

**Understanding differences across governance models around the world:
boards of directors, independent directors and large shareholders**

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Abstract

Good governance codes are key mechanisms that identify national best practices and encourage companies to comply with them. While previous studies on codes contributed to explain reasons behind their adoption and to emphasize differences across countries, there is a lack of empirical evidence on which national variables can explain differences in codes' practices. Building on governance and board literature, we first developed a board index measuring best practices related to board composition, structure and processes. Then, we collected and analyzed corporate 44 governance codes developed worldwide at the end of 2017. Finally, we explored which characteristics of the national governance system contribute to explain the strength of the board index. Our results show that some national variables – mostly common law and ownership dispersion - play a key role in determining board practices at country level. As such, our findings have several implications for both research and practice.

Keywords: corporate governance, good governance codes, board of directors, non-executive directors, independent directors.

Introduction

Boards of directors are key decision making bodies at the apex of corporations (e.g. Forbes and Milliken, 1999). Boards positively contribute to firm value creation by performing two key roles: i.e., monitoring top managers' or controlling shareholders' actions to prevent potential expropriation of minorities (monitoring role), and providing resources and advice to top managers in order to pursue shareholder value creation in the long run (service role) (Hillman and Dalziel, 2003).

Despite their fiduciary duties and high responsibilities, boards may fail to fulfill their obligations (Huse, 2005). In these circumstances, the consequences for companies can be very negative, ranging from bad strategic decisions and managerial opportunism to corporate frauds and bankruptcy. As a reaction to the several corporate scandals of the last decades, that underlined the large risks companies face when boards fail to perform their roles, policy makers and investors promoted corporate governance reforms aimed at preventing conflicts of interests and potential abuse of powerful subjects around large public companies (Zattoni and Cuomo, 2008). These reforms implied raising directors' responsibilities and penalties in corporate law, but also - and above all - issuing good governance codes, i.e. good practices recommendations about how to improve boards' accountability to shareholders (e.g., Aguilera and Cuervo-Cazurra, 2004).

The proliferation of codes has been promoted initially by investors, stock exchanges, and directors, and more recently by international organizations like the OECD and the ICGN (Cuomo, Mallin and Zattoni, 2015). Since the issue of the Cadbury code in 1992, codes have started to diffuse around the world, with an accelerated pace after corporate scandals related to the internet bubble and to the financial crisis (Zattoni and Cuomo, 2010). Thanks to their growing diffusion and legitimation in both developed and emerging economies, good

governance codes' recommendations have become the most influential governance practices about boards of directors at national and international level (Aguilera and Cuervo, 2009).

As a consequence of their increasing relevance and diffusion, governance scholars started to investigate codes, with peaks of studies at the beginning of the new millennium and after the recent financial crisis (Cuomo, Mallin, Zattoni, 2015). Empirical studies have mainly focused on some topics - like the mechanisms for codes' implementation, the content of a specific national code, the compliance with codes recommendations, and the consequences of compliance on firm performance - producing several important results (see reviews on previous studies by Aguilera and Cuervo-Cazurra, 2009 and Cuomo, Mallin, Zattoni, 2015).

However, empirical studies did not devote enough attention to other relevant areas of research. For example, they failed to do a systematic analysis of differences across good governance practices around the world (Aguilera and Cuervo-Cazurra, 2009). With few exceptions, previous studies have, in fact, taken codes as a black box by assuming that their content is similar across countries. However, while all codes are inspired by similar principles and agree on the mechanisms needed to improve governance practices, their recommendations may significantly differ across countries. For example, previous studies comparing the content of few - i.e. between two and seven - European Union (EU) national codes show that, despite the policies to homogenize governance practices across EU member states, differences across national codes still persist (Collier and Zaman, 2005; Hermes, Postma and Zivkov, 2006). In addition, two recent studies (e.g., Cicon et al., 2012; Zattoni and Cuomo, 2010) have analyzed the content of codes of a number of countries and found that the investors protection may contribute to explain differences in their recommendations.

Following calls to further explore codes' differences (e.g., Aguilera and Cuervo, 2009; Cuomo et al, 2015) and the determinants of corporate governance practices across countries (e.g., Aguilera & Jackson, 2003; Kumar and Zattoni, 2013), in this study we explore the

reasons explaining the differences across governance codes' recommendations in a number of industrialized and emerging economies. First, building on corporate governance and board literature, we developed an index of good governance practices at board-level, consisting of three sub-indices related respectively to board composition, structure and processes. Then, we collected and analyzed 44 good governance codes in force at the end of 2017. For each code, we measured the strength of recommendations about board practices using the board index and its three sub-indices. Finally, we explored if and how variables related to the national corporate governance system (i.e. common law vs civil law legal tradition, one tier vs two-tier board model, EU vs non-EU countries, concentrated versus dispersed ownership structure) could explain the strength of the board index and of its three sub-indices.

Our results show that country variables influence the content and the strength of good codes' recommendations and that the most important predictors are the legal tradition and the dominant ownership structure of listed companies. First, common law countries encourage boards to nominate a higher percentage of independent directors and a lead independent director and have a positive influence on the overall board index and on one sub-index (i.e. board structure). Second, dispersed ownership countries have a positive impact on the same variables and, in addition, promote also nomination committee independence, meetings with only independent directors and board evaluation. As a result, they have a positive impact on the overall board index and two sub-indices (i.e. board composition and board structure). The other two predictors have a less significant impact on board practices. One-tier countries promote to improve board practices on diversity, information flow, induction and continuous training and have a positive (but marginally significant) impact on the overall board index and on one sub-index (i.e. board process). Finally, our results show that codes of EU countries have lower standards on structure and processes than those of non-EU countries, but the differences in the board index and in its sub-indices are not significant.

Our study contributes to advance literature on governance codes, comparative corporate governance and boards of directors. At the same time it also has implications for investors and policy makers.

Literature review

Boards of directors effectiveness: monitoring and service role

Boards of directors are the most relevant governance mechanism, as corporate law and shareholders delegate them key decision making authority (Huse, 2005). Boards take several key decisions pertaining the company affairs, like proposing the balance sheet or dividends distribution for shareholders' approval, approving top managers' compensation plans, the annual budget or the strategic plan, evaluating and approving large investments. In performing their decision making authority, boards' primary responsibility is to pursue shareholders' interests (Jensen and Meckling, 1976).

Board literature argues that boards contribute to firm results by performing monitoring and service roles (Hillman and Dalziel, 2003). The monitoring role is supported by agency theorists who argue that board of directors' primary responsibility is to monitor top managers and that boards may increase firm performance by minimizing agency costs (e.g. Jensen and Meckling, 1976). The service role is advanced by resource dependence theorists who argue that boards may contribute to firm performance by providing key resources (like advice, legitimation, and links with stakeholders) to the organization (e.g. Pfeffer and Salancik, 1978).

From an agency theory perspective, boards of directors should address the consequences of the separation between ownership and control (Jensen and Meckling, 1976). According to this perspective, boards' primary role is to monitor top managers' (agents) decisions so to protect shareholders' (principals) interests and to minimize agency costs. More

recently, literature extended the potential opportunistic behavior by including both top managers of widely held companies (agency relationship type I) and large shareholders of companies under the influence of a controlling owner (agency relationship type II) (Kumar and Zattoni, 2018). The board monitoring or control role includes several activities - like controlling related parties transactions, designing CEOs' compensation system, supervise firm compliance with law and regulations - and its main purpose is to ensure that key decision makers pursue shareholders value (Forbes and Milliken, 1999).

Resource dependence theory (RDT) suggests, instead, that firms development and survival depends on external subjects owning valuable resources. From this perspective, boards should provide key resources that may foster the growth and the development of the firm (Pfeffer and Salancik, 1978). Directors can bring different types of valuable resources, e.g., advice and suggestions to managerial decision making, legitimation in the external environment, and links with important stakeholders (Hillman and Dalziel, 2003). The board service role includes several activities - like enriching the strategic decisions, favoring access to relevant resources, and promoting the firm public image – and its main purpose is to facilitate the acquisition of key resources for corporate survival (Forbes and Milliken, 1999).

Good governance codes

Despite boards have the duty to protect shareholders' interests, empirical evidence and governance studies show that directors may in some instances fail to fulfill their obligations (Huse, 2005). According to agency theory (e.g., Jensen and Meckling, 1976), this happens because powerful subjects (usually top managers or controlling shareholders) may be able to dominate the board and inhibit its effectiveness in performing the monitoring and service role. In such circumstances, characterized by high conflicts of interests and asymmetry of information at the top of the company, agency theory foresees the risk of opportunistic

behaviors and the deviation from shareholders value creation (e.g., Hillman and Dalziel, 2003).

Governance literature and empirical evidence underline that poor corporate governance and board practices may lead to firm underperformance and, in the worst cases, also to corporate bankruptcy (Daily, Dalton and Cannella, 2003; Huse, 2005). In the last decades, several waves of corporate scandals and accounting frauds pushed investors and policy makers to promote a debate on how to improve governance practices whose main purpose was to prevent the repetition of such negative events for investors and stakeholders. This debate led to several reforms that increased directors accountability and responsibilities in corporate law (e.g., the Sarbanes-Oxley-Act in the US), and promoted the issue and the legitimation of codes of best practices (e.g. the Cadbury Code in the UK) (Zattoni and Cuomo, 2010).

Both legal mechanisms, corporate law (hard law) and good governance codes (soft law) contributed to promote good governance practices around the world. Governance literature argues that hard and soft law are more complementary than substitutive mechanisms to address governance problems, as codes' content may be used by both judges to interpret directors' behavior and legislators to change corporate law (Wymeersch, 2006). In addition, while codes of good governance are the primary mechanisms used by investors and policy makers to develop board practices (Zattoni and Cuomo, 2008), corporate law and listing principles contribute to shape – together with codes - board practices of listed companies.

Good governance codes' are primarily focused on board design, i.e., a set of recommendations aimed at improving board effectiveness through encouraging a proper board composition, structure and internal processes. Under the influence of agency theory and its strong emphasis on the board monitoring role (Roberts, McNulty and Stiles, 2005), codes encouraged companies to develop a proper board composition – e.g., increasing the number

and the independence of non-executive directors - and structure – e.g., by both splitting the CEO and Chairman role and creating board independent committees – in order to favor board effectiveness in performing its control role (Zattoni and Cuomo, 2008 and 2010). While code's are based on the principle of “complain or explain”, i.e., companies may either comply with recommendations or explain the reasons behind their deviance, the empirical evidence collected in a number of countries show that companies tend to adhere to codes' recommendation both for efficiency and legitimacy reasons (Cuomo, Mallin, and Zattoni 2015). As a result, codes of directors are considered to be an effective mechanism to improve board practices around the world.

Board effectiveness

Several governance and board studies (e.g., Finkelstein and Mooney, 2003; Forbes and Milliken, 1999; Johnson et al., 1996; Roberts et al, 2005; Zahra and Pearce, 1989; Zattoni and Cuomo, 2010) propose a number of practices aimed at improving board effectiveness in performing its roles. These practices are related to three board attributes, i.e. board composition, board structure and board internal processes.

Board and governance literature emphasizes that board composition – i.e., the number and type of directors - influence board effectiveness in performing its monitoring and service roles (Forbes and Milliken, 1999; Zahra and Pearce, 1989). From this perspective, key board attributes include size, independence and diversity. Board size is a key predictor of board effectiveness as smaller boards do not have enough resources and competencies, while larger boards may be affected by problems like group thinking and free riding (e.g., Frankforter et al., 2012; Goodstein, Gautam and Boeker, 1994). Board independence is a key driver of board effectiveness as a large number of independent directors may increase board ability to manage conflicts of interests in and around the firm (Jensen and Meckling, 1976; Zattoni and Cuomo,

2010). Finally, governance literature and empirical evidence are more and more emphasizing the importance of board diversity as a variety of experiences and viewpoints may improve board effectiveness in performing its roles (Minichilli, Zattoni and Zona, 2009; Roberts et al., 2005).

Board and governance literature also emphasizes the importance of board structure – i.e., the separation between CEO and Chair roles and the independence of board committees – in promoting board effectiveness. The combination of CEO and Chair role (i.e. CEO duality) is considered a potential negative practice as the CEO-chair person acquires the power both to manage the business and to lead the board, and so may eventually inhibit board effective monitoring (Boyd, 1995; Tuggle et al., 2010). When the two roles are combined or the chairperson is not a non-executive director, it is a good practice to nominate a lead or senior non-executive or independent director who should coordinate and organize an annual meeting with only non-executive independent directors in order to promote an independent voice in the boardroom (Krause, Whithers, and Semadeni, 2017). Finally, since the Cadbury code, boards are encouraged to create three internal committees: the nomination committee aimed at promoting a sound composition of the board, the audit and risk committee aimed at monitoring risk and compliance with law and regulations, and the remuneration committee aimed at developing balanced compensation plans for top managers (Beasley et al., 2009; Frankforter et al., 2012). Governance literature and best practices invite boards to promote a proper composition of their committees, i.e. to nominate only non-executive independent directors as committee members in order to guarantee an independent view on such relevant topics (Ellstrand et al., 1999).

More recently board and governance literature has started to emphasize the importance of board internal processes as key drivers of board effectiveness (Finkelstein and Mooney, 2003; Forbes and Milliken, 1999). Board processes regard interactions among directors within the boardroom and may include the number of annual meetings, the availability of information,

the presence of induction and training programs, and the annual evaluation of the board and its directors. The number of meetings is considered a proxy of board effectiveness and diligence and a good measure of board members' effort in performing their key roles (e.g., Brick and Chidambaran, 2010; Xie, Davidson and DaDalt, 2003). The availability of information to board members is a key element for stimulating an effective discussion during meetings because it reduces the asymmetry of information (on both the firm and the industry) between executive and non-executive independent directors (Forbes and Milliken, 1999; Rutherford and Buchholtz, 2007). Board training programs may contribute to board effectiveness as induction programs help new board members to learn specific information on their role and on the firm's business model and external context, while continuous programs targeting all directors help them to stay updated on the evolution of governance best practices (Chiang and He, 2010; Long, 2008). Finally, the annual evaluation or self-assessment may help directors to identify boards' or individual directors' strengths and weaknesses, and so may foster the board development of action plans aimed at increasing its effectiveness (Kiel, Nicholson, and Barclay, 2004; Long, 2006).

Method

Sample

We collected good governance codes in vigor at the end of 2017. Our main source of information was the website of the ECGI (European Corporate Governance Institute - <http://www.ecgi.global/>), and precisely its "Codes" section where all codes are available. In addition, we also collected national codes searching through national websites of potential issuers, e.g. national stock exchanges. In this study, we mainly refer to codes of best practices or of good corporate governance, i.e. principles and recommendations based on the "comply or explain" rule. Our primary focus was on codes as, with few exceptions, corporate law does

not address governance practices at board level (Goulding, Miles and Schall, 2005), and, when it does, tends to fix minimum levels for all companies that are usually below the thresholds fixed by governance codes for listed companies. However, as the interaction between hard and soft law may affect governance practices, we did also a check on corporate law and listing requirements in vigor in each country – usually mentioned and explained by each code – when they complement codes’ recommendations in determining national board practices.

Our sample consists of 44 national codes of best practice in vigor at the end of 2017. The sample investigated may be considered representative of the global economy as it includes a number of industrialized and emerging economies from all continents that together contribute to 87% of global GDP in 2017. Table 1 presents all countries, the respective codes and their year of issue.

Data collection

Several governance and board studies developed good governance indices and tested their impact on firm performance (e.g., Black et al., 2014 and 2017; Gompers, Ishii, and Metrick, 2003). Following these examples and building on governance and board literature (e.g., Finkelstein and Mooney, 2003; Forbes and Milliken, 1999; Johnson et al., 1996; Zahra and Pearce, 1989; Zattoni and Cuomo, 2010), we developed a board index aimed at measuring the quality of board practices. Our index is aimed at measuring three board key attributes: board composition, board structure and board internal processes. See table 2 for a detailed description of the items included in the index.

Moreover, we collected a number of variables at country level that may contribute to explain the strength of codes’ board practices. In particular, we analyzed the country’s legal

tradition, their membership to the EU, their national dominant board model, and the typical ownership structure of listed companies.

First, comparative governance studies consider the legal tradition as a proxy of the strength of investors protection and, more in general, of the national corporate governance system (La Porta et al., 1997 and 1998). Consistent with this view, we created a dummy variable to measure the nature of the country's legal tradition: 0 for civil law, and 1 for common law.

Second, we measured if countries in the sample are members of the EU or not in order to explore if the several EU directives aimed at harmonizing corporate governance laws and regulations may explain differences across board practices in its member countries (e.g. Soltani and Maupetit, 2015). Consistently, we created a dummy variable to discriminate between EU member countries and non-EU member countries in 2017 (1 = yes, 0 = otherwise).

Third, we measured if the country's dominant board model is one-tier or two-tier as this variable impacts several board practices, for example two-tier boards are considered to allow both a better separation between monitoring and management decisions and a greater balance of powers at the top of the firm (Belot et al, 2014). Consistently, building on corporate law, codes' recommendations, and common practices (OECD, 2017), we created a dummy variable discriminating one-tier versus two-tier countries (1 = one-tier, 0 = two-tier).

Finally, we measured if large listed companies in the country are characterized by a concentrated or a dispersed ownership structure as this variable may strongly affect national corporate law (Bebchuk and Roe, 1999) and firm-level governance practices (Sujit, Lvina, Magnam, 2013). Consistently, we created a dummy variable to discriminate between countries with ownership concentration and countries with ownership dispersion in large listed companies (1 = ownership concentration, 0 = ownership dispersion).

Data analysis

Following best practices to analyze qualitative data, we applied various procedures of sorting, organizing, and coding data to examine good governance recommendations (Lee, 1999).

As a first step, we collected information on the corporate governance national models of the 44 countries represented in this study. In order to mature an understanding of their characteristics, we used various sources, including publications describing or comparing national governance systems (e.g. Fainshmidt et al., 2018; OECD, 2017; Weimer and Pape, 1999; Zattoni and Judge, 2012) and codes of good governance (e.g. Zattoni and Cuomo, 2008 and 2010). Based on the information collected, we developed a first draft of the coding scheme to analyze recommendations.

As a second step, we coded ten codes representative of different capitalism models: the UK, the US, the Norwegian, the Swedish, the German, the Japanese, the French, the Italian, the Brazilian and the Hong Kong code. Two scholars read and coded independently all codes' recommendations. Then, we checked the consistency among the two coders and refined prescriptions for coding to eliminate potential differences. Finally, the two scholars applied independently the revised coding scheme to analyze all codes included in the sample.

The two data sets representing the analysis of codes by the two scholars were compared to see consistency of results. The coding was highly consistent as the data showed a high overlap and only few codes' recommendations differ across the two datasets. In order to get a more accurate estimate of the reliability of coding, we calculated the inter-rater reliability using appropriate techniques (Dewey, 1983). The percent agreement between the two coders and the Cohen's kappa indicate that inter-rater reliability measures are high and above minimum levels for acceptance.

Then, we looked at the few disagreements among raters in order to understand their reasons. To this purpose, we went through the two datasets and analyzed these few cases. We found that the divergence of analysis was mainly due to difficulties in interpreting codes'

recommendations in light of the specificities of the national corporate governance model. To solve these divergencies, we collected more information on the national governance model in order to better interpret the recommendations of the national code. Thanks to an interactive process, we reached quickly an agreement on how to code the previously non-matched cases.

Once we found a complete agreement on how to code all good governance recommendations, we calculated an overall board index and three sub-indices related to board composition, structure, and processes. To explore the determinants of the board index and its sub-indices, we used a t-test for difference-of-means between codes' recommendations of common vs civil law countries, EU vs non-EU member states, one-tier vs two-tier board model and concentrated ownership vs dispersed ownership.

Results

Table 3 presents the descriptive statistics. Our results show that the strength of board practice recommendations varies substantially across codes. First, a number of items are relatively common as a number of codes encourage companies to adopt them. They are board diversity (mean = .79), board leadership (.82) and most of board process items - i.e. information (.89), induction (.75), continuous training (.77). Second, some items are suggested by more than the majority of codes: board size (.61), lead independent (.59), board meetings (.59), and board evaluations (.64). Finally, other items do not represent common practices as they are suggested by less than the majority of codes: board independence (.36), remuneration committee independence (.25), nomination committee independence (.09), audit committee independence (.39), meetings independent (.18) and board external evaluation (.39).

On average, codes includes 1.77 out of 3 items related to board composition, 2.14 out of 5 items of board structure, and 4.20 items out of 7 of board processes. Overall they include 8.11

items out of 17 best practice recommendations. The strongest codes is the Slovenian with 15/15 practices and the weakest one is the Indonesian with 2/15 practices.

Table 4 reports t-tests for difference-of-means between codes' recommendations of common vs civil law countries, EU vs non-EU member states, one-tier vs two-tier board model and concentrated ownership vs dispersed ownership.

The results for t-test for difference-of-means between common and civil law countries show that common law countries' codes have significantly better practices in relation to several board items like board independence (.60 versus .24, $p < 0.05$), lead independent (.80 versus .48, $p < 0.05$), nomination committee independence (.2 versus .03, $p < 0.10$), and board continuous training (.93 versus .69, $p < 0.10$). As a result, the board structure sub-index (i.e. 2.8 versus 1.79, $p < 0.05$) and the overall board index (9.33 versus 7.48, $p < 0.05$) are significantly higher in common law than in civil law countries codes.

The results for t-test for difference-of-means between EU and non-EU countries do not show many significant differences between the two samples. In particular, while EU countries' codes have lower board practices than those of non-EU countries, the difference is significant only for two items related to audit comm. independence (.23 versus .54, $p < 0.05$) and board evaluation (.5 versus .77, $p < 0.10$).

The results for t-test for difference of means between one-tier and two-tier countries show a number of significant differences across codes. In particular, one-tier countries' codes have significant better practices than two-tier countries' codes concerning board diversity (.87 versus .58, $p < 0.05$), information (.94 versus .75, $p < 0.10$) induction (.84 versus .50, $p < 0.05$), continuous training (.93 versus .69, $p < 0.10$). Coherently, the board process sub-index (4.50 versus 3.42, $p < 0.05$) and the overall board index (8.56 versus 6.92, $p < 0.10$) are significantly higher in one-tier countries' codes than in two-tier countries' codes.

Finally, the results for t-test for difference of means between concentrated ownership countries' codes and dispersed ownership countries' codes show several significant differences between them. In particular, concentrated ownership countries' codes have significantly lower practices than dispersed ownership countries' codes in a number of items, like board independence (.14 versus .75, $p < 0.001$), lead independent (.46 versus .81, $p < 0.05$), nomination committee independence (.04 versus .19, $p < 0.10$) and meetings independent (.11 versus .31, $p < 0.10$), board evaluation (.54 versus .81, $p < 0.10$). Coherently, our results show that the board composition (1.46 versus 2.31, $p < 0.001$) and the board structure (1.79 versus 2.75, $p < 0.05$) sub-indices, and the overall board index (7.29 versus 9.56, $p < 0.01$) are significantly lower in concentrated ownership countries' codes than in dispersed ownership countries' codes.

Discussion

Our study is aimed at addressing recent calls to investigate differences in best practice recommendations (e.g., Aguilera and Cuervo, 2009; Cuomo et al, 2015) and, more in general, corporate governance mechanisms around the world (e.g., Aguilera & Jackson, 2003; Kumar and Zattoni, 2013). To this purpose, we collected good governance codes from 44 developed and emerging economies. We analyzed codes' recommendations on boards of directors and then we explored if and how some country-level variables may explain differences across codes' best practices. Our results show that board practices are stronger in countries rooted in common law legal tradition and with a typical dispersed ownership structure. As such our study has implications for literature on codes of best practices, comparative corporate governance, and boards of directors.

Theoretical implications

Our study contributes to literature on good governance codes. First, our results show that recommendations on board practices differ significantly across codes. This implies that the market and institutional forces pushing to the convergence of corporate governance practices have been successful in promoting the diffusion of governance codes in a large number of countries, but failed to promote a full convergence of their recommendations towards international best practices (e.g. Zattoni and Cuomo, 2008 and 2010). In this way, our findings emphasize that the global convergence of codes' content is a slower process than their diffusion across a number of countries (for a recent review see Cuomo, Mallin and Zattoni, 2015).

Second, our study highlights that the weakest codes' recommendations in the overall sample regard the majority of independent directors in the boardroom and the creation of completely independent board committees. As such, our results echo empirical studies showing that companies have a lower compliance with some controversial governance recommendations, like directors' compensation (e.g., Andres and Theissen, 2008; Chizema, 2008). In line with these results, our study highlight that the major differences concern the key dimension of boards' and committee's independence. As such, they suggest that some countries may follow a strategic approach in the development of best practices that seem to be aimed at preventing the creation of an independent voice in boards' and committees' decision-making.

Our study also contributes to literature on comparative corporate governance (Aguilera and Jackson, 2003). Our results show, in fact, that there are significant differences across board practices of common law and civil law countries codes. In particular, the former have stronger recommendations than the latter on both several board practices – i.e. board independence, lead independent, nomination committee independence, and board continuous training for directors – and on the overall board index. These findings support the so called

“law and finance” view, according to which common law countries have higher investor protection and stronger governance practices than civil law countries (La Porta et al., 1997 and 1998).

In addition, our study underlines that the dominant ownership structure of large listed companies may influence codes’ content. Our results show, in fact, that ownership concentrated countries’ codes have weaker best practices – on board independence, lead independent, nomination committee independence, meetings independent, and board evaluation – than dispersed ownership countries’ codes. These findings provide support to the law and finance view arguing that ownership dispersion and better national governance practices are strictly intertwined (La Porta et al., 1997 and 1998). They also support the path-dependent theory, as they indicate that large shareholders may hinder the evolution of board practices toward international standards (e.g., Bebchuk and Roe, 1999). In this way, they contribute to explain why there is not a natural convergence of corporate governance practices toward the Anglo-American standards (Hansmann and Kraakman, 2004).

Finally, our study provides a contribution to literature on boards of directors. First, our results show that some board practices are becoming international standards promoted by almost all codes (i.e., board diversity, dual leadership, and internal processes related to information and training) while other practices are still relatively uncommon (i.e., independence of board and its committees, and meetings of independent directors). Our findings indicate that several countries are resisting the development of a strong independent voice within boards and their committees. So while formal independence of directors cannot be assimilated to a substantial independent voice within the boardroom and committees (Zattoni and Cuomo, 2010), these results underline the existence of country-level forces opposing the diffusion of international best practices (Bebchuk and Roe, 1999).

Our study, also, highlights significant differences across one-tier and two-tier countries' codes. This result is in contrast with some scholars arguing that two-tier boards have superior characteristics than one-tier boards because they separate the supervisory and the management functions by creating two different governance bodies (e.g., Belot et al., 2014; Owen, 2003). While the separation between supervisory and management boards can increase board monitoring, our findings suggest that countries with a unitary board model have been able to promote higher diversity, better board processes and, in general, higher board practices than countries with one-tier board model. These results remind us that board effectiveness is not only dependent on the (one-tier versus two-tier) board model, but also - and above all - on the adoption of best practices that may foster its effectiveness. In sum, they reinforce the importance to develop proper board practices on composition, structure and processes as key drivers of board performance (e.g., Finkelstein and Mooney, 2003; Forbes and Milliken, 1999; Johnson et al., 1996; Roberts et al, 2005; Zattoni and Cuomo, 2010).

Practical implications

Our study has also implications for practitioners. Our results suggest institutional investors to devote attention not only to promote the diffusion of good governance codes around the world, but also to their specific content. If this does not happen, they may fail to develop high board practices in a number of countries characterized by civil law legal tradition and high ownership concentration. Our study also provides useful indications to policy makers involved in promoting corporate governance practices within their countries. As the development of good governance may favor the growth of financial markets and of the national economy, policy makers should strive to overcome the potential opposition of national forces (e.g. large shareholders) to the transplant of international best practices.

Limitations and future studies

The results of this study should be considered in light of its limitations. First, we focus on good governance practices related to the board of directors. While boards of directors are key decision-making group of people at the top of the firm, recent studies have shown that it is not easy to isolate the effects of one governance mechanism at a time (Ward, Brown and Rodriguez, 2009). This happens because the effects of one governance mechanism (e.g. the board) interact with that ones caused by other mechanisms (e.g., the executive compensation practices, large shareholding, or the market for corporate control). From this perspective, the corporate governance system can be considered as a bundle of complementary and substitute mechanisms that jointly affect firm performance (e.g. Ward, Brown & Rodriguez, 2009; Sundaramurthy& Lewis, 2003). As a result, future studies may try to extend our results by taking into account good practices on other governance mechanisms like executive compensation or company disclosure.

Second, our study is based on the analysis of good governance codes. While these best practices largely affect the characteristics of boards of directors, this cannot be taken for granted. Some studies have in fact shown that the level of compliance with codes' best practice varies across recommendations and that, for example, companies are resistant to comply with recommendations on executive compensation (e.g. see Andres and Theissen, 2008 for German companies). In addition, previous studies have shown that the level of compliance varies across companies and that, for example, smaller companies tend to comply less than larger companies (see Akkemans et al, 2007 for the Netherland). Furthermore, previous studies have shown that the level of compliance varies across countries and that, for example, companies in industrialized countries tend to comply more than companies in emerging economies (see Cuomo, Mallin and Zattoni, 2015 for a recent review). Finally, empirical evidence cast some doubts on the convergence of formal and substantial governance

and highlights the risk that companies comply formally but deviate substantially from codes' recommendations (Khanna, Kogan and Palepu 2006). Future studies may try to address these issues by exploring current governance practices of listed companies around the world (e.g. see Zattoni et al., 2017 for the investigation of board independence in a global sample of IPO companies).

Third, our study develops an index of good board practices built on established recommendations advanced by governance scholars and practitioners. While we did not use the index to predict firm value or performance, but to compare the strength of national best practices on boards of directors, we acknowledge that corporate governance indices are imperfect measures of an abstract and latent concept of good governance (Black et al., 2017). We tried to limit the potential concerns related to the construct validity of our governance index by focusing on one single governance mechanism – so to avoid to analyze the complex and multiple interactions among them (Ward, Brown, Rodriguez, 2009) - and building on established recommendations advanced by governance scholars to improve board effectiveness (e.g. Forbes and Milliken, 1999; Roberts, McNulty and Stiles, 2005). That being said, we acknowledge that our index may suffer of construct validity issues and we invite future studies to empirically address if these board practices measure good governance, and so may foster firm value creation or performance.

Conclusion

Our study analyzed national antecedents of best practices recommendations related to boards of directors. Our results show that several country-level variables – i.e. legal tradition, EU membership, board model and ownership concentration - affect codes' content and the strength of the national best practices. Our empirical evidence suggests that the most important drivers of best practices are legal tradition and ownership structure, i.e. common

law and dispersed ownership countries tend to promote stronger board practices than civil law and ownership concentrated countries. These findings expand our understanding of board practices around the world and provide further support to the idea that there is a strong interplay between legal tradition, ownership structure and corporate governance practices.

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Table 1. Most recent codes worldwide per country

Country	Year of last code	Last code
Australia	2014	Corporate Governance Principles and Recommendations
Austria	2015	Austrian Code of Corporate Governance
Belgium	2009	The Belgian Code on Corporate Governance
Brazil	2015	Code of Best Practices of Corporate Governance
Canada	2005	Corporate Governance Guidelines
Cina	2002	Code of Corporate Governance for Listed Companies in China
Cyprus	2012	Corporate Governance Code
Czech Republic	2004	Corporate Governance Code based on the OECD Principles
Denmark	2017	Recommendations on Corporate Governance
Finland	2015	Finnish Corporate Governance Code
France	2016	Corporate Governance Code of Listed Corporations
Germany	2017	German Corporate Governance Code
Greece	2013	Hellenic Corporate Governance Code For Listed Companies
Hong Kong	2011	On Review of the Corporate Governance Code and Associated Listing Rules
Hungary	2012	Corporate Governance Recommendations
India	2009	Corporate Governance Voluntary Guidelines
Indonesia	2006	Code of Good Corporate Governance
Ireland	2016	The Irish Corporate Governance Annex
Italy	2015	Corporate Governance Code
Japan	2015	Corporate Governance Code
Kenya	2014	Code of Corporate Governance Practices for Public Listed Companies in Kenya
korea	2003	Code of Best Practices for Corporate Governance
Lithuania	2010	The Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius
Malaysia	2017	Malaysian Code on Corporate Governance
Malta	2005	Code of Principles of Good Corporate Governance
New Zealand	2017	NZX Corporate Governance Code
Norway	2014	The Norwegian Code of Practice for Corporate Governance
Pakistan	2012	Code of Corporate Governance
Poland	2016	Best Practice for GPW Listed Companies
Portugal	2018	Corporate Governance Code
Russia	2014	Russian Code of Corporate Governance
Singapore	2012	Code of Corporate Governance
Slovakia	2008	Corporate Governance code for Slovakia
Slovenia	2016	Slovenian Corporate Governance Code for Listed Companies
South Africa	2016	King Report on Corporate Governance for South Africa (King IV Report)
Spain	2015	Good Governance Code of Listed Companies
Sweden	2015	The Swedish Corporate Governance Code
Switzerland	2016	Swiss code of best practice for corporate governance
Taiwan	2016	Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
Thailand	2017	Corporate Governance Code for listed companies
The Netherlands	2016	The Dutch Corporate Governance Code
Turkey	2014	II-17.1 Communiqué on Corporate Governance
UK	2016	The UK Corporate Governance Code
USA	2012	Principles of Corporate Governance

Table 2. Board Index Variables Definitions

<i>Board</i>	<i>Variable</i>	<i>Definition</i>
<i>Composition</i>	<i>Board size</i>	Invitation to a proper board size = 1, otherwise = 0
	<i>Board independence</i>	>50% independent directors = 1, otherwise = 0
	<i>Board diversity</i>	Encouragement to increase diversity = 1, otherwise = 0
	<i>Board composition</i>	Sum of: Board size, Board independence, Board diversity
<i>Structure</i>	<i>Board leadership</i>	<i>Separation of Chair and CEO</i> = 1, otherwise = 0
	<i>Lead independent</i>	<i>Chair is an outside director or Outside lead director</i> = 1, otherwise = 0
	<i>Rem Independence</i> <i>Comm.</i>	Only independent = 1, otherwise = 0
	<i>Nom. Independence</i> <i>Comm.</i>	Only independent = 1, otherwise = 0
	<i>Audit Independence</i> <i>Comm.</i>	Only independent = 1, otherwise = 0
	<i>Board structure</i>	Sum of: Board leadership, Lead independent, RC independence, NC independence, AC independence
<i>Processes</i>	<i>Board meetings</i>	At least 4 meetings = 1, otherwise = 0
	<i>Meetings independent</i>	At least 1 meeting with only independent directors = 1, otherwise = 0
	<i>Information</i>	Info in advance = 1, otherwise = 0
	<i>Board induction</i>	Induction new members = 1, otherwise = 0
	<i>Board continuous training</i>	Continuous induction = 1, otherwise = 0
	<i>Board evaluation</i>	Annual evaluation of the board and directors = 1, otherwise = 0
	<i>Board external evaluation</i>	External evaluation = 1, otherwise = 0
	<i>Board processes</i>	Sum of: Board meetings, Meetings independent, Information, Board induction, Board continuous training, Board evaluation, Board external evaluation

Table 3 Descriptive statistics

<i>Board</i>	<i>Variable</i>	<i>N</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Dev.</i>
<i>Composition</i>	<i>Board size</i>	44	0	1	0.61	0.49
	<i>Board independence</i>	44	0	1	0.36	0.49
	<i>Board diversity</i>	44	0	1	0.79	0.41
	<i>Board composition (total)</i>	44	0	3	1.77	0.86
<i>Structure</i>	<i>Board leadership</i>	44	0	1	0.82	0.39
	<i>Lead independent</i>	44	0	1	0.59	0.50
	<i>Rem. Comm. Independence</i>	44	0	1	0.25	0.44
	<i>Nom. Comm. Independence</i>	44	0	1	0.09	0.29
	<i>Audit Comm. Independence</i>	44	0	1	0.39	0.49
	<i>Board structure (total)</i>	44	0	5	2.14	1.34
<i>Processes</i>	<i>Board meetings</i>	44	0	1	0.59	0.50
	<i>Meetings independent</i>	44	0	1	0.18	0.39
	<i>Information</i>	44	0	1	0.89	0.32
	<i>Board induction</i>	44	0	1	0.75	0.44
	<i>Board continuous training</i>	44	0	1	0.77	0.42
	<i>Board evaluation</i>	44	0	1	0.64	0.49
	<i>Board external evaluation</i>	44	0	1	0.39	0.49
	<i>Board processes (total)</i>	44	0	7	4.20	1.59

Table 4 Board index *t* tests for difference-of-means

	<i>Common law</i>	<i>Civil law</i>	<i>EU</i>	<i>Non-EU</i>	<i>One-tier</i>	<i>Two-tier</i>	<i>Concentrated ownership</i>	<i>Dispersed ownership</i>
Board size	0.6 (.13)	0.62 (.09)	0.54 (.11)	0.68 (.10)	0.66 (.08)	0.5 (.15)	0.57 (.09)	0.69 (.12)
Board independence	0.60* (.13)	0.24* (.08)	0.41 (.11)	0.32 (.10)	0.34 (.08)	0.42 (.15)	0.14*** (.07)	0.75*** (.11)
Board diversity	0.87 (.09)	0.76 (.08)	0.86 (.07)	0.73 (.10)	0.87* (.06)	0.58* (.15)	0.75 (.83)	0.87 (.85)
<i>Board composition</i>	2.07 (.25)	1.62 (.14)	1.82 (.17)	1.73 (.20)	1.87 (.15)	1.5 (.26)	1.46*** (.13)	2.31*** (.22)
Board leadership	0.93 (.07)	0.76 (.08)	0.82 (.08)	0.82 (.08)	0.81 (.07)	0.83 (.11)	0.79 (.08)	0.87 (.08)
Lead independent	0.8* (.11)	0.48* (.09)	0.59 (.11)	0.59 (.11)	0.56 (.09)	0.67 (.14)	0.46* (.10)	0.81* (.10)
Rem. Comm. Independence	0.33 (.13)	0.21 (.08)	0.23 (.09)	0.27 (.10)	0.28 (.08)	0.17 (.11)	0.18 (.07)	0.37 (.12)
Nom. Comm. Independence	0.2† (.11)	0.03† (.03)	0.04 (.04)	0.14 (.07)	0.09 (.05)	0.08 (.08)	0.04† (.06)	0.19† (.10)
Audit Comm. Independence	0.53 (.13)	0.31 (.09)	0.23* (.09)	0.54* (.11)	0.44 (.09)	0.25 (.13)	0.32 (.09)	0.50 (.13)
<i>Board structure</i>	2.8* (.34)	1.79* (.23)	1.91 (.27)	2.36 (.30)	2.19 (.23)	2 (.41)	1.79* (.24)	2.75* (.31)
Board meetings	0.47 (.13)	0.65 (.09)	0.64 (.11)	0.54 (.11)	0.62 (.09)	0.50 (.15)	0.57 (.9)	0.62 (.12)
Meetings independent	0.2 (.11)	0.17 (.07)	0.09 (.06)	0.27 (.10)	0.22 (.07)	0.08 (.08)	0.11† (.06)	0.31† (.12)
Information	0.87 (.09)	0.90 (.06)	0.86 (.07)	0.91 (.06)	0.94† (.04)	0.75† (.13)	0.93 (.05)	0.81 (.10)
Board induction	0.80 (.11)	0.72 (.08)	0.78 (.10)	0.77 (.09)	0.84* (.06)	0.5* (.15)	0.71 (.09)	0.81 (.10)
Board continuous training	0.93† (.07)	0.69† (.09)	0.68 (.10)	0.86 (.07)	0.93† (.06)	0.69† (.15)	0.79 (.08)	0.75 (.11)
Board evaluation	0.80 (.11)	0.55 (.09)	0.5† (.11)	0.77† (.09)	0.66 (.08)	0.58 (.15)	0.54† (.10)	0.81† (.10)
Board external evaluation	0.40 (.13)	0.38 (.09)	0.45 (.11)	0.32 (.10)	0.37 (.09)	0.42 (.15)	0.39 (.09)	0.37 (.12)
<i>Board processes</i>	4.47 (.35)	4.07 (.32)	3.95 (.36)	4.45 (.31)	4.5* (.24)	3.42* (.56)	4.04 (.27)	4.05 (.46)
<i>Board Index</i>	9.33* (.77)	7.48* (.49)	7.68 (.63)	8.54 (.59)	8.56† (.45)	6.92† (.97)	7.29** (.43)	9.56** (.82)
Number of observations	15	29	22	22	32	12	28	16

†p < .10; * p < .05; ** p < .01; *** p < .001. Standard error in parentheses.