

## **A Review of Corporate Governance Research: An Irish Perspective**

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## **Abstract**

An overview of corporate governance is provided in this chapter, commencing with a discussion of alternative definitions of governance. Internal and external mechanisms of governance are described. The role of boards of directors, and theories explaining those roles, are also considered. In order to provide some insights into governance research, 15 academic papers with an Irish angle were selected for analysis, by reference to theoretical perspective, governance mechanism studied, research method adopted and results. The analytical table demonstrates the variety of research conducted. Some concluding comments are then drawn.

## **1. INTRODUCTION**

This chapter provides an overview of corporate governance, with particular emphasis on governance research with an Irish perspective. The chapter starts by examining various definitions of corporate governance, followed by a summary of the mechanisms of governance, both internal and external. Then the various theories applied in prior governance research are discussed. This is followed by a summary of prior empirical and other governance research. For reasons of space, only prior research with an Irish angle is reviewed. This is a fraction of the prior research on governance internationally, and governance researchers are encouraged to read more widely to obtain a more comprehensive view of prior governance research. The chapter concludes with some suggestions for further research.

### **DEFINING CORPORATE GOVERNANCE**

Definitions of corporate governance are varied. Traditionally, the phrase corporate governance has been interpreted narrowly. Bradley, Schipani, Sundaram and Walsh (1999) question the traditional and narrow view of governance which tends to focus on the relation between firms (top managers as mediated by the board of directors) and their capital providers. A broader definition considers the relationships among various groups (in addition to capital providers) in determining the direction and performance of corporations (Markarian, Parbonetti and Previts 2007). Shleifer and Vishny (1997: 737) define corporate governance as the process that ‘deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment’. Denis (2001) and Denis and McConnell (2003) expand on this definition:

Corporate governance encompasses the set of institutional and market mechanisms that induce self-interested managers (and controllers) to maximise the value of the residual cash flows of the firm on behalf of its shareholders (the owners)’ (Denis 2001: 192)

...the set of mechanisms – both institutional and market-based - that induce the self-interested controllers of a company (those that made the decisions on how the company will be operated) to make decisions that maximise the value of the company to its owners (the suppliers of capital)’ (Denis and McConnell 2003: 1)

Johnson et al. (2000: 142) refer to corporate governance as ‘the effectiveness of mechanisms that minimise agency conflicts involving managers...’ and in so doing add ‘effectiveness’ as a criterion relevant to good governance. Keasey and Wright (1993: 291) include accountability as a sub-set of governance in their definition:

Corporate governance concerns the structures and processes associated with production, decision-making, control and so on within an organisation. Accountability, which is a sub-set of governance, involves the monitoring, evaluation and control of organisational agents to ensure that they behave in the interests of shareholders and other stakeholders.

Thus, the key elements of governance are reducing managerial self-interest, maximising shareholder value, governance mechanisms to be effective and accountability through monitoring, evaluation and control.

## **MECHANISMS OF GOVERNANCE**

Corporate structure has a major disadvantage arising from the separation of capital providers (shareholders) and capital users (management). Corporate governance mechanisms have evolved that help reduce – but never completely eliminate – the costs associated with the separation of ownership and control (Denis, 2001). Mechanisms of governance are broader than might be expected and are often divided into two groups: those internal to and external to the company.

### **Governance Mechanisms Internal to Company Operations**

Agency theorists (Eisenhardt, 1989; Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976) suggest that internal control mechanisms play an important role in aligning the interests of managers and owners. Internal governance mechanisms are the first line of protection of shareholders. The more effective these internal control mechanisms, the more likely managers are to pursue shareholder wealth. Internal governance mechanisms include (Daily, Dalton and Cannella 2003; Denis, 2001):

- Effectively structured boards (with particular emphasis on director independence)
- Compensation contracts designed to align managers’ and shareholders’ interests
- Concentrated ownership holdings (including institutional shareholders) that lead to active monitoring of managers
- Debt structures

Added to these are the oversight role of auditors in relation to financial reporting, and the role of analysts in ensuring efficient markets.

### **Governance Mechanisms External to Company Operations**

External governance mechanisms, which are activated when internal mechanisms do not work, include (Daily, Dalton and Cannella 2003; Denis and McConnell, 2003):

- The legal and regulatory system
- Market for corporate control

**The legal and regulatory system.** The legal system is a fundamentally important corporate governance mechanism. The key differentiation in different legal systems is the extent to which the law protects investors' rights, and the extent to which the laws are enforced. Recent international corporate governance research has identified systematic cross-country differences in the extent to which countries offer legal protection to minority shareholders. La Porta et al. (1997; 1998 and 1999) assign a measure of investor protection to each of the 49 countries in their research, derived from variables related to shareholder and creditor rights. They find systematic cross-country differences in ownership concentration, capital market development, the value of voting rights, the use of external finance and dividend policies. These differences are related to the degree to which investors are legally protected from expropriation by managers and controlling shareholders.

The level of legal protection offered is in inverse proportion to ownership concentration. Countries with the highest legal protection (such as the US and the UK) have the widest shareholder dispersion. Conversely, ownership concentration is highest in countries offering the least protection for minority investors (La Porta et al. 1998). Only legal systems that provide significant protection for minority shareholders can develop active equity markets. It is not clear whether it is the regulations themselves (law on the books), or the differences in enforcement of regulations (law in practice), that differentiates legal systems. However, common law systems seem to outperform civil law systems in providing superior protection to minority shareholders (Coffee, 1999). Economies with a common law system and

strong protection of minority shareholders have more dispersed shareholdings. Strong legal protection encourages investors to become minority shareholders. Thus, law does matter and regulation can somehow promote economic efficiency than can reliance solely on financial contracting.

While this section has focussed on international variations in the legal rights of minority shareholders, there are other legal differences across countries influencing corporate governance, notably the requirement for two tiered boards and worker directors in some countries.

A further development of the research on majority and minority shareholders is the extraction of private benefits (disproportionately higher than the proportion of shares owned) by shareholders who (in various complex ways) can control companies. Such investors obtain control rights in excess of their cash flow rights. There are two ways in which this is done:

- Tunnelling, whereby assets and profits are transferred out of firms for the benefit of controlling shareholders
- Choosing the corporate managers (e.g., less well-performing family members instead of professional managers)

In addition to legal regulations, corporate governance codes are now common. The best known is the UK's Combined Code on Corporate Governance (Financial Reporting Council 2008), which applies to companies listed on both the UK and Irish stock exchanges. The Code operates on a non-mandatory, voluntary 'comply-or-explain' basis. Thus, it is perfectly acceptable not to comply with the Combined Code, so long as you explain non-compliance. Consequently, the Combined Code is a complete free-for-all; a smorgasbord of choice. No company is ever in breach of it. There is little or no oversight or enforcement of the Combined Code.

**Market for corporate control.** The central role of contracts and market transactions in agency theory extends beyond the internal workings of the firm, to include external market-based forces such as takeovers. Such external forces help ensure efficiency of internal forces. Inefficient contracting will be penalised by the market and these

penalties promote self-correcting behaviour. Thus, poorly performing firms are more likely to be takeover targets. Takeovers create value in total. The combined value of the target and bidder increases as a result of the takeover. However, there is a negative side to takeovers. Takeovers can create additional conflicts of interest between managers and shareholders. While shareholders of target firms gain (on average) as a result of takeover, shareholders in bidding firms lose out (on average) by paying too much for the target. In some cases, the takeover premium exceeds the additional value created by the combination, causing the value of the bidder's shares to fall. Managers who are interested in maximising the size of their business empires can waste corporate resources by overpaying for acquisitions, rather than returning cash to shareholders (Denis, 2001; Denis and McConnell, 2003).

## **THEORIES OF BOARDS**

Hermalin and Weisbach (2001) point out that there has been relatively little theorising about boards of directors, notwithstanding that they have been subject to a great deal of empirical research. No single theory to date fully explains corporate governance mechanisms, and multiple theories are necessary to take account of the many mechanisms and structures relevant to effective governance systems. Daily, Dalton and Cannella (2003) suggest that a multi-theoretic approach is necessary to understand the many mechanisms and structures that may enhance the way in which organisations are structured and function. Bonn and Pettigrew (2009) adopt such a multi-theoretic approach by integrating agency theory, decision-making theory and resource dependency theories, and suggest that board roles change over the life cycle of the firm.

### **Role of the board**

Although boards of directors are a legal mechanism, laws are generally silent on the purpose of boards of directors. Views on the role of the board are mixed, and differ across jurisdictions. This inconsistency may derive from differences in laws and other regulations specifying board roles. The role of the board is set out in a variety of regulatory sources, including:

- Statute
- Common law (precedents set out in case law)
- Self-regulatory codes of practice

Denis and McConnell (2003) observe that the role of the board in many European states is not specified in law. Where the role is specified, it is often couched in vague language, as this Canadian example illustrates: ‘manage, or supervise the management of,...the business and affairs of a corporation’ (Leblanc, 2001: 6) Citing Wymeersch (1998), they note that in many European countries shareholder value is not the only, or even the primary, goal of the board of directors, stating that British, Swiss and Belgian systems are most focussed on shareholder value.

Nor is the corporate governance literature consistent on the role of company boards. Applying a transaction cost economics perspective, Williamson (1985: 316-317) defines the board’s principal role as monitoring – to safeguard shareholders’ investment in the firm. There are a number of ways to increase the likelihood that management acts in the interests of shareholders. One such is monitoring solutions. Monitoring solutions require effective monitors who present credible threats to managers. Shareholders are not capable of doing so, through lack of experience/expertise, and arising from their dispersion, making monitoring managers by small shareholders impractical. However, there are a number of alternatives by way of monitors. One such is boards of directors.

Denis (2001) identifies hiring, firing, compensating and advising top management as the key functions of a board. Denis and McConnell (2003) describe the role of the board as to hire, fire, monitor and compensate management, with an eye to maximising shareholder value.

As part of its corporate governance project, The American Law Institute (ALI, 1994, section 2.01) defines the objective and conduct of companies as follows:

- (a) . ...a corporation should have as its objective the conduct of business activities with a view to enhancing corporate profit and shareholder gain.
- (b) Even if corporate profit and shareholder gain are not thereby enhanced, the corporation, in the conduct of its business:
  - (1) Is obliged, to the same extent as a natural person, to act within the boundaries set by law;
  - (2) May take into account ethical considerations that are reasonably regarded as appropriate to the responsible conduct of business



- (3) May devote a reasonable amount of resources to public welfare, humanitarian, educational and philanthropic purposes.

Thus, although shareholder primacy is the general rule, subsection (b) allows for reasonable ethical and charitable considerations to supersede shareholder primacy. A company should conduct itself as a social as well as economic institution (Eisenberg, 1993). Williamson (1984) argues that shareholder value should be the sole criterion for firm effectiveness. The inclusion of other stakeholders' objectives compromises efficiency and invites tradeoffs. Cox (1993) expresses the view that directors' obligation should be more directly tied to shareholders rather than to a more diffuse stakeholder group. A contrary opinion is that it is in the long term interest of companies to engage in acts of corporate social responsibility as in the long run this increases shareholder value (Friedman 1970). Hayek (1969) more generally discusses stakeholder interests in the operation of companies.

Duties of directors are also relevant here. Courts apply two broad principles against which to assess the conduct of directors:

- *Duty of care and skill*: This derives from the Roman term *mandatum* and requires directors to act in a reasonable, prudent, rational way, as expected of a similar person in his/her position. Courts apply the 'business judgment rule' (when conflicts of interest are absent), which provides directors with the benefit of the doubt when things go wrong. Failure to exercise such care amount to negligence in common law countries.
- *Fiduciary duty*: This is a duty to act honestly and in good faith (sometimes referred to as a duty of loyalty) and specifically addresses situations of conflict of interest. Insiders should not profit at the expense of the company. Breach of fiduciary duty exposes a director to liabilities, and damages will arise where the interests of the company have been adversely affected.

To whom do directors owe their duty? This is another area of confusion in the literature. Strictly speaking in law, directors owe their duty to the company, not to the shareholders. In most cases, this difference has no consequences in practice. However, in extreme cases (Enron in 2001 and Bear Sterns, AIG and Lehman Brothers in 2008 come to mind here), where directors focus on

shareholders/shareholder value (in modern markets this is often an excessively short term perspective), they may kill the company through misplacing their duty to shareholders instead of to the company. Thus, duty to company implies a longer-term perspective and a requirement for prudence in ensuring the survival of the company.

Accountability of directors is not a straightforward issue. In law (as outlined above), directors are accountable for their individual actions, yet they operate and make decisions collectively as a board (Pye, 2002). Individuals may behave differently in a group. Thus, there is a tension between the analysis of individual and collective board actions. Directors (like other groups of people) may do things acting together that they would never do alone (Myers, 1994). A board may be greater (or less) than the sum of its parts. Boards shape their organisations through all aspects of directors' communications, inside and outside the organisation, implicitly and explicitly (Pye 2002).

Board roles most often emphasised are:

1. Strategy: the process by which directors shape the direction, future, vision, values of an organisation
2. Monitoring and control of managers (including hiring and firing of the Chief Executive Officer (CEO)) and
3. Residual / social roles such as the acquisition of scarce resources (Nicholson and Kiel, 2004) / providing support and wise counsel to the CEO (Westphal, 1999)

The prior literature tends to focus on the monitor and control roles rather than the strategy roles. Judge and Zeithaml (1992), Rindova (1999), Golden and Zajac (2001), Westphal and Fredrickson (2001) and Carpenter and Westphal (2001) are exceptions.

### **Agency Theory**

Under agency theory firms are seen as a nexus of contracts negotiated among self-interested individuals. The company is a collection of explicit and implicit contracts that bind various stakeholder groups together. The objective of the company is seen as maximising the value of the firm's residual claims (i.e. not fixed claims), which typically is to maximise shareholder value. Shareholders are the residual risk-bearers. This means that they bear the discretionary risks and rewards, after all fixed

contractual commitments to other participants in the enterprise are satisfied. The pre-eminence of shareholders under agency theory follows from their position as residual claimants. Only residual, rather than fixed claimants, have an incentive to maximise the firm's value.

Bradley et al. (1999) describe this agency perspective on governance as a contractarian paradigm. Voluntary contracting and market forces are relied upon to align the interests of managers and shareholders. Corporate managers facilitate the bargaining process by negotiating with each stakeholder group separately. This view that individuals can freely enter mutually beneficial contracts maximises individual freedom and at the same time economic efficiency.

Shareholders' interests are assumed to be purely financial – shareholders are seen as solely interested in the value of their shares. There are two directions in articulating the duties of managers: fiduciary and contractual. Fiduciary duties are duties of honesty and good faith such that a court can void transactions if managers have not been fair in their dealings. According to Bradley et al. (1999), the fiduciary duties of corporate managers are to the firm's shareholders. This view could be disputed as, strictly speaking, under law directors owe their fiduciary duties to the company not to the shareholders. Under their contracts, managers are assumed to have multiple self-interests. In addition to being interested in shareholder value, they will also value job security, personal power, recognition by society, and the challenge of management. Managers may use entrenchment mechanisms to stay in power. They may be more risk averse than shareholders. They may want to keep free cash flow, instead of giving it back to the shareholders. They may also use their positions to shirk, or to consume extra perks. Berle and Means (1932) predicted that these conflicts, together with the increasing dispersion of ownership, would lead to the demise of companies. However, the reverse has been the case and this can only be explained by the benefits of companies outweighing the agency costs associated with the separation of ownership and control.

Daily, Dalton and Cannella (2003: 372) suggest that agency theory is the dominant theory with other theories acting as complements: 'In nearly all modern governance research, governance mechanisms conceptualized as deterrents to managerial self-

interest'. The view that the firm is a 'self-regulating contractual arrangement among independent bargaining groups' (Kaufman and Zacharias 1992, as quoted in Markarian et al., 2007: 297 ) assumes that the internal mechanisms of control are able to effectively monitor management.

**Agency theory and boards of directors.** How do investors get managers to return capital invested? Agency theorists argue that, in order to protect owners' interest, the board of directors must assume an effective oversight function, as an internal mechanism of control. In the event of failures in internal mechanisms of control, companies invite external governance interference such as from hostile takeovers or shareholder activism.

The board is seen as a relatively low cost monitoring device (Maher and Andersson, 2002). Buckland (2001) comments that the board has evolved in a competitive environment as the lowest cost means by which top managers are monitored. It is low cost because it fulfils the role of replacing or reordering top managers more efficiently than the market for corporate control. Mizruchi (1983) suggests that the exercise of control by boards may vary depending on the relative performance of the firm – boards being more active where performance is poorer.

### **Limitations of agency theory**

There are a number of limitations of agency theory (Eisenhardt 1989; Shleifer and Vishny 1997; Daily et al. 2003):

- Agency theory assumes complete contracts (i.e. contracts that cater for all possible contingencies such as ambiguities in language, inadvertence, unforeseen circumstances, disputes, etc). Bounded rationality does not allow for complete and efficient contracts. Information asymmetries, transaction costs and fraud are insurmountable obstacles to efficient contracting
- Agency theory assumes that contracting can eliminate agency costs. The many imperfections in the market indicate that this assumption is not valid.
- Third party effects are not recognised. Third parties are those affected by the contract but who are not party to the contract. Many boards are conscious of third party effects and adopt social as well as financial responsibilities. Thus, whereas

maximum economic efficiency may (theoretically) be achieved under agency theory, it will not achieve maximum social welfare.

- Shareholders are assumed to be only interested in financial performance.
- Directors and management are assumed to owe their duty to shareholders. The law requires that duty to be owed to companies.
- Boards have a number of roles. Agency theory may be suitable for the monitoring-of-managers role of boards, but it does not explain the other roles of boards. Agency theory is not informative with respect to directors' resources, services and strategy roles.
- Much of the corporate governance research is conceptualised as deterrents to managerial self-interest. Agency theory treats managers as opportunistic, motivated solely by self-interest. Many would argue that this theory does not capture those who are loyal to their firms.
- Agency theory does not take account of competence. Thus, if even incompetent managers are honest (or are made honest by board control) they will still be limited in their ability to meet shareholder objectives. It is not enough to incentivise people to get a task done; they must have the ability to carry out the task (Hillman and Dalziel, 2003).

### **Resource Dependence Theory**

Under resource dependence theory, the role of the board of directors is seen as an effective means of obtaining scarce resources for the organisation, including advantageous contacts, enhancing the legitimacy of the organisation, and accessing other scarce resources. Researchers have classified this as one of the most important roles for boards of directors (Huse 2005; Johnson et al. 1996; Zahra and Pearce 1989).

The extent of a firm's need for resources may influence the mix of inside and outside directors. Directors are seen as 'boundary spanners' of the organisation and its environment (Dalton, Daily, Ellstrand and Johnson, 1999; Hillman, Cannella and Paetzold, 2000; Johnson et al., 1996; Pfeffer and Salancik, 1978). Outside directors can provide access to scarce resources. Outsiders might be useful when firms need enhanced interfirm partnerships and legitimacy (Boyd 1994; Daily and Dalton 1994). Outside directors may be able to access borrowings (Stearns and Mizruchi 1993). In a

crisis, greater outside representation on boards may help obtain valuable resources and information. Increasing the size and diversity of boards assists in linking the organisation and its environment in securing critical resources including prestige and legitimacy.

### **Stewardship Theory**

Davis, Shoorman and Donaldson (1997) provide a good overview of stewardship theory. Under stewardship theory, the board contributes to the stewardship of the company. Managers are seen as good stewards, diligently working towards good corporate performance with interests similar to those of shareholders. Management may see service to shareholders as serving their own interests (Lane, Cannella and Libatkin, 1998). Management's personal reputations, and career prospects, depend on how well managers steward shareholders' assets. Thus, managers have incentives to operate the firm to maximise financial performance and shareholder returns. Stewardship theory implies a more collaborative approach between management and boards. Under this approach, empowering managers (stewards) of the firm to exercise unencumbered authority and responsibility enhances board-management ties and decision-making.

As already noted, researchers are increasingly critical of the application of agency theory which treats managers as opportunistic people motivated by self-interest. Stewardship theorists argue that many managers are stewards whose motives are largely aligned with the objectives of their principals (Donaldson, 1990). When managers acting as stewards are treated as if they were opportunistic agents, they will feel frustrated and may not develop effective, cooperative working relationships with their boards. Donaldson and Davis (1994) caution against control type theories, which dominate thinking to the exclusion of other views.

As stated earlier, agency theory focuses exclusively on managerial self-interest, and ignores problems of competence. This raises serious questions for boards on the extent to which they nurture the development of the CEO's and senior management competencies, thus empowering senior management (stewardship perspective) and improving their competence. The issue of management competence is not a static

concept. For example, Shen (2003) considers whether CEO competence and opportunism may vary over the CEO's tenure.

### **Class Hegemony Theory**

Class-based theorists interpret boards of directors as ways of linking powerful elite into elite class networks (Pettigrew, 1992; Useem, 1984; Stiles and Taylor, 2001). Thus, the power of an elite group is perpetuated by ensuring that members of the board come from that one elite class. The primary function of the board is seen to be the maintenance of the power of those in authority.

### **Managerial Hegemony Theory**

Under this theory, the ruling class elite is management (Kosnik 1987; Mace 1971; Stiles and Taylor, 2001; Vance 1983). The board is a *de jure* but not the *de facto* governing body of the organisation. The real responsibility for running the organisation is assumed by corporate management. The board of directors is in effect a legal fiction and is dominated by management making it ineffective in reducing agency conflicts between management and shareholders.

## **RESEARCH ON CORPORATE GOVERNANCE – AN IRISH PERSPECTIVE**

Excellent reviews of corporate governance have been published (e.g., Becht, Bolton and Röell 2002; Huse, 2005; Shleifer and Vishny, 1997). In this section, prior corporate governance research is briefly reviewed (summarised in Table 1), from an Irish perspective – the theoretical perspectives adopted, the governance mechanisms studied, the methodologies applied, and the issues/sectors/contexts/variables are considered.

**Table 1: Prior corporate governance research reviewed**

<b>Paper (in chronological order)</b>	<b>Theory</b>	<b>Governance mechanism</b>	<b>Method</b>	<b>Issue researched</b>	<b>Result</b>
Brennan and McCafferty (1997)	None identified	Disclosure of corporate governance compliance with Cadbury Code	Survey of annual reports	Practices surveyed include: Independence of boards, Separation of the role of chairman and chief executive; Presence of board sub-committees; Women on boards	Most Irish companies comply with the Cadbury Committee recommendations, with some evidence of non-compliance. Women are under-represented on boards of Irish companies.
MacCanna, Brennan and O'Higgins (1999)	Network of interlocking directorates is structured, and not the result of random processes	Independence of directors	Social Network Analysis	Network of interlocking directorships of the top 50 financial and 200 non-financial companies in Ireland.	Irish boards were found to have a relatively loose connected network structure which is sparser and less dense than those of other countries. This is reflected in the relatively low percentage of multiple directors and the relatively fewer number of directorships per multiple directors. However, there is evidence of a thriving network of corporate power in Ireland.
Dunne and Hellier (2002)	None identified	Internal control and corporate governance procedures	Case study	Internal control and corporate governance failures in AIB plc in relation to fraud in US subsidiary	Lessons from previous high profile scandals did not result in sufficient tightening of controls to prevent AIB fraud
Brennan (2003)	None identified	Auditing, accounting, corporate governance and market failures	Conceptual / critical	Accounting scandals in the US and Ireland, in and around the time of Enron.	Accounting scandals are the product of multiple failings of auditing, accounting, corporate governance and of the market. In discussing the many factors that led to failure, the paper provides insights on regulatory inadequacies that contributed to these problems. At the centre is human failure – in particular greed and weakness.



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Pierce (2003)	None identified	Financial reporting	Case study	Causes and consequences of financial reporting failure in Élan Corporation	Deficiencies in accountability and changes in investor and regulatory tolerance for financial reporting manipulation can seriously damage companies.
Brennan and McDermott (2004)	None identified	Independence of directors	Survey of annual reports	Compliance with seven independence criteria for non-executive directors of Irish listed companies prior to the implementation of the Higgs Report (2003).	The paper found that 61% of the companies sampled had one or more breaches of the independence criteria set out in the Higgs Report. If the recommendations of the Higgs Report are implemented, many Irish listed companies will need to make considerable improvements for their boards to be judged fully independent.
O'Regan, O'Donnell, Kennedy, Bontis and Cleary (2005)	Stakeholder theory (implicit)	Board composition, non-executive directors, governance culture	Questionnaire of chief financial officers in Irish ICT SMEs	Governance regimes in a "new economy" ICT sector	Governance structure is similar to other traditional firms and sectors. Critical importance of non-executive directors recognised.
Donnelly and Kelly (2005)	Agency theory	Board size, board composition, ownership structure	Ordinary least squares regression	Substitution effects and bargaining effects between different mechanisms of governance	Findings support the bargaining hypothesis, with poor support of the substitution hypothesis.

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Brennan (2006)	Agency theory	Boards of directors	Conceptual / critical	Relationship between boards of directors and firm performance.	An expectations gap approach is applied for the first time to implicit expectations which assume a relationship between firm performance and company boards. Seven aspects of boards are identified as leading to a reasonableness gap. Five aspects of boards are identified as leading to a performance gap.
Doyle (2007)	None identified	Compliance requirements	In-depth interviews with 44 companies	Compliance requirements, tools to manage compliance, competitiveness barriers linked to compliance	Gap identified between regulations and application of requirements to maintain business advantage.
Heneghan and O'Donnell (2007)	None identified	Legal regulations	In-depth and telephone interviews	Attitudes towards compliance, and compliance levels	Legal and regulatory changes contribute to a compliance culture.
Brennan and Kelly (2007)	None identified	Whistleblowing	Survey of auditor trainees	Factors influencing the propensity or willingness to blow the whistle among trainee auditors.	Trainee auditors in firms with adequate formal structures for reporting wrongdoing are more likely to report wrongdoing and have greater confidence that this will not adversely affect their careers. Training increases this confidence. Significant differences were found in attitudes depending on whether the reports of wrongdoing were internal or external. The willingness to report wrongdoing externally reduces for older (aged over 25) trainees.

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Brennan and Solomon (2008)	Agency theory Stakeholder theory / Enlightened shareholder theory Resource dependency theory Stewardship theory Institutional theory	Governance regulations Boards of directors Transparency (financial reporting, disclosure) Audit committees External audit Role of institutional investors	Review article	Reviews traditional corporate governance and accountability research.	The paper encourages broader approaches to corporate governance and accountability research beyond the traditional and primarily quantitative approaches of prior research. Broader theoretical perspectives, methodological approaches, accountability mechanism, sectors/contexts, globalisation and time horizons are identified.
Donnelly (2008)	Agency theory Resource dependence theory	Board size, board independence, non-executive chairman, ownership structure	Regression analysis	Performance of well/badly governed Irish listed firms after the Élan scandal	Less well governed firms lost more value after the Élan scandal compared with well governed firms.
Donnelly and Mulcahy (2008)	Agency theory	Board size, board independence, CEO/chairman duality, institutional investors, management ownership	Poisson regression	The relation between voluntary disclosure and corporate governance	Voluntary disclosure increases with non-executive directors, but not other variables in the research

The 15 papers summarised serve to illustrate the great variety in corporate governance research, in terms of theories applied, corporate governance mechanisms studied and methodologies adopted. The more traditional agency theory approach is illustrated by the work of Donnelly (Donnelly 2008; Donnelly and Kelly 2005; Donnelly and Mulcahy 2008). Corporate governance also lends itself to qualitative research methods including surveys (Brennan and Kelly 2007; O'Regan et al. 2005), in-depth interviews (Doyle 2007; Heneghan and O'Donnell 2007) and case studies (Dunne and Hellier, 2002; Pierce, 2003). A number of review papers point to opportunities for further research (Brennan, 2003 and 2006; Brennan and Solomon 2008). Annual reports, with their extensive corporate governance disclosures, also provide a research opportunity (Brennan and McCafferty, 1997; Brennan and McDermott 2004; MacCanna, Brennan and O'Higgins 1999).

It is hoped that the corporate governance research portrayed in this chapter will inspire researchers' imaginations to take the discipline into new territory, experimenting with new theoretical lenses through which corporate governance may be viewed and analysed, and with novel methodological approaches, techniques, contexts and timeframes.

### **CONCLUDING COMMENTS**

The term corporate governance was first coined by Bob Tricker in 1984. The Cadbury Report in 1992 gave it impetus, as did subsequent reviews of corporate governance best practice. Nonetheless, corporate governance is a relatively new concept in business. Research on corporate governance is also at an early stage of development. Policy makers and regulators have few research findings on which to base their decisions. Much corporate governance research follows rather than leads regulatory change. Researchers ask questions after the event such as: Did the regulatory change result in improved governance and added value for the firm? Researchers should search for opportunities to lead regulation, providing regulators with insights into the costs and benefits of regulatory change.

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