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# Guest Editorial

# Taking Stock of Corporate Governance Research While Looking to the Future

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**ABSTRACT**

**Manuscript Type:** Editorial
**Research Question/Issue:** This essay identifies some key issues for the analysis of corporate governance based on the articles within this special review issue coupled with our own perspectives. Our aim in this issue is to distil some research streams in the field and identify opportunities for future research.
**Research Findings/Results:** We summarize the eight papers included in this special issue and briefly highlight their main contributions to the literature which collectively deal with the role and impact of corporate boards, codes of corporate governance, and the globalization of corporate governance systems. In addition to the new insights offered by these reviews, we attempt to offer our own ideas on where future research needs to be targeted.
**Theoretical Implications:** We highlight a number of research themes where future governance research may prove fruitful. This includes taking a more holistic approach to corporate governance issues and developing an inter-disciplinary perspective by building on agency theory while considering the rich new insights offered by complementary theories, such as behavioral theory, institutional theory and the resource-based views of the firm. In particular, future corporate governance research needs to be conducted in multiple countries, particularly in emerging economies, if we want to move closer to the journal's aim of producing a global theory of corporate governance.
**Practical Implications:** Our analysis suggests that analytic and regulatory approaches to corporate governance issues should move from a "one-size-fits-all" template to taking into account organizational, institutional and national contexts.

**Keywords: Corporate Governance, Research, Future of the Field**

## INTRODUCTION

The last decade has witnessed an explosion in both policy and academic research devoted to corporate governance. Corporate governance studies are having an increasing impact on a wide variety of disciplines, including economics, finance, and management (Keasey, Thompson and Wright, 2005). These studies also provide an important influence on the policy-making process informing a number of regulatory initiatives associated with commercial laws and codes of good corporate governance around the world (Filatotchev, Jackson, Gospel, and Allcock, 2007).

We consider corporate governance to be a structure of rights and responsibilities among the parties with a stake in the firm (Aoki, 2001). Effective corporate governance implies mechanisms to ensure that executives respect the rights and interests of company stakeholders, as well as making those stakeholders accountable for acting responsibly with regard to the protection, generation, and distribution of wealth invested in the firm (Lorsch and MacIver, 1989; Aguilera, Filatotchev, Gospel and Jackson, 2008). Such effectiveness may be based on a number of different dimensions of corporate governance, ranging from monitoring and control over managerial discretion to promoting corporate entrepreneurship and innovation.

Underpinning corporate governance are also various policy approaches that aim to improve the effectiveness of corporate governance by regulating managerial power. In a broad sense, corporate governance is about how firms

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should be governed so that they are run effectively and efficiently. For example, Demb and Neubauer (1992) framed corporate governance as the responsibility for firm performance. Good corporate governance ensures that additional resources are allocated sufficiently productively to keep all stakeholders satisfied. By the same token, when resources must be reduced, good governance achieves adequate cost reductions. Whatever the national and international economic conditions, efficient and effective governance enables firms not only to survive but also to generate returns that are sufficient to retain the commitment of salient stakeholders.

A disproportionate share of the empirical literature on corporate governance has been framed in terms of agency theory and has explored links between different corporate governance practices and firm performance. Traditional agency theory emphasizes the role of corporate governance as one of ensuring that the firm operates in the interests of shareholders (Fama and Jensen, 1983), but it assumes an institutional context similar to Anglo-American governance systems. From this perspective, corporate governance focuses exclusively on accountability, in order to minimize downside risks to shareholders, and on enabling management to exercise enterprise, in order to assure that shareholders benefit from the upside potential of firms (Filatotchev and Wright, 2005).

However, the agency perspective, with its exclusive focus on shareholders, is increasingly seen as overly narrow as it does not take into account other stakeholders who may have different interests (Judge, 2009). Additionally, the board's role regarding strategy is often neglected in agency-based studies. The firm may also be viewed as an independent entity, where the role of corporate governance mechanisms is to support what is best for the firm *per se*. The varieties of capitalism literature (Hall and Gingerich, 2001), property rights theory (Alchian and Demsetz, 1972), and the strategy literature (Pfeffer and Salancik, 1978) provide insights in these contexts.

In this guest editorial, we take a broad perspective on corporate governance mechanisms and argue that a more holistic approach to comparative corporate governance provides a better account of the interdependencies of corporate governance practices within diverse managerial and institutional environments. This framework suggests that the corporate governance problems outlined by the agency and shareholder perspectives must be challenged to better capture the patterned variation in corporate governance that results from interdependencies between firms and their environment. Thompson (1967) argues that the focus on universal aspects of organizations is necessary but leads ultimately to a static conceptualization of organizations. Along these lines, recent studies of corporate governance have attempted to explain the dynamic dimensions of corporate governance over the company life cycle (Filatotchev and Wright, 2005), as well as the diversity of corporate governance arrangements across countries and over time (Aguilera and Jackson, 2003). Thus, an important task in international corporate governance research is to uncover the diversity of arrangements and to understand how the effectiveness of corporate governance practices is mediated by their fit or alignment with situational variables (i.e., context) arising in diverse organizational environments.

Consequently, we consider the possible synergies between corporate governance, strategic management, and institutional research in this editorial. We then develop a number of research themes and outline main theoretical elements of the eight papers included in this Special Issue, and draw out their main contributions to the suggested themes. The eight papers use a wide variety of theoretical perspectives, and several integrate more than one theoretical perspective. We group these theoretical perspectives into three main clusters – research on corporate boards, codes of good corporate governance, and globalization of corporate governance – and emphasize the complementarities between them. In the penultimate section, we highlight research themes where future work explicitly addressing governance issues may prove fruitful.

## RECENT TRENDS IN CORPORATE GOVERNANCE RESEARCH

Corporate governance research represents a very dynamic interdisciplinary field of studies that substantially evolved since the seminal publication by Berle and Means (1932). As discussed previously, most of the empirical literature on corporate governance has been rooted in agency theory and is concerned with linking different aspects of corporate governance with firm performance in order to prevent principal-agent conflicts and maximize value for shareholders (principals). The assumption here is that, by managing the principal-agency problem, firms will operate more efficiently and perform better. The central premise of this framework is that managers as agents of shareholders (principals) can engage in self-serving behavior that may be inconsistent with the shareholders' wealth maximization principle.

This relatively simple and straightforward theoretical framework that has been developed by a number of finance scholars was subsequently expanded into a number of important research streams dealing with individual governance practices. The first review paper in this Special Issue, by Boris Durisin and Fulvio Puzone, "Maturation of corporate governance research, 1993–2007: An assessment," provides a comprehensive outline of the evolution of corporate governance research and various areas that have been developed over the last 15 years.

This bibliometric study clearly shows that the research focus of corporate governance studies has shifted from general analysis of principal-agent conflicts and associated agency costs to the nature and role of owners, boards of directors, and the role of outside directors, separation of CEOs and board chairs, executive remuneration, financial reporting, and the market for corporate control. This comprehensive review of a large number of studies in economics, finance, and management fields shows that corporate governance studies have become increasingly specific about governance problems and their potential remedies in modern organizations. For example, boards of directors are responsible for representing the interests of shareholders in the running of the firm through the hiring, monitoring, and replacement of management.

Durisin and Puzone's review of studies on the governance roles of large blockholders indicates managers' and shareholders' interests are more likely to be aligned the greater is the overlap between ownership and management, although high managerial equity ownership can lead to entrenchment behavior. Concentrated ownership can avoid the free-riding problems associated with monitoring in corporations with diffuse shareholdings but may convey private benefits of control that are not in the interests of shareholders as a whole. Financial reporting regimes are especially important for two reasons. On the one hand, they provide the basis for the disclosure of reliable information on which to base governance actions. On the other hand, the increasing involvement of institutional investors and other sources of finance capital mean that firms are increasingly obliged to meet targets for a range of accounting measures, and this has an impact upon firm strategy. Finally, the market for corporate control arguably provides an external governance mechanism involving the threat or actuality of takeover if managers' behavior diverges too far from shareholders' interests.

Despite the considerable and growing research effort, the empirical findings on this causal link between corporate governance factors and firm performance have been mixed and inconclusive. For example, empirical studies of the effects of board composition and ownership structure on financial performance have failed to identify any consistently significant effects (Dalton, Daily, Ellstrand and Johnson, 1998; Dalton, Daily, Johnson and Ellstrand, 1999; Dalton, Daily, Certo, and Roengpitya, 2003). This literature is motivated by the assumption that, by managing the principal-agency problem between shareholders and managers, firms will operate more efficiently and perform better. This "closed system" approach found within agency theory posits a universal set of linkages between corporate governance practices and performance, which devotes little attention to the distinct contexts in which firms are embedded.

Critics of agency theory have pointed out its "under-contextualized" nature and hence its inability to accurately compare and explain the diversity of corporate governance arrangements across different institutional contexts (Aguilera and Jackson, 2003; Filatotchev, Stephan and Jindra, 2008). 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 (Fiss and Zajac, 2004). Stewardship and stakeholder theory remove some restrictive assumptions of the agency approach yet do not provide a comprehensive research framework that links corporate governance with the broader context of different organizational environments. Thus, an important task in corporate governance research is to uncover the diversity of arrangements and to understand how the effectiveness of corporate governance practices is mediated by their fit or alignment with situational variables (i.e., "context") arising in diverse organizational environments.

In response to this problem, a number of more recent corporate governance studies within the economics and management fields have made an attempt to "contextualize" corporate governance research. For example, Aguilera *et al.* (2008) propose that corporate governance research should adopt a more "open-system" approach that treats governance practices as being interdependent with the diversity, fluctuations, and uncertainties of organizational environment, and rejects universalistic "context-free" propositions. The effectiveness of corporate governance practices will depend on threats and opportunities within a particular organizational environment and how stakeholders strategically choose corporate governance practices in dialogue with it. In short, open-systems approaches emphasize the importance of examining corporate governance practices within a holistic context, rather than as single factors acting in isolation. This framework also helps explain why no "one best way" exists to achieve effective corporate governance. Rather, corporate governance arrangements are diverse but exhibit patterned variation across firms, sectors, and countries.

This holistic approach may advance our understanding of the efficiency and effectiveness of different corporate governance practices (e.g., board functions, investor activism) and policies (e.g., corporate governance codes, impact of legal systems), and this is a common theme that cuts across the eight review articles selected for this Special Issue. In the following sections, we discuss the evolution of corporate governance research and the increasing importance of multidisciplinary, holistic studies within a number of important streams in corporate governance field.

## THE GOVERNANCE ROLES OF CORPORATE BOARDS

Research on corporate boards arguably represents the most important area within corporate governance research because the directors' sole responsibility is to assure that a particular firm is well governed. As might be expected, previous studies that examine the impact of board composition on critical decisions have predominantly adopted an agency theory rationale (Jensen and Meckling, 1976). It is therefore argued that, in situations in which there is a conflict of interest between the agents and principals, the former are likely to select self-serving actions at the expense of the latter's welfare (Eisenhardt, 1989). This stream of research identifies situations in which shareholders' and managers' goals are likely to diverge and examines mechanisms that can mitigate managers' self-serving behavior (Shleifer and Vishny, 1997).

Board monitoring has been centrally important in corporate governance research, with boards of directors described as "the apex of the internal control system" (Jensen, 1993: 862). Boards represent the organization's owners and are responsible for ensuring that the organization is managed effectively. Thus, the board is responsible for adopting control mechanisms to ensure that management's behavior and actions are consistent with the interests of the owners. Key duties include the selection and evaluation of top executives, including removal of poorly performing officers, the determination of managerial incentives, and the monitoring and assessment of organizational performance (Dalton *et al.*, 1999). The main driver of these control mechanisms is the board's obligation to ensure that management operates in the interests of the company's shareholders – an obligation that is met by scrutiny, evaluation, and regulation of top management's actions by the board. Different aspects of board composition have been linked with the board's willingness and ability to engage in their monitoring duties (Boyd, 1994).

Beyond shareholders as a subset of stakeholders as a whole, dual-tier boards distinguish between supervisory and executive boards, the former representing a range of stakeholders, e.g., employees and banks. Interlocked directorships may effectively combine firms without formal takeover. Besides share ownership and board representation, stakeholders may influence important firm decisions through a variety of channels, including strikes, political influence, and use of the media.

Despite a substantial body of research on the organizational outcomes of different board configurations, empirical evidence so far is inconclusive (Dalton *et al.*, 1999). Some authors explain this by a lack of attention to organizational context that may affect assumed board–performance relationships. Others argue that previous research puts too much emphasis on monitoring and control functions of board members ignoring other equally important organizational roles of boards (see Filatotchev and Bishop, 2002 for a discussion).

Management research has suggested that boards can extend their involvement beyond monitoring and controlling top management to the provision of ongoing advice and counsel to executive directors on strategic issues (Zahra and Pearce, 1989). Advice and counsel from non-executive directors can broaden the range of strategic options considered by management and help management to identify new strategic opportunities (Pfeffer and Salancik, 1978; Judge and Zeithaml, 1992). Strategy researchers indicate that a board of directors may also play an important role in establishing relationships between the organization and its external environment. Resource dependence theory proposes that organizations are dependent upon resources in the environment for their survival and views directors as instruments, which organizations can use to deal with external dependencies (Pfeffer and Salancik, 1978; Boyd, 1990; Dalton *et al.*, 1999; Hillman and Dalziel, 2003). Directors, in this view, help to secure valuable information and resources, and to provide access to key constituents (Hillman, Cannella and Paetzold, 2000). Again, these roles of boards in regarding to service, strategy, and resources should lead to an improvement in the firm's competitiveness and performance.

A growing number of papers are starting to move away from research on the organizational outcomes of board structure to a greater focus on board processes and functions. This research aims to shed light on a number of relatively under-researched issues that Pettigrew (1992) raised in his study on managerial elites, such as: Why do boards look the way they do? How do particular constellations of human resource assets on the board occur and build up? How does executives' power affect the control relationships between team members and the board? These questions extend discussion beyond the relatively narrow boundaries of agency theory. Indeed, a growing number of studies suggest that the agency framework should be used in conjunction with complementary theories, including behavioral (e.g., Hambrick and Mason, 1984) and socio-cognitive research (Carpenter, Pollock and Leary, 2003) in examining governance-related issues.

These aspects of corporate governance research are addressed in two review papers in this Special Issue. As noted earlier, much of the research on corporate governance has been framed using agency theory. Boards have many responsibilities beyond monitoring and control; however, these broader duties are addressed in the paper "Boards of directors: Contributions to strategy," by Pugliese, Besemer, Zattoni, Huse, Van den Bosch and Volberda. This review article tracks the evolution of research on boards and strategy, reviewing 150 studies published between 1972 and 2007. The content analysis reveals three distinct phases of research and also tracks key design features of these studies over time. Through this extensive review, the authors are able to identify both the strengths of work on this topic, as well as opportunities for advancement. They indicate that board research has evolved along two important dimensions. First, they document a considerable increase in studies looking at board issues outside the US. Second, they show that board research has moved from its narrow focus on agency perspective towards experimenting with different combinations of theories, settings, and sources of data. The authors conclude by emphasizing the need to understand the impact of context on board research at various organizational and institutional levels.

A companion article, "Toward a behavioral theory of boards and governance," by Gabrielsson, Van Ees and Huse makes a similar effort to move the discussion of governance beyond the domain of agency theory in our third review article. This paper draws on Cyert and March (1963) to examine how board members interact to solve complex and ambiguous strategic decisions. This article integrates research on four themes: bounded rationality, satisficing, decision routines, and political bargaining. By combining these research streams in the context of corporate governance, the article emphasizes the pitfalls of assuming that boards are always rational economic actors.

Research on the service role of the board emphasizes that directors may provide support and advice to the CEO otherwise unavailable from other corporate staff (Zahra and Pearce, 1989; Dalton *et al.*, 1999; Hillman and Dalziel, 2003). The effectiveness of these service roles of the board, in turn, depends on the boards' cumulative human capital that is often linked to various board demography characteristics, such as average tenure, professional diversity, or range of educational backgrounds. Boards that are composed of lawyers, financial representatives, top management of other firms, or public affairs specialists may be more effective in terms of bringing important expertise, experience, and skills to facilitate advice and counsel. This research emphasizes that board structural characteristics (e.g., the proportion of independent directors, separate CEO and chairperson) are less relevant compared with the quality of the board's cumulative human capital. Another stream of research links board's human capital with a number of "demographic" factors, such as directors' age and tenure, although empirical evidence linking these factors with performance outcomes is rather limited.

While there are many articles on gender issues in the boardroom, only a minority of articles go beyond descriptive analysis. The article "Women directors on corporate boards" by Terjesen, Sealy and Singh speaks directly to behavioral and cognitive issues. As the authors observe, many studies are rooted in a feminist perspective and descriptively explore why women are so poorly represented on most boards. However, other studies have a broader perspective, and examine the role of gender in board processes, as well as firm and industry effects of gender diversity. The authors indicate that research on women on corporate boards can help to improve corporate governance through better use of the whole talent pool's capital, as well as to develop more inclusive and fairer institutions that better reflect their stakeholders. The paper develops an interesting cross-level model to help better understand these issues and concludes with a number of promising research opportunities.

## GLOBALIZATION OF CORPORATE GOVERNANCE AND NEW PLAYERS

The geographical scope of research on corporate governance has changed dramatically in the last two decades. A review article published nearly 15 years ago concluded that "international research on corporate governance appears surprisingly scarce" (Boyd, Carroll and Howard, 1996: 193). At that time, there were four main impediments to international governance studies. First, data were far more readily available for boards in the US versus those in other nations. This was due to a combination of more stringent reporting standards in the US and the ready availability of SEC filings. Both of these attributes have changed substantially today, because of higher disclosure standards on many exchanges, as well as the proliferation of electronic databases containing board information.

A second impediment was researcher enthnocentrism. A large number of scholarly papers on boards are written by American and British academics – as is this Introduction – and the bulk of papers generally reflected this composition. Today, there is a much broader geographic pool of authors, and the coverage of board topics in different regions has also grown tremendously. A third factor noted by Boyd and colleagues was perceived uniqueness – essentially, this is convergence turned upside down. Given the many differences in board structures and processes in different regions, researchers dedicated more emphasis on studying what they considered unique contexts, as opposed to building models to compare or integrate differences across countries. The inclusion of two papers in this Special Issue that address convergence emphasizes how much this mindset has changed in recent years. The fourth factor hindering international governance research was the interdisciplinary nature of the topic. Governance studies come from an array of domains, including several business-school disciplines, sociology, law, political science, geography, and other areas. The limited overlap between many of these fields has hindered the development of an integrative perspective in corporate governance. One goal of *Corporate Governance: An International Review* (*CGIR*) is to address these gaps via an interdisciplinary focus.

The integration of international capital markets during the last decade has given firms the option to raise equity in foreign markets. In response, an increasing number of foreign firms today make their public equity offers on stock exchanges outside their country of origin (Blass and Yafeh, 2001). While most foreign firms favor listing their stocks in either New York or London, there is little understanding of the governance factors that explain the exchange listing decision of these firms.

A number of authors argue that, apart from cost of capital, overseas listing decisions depends on an "institutional fit" that foreign firms may obtain when issuing shares on a foreign exchange. For example, Hursti and Maula (2007) argue that hi-tech companies prefer large markets or markets where a large number of similar companies are already listed because of the low costs of information transfer. These findings are supported by the evidence of foreign listings of Israeli and Dutch firms provided by Blass and Yafeh (2001), as well as cross-listings of R&D intensive firms by Pagano, Roell and Zechner (2002). Building on the social identity theory, Rao, Davis and Ward (2000) argued that, when selecting their market of listing, firms engage in categorization, identification, and comparisons in their construction of self-image. Organizations therefore may signal their identity through their affiliation with stock exchanges, with the US and the London Stock exchanges offering distinctive competitive images. For example, in terms of public image, NASDAQ and NYSE provide trading platforms for the largest number of leading high-technology companies whose shares enjoy worldwide visibility and liquidity, such as Microsoft and Intel.

The paper, "The effect of cross-listing on corporate governance: A review of the international evidence," by Ferris, Kim, and Noronha in this Special Issue looks at corporate governance drivers of cross-listing decisions. The focus of their article is on foreign firms that choose a dual listing on a US stock exchange. The US-centric emphasis reflects both the historic popularity of the US as a primary and/or secondary exchange, as well as the flurry of firms that chose to delist in the US following passage of the Sarbanes Oxley Act. This article describes both the causes and consequences of a firm's decision to list on multiple exchanges.

In addition to cross-listings, the process of corporate governance globalization is driven by an increasing role of global investors operating across national borders. A set of cross-border owners with distinctive governance characteristics is gaining prominence which, through their acquisition of traditional manufacturing and service organizations, has major implications for future developments in corporate governance. These cross-border owners include private equity (PE) firms, sovereign wealth funds (SWFs), and hedge funds.

Private equity firms have attracted the particularly close attention of academics and practitioners because of their increasing prominence as global investors. Cross-border venture capital (VC) and PE investment raises important governance issues relating to the monitoring of transactions (Wright, Burrows, Ball, Scholes, Meuleman and Amess, 2007). Syndication of investment provides a mechanism for PE firms to select better deals and spread risk, as well as enabling better access to information and involvement for monitoring purposes. Much of this literature has focused on the earlier stage VC end of the market. Such analysis is absent from the PE literature, which is surprising given that cross-border syndication in the buyout end of the PE market is extensive (Wright *et al.*, 2007). There is also a need to examine factors affecting governance effects of PE firms in terms of ownership stakes, use of leverage as a governance device, board presence, board composition, and reporting requirements.

The rise of PE and buyout transactions has become increasingly common on the global business landscape. It is not surprising, then, that there has been a corresponding rise in the scrutiny of these transactions by both the press and various institutions. The review article entitled "Private equity and corporate governance: Retrospect and prospect" by Wright, Amess, Weir, and Gima provides a comprehensive literature review on the governance roles of PE firms.

This article reviews 25 years of academic research on PE. The authors conclude that a corporate governance structure with PE involvement provides incentives to reduce agency problems. In addition, PE contributes to the efficiency of the market for corporate control. Therefore, PE firms play important governance roles in their portfolio companies. One of their key findings is the substantial disconnect between public fears with regard to PE "ruthlessness" in terms of cost cutting and saddling portfolio companies with high level of debt, and empirical results. PE investment is associated with performance gains and not just related to transfers from other stakeholders. However, the authors also observe that there are many gaps in research to date on this topic and provides an agenda to address key omissions, including a need for further theorizing on the heterogeneity of PE types and transactions and the contexts in which they occur.

## CONVERGENCE OF CORPORATE GOVERNANCE SYSTEMS

We premise this Special Issue on the notion that a holistic approach to corporate governance mechanisms can enrich insights into governance effectiveness and efficiency on a company level. However, studies of macro-economic, systemic aspects of corporate governance are equally important. First, the power, influence, and expertise of different stakeholders within the national system of corporate governance have a strong influence on strategic decision making at the firm level. The institutions of corporate governance in a particular country may influence the firm's ability to allocate resources, or the pattern of competitive advantage of the firm. Corporate governance institutions may also erect a barrier to some types of business practices, such as due to differences in the protection of investors or the participation of employees in strategic decisions.

Second, corporate governance institutions in a particular country influence its attractiveness for international investment. These institutions may influence the nature of foreign market entry modes as different corporate governance institutions likely have different implications for the most appropriate and feasible form of control of foreign activities. They may also influence the extent to which the form of market entry can facilitate the transfer of resources from the foreign entrant or its access to new resources (Denis and McConnell, 2005).

In this context, research on codes of "good corporate governance" has become particularly important. The "law and finance" literature has made a substantial advance in recent years in recognizing that there may be substantial institutional differences between countries that may affect their corporate governance regimes (LaPorta, Lopez-de-Silanes, Shleifer and Vishny, 1998). More specifically, this research emphasizes the importance of legal origins in determining cross-national differences in corporate governance and contends that historically based legal traditions have played an important part in shaping the development of financial and corporate governance systems. The literature makes a broad distinction between a number of legal families, largely between common law and civil law traditions. Common law origins have favored strong arrangements for investor protection, greater use of stock market finance, and consequently more dispersed ownership; by contrast, civil law origins have favored less protection for minority shareholders, less reliance on equity finance, and more concentrated forms of ownership.

However, although common law countries may use similar types of law, substantial variation exists in terms of corporate governance regulatory traditions, in particular the importance of so-called "soft law" and self-regulatory arrangements, such as codes. For example, the UK has long tended to supplement legal regulation with a strong tradition of voluntary self-regulation in areas related to listing, takeovers, and accounting. In recent years, this tradition has further gained in importance through the development of a set of codes for corporate governance, which have culminated in the Combined Code on Corporate Governance.

By contrast, the US developed a more extensive body of securities and corporate law at both the federal and state level beginning from the inter-war years. Meanwhile, soft law remains less pronounced than in the UK. The most recent manifestation of the "hard" law approach was the passage of the Sarbanes-Oxley Act in 2002. Hence, despite their common legal origins, the UK and US differ substantially in the relative importance of legal regulation and self-regulation. These differences in approaches to corporate governance regulation and in adopted codes of "good corporate governance" are even more pronounced among other European countries, Japan, and emerging market economies, such as Russia.

Two papers in this Special Issue review literature associated with convergence of national governance systems. While some governance codes were in force as early as the 1970s, the UK's Cadbury Report in 1992 prompted a widespread interest in creating best practice guidelines. Today, there are nearly 200 sets of guidelines spread across a range of countries. The article "Codes of good governance," by Cuervo-Cazurra and Aguilera, examines this phenomenon in detail. Their paper reviews research on the diffusion process for governance codes, including the question of convergence. Additionally, they examine how codes are implemented in different regions, compliance norms and efforts including their "comply or explain" dimension, and the performance implications of these codes. The authors conclude that despite criticism that the codes' voluntary nature limits their ability to improve governance practices, their reviews of emerging literature on codes of good governance suggest that the codes appear to have generally improved the governance standards in countries that have adopted them. The authors also proposed a number of areas for future research.

The next article provides a more comprehensive analysis of the issue raised by Cuervo-Cazurra and Aguilera – the question whether governance systems are becoming more uniform across nations. The paper, "Convergence of corporate governance: Critical review and future directions," by Yoshikawa and Rasheed offers several insights into this controversial topic. This paper covers a wide range of issues including constituent elements of convergence, drivers, and barriers of convergence, and existing empirical evidence that countries move towards or away from convergence. The authors indicate that researchers disagree on most aspects of this phenomenon (whether convergence is desirable or harmful), the determinants of convergence, and even the rate at which governance systems are becoming more homogeneous. This article reviews studies conducted at both the firm and country levels and concludes that convergence is less prevalent than widely believed. The authors argue that local forces, such as institutional embeddedness and politics, may hinder governance changes or create "hybrid" practices. They also present an analytic framework to facilitate future study of this topic.

## DISCUSSION AND FUTURE RESEARCH AGENDA

The eight papers presented in this Special Issue, despite their theoretical and thematic diversity, generally share one common element – their authors have highlighted the importance of "contextual factors" in corporate governance research that is based on different organizational and institutional environments. An important implication of their arguments is that these should not be treated, in methodological or theoretical terms, simply as "control variables" in understanding otherwise universal relationships. Rather, they suggest that theoretical and empirical research should progress to a more context-dependent understanding of corporate governance and that this, in turn, will prove very useful for practitioners and policy makers interested in "applying" corporate governance to particular situations.

The review studies discussed above are in many ways complementary, as they are focused on converging and diverging aspects of corporate governance mechanisms within and outside of the firm. Taken together, they represent a comprehensive overview of the current "state-of-the-art" in corporate governance research and suggest a number of avenues for future studies.

Each review paper provides a call for more holistic, interdisciplinary analysis of various aspects of corporate governance research that urge consideration of the multiple dimensions of corporate governance across a wide range of countries. Traditional corporate governance research has been rooted in the economics and finance fields, and it has its origins in the organizational economics tradition. Coase (1937) was among the first researchers who noted that market exchanges are associated with transaction costs and that the firm would emerge if the costs of organizing these exchanges within an internal hierarchy were lower. Subsequent work by Williamson (1975, 1985) and Klein, Crawford and Alchian (1978) focused on how transactions differ in terms of attributes, such as asset specificity, uncertainty, and frequency. Strange, Filatotchev, Wright and Buck (2009) argue that the transactions cost perspective rests on three behavioral assumptions, namely bounded rationality, opportunism, and risk neutrality, and the parties to a transaction will choose a governance structure that minimizes the expected combined production and transaction costs. A second organizational economics perspective, namely agency theory, uses a number of similar assumptions to transaction cost thinking, but it develops important behavioral arguments by suggesting potential goal incongruence among managers and shareholders and an associated threat of managerial opportunism that may have a negative impact on performance (Jensen and Meckling, 1976; Jensen, 1993).

In contrast, the resource-based view (Wernerfelt 1984; Barney, 1991) is focused on explaining performance differentials between firms, even when presented with similar industry conditions. The objective of the firm is above-normal returns from the heterogeneous bundle of resources that it has at its disposal. These resources may form the basis of a sustainable competitive advantage if the rents can be protected from *ex post* dissipation by "isolating mechanisms" (Wernerfelt, 1984). As such, this perspective builds on different behavioral assumptions than the organizational economics traditions do and therein lies its power and potential.

Although there are clear differences in emphasis between these diverse theories, papers in this Special Issue offer a number of avenues where they can be used to develop a more holistic approach to corporate governance by combining their elements in an integrated framework. For example, more recent research on corporate boards is gradually developing an inter-disciplinary approach to the governance roles of board members. This research on the governance roles of the board in the broader social sciences field has focused on three main themes: the effects of board composition and structural parameters on business strategy and performance; relationships between board characteristics, such as diversity, external ties, etc., on the firm's competitiveness and performance; and links between board processes and organizational outcomes.

Another promising area for future research is associated with the integration of corporate governance research with institutional perspective (Strange *et al.*, 2009). North (1981, 1990, 2007) discusses how national institutions (here broadly defined as the rules of the game in a society that structure incentives in human exchange) affect economic performance, and there are implications for how firm behavior is influenced by the environment in which it operates. Different societies create and support different institutions to facilitate business transactions; some institutions are more effective than others, and all tend to evolve over time. Although the vast majority of previous corporate governance studies are predominantly focused on organizational aspects in a single-country setting, future research should also focus on national systems or corporate governance and their interactions with firm-level governance factors. For example, some societies are characterized by "institutional voids" (Khanna and Palepu, 2000) which lead to the emergence of specialized organizational forms (e.g., business groups) to replace the missing market and regulatory institutions. Future studies therefore should look at how national institutions may affect the extent of agency conflicts, as well as the effectiveness of corporate governance practices designed to deal with these conflicts.

Strange *et al.* (2009) indicate that the corporate governance landscape is not static and new players emerge and gain prominence. Wright and colleagues in this Special Issue have discussed the governance roles of PE firms. SWFs represent another new type of international investor and which, because of their size, rapid growth and lack of transparency have raised concerns about their governance impact. Specifically concerns have arisen because of the argument that they may invest for strategic rather than economic reasons. Fotak, Bortolotti and Megginson (2008) examine investment patterns exhibited by SWFs in 620 equity investments and find that, contrary to perceptions, SWFs generally purchase minority stakes directly from target companies, and that SWFs are typically long-term investors who, because of both political pressures and size of holdings, are often unwilling to quickly unwind their positions. However, research is lacking on the effects of SWFs on the strategies of the firms in which they invest that may contribute to their performance change.

Strange *et al.* (2009) also suggest that hedge funds have also grown rapidly as international investors. They typically face less regulation than mutual funds and PE funds, although it has been suggested that hedge fund managers pursuing strategies with potentially more pronounced agency problems systematically select jurisdictions with less stringent regulations (Kahan and Rock, 2007; Cumming and Johan, 2008). Further research is necessary to understand the impact of foreign hedge funds on the strategies of firms in which they invest. Additional comparative research might consider differences in the behavior of hedge funds, PE funds, and SWFs.

## CONCLUSIONS

Fifteen years ago, studies of corporate governance with an international emphasis were published only occasionally, and even then in a smaller pool of journal outlets. Governance has emerged to become a staple of academic research, and the international emphasis has blossomed in recent years. Concurrently, *CGIR* – in its 17th volume as of this writing – has also grown, in both scope and influence. As such, this seems an appropriate time to devote a Special Issue to reflection and reassessment. However, we do not plan to wait another 17 years for a follow-up review issue.

Given the value of the papers presented here, *CGIR* will now be soliciting "review" papers, in addition to our current portfolio of "conceptual" and "empirical" articles. To clarify for prospective authors, conceptual papers emphasize the development of new theory that addresses selective gaps in the previous literature, whereas review articles provide a comprehensive look at a stream of research and mainly identify gaps in the literature. While both types of analysis impact future research, conceptual studies break new ground for the future while review articles distill previous literature and highlight opportunities for future research. We hope that you find these review articles useful in framing your own research, and look forward to seeing your own review papers as submissions in the future.

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