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How much do country-level or firm-level variables matter in corporate governance studies?

Praveen Kumar & Alessandro Zattoni

The ambition of *Corporate Governance: An International Review (CGIR)* is to publish articles aimed at increasing our rigorous understanding of relevant corporate governance phenomena in an international context. One of the key questions implicit in this objective is to understand how much do country-level or firm-level variables matter for the development of a global theory of corporate governance?

Trying to simplify a complex debate, we can say that there are two different views on this question. The first one emphasizes the role of national-level variables at the expense of firm-level variables, and the second one vice versa (e.g., Aguilera and Jackson, 2003; Lubatkin, 2007). According to the first view, any country has developed unique informal and formal institutions that have a strong impact on corporate governance mechanisms. Comparative studies developed in this tradition tend to adopt an over-contextualized view of corporate governance, found their theoretical framework on institutional theory, and explore the antecedents and the consequences of corporate governance mechanisms in different national contexts. In other words, according to this view, the organizational context is less important than the national (formal and informal) institutions in affecting the effectiveness of the corporate governance mechanisms.

According to the second view, corporate governance phenomena should be explored by analyzing firm-level variables, while the characteristics of national formal and informal institutions can be neglected. Studies developed in this tradition tend to adopt an under-contextualized view of corporate governance, found their theoretical framework on agency theory, and explore the antecedents and the consequences of corporate governance mechanisms without paying enough attention to the national environment. This view is also supported by the idea that the market forces

and legal reforms are moving national economies toward the Anglo-American model (Hansmann and Kraakman, 2004). According to this idea, national formal and informal institutions are becoming more and more similar to the US model characterized by high investor protection, high information transparency, efficient capital markets, an active market of corporate control, and so on.

We believe that both views have some justification and are helpful approaches in exploring governance phenomena. CGIR welcomes the submission of articles based on each of these two views as each can help us develop a more rigorous and relevant theory of corporate governance. Of course, in practice firm-level agency conflicts are strongly influenced by national governance attributes (e.g., Aslan and Kumar, 2012) and, from a policy perspective, firm-level corporate governance performance affects the development of national governance institutions (for example, the Sarbanes-Oxley Act in the US that was passed after the corporate governance scandals of early 2000s).

We, therefore, encourage governance scholars to analyze both theoretically and empirically the context of their study both in term of country- and firm-level variables, i.e. we invite scholars to submit studies that try to bridge the gap between under- and over-socialized views of corporate governance (e.g., Bamberger, 2008; Dalton and Dalton, 2011; Minichilli et al., 2011). To accomplish this purpose, studies exploring corporate governance phenomena in international samples should carefully consider if and how firm-level variables differ across countries, and if their differences can play a role in affecting the dependent variables. On the other hand, studies exploring corporate governance phenomena within a national economy should carefully consider if and how formal and informal institutions developed at the national level can play a role in their story, and understand in which national economies their results can be generalizable.

In addition, CGIR invites governance scholars to explore also intermediate views between these two extremes. In particular, we think that studies that take into account the interaction between firm-level variables and national-level variables can provide a significant contribution to the debate. These studies explore, at the same time, both the direct effect of national and firm-level

variables on typical corporate governance outcomes (e.g. firm performance or value distribution), and the interaction effect on the same dependent variable. In other words, they assume that both levels can play a role in affecting the final outcome, and analyze if the interaction between the two levels can provide a significant contribution to our understanding of governance phenomena (e.g., Aguilera, Filatotchev, Jackson & Gossell, 2008; Zattoni and Judge, 2012). The call for papers on national governance bundles and the 20th anniversary conference held in Cambridge in September 2012 were specifically targeted to address such an interesting topic.

The articles published in this issue touch several important topics in the corporate governance debate and are based on one of the above-mentioned views. In the first article, Van Essen et al. explore a core issue for governance international studies, i.e. if firm- and country-level good governance principles have a positive impact on firm performance. The authors test their hypotheses using a large sample of 1,197 firms across 36 European countries in a time-period including pre- and post-financial crisis. The results challenge the idea that principles of good governance should be equally beneficial for every company and in every circumstance. The study contributes to the governance literature by showing that the effectiveness of good governance principles and mechanisms can be contingent upon organizational and environmental characteristics. The findings have relevant implications for practitioners, as they underline that increasing corporate governance mechanisms and controls can produce also some negative effects in the period of crisis.

In the second paper, Shan explores the influence of internal and external governance mechanisms on related parties' transactions in companies under the influence of a controlling shareholder. This problem is called *tunneling* by governance scholars as it occurs when the controlling shareholder transfers company's assets to its own benefit. This is one of the main negative implications for minorities deriving from the so-called principal-principal problem. The study is based on a longitudinal dataset of 117 Chinese firms in the period between 2001-05. The results show that while State-ownership is positively related to tunneling, the number of

independent directors is negatively related. The study provides interesting theoretical implications by challenging agency theory explanations for tunneling, and supporting instead an institutional explanation.

In the third paper, Chen et al. examine the corporate governance of family firms that is a very relevant topic as they are the most diffused business type around the world. The study focuses on family representatives, i.e. non-family members representing the controlling family's interests in the board. Based on an agency framework, the authors predict that both family members and family representatives are associated with higher agency costs. The study is based on a sample of 526 family firms listed on the Taiwan stock exchange. The choice of the market is not irrelevant, as Taiwan market requires firms to report if directors are family members or represent the interests of the owner family. The results show that family members and family representatives are used differently by family owners, e.g. the first ones are more involved in older family firms and in firms founded by the family, while the second ones are more involved in second generation and acquired firms. Moreover, the findings emphasize that family representatives produce negative effects to minority shareholders, but less negative than family members.

In the fourth paper, Leventis et al. investigate the relationship between corporate governance practices and financial accounting and reporting in US listed commercial banks. To this purpose, they collected and analyzed data about 315 US commercial banks in the period during 2003-09. The results show that banks implementing good governance practices are characterized by higher levels of conditional accounting conservatism, e.g. they report loan losses timely. The findings contribute to empirically enrich the debate by emphasizing the positive role of good governance practices and by extending and refining the results of previous studies. The study has implications for practitioners and regulators as it suggests that accounting conservatism can complement governance practices in improving financial transparency.

In the last article Johansen and Pettersson explore the influence of board interlocking on the auditors' choice and fee. Their theoretical framework is built on social network theory and literature

on board interlocks and is aimed at enriching our understanding of the relationship between non-executive directors and audit firms. The study is based on Danish non-financial companies and banks in the period between 1988 and 2008. The results indicate that interlocking have an impact on auditors' choice, i.e. prior experiences with auditors are diffused in board networks. At the same time, the results on the audit fees show that there is no significant fees premium related to audit partners, while there is when there are multiple links between board members and the auditor.

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