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Effects of Environmental and Organizational Factors on Corporate Governance Practices

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Abstract

The management literature provides four different approaches to explain the relationships between groups inside a company: Shareholder Theory, Stakeholder Theory, Agency Theory, Corporate Governance. This paper firstly discusses the theories and subsequently focuses on corporate governance practices. Having investigated the relevant literature, it is concluded that there are some variables that might affect the success of implementation process. These internal and external variables have come together in different ways to create a range of corporate governance systems that reflect specific market structures, legal systems, traditions, regulations, and cultural and societal values. The paper focuses on the effects of corporate culture, firm size and emerging markets and crises on corporate governance practices. It argues that some relationships might exist between design variables of corporate governance application and a firm's internal and external characteristics; there is no one "best" way to apply a corporate governance system. It is concluded that the success of corporate governance depends on the conditions under which it is employed.

Keywords: *Shareholder Theory, Stakeholder Theory, Agency Theory, Corporate Governance*

Introduction

The collapse of Enron and Worldcom in the US and some companies in other countries has led to pressure and resulted in a dramatic increase in corporate governance studies in accounting and auditing research. The reasons for increasing impact of corporate governance include globalization of the economy, removal of trade barriers, capital flows across boundaries, fading the role of Government etc. Influence of local elements on the market is gradually fading away. Pressures on governments and the business sector to improve corporate governance arrangements have increased frequently in the context of the failure of large companies and particularly marked instances of corporate fraud and much the same has taken place since 2000. Corporate governance issues have also come to the fore recently in fully or partially state-owned companies in Europe and in Australia. In some cases, governments have pursued their own objectives regardless of minority shareholders, and control devices such as golden shares have been, at least until recently, important. Therefore, the objective of corporate governance is not only to protect the interests of shareholders but also to fulfill economic and social prosperity.

Governments are becoming aware that just as public governance, corporate governance is important in private sector as well. Moreover, countries also realize that good governance of firms has impact on competitive advantage and it is crucial for economic and social development. Corporate governance practices are critical not only to attract long–term patient foreign capital, but especially to broaden and deepen local capital markets by attracting local investors. Unlike international investors who can diversify their risks, domestic investors are often captive to the system and face greater risks, particularly in an environment that is opaque and that does not protect the rights of minority shareholders. Domestic investors as a group, however, frequently constitute a large potential pool of stable long–term resources critical to development. If local capital markets are to grow, corporate governance standards will need to improve to give investors the protection required to encourage them to provide capital.

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The first aim of this paper is to review the different management approaches. Even though the literature provides a number of studies supporting corporate governance concept, this paper argues that some internal and external variables may affect corporate governance implementation and its performance. The main aim of the paper is to note the variables that have influence on the implementation process. The purpose of the paper is not to argue whether corporate governance practices are worthwhile or not. In the line with contingency theory, it would seem reasonable to note that the success of corporate governance implementations in corporations is affected by internal and external environments. It is expected that the success of corporate governance depends on the conditions under which it is employed.

Alternative Views

In order to understand corporate governance concept, a simple question should be answered: who owns the company? The answer to this question is not clear in the management literature. The corporate system consists of three functional groups: shareholders, workers and managers. Someone may argue that shareholders own the company. However, this argument gives us little explanation about complex corporate governance relationships. Kay and Silberston (1995: 87) noted that:

> *"When I tell you that I own my house, you will infer that I decide who may enter it or live in it, and who not; that I determine how it will be furnished and decorated; and that I have the right to dispose of all or part of it and keep the proceeds for my own benefit. When I buy a share in BT [British Telecom] I enjoy none of these rights in relation to BT, except a limited version of the last."*

This is really the essence of the problem, particularly in the case of small shareholders. Over the years, theoretical boundaries of the corporate governance have expanded on the issues like relationship management between the different constituents of the corporate.

The literature generally assumes that by managing the principal-agency problem between shareholders and managers, firms will operate more efficiently and perform better. Much of corporate governance research is based on a universal model outlined by principal-agent theory (Fama & Jensen, 1983), and the central premise of this framework is that shareholders and managers have different access to firm-specific information and have broadly divergent interests and risk preferences. As a result, managers as agents of shareholders (principals) can engage in self-serving behavior that may be detrimental to shareholders' wealth maximization. Most literature is based on this straightforward premise and suggests that, to constrain managerial opportunism, shareholders may use a diverse range of corporate governance mechanisms, including various equity-based managerial incentives that align the interests of agents and principals.

In order to appreciate how theorists have tried to make sense of corporate governance issues, we can refer to widely discussed 'theories' commonly used in an attempt to understand how corporations are governed. The management literature provides four different approaches. The first approach is called shareholder theory. The second approach is referred to as stakeholder theory. The third approach is often called principal–agent theory (or agency theory). Finally, the latest approach is referred to as corporate governance. In the following section of the study, these approaches will be discussed briefly.

Shareholder Theory

A long time ago, Berle and Means (1932) celebrated the decline of family ownership and the rise of salaried managers. Berle and Means text may have discovered the separation of ownership and control but did not anticipate agency theory. Berle and Means in the 1930s envisaged a kind of stakeholder firm whose technocratic managers would not serve shareholders but 'balance a variety of claims by various groups in the community' (1932: 312). As for Berle in the 1950s and after, Berle believed that unionism, anti trust legislation and such had socialised corporations in ways that proved that they could be 'checked by public conscience and disciplined by political intervention' (Berle, 1960: 157). Coase (1937), a proponent of the shareholder theory, argues that the firm emerges from the economically rational choices of business decision makers who seek to escape the transaction costs of the price system. Rather than hiring each laborer with a new contract for each day, a worker is brought into a matrix as an employee under the conditions of a long-term contract. The matrix is what we know as the firm. As Coase (1937: 393) describes it, "a firm consists of the system of relations [contracts] which comes into existence when the direction of re

sources is dependent on an entrepreneur, [who is] the person or persons who, in a competitive system, takes the place of the price mechanism in the direction of resources." The firm, then, is a closed market where factors are exchanged to maximize profits.

Schrenk (2006) noted that in the traditional view, the firm, owned by equity holders, should be governed solely for their benefit, which is to be understood as maximizing their wealth. Equity holders require control in exchange for accepting the lowest claim on the cash flows of the firm, i.e., equity holders are the residual claimants, who receive their payments, only when others have been compensated. By contrast, bond holders (or other stakeholders), are willing to forego control, since their payments are secured by their higher seniority. Therefore as Letza, Sun and Kirkbride (2004: 243) point out, in a traditional shareholding perspective, the corporation can be viewed as a 'legal instrument for shareholders to maximize their own interests – investment returns'.

Agency Theory

Against shareholder view, agency theory points out that, in practice, the right to call managers to account is normally vested in shareholders alone. In a company limited by share capital, only the shareholders have the residual claim upon the surplus from production, in the sense that all other stakeholders with legal claims on the enterprise (employees, trade creditors, banks) have fixed or determinate rights to a particular flow of income, as defined by the contracts which they have entered into with the company. Thus only equity investors face both a downside and an upside risk. Even if shareholders do not own the company, ownership of shares confers upon them the right, exclusively of all the stakeholder groups, to hold directors and managers accountable. (Deakin, 2005)

At its most basic level, the agency theory is concerned with problems that can arise in any cooperative exchange when one party (the 'principals') contracts with another (the 'agents') to make decisions on behalf of the principals (Fama & Jensen, 1983). However, contracts tend to be incomplete and subject to hazard because of the nature of people (self-interest, bounded rationality, risk aversion), organizations (e.g., goal conflict among members), and the fact that information in organizations is typically distributed asymmetrically, making it costly for principals to know what agents actually accomplished. Agency problems develop because agents can hide information and/or take actions that favor their own interests. This gives principal incentive to invest in monitoring and incentives, and agents reason to postperformance bonds as a protection against potential losses.

The mainstream argument in the agency theory puts a premium on the monitoring function and effectiveness of external governance to prevent the opportunistic behaviour of management. According to a study by Dalton et al. (1998), there is no statistically significant relationship between board independence and corporate performance. Separation of the board chairmanship and the CEO position is not associated with better corporate results, nor is board independence, however it may be defined. In fact, a larger, not smaller, board size is conducive to better performance (Dalton and Daily, 2000).

The underlying assumption of this theory is that executives are rational individuals who make decisions that are in their own self-interests and a conflict arises when their interests are not aligned with shareholder interests. The loss in shareholder wealth arising from this conflict is considered to be an agency cost. According to Wearing (2005), agency costs are incurred, which include monitoring costs incurred by the principal, bonding costs incurred by the agent, and reductions in welfare resulting from decisions taken by the agent which are not consistent with the maximisation of the principal's welfare.

Stakeholder Theory

Some may argue that the principal–agent model and the shareholder theory appear to focus exclusively on the interests of shareholders. Freeman (1984) stated that the company exists for the aim of serving its stakeholders. A stakeholder, according to this point of view, is one who has an interest in the enterprise which is at risk it if fails. Stakeholders include management, shareholders, employees, customers, community, suppliers and competitors (Grant, 2003). Charron (2007) noted that stakeholder theory critiqued the idea of corporate profits, rejected stockholder ownership and advanced the idea of the firm as a social institution. Supporters of the stakeholder theory argued that managers place shareholders interests over stakeholders. Some academics argue that shareholders are considered as investors who are a distinct group, they are said to own the firm's residual earnings. Blair (1995: 13) argued that 'what is optimal

for shareholders often is not optimal for the rest of society. That is, the corporate policies that generate the most wealth for shareholders may not be the policies that generate the greatest total social wealth'. This leads us on to a consideration of the stakeholder theory, which stands in direct contrast to the principal–agent theory. Whereas the principal–agent theory has an underlying assumption that profit maximization is the main motivation for a company's strategy and tactics, the stakeholder theory instead stresses the importance of all parties who are affected, either directly or indirectly, by a firm's operations.

Donaldson and Preston (1995) focus on the growing debate in the academic and professional management literature over the role of stakeholders, and argue that normative concerns provide a critical underpinning for stakeholder theory. In other words, the stakeholder theory is a theory about what should be, and not necessarily what is. This is an interesting point, since it seems plausible to argue that the shareholder theory has evolved out of financial economics, using conventional 'positive' analysis, whereas the stakeholder theory is more strongly embedded in a tradition of the moral and philosophical rights of stakeholders. The efficiency argument is perhaps easier to differentiate the theories, but it should be noted that both the shareholder theory and the stakeholder theory have normative elements.

Corporate Governance

Corporate governance refers to those administrative monitoring and incentive mechanisms that are intended to reduce conflicts among organizational actors due to differences in incentives. Said differently, governance entails the structuring of rights and responsibilities of a firm's different stakeholders (Lubatkin et.al., 2007). Mantysaari (2005) states that there is no particular definition of corporate governance. Corporate governance is a flexible term covering a vast number of questions related to systems by which the activities of companies, company representatives and company stakeholders are directed and controlled. Major literatures on corporate governance until today have carried forward discussion only on board structure, power and function and more precisely the agency problem. In all leading jurisdictions, board in present corporate structure is the principal organ. The managerial power of the company is vested in the board and for that matter all powers of the company except those, which are especially reserved with the general meeting by the Act or the Article of the Association or any other relevant instrument. So, the power of the board is equal to the power of the company. The company is entitled to the benefit of collective wisdom of board of directors. And the board is collectively responsible to the company (Dube, 2011).

Even though there is no particular definition of corporate governance, there are some principles concerning the issue (Iskander and Chamlou 2000):

Fairness: protecting shareholder rights and ensuring the enforceability of contracts with resource providers.

Transparency: requiring timely disclosure of adequate information on corporate financial performance.

Accountability: clarifying governance roles and responsibilities and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by a board of directors—or in certain nations, a board of auditors—with some independent members.

Responsibility: ensuring corporate compliance with the other laws and regulations that reflect society's values, including a broad sensitivity to the objectives of the society in which corporations operate.

According to Yoshimori (2005), corporate governance revolves around the answer to the following questions:

1. Who holds sovereign power in the firm? – The Sovereign.

2. Which stakeholder makes the crucial contribution to the maximisation of value for the sovereign? – The Key Stakeholder.

3. Who monitors the CEO to evaluate their performance in achieving the above goal? – The Monitoring Mechanism.

4. How should the CEO be rewarded or sanctioned for their performance? – The Incentive System for the CEO.

Iskander and Chamlou (2000) argue that corporate governance is necessary, as the interests of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. The problem, commonly referred to as a

principal–agent problem, grows out of the separation of ownership and control and of corporate outsiders and insiders. In the absence of the protections that good governance supplies, asymmetries of information and difficulties of monitoring mean that capital providers who lack control over the corporation will find it risky and costly to protect themselves from the opportunistic behavior of managers or controlling shareholders.

Without meaningful protection for external capital providers, those who control the corporation can use their position to misappropriate economic benefits, often at the expense of the long–term performance and value of the enterprise. Where poor corporate governance is the norm, the problem extends beyond underperformance in the corporate sector to greater vulnerability of the financial system, since it is difficult for local capital providers (banks and institutional investors) to avoid governance risks. Lack of meaningful protection for capital providers makes it harder for firms to get financing on favorable terms.

The experience of the Asian crisis that revealed a systemic failure in corporate governance was a spur to the publication by the OECD of its Principles of Corporate Governance in 1999. This framework of principles was endorsed by the World Bank, International Monetary Fund and Asian Development Bank. The OECD stated:

> *"Corporate governance is only part of the larger economic context in which firms operate, which includes, for example, macroeconomic policies, and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory and institutional environment . . . While a multiplicity of factors affect the governance and decision-making processes of firms, and are important to their long term success, the Principles focus on governance problems that result from the separation of ownership and control . . . The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasingly international character of investment. International flows of capital enable companies to access financing from a much larger pool of investors. If countries are to reap the full benefits of the global capital market, and if they are to attract long term "patient" capital, corporate governance arrangements must be credible and well-understood across borders. Even if corporations do not rely primarily on foreign sources of capital, adherence to good corporate governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing." (1999, p. 2)*

Economists, legal theorists and accountants who argue that liquid stock markets are the most efficient way to allocate capital and who want legal restrictions torn down, usually adhere to the narrow view (Jensen 2000). Moreover, as the notion of efficiency suggests, they generally rely on 'one best way' that is a close look-alike of the American institutions of corporate governance. On the other hand, it is argued by some academics that there is no 'one best way', but rather several 'functionally equivalent' ways to solve coordination, information and enforcement problems, implying that there are many 'varieties of capitalism' instead of one self-enclosed capitalist system (Immergut 1998; Thelen 1999). Such studies reveal that there might be a convergence problem of corporate governance practices. Moreover Yoshimori (2005) argues whether corporate governance really assures sustainable corporate profitability and therefore higher returns for the shareholders, the central goal of corporate governance in the United States. It seems that even though corporate governance practices are widely approved, there might be some shortcomings. The main problem with corporate governance is well summarised by Allen Sykes (Sykes, 2000):

> *"The essence of any system of governance is that those to whom major powers are entrusted must be accountable to those whom they serve. British corporate governance fails this test . . . Management are not effectively accountable either to individual shareholders (20%) or to financial institutions and fund managers etc (80%) who are the intermediary agents of the ultimate shareholders. Nor, in turn, are these intermediaries effectively accountable to the ultimate shareholders, the individuals who are pension fund members, policyholders, etc.' As a consequence 'managements are essentially self-governing and self-perpetuating. Most governance power has passed to executive directors, particularly chairmen and chief executive officers. The latter effectively choose the non-executive directors, largely from their peers in other companies . . . They also choose the auditors, the consultants*

for the executive remuneration committees, and the fund managers for the corporate pension schemes which now own over a quarter of all equities. This represents an unprecedented concentration of power in the hands of the very few, with the top 100 companies representing 77% of the value of all quoted companies. Inescapably this . . . has led to widely recognised abuses by executive directors, too often huge remuneration packages poorly related to performance and to takeovers and mergers frequently driven by managements' motives rather than shareholders' interests. The remuneration of managements, in a large part by share options, is a one-way bet, allowing them to share in shareholder success at no financial risk. All this is not efficient free market capitalism" (Sykes, 2000: 3).

Aguilera et.al. (2008) pointed to corporate governance's "undercontextualized" nature and hence its inability to accurately compare and explain the diversity of its arrangements across different organizational and institutional contexts. Similarly, much of the resulting policy prescriptions enshrined in codes of "good" corporate governance rely on universal notions of best practice, which often need to be adapted to the local contexts of firms or translated across diverse national institutional settings. As far as the literature about corporate governance is concerned, there are some variables that might affect the success of implementation process. These internal and external variables have come together in different ways to create a range of corporate governance systems that reflect specific market structures, legal systems, traditions, regulations, and cultural and societal values. The systems may vary by country and sector and even for the same corporation over time. But they affect the agility, efficiency, and profitability of all corporations. Among the most prominent systems of corporate governance in developed countries are the U.S. and U.K. models, which focus on dispersed controls, and the German and Japanese models, which reflect a more concentrated ownership structure.

Environmental and Organizational Factors

A variety of factors affecting corporate governance practices adopted by companies have been identified in the literature. These factors might include the capital markets, economy, corporate culture and size of the firm. The mentioning factors can be divided into two main groups namely environmental and organizational factors. This paper focuses on the possible effects of emerging markets, crises, corporate culture, and firm size. While environmental factors consist of operating in emerging markets and crises, organizational factors include corporate culture and firm size. The argument of this section is inferred from the contingency perspective. As well-known contingency theory assumes that "there is no one way to organize". Extending this assumption to corporate governance field is rooted in the concept of matching organizational factors with the corresponding environment. The reason for taken these factors into consideration is that they may provide a clear understanding why in some circumstances corporate governance practices do not improve firm performance. The literature provides that operating in emerging markets, crises, corporate culture, and firm size may affect corporate governance practices (Wallace and Gernon, 1991). Of course, there might be some other factors affecting this process. Although theoretically possible, this study does not argue the relationship between corporate governance practices and other possible variables since it is beyond the scope. These arguments will be left to the future research.

Emerging Markets

Despite the diversity of corporate governance systems, the globalization of markets is producing a degree of convergence in actual operations and governance practices. Countries and firms compete on the price and quality of their goods and services. They compete for financial resources in global capital markets. Increasingly, they also compete on their regimes for corporate governance. These global market pressures are providing the impetus for private corporations to harmonize corporate governance practices—to reduce risk to investors and hold down the cost of capital to corporations. This case is much clear in emergent markets. Therefore, it can be argued that the most common reason for the appearance of governance on the agenda of emerging economies is the need to attract foreign investment. In addition, Solomon et al. (2002, p. 29) note a convergence of governance reforms within different countries:

"A general trend towards global compromise in corporate governance appears to be taking place. The concept of a global compromise implies that we can expect countries with different types of corporate governance systems to initiate reform with the overall aim of harmonising corporate governance systems worldwide. The eventual outcome should be a global framework of corporate governance rather than a collection of differing, competing and often conflicting systems."

However, the findings show that corporate governance practices are well behind what they are expected in emerging markets. For instance, corporate governance practices in Cyprus indicate that the majority of Cypriot companies have a long way to go before they achieve international (Anglo-Saxon) benchmarks of good corporate governance (Krambia-Kapardis and Psaros, 2006). There is no doubt that most developing countries (including Cyprus) have unique cultural, legal and economic characteristics. Further, these should be reflected in the individual corporate governance systems of the respective countries. Indeed, Solomon et al. (2002) note that the OECD emphasises the need to recognise the different cultural, legal and economic characteristics and how these have engendered the individual corporate governance systems of each country.

Crises

Another environmental factor argued in this paper is crisis. Corporate governance applications first appeared after the emergence of the Asian crises, but is it possible to apply corporate governance practices in such environments? Corporate governance suggests that decisions are made through the involvement of all possible stakeholders. Knell (2006) argues that corporate governance practices are time consuming and there is considerable amount of time involved in setting up the structures. Involvement of different groups may create some political activities and subsequently may create negative effects in organizations. It seems that such practices require organizational goals defined through political activities among shareholders. Allison (1971) argued that "incompatible constraints are attended to sequentially, the organization satisfying one simply neglecting another" (p: 92). There is therefore almost an explicit struggle among groups for acceptance of their own constraints. Mazzolini (1981) argued that since an organization's goals seem to develop from constraints laid down by component organizational groups and individuals, the organization's goal generally covers only the demands of that specific group or individual. Mintzberg (1990) implied that since political activities take time to solve problems, an organization in crises may be better off with a forceful leader who already has a strategic vision. To conclude, involvement of all possible stakeholder processes in crisis may create obstacles to the firm, consequently, produce negative effects in performance by postponing decisions. Corporate governance practices may result in better conclusions in stable environments.

Corporate Culture

Monks and Minow (2004) argued that there are fundamental differences in underlying assumptions that limit structural convergence. Some countries, including the US, base their systems on an agent-principal approach, with creation of shareholder value as the primary focus of a company's strategy. US corporate governance is understood as having shareholders as the central stakeholder, and monitoring within the US board structure involves a relatively small board, a dominant number of outside directors, and institutionalisation of board committees. Others take a stakeholder approach, concerned with the entire network of relations, including employees, customers, suppliers, and the community. A more technical but equally pervasive dichotomy exists between the "principles-based" accounting of the EU vs. "rules-based" accounting principles in the US. Monks and Minow (2004) also noted that the UK and the US have similar investment markets and share a broadly common approach to governance issues. For instance, according to Iskander and Chamlou (2000) the Anglo-American corporate governance system incorporates institutional and market mechanisms to narrow the divergence of interests between shareholders and management. However, there are still major differences in some fundamental points between UK and US implementations such as, Board structure, Chairman/chief executive, Executive pay, Takeover defenses. Having identified the differences, an important question should be answered. If such fundamental differences are apparent in such seemingly similar markets as the US and the UK, what chance is there for convergence among markets that are wildly different? Between the bank-dominated market of Germany and the family-firm Italian model? Between the conglomerate-dominated South Korean markets and the Japanese keiretsu? The Table 1 summarizes some differences between developed countries.

Table 1. Some differences in Corporate Governance Structures

	United States	United Kingdom	Germany	Japan
Board of directors	One board per company	One board per company	Two−tier (supervisory and executive) with labor represented in the supervisory tier	One board per company
Separation of debt and equity	Strictly separated by law and practice	No legal separation, but much in practice	Not separated by law; combined debt−equity positions exist	Separated by law; in fact, considerable interlinked debt−equity positions

Source: Prowse (1998)

For instance Yoshimori (2005) underlines that Japanese corporate governance is understood as having employees as a central stakeholder, with a large board, a small minority of outside directors if any, and rarely board committees. He reasoned that by comparing two pairs of firms, corporate governance plays a relatively limited role in long-term corporate performance. Other factors, namely corporate mission, ethics, culture and strategy, strike one as equally or perhaps more important factors for success.

It might be argued that the traditions of a nation are instilled in its people and as such may help explain why things are as they are. It might be further suggested that the use of 'national character' (perceived as psychological traits, modal personality, basic personality structure, systems of attitudes, values and beliefs held in common, behavioural characteristics, cultural products, such as philosophy of a nation) might explain differences in corporate governance practices. As such, the cultural theory proposed by Hofstede (1987) provides a good foundation to incorporate culture as one of the explanatory variables in disclosure studies. Therefore, it seems reasonable to suggest that the success of corporate governance practices may depend on corporate culture.

Size

Another organizational variable discussed in this paper is organizational size. Blau (1970) suggested that increased size leads to structural differentiation within organizations, and that structural differentiation in turn affects the size of an organization's administrative component. It is argued that there are some differences between the governance of small firms and larger firms (Forbes and Milliken, 1999; Davies, 1999). As far as boards of small firms are concerned, they include smaller board size and greater ownership concentration, often associated with higher representation of shareholders as directors and, conversely, the absence of the usual control function of the board where shareholder rights and managerial responsibilities reside solely in the owner. Moreover, Davies (1999) notes that executive directors of small companies are likely to be more closely involved in daily management and operational decisions because smaller companies rarely have a full range of competences, especially those required for longer-term survival such as strategic, financial, legal and other intermittently required skills. Also one characteristic of boards of small firms is the availability of a greater range and depth of service activities and a stronger link between the board's service contributions and organisation's performance. In addition, the board's knowledge and skill mix may be a critical component in its own ability to add value to the small firm, where managers may be entrepreneurial and comparatively inexperienced in professional management (Davies, 1999; Forbes and Milliken, 1999).

Another issue with respect to firm size was raised by Krambia-Kapardis and Psaros (2006). They expect that larger companies were more likely to be more sensitive to corporate governance than smaller companies. They illustrated some results in their study. Of the 160 companies listed on the Cyprus Stock Exchange at 31 December 2002, 29 per cent were corporate governance sensitive. However, the market value of these companies on 31 December 2002 constituted 64 per cent of the total market capitalisation of the Cyprus Stock Exchange. In addition, for 7 of the 11 industries, the percentage of the market capitalisation for the corporate governance sensitive companies was greater than the percentage of the corporate governance companies within the industry. Notwithstanding the above results, a large part of this "size finding" is due to the relative size of three large banking corporations that were corporate governance sensitive. The market capitali-

sation of these three companies is £CY 1,148,362,070 which equates to approximately 42 per cent of the total market capitalisation of the Cyprus Stock Exchange. Another study (Sonmez and Toksoy, 2011) noted that family companies operating in Turkey may not possibly implement and understand corporate governance practices. Moreover, they argue that in small family businesses, the Turkish culture and society may not allow companies to establish partnerships and comply with corporate governance principles such as equality, transparency and accountability that are the foundation of corporate governance.

Even though above studies highlight some differences between firms considering size, some studies point out that there is no big difference between them. For instance, Kaptein (2004) argued that many large companies issue a business code, sometimes described as a corporate code of ethics or a code of conduct. He reveals that the existence of a code does not necessarily mean that a company will adhere to it, although its contents will at least indicate what kind of ethics the company claims to uphold. Nevertheless, there are those who believe that corporate governance can be enhanced through wider disclosure of its ethical policies.

This paper suggests that large companies are more likely to implement corporate governance practices, whereas small family companies apply less. The reason for such an argument results from, as argued above, small companies' board size and their structure. Boards' knowledge and skills are not sufficient and they are generally involved in daily management and operational decisions.

Conclusion

It is argued that companies need to be convinced that good corporate governance can add value to all kind of organizations including smaller or family-oriented organisations. In this respect the comments of the Secretary General of the OECD, Donald Johnston, are particularly pertinent. OECD (2003, p. 3):

> *"Good corporate governance is now widely recognised as essential for establishing an attractive investment climate characterised by competitive companies and efficient financial markets. Good corporate governance is also critical to economies with extensive family business ownership because of its role in facilitating management succession and promoting entrepreneurship."*

Even though corporate governance practices are well supported by international organizations such as World Bank or OECD, there is still a controversy whether corporate governance practices result in firm performance. It seems that the success of corporate governance depends on some variables. The argument of this paper is derived from the contingency perspective arguing that "there is no one way to organize". This assumption can be transferred corporate governance field. The literature provides that operating in emerging markets, crises, corporate culture, and firm size may affect corporate governance practices (Wallace and Gernon, 1991).

As noted earlier, this research initially provides a review of four alternative management theories. It also focuses on how environmental and intraorganizational variables affect corporate governance practices. Far from being comprehensive, this study draws attention to environmental and organizational interdependencies of corporate governance.

This study argues that corporate governance practices are well behind what are expected in emerging markets. The companies operating in emerging markets struggle with the economic environment and regulations applied by the governments. Therefore, it is not possible to suggest a degree of convergence in actual operations and governance practices all over the world. While corporate governance principles accepted by world-wide institutions might be suitable for companies operating in developed markets, they might create some implementation problems for the firms in emergent markets. It is expected that the market in which a firm operates might be a contingent for the success of implementation process.

It is suggested that decisions are made through the involvement of all possible stakeholders in corporate governance practices. However involvement of all possible stakeholders in the decision-making process may create obstacles to the firm, and consequently, produce negative effects in performance by postponing decisions. It might be argued that firms need quick decisions in crisis times. Therefore, corporate governance practices may slow down firms in terms of taking actions in crises times. Instead of involvement of all possible participants, decisions might be made a forceful leader during crises time. It might be concluded that the success of corporate governance implications might depend on whether the company goes through a crises time.

This study claims that corporate culture may produce differences in corporate governance practices. It is well acknowledged that countries have different ways of doing business. Corporations are affected by the culture in which they operate. The way of doing business of American companies and Japan companies may differ since the countries vary in terms of culture. Therefore, while global corporate governance principles may be suitable for some countries but not applicable for the others since they differ in terms of culture.

Finally, this paper suggests that large companies are more likely to implement corporate governance practices, whereas small family companies apply less, since boards' knowledge and skills of small companies are not sufficient and they are generally involved in daily management and operational decisions.

It can be noted that some relationships might exist between design variables of corporate governance application and a firm's internal and external characteristics; there is no one "best" way to apply a corporate governance system. Therefore, an overall implication of this study is that academics need to consider a contingency-based framework when discussing the superiority of corporate governance theory. A suggestion for future research is that academics could test the relations between contingency variables and corporate governance practices.

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