More coverage in codes can be functional to the institutional mimicry, leaving less room for uncertainties about the taken for-granted social behavior. Since the mimetic processes often develop with the passive diffusion of models, we do not expect a strong focus on strictness in codes issued by firms' association. We formulate the following hypothesis:

*Hypothesis 2: there is a positive association between the code coverage and its issuance by a firms' association.*

The professional networks and associations are important sources of normative isomorphic pressure across organizations, favouring the diffusion of new models and practices (Powell & Di Maggio, 1983; Guillen, 1998; Guler *et al.*, 2002) Galaskiewicz, 1985; Galaskiewicz & Wasserman, 1989; Burns & Wholey, 1993). Normative isomorphism stems mainly from professionalization (Powell & Di Maggio, 1983; Guillen, 1998; Guler *et al.*, 2002). Professionalization can be defined as “the collective struggle of members of an occupation to define the conditions and methods of their work”, as well as to establish legitimation and status for their occupation (Powell and DiMaggio, 1983:152). Directors' and managers' associations issuing governance codes are likely to exert normative isomorphic pressure. We expect that normative isomorphic pressure is exerted through more comprehensive codes, as a result of these

organizations pressure for the search of status, prestige and resources. In these codes, strictness could not be a strong focus. We formulate the following hypothesis:

*Hypothesis 3: there is a positive association between the code coverage and its issuance by a directors' association.*

Hybrid organizations are gaining increasing interest among institutional scholars (Battilana & Dorado, 2010; Pache & Santos, 2010). In some settings, organizations are often exposed to conflicting institutional pressures with different origins: regulatory, social, ethical, cognitive (Friedland & Alford, 1991; Scott, 2001; Djelic & Quack, 2004; Ring *et al.*, 2005). An example can be given by the national regulative and cultural influences interfering with global trends toward homogenization of rules, values and practices (Pache & Santos, 2010).

Organizations are increasingly taking hybrid forms to be able to integrate competing institutional logics<sup>1</sup> (Scott, 2001; Battilana & Dorado, 2010:1419). The capability to integrate different logics can award more legitimacy to hybrid organizations in promoting new social practices (Pache & Santos, 2010).

As above-mentioned, institutional mimicry takes place in contexts dominated by uncertainties and conflicts (DiMaggio&Powell, 1983; 1991). Hybrid committees are therefore likely to exert mimetic isomorphic pressure. This pressure can be exerted taking into account different institutional demands.

We expect more coverage in codes issued by hybrid committees for two reasons: (1) coverage can be functional to the institutional mimicry, by reducing uncertainties about taken-for-granted social behavior; (2) the hybrid organizations are capable to embed different institutional logics in the issuance process in a sustainable way (Battilana & Dorado, 2010; Binder, 2007; Greenwood *et al.*, 2010; Pache & Santos, 2010). The strictness of the recommendations could depend on the specific solutions adopted to face different conflicting institutional demands and could not be always expected in codes issued by hybrid committees. We formulate the following hypothesis:

*Hypothesis 4: there is a positive association between the code coverage and its issuance by an hybrid committee.*

### **3. RESEARCH METHODOLOGY**

#### **3.1 Sample definition**

We used the ECGI database as source for the codes of good governance. We excluded from our sample the codes issued by transnational institutions, recommendations on the directors' remunerations, codes of responsibility addressed only to institutional investors or to specific industries/type of companies (e.g. commercial banks or state-

owned companies). The most recent 78 national good governance codes were identified. We then excluded 6 codes not available in English and codes whose issuer could not be clearly identified (e.g. Russia). Our final sample includes 72 national good governance codes, issued between the 2001 and the 2010 (see Appendix 2 for the list of Countries).

We considered the most recent codes for several reasons. Firstly, the governance codes issued in the last decade were conceived in a different political, social and economic environment from those of the past century, following corporate scandals and major regulatory reforms (Zattoni & Cuomo, 2009). Secondly, the diffusion of codes across Countries was relatively slow until the 1999 (around 20 Countries), with a much faster pace after the 2000 (Aguilera & Cuervo-Cazurra, 2009:378).

### 3.2 Dependent variables

We used the number of recommendations included in the code to measure the coverage. We created a list of possible items following Gregory and Simmelkjaer (2002) and the OECD principles of corporate governance (OECD, 2004b). We searched in each code for the items include in the list reported in Appendix 1. For each item, 1 point was awarded. The codes coverage is measured by the total number of points awarded.

Strictness is measured on the basis of the adherence to the agency-theory based recommendations, mainly focusing on the presence of non-executive independent directors either in the board or in the committees, on the separation of roles between Chairman and CEO and on the assessment of the board performance (Lipton & Lorsch, 1992; Jensen, 1993; Shleifer & Vishni, 1997).

To measure the strictness, a weighting system is applied to six key recommendations regarding: the board composition, the board performance assessment, the separation of Chairman and CEO, the audit/remuneration/nomination committee composition (Zattoni & Cuomo, 2009). The weighting system is designed to be as objective as possible and is displayed in the Appendix 1.

The stricter is a recommendation, the higher is the weight given and the score awarded. In example, for the item board composition, the recommendation to include a majority of independent NEDs in the board is weighted 3, whilst the recommendation to include at least one third of independent NEDs in the board is weighted 2. If less than one third of independent NEDs in the boards are required, the score awarded is 1. The absence of recommendation is scored 0. The overall strictness is measured by the sum of the scores attributed to the weighted items.

The codes analysis was performed by a single coder, using the content analysis method. (Weber, 1985; Krippendorf, 2004). The coder is a research assistant with knowledge of corporate governance and prior coding experience. Three codes were randomly selected



for an initial test. The three codes were analyzed by both the one of the Authors and the research assistant. An inter-coder reliability test was then performed by calculating the Krippendorff alpha coefficient of agreement. The alpha value obtained was very high and above the acceptable level of reliability of 0,80 proposed by Krippendorff (2004). This result was expected given the nature of the items searched, leaving little or no room for subjective interpretations. The research assistant proceeded with the content analysis of the remaining codes.

### 3.3 Independent and control variables

The type of issuer was measured with dummy variables. We didn't find codes issued by investor groups, we thus considered five categories of users from our classification based on Gregory and Simmelkjaer (2002). The dummy variable is 1 if the issuer is a government or government-related entity/stock exchange/hybrid committee/ firms' association/directors' association, 0 otherwise. Securities commissions are classified as government-related entities (Gregory and Simmelkjaer, 2002). Codes are attributed to hybrid committees when they are issued by a joint group of different organizations or by an association/organization composed of other organizations, e.g. the Private Sector Organization of Jamaica, the Austria Working Group for Corporate Governance, the Kenya Private Sector Initiative for Corporate Governance, the Norwegian Corporate Governance Board, the Central European Corporate Governance Association (Gregory and Simmelkjaer, 2002).

We also included three control variables in our model. The first one measures the relative size of the capital market. Following Zattoni & Cuomo (2009), we used the market capitalization as percentage of the GDP. We used the average for the period 2001-2009 (Aguilera & Cuervo-Cazurra, 2004), with the 2009 last year available in the WorldBank database (accessed March 2011).

We also considered a variable measuring the strength of legal rights. The legal rights, especially those regarding the investors' protection, are a key variable in explaining the governance practices adopted (Shleifer & Vishni, 1997:750). Weak legal rights limit the business development, producing adverse incentives for foreign commercial partners and investors. Aguilera & Cuervo-Cazurra (2004) found that strong anti-directors rights are negatively associated with the number of governance codes issued.

To measure the strength of legal rights, we used the "strength of legal rights index" calculated by the WorldBank (0=weak, 10=strong), average for the period 2001-2009. The index measures the degree to which security and bankruptcy laws protect the rights of borrowers and lenders. The index covers almost all the Countries in the world and is not centered only on the investors/shareholders' protection.

We also considered a variable related to the legal system. Zattoni and Cuomo (2009) comparatively studied the scope, coverage and strictness of 44 governance codes issued

in civil-law and common-law Countries. The Authors found stricter recommendations in codes issued by common-law countries, with more ambiguous and lenient recommendations in civil-law countries.

We used the CIA World Factbook for the classification of legal systems. This classification covers all the Countries in the world. We used a dummy variable, 1 if the legal system adopted in the Country is common-law, 0 otherwise.

Table 1 summarizes the definition and measurements of the variables.

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Insert Table 1 about here  
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## **4. EMPIRICAL RESULTS**

### 4.1 Descriptive statistics

Table 2 show some descriptive statistics about the number of codes per issuer, as well as about the enforcement, the scope and the average code “age” (that is, the number of years from its issuance, considering the 2011 as the present date).

The results show that the majority of the most recent codes are issued either by governments or by Stock exchanges. Aguilera & Cuervo-Cazurra (2004) found in a sample of 24 Countries (all of them included in our sample) that half of issuers of the first codes were either government or stock exchanges. The key role of these type of issuer does not seem to be changed across three decades (Enrione, Mazza & Zerboni, 2006).

Contrary to Aguilera & Cuervo-Cazurra’s findings, we didn’t find codes issued by managers’ association or investors groups. There is also a relatively low number of codes issued by firms’ and directors’ associations, which are just the 10% of the total sample. It is to be noted that many of these organizations joined others to set up hybrid committees including managers’ associations, CPAs’ associations, investors’ associations, chambers of commerce. Codes issued by hybrid committees represent the 22% of the codes. These codes are also the most recent, with an average “age” of 3,31 years. This may be an emerging trend in the issuance of good governance codes and may be linked to the increasing complexity of the institutional environment, especially after the last widespread economic crisis.

We also found that two thirds of the codes are addressed to listed companies. There are higher percentages of codes issued by hybrid committees, firms' associations and directors' associations, that are addressed also to non-listed companies.

The possibility to impose practises seems to be limited to governments or stock exchanges. We did not find cases of codes issued by other organizations with mandatory enforcement.

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Insert Table 2 about here  
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Table 3 show the descriptive statistics of the dependent variables, as well as *t* test for the difference in the means between the overall sample and each of the type of issuers.

The average number of recommendations in the total sample is 17.32, out of a possible maximum of 37. The codes issued by hybrid committees includes on average 20.37 recommendations, with a mean significantly different than the mean of the total sample (*p*-value < 0.05). There is similar situation with regard to the strictness. The total sample average score is 11.14 (out of a possible maximum score of 18). The hybrid committees mean on strictness is significantly different than the total sample mean (*p*-value < 0.01). The other groups have means not significantly different from the total sample mean with regard both to the coverage and the strictness. Contrary to our expectations the stock exchanges have the lowest average strictness (the difference in the mean with the full sample is however poorly significant).

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Table 4 shows that the four most frequent recommendations are the Anglo-Saxon shareholder-value model based key governance principles (Collier & Zaman, 2005; Yoshikawa *et al.* 2007; Aguilera & Cuervo-Cazurra, 2009). 70 codes out of 72 include a recommendation about the board composition, 69 about the separation of CEO and Chair. The other most frequent recommendations regard the audit committee, a key governance practice in the Anglo-Saxon model (Collier & Zaman, 2005). The other most included recommendations (same percentage: 77%) regard: principles/guidelines for directors remuneration, presence of the nominating and the remuneration committee. Among the less frequent recommendations there are: the gender diversity in the board, the minimum number of meeting for either the committees or the board, the employee involvement in the governance.

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Insert Table 4 about here  
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## 4.2 Multivariate analysis

To investigate the relationship between the codes contents and the types of issuer, we used two ordered response probit models. The ordered probit is selected given the nature of the dependent variable, which are discrete and ordinal in nature (Gujarati, 2004:623; Greene, 2003:736)<sup>2</sup>.

We estimated the following models (see Table 1 for the definition and measurement of the variables).

### Model 1

$$\text{Coverage}_i = \beta_0 + \beta_1 \text{Type of issuer}_i + \beta_2 \text{Size of capital market}_i + \beta_3 \text{Strenght of legal rights}_i + \beta_4 \text{Legal system}_i + \varepsilon_i$$

### Model 2

$$\text{Strictness}_i = \beta_0 + \beta_1 \text{Type of issuer}_i + \beta_2 \text{Size of capital market}_i + \beta_3 \text{Strenght of legal rights}_i + \beta_4 \text{Legal system}_i + \varepsilon_i$$

We excluded 3 codes for which there were unavailable data in the World Bank website about the market capitalization as percentage of the GDP and about the strength of the legal rights.

To avoid perfect collinearity, we excluded the dummy variable related to the directors' association type of issuer comprising the lower number of codes, just 3. (Chavent *et al.*, 2006).

We calculated the maximum variance inflation factor (VIF) to evaluate whether multicollinearity may be a cause of concern. VIF scores higher than 10 are likely to cause a multicollinearity problem (Gujarati, 2004:366). The highest VIF obtained is 6,177.

Table 5 show the results of the multivariate analysis. We found that the coverage (COV) is significantly and positively associated only to the hybrid committee type of issuer (HYB) with a high level of significance ( $p$ -value < 0.01) This result supports HP4. Both the firms' association (FIRM) and the directors' association type of issuer show non-significant coefficient . There is therefore no support for HP2 and HP3. The

government (GOV) and the stock exchange (STOCK) type of issuer are not significantly associated with coverage.

Strictness is positively associated with the hybrid committee type of issuer (HYB) with a high level of significance ( $p$ -value  $< 0.01$ ). The government (GOV) and the stock exchange (STOCK) type of issuer are not significantly associated with strictness. There is therefore no support for HP1.

There are significant associations regarding the control variables. Coverage is positively associated with the relative size of the capital market (MARKETSIZE), with a high level of significance ( $p$ -value  $< 0.01$ ). The strength of legal rights (RIGHTS) is negatively associated to the codes coverage (with  $p$ -value  $< 0.05$ ). Finally, the strictness is positively and significantly associated with the common law legal system (LAW). The coefficient is significant at the 5% level ( $p$ -value  $< 0.05$ ).

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Insert Table 5 about here  
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#### 4.3 Further investigations

To provide further investigations, we also regressed the scores awarded for each of the key recommendations used to measure the codes' strictness. Table 6 displays the results regarding: board composition, board assessment, separation of CEO and Chair roles, nominating/remuneration/audit committee.

The hybrid committee type of issuer is positively and significantly associated with the strictness of the recommendations about the nominating and the remuneration committee (respectively with  $p$ -value  $< 0.01$  and  $p$ -value  $< 0.05$ ).

Stricter recommendations about the nominating and the remuneration committee are also positively associated with the relative dimension of the capital markets ( $p$ -value  $< 0.05$ ). Stricter recommendations about the nominating committee are also negatively with the strength of legal rights ( $p$ -value  $< 0.05$ ). The common law legal system is positively and significantly associated with stricter recommendations about board composition and audit committee ( $p$ -value  $< 0.05$ , with  $p$ -value equal to 0.011 for board composition). The common law legal system is also positively associated with the separation of CEO and Chair roles, the coefficient is moderately significant (we indicated  $p$ -value  $< 0.10$  in Table 6, but  $p$ -value is equal to 0.053).

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Insert Table 6 about here  
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#### 4.4 Robustness checks

We run the model 1 and model 2 using an Poisson regression. The results are shown in Table 7 and are consistent with the prior results obtained. We used Poisson goodness-of-fit tests (*poisgof* command with Stata) to check whether over-dispersion in the dependent variables impacts on the results (Cameron & Trivedi, 1998). The tests confirmed that there is no significant over-dispersion impacting on the results.

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Insert Table 7 about here  
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We also used a regular OLS model as a robustness check. The results are shown in Table 8 and are consistent with the prior results obtained. We found only a slightly lower level of significance for the negative association between strictness and strength of legal rights.

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Insert Table 8 about here  
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We also regressed the models displayed in Table 6, regarding key governance recommendation used to measure the codes' strictness (not reported), using Poisson and OLS models. We obtained consistent results. Overall, the checks show that the results are robust to alternative data modelling.

We also run all our models using the directors' association type of issuer (DIR) dummy variable instead of the firms' association type of issuer (FIRM) dummy variable (not reported). Overall, we obtained consistent results. In addition to the displayed results in Table 5, we found a moderately significant ( $p$ -value  $<0.05$ ) association between the coverage and the government type of issuer. We obtained this result also running Poisson and OLS models.

## **5. DISCUSSION OF THE FINDINGS, THEORETICAL AND PRACTICAL IMPLICATIONS**

Using the framework of the institutional social theory, we investigated the relationship between types of issuer and governance codes coverage and strictness. Our overall hypothesis that the type of issuer, exerting a specific category of institutional isomorphic pressure, is a predictor of the governance codes coverage and strictness (Aguilera & Cuervo-Cazurra, 2004; Enrione, Mazza & Zerboni, 2006). We developed four hypotheses relating either the codes coverage and the strictness to the different type of issuers.

Our findings shows that only the hybrid committee type of issuer is positively and significantly associated with both the codes coverage and the strictness. We do not find widespread and systematic relationships between the types of issuer and the codes coverage and strictness, consistently with our research hypotheses (only HP4 is supported).

Taken together, these results poorly support the idea that the type of issuer provides a predictor of the codes contents. This relationship is likely to be mediated by several other factors affecting the local national institutional setting: the governance culture, the financial markets integration, the legal system, the companies' ownership structures, the relationships among companies and financing institutions, the employees involvement.

Especially in the past decade, increasing pressures make the institutional environment, in which codes are issued, progressively more complex and demanding (Gordon & Roe, 2004; Coffee, 2005; Hill, 2005; Haspeslagh, 2010). The significant associations between the hybrid committee type of issuer and the codes coverage and strictness can be explained by the struggle to cope with different institutional logics in complex and conflicting environment in which many different actors are involved (Enrione, Mazza & Zerboni, 2006; Pache & Santons, 2010; Battilana & Dorado, 2010)<sup>3</sup>.

Enrione, Mazza and Zerboni (2006) suggest that some actors involved in issuing governance codes can carry multiple isomorphic pressures<sup>4</sup>. Hybrid committees are composite in nature. The simultaneous presence of different subjects (i.e. directors' associations, stock traders, banks, investors, market authorities and stock exchanges) is likely to make these organizations able to carry different types of institutional isomorphic pressure. According to our findings these organizations are able to carry both mimetic isomorphic pressure, associated to higher coverage, and coercive isomorphic pressure, associated to more stricter recommendations.

Compromise may the response adopted by hybrid committees to cope with different demands. Compromise can be referred to as the attempt by organizations to achieve a partial conformity with all institutional expectations (Oliver 1991; Pache & Santos, 2010). This behavior is aimed at trying to at least partially satisfy all the demands. The objective to achieve a compromise could explain the increased coverage and strictness. More coverage can help to embed in the issued codes the responses to the institutional demands coming from multiple social actors in the corporate governance domain (i.e. the employees, the minority investors). More strictness can help to cope with the simultaneous influences of local and global institutional pressures. The strictness of the key recommendations of the shareholder-value governance model does not appear to be only higher on average, but also adapted and shifted toward those recommendations useful in the specific local institutional setting.

According to our findings, the stricter recommendations about the nominating and the remuneration committee are spread in codes issued in Countries with relatively

developed capital markets and with lower strength of legal rights. These features are much more common worldwide than those of the Anglo-Saxon scenario, featured by developed markets with big public companies and stronger investors' protection (Shleifer & Vishni, 1997). In a relatively developed market, the combination of risks of wealth expropriation by controlling shareholders and reduced legal protection can produce multiple pressures to improve the organizations governance, by several subjects: institutional and retail investors, employees, trade unions, banking and financial institutions, governmental agencies, stock exchanges (Zingales, 1994; Shleifer & Vishni, 1997; Dyck & Zingales, 2004). Under these circumstances, the hybrid committees can have more possibilities to trigger a process of institutionalization of new governance practices, by integrating different logics and adapting widely accepted and legitimated models to the specific context (Battilana & Dorado, 2010; Pache & Santos, 2010).

Before concluding the discussion of the findings and of their theoretical implications, we observe that the associations regarding the control variables are consistent with prior literature. The size of the capital market is an important determinant of governance codes issuance (Aguilera & Cuervo-Cazurra, 2004). The differences in the legal system can explain the differences among the coverage and strictness of the codes (Zattoni & Cuomo, 2009).

This study can also have interesting practical implications. Policy-making negotiations among different stakeholders' groups and the search for a compromise among multiple institutional demands appear to be essential to improve the codes coverage and to adapt the Anglo-Saxon shareholder-value-based governance model to the local national setting.

The increased coverage allows an expansion of the recommendations' range. New recommendations could take into account the needs of different stakeholders groups, such as employees and minority shareholders, with the addition of less frequently included issues, such as the gender diversity or the sustainability reporting.

The convergence toward the Anglo-Saxon governance model is widely debated among academics and practitioners and often criticized. Contrary to "the one rule fits all" approach, more diversity of approaches is often advocated due to the differences in the national contexts (Raez & Hossain, 2007; Balgobin, 2008). The adaptation of the mainstream agency-theory based governance model to the local setting could be a first step toward the development of new hybrid governance models, able to capture the features of the social, political and economic environment (e.g. in the emerging economies). This can enhance the codes effectiveness in promoting new governance practices among firms.

## **6. CONCLUSIONS**



In this paper we investigate the relationship between the types of issuer and the governance codes contents in the institutional theory perspective. We study the codes contents using two indexes, measuring the coverage and the strictness.

Our results show that the hybrid committee type of issuer is positively associated with both the codes coverage and strictness, whilst there is no significant associations for the other types of issuer (government and government-related entities, stock exchanges, firms' and directors' association). Overall, the findings poorly support the idea that the type of issuer by itself is a predictor for the governance codes contents. This relationship is likely to be shaped by the national institutional setting with its features, e.g. the governance culture, the legal system, the capital market integration, the firms' ownership structures, the relationship with financing institutions, the employees involvement.

This study can contribute to the academic literature in several ways. Firstly, as a contribution to the research on corporate governance codes, it studies how the nature of the issuer may affect the codes contents. Secondly, it contributes to the growing stream of research investigating the role of hybrid organizations in spreading innovation in the social practices in complex and conflicting institutional environments.

This study can also have some practical implications. Codes are being issued in progressively more conflicting and demanding institutional environments. The involvement of multiple stakeholders and organizations into hybrid committees can be useful to take into account multiple institutional demands and to adapt the dominant agency-theory based governance model to the local national setting. This can enhance the codes effectiveness in promoting new governance practices among firms.

There are some limitations to this study. Firstly, we analyzed the most recent codes. A longitudinal study might be useful to the investigation of the relationship between types of issuer and codes contents and provide further empirical evidence either supporting or not supporting the existence of such a relationship. Secondly, the differences in the codes are measured with the same tool (that is, a pre-defined list of items). A different content analytic approach could reveal other differences in the codes each type of issuer drafts.

This study can suggest future research avenues. The hybrid committees may provide interesting "laboratories" for the creation of governance codes. Future field research could study the process of creation of a governance code, rather than focusing on the finished products or on the lifecycle of issued codes. In this process, it could be possible to observe the interplay among different institutional logics and their combined impact on the nature of the recommendations included in the codes. Future research could expand the analysis of the governance codes, with more sophisticated content analysis tools.

## NOTES

1. Institutional logics are taken for-granted social prescriptions that guide actors' behavior in their fields of activity (Powell&DiMaggio, 1983). An example of different logics integration can be given by the integration of social goals by companies and of commercial goals by non-profit organizations (Pache & Santos, 2010: 471).
2. The multivariate analysis is computed with Stata 10.
3. Enrione, Mazza & Zerboni claim that “diffusion is not only characterized by the peak of activity in the issuing of governance codes, but also by the action of different actors in the corporate governance domain” (Enrione, Mazza & Zerboni, 2006: 967).
4. The Authors suggest that “market makers” and “governance enactors” carry both coercive and mimetic institutional pressure (Enrione, Mazza & Zerboni, 2006: 965).

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#### Appendix 1 – Codes coverage and strictness measurement

To measure the coverage, we searched for the items include in the list below. For each item, 1 point is awarded. The codes coverage is measured by the total number of points awarded.

1. Voting system (e.g. cumulative or majority)
2. Proxy voting and GM accessibility
3. Protection from controlling shareholders
4. Transparency toward shareholders in case of takeover bids / M&A
5. Minority shareholders possibility to call shareholders meetings (with a percentage less or equal to the 10 percent).
6. Ethical Code / Code of Conduct
7. Principles or guidelines to avoid conflicts of interests
8. Principles or guidelines for directors remuneration
9. Employees involvement in the governance/representation in the board
10. Stakeholder relationships
11. Sustainability reporting
12. Limitation to the number of directorships for board members
13. Disclosure of directors' shareholding
14. Board composition
15. Minimum number of directors in the board
16. Minimum number of board meetings per year
17. Company Secretary
18. Adequacy of information for directors
19. Requirements for the directors appointment (e.g. skills, competencies, qualifications)
20. Gender diversity in the board
21. Time limit to directorship/turnover/maximum age
22. Board performance assessment

23. Independence requirements
24. CEO duality
25. Recommended presence of a nomination committee (NC)
26. NC composition
27. Minimum number of directors in the NC
28. Minimum number of NC meetings per year
29. Recommended presence of a remuneration committee (RC)
30. RC composition
31. Minimum number of directors in the RC
32. Minimum number of RC meetings per year
33. Recommended presence of an audit committee (AC)
34. AC composition
35. Financial expertise for at least one member of the AC.
36. Minimum number of directors in the AC
37. Minimum number of AC meetings per year

To measure the strictness, the following scoring system was adopted.

For the board composition, we awarded

- 3 points, if a majority of independent non-executive (NED) directors in the board is recommended;
- 2 points, if at least one third of the directors in the board are recommended to be independent NEDs;
- 1 point, if less than one third of the directors in the board are recommended to be independent NEDs;
- 0 if the item is not covered.

For the board performance assessment, we awarded:

- 3 points if a board performance assessment is recommended at least once per year and some possible performance criteria are described.
- 2 points if a board performance assessment is recommended at least once per year;
- 1 point, if there are general recommendations.
- 0 if the item is not covered.

For CEO duality, we awarded:

- 3 points, if an independent Chairman of the Board is recommended;
- 2 points, if in case of duality a lead independent director (L.I.D.) is required or public disclosure of the reasons for the choice are required;

- 1 if separation is recommended, without requests for L.I.D. or reasons in case of duality.
- 0 points if separation is not recommended / item not covered.

For the audit, remuneration and nomination committee composition:

- 3 points, if all the committee members are recommended to be independent NEDs;
- 2 points, if the majority of the members are recommended to be independent NEDs;
- 1 point, if the presence of independent NEDs is recommended, but less than the majority.
- 0 if the item is not covered.

## Appendix 2 – List of Countries

1. Argentina
2. Australia
3. Austria
4. Bahrein
5. Bangladesh
6. Belgium
7. Brazil
8. Bulgaria
9. Canada
10. China
11. Colombia
12. Croatia
13. Cyprus
14. Czech Republic
15. Denmark
16. Egypt
17. Estonia
18. Finland
19. France
20. Germany
21. Ghana
22. Greece
23. Hong Kong
24. Hungary
25. Iceland
26. India
27. Indonesia
28. Italy
29. Jamaica
30. Japan



31. Kazakhstan
32. Kenya
33. Latvia
34. Lebanon
35. Lithuania
36. Luxembourg
37. Malaysia
38. Malta
39. Mexico
40. Moldova
41. Montenegro
42. Morocco
43. New Zealand
44. Nigeria
45. Norway
46. Pakistan
47. Peru
48. Philippines
49. Poland
50. Portugal
51. Romania
52. Saudia Arabia
53. Serbia
54. Singapore
55. Slovakia
56. Slovenia
57. South Africa
58. South Korea (Republic of)
59. Spain
60. Sri Lanka
61. Sweden
62. Switzerland
63. Taiwan
64. Thailand
65. The Netherlands
66. Trinidad & Tobago
67. Tunisia
68. Turkey
69. United Arab Emirates
70. United Kingdom
71. Ukraina
72. USA

**TABLE 1-** Definition and measurement of variables

<i>Dependent variables</i>		Data sources
Coverage (COV)	Total number of recommendations (see Appendix 1 for the list)	ECGI database (last access March 2011). Available at : <a href="http://www.ecgi.org/codes/all_codes.php">http://www.ecgi.org/codes/all_codes.php</a>
Strictness (STRICT)	Score calculated by weighting key recommendations (see Appendix 1 for the weighting system)	ECGI database (last access March 2011). Available at : <a href="http://www.ecgi.org/codes/all_codes.php">http://www.ecgi.org/codes/all_codes.php</a>
<i>Independent variables</i>		
Types of issuer	Dummy variables, 1 if the issuer is either:  1) governmental or government-related entities (GOV);  2) stock exchanges (STOCK);  3) hybrid committees related to both stock exchanges and business, investor, professional and/or academic associations (HYB);  4) firms' associations (FIRM);  5) directors' association (DIR);  0 otherwise.	ECGI database (last access March 2011). Available at : <a href="http://www.ecgi.org/codes/all_codes.php">http://www.ecgi.org/codes/all_codes.php</a>
<i>Control variables</i>		
Size of the capital market (MARKETSIZE)	Market capitalization as percentage of the GDP. Average for the period 2001-2009	World Bank (accessed: march 2011). Available at: <a href="http://data.worldbank.org/indicator">http://data.worldbank.org/indicator</a>
Strength of legal rights (RIGHTS)	Strength of legal rights index provided by the WorldBank. Average for the period 2001-2009.	World Bank (accessed: march 2011). Available at: <a href="http://data.worldbank.org/indicator">http://data.worldbank.org/indicator</a>
Legal system (LAW)	Dummy variables, 1 if the legal system in which the code is issued is common law (LAW); 0 otherwise	CIA World Factbook website (accessed: march 2011). Available at: <a href="https://www.cia.gov/library/publications/the-world-factbook/fields/2100.html">https://www.cia.gov/library/publications/the-world-factbook/fields/2100.html</a>

**TABLE 2 – Governance codes per type of issuer**

	Enforcement			Scope		Average age	Total
	Voluntary	Comply or explain	Mandatory	Listed	All		
GOV	8	12	5	17	8	4,88	25
STOCK	3	15	3	21	0	3,95	21
HYB	7	9	0	7	9	3,31	16
FIRM	4	3	0	2	5	4,57	7
DIR	1	2	0	0	3	3,33	3
Total	23	41	8	47	25	4,16	72
	32%	57%	11%	65,3%	34,7%		100%

**TABLE 3** – Descriptive statistics of the dependent variable and *t* test for the means

	Coverage			Strictness		
	Mean value	Dev. St.	<i>T</i> test	Mean value	Dev. St.	<i>T</i> test
Overall Sample	17,32	4,60		11,14	4,10	
GOV	17,84	4,64	0,62	11,48	3,80	0,71
STOCK	15,19	1,05	0,06*	8,85	4,45	0,03*
HYB	20,37	2,94	0,01**	14,43	2,27	0,00***
FIRM	14,71	1,30	0,15	9,42	3,25	0,28
DIR	17,66	3,05	0,89	10,66	1,52	0,84

Notes:  $n = 72$ ; Standard error with *p*-values in column *T* test. All *p*- values are two-tailed. \*Coefficient is significant at the 0.10 level; \*\*coefficient is significant at the 0.05 level; \*\*\*coefficient is significant at the 0.01 level.

**TABLE 4 – Most frequent recommendations**

Recommendation	Frequency
Board composition	96%
Separation of CEO and Chair	95%
Presence of the audit committee	89%
Composition of the audit committee	82%

**TABLE 5 – Probit models**

	Dependent variable: coverage	Dependent variable: strictness
GOV	0,361 (0,92)	0,310 (0,79)
STOCK	-0,182 (-0,48)	-0,218 (-0,55)
HYB	1,021*** (3,00)	1,517*** (4,03)
FIRM	-0,544 (-1,34)	-0,324 (-0,83)
MARKETSIZE	0,005*** (3,00)	0,005 (1,42)
RIGHTS	-0,075 (-1,53)	-0,120** (-2,04)
LAW	-0,403 (-1,23)	1,191** (2,34)
Log-Likelihood	-176,133	-154,351
Pseudo R-square	0,055	0,099
Max VIF	6,177	6,177
Number of observations	69	69

Notes: n = 69; Robust standard error in parentheses. All p- values are two-tailed. \*Coefficient is significant at the 0.10 level (two-tailed); \*\*coefficient is significant at the 0.05 level (two-tailed); \*\*\*coefficient is significant at the 0.01 level (two-tailed). GOV = dummy variable, 1 if the issuer is a government or government-related entity, 0 otherwise; STOCK = dummy variable, 1 if the issuer is a stock exchange, 0 otherwise; HYB = dummy variable, 1 if the issuer is a hybrid committee, 0 otherwise; FIRM = dummy variable, 1 if the issuer is a firms' association, 0 otherwise; MARKETSIZE = size of the capital market, measured by market capitalization as percentage of the GDP; RIGHTS = strength of legal rights, measured by an index; LAW = dummy variable, 1 if the country's legal system is common law, 0 otherwise.

**TABLE 6** – Probit models regressing key recommendations on the independent variables

	Board composition	Board assessment	CEO duality	Nominating committee	Remuneration Committee	Audit committee
GOV	-0,678 (1,19)	0,724 (0,82)	-0,366 (-0,48)	-0,381 (-0,84)	0,521 (0,82)	-0,562 (-0,07)
STOCK	-0,718 (-1,26)	0,422 (0,46)	-1,134 (-1,55)	-0,606 (-0,13)	0,815 (1,29)	-0,762 (-0,91)
HYB	0,616 (0,99)	1,416 (1,56)	-0,322 (-0,43)	1,147*** (2,63)	1,546** (2,34)	0,980 (1,16)
FIRM	-0,519 (-0,81)	0,860 (0,94)	-1,406 (-1,58)	-0,887* (-1,76)	0,357 (0,46)	0,366 (0,40)
MARKETSIZE	-0,001 (-0,42)	0,004* (1,77)	0,000 (0,29)	0,005** (2,51)	0,004** (1,96)	-0,000 (-0,01)
RIGHTS	-0,094 (-1,31)	0,353 (0,57)	0,011 (0,18)	-0,187** (-2,44)	-0,095 (-1,49)	-0,014 (-0,02)
LAW	1,224** (2,53)	0,150 (0,38)	1,032* (1,94)	0,931* (1,85)	0,570 (1,27)	0,886** (2,10)
Pseudo R-square	0,117	0,069	0,105	0,151	0,085	0,125
Log-Likelihood	-71,908	-82,510	-77,033	-69,544	-76,066	-70,272
Max VIF	6,177	6,177	6,177	6,177	6,177	6,177
Number of observations	69	69	69	69	69	69

Notes: n = 69; Robust standard error in parentheses. All p- values are two-tailed. \*Coefficient is significant at the 0.10 level (two-tailed); \*\*coefficient is significant at the 0.05 level (two-tailed); \* \* coefficient is significant at the 0.01 level (two-tailed). GOV = dummy variable, 1 if the issuer is a government or government-related entity, 0 otherwise; STOCK = dummy variable, 1 if the issuer is a stock exchange, 0 otherwise; HYB = dummy variable, 1 if the issuer is a hybrid committee, 0 otherwise; FIRM = dummy variable, 1 if the issuer is a firms' association, 0 otherwise; MARKETSIZE = size of the capital market, measured by market capitalization as percentage of the GDP; RIGHTS = strength of legal rights, measured by an index; LAW = dummy variable, 1 if the country's legal system is common law, 0 otherwise.

**TABLE 7 – Poisson models**

	Dependent variable: coverage	Dependent variable: strictness
GOV	0,089 (1,04)	0,054 (0,57)
STOCK	-0,043 (-0,47)	-0,139 (-1,29)
HYB	0,218*** (2,98)	0,369*** (5,53)
FIRM	-0,131 (-1,30)	-0,120 (-0,95)
MARKETSIZE	0,001*** (3,34)	0,001* (1,84)
RIGHTS	-0,016 (-1,55)	-0,029** (-2,00)
LAW	-0,104 (-,142)	0,294*** (2,62)
Const	2,835*** (35,19)	2,390*** (23,92)
Pseudo – R-square	0,053	0,099
Log-Likelihood	-191,749	-180,347
Max VIF	6,177	6,177
Number of observations	69	69

Notes: n = 69; Robust standard error in parentheses. All p- values are two-tailed. \*Coefficient is significant at the 0.10 level (two-tailed); \*\*coefficient is significant at the 0.05 level (two-tailed); \* \* \*coefficient is significant at the 0.01 level (two-tailed). GOV = dummy variable, 1 if the issuer is a government or government-related entity, 0 otherwise; STOCK = dummy variable, 1 if the issuer is a stock exchange, 0 otherwise HYB = dummy variable, 1 if the issuer is a hybrid committee, 0 otherwise; FIRM = dummy variable, 1 if the issuer is a firms' association, 0 otherwise; MARKETSIZE = size of the capital market, measured by market capitalization as percentage of the GDP; RIGHTS = strength of legal rights, measured by an index; LAW = dummy variable, 1 if the country's legal system is common law, 0 otherwise.



**TABLE 8 – OLS models**

	Dependent variable: coverage	Dependent variable: strictness
GOV	1,545 (0,93)	0,654 (0,60)
STOCK	-0,626 (-0,38)	-1,168 (-1,01)
HYB	4,015*** (2,77)	4,584*** (5,57)
FIRM	-2,007 (-1,16)	-1,186 (-0,93)
MARKETSIZE	0,216*** (3,00)	0,015 (1,55)
RIGHTS	-0,292 (-1,49)	-0,320* (-1,84)
LAW	-1,706 (-1,31)	3,393** (2,45)
Const	17,115*** (11,42)	10,861*** (9,12)
R square	0,26	0,41
F- statistics	4,33	10,70
P-value (F)	< 0,000	< 0,000
Max VIF	6,177	6,177
Number of observations	69	69

Notes: n = 69; White (1980) heteroskedasticity-consistent standard error in parentheses. All p- values are two-tailed. \*Coefficient is significant at the 0.10 level (two-tailed); \*\*coefficient is significant at the 0.05 level (two-tailed); \*\*\*coefficient is significant at the 0.01 level (two-tailed). GOV = dummy variable, 1 if the issuer is a government or government-related entity, 0 otherwise; STOCK = dummy variable, 1 if the issuer is a stock exchange, 0 otherwise; HYB = dummy variable, 1 if the issuer is a hybrid committee, 0 otherwise; FIRM = dummy variable, 1 if the issuer is a firms' association, 0 otherwise; MARKETSIZE = size of the capital market, measured by market capitalization as percentage of the GDP; RIGHTS = strength of legal rights, measured by an index; LAW = dummy variable, 1 if the country's legal system is common law, 0 otherwise.