CURRENT STATE OF CORPORATE GOVERNANCE PRACTICES IN COLOMBIA

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Abstract

In this paper, we review the current state of corporate governance in Colombia. First, we discuss the evolution of the legal framework of corporate governance including the main changes in the code of best corporate governance practices that took place since the global financial crisis of 2008. After this, we discuss key corporate governance issues such as the ownership structure of listed corporations and the market for corporate control, we analyze the practices of corporate boards of Colombian listed companies and their remuneration systems and the role of pension funds and hedge funds as shareholder activists. We also review the evidence regarding corporate governance and firm performance. Finally, we discuss the current state of corporate social responsibility (CSR) and an assessment of corporate governance specifics by industry. We conclude that there are opportunities for future research in several of these fields of study, especially regarding boards of director practices, director remuneration, and corporate social responsibility.

Keywords: Corporate Governance, Board of Directors, Ownership Structure, Emerging Markets

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1. INTRODUCTION

The government of Colombia has made a great effort to promote the implementation of good corporate governance practices in Colombian companies. Since 2001, the adoption of good corporate governance practices has become an important issue not only for public corporations but also for institutions such as pension funds, hedge funds, stock brokers and government agencies. In this paper, we discuss the evolution of the legal framework of corporate governance in Colombia, in particular, we examine the impact of the different laws enacted in the country and the creation of the code of best corporate governance practices (Country Code[1]). We focus on the changes in the Country Code that took place since the global financial crisis of 2008. We then examine the ownership structure of listed corporations and the market for corporate control in Colombia, and we find that due to the concentrated ownership structure of firms the market for corporate control is not a very strong governance mechanism.

We then discuss the practices of corporate boards of Colombian listed companies and their remuneration systems and find that there are opportunities to enhance the transparency of these

[1] https://www.superfinanciera.gov.co/inicio/industrias-supervisadas/gobierno-corporativo/codigo-pais-61162

board of directors' practices and that more research is needed in this area. We continue with an examination of shareholders' rights protection in the country and shareholder activism. We find that although there are several good laws that protect shareholder rights, there are deficiencies in the application of the laws. On the other hand, we find that shareholder activism is starting to gain importance in the country and that minority shareholders, such as pension funds and hedge funds, have started to make their voices heard.

Regarding the important topic of corporate governance and firm performance, we find that evidence regarding Colombian firms is not conclusive. One problem is that historically there has been a small number of firms in the Colombian stock market and for this reason, it is difficult to make reliable statistical inferences. We conclude with a brief discussion of corporate social responsibility (CSR) and a brief examination of industrial specifics of corporate governance in Colombia.

This paper is structured as follows. Section 2 discusses the evolution of the legal framework of corporate governance in Colombia. Sections 3 and 4 describe the ownership structure of Colombian companies and the market for corporate control respectively. Section 5 discusses board of directors' practices, while Section 6 explores remunerations procedures. Sections 7 and 8 examine shareholder rights and shareholder activism in Colombia respectively. Section 9 evaluates the evidence on the topic of corporate governance and firm performance. Section 10 discusses corporate social responsibility, while Section 11 examines industrial specifics of corporate governance in Colombia. Section 12 concludes the paper.

2. LEGAL FRAMEWORK

The history of the legal framework of corporate governance in Colombia begins in 2001 when international corporate scandals surprised the markets and regulators around the world and triggered a financial crisis. In view of this situation and following the promulgation of the statement of good corporate governance practices, which had been established by the Organization for Economic Cooperation and Development (OECD) in 1999, the Colombian government decided to make new laws mandating good governance practices in order to guarantee the adequate development of the Colombian stock market.

With the enactment of Law 275 of 2001 which established the corporate governance framework in Colombia, the Superintendencia Financiera de Colombia (SFC), the key regulator of the Colombian financial system, also became the main corporate governance regulator in the country. Moreover, this law granted the faculty to the SFC to develop a code of best corporate governance practices (Country Code).

The Country Code was developed in close collaboration with CAF (Development Bank of Latin America) and it was implemented in 2007. Following the global financial crisis of 2008, the Country Code was revised again in 2013 with the support of CAF. This resulted in the implementation of the New Country Code in 2014, which is better adapted to the business environment and overall Colombian economy and is more specific in its recommendations than the old Country Code. In both instances, Colombia closely followed corporate governance guidelines provided by CAF (2005, 2013).

Both the new and the old Country Codes identify five great corporate governance areas, namely: 1) *shareholder rights and equal treatment*, 2) *general assembly of shareholders*, 3) *board of directors*, 4) *control architecture*, and 5) *financial and non-financial transparency and information* which are the most relevant aspects to evaluate a corporate governance regime as acknowledged in the academic and practitioner literature. The Country Code has a "comply or explain" regulatory approach. The Code establishes precise recommendations on each of the above-mentioned points; each issuer company is required to report whether they comply with each recommendation, and in each case to explain how they comply with the particular recommendation or to explain why they are not currently complying. This information is made available to the public in the form of a standard questionnaire or "survey" which each listed firm must fill out and publish on its company webpage. Moreover, to ensure that the information is not out of date, firms are required to upload an updated version every year, so that investors are able to make appropriate investment decisions based on key financial and corporate governance facts. The regulators do not penalize listed firms for non-compliance, however, it is expected that the market will discipline firms that do not implement good corporate governance practices.

While the equitable treatment of shareholders was discussed in the 2007 Country Code, the new Code is more specific regarding the importance of providing information to shareholders and defending their rights. The new Code recommends that the firm must have a corporate web page to provide timely information to shareholders, and to have an office for investor relations. Moreover, it recommends that the firm organizes quarterly conference calls and that it provides ample information on the structure of conglomerates. Importantly, it recommends that shareholders with more than 5% of the ownership may have the right to ask for an audit of the firm. There are also recommendations to prevent insider trading such as adopting measures to prevent the top management from trading during seasoned equity offerings (SEOs) or mergers and acquisitions (M&A) events.

Another important aim of the Country Code is to revitalize the role of the general assembly of shareholders in order to promote shareholder activism. The Code recommends that the assembly meetings be announced to shareholders so that they have sufficient time to prepare, that there is ample publicity for the announcement of the meeting, and that the shareholders are informed about the meeting through the corporate webpage and their emails. Another important recommendation is that the corporation provides a detailed agenda to shareholders indicating every point to be discussed

in the general assembly together with all relevant information so that shareholders may exercise informed voting. Also, it is recommended that shareholders can propose one or more subjects to be discussed in the agenda no matter their ownership participation.

Regarding the board of directors, the new Code promotes a model of board that cares about the strategy, supervision and control. However, it is left to each company to set up a specific structure of board suitable to their own characteristics. In addition, the new Code provides a list of detailed explanations about the board's function, its regulation, the way that it operates, guidance on how to act in case of situations involving potential conflicts of interests, how to reward board members, and how to organize governance mechanisms. The new Code establishes specific recommendations for the corporate governance of conglomerates. This is very important in the Colombian context as this kind of firm organization has become very common, regulators have identified that it is a priority to have guidelines on this topic to prevent abuses in the transactions between firms belonging to the same conglomerate.

Also, the new Code dedicates a special section to discuss the importance and best practices of risk management. In this regard, the Code recommends that the board institutes a risk committee that has the duty of supervising the firm's risk management and provides a very detailed description of its functions. This is important because the market and operational risk are some of the most important issues for the sustainability and success of firms. Moreover, in this chapter of the Code, there is a control architecture section that addresses issues related to the control of the operations of the firm that discusses the importance of risk control and monitoring.

Finally, the last section of the new Code is dedicated to the importance of information disclosure and accountability. This section is concerned with the appropriate communication of all relevant information regarding the firm to the market and to the shareholders. The new Code dedicates special attention to these issues, especially for the case of conglomerates so that companies may transmit relevant and timely information to all interested parties.

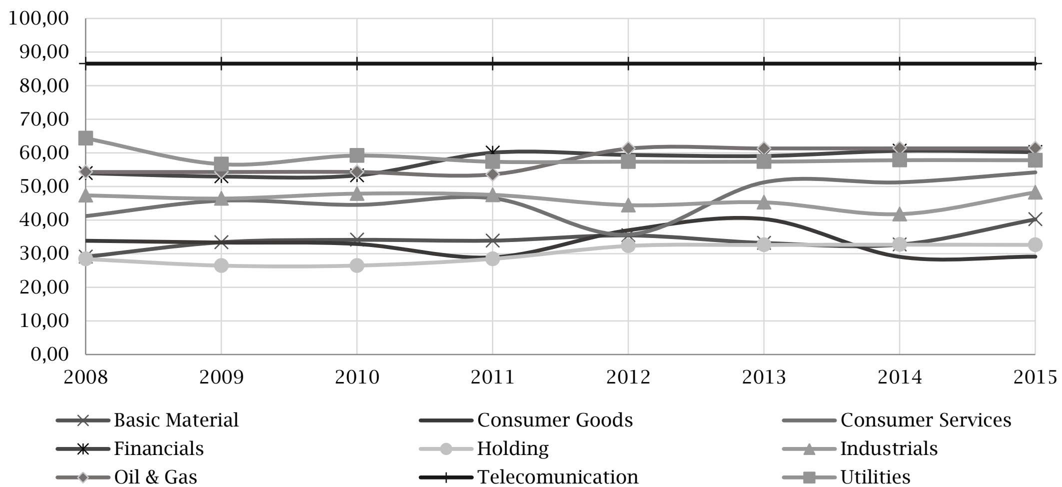
Regarding the adoption and implementation of the recommendations stated in the Country Code, we can distinguish two time periods based on the work of Gaitán (2009) and Trujillo-Dávila and Guzmán-Vázquez (2015). The evidence provided by Gaitán (2009) suggests a very low level of adoption of good corporate governance practices during 2001–2009. Gaitán shows that despite the fact that Law 275 of 2001 required Colombian listed firms to implement a good corporate governance code, companies were slow to elaborate their own internal good corporate governance codes. More importantly, Gaitán provides data showing that after the introduction of the first Country Code in 2007 only a fraction of all listed firms made changes to their existing corporate governance codes. This evidence suggests that during the period 2001–2009 good corporate governance practices had a low priority for the management of Colombian firms.

In contrast, the evidence provided by Trujillo-Dávila and Guzmán-Vásquez (2015) indicates that a radical change occurred in Colombian corporate governance practices in the period from 2010–2013. According to these authors the investors relations program (IR program) of the Colombian Stock Exchange (Bolsa de Valores de Colombia), first implemented in 2011, was the key catalyst for this change in attitude towards good corporate governance, including more transparency and revelation of company information. According to this work, the key argument that seems to have persuaded the management of Colombian listed firms to adopt better corporate governance practices is the claim by the Colombian Stock Exchange that in order to attract funds from foreign investors, and to achieve greater availability and lower cost of capital, their level of transparency and revelation of company information needed to improve. Trujillo-Dávila and Guzmán-Vásquez (2015) construct an information revelation index and show that the level of revelation of information of large and medium capitalization listed Colombian firms during the period from 2010 to 2013 increased by about 24 percentage points. Hence, their evidence suggests that, in contrast to the earlier period, during the period 2010–2013 the management of Colombian listed firms had a better understanding of the importance of good corporate governance practices and how these practices were important for the competitiveness of their firms.

3. OWNERSHIP STRUCTURE

In the corporate governance literature, a firm is considered to have a controlling shareholder when an individual, institution or government owns at least 10% to 20% of the shares of a company (La Porta, Lopez-de-Silanes, & Shleifer, 1999). In Colombia, in most industries, there is a controlling shareholder who owns more than 20% of the ownership stake of each listed firm. The latter is reflected in Figure 1 which shows industry averages for the holdings of the largest shareholders of Colombian listed firms. Moreover, the figure shows that there was no substantial change in the ownership structure of listed companies in the country after the global financial crisis of 2008.

Figure 1. Percentage of shares held by the largest shareholder (industry average, 2008–2015)

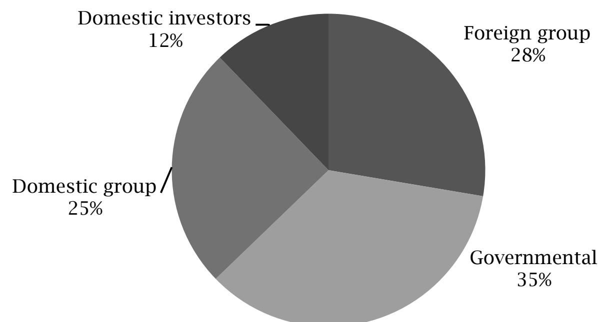


This evidence is consistent with international corporate governance theory. According to Denis and McConnell (2003) corporate governance mechanisms, which lead controlling managers to create value for shareholders, can be classified into internal mechanisms (board of directors, ownership structure) and external mechanisms (the takeover market, the legal system). In the Colombian market, we see important participation of internal mechanisms of control, especially through the ownership structure of listed firms.

Doidge, Karolyi, and Stulz (2007) suggest that corporate governance at the country level is more important in less developed markets, such as the case of the Colombian market, than corporate governance at the firm level. However, they also find that corporate governance at the country and the firm level are complements and that both are important to have well-governed firms. Since there is relatively weak corporate governance at the country level in Colombia (Vasco, Cortés, Gaitán, & Durán, 2014), it is logical to expect *a priori* that there will be a high concentration of ownership as a substitute corporate governance mechanism. This is precisely what we observe in Figure 1.

Regarding the largest shareholder, we have examined 43 Colombian listed firms to explore the identity of the largest shareholder. In Figure 2, we classify the largest shareholders into four groups: governmental, foreign group, domestic group and domestic investors based on the characteristics of the largest shareholder. We observe that in the Colombian market there is important participation of the Government which owns 35% of the listed companies, especially in sectors such as utilities, telecommunication and oil & gas. The second largest participation is from foreign groups who own 28% of the listed firms with investments in the financial, consumer services, consumer goods, industrials, utilities and basic materials. Domestic groups own 25% of the listed firms in sectors such as financials, utilities, industrials and consumer goods. Finally, domestic investors, which are mainly firms engaged in investing in the Colombian stock market, own 12% of the listed companies.

Figure 2. Largest shareholder's identity in Colombia listed firms in 2015



4. MARKET FOR CORPORATE CONTROL (M&A)

According to the corporate governance literature, acquisitions may be classified into mergers and tender offers. While mergers are usually conducted with the collaboration of the incumbent managers and are usually considered friendly transactions, tender offers are often made directly to shareholders to overcome the resistance of incumbent managers and are described as hostile takeovers (Jensen & Ruback, 1983). Importantly, corporate governance researchers have found that shareholders of the target firms tend to benefit greatly during both mergers and tender offers.

On the other hand, scholars have also found that firms that perform a tender offer tend to over-perform in the long run (up to five years after the acquisition) while firms that merge underperform in the long run (Loughran & Vijh, 1997). The generally accepted explanation of these facts is that tender offers usually create shareholder wealth because they involve the disciplining of target managers or the appointment of more efficient managers, while mergers tend to destroy shareholder wealth during the post-acquisition period as it does not involve improvements of corporate governance such as the removal of less efficient incumbent management.

In Colombia, the market of corporate control is characterized by the absence of tender offers (hostile takeovers). In practice, acquisitions consist of friendly mergers that count on the collaboration of the management of the target firm. The reason is that, as we describe in the previous section, Colombian firms have very high ownership concentrations. The owners, their families and friends are usually also the managers and directors of the firm, and therefore hostile takeovers are not feasible. In addition, for some of the largest and more important listed firms, the ownership is concentrated in economic groups. This suggests that when mergers occur these tend to benefit the interests of the economic groups and they do not necessarily create wealth for outside shareholders.

5. BOARD OF DIRECTORS' PRACTICES

Board of directors is the main internal control mechanism of a corporation. They are responsible for the well-functioning of the firm and must perform internal monitoring to protect shareholder wealth (Fama & Jensen, 1983). For this reason, the issue of board of directors' practices is one of the main topics in corporate governance. Azar and Grimminger (2011) have summarized the main findings of the Colombian corporate governance institute "Confederación Colombiana de Cámaras de Comercio (Confecamaras)" regarding the board of directors practices. They observe that the impact of the Country Code was likely to be limited at the time of their investigation, as most companies tended to comply only with what is required by Colombian law and not with the recommendations in the Code. For instance, companies would comply with the preparation of the Country Code survey since its elaboration is required by law; however, firms would not follow most of the recommendations stated in the Code.

One of the main duties of the boards of directors in Colombia is to be loyal to the company and to shareholders. However, the study by Azar and Grimminger (2011) finds that, while Colombian law establishes joint liability for the board of directors in cases of malfeasance, there was no mechanism in place to assess the board's degree of compliance to their duties. Another key responsibility of Colombian boards of directors is to set the strategy of the firm. Yet the study finds that although the boards have the necessary information to exercise their role, in most cases the information is not timely. It is observed that only in the largest Colombian companies' boards of directors are usually well prepared and informed.

With respect to board characteristics, Colombian law requires that boards of directors must have a size ranging from a minimum of 5 to a maximum of 10 members, from which at least 25% of directors must be independent (Ley 964 de 2005). In this regard, corporate governance studies have found that in practice Colombian boards of directors tend to comply with the minimum percentage of independent directors required by law (Azar & Grimminger, 2011). On the other hand, although Colombian firms do not provide detailed information regarding director independence requirements, a recent study by Gaitán (2017) finds that overall the directors of Colombian firms are experts who possess the necessary skills to successfully exercise their role.

Azar and Grimminger (2011) find that one of the main weaknesses of Colombian boards of directors relates to the monitoring, supervision and handling of conflicts of interest. While Colombian CEOs are usually not the chairman of their boards and there is a clear separation between these two roles, the authors observe that evidence from surveys suggests that conflicts of interest are not discussed in board meetings in Colombia and that there is no mechanism to disclose a potential conflict of interests. In addition, they find that Colombian corporations disclose very little information regarding the practices and the actual performance of the committees of the board of directors. Moreover, Colombian firms lack well-developed practices to evaluate board performance, not to mention the means to evaluate the performance of each director individually. On the other hand, Colombian firms are required by law to have an audit committee formed by independent directors. However, very little is known about the composition of other committees such as the compensation and nomination committee, the corporate governance committee and the risk management committee. Finally, although the New Country Code establishes the importance of evaluating and implementing risk management measures, in practice, Colombian boards of directors tend not to discuss risk management policies adopted by their firms in their meetings. One possible explanation is that Colombian corporate culture still lacks a full understanding of the importance of risk management for the long-term health of the business.

To conclude, we find that there is still very little information available regarding Colombian board practices in the corporate governance literature. New studies on these issues are needed as such investigations could help design and implement best corporate governance practices that enhance the role of the board of directors in the country.

6. DIRECTORS' REMUNERATION PRACTICES

The Colombian Commerce Code (Código de Comercio in its Article 187, number 4), establishes that directors' remuneration must be approved in the general shareholders' meeting. In addition, the New Country Code recommends that corporations should have a remuneration policy for

the board of directors and that the total effective cost of the board of directors should be published on the company website. However, although in Colombia the majority of the companies that trade in the stock market publish the remuneration policy for both their board and its committees, only a few corporations publish the total amount of the directors' remuneration.

In consequence, we find that there are no academic studies about remuneration practices in Colombia. On the other hand, international consultancy firms that make surveys about these practices around the world sell information about remuneration practices of Colombian boards of directors. Thus, a recent survey conducted by an international consultancy firm finds that Colombian corporate boards are remunerated by session or by monthly payment and that if a member of the board participates in a board committee it receives additional payment. More importantly, according to the study, the remuneration of Colombian directors is up to 40% lower compared to the remuneration of directors of companies in other Latin American countries (Dinero, 2017).

In sum, we find that although firms disclose the remuneration policy for their boards of directors, the revelation of the total remuneration amounts is less than transparent. Importantly, we also find that there are opportunities for future research in the field of director remuneration practices in Colombia, as there are currently no academic studies available that would permit us to better assess the current situation of this important corporate governance dimension in the country.

7. SHAREHOLDER'S RIGHTS PROTECTION

Regarding shareholder's rights protection in Colombia, the New Country Code of 2014 recognizes shareholders' property rights and states that they have the right to influence the way the corporation is run through their participation and vote in the annual general shareholders assembly, to request and receive timely information and to participate in the profits generated by the firm. Thus, the Country Code recommends an equitable treatment of shareholders and measures to achieve this in practice, such as the approval by the board of directors of a concrete procedure to communicate with shareholders, to receive their requests for information, and to provide them with relevant information. To prevent the dilution of the capital of shareholders, the Code recommends that the details of ownership structure be published on the corporation's web page and that the corporation must explain in detail all operations that may result in the dilution of the capital of shareholders. On the other hand, in order to provide information to shareholders regarding the profits or losses of the company, the Code recommends that corporations must organize events (such as podcasts or video conferences) to present quarterly results to their shareholders and to market analysts.

Shareholders' rights are also protected by the provisions of the Colombian Commerce Code (Código de Comercio). For instance, the Commerce Code in its Article 191 states that shareholders can challenge resolutions made in the general shareholders assembly if these do not comply with the internal statutes of the corporation or with Colombian law. Additionally, Article 830 of this code states that if a controlling shareholder abuses its rights and causes damages to other shareholders, minority shareholders can sue the controlling shareholder in court and may receive indemnification.

In practice, however, although the laws give substantial protection to shareholders through these and other articles of the commerce code, there are problems with the application of the law as it is usually too costly and too time-consuming for shareholders to obtain redress from the courts. This is reflected in measurements taken by the World Bank's World Governance Indicators (WGI) project regarding the effectiveness of the rule of law in Colombia. In particular, the WGI's rule of law indicator which measures perceptions regarding the quality of contract enforcement, property rights, police and the courts among others, shows that while the effectiveness of the rule of law in Colombia has improved substantially in the last 20 years, it still lags other Latin American countries, such as Chile and Brazil, in this respect (World Bank, n.d.).

8. SHAREHOLDER ACTIVISM

Traditionally, shareholder activism did not have an important role in the governance of Colombian firms. However, this started to change with the enactment of Law 275 of 2001 which specifically mandates that in order to be eligible to receive investments from pension funds Colombian corporations must first adopt a good governance code (Gaitán, 2009, p. 144).

More recently, the participation of pension funds and hedge funds as a percentage of the total ownership in the Colombian stock market has increased substantially, so that in the last ten years has reached an average of between 50 to 60 percent. This presence of pension and mutual funds has had a positive impact on corporate governance in Colombia through increased shareholder activism. For example, in 2015, in an extraordinary shareholder meeting of Grupo Exito, one of the main retailers in Colombia, Casino Group (the controlling shareholder of Grupo Exito with 54.84% of the votes) approved the acquisition by Grupo Exito of assets of its subsidiaries in Argentina and Brazil for USD 1,826 million, at a time of heightened uncertainty in those Latin American markets. Minority shareholders in Colombia who had 31.5% of the votes (including Colombian pension funds with 18.1% of the votes) were understandably worried about the increased risks and the possibility of minority shareholder expropriation as Casino Group was the controlling shareholder of both the acquiring company and the targets (La República, 2015). Following the approval of the transaction, institutional investors such as Porvenir sold part of their share participation and the stock price of Grupo Exito fell strongly. In addition, minority shareholders including institutional investors sued Grupo Exito. This episode illustrates that shareholder activism is becoming an important force that controlling shareholders will have to reckon with in the Colombian stock market which will likely improve corporate governance in Colombia.

9. CORPORATE GOVERNANCE AND FIRM PERFORMANCE

The Colombian stock market is characterized by having a small number of listed firms. For instance, as of May 2017, there were only 69 issuers in the Colombian stock market. Of these, only about 20 are liquid and are listed in the COLCAP Index which is the main stock market index in Colombia. Hence, studies on the relationship between corporate governance and market performance for Colombia are confronted with the difficulty that observations are generally too few to make reliable inferences. Thus, Langebaek and Ortiz (2007) construct a corporate governance index for Colombian firms to study the relationship between corporate governance and Tobin's Q but do not find any significant relationship between these two variables.

On the other hand, Gutierrez and Pombo (2007) examine the relation between corporate control (voting rights) and performance of Colombian companies from 1998 to 2002. They find that ownership and control are positively associated with firm performance measured as return on assets (ROA) and return on equity (ROE) even for affiliate firms. Additionally, they construct an index using a survey of the companies to evaluate corporate governance standards. However, they do not find any evidence of a significant relationship between better corporate governance practices and firm performance.

One way researchers can increase the number of observations in their samples is to include non-listed companies in their studies and examine accounting measures of firm performance. Thus, Benavides and Mongrut (2010) study the effect on the ROA of Colombian firms of issuing a good governance code in accordance with the requirements of Law 275 of 2001. The authors find that the firm's ROA improves about 1% after the introduction of the good governance code.

Several of the relevant studies that examine the relationship between governance and performance for Colombia do so as part of a regional study of this relationship for Latin America. In a recent study, Trujillo-Dávila and Guzmán-Vásquez (2015) construct an information revelation index to examine the relationship between information revelation and Tobin's Q in six Latin American countries (Colombia, Brazil, Mexico, Peru, Argentina and Chile). The authors find a positive and significant relationship between their revelation index and Tobin's Q, which suggests that good governance as measured by a higher information revelation index improves firm performance as measured by Tobin's Q.

In another study for Latin American countries, Fuenzalida O'shee, Mongrut Montalván, Nash, and Benavides Franco (2008) investigate the relationship between ownership concentration and required return on equity. They conduct their study for five Latin American countries (Brazil, Chile, Colombia, Peru and Venezuela) and conclude that, on average, stockholders require a higher rate of return on their investments in companies with the highest ownership concentration compared to companies with the lowest ownership concentration in Latin America. According to these authors, their findings suggest that in Latin America minority shareholders face higher risks of expropriation at the hands of majority shareholders.

In sum, although the results are not conclusive, the studies suggest that while there is a positive relationship between corporate governance and accounting measures of firm performance (ROA, ROE) this does not necessarily reflect value for the shareholders as measured by market measures of firm performance (Tobin's Q). The reason is that since the control of the company is entrenched, the corporation will not necessarily pay out the benefits of good performance to shareholders in the form of dividends, or generate capital gains in the long run. However, recent studies that report improvements in information revelation suggest that increased transparency in recent years will help align the interests of shareholders and management in Colombia so that good accounting performance will likely translate into good market performance in the future.

10. CORPORATE SOCIAL RESPONSIBILITY (CSR)

There are two main corporate governance philosophies in the world. While Anglo-American countries follow a shareholder-wealth maximization model of corporate governance in which the key goal is to create value for shareholders, other non-Anglo-American markets, such as Germany, follow a stakeholder orientation in which controlling shareholders are constrained by other groups such as communities, the environment and employees (Eiteman, Stonehill, & Moffett, 2013).

For the case of Colombia, we find that the Country Code follows a shareholder wealth maximization orientation and that the interest of other stakeholders is not fully recognized. Moreover, recent studies have found that there is no national corporate social responsibility policy or vision in place in Colombia. For instance, a study conducted by Jansen and Veeneman (2016) finds that in Colombia there is no central organization responsible to provide support for the implementation of CSR policies in Colombian companies. Instead, there are several decentralized institutions that give advice and recommendation in this area, such as Pacto Global, Global Reporting Initiative, CECODES, among others. Also, Jansen and Veeneman (2016) find that Colombian companies have a rather short-term vision regarding the implementation of CSR policies as opposed to a long-term business perspective. According to these authors, there is a lack of awareness regarding the meaning of CSR, there are no measures for the promotion of CSR, and companies tend not to share their experience in these matters.

Nevertheless, we would argue, in contrast, that although there is no centralized authority and there certainly are difficulties such as a lack of CSR culture, Colombian companies have started to adopt corporate social responsibility policies of their own accord and are starting to show some progress in this direction. Moreover, we find that subsidiary companies have established effective CSR strategies following the international standards of their parent companies.

11. INDUSTRIAL SPECIFICS OF CORPORATE GOVERNANCE IN COLOMBIA

Regarding industrial specifics of corporate governance in Colombia, there are important differences between governance in financial institutions and companies of the real sector. While the corporate governance of financial institutions is highly regulated through obligatory norms issued by the Superintendencia Financiera de Colombia (Colombia's financial regulator) based in part on international regulations such as the Basel Accords, the corporate governance of companies in the real economy is regulated mainly through the Commerce Code and the Country Code. As mentioned earlier the Country Code relies on a nonbinding comply or explain regulatory approach, while the corporate governance regulations of the Commerce Code are very general and usually do not cover any specific governance recommendations. Hence, the corporate governance standards maintained by the financial sector are much stricter than those of companies in the real sector. Recent studies have found that there is no statistically significant relationship between the adoption of good corporate governance practices by financial firms in Colombia and profitability. This may be explained by the fact that financial firms are more strictly regulated and controlled than is required by the Country Code (Gaitán & López, 2017).

12. CONCLUSION

In this paper, we have discussed the current state of several important aspects of corporate governance in Colombia. We found that the Colombian government has made important efforts to improve corporate governance in the country. A key contribution by the government has been the creation of a code of best corporate governance practices (Country Code). However, the ownership structure of Colombian companies remains highly concentrated and, consequently, there is basically no market for corporate control in the country to speak of and shareholder activism is minimal.

Furthermore, we find that the evidence on the topic of corporate governance and firm performance is inconclusive especially due to the small datasets; observations are generally too few to make reliable inferences. In addition, we find that there are opportunities for future research in several of the areas discussed in our paper, especially regarding boards of director practices, director remuneration, and corporate social responsibility. New studies on these issues are needed as such investigations would help regulators, government Institutions, and the stock market self-regulatory organizations to design and implement best practices to enhance corporate governance in the country.

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