Worldwide Diffusion of Corporate Governance (CG) Regulations and Practices: A Literature Review

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ABSTRACT

Research objectives: The main objective of this paper was to understand the diffusion of CG codes around the world. More specifically this paper examined what types of CG codes have emerged around the world? What causes the diffusion of shareholder centric model of CG around the world? What areas are still unexplained to better understand the diffusion of CG?

Findings: This paper presented that pure economics and legitimacy reasons alone or together are not sufficient to explain the dynamics of how corporate governance reforms emerged and developed in different contexts. This study argues that researchers should pay more attention to examine political process of development and implementation of CG codes in developing countries.

Implications: Prior institutional research ignores countries’ internal dynamics that can play an important role in shaping corporate governance reforms. The corporate governance model cannot exist in isolation; each country has its own unique institutional arrangements and can influence the process of diffusion. Rule “the-one-size-fits-all” is flawed and researchers should follow diverse approaches to understand heterogeneity rather than homogeneity of corporate governance and expect vast differences in national contexts where firms are embedded (Cuervo, 2002, Reaz and Hossain, 2007). Policy makers and researchers should consider broader institutional dynamics related to macro and micro institutional processes while developing and understanding CG diffusion around the world.

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1. Introduction

The main purpose of this study is to understand the diffusion of Corporate Governance (CG) regulations and practices around the world in general and in developing countries in particular. More specifically this paper poses some simple but important empirical questions; what types of CG codes have emerged around the world? What causes the diffusion of shareholder centric model of CG around the world? In addition this study also highlights the limitations of current research analyzed CG emergence and development around the world. This discussion will lead to the identification of research gaps that this study aims to fill.

2. Emergence of CG Regulations Around the World

The diffusion of CG regulations around the world is noticeable. Today codes of corporate governance have emerged all around the world (Enrione et al., 2006, Aguilera and Cuervo-Cazurra, 2004, Aguilera and Cuervo-Cazurra, 2009). The emergence and development of codes of corporate governance did not follow a linear path (Table 1). The first code of corporate governance was issued in the USA in 1978, followed by Hong Kong in 1989, Ireland in 1991, and the United Kingdom in 1992. The issuance of the first four codes occurred over a period of fourteen years, however, there was an exponential rise in the diffusion rate since the issuance of the Cadbury Report in the UK in 1992 (Aguilera and Cuervo-Cazurra, 2004, Enrione et al., 2006). Aguilera and Cuervo-Cazurra (2009) reviewed the diffusion of CG regulations around the world and found that by the middle of 2008, 64 countries had issued 196 different codes of corporate governance. Some countries have had more than one code; the most notable are the UK and the USA with 25 codes each. South Africa was the first developing country and Sweden was the first civil law country to introduce codes in 1994. In Pakistan, the first code of corporate governance was issued in 2002 with a revised version in 2012.

The development of CG codes around the world is evident; however analysis of what type of CG codes introduced and why CG regulations diffused around the world is difficult. Every country exhibits different legal, economic, social, cultural, and political systems, which determine the system of CG residing in that country. Solomon (2010, p 181), argued that “there are as many corporate governance systems as there are countries”. Prior studies argued that definition of CG, model of CG and types of code issuer impact the diffusion of CG around the world.
<table>
<thead>
<tr>
<th>Year</th>
<th>Countries</th>
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<tbody>
<tr>
<td>1992</td>
<td>UK</td>
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<tr>
<td>1993</td>
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<tr>
<td>1994</td>
<td>Canada, South Africa</td>
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<td>1995</td>
<td>Australia, France</td>
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<td>1996</td>
<td>Spain</td>
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<td>1997</td>
<td>Japan, The Netherlands, USA</td>
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<td>1998</td>
<td>Belgium, Germany, India, Italy, Thailand</td>
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<td>1999</td>
<td>Brazil, Greece, Hong Kong, Ireland, Mexico, Portugal, South Korea, OECD, ICGN, Commonwealth</td>
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<td>2000</td>
<td>Denmark, Indonesia, Kenya, Malaysia, Romania, The Philippines</td>
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<tr>
<td>2001</td>
<td>China, Czech Republic, Malta, Peru, Singapore, Sweden, Uganda</td>
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<tr>
<td>2002</td>
<td>Austria, Cyprus, Hungary, Oman, Pakistan, Poland, Russia, Slovakia, Switzerland, Taiwan</td>
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<tr>
<td>2003</td>
<td>Finland, Lithuania, Macedonia, New Zealand, Turkey, Ukraine, Latin America</td>
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<tr>
<td>2004</td>
<td>Argentina, Bangladesh, Iceland, Norway, Mauritius, Slovenia, OECD</td>
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<tr>
<td>2005</td>
<td>Latvia, Jamaica, ICGN</td>
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<td>2006</td>
<td>Bosnia Herzegovina, Egypt, Estonia, Israel, Lebanon, Luxemburg, Nigeria, Saudi Arabia, Sri Lanka, Trinidad and Tobago, UN</td>
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<tr>
<td>2007</td>
<td>Bulgaria, Colombia, Jordan, Kazakhstan, Moldova, Mongolia, U.A.E</td>
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<td>2008</td>
<td>Albania, Morocco, Qatar, Serbia, Tunisia</td>
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<td>2009</td>
<td>Algeria, Croatia, Georgia, Montenegro</td>
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<td>2010</td>
<td>Armenia, Bahrain, Baltic States, Ghana, Malawi, Yemen</td>
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<td>2011</td>
<td>Azerbaijan, Guernsey</td>
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<td>2012</td>
<td>Republic of Maldives</td>
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<td>2013</td>
<td>Barbados</td>
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Table 1: Diffusion of CG regulations around the world (Source: European Corporate Governance Institute)
1.1. Corporate governance: definitions and interpretations

Corporate governance is an eclectic subject with no single accepted definition. The way theorists, policy makers, practitioners and researchers define GC is important in order to understand the nature of and reasons for CG reforms around the world. Corporate governance can be defined from a narrow financial perspective i.e. shareholder perspective or in broader terms considering corporations are accountable to a wide range of stakeholders as well as society.

1.1.1. Shareholder Perspective

Financial economists have argued that the primary goal of the firm is to maximize shareholder wealth (Jensen and Meckling, 1976). This perspective of CG has emerged from the classic work of Berle and Means (1932). According to these authors, during the late 19th and early 20th centuries, shareholding became dispersed due to the separation between ownership and control, i.e. many US firms were controlled by the managers but owned by the weak minority shareholders. In such situations, shareholders may want to maximize profit, but on the other hand, managers may want to pursue self-interest. The prior literature on CG has paid significant attention to the agency problems where companies were required to run in the best interests of the shareholders (Davis, 2009, Brennan and Solomon, 2008). From this perspective, renowned economists Shleifer and Vishny (1997, p737) defined CG as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” Similarly, in terms of shareholder-centric approach, Parkinson(1993, p. 159) defines corporate governance as

\[\ldots\] the process of supervision and control \[\ldots\] intended to ensure that the company’s management acts in accordance with the interests of shareholders.

This shareholder-centric perspective prioritizes shareholder rights over all other stakeholders. Thus, companies’ main objective should be to maximize shareholder’s wealth. In the beginning, this ideology gained dominance is the US and other stock market-based economies (Yoshikawa et al., 2007). Jensen and Meckling(1976)extended agency theory to those problems rooted in separation of ownership from control in the modern form of corporations. Agency theory, which emerged from the seminal work of Alchian and Demsetz (1972) and Jensen and Meckling (1976) is concerned with contractual problems that can arise in any cooperative exchange. Agency theory contends due to self interested nature of human contract tend be incomplete and are subject o moral hazards. The information asymmetry makes it costly for principals (shareholders) to know what agents (managers) actually accomplished (Fama and Jensen, 1983). Thus from the agency theory point of view, CG is the mechanism available to minimize notorious agency problems arising due to the separation of ownership and control.

1.1.2. Stakeholders Perspective

The critics of agency theory contend that firms have broad responsibilities and cannot be restricted to dyadic relationships between firms and shareholders but also to other stakeholders (Blair and Stout, 1999). From the stakeholder’s perspective, corporate governance is seen as a web of relationships between not only a company and its shareholders, but rather between a company and its broad range of other stakeholders including employees, customers, suppliers, government, bondholders, and so on (Mahadeo and Soobaroyen, 2013). Tricker (1984) defined corporate governance as:

“…the governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries.”

The basis for the stakeholder concept of corporate governance is that impact of large size companies on societies are so pervasive that they should be considered accountable to the whole society, future society
and the natural world (Solomon, 2007). She defined CG as:
“… the system of checks and balances, both internal, and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity (p.14).”

1.1.3. Institutional Perspective

From this social-oriented perspective, organizations require more than financial resources to survive and thrive in their social structure (Scott, 2000). Acceptance of organizations actions by various constituents in their environment is crucial for their survival. Institutional theory examined organization’s interaction with the institutional environment and the effects and incorporation of social expectations in organizational practices and characteristics (Martinez and Dacin, 1999, Scott, 2001, Baxter and Chua, 2003). Institutions provide guidelines and resources for acting as well as imposing constraints on behavior by defining legal, moral, and cultural boundaries of legitimate activities. The institutional theory provides a legitimacy perspective that firms exposed to different institutional environments are pressured to adopt practices for symbolic reasons.

The way CG governance is defined and interpreted is crucial as countries often follow either a shareholder (outsider-dominated) centric or insider dominated model while developing their corporate governance regulations. Moreover, researchers used these expectations as criteria to examine corporate governance regulations and practices prevailing in specific contexts (Deephouse and Heugens, 2009). Institutional theory perspective is mostly used in identifying possible caused of CG codes diffusion around the world.

2.1. Models of Corporate Governance

Although any effort to categorize CG systems is very difficult, the most common and generally accepted means is pattern of ownership, i.e. an/the insider/outsider model. The outsider-dominated system refers to publicly listed firms where the manager controlled the firms but the firms were owned by large number of outside shareholders. This situation resulted in a separation between ownership and control and the purpose of CG is to resolve the agency problem described earlier in this chapter. This type of system is also termed as a market-based system and is frequently referred to as an Anglo-American or Anglo-Saxon model due to the influence of the UK and US stock markets on other markets around the world (Solomon, 2007).

The insider-dominated system of CG refers to where few major shareholders owned and controlled publicly listed companies. This type of system is also termed as a relationship-based system and is commonly available in, but not limited to, Germany, Japan and South Asia with different variants (Solomon, 2007, Claessens et al., 2000, La Porta et al., 1999, Millar et al., 2005). The main purpose of CG codes in insider-dominated systems is to resolve conflict between majority shareholders and minority shareholders (Young et al., 2008). The understanding of CG models is important to analyze what types of CG codes are emerging. This study will present that either CG codes are converging toward outsider-dominated CG models or towards insider-dominated one..

2.2. Issuers of CG Codes

Both global and national players have issued and promoted CG regulations. Prior literature has recognized different types of code issuers ranging from transnational institutions to national level code issuers. Transnational institutions role is very encouraging and they have designed general codes (see table 2) to improve CG around the world (see table 2). Transnational institutions started issuing code in 1995. The International Corporate Governance Network (ICGN) website is repository of all recent codes of corporate governance. The Organization for Economic Co-operation and Development (OECD) developed their most influential transnational CG codes in 1999 (Roberts, 2004). The World Bank used
OECD CG codes as an evaluative criteria in examining CG practices in developing countries (Aguilera and Cuervo-Cazurra, 2009, Coombes and Watson, 2001). The national institutions designed and issued CG codes to improve corporate governance of a home country. These national institutions can include stock exchanges, governments, directors associations, managers associations, professional associations and investor associations (Aguilera and Cuervo-Cazurra, 2004, Enrione et al., 2006). It is important to understand codes issuers in the different institutional contexts to identifying actors, source of innovation and how strongly they are enforced (Aguilera and Cuervo-Cazurra, 2004).

Table-2: Codes of Corporate Governance by Transnational Institutions

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<thead>
<tr>
<th>Commonwealth</th>
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<td>o CG practices in Microfinance Institutions issues in 2012</td>
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<td>o Sovereign Wealth Funds (GAPP) - Santiago Principles October 2008</td>
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<td>o CG for Islamic Financial Services - December 2006</td>
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<td>o ICGN - July 2005</td>
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<th>Latin America</th>
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<td>o Latin American CG - 2003</td>
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<tr>
<th>OECD</th>
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<tr>
<td>o OECD Guidelines on CG for State-Owned Enterprises - September 2005</td>
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<td>o OECD Principles of CG 22 April 2004 and May 1999</td>
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<th>Pan-Europe</th>
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<td>o EVCA CG Guidelines - June 2005</td>
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<td>o Corporate Governance in Europe June 1995</td>
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<th>United Nations</th>
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<td>o Guidance on Good Practices in Corporate Governance Disclosure 2006</td>
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(Source: European Institute of Corporate Governance)

This section highlights that codes of CG are rapidly diffused around the globe. Both transnational and national players have issued and promoted CG regulations around the world. The following section will provides discussion on what types of CG codes have emerged around the world? Are these have some similarities? Why countries have introduced CG codes?

2. CG reforms worldwide – what and why

2.1. Nature of CG reforms – convergence vs. divergence

What type of CG model a country has adopted is one of the key areas of concern for prior CG research at the country level. In doing so, most of these studies have focused on convergence and divergence of the CG model that a country has adopted which ultimately leads towards the Anglo-American model (Aguilera and Jackson, 2003, Yoshikawa et al., 2007, Collier and Zaman, 2005, Siddiqui, 2010, Mukherjee-Reed, 2002, Reed, 2002). The majority of these governance researches showed that governance regulations at the country level are gradually becoming more similar and are converging towards the internationally accepted outsider-dominated (Anglo-American) model (Hansmann and Kraakman, 2001, Reed, 2002, Aguilera and Cuervo-Cazurra, 2004, Witt, 2004, Siddiqui, 2010). Corporate governance policy documents and codes of best practices around the globe [for example, The

Aguilera and Cuervo-Cazurra (2004) analyzed the adoption of CG codes in 49 countries and revealed that there is a convergence trend towards the Anglo-American model. They argued that most of the codes were designed to protect shareholder rights. Similarly, Zattoni and Cuomo (2008) noted in their comparative study that all codes were meant to secure shareholder rights and required companies to adopt CG mechanism available in the Anglo-American model. Roberts (2004) identified that Russian codes of corporate governance are an attempt to impose the Anglo-American model on Russian businesses by emphasizing the importance of shareholder protection. Siddiqui (2010) presented data that showed that the CG model adopted by Bangladesh suggested listed companies to have a single-tier board structure where shareholders elect directors, the inclusion of an independent director, and separation of the chairman and CEO, etc. These guidelines are consistent with the OECD guidelines for CG. Similarly, the Anglo-American nature of reforms has been observed in other countries as well, for example in India (Reed, 2002), South Africa (West, 2006) and Japan (Yoshikawa et al., 2007). In sum, many countries not only introduced codes of CG and these codes are in-line with shareholder centric model. In following section, this study will discuss why most of the countries introduced codes of CG in-line with Anglo-American models.

2.2. Reasons for reforms – efficiency vs. legitimacy

There is another side of the debate that highlights why similar CG reforms particularly those that are in line with the Anglo-American model, are diffusing across the countries. This debate mostly oscillates between efficiency vs. legitimacy reasons that trigger countries to issue codes of good governance. This study used institutional theory lens to analyze the possible root causes of similarities amongst the CG codes around the world.

The efficiency perspective assumes that the adoption of shareholder centric CG model will improve economic outlook of the country. The advocates of the shareholder-centric model argue dispersed ownership from managerial control is more modern and efficient than family firms, and bank-led groups (see, for example, Hansmann and Kraakman, 2001, Mueller, 2006). The promoters of the agency theory perspective assume a link or causality between law, finance, and economic growth (La Porta et al., 1997, La Porta et al., 1998, Mueller, 2006). Firms securing shareholder interest provides attractive locations for local companies and (World Bank, 2000) foreign investors to invest, thus promoting economic growth (Mueller, 2006). They argued that companies throughout the world should observe shareholder rights, maximize shareholder value, and be transparent in their reporting of corporate activities. (Mueller, 2006) argued that the best development strategy for developing countries is to create conditions that produce a large equity market. He argued that there is a positive relationship between the strength of a country’s corporate governance institutions and the size of its equity market, and that large equity markets foster faster economic growth. (Shleifer and Vishny, 1997) argued that strong investment protection is necessary to persuade investors to invest in the companies otherwise weak shareholder protection is associated with a weak capital market. The proponents of the shareholder-centric model also argued that companies are no longer relying on domestic financial resources and hence, are attempting to attract foreign investments. Corporate governance is one of the ways to increase investors’ confidence in countries’ financial markets and entice them to take a risk (Solomon, 2007). Other studies also promote corporate governance reforms in favor of shareholders around the world (Ananchotikul
and Eichengreen, 2009, Daily et al., 2003, Klapper and Love, 2004). Thus, from the efficiency perspective, in an effort to increase a country’s economic growth and to attract local and foreign investments, the corporate governance system should focus on protecting the interest of shareholders. In doing so, many countries have introduced CG reforms toward the shareholder-centric model, i.e. the Anglo-American model (Hansmann and Kraakman, 2001, Millar et al., 2005, Mueller, 2006).

Institutional theory perspective contends organizations survival depends on the socially accepted interaction with their environment (Dillard et al., 2004). In highly institutionalized environments, social forces act to generate similarities among organizations this is what (Powell and DiMaggio, 1991) described as, organizations becoming isomorphic in an external institutional environment. An isomorphism is a “constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions” (DiMaggio and Powell, 1991, p 66). DiMaggio and Powell (1991) identified three kinds of isomorphic pressures – mimetic, normative, and coercive. Mimetic isomorphism occurs when the organization mimics the actions of successful organizations to demonstrate that they are enhancing their legitimacy or at least trying to improve their working conditions. Normative isomorphism stems from professionalization where professional organizations collectively define working conditions to promote a cognitive basis to legitimize their practices. Both formal and informal Coercive isomorphism occurs when powerful organizations and cultural expectations from the society they function within put pressures on organization. The institutional perspective argues that organizations become isomorphic with an external institutional environment and are pressured to adopt practices that have institutional legitimacy for symbolic reasons.

Prior researches have used both efficiency and legitimacy perspectives to analyze why countries are adopting corporate governance regulations (for example see:, Zattoni and Cuomo, 2008, Aguilera and Cuervo-Cazurra, 2004, Aguilera and Cuervo-Cazurra, 2009, Reed, 2002, Enrione et al., 2006, Hansmann and Kraakman, 2001, Siddiqui, 2010, Ananchotikul and Eichengreen, 2009, Klapper and Love, 2004, Shleifer and Vishny, 1997, La Porta et al., 1997). Aguilera and Cuervo-Cazurra (2004) conducted one of the earliest empirical studies to examine the forces influencing adoption of codes of good governance around the world between 1978-1999. They argued that countries have developed codes in response to both efficiency and legitimacy pressures. The efficiency of the governance system is defined in terms of shareholders rights and legitimacy is defined in terms of the conformity to widespread governance practices. Zattoni and Cuomo (2008) investigated the reasons behind the proliferation of codes of corporate governance in 60 countries. They argued that the legitimization reasons are more dominant in countries with poor investor protection than efficiency reasons.

Reed (2002) studied corporate governance reforms in developing countries and looked into the underlying causes of reforms. He mentioned that many developing countries introduced CG regulations in line with the Anglo-American model due to the legitimacy reasons. The poor economic performance resulted in a debt crisis in many developing countries which placed these countries under the direct influence of international financial bodies such as the IMF and the World Bank. These international financial bodies imposed a series of Structural Adjustment Programmes (SAPs) and these programmes increased attention towards governance issues. He identified that countries adopted a shareholder-centric model of CG due to three reasons. First, these reforms are important to promote efficiency amongst domestic firms and will enable them to compete against international firms that are entering into previously no-go domestic markets. Second, these reforms are important to boost the confidence of international investors by eliminating traditional cheap credit through government development banks. Lastly, these reforms protect governments from unpopular liberalizing reforms (e.g. cutting back on spending) by highlighting to public that effective corporate structure is crucial for growth and
development. The study states that developing economies tend to adopt the Anglo-American model of CG despite that such a model is based on assumptions of efficient markets and equity financing. Siddiqui (2010) found similar adoption reasons in Bangladesh and argued that the adoption of CG codes was not on efficiency grounds but rather on pressure from International Financial Agencies (IFAs) to which Bangladesh is highly relying on for monetary aid.

In addition to efficiency vs. Legitimacy reasons of CG codes transnational institutions have played crucial role in the diffusion of corporate governance reforms around the world (Roberts, 2004, Arnold, 2005, Arnold, 2012). Pressure from international institutions resulted in cross-border isomorphism of common organizational practices (DiMaggio and Powell, 1983). The World Bank forced developing and transition economies to upgrade their practices to the international level. IMF, the World Bank has issued CG country assessment reports for 44 countries. This report used OECD principles to evaluate the state of CG practices. The corporate governance reforms suggested by international financial agencies as a pre-requisite for obtaining loans in developing countries serve as a coercive isomorphic pressure.

Although the two perspectives (efficiency vs. legitimacy) provide a useful way to analyze the diffusion of CG reforms around the world, however, this study argues that these two lenses are insufficient in explaining reforms and practices around the globe in a multifaceted context. The next section follows this debate.

3. Diffusion of CG regulations: theoretical and empirical limitations

This study argues that pure economic view of agency theory and legitimacy view of institutional theory alone or together are not sufficient to explain the dynamics of how CG codes are emerged and developed in different contexts. These studies have provided some valuable insight into the diffusion of CG reforms; however such work is not without its limitations.

The existing studies of diffusion of CG regulations around the world, particularly in emerging economies, usually focused on similarities between adopted codes and internationally accepted CG practices. These studies considered that isomorphism does not affect the substance of the codes. These studies emphasized similarities of CG regulations in developing countries with the Anglo-American model of CG (e.g. Siddiqui, 2010) while the differences were down-played. According to Aguilera and Cuervo-Cazurra (2009), prior studies assume that codes are equivalent across countries and can be analyzed using one common variable or as a comparable independent variable. Although most of the codes diffused around the world shared common principles, codes vary significantly because they were introduced to resolve corporate governance issues specific to a given country. Studies arguing that the adoption of CG regulations is the outcome of mimetic, normative, or coercive response to institutional pressures fail to capture the political bargaining process that takes place in determining the contents of the adopted regulations.

The agency theory perspective reduces social relationships between firms to simple dyad relationships between economically rational and self-motivated agents (Lubatkin, 2007). Sociologists and legal scholars have criticized the supremacy of shareholders and recognized it is a more political and normative efforts from broad coalition of players with common interests (Blair and Stout, 1999, Deakin and Konzelmann, 2004, Arnold, 2005, Arnold, 2012, Davis, 2009). Deakin and Konzelmann (2004) pointed out that even US corporate law does not regard shareholders as undisputed owners of the firm. This reductionist approach may be intended to reduce the complexity of the governance phenomenon, but it engenders the under socialized and acultural view of firms, thereby reducing the model’s relevance (Lubatkin et al., 2007) in different contexts.

The inherent problem in the shareholder-centric approach is its assumption that ownership structure in large corporations is dispersed across many small shareholders. La Porta et al. (1999) showed that
outside the US and the UK, dispersion of ownership is more an exception than the rule. Subsequent studies confirmed the findings of La Porta et al. (1999) (see for example; Claessens et al., 2000, Attig et al., 2002, Becht and Roell, 1999, Faccio and Lang, 2002). The applicability of the Anglo-American model of corporate governance outside the UK and the US, especially in Asian economies, has been questioned (Rwegasira, 2000, Siddiqui, 2010, Uddin and Choudhury, 2008, Özcan and Çokgezen, 2003, Mukherjee-Reed, 2002). In many countries, shareholding is concentrated in the hand of founding family members, lending banks and other companies through cross shareholdings. Young et al., (2008) suggested that in developing economies due to concentration of ownership, major conflict is not between management and shareholders, but rather it is between majority shareholders and minority shareholders and also suggested that in developing countries corporate governance should focus on resolving issues between controlling shareholders and minority shareholders.

The limited focus of prior diffusion studies on the economic view of agency theory and legitimacy view of institutional theory is incapable of explaining the process of the emergence and development of corporate governance reforms in any particular country. As suggested by Hancher and Moran (1989), regulation cannot occur without extensive cooperation and negotiation among key actors in the regulatory space. The narrow conceptualization of institutional dynamics in prior research is fundamentally flawed because it maintained a distinction between technical forces and rational economic decision making on the one hand, and institutional forces and ‘irrationality’ on the other. Most of the previous studies identified causal factors of adoption at the macro level and looks into what or why questions and ignores the “how” question. The dichotomy of efficiency and legitimacy reasons of diffusion ignores other important aspects that can influence diffusion and the process of diffusion. This dichotomy has focused on diffusion as an outcome rather than a process and as a result has neglected the influence of political, social, cultural, and legal factors and the role of power and group interests. Even the prior studies showed disagreement whether CG emerged and developed due to efficiency reasons or legitimization effects (Strang and Macy, 2001, Tolbert and Zucker, 1983, Westphal and Zajac, 1997).

Prior institutional studies have highlighted that transnational organisations play a key role in the diffusion of regulations in emerging economies, and national regulators and regulatees passively adhere to internationally accepted regulatory practices. These institutional theorists often undermine their ability to respond proactively, strategically, and creatively to institutional pressures (Oliver, 1991, DiMaggio, 1988, Scott, 2001). DiMaggio (1988) argued that there is a need to study power and actors who actually create and influence institutions. Countries differ in the way that power is allocated across organizations and actors and also how it is reflected in each nation’s legal system and overall institutional framework (Roe, 2003). Influential transnational actors (e.g. the World Bank, IMF, OECD, Asian Development Bank, and International Finance Corporation) have not displaced the nation state, marginalised local actors and transformed national institutional arrangements and organisational routines. Rather, they rely on the support of national regulators and local organizations to confer legitimacy on the transnational regulations they wish to implement (Cooper et al., 1996). If regulatory reforms were to change status quo or have adverse effects on organizational routines, then local actors may form a lobby to oppose reforms. It is thus important to understand power dynamics in regulation development processes and the roles of national actors in the production and implementation of regulation in a local context. Understanding how CG regulations are diffused in a local context can help unveil problems and game playing to smooth future regulatory efforts (see, for example, Canning and O’Dwyer, 2013, Malsch and Gendron, 2011, Caramanis, 2005, Arnold, 2005).

4. Conclusion
The main objective of this paper was to understand the diffusion of CG codes around the world. More
specifically this paper examined what types of CG codes have emerged around the world? What causes the diffusion of shareholder centric model of CG around the world? What areas are still unexplained to better understand the diffusion of CG?

This paper presented that pure economics and legitimacy reasons alone or together are not sufficient to explain the dynamics of how corporate governance reforms emerged and developed in different contexts. This study assumes that researcher should pay more attention to the process of emergence and development of corporate governance reforms rather than reasons of reforms. Yoshikawa et al. (2007) conducted a multiple-case, multiple-level study using a sample of Japanese firms to understand the diffusion of governance innovation. They argued that the spread of innovations across institutional levels and firms is far from linear and straightforward. Japanese companies decoupled themselves from governance reforms and customized their corporate governance practices according to their particular local circumstances. The local companies refused the straightforward adoption of the Anglo-American types of reforms. Eventually, these companies forced government to revise the code of CG to accommodate local demands. This study revealed that the diffusion of CG in the national context is a complex and dynamic process, which involves the interaction among a range of actors pursing their self-interests. Thus, national social, economic, and political contexts and roles and the power of local actors are important dimensions that should not be overlooked.

Prior institutional research ignores countries’ internal dynamics that can play an important role in shaping corporate governance reforms. The CG practices cannot exist in isolation as each country has its own unique institutional arrangements and can influence the process of diffusion. Researcher should pay more attention to heterogeneity than homogeneity in CG practices. Limited use of institutional theory requires an approach that should be able to provide robust explanations of broader institutional dynamics related to macro and micro institutional processes.

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