THE PUZZLE OF CORPORATE GOVERNANCE DEFINITION(S): A CONTENT ANALYSIS

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Abstract

This study contributes to the understanding of Corporate Governance term by using content analysis on twenty two definitions, dated from 1992 to 2010. We developed a six-dimensional framework and we calculated the frequency count using Internet search engine. Our results reveal that the more used definitions are the narrower (those of two or three dimensions), which implies that a further study, discussion or extension could act as a cornerstone to a cross-disciplinary dialogue for a broader definition of Corporate Governance.

Keywords: Corporate Governance, Analysis, Definitions, Myth

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1. Introduction

The Corporate Governance (CG) principle derived mainly from the separation problem arisen between ownership and control in modern models (Berle and Means, 1932). And indeed, in the past, Adam Smith (1776) had pointed that "*being the manager of other people's money… one cannot expect to watch over it with the same anxious vigilance*".

Up to this point, several theoretical frameworks have been used to analyze CG (Solomon and Solomon, 1999) including Finance, Stewardship, Stakeholder and Political models (Hawley and Williams, 1996).
In order to understand the specific meaning of CG a simple web search reveals a considerable number of various definitions of it. This justifies the existence of a myth for a general agreement on the definition of CG (Brickley and Zimmerman, 2010:236), while it proves that its concept is usually ill-defined. This fuzziness derives from the fact that different researchers are referred to CG from different perspective, resulting in a multitude of separate definitions with little consensus on what constitutes a widely accepted definition of CG.

However, based on the literature review of the various definitions of CG that have been produced during the recent years, we could classify them into two categories. On the one hand, "the set of definitions that concerns with the behavioral patterns: that is, the actual behavior of corporations, in terms of performance, efficiency, growth, financial structure and treatment of shareholders and other stakeholders". On the other hand, "the set that concerns with the normative framework: that is, the rules under which firms are operating – with the rules coming from such sources as the legal system, the judicial system, the financial markets, and the factor (labor) markets" (Claessens, 2003:4).

Consequently, we think that it is useful to quote a variety of definitions of CG that are usually used by authors and organizations globally. According to the economist and holder of the Nobel Prize Milton Friedman (1970), even though he did not use the exact phrase "corporate governance", he mentioned that the business management should satisfy the owners' expectations or the shareholders. We should note that this definition is based on the economic concept of maximizing market value and obviously does not cover the current "requirements" of CG referring to the stakeholders.

Another definition, which is at the same time the most widely used one, is that of OECD which reports that CG is "the system by which companies are directed and controlled" (OECD, 1999; Cadbury Report, 1992). Also, Shleifer and Vishny (1997:737) refer that CG "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Zingales (1997) as well, mentioned that CG "is the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm" (a common definition was used by Nelson, 2005:200).

Similarly, La Porta *et al.* (2000:4) refer to CG "as a set of mechanisms through which outside investors protect themselves against expropriation by the insiders (i.e. both managers and controlling shareholders)".

According to Holmstrom and Kaplan (2001:121-122) CG "means the mechanisms by which corporations and their managers are governed" (mechanisms such as mergers, takeovers, executive stock options, involvement of board of directors and shareholders) (a common definition was used by Kraft and Ravix, 2005:125).

Furthermore, the Organization of Economic Cooperation and Development (OECD) on its updated code in April 2004, claims that "CG is one key element in improving economic efficiency and growth as well as enhancing investor confidence. CG, indeed, involves a set of relationships between company's management, its board, its shareholders and other stakeholders. Also, it provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

Similarly, Ho (2005:212) refers to the CG "as the structure and processes among the board of directors, shareholders, top management and other stakeholders, which further involves the roles of the stewardship process and exercising strategic leadership, and the objectives of assuring accountability and improving performance". Finally, Larcker, Richardson and Tuna (2007:9), indicate the CG "as the set of mechanisms that influence the decisions made by managers, when there is a separation of ownership and control (some of these monitoring mechanisms are the boards of directors, institutional shareholders, and operation of the market for corporate control)".

Taking the above into account, it becomes perceptible to every reader that the variations between the definitions illuminate the different perspectives taken by the authors. (In table 1 a more detailed record of definitions that have been produced by different authors is provided) The main reason is that CG covers a wide variety of subjects around the business function and this can be supported by the diverse views that may exist due to the fact that different scholars have different viewpoints when investigating firms or by the various intellectual backgrounds or interests of scholars (Turnbull, 1997). Therefore, every writer adjusts the meaning of CG based on the issue that he examines.

For this reason, the absence of a common accepted definition has negative implications in various researches, which means that "it can influence the focus structure and interpretation of the subsequent analysis" (Brickleyand Zimmerman, 2010:239).

Finally, it is worth mentioning that the structure of this paper is similar to two other studies that have been published on the thematic issue of Corporate Social Responsibility and Intellectual Capital by Dahlsrud (2006) and Marr and Moustaghfir (2005) respectively. Especially with this of Dahlsrud (2006) there is a common intersection in the examining issue that is, it follows the same structure.

2. Methodology

2.1. Data

Based on a previous research of Dahlsrud (2006) we implemented content analysis [1] on 22 CG's definitions in order to conclude on the significance for each of them. Those definitions are not the total amount expressed for CG but only a part of them and they have been collected through the method of snowball sampling [2]. Furthermore, our methodology derives from the principle referred by Dahlsrud (2006) that "the most frequently used definitions are more significant than the rarer" and is strengthened by Blair, *et al.* (2002) research. More specifically, Blair, *et al.* (2002) proved that Internet search engines produce valid and reliable frequency estimates and proposed that researchers should "take advantage of this highly accessible and easy-to-use method". Finally, according to their advice to use larger search engines (as far as they have more representative databases) we conclude to count the frequency of definitions through Google search and the exact procedure is described analytically on the following section.

2.2. *Statistical Analysis*

We used 22 definitions of CG, expressed by 33 researchers, in order to derive the dimensions which this concept includes. Those definitions are exclusively collected through published papers [3] and dated from 1992 to 2010. To begin with, we extracted specific phrases from each individual definition and by classifying them we conclude at 6 dimensions, as described in table 1. More specifically, this table depicts each dimension along with its detailed explanation and some example phrases. This procedure is required due to the fact that there are no clear dimensions for CG definition on the literature and someone has to conclude to these through observation on recurrent phrases [4].

What is more, we used the Google search engine in order to count the frequency with which each definition is referred in a text and finally we calculated the dimension score using the following equation (Dahlsrud, 2006):

$$DS_i = \sum_{j=I}^{x} F_{Def_{ji}}$$

where,

DS_i: is the dimension score for dimension i

$F_{Def_{ji}}$: is the frequency count for definition j categorized to dimension i and

x: is the total number of definitions categorized to dimension i

At the same time, we evaluated the relative use of each dimension using the following equation of dimension ratio (Dahlsrud, 2006):

$$DR_i = \frac{DSi}{\sum_{k=I}^{\gamma} F_{Def_k}} * 100\%$$

where,

DR_i: is the dimension ratio for dimension i

DS_i: is the dimension score for dimension i

F_{Def_k}: is the frequency count for dimension k and

γ: is the total number of definitions in the analysis.

The evaluated dimension ratio and dimension score is depicted at Table 2, while the total frequency count at Table 3. Furthermore, the frequency count of each definition and the dimensions to which it is referred to is presented in detail in Appendix (Table 4).

As we can see in Table 2, the dimensions of institutional, shareholder and governance are used systematically, as each ratio is above 70%, while those of control, performance and stakeholder are chosen more rarely. It is also worth mentioning that the first dimension (that of institutional) has a ratio of 93%, which means that almost every definition is referring to this.

Moreover, as table 3 depicts, 80% of the definitions has at least 3 dimensions but none of these include all 6. This implies that the most commonly used definitions are the narrower (of 2 or 3 dimensions), while the broader are often omitted. Up to this point, we could say that it is necessary for the CG scientific field to be expanded. This means that CG has to incorporate more dimensions such as those of stakeholder rights, company's performance and control, which are also contribute to corporate efficiency in the same way.

Table 1. The distinction of dimensions as well as their description along with example phrases

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The institutional dimension	Institutional and organizational mechanisms or A nexus of contracts	"set of mechanisms" "mechanisms by which corporations" "structures, processes, cultures and systems"
The shareholder dimension	Shareholders or shareholder group	"the interest of shareholders" "the benefit of investors" "suppliers of finance"
The governance dimension	The Board of Directors (including managers as well)	"company's management" "exercise of power over corporate entities" "companies are strategically directed, integratively managed"
The control dimension	The function of audit/ control	"companies controlled" "holistically controlled" "controlled"
The performance dimension	Investor's performance	"of getting a return on their investment" "performance" "distribution of firm value"
The stakeholder dimension	Stakeholders or stakeholder groups	"rights and wishes of stakeholders" "stakeholders"

Table 2. The dimension score and ratio

Dimension	Dimension score	Dimension ratio (%)
The institutional dimension	1326	93
The shareholder dimension	1139	80
The governance dimension	1058	74
The control dimension	546	38
The performance dimension	514	36
The stakeholder dimension	369	26

Table 3. The total percentage of frequency count per number of definitions for each dimension included

Dimensions included in a definition	Number of Definitions	% of total frequency count from Google
=6	0	0
≥5	2	21
≥4	8	56
≥3	14	80
≥2	19	89
≥1	22	100

3. Discussion

Based on the above analysis we can easily conclude that when we define CG we should take into account six dimensions: institutional, shareholder, governance, control, performance and stakeholder.

Despite the fact that each dimension is necessary in order to understand CG, the stakeholder, control and performance dimensions are usually omitted. This could be explained by the fact that initial efforts on CG explanation were based on the shareholder model. However, in recent years there is a great increase in the use of stakeholder theory to explain CG, which means that the latter theory is gradually included as a dimension on CG definition. As for the performance dimension, it is usually left out while most of the times it is implied.

Furthermore, as it has also been mentioned, there is a probability of over 70% that CG definition includes the institutional dimension in the same way as the shareholder and governance dimension. This could be explained by the fact that the creation of CG definition acts as a cornerstone and is based on the agency theory which strives to solve the principal-agent problem (Jensen and Meckling, 1976; Fama and Jensen, 1983).

Moreover, the probability for a definition to include at least 3 dimensions is 80%, which confirms once more the serious gap that exists in "Corporate Governance" term clarification.

Two examples of possible definitions are presented below which could overcome the above mentioned problems.

The first one expressed by Nerantzidis (2012) and defines CG in a comprehensive and concise manner as "the plethora of mechanisms, both internal and external, that gives at least the fair value in shareholders and in parallel protects the interests of all stakeholders".

The second, expressed by Schmidt and Tyrell (1997) defines CG in a more analytical manner as "the totality of the institutional and organizational mechanisms, and the corresponding decision making, intervention and control rights, which serve to resolve conflicts of interest between the various groups which have a stake in the firm".

On the one hand, the former is referred to the distinction between internal and external mechanisms, which are obviously absent from the definitions of the sample, while with its reference to the internal mechanisms the control and governance dimension are implied as well. This can also be supported even by Dore (2003) who mentions in his research "the Globalization of CG and the External and Internal Mechanisms of Control".

On the other hand, the latter "covers not only the company's charter and the legal framework, including, for example, the bankruptcy law, disclosure rules and laws on insider trading, but also the actual distribution of ownership rights to the company, as well as the rights of creditors, including banks, to intervene and exercise control, and also the extent to which the company's employees, as well as its suppliers and the customers who buy its products, can influence its actions within the relevant legal framework" (Schmidt and Tyrell, 1997:342). However, this definition misses out to mention the performance dimension, which considers that investors will not only resolve the conflicts of the interests but also ensure a fair value of their investment.

Therefore, the reconciliation of all the above mentioned strengthen our opinion about the restatement of CG definition. This restatement should approach to a large extent the effect of the prevalent theories in order to explain the "puzzle" of CG.

4. Conclusion

To sum up, it is worth mentioning that none of the definitions refer to the 6 dimensions at the same time while the 5 dimensions are included only in two. This means that the more used definitions are the narrower and the issue of CG should be reviewed in depth.

However, the first proposed definition captures the institutional dimension because it defines CG as the "plethora of mechanisms" while at the same time includes the dimensions of governance and control as it distinguishes between the internal and external mechanisms. Furthermore, it assumes the performance dimension with the term of "fair value" while it equates the interests of the shareholders and the stakeholders.

Concluding, in this article we make a first attempt to define CG and put forward the deficiencies of this term. Moreover, we suggest two things for further research. Firstly, the CG term should be expanded with more proposed definitions through a further study, discussion or extension. And secondly this research could be repeated with more definitions and with the purpose to capture a periodicity on the creation of these definitions according to the various judgements.

All in all, we could say that "to explain all nature is too difficult a task for any one man or even for any one age. It is much better to do a little with certainty, and leave the rest for others that come after you, than to explain all things" (as mentioned by Isaac Newton) [5].

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6. Notes

1. Content analysis is a technique to make inferences by objectively and systematically identifying specified characterists of messages (Holsti, 1969: 14).
2. The snowball sampling in this study is related to a method which "yields a study sample through referrals made" among articles "that share the same subject or interest" (Biernacki and Waldorf, 1981). Also for a better understanding of the method see Goodman (1961).
3. We excluded definitions reported on working papers, magazines, books and websites.
4. Further analysis of the meaning of dimensions such as control, governance etc. could be seen in Turnbull (1997).
5. Referred to Brickley and Zimmerman (2010:244) as "Statement from unpublished notes for the Preface to Opticks (1704) quoted in *Never at Rest: A Biography of Isaac Newton* by Westfall (1983:643)".

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Appendix

Table 4

Definition source	Definition	Frequency count	Dimensions
Cadbury Report, 1992	The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.	460	institutional governance control shareholders
OECD, 2004	CG involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined	300	institutional governance shareholders stakeholders performance
Shleifer and Vishny, 1997	CG deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment	205	institutional shareholders performance
Zingales, 1997	The complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship	81	institutional
LaPorta, Lopez-de-Silanes, Shleifer and Vishny, 2000	A set of mechanisms through which outside investors protect themselves against expropriation by the insiders	79	institutional shareholders governance
Tricker, 2009	CG is about the exercise of power over corporate entities	57	governance
Mayer, 1996	CG is concerned with ways of bringing the interests of the two parties into line and ensuring that firms are run for the benefit of investors.	32	governance shareholders
Solomon, 2007	The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible in all areas of their business activity	32	institutional control stakeholders
Financial Reporting Council, 2010	CG is defined as about "what the board of a company does and how it sets the values of the company"	30	governance institutional
Demb and Neubauer, 1992	A process by which corporations are made responsive to the rights and wishes of stakeholders	29	institutional stakeholders
Clarke, 2004	CG is about the way corporate entities are governed	28	institutional governance
Keasey and Wright, 1993	The structures, process, cultures and systems that engender the successful operation of the organization	20	institutional
Parkinson, 1994	The process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders	17	control governance

			shareholders
Larcker, Richardson and Tuna, 2007	The set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control	14	institutional governance shareholders control
Cannon, 1994	The governance of enterprise is the sum of those activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment	8	institutional shareholders control governance
Holmstrom and Kaplan,2001	CG means the mechanisms by which corporations and their managers are governed	8	institutional governance
Kraftt and Ravix, 2005	Is the general system by which firms are owned and managed	8	institutional shareholders governance
Hilb, 2005	New CG is a system "by which companies are strategically directed, *integratively* managed and holistically controlled, in an entrepreneurial and ethical way, and in a manner appropriate to each particular context"	8	institutional governance control
Nelson, 2005	The set of constraints on managers and shareholders as they bargain for the distribution of firm value	8	institutional governance shareholders performance
Demirag, 1998	The system by which companies are controlled, directed and made accountable to shareholders and other stakeholders; control is understood as including indirect influences of financial markets	7	institutional control shareholders stakeholders
Ho, 2005	The structure and processes among the board of directors, shareholders, top management and other stakeholders, and involves the roles of the stewardship process and exercising strategic leadership, and the objectives of assuring accountability and improving performance	1	institutional governance shareholders stakeholders performance
Schmidt & Tyrell, 1997	CG refers to the totality of the institutional and organizational mechanisms, and the corresponding decision making, intervention and control rights, which serve to resolve conflicts of interest between the various groups which have a stake in the firm	0	institutional shareholders stakeholders control