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Original Article

Institutional Predictors of Corporate Governance

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ABSTRACT

We studied panel data for corporate governance ratings in 51 countries between 1996 and 2005 to better understand what the country-level predictors of corporate governance legitimacy might be. Using neo-institutional theory, we found that all three forms of isomorphism influenced corporate governance at the national-level. Specifically, both coercive isomorphic pressures were positively related to perceived corporate governance legitimacy. In addition, both mimetic isomorphic pressures were positively related to perceived legitimacy. Finally, one normative pressure (e.g., religious tension) was negatively related to perceived legitimacy. This study refines and extends the governance literature, as well as the institutional perspective.

Keywords: Comparative, Governance, Governance Legitimacy, Institutional Theory.

Introduction

Corporate governance concerns "the structure of rights and responsibilities among the parties with a stake in the firm" (Aoki, 2000: 11). Observers increasingly note that corporate governance is the foundation of the emerging global economy (Witherell, 2000). Nonetheless, the diversity of corporate governance practices throughout the world is remarkable (Fligstein & Freeland, 1995). Unfortunately, most studies of corporate governance are largely ethnocentric, and predominantly Anglo-American in nature (Sarkar & Sarkar, 2000; Turnbull, 1997).

In the few comparative corporate governance studies that do exist, the research only examines two or three countries, causation is not explored, and the focus is usually on one stakeholder group in isolation of other groups (Schneper & Guillen, 2004). However, recent corporate governance research demonstrates that country-level data influence governance practices much more than firm- or even industry-level data (Doige, Karolyi & Stutlz, 2004). Furthermore, recent cross-national research demonstrates that corporate governance affects hostile takeover activity (Schneper & Guillen, 2004), firm market value (Anonymous, 2002), and corporate corruption activity (Wu, 2005). Unfortunately, the cross-national antecedents of corporate governance are much less studied and, hence, understood. From a sociological perspective, Davis (2005) argued that the most relevant and promising corporate governance research seeks to understand the institutional context in which it occurs, rather than the more traditional agency or transaction cost perspective. For example, Deeg and Perez (2000) observed that the institutional convergence within the European Union is contributing to the convergence of corporate governance practices there. Within the economics discipline, Groenwegen (2004) recently asserted that institutional economics is shifting its focus from firms and individuals to institutional environments to better explain corporate governance behavior and results. We are sympathetic to these arguments, and attempt to advance these ideas through empirical analysis.

Similar to Aguilera and Jackson (2003), we argue that multiple institutions interact to influence the perceived legitimacy of corporate governance practices within a nation. Notably, there have been calls for more research on the transnational nature of institutional theory (Dacin, Goodstein & Scott, 2002), and this study is a modest response to that call. By considering the coercive, mimetic, and normative forces for isomorphism within a broad range of nations, we attempt to describe and explain the antecedents of perceived corporate governance legitimacy in an international comparative study during the period of 1996 until 2005.

Theoretical Background: an Institutional Perspective

As a derivative framework emerging from open systems theory, institutional theory emphasizes that organizations are more than a means to produce goods and services – they are also social and cultural systems. As such, this theory argues that organizations, and organizational actors, not only seek to compete for resources, but they ultimately seek legitimacy (Suchman, 1995).

From this perspective, one of the keys to understanding social systems is by studying the institutional environment because it is these forces which guide or constrain legitimacy seeking. While the concept of "institution" has been conceptualized in diverse ways (Scott, 1987), it generally refers to relatively enduring systems of social beliefs and socially organized practices associated with varying functional areas of societal systems (e.g., religion, work, politics, laws, and regulations). In an excellent overview, Scott (2001) provided a graphic that reveals the major concepts and relationships involved with institutional theory. As shown in Figure 1, there are three levels of analysis that institutional theory utilizes. At the highest level, there are societal (and global) institutions, where models and menus are both formally proposed and informally enacted. These provide the institutional context: what is deemed possible, acceptable, and legitimate. Such institutions shape, constrain and facilitate structures and actions at lower levels.

At the next level within Scott's model, there are the governance structures, consisting first of organizational fields, and then of organizations themselves. An organization field is defined as those organizations operating in the same domain (as indicated by the similarity of the customers served) along with other organizations that critically influence their performance (e.g., funders, contractors, partners). The organizational level of analysis is also important, organizations vary by function, size, structure, culture, and capacity for change and they all influence, and are influenced by their organizational fields and institutional environments.

Finally, there are the actors in institutional settings, who may be individuals or groups (Hartley, Butler & Benington, 2002). Each of these levels influences, and is influenced by the forces of diffusion and imposition of institutional norms, while inventing new ways of operating and negotiating the establishment of institutional norms.

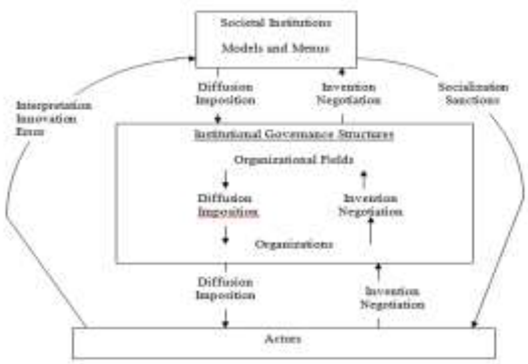

Figure 1. Conceptual model of institutional theory & institutional forces

Therefore, a critical assumption within institutional theory is that all social actors are seeking legitimacy, and/or reinventing legitimacy norms, within the institutional environment (North, 1990). These constraints and forces all converge to create isomorphism, or similarity of structure, thought, and action, within institutional environments. For this study, we focus on the cross-national institutional forces which might explain the perceived legitimacy of corporate governance practices within a nation.

Corporate Governance as a Legitimizing Force

"From an institutional perspective, legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws" (Scott, 2001: 45). As such, corporate governance practices mediate between corporate sovereignty and social legitimacy (Bonnafous-Bouchler, 2005). As Kostova and Zaheer (1999) point out, traditional institutional theory examines legitimacy at two levels of analysis: (1) the organizational field level, and (2) the organizational level. In this study, we examine legitimacy at the societal level within the context of corporate governance practices.

This extension of institutional theory to the societal level is not only interesting to institutional scholars, but also relevant and useful to practitioners. In our increasingly global economy, nation-states are often viewed a potential investment locations (Friedman, 2000). If governance practices are viewed as in general as legitimate or improving in legitimacy, then multinational enterprises (MNEs) would be more likely to invest in those locations. Alternatively, if governance practices are generally viewed as illegitimate or declining in legitimacy, then MNEs might not invest or might even divest operations. Consistent with institutional theory at this level, we focus on the institutionally-based practices underlying Denis and McConnell's definition of corporate governance as those mechanisms "that induce the self-interested controllers of a company to make decisions that maximize the value of the company to its owners" (2003: 2).

In sum, nation-states tend to acquire reputations for the acceptability and legitimacy of its corporate governance practices. Since neo-institutional theory is concerned with social legitimization processes and outcomes and since corporate governance practices tend to vary systematically by nation-state, an empirical study of the institutional predictors of corporate governance legitimacy seems appropriate.

Coercive Isomorphism and Corporate Governance Legitimacy:

In their pioneering study, DiMaggio and Powell (1983) identified three types of isomorphism within institutional theory. The first type that they identified was "coercive" isomorphism, which stems from threats to public legitimacy and/or governmental oversight and monitoring. Following the logic of this seminal work, one the major influencers of adherence to effective corporate governance within a national economy will be the presence of institutions that can force and/or coerce organizations into transparent and fair governance practices (Radaelli, 2000).

Press Freedom. A fundamental institution which can influence corporate governance practices is the news media. A free and fair society within a country is commonly thought of as one that benefits from a pluralistic press that is free and independent. The press plays a key institutional role in the instrumental use of knowledge by enlightening the citizenry and helping citizens to have an educated voice. The more diverse information that citizens receive; the more accurate social valuations they can make. However, if an issue is distorted or muted in the press due to corporate pressure or government propaganda, the quality of the debate suffers and a nation cannot accurately assess its problems or prescribe solutions (Jackson & Stanfield, 2004).

Freedom of the press takes into consideration not only domestic journalists and media outlets, but foreign journalists as well. For example, China only recently lifted long-resented restrictions on foreign media (Anonymous, 2004). Business-media relations are often strained due to lack of mutual understanding, but also conflicting objectives (Rubin, 1973). However, news media organizations are also businesses, and corporations are highly influenced by news media reports, both positively and negatively (Rindova, Pollock & Hayward, 2006).

There are several anecdotal examples throughout the world where the lack of press freedom is directly or indirectly associated with poor corporate governance. For example, a free and fair press can limit criminal activity (Anonymous, 1997) and accelerate recovery from economic crises (Anonymous, 1999). Similarly, the international news media put pressure on corporate boards for multinationals doing business in South Africa during the days of apartheid, and had a major impact on corporate behavior (Anonymous, 1985). In South Korea, an increasingly free press has been specifically acknowledged for enhancing business practices, and the nation's overall quality of life in general (Kim, 2003). And in Latin America, the imprisonment and murder of journalists have limited press freedom and citizens and businesses have suffered accordingly (Perkins, 2001).

Unfortunately, there are no known systematic studies of the relationship between freedom of the press and corporate governance effectiveness. However, there are some closely related studies which suggest a positive relationship between press freedom and governance practices. For example, Pantzalis, Strangeland and Turtle (2000) documented a positive relationship between press freedom and corporate market returns in 33 countries during the period of 1974-1995. Also, research repeatedly shows that freedom of the press is negatively related to the level of national corruption (Chowdhury, 2004;

Lederman, Loayza & Soares, 2005), presumably a factor at least partially influenced by corporate governance activities.

In sum, a free press can uncover and inform a nation of unethical and illegal acts, as well as trumpet exemplars of corporate governance. Also, free press imposes coercive pressures on all of a nation's citizens, especially its elites, to conduct business in a free and fair way. Using the logic of expedience (Scott, 2001), corporations may become isomorphic to the media's pressures and expectations. This literature and logic suggest the following hypothesis:

Hypothesis 1: The extent of press freedom within a national economy is positively associated with the perceived legitimacy of corporate governance practices in a country.

Democratic Accountability. There are other national institutions which might coercively influence corporate governance practices, however. One of the primary social institutions that forces individuals and organizations to conform to societal norms is a freely-elected and transparent government. In some nations, the government is highly accountable for the society's well-being and is punished when it fails and rewarded when it succeeds. In other nations, the government is not held accountable for its failures or successes. One of the primary mechanisms by which a government is held accountable is through a free and fair democratic election process (Keohane, 2005). As a result, the second institutional force investigated in this study is democratic accountability, which is defined as "the degree to which a nation's citizens can freely and fairly elect its government officials."

The government makes the nation's rules, in the form of laws and regulations, and enforces those same rules with varying degrees of success. With respect to this study, the government writes the laws and regulations affecting corporate governance practices, but it also monitors compliance with those same rules. If the government is democratically accountable to the general public, one would expect better corporate governance because government officials will lose their jobs and/or be punished themselves for not monitoring business adequately (Caddy, 2001).

In some nations, the legal and regulatory code is well developed and applied consistently. In other nations, the legal code is underdeveloped and applied inconsistently. Clearly, having a well thought out legal code with good enforcement standards can be thought of as a way to force economic actors to play by the rules and not engage in questionable behavior. In the absence of a robust legal environment, economic activity will suffer and capital flows will be limited. More specifically, property rights will be undermined and capital flows will be distorted (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 2000).

Unfortunately, there is no known research that systematically explores the relationship between a nation's level of democratic accountability and its overall corporate governance practices. However, there is a clear relationship between close proxies. For example, several cross-national studies have found that the extent to which the "rule of law" is observed within nation, the bigger its capital markets (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 1997), the faster its economic growth is (Grigorian & Martinez, 2001), and the smaller its underground economy (Bovi, 2003). To the extent that observance of the rule of law is positively associated with democratic accountability and good corporate governance is associated with productive and equitable economies, this suggests that democratic accountability may be positively related to corporate governance practices.

Anecdotes from a variety of nations illustrate this relationship more directly. In a publication known as the "Olivencia Report," a strong link is made between governmental accountability and corporate governance. Building on Spanish notions of loyalty, due diligence, and transparency, an argument is made for rewarding governments that monitor and oversee corporations properly, and punishing those who do not by electing others who will (Sison, 2000). Similarly, Adrian Cadbury (1999) has encouraged Anglo-American governments to be held more accountable for their actions (or in-action) in dealing with corporate governance practices. In addition, Mattli and Buthe (2005) recently argued that the U.S. government has abdicated responsibility to oversee corporate governance practices by delegating too much of its authority to private-sector agents. All three articles suggest that the democratic process is the key to holding the government accountable which holds business accountable. In sum, this literature and logic suggest the following hypothesis about democratic accountability:

Methods

Research Design

We relied entirely on archival sources for this empirical study. Following our theoretical argument, we lagged all independent variables one year prior to the dependent variable for each unit of analysis. The latter action is also necessary to deal with potential endogeneity bias. Hence, our independent variables ranged from 1995 until 2004; while our dependent variables ranged from 1996 until 2005. Overall, we obtained data on 46 countries in 1996 and 51 countries in 2005. Since our unit of analysis was the country-year, this yielded 401 complete records.

Variables & Measures

Dependent Variable. In this study, our dependent variable was the perceived legitimacy of corporate governance practices for a particular country in a particular year. We obtained the aggregate rating of corporate governance effectiveness from the World Competitiveness Report, published annually by IMD. Using multiple experts both inside and outside of the nation, IMD each year asks governance experts to rate the level of corporate governance effectiveness for multiple nations. These ratings are then averaged. For example, in 1995 IMD obtained 3,292 surveys completed by chief executives and economic leaders throughout the world. These data were validated by archival records provided by 19 international agencies, and 45 national agencies, when the data are available.

For the corporate governance effectiveness item, multiple respondents indicated in an eleven-point Likert scale ranging from 0 to 10 with the following anchors: (Low) "Corporate boards do not prevent improper practices in corporate affairs"; and (High) "Corporate boards are safeguards for proper practices in corporations". We collected archival data on 46 nations in 1997, and that grew to 51 nations at the end of our series which culminated in 2005.

To further validate this measure of corporate governance effectiveness, we obtained archival data from four additional sources that measure similar concepts. First, the *Rule of Law* was obtained from the World Bank and is one of their governance indicators for the years 1996, 1998, 2000, 2002, and 2004. This measure was significantly correlated with our measure of corporate governance effectiveness ($r = .59$, $p < .001$). In addition, we used three unique measures listed in Wu (2005) that measure corporate governance in specific years. The first is a measure developed by Price Water house Cooper that reflects the accounting/corporate governance opacity of 26 countries in our study for the year 2001. This measure was significantly correlated with corporate governance effectiveness ($r = .52$, $p < .01$).

The second measure was constructed by McKinsey & Company for 2002 and represents the average premiums an investor would pay for a company in a country with strong corporate governance. This measure was available for 29 countries in our data set and was also significantly correlated with corporate governance effectiveness ($r = .40$, $p < .05$). The third measure was constructed by Credit Lyonnais Securities Asia for 2002 and matched 12 countries in our data set. This measure was significantly correlated with corporate governance effectiveness ($r = .68$, $p < .05$). Thus, the measure we used for our dependent variable in this study appears to be valid based on its significant correlations with independent measures of corporate governance at the country level.

Independent Variables. Our *Press Freedom* variable was developed by Freedom House (2006). Each year, a wide variety of experts rate a country's press freedom in three areas: (1) laws and regulations that influence media content, (2) political pressures and controls on mode content (including harassment or violence against journalists or facilities, censorship, and self-censorship), and (3) economic influences over media content. From 1994 to present, an overall press freedom score is awarded to nearly 200 nations on an annual basis. These scores range from 0 to 100, and those nations with scores of 0-30 are rated as "free", those with ratings of 31-60 are rated as "partly free", and those with ratings of 61-100 are rated as "not free". To assist in interpretation, this index was reversed scored so that higher values indicated higher press freedoms, similar to Chowdhury (2004).

Similar to Busse and Hefeker (2006), we utilized data provided by the PRS group (2006) to operationalize our *Democratic Accountability* measure. The PRS Group publishes countrydata.com, a subscription-based data service which provides comparative annual ratings of more than 140 nations starting in 1984 and ending in 2006.

The PRS Group's political risk ratings consists of several components, including the *Democratic Accountability* measure here, covering both political and social attributes where each component is assigned a maximum numerical value (risk points), with the highest number of points indicating the lowest potential risk for that component and the lowest number (0) indicating the highest potential risk. Other components of the political rating system include Government Stability, Socioeconomic Conditions, Investment Profile, Internal Conflict, External Conflict, Corruption, Military in Politics, Law and Order, Democratic Accountability, and Bureaucracy Quality.

The PRS staff assigns risk points for each individual risk component using a variety of country experts (Erb, Harvey & Viskanta, 1996). For example, the *Democratic Accountability* ratings range from 0 to 6, with higher rating indicating higher levels of accountability, and vice versa. The points in this component are assigned on the basis of the type of governance present in the country in question, ranging from different degrees of democracy to autarchy. Overall, the *Democratic Accountability* measures whether there are free and fair elections and it seeks to describe the degree of government responsiveness to its people.

The *Import Competition* measure was obtained from the World Bank. Similar to Ades and di Tella (1997), it was computed as the value of imported goods and services sold as a proportion of overall gross domestic product. We obtained this data from on-line data supplied by the World Bank (2006).

The *WTO Membership* measure was obtained from the World Trade Organizations' (2006) website. This website lists all WTO members as well as the year in which they entered this organization. Currently, 149 nations are members of the WTO, but there is considerable variation in the length of time that they have been a member.

The *Religious Tensions* and *Ethnic Tensions* measures (ranging from 0 to 6) were obtained from the PRS Group (2006), similar to Busse and Hefeker (2006). Ethnic tensions are defined as the degree of social conflict within a nation attributable to racial, national or language divisions, with higher values indicating higher levels of ethnic tension. Religious tensions are defined as the degree of social conflict within a nation arising from the domination of society and/or government by a single religious group, or a desire to dominate, in a way that replaces civil law by religious law. Once again, higher values represent higher levels of religious tensions.

Control Variable

We controlled for *OECD Membership* because previous research suggests that economically developed nations tend to focus on globally efficient best practices (Detomasi, 2002; Jesover & Kirkpatrick, 2005; Nisser & Wallace, 1978).

The Organization for Economic Cooperation & Development (OECD) is 30 member countries sharing a commitment to democratic government and the market economy. With active relationships with some 70 other countries, it has a global reach. Best known for its publications and its statistics, its work covers economic and social issues. The OECD plays a prominent role in fostering good governance in public service and in corporate activity. … Dialogue, consensus, peer review and pressure are at the very heart of the OECD. Its governing body, the Council, is made up of representatives of member countries (OECD, 2006).

Consequently, this control variable was a dummy variable coded as a "1" if the nation was a member in the OECD during the year in question, and a "0" if it was not. This data was obtained from the OECD (2006) website.

Analysis

Our study includes data from 46 to 51 countries over the ten-year period from 1996 – 2005. The data are unbalanced in that all variables are not reported for all countries for each year. Therefore, we used the 401 observations that were available for the 51 countries across this time period. As discussed by Kraatz and Zajac (2001), pooled time series, cross-sectional analyses present complex problems that must be addressed. The principle problem is associated with heteroscedasticity, which must be accounted for in the estimation method.

We used the generalized least squares (random effects) model in EViews 5.1 to conduct our analysis. In choosing between the fixed and random effects modeling approaches we considered the characteristics of our independent variables. Since a number of these variables varied little over time, for example membership in OECD, we considered the fixed modeling approach to be inappropriate. In addition, we ran a Hausman specification test to determine if the random model is appropriate for these data. If a significant difference is observed between the random and fixed effects estimates, the random effects model cannot be used (Wooldridge, 2002). Our test did not find a significant difference between the estimates from the two modeling techniques (χ^2 = 9.43 with 7 degrees of freedom, $p < .22$). Therefore the results reported are from the random effects model.

The EViews econometric package also supports tests of the robustness of the model. Using alternate coefficient covariance methods demonstrated the robustness of the coefficient estimates within our model. In addition, alternate weighting options were used for the random effects model with the same robust results. The coefficient estimates and their associated t-statistics did not change significantly in any of the alternative runs.

Results

The descriptive statistics, including the pooled correlation matrix, are displayed in Table 1. The variables in the table reflect the one-year lag between the independent variables and the dependent variable.

The results of the pooled, cross-section, time series model are displayed in Table 2. With respect to the first hypothesis, which expected a positive relationship between press freedom and corporate government effectiveness, the results indicate support ($t = 1.93$, $p < .05$). As the press, both domestic and foreign, is given more open access to the populace the effect appears to be a greater degree of corporate governance within the country, as hypothesized.

Hypothesis two is also well supported by our data with the finding of a positive, significant relationship ($t = 2.85$, $p < .01$) between democratic accountability and corporate governance effectiveness. In nations where the government is held accountable by its citizens, the degree of corporate governance appears to be elevated. Therefore, both manifestations of coercive isomorphism in this study were found to influence corporate governance practices at the country level.

Hypotheses three and four represented the relationships between the two mimetic isomorphism measures and corporate governance effectiveness. The findings with respect to hypothesis three, that higher levels of import competition would be positively related to corporate governance effectiveness, were supported by our data ($t = 2.56$, $p < .01$). As hypothesized, the presence of higher levels of import competition, in countries appears to accelerate competitive imitation in the form of enhanced corporate governance.

In addition, the years of membership in the WTO was positively related to corporate governance effectiveness ($t = 3.57$, $p < .001$). These results provide strong support for our fourth hypothesis. Evidently, pressures for imitation also arise from joining the world trade organizations and that manifests itself in improved governance practices. An important implication of this finding is that further lowering of trade barriers through multilateral free trade negotiations in the context of the WTO may enhance corporate governance effectiveness as the rules of the game become more transparent to all economic agents.

Hypotheses five and six are associated with the level of social cohesion that may allow normative isomorphism pressures to influence corporate governance effectiveness. The results with respect to the fifth hypothesis, that a higher level of ethnic tensions will be negatively related to corporate governance effectiveness, were not statistically significant. Therefore, hypothesis five is not supported by our data. However, we did find a significant relationship between the extent of religious tensions and corporate governance effectiveness ($t = -3.26$, $p < .001$). Thus hypothesis six is strongly supported.

Discussion & Conclusion

The purpose of this study was to empirically explore potential antecedents of corporate governance effectiveness in a broad range of nations across a ten-year period of study from 1996 until 2005. Using comparative neo-institutional theory, five of our six predictors of the perceived legitimacy of corporate governance practices were supported by our data. In addition, all three of the isomorphic pressures helped to predict and explain the level of corporate governance legitimacy within a nation. The only predictor that was not supported by our data was the hypothesized relationship between the degree of national ethnic tensions and governance legitimacy. Given the relatively high inter-correlation between religious and ethnic tensions ($r = .54$, $p < .01$), it could be that these two variables simply describe the same social phenomena and dynamics.

Notably, previous neo-institutional studies have been criticized for focusing on only one or two isomorphic pressures (Mizruchi & Fein, 1999). Our study emphasizes the value of studying all three pressures simultaneously. It appears that all three isomorphic pressures influence corporate governance practices and its perceived legitimacy throughout the world.

Overall, this study makes at least three significant contributions to the organizational science literature. First, we refine and extend neo-institutional theory at the nation-state level of analysis to better understand corporate governance legitimacy by using panel estimation techniques on macro-institutional data. Such analyses may capture important economy-wide determinants of corporate governance mechanisms that may be obscured by micro studies. As theorized by Scott (2001), forces at the national level are the principle influencers of corporate governance structures at the organization level. Furthermore, our study has identified the significant influence of key factors that are controlled at the national level. Nations that are concerned about attracting and rewarding investment in both infrastructure and business in their locale need to be aware of the importance of these factors. To our knowledge, this is one of the first scholarly studies to use a neo-institutional perspective for describing and explaining the perceived legitimacy of corporate governance practices at the macro level, and the insights are quite robust.

Second, we refine and extend the governance literature to consider the institutional context in which all business is transacted. At the macro level, Davis (2005) stated that the "constellations" of government institutional forces vary widely around the world. The coercive isomorphism mechanisms contained in our study include press freedom and democratic accountability, both of which were significantly related to corporate governance effectiveness. Higher levels of each of these variables appear to enhance the transparency and openness necessary to ensure sufficient levels of governance that would allow for the infusion of needed capital into the nation's business environment.

Likewise, the mimetic isomorphism mechanisms, imports penetration and membership in the WTO, were found to be instrumental in increasing corporate governance effectiveness. This finding supports arguments made by Rajan and Zingales (2003) in that politics influences national corporate governance systems. These scholars argue that increasing imports results in additional profitability pressures on domestic incumbents, requiring them to seek additional capital. In order to attract this capital the transparency and openness of the governance systems within the country must be sufficient to satisfy the investors. Membership in the WTO will also provide needed assurances to the potential investors and opportunities to imitate successful predecessors.

Third, we offer some insights to corporate stakeholders seeking to enhance the perceived legitimacy of corporate governance within their firm and/or industry. In countries with limited freedom of press and democratic accountability, policymakers need to pass laws, promoting freer press and elections and also making public officials more responsible for their actions. The finding that high import competition improves corporate governance suggests that policymakers need to avoid protectionist measures such as state aid, import subsidies and other forms of government intervention in the economy. World leaders need to encourage further WTO membership through multilateral free trade organizations and avoid actions that would escalate religious tensions.

Despite these rather robust results, our conclusions must be interpreted with care. For example, a relatively small amount of variance was explained for corporate governance legitimacy (adjusted $R^2 = .16$). Clearly, there might be some other isomorphic pressures that more parsimoniously explain and predict variance in the perceived legitimacy of corporate governance practices around the world. Also, our dependent variable was an aggregated perception of all governance practices within a nation in any given year. Clearly, this is a crude proxy that fails to capture variance within a nation. Consequently, these results should be tested with other measures of corporate governance practices within and between national contexts. Finally, we assume a one-year lag effect with our predictor variables. Obviously, the lagged effect might be shorter or longer than this. Therefore, future research should explore multiple period lag effects, and perhaps even investigate when other theories may offer insight as to what the appropriate lag effect might be.

Nonetheless, this study offers powerful new insights into the comparative corporate governance literature and offers important policy implications for public officials using Scott's (2001) theory about society's institutional models and menus influence the governance structure of organizational fields through the diffusion and imposition process. Using lagged predictor variables, we provide a longitudinal examination of the isomorphic pressures exerting an influence on what some are arguing is the foundation for the global economy - corporate governance legitimacy. We encourage other scholars and policy makers to consider institutional context for future research on corporate governance.

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