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Corporate Governance: A Critical Comparison among International Theories, Codes of Best Practices, and Empirical Research

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Abstract As strong role played by the financial globalized market, several countries have adopted rules and principles (best practice codes) to be shared among all companies, in order to provide tools to solve governance problems, regulate relations among managers and shareholders. This paper seeks to investigate American, English, German, Japanese and Italian codes of conduct. Literature agrees that corporate governance archetypes are those Anglo-Saxon and German-Japanese; on the other hand the Italian model represents an interesting case study. These three models are based on different international theories (Agency, Stakeholder, Resource Dependence, and Stewardship). Scholars maintain that the Agency theory is the most valid of the theories, with respect to the existence of international convergence processes. Thus, the objective of the paper is twofold. First of all, we want to understand which international theory has been adopted by Anglo-Saxon, German-Japanese, and Italian codes. Secondly, we wish to verify whether empirical research confirms principle efficacy contained in codes of corporate governance. From a comparative study among international theories and rules it would emerge that variables contained in the codes would be better explained and regulated under Agency approach. It should be noted, however, that each country – in spite of the convergence processes towards a single standard of rules – is affected by their social, and economic background. Finally, we could argue that empirical studies do not often explain critical success factors in the same way of codes although both are the result of best practices.

Keywords Corporate Governance, International Theories of Corporate Governance, Anglo-Saxon and European Codes of Best Practice, Empirical Research

1. Introduction

In the current economic scenario we are facing rapid worldwide change in the environmental conditions under which companies operate. Thus, firms should not be analyzed as isolated units outside the environment because they are born and grow within it[1]. Shareholders and managers should understand this and investigate problems and solutions in order to adapt to these changes[2]. This is fundamental to the aim of reaching, maintaining and improving *economic equilibrium*[3] over time: earnings must "pay" or cover the input costs and the cost of capital. The aim of *economic equilibrium* should reflect the capacity of the company to satisfy all the stakeholders' expectations. This means that a lack of effective governance could damage the stakeholder's interests, compromise the *economic equilibrium* goal and as a consequence hinder positive performances. Thus, in the current economic-financial context the board of directors has a crucial role, it must be able to adapt to the environment, maximizing firm management efficiency and efficacy[4]. For these reasons, corporate governance represents an important topic within management studies especially in these last years, characterized by the global financial crisis. Indeed, corporate governance research has been undertaken as a reaction to different factors, such as globalization, industrial colossus bankruptcy (Enron, WorldCom, Parmalat, Alitalia, etc.) and the economic-financial global crisis. The events that affected companies on one hand, disclosed firm government and management *deficit* and on the other hand fostered sharp criticism of boards of directors and managerial conduct[5]. In this complex, dynamic and uncertain context[6] the need and willingness to adopt common standards for companies arose in order to secure and control management[7]. These standards or principles are contained within *codes of conduct* or *codes of corporate governance* which have been gradually adopted by several countries; they describe strategies and behavior to adopt in the event of management problems[8] and they represent the so called *best practice* of all companies. Hence, these codes could represent a reinforcement of market efficiency, a strategic tool for

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management and board of directors[9] and a reference standard for shareholders and management as well as stakeholders. It is important to stress that corporate frauds and scandals have provoked a strong reform process, introducing accountability and transparency.

This research focuses on the national and international literature of corporate governance and codes of best practice. On one hand, we study national and international literature, in particular corporate governance theories (agency theory, stakeholder theory, resource dependence theory and stewardship theory) and empirical studies conducted on Anglo-Saxon, the European (i.e. German-Japanese) and Italian companies samples. Literature[10] agrees on the fact that corporate governance models can be modeled on two archetypes: the Anglo-Saxon and the German-Japanese model. The Italian model is defined as the "mixed" one, a hybrid which means that while it shares some features of the above mentioned models it also differs in some ways[11],[12]. On the other hand, we study American, English, German, Japanese and Italian codes of corporate governance, because – as just reported – those countries represent two main international models of corporate governance and in addition the Italian one is an interesting case study. For these reasons, we wish to compare literature and codes of conduct, in particular we wish to study first of all, the connection between corporate governance international theories and the codes of best practice; secondly the relationship between the latter and empirical research on corporate governance. For this reason the objective of the paper is twofold, if the basis assumption is that international convergence international process is underway on corporate governance field. First of all, we investigate which theory is at the basis of corporate governance codes; secondly we verify if empirical studies accept or reject principles and rules contained in international codes.

The paper is divided into five paragraphs, the following (*second paragraph*) highlights corporate governance international framework, in particular different approaches, company models as well as international theories. In the *third paragraph*, we will define the subject, the objective, the research questions and, the methodology; in the *fourth* the research results will be shown through a comparison map. In the concluding paragraph (the *fifth*) some reflections which briefly outline possible future developments of research are outlined.

2. Literature Review

Corporate Governance is an eclectic issue but for the purpose of this paper the focus is on corporate governance research within management and business studies. Corporate Governance represents an international issue for academics, professionals, and companies because they are interested how to achieve good governance which could lead to good performance[13]

The Literature review focuses briefly on corporate governance different approaches, international and national theoretical models and corporate governance theories.

2.1. Corporate Governance Approaches

Ahrens, Filatotchev and Thomsen[14] reckon that 'despite the enormous volume of research we still know very little about corporate governance', probably because every firm has its own features it is unlikely that we will be able to generalize and define all corporate governance features. Huse[15] claims that 'there is not one best design of corporate governance, but various designs are not equally good. Corporate governance designs will need to consider the context and the actors'.

For this reason, it would be useful to describe different governance approaches, in particular two main approaches, i.e. the *restricted* and the *extensive* one. The former focuses attention on two main aspects: a) *shareholders* considered in this analysis perspective are the only company stakeholders; b) the existing *conflict* between property (shareholders) and control (managers). This point of view was defined in 1960 by Eells who used for the first time the word "*corporate governance*" to denote '*the structure and the functioning of corporate policy*'[16]. The latter argues that corporate policy is "a mixture of rules, organizations, habits and formal organs that aim to achieve the interests of the different stakeholders"[17] of the company. Solomon[18] claims that extensive approach (i.e. stakeholder view) is 'the system of checks and balances, both internal and external to companies, which ensures that companies carry out their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity'.

2.2. Corporate Governance Models

It is relevant to underline that every country has its own corporate governance system with different peculiarities because of the strong influence that rules, institutions and social regulation, developed and strengthened over time, have on the characteristics and on the function of company management mechanism[6].

Literature[10] agrees on the fact that corporate governance models can be modelled on two archetypes: the Anglo-Saxon and the European (or German-Japanese) ones. The Italian model is defined as the "mixed" one, the hybrid; this means that it has some features in common with the international models but at the same time differs in certain ways.[19],[20]. *Anglo-Saxon countries* adopt the so-called *outsider system model*, i.e. financial market rules can come between shareholders and management. Indeed, financial markets can regulate management and can develop value creation for shareholders which is the key to success in today's marketplace (i.e. «*market for corporate control*»[12]). The strong division of ownership that is peculiar to stocked companies on the ruled financial market[21] created a company similar to the *Public Company* characterized by a capital fraction. The *German-Japanese model* adopts the *insider-system*, known also as "*relationship based*" that is a *network-oriented corporate system*. In this case, the presence of financial markets has little influence whereas the financial intermediation that issues the risk capital is very influential. This model uses a bank-oriented perspective. In contrast to the Anglo-Saxon countries, firm institutional assets are characterized by a high degree of ownership concentration and the main shareholders are banks, family firms and internationals investors (the so called *blockholders*)[22]. Finally, the Italian model is not directly linked to other models. Widespread ownership companies (as seen in the *outsider system*) and financial intermediation inside the management (as seen in the *insider system*) do not exist[23]. Banks, then, do not invest in equity (or risk capital) but in credit capital: for this reason they do not interfere in firm management. Italian companies characterized by high ownership concentration are distinguished by a majority shareholder or a shareholders' group linked by union agreements. The Italian model is characterized by the *Latin insider system* which is different from the German-Japanese insider system. The former considers the majority shareholders as the managers' watchdog through the board; the latter considers the employees' and bank's high involvement in the control of the company[24].

2.3. Corporate Governance International Theories

It relevant to highlight that there is a relationship between Anglo - Saxon, German-Japanese and Italian models and international theories corporate governance. Literature agrees that the agency theory[25],[26] and the stakeholder theory[27] are at the basis of the Anglo-Saxon model and the German-Japanese one, respectively. Regarding the Italian situation, literature is not so fecund in corporate governance theories. Yet, it is possible to observe that the *Italian model*, according to the contingency approach[28], is generally based on three different contrasting theories[29]: *agency*, *stakeholders* and *resource dependence theories*. The coexistence of the different perspectives is due to social - economic features that influence the national environment. These are the result of the existence of various interests and power balances marking out the company itself. Agency theory[25] mainly regards the conflict between the *principal* (shareholders) and the *agent* (managers). Whilst they pursue the same economic aim – to maximize their personal well - being – their interests are at odds. Stakeholder theory[27] - as opposed to agency theory, increases the analysis focus, i.e. it emphasizes the relevance of fulfilment of stakeholder's interests. A firm cannot sacrifice all the stakeholders' interests only to maximize the shareholders profit. Managers should negotiate, involve and coordinate all the people who have interests in a company. *Resource dependence theory* clarifies relationships between a firm and its environment. The assumptions are that firms cannot «*produce all the resources they need to operate; therefore they must engage in exchanges with the external environment in order to acquire the resources they need to survive*»[30]. In addition to forming relations with other stakeholders, managements should seek resources from outwith the network creation, in order to increase innovative development, this is fundamental for firms to be competitive. There is another fundamental corporate governance theory which should be considered *stewardship theory*. Davis, Schoorman and Donaldson[31] reckon that managers should be able to solve economic, social and sociological problems through contacts with other stakeholders in addition to forming relationships with shareholders. The Manager is a *steward* who is more likely than an agent to 'value higher - order needs'. Authors [32] argue that people in organizations are 'motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority'.

It is relevant to notice that we are observing a convergence and standardization[33] process of corporate governance approaches and archetypes at international level. This is due to globalisation of financial markets, and an increasing reduction of discrepancies between spatial reference fields, cultures and information systems. Each System – Country, while maintaining its own features, is entering new territory that leads it to adopt characteristics typical of the Anglo - Saxon world, rather than an outsider system. Hansmann and Kraakman[34] proclaim 'the triumph of the shareholder - centred ideology of corporate law among the business, government and legal elites'. In addition, Daily, Dalton and Cannella[35] argue that Agency theory has dominated corporate governance research, because it puts forward an adequate and valid explanation of problems connected with the separation between control and ownership, and governance model to solve interests conflicts. Market turbulence, globalization, technology, and structural changes provide a series of challenges for firms and their boards. The present research should be considered in this context

For this reason, we point out some features peculiar to corporate governance Anglo-Saxon model, such as the board of directors (functions and dimension), other apical subjects (Chairperson, CEO), Committees (Audit, Nominati on and Remuneration), considering the convergence processes mentioned above. This paper considers these variables coupled with English, American, German, Japanese and Italian codes of conduct, because – despite ongoing convergence processes – all corporate governance models remain valid and amply studied.

3. Object, Objective, Research Questions, Methodology

This paper is part of a wider doctoral research project developed during a three year PhD. The project purpose is to analyse the relationship between corporate governance and economic performances of Italian and English companies. This research project adopts a methodological deductive - inductive approach[36] composed of three stages. The deductive phase is based on the critical analysis of national and international literature and empirical methods applied to Italian and English listed companies. The inductive phase consists in the empirical steps of the research in which the intention is to test the empirical methods. In the feedback phase, it is possible to understand the results after the models application verifying the skills related to the correlation of "governance-companies performances". It will be possible to evaluate the need for future modified models which could offer more significant results,

This paper represents the first step of *in progress* doctoral research.

In particular, the paper *object* concerns the relation among national and international literature about corporate governance, codes of best practice of Anglo-Saxon, German - Japanese and Italian listed companies and empirical research. Anglo-Saxon and German-Japanese models represent the two main corporate governance archetypes; whereas the Italian one is considered as a mixed" one, a hybrid, i.e. it has some features in common with the above mentioned models while it also differs in some respects.. First of all, we study some 'variables' contained in codes of conduct which deal with what some boards of directors have defined as key success factors of corporate governance[37]. Basically, we focus on: board of directors' functions, composition and dimension, CEO duality and non-duality, committee and corporate governance disclosur e. Secondly, we analyse these topics according to the main corporate governance international approaches, i.e. Agency, Stakeholder, Resource Dependence and Stewardship theories which are the basis of (with the exception of the latter) Anglo-Saxon, European and Italian models. Finally, we consider empirical research dealing with corporate governance topics mentioned above. The *objective of the paper* is two-fold, if we assume convergence international process impacts on corporate governance field. 1) We want to understand which international theory is adopted by codes. Thus, it is interesting to find out if convergence process towards a single standard of rules is ongoing or if each code which makes up the Anglo-Saxon, European and Italian models adopts different theories. 2) We want to verify if empirical research confirms principles efficacy contained in codes of corporate governance.

The *Research Questions* are mainly two. RQ1) Is the convergence of codes of best practice relating to Agency theory or Shareholder approach an ongoing process? RQ2) Are the principles and rules regulated at international level (i.e. Anglo-Saxon, European and Italian) which underline codes of best practice, accepted or rejected by empirical research?

As far as the *methodological approach* is concerned, the research objective and questions are pursued by a *deductive approach*. It consists of critical analysis of literature contributions, both international and national in the corporate governance field, a codes of best practice study, as well as analysis of empirical research carried out on Anglo-Saxon, German-Japanese and Italian samples.

4. Findings

The study of corporate governance international theories, codes of best practice[38] and empirical research has been conducted referring to: board of directors functions, board of directors composition, board of directors dimension, Chairp erson and CEO roles, audit, nomination and remuneration committees, and finally corporate governance disclosure. These variables have been chosen as the study subject, because literature considers them as 'possible factors determining' good governance, i.e. critical success factors affecting company success, thus they 'will have a predominant impact on the achievement of enterprise objectives'[39]. We should note that this issue focuses especially on Board of Directors, Committees and disclosure features, because they are 'institution[s] that have arisen endogenously in response to agency problems inherent in governing any organization'. Each key success factor has been explained according to different theories existing in literature, and then explained by empirical research[40].

First of all, we want to study how international corporate governance theories could explain codes of best practice variables, in order to understand which theory is adopted by the codes. Secondly, we will consider empirical research on Anglo-Saxon (i.e. outsider system), European (i.e. insider system) and Italian (i.e. Latin insider system) samples, in order to understand if International Theories, Codes of Corporate Governance and Empirical research are interlinked.

Table 1 contains findings obtained by the comparison among international theories of corporate governance, American, English, German, Japanese and Italian codes of best practice and empirical research.

Codes of best practice clarify that the two main functions of board of directors are, to identify and manage strategic aims directed at achieving, sticking to, and improvement of the so-called economic equilibrium. At present, the American code is the only one that does not mention anything related to this issue. According to different corporate governance theories, it is possible to distinguish the functions of Boards of Directors. Roles and responsibilit ies change according to perspectives and theories adopted; yet, board of Directors relevance within the firm appears to be a shared principle[41]. In particular, as regards *Agency theory*, the board of directors should control, monitor and prevent manager power abuses from occurring to the detriment of shareholders; directors should be able to minimize agency costs, too[42]. According to *Stakeholders theory*, Boards should facilitate, coordinate and address all the people who have interests in a company. Thus, Directors should be able to help, foster and promote relationship with all stakeholders; the former manage and direct strategic choices directed towards shareholders and stakeholders expectations maximization[43]. Regarding *Resource Depen dence theory*, board of directors have the role of managing and regulating resources or inputs that can be found in the environment. As well as forming relationships with other stakeholders the board of directors should seek out and combine resources obtained outwith the network creation, in order to increase innovative development, fundamental for the firm to be competitive[44]. Finally, *Stewardship theory* argues that boards should play an incentive role towards management and act as a facilitator in the relationship between manager and shareholders, with the aim of raising trustee and commitment relationship within the firm[45]. It is interesting to note that two cross functions exist which link the four theories above described, in particular strategic and performance optimization role[46]. The former consists of guiding the decision-making process, and of formulating strategic decisions by defining aims and policies that firm must pursue. As regards the latter, Tricker[47] suggests 'the duty of boards is not only to protect wealth, but to create it', so directors should maximize economic performance. Most *empirical research* shows that directors' effectiveness (i.e. the ability to carry out their own duties and tasks) is coupled with board's independence from management[40]. However, there is not a great deal of quantitative studies relating to board roles. Some state that directors over the 50/60-year age bracket notably perform a control function, because entry onto Board of Directors represents a moment of achievement recognition in career management, it is common for those who have served as CEO or other apical positions to remain on the Board as members[48]. Johnson, Daily and Ellstrand [49] argue that directors' roles are classified as control, service and dependence resource, and 'the relative volume of research devoted to the different board roles reflects the predominance of the control role'. In this case, codes do not assume one particular theory,

Table 1. Synoptic Framework of corporate governance theories, international codes of best practice, and empirical research

Variables		International Theories				Codes of Corporate Governance					Empirical Research
		Agency Th.	Stakeholder Th.	Resource Dependence Th.	Stewardship Th.	USA	UK	D	J	IT	
BoD	Functions	Control, monitor	Facilitate, coordinate	Managing and regulating resources	Facilitate, incentive role	No obligation	Strategic aims	Strategic aims	Strategic aims	Strategic aims	Control
	Cross Functions	Guiding decision-making process, formulating strategic decision									
	Composition	ID[1]	NED	NED	ED	Majority of ID	Balance ED-NED. ID: at least 50%	Balance ED-NED. ID: adequate number	ID: at least 50% or 1/3	ID: at least 50% or 2	Not best BoD Composition
	Dimension	Reduced	Numerous	Numerous	Reduced	No obligation	Reduced	No recommendation	Reduced	Reduced	Reduced Vs Numerous
	Chairperson&CEO	CEO non duality	CEO duality	CEO duality	CEO duality	No obligation	CEO non duality	No recommendation	CEO non duality	CEO non duality	CEO duality Vs Non duality
Committee	Audit	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
	Remuneration	Yes	Yes	Yes	No	Yes	Yes	No recommendation	Yes	Yes	No clear benefit
	Nomination	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No clear benefit
Other	Disclosure	Yes	Yes	Yes	Yes	No obligation	Yes	Yes	Yes	Yes	Yes

1 ID stands for Independent Directors; NED stands for No Executive Directors; ED stands for Executive Directors.

As far as board of directors composition is concerned, all codes of conducts recommend a balance between executive and non executive directors, with special focus on independent members. *Agency theory*[50] argues that the latter are one of the main subjects within a company, because they should control and monitor managers' conduct in order to prevent opportunist behaviour fraud and misdemeanour. Independent directors should be able to minimize agency costs (i.e. moral hazard[51], and adverse selection[52]) within the relationship/conflict between shareholders and managers, thanks to their extraneous position within firm management and their competence acquired in other job contexts. According to *Stakeholder* and *Resource Dependence theories*[53], the key role carried out in firm management is that of no executive directors, considered as a link between company and resources as well as stakeholders in the environment. Hence, outside directors, thanks to their own skills externally acquired and know-how network with others firms, have more chances to find resources and combine inputs obtained outwith the network creation, in order to increase the innovative development. *Stewardship theory*[54] emphasises the role carried out by executive directors or inside directors, they are considered the maximum company experts, trustees, who identify more with the company, and who contribute towards the firms' economic growth. *Empirical research* does not agree about the best board of directors composition, indeed optimal board composition cannot exist[55],[56], because several variables (e.g. shareholders presence on board) influence each firm[57]. Several research papers[58],[59] find that there is no correlation, neither positive nor negative, between board composition and performance. Yet, Klein[60] and Bhaggat and Black[61] claim that a positive connection exists between outside directors and performance; in contrast Agrawal and Knober[62] and Coles, McWilliams, and Sen[63] find a negative correlation between outside director and performance (measured with Tobin's Q and Market Value Added). We notice that all international rules focuses on independent directors or a balance between inside and outside directors, as Agency theory claims; whereas empirical studies do not seem to have reached a shared conclusion.

Regarding board of directors dimension, codes of best practice agree (except for the German one) on the reduced number of members who make up the board of directors. No codes provide exact numbers within board, but drawing conclusions from codes, they prefer a reduced number of directors, as reported within one code 'board should not be so large as to be unwieldy'. Not all theories completely agree with codes. *Agency* and *Stewardship theories* argue that board directors' number within board must not be numerous for different reasons. As shareholders must control managers behaviour, due to increased scope for malfeasance and empire-building, Agency theory reckons it would be better to have a flexible, 'streamline', reduced, board. Stewardship theory is of the same opinion as the agency theory, but for different reasons. According to the former, the board must be limited in size, because all directors are considered as trustees who are committed to firm values, and who are intrinsically motivated, for these reasons the number must be limited. In contrast *Stakeholder* and *Resource Dependence theories* argue that boards should be large, because directors should interact with environment, i.e. with stakeholders. Therefore, if boards fulfil all stakeholders' interests, good governance quality could increase and governance improvement would improve firm value, resulting in greater stakeholders' fulfilment. On the other hand (Resource Dependence theory), company survival depends on the acquisition of external resources[64], so it must minimize inputs supply uncertainty, by creating relationship with other firms, suppliers. For this reason, if the number of directors is high, interactions and relations with environment are boosted, therefore economic performance (and firm value) grows and finally company survives. *Empirical research* aims to investigate relationship between board of directors dimension and performance in order to understand if the former affects its efficacy. There are two main findings: a) negative and b) positive correlation between board dimension and firm performance, even if the most predominant is the first one: inverse relation exists between performance (ROE, ROA, and Tobin's Q) and directors number[65],[66] and[67]. Jensen[68] claims that maximum number of board members should be seven or eight, above this limit directors can no longer operate efficiently and CEO could take over. Other scholars[4] argue that maximum number must be nine. Few results about positive correlation between dimension and performance have emerged, for instance Daily - Dalton[69] and Bhagat-Black[61] find a weak relation in a sample of SMEs. It is interesting to highlight that size and composition of boards are often correlated with a board's independence[40]. Thus, it would seem that all codes (expect for German one) have followed Agency or Stewardship theories, as they recommend a small number of directors. In addition, several empirical studies would confirm that this as the right way to maximize performances.

As regards Chairman and CEO roles, all codes of corporate governance (except from American and German ones; which do not specify anything) recommend that the roles of chairman and CEO should be split with the division of responsability between them, this is the case of CEO non-duality. CEO duality on the other hand implies that the same individual serves both as Chairman and as CEO. Different views about CEO duality and non-duality efficacy exist. According to *Agency Theory*, duality 'signals the absence of separation of decision management and decision control ... the organization suffers in the competition for survival'[70]. In addition, authors argue that it is fundamental to have a split leadership, because duality would lead to reduction of management monitoring possibility and CEO would be able to pursue personal interests to the detriment of shareholders more easily

In contrast with Agency Theory, other approaches assume that CEO non-duality could have significant and positive implications for firm performance and corporate governance. First of all, for *Stakeholder Theory*[71] CEO duality is fundamental because non-duality 'dilutes Chairman and CEO power to provide effective leadership of the company by increasing the probability that actions and expectations of management and the board are at odds with each other'[72]. In order to foster relationship with all stakeholders, Anderson and Anthony[73] maintain that only one apical subject is better, as companies should interface with many stakeholders and the latter need only one 'public spokesman' to prevent or reduce confusion. *Resource Dependence theory* agree that duality is to be preferred, because it calls for the appointment, of a so-called Lead Independent Director (in addition to the CEO and the Chairperson who serves as an independent chief among all board members and therefore helps ensure board relationships with environment, and others boards. Finally, *Stewardship theory* reckons that combined leadership structure could be considered as the best one in order to manage company, as power concentration in the hands of one individual (i.e. CEO duality) could increase commitment and motivation towards economic purposes achievement. The last three theories suggest that duality would lead to performance maximization, because it would permit a clear-cut leadership for aims of strategy formulation and implementation. Several *empirical research* have been carried out on CEO duality or non-duality efficacy on firm performance. They led to different and opposing results that can be summed up as follows, a) CEO duality has positive effect on performance (ROI, ROE)[74]; b) CEO non duality has a positive relation with performance (ROI, Tobin's Q)[75]; c) neither CEO duality nor non duality have important effects on performance (ROE, Market Value Added, ROA, ROI)[72]. In fact, most findings have proclivity for positive correlation between CEO non duality and firm performance. It is interesting to notice that Dalton, Daily, Ellestrand, and Johnson[76] find that Joint Stock Companies with few independent directors and characterized by CEO non-duality are coupled positively to bankruptcy. Thus, it would seem that empirical research confirms what code of best practice recommend (with the exception of America and German) and what agency theory claim.

As far as audit, remuneration and nomination committees are concerned, all codes of best practice, except for German ones which does not recommend these bodies, have introduced them in order to solve interest conflicts among management, board of directors, and shareholders. All corporate governance international theories, except for the stewardship one, agree that committees are fundamental for company. *Agency theory* maintains that committees are able to provide efficient and effective answers on strategic decisions, as they are support organs to company government. According to *Stakeholder and Resource Dependence theories*, committees should be composed of outside directors or independent ones, because they are able to manage the unforeseen and deal with uncertainty in resources acquisition. These bodies are emblematic tools of network and connections among directors, and stakeholders, because, for instance, nomination and remuneration committees should find human and financial resources outwith the company, i.e. in the environment. *Stewardship theory* does not accept committees either for controlling (audit committee), or manpower and financial inputs (nomination and remuneration committees), composed of independent directors, because it focuses on executives who are 'stewards', who are intrinsically motivated, committed to firm, and – as French and Raven[77] sustain – who are 'more likely to rely on personal sources of power-expert and referent'. *Empirical research* is more fecund on audit committees rather than nomination and remuneration ones, probably because the former has firm control function a role which is particularly tough and could be structured in several systems and sub-systems[78]. Most empirical results highlight that audit committees are 'cornerstones of corporate governance'[79] and these studies[80] conclude that an audit committee composed of external and independent directors results in better transparency and accountability for company. Research about nomination and remuneration committees is rather limited whilst 'they are considered to have heightened importance with regard to effective board functioning'[81]. Some studies reveal that those bodies are not appointed, especially in those firms where there is only one majority shareholder who is also manager. Two main opposite findings emerge, on one hand positive effects on firm performances emerge from remuneration and nomination committees foundation[82]; on the other hand research reveals an excessive opportunity cost of settings up those bodies[83]. It emerges that empirical studies confirm audit committees efficacy as claimed by codes (apart from German principles that seem to support stewardship approach). Quantitative research does not seem so convinced about benefit and usefulness of nomination and remuneration committees.

As regards corporate governance disclosure, all codes (with the exception of American ones which do not specify anything) recommend document preparation. All theories also agree on the efficacy of corporate governance disclosure for different reasons depending on approaches adopted; yet, common assumption is that disclosure has important and clear-cut economic consequences[84]. According to *Agency Theory*, the report is fundamental, because a better quality of economic-financial disclosure, reducing probability of information asymmetry between management and shareholders, could lead to a decrease in risk capital. Asymmetry minimization could limit company risk as perceived by shareholders, therefore offer advantageous economic resources[85]. *Stakeholder theory*, symmetrically to Agency approach, maintains that corporate disclosure is necessary, because it can favour a decrease in information asymmetry among all stakeholders, it reduces risk and credit cost of capital and it increases securities traded liquidity. Indeed, poor quality disclosure would create more uncertainty among investors which would lead them to offer their own financial resources at high costs, due to uncertainty at high level and lack of clear-cut disclosure. Therefore clear cut disclosure containing corporate governance principles could be an important tool in order to align all stakeholders interests that are likely to be divergent. *Resource Dependence theory* agrees with Agency and Stakeholder approaches regarding the connection between high quality disclosure and low resource costs. What changes is the definition of resources; the latter define it as financial capital (equity and risk capital, respectively), whereas the former consider an extensive approach: financial, productive, manufacturing, human resources. The Board is considered an administrative body linking the corporation with its environment and 'a boundary spanner that could help the corporation to acquire important resources from the environment, and thus reduce the corporation's dependence on external stakeholders or protect the corporation from external threats'[86]. According to *Stewardship theory*, as managers are inclined to see themselves as stewards, or trustees, disclosure does not contain substantial faults. The lack of information asymmetry has positive effects on disclosure, therefore on performance (because stakeholders wish to invest money) and on corporate governance, as management will not manipulate firm data and strategic information. La Porta, López-de-Silanes, Shleifer and Vishny[87] reckon that governance disclosure has 'positive effects of good corporate governance practices on firm valuation are explained by higher investor confidence'. It determines high level firm value. The risk is that disclosure represents only a sterile formal document, with so-called 'watered down contents', i.e. firm could omit substantial corporate aspects, as they intend only to pay lip service to formal prevision[88]. In order to test disclosure efficacy on corporate governance and firm performance and to minimize the risk above mentioned, scholars[89] have created some 'governance indexes'[90] which are composed of disclosure variables, i.e. qualitative and technical information deduced by codes of conduct. The assumption is that codes represent best practice depository at international level and respect to principles contained therein lead to better firm *accountability, responsability*, and *compliance*[91]. Generally speaking research shows that high quality disclosure coupled with a good firm management lead to higher performance[92]. We could accept that codes regulate corporate governance disclosure because they aim to prevent information asymmetry and minimize conflict between shareholders and managers. Empirical studies support the importance of revealing all corporate features in order to increase accountability, market and stakeholders consensus, and thus improved performance.

5. Conclusions

International business scandals, firms bankruptcy, and financial frauds have fostered law updating process in the field of corporate governance; the need to create a system or a set of principles, duties and recommendations to apply to all companies operating in a given environment. The function of corporate governance codes is to outline organizational rules consistent with both corporate structure of each System-Country and, especially *economic equilibrium* goals to be worth over time. It is necessary to study and analyse codes, as they represent a fundamental corporate government tool in which company duties, rules and principles toward all stakeholders (e.g. minorities and majorities shareholders, employees, institutional investors, etc.) are identified. Code adoption, not only formal, could lead a company to become more transparent and accountable through a clear, visible disclosure on its governance model. It is essential that firms should assimilate those governance values, principles (e.g. responsability, accountability, transparency, etc.) required by financial market, as this could allow company to exploit some international competitive challenges or to obtain new financial capital (both equity and credit capital) especially in the current financial globalization context.

From a comparative analysis of codes it emerges that a convergence process towards similar governance approaches at international level is underway. It should be noted, however, that each country – in spite of the convergence or standardization processes towards a single standard of rules – is affected by their social, historical, and economic background. As a matter of fact Shleifer and Vishny[92] and Levin[93] argue that 'the legal and political environments are critical influences on the nature of corporate governance and thereby on corporate governance in every country'. For instance, German code recommends a Supervisory Board composed by employees, too; this is in support of stakeholder view rather than shareholder one. Italian code emphasises on the so-called 'traditional model' (existing only in Italy), leaving discretion to companies to adopt the Anglo-Saxon corporate structure (one-tier model) or German one (two-tiers model).

Thus, from a comparative study among international theories (i.e. Agency, Stakeholder, Resource Dependence and Stewardship approaches) and corporate governance codes it would emerge that variables studied and contained in the codes would be better explained and regulated under Agency approach. For instance, the latter argues that it would be better to have a reduced board of directors, a greater number of independent directors, CEO non-duality, the committees institutions, and corporate governance disclosure. In addition, all codes of best practice regulate roles, functions and principles of Independent directors who are believed to be more effective monitors of company management[49], and they have arisen 'in response to the agency problems inherent in governing any organization'[4 0]. In fact, all codes analysed lead towards Agency approach. In a few other cases, codes adopt rules far from shareholder view (e.g. Germany, Italy and Japan), due to their own history, economic and social framework. Answering the first research questions (*RQ1-Is the convergence of codes of best practice relating to Agency theory or Shareholder approach an ongoing process?*), we can affirm that convergence process exists and is going to unroll. Globalization of relationships in stock financial market has led to a frequent review of national laws and regulations, according to paths consistent with culture, traditions and internal market conditions to each country, but at the same time they are projected to international best practices application. Clearly, according to *contingency approach* the lack of consensus may result from the chosen theoretical perspective.

Empirical research on corporate governance is widesprea d with the exception of studies concerning board of directors functions. It is interesting to note that literature intends to understand whether the solutions proposed by codes are indeed designed to *maximize performance*. Studies on corporate governance are very prolific and aim to demonstrate if standards are able to affect government efficiency and therefore economic equilibrium achievement. Answering the second Research Question (*RQ2-Are the principles and rules regulated at international level (i.e. Anglo-Saxon, European and Italian) which underline codes of best practice, accepted or rejected by empirical research?*), we could argue that empirical studies do not often explain critical success factors (e.g. dimension, composition of Board, CEO duality/non-duality, etc.) in the same way although both are the result of 'corporate experience' and best practices. It is probably due to the fact that corporate governance codes are expressed in general terms with few references to specific cases; therefore they are more easily applicable and adaptable to different firms operating in various contexts. Empirical research on the other hand study and analyse results from models applied to a sample of companies whose conclusions are then extended to all firms. Scholars use different dependent variables to measure performance, sometimes they use ROE, ROA, Tobin's Q, market to book ratio. Thus, the lack of consensus on choice dependent variables could limit the generalization of corporate governance findings. Kakabadse and Kakabadse[94] maintain that 'whilst the ambiguity of findings can be partly explained by the different research methodologies applied including sample size and the number of variables under investigation,' other effects often ignored in quantitative studies such as a corporate culture, ethical norms of behavior and the levels of honesty expected in business, also determined this broad spectrum of conclusions.

Empirical research does not always confirm principles efficacy contained in codes of corporate governance. However, we notice that most studies would seem to confirm what codes recommend, e.g. all codes suggest CEO non-duality would be better for several reasons above explained and at the same time most empirical research recommend that CEO and Chairman roles should be carried out by two different people.

Finally, the board is a crucial element of corporate governance structure. It protects shareholders' needs and also company, needs; it becomes a fundamental platform of monitoring of executives, success policy, of reviewing strategic aims, of ensuring integrity for shareholders and stakeholder interests, guarantee disclosure transparency. The market complexity, globalization, financial and economic environment turbulence make the role of board of directors more and more complicated. Thus, it could be a fascinating research field for Academic, Professionals, Business Practitioners and will remain the corporate governance *core*. The need for an *osmotic process* between literature and legislation emerges; if all studies carried out by Academics, Professionals, Legislator could converge and a continuous exchange of information and results could take place in order to develop shared principles and rules system everyone could benefit.

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