Antecedents and Consequences of Corporate Governance Structures

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The paper uses organisation theory to seek an explanation for the relative uniformity of governance structures (as distinct from other aspects of organisational structure) in public companies in the UK and USA. It then reviews theoretical and empirical evidence of ways in which these structures affect company performance, and finds that conventional views about the benefits of independent governance structures are not strongly supported.

Corporate governance codes – pressure for compliance

Shareholder activism and the involvement of professional and regulatory bodies in corporate governance have led to the development of codes of practice for public companies (eg Cadbury 1992, Hampel 1998, Hermes 1998, ICGN 1999, Calpers 1998, CII 1998) that lay down essentially uniform governance structures. Prescriptions regarding the number, nature and tenure of outside directors feature in most of these codes, as do the discouragement of "CEO duality" (combining the roles of CEO and chairman), and the requirement for the formation of audit, remuneration, and nomination board committees staffed by outside directors.

Listed companies are generally under a lot of pressure to implement these structures, particularly so in the UK where the code (Combined Code 1998) has been made part of the listing rules of the London Stock Exchange. Codes are still hard to ignore even if not backed by formal regulation, given that they usually originate from individual institutions with enormous market power (eg Hermes, Calpers), or from organised investor groups (eg CII, NAPF, ABI).

Compliance with the codes is generally expected regardless of size or the nature of the company's business. Most of the codes pay lip service to the need for pragmatism, but the onus is usually placed on non-conforming companies to explain publicly their reasons for non-compliance, thereby increasing the pressure.

The prescribed structures – effect on performance

The effect of governance codes on company performance is ignored or under-emphasised in most cases apart from "motherhood" statements about the purpose of a business enterprise. The Cadbury report (Cadbury 1992) which seems to have served as a prototype for other codes (Hampel 1998), did not mention performance at all. Intriguingly, the report of the Hampel Committee (Hampel 1998), comprising company directors, investment managers, accountants and lawyers, which was set up to review the impact of Cadbury, stated that "the emphasis on accountability has tended to obscure a board's first responsibility – to enhance the prosperity of the business over time" (Hampel 1998:1.1). However, their recommendations did not follow up this point in any substantial way and the Cadbury recommendations for governance structures remained unchanged as part of the listing rules of the London Stock Exchange.

Intrusion of such prescriptive formal or informal regulation into the structuring of companies in the UK and US is virtually

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unprecedented. Company law has historically concerned itself with directors' responsibilities, but not with the organisational structure of their companies. Perhaps the most worrying aspect of this intrusion is the relative disregard of the effect of governance structure on the performance of the company. Codes have been introduced without any significant research into how the behaviour and effectiveness of the organisations might be affected in an operational sense. The psychological "framing" used by those who have driven the governance movement forward has been that of accountability, disclosure, and monitoring. The movement has ignored decades of research into the optimisation of organisational forms from a performance standpoint, ie "structural contingency theory".

Structural contingency theory, which identifies for each organisation a set of contingency factors and indicates which structure is required for the organisation to operate most effectively (Donaldson 1995), dates back at least to the early sixties with scholars such as Burns and Stalker, Chandler, Mintzberg, and Woodward (Pugh 1984). The concept that successful organisations continuously adapt by altering their structural forms to maintain "fit" between their structure and the environmental contingencies has been a basic tenet of organisational theory right through to present times.

For example, 'company success depends on putting together a complete and complementary package of ingredients, strategy, structure, processes and a managerial ideology that holds these together and gives them meaning' (Miles and Snow 1994:7). Donaldson (1999) holds that the need to achieve "fit" is a principal driver of organisational change, and according to Kay (1993), an organisation that has been optimised for a particular business is an important source of competitive advantage. So how can there be 'one best way' in organising for effective corporate governance?

Origin of the prescribed structures

To understand the origin of the prescribed structures it is necessary to look beyond organisational contingency to other organisational paradigms. Several of these have been critically reviewed by Donaldson (1995), including institutional isomorphism, resource dependency theory, and organisational economics. This paper will focus mainly on institutional isomorphism and organisational economics, with a brief reference to resource dependency.

Institutional isomorphism

Institutional isomorphism postulates three mechanisms by which organisational change occurs (DiMaggio and Powell 1991:67):

- coercive isomorphism that stems from political influence and the problem of legitimacy
- mimetic isomorphism resulting from standard responses to uncertainty
- normative isomorphism associated with professionalisation

Coercive isomorphism is clearly at work here, through the prescriptive corporate governance codes described above. Mimetic isomorphism, or modelling the structures of other organisations, occurs when managers lack the certainty or knowledge to do their own thing and copy organisations perceived to be more successful or legitimate than their own. Of particular relevance to the thrust of this paper is the following quotation: "The ubiquity of certain types of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency!" (DiMaggio and Powell 1991:70).

Normative pressures derive from networks of like-minded professionals with shared certainties who crop up in most public companies. DiMaggio and Powell cite Perrow (1994): "Such mechanisms create a pool of almost interchangeable individuals who occupy similar positions across a range of organisations and possess a similarity of orientation and disposition that may override variations in tradition and control that might otherwise shape organisational behaviour" (DiMaggio and Powell 1991:71). It is probably true to say that a 'corporate governance industry' is now in existence, with its own professional specialists who are rapidly spreading the faith into most corners of the corporate world, creating strong, (and perhaps mindless?) pressures for compliance.

Whilst institutional isomorphism helps to explain the rapid spread of uniform governance structures in recent years, it does nothing to throw light on the origin of the structures and the ideology that underlies them. For that we will turn to organisational economics. According to Donaldson (1995), the term "organisational economics" embraces transaction cost economics and agency theory. The latter is of the greater interest for studying corporate governance structures and this paper will focus on it.

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Agency theory and agency cost

Agency theory exists in a variety of forms and has many applications, and it has been gaining increasing acceptance as a useful theoretical approach to understanding organisations (Eisenhardt 1989). The aspect most quoted in the governance literature derives from seminal work by Berle and Means, (1932), Jensen and Meckling (1976), and Fama and Jensen (1983). The essence of their position is that the interests of the owners of a corporation (shareholders) will differ from those of the management (agents), and that their attitude to risk will also be different, giving rise to an 'agency cost' to the owners compared to a (usually theoretical) situation where the owners are also managers. Agency cost is defined as the sum of the costs of designing, implementing and maintaining appropriate incentive and control systems and the residual loss from not solving the problems completely (Jensen and Meckling 1976). Corporate governance structures represent such an agency cost.

Agency theories see corporate managers as "inherently untrustworthy" (Donaldson 1995: 166). According to the classical economics view of man as a maximiser of his own utility, the managers will not act as profit maximisers for the owners, but will pursue their own interests to the full extent they are able. This may not simply involve maximising their remuneration and perks, but may lead to self-aggrandising activities such as pursuing acquisitions that do not enhance shareholder value. The difference in risk attitude between the two parties can also give rise to an agency cost, either through missed opportunities by a risk-averse management, or, at the other end of the scale through management recklessness.

Monitoring and control of management

These basic assumptions of agency theory lead directly to a perceived need by shareholders to place limits on management discretion, or to use other agency-cost reducing mechanisms, such as aligning the interests of the parties through financial incentive schemes, or both.

For example, Fama and Jensen (1983) proposed that management discretion should be limited by a board of directors that was able to exercise ultimate control over management, by taking responsibility for the ratification and monitoring aspects of decision-making processes ("decision control"), and limiting management's scope to the initiation and implementation aspects ("decision management"). It follows that the non-management directors had to be sufficiently numerous and independent to exercise the necessary control. The consequences of this approach can be seen in current corporate governance codes that specify board composition in terms of number of outsiders, sometimes recommending a majority of the latter.

However, agency theorists recognise that the appropriate tightness of board monitoring depends on what other agency-cost reducing mechanisms are available, as well as incentive alignment. Management's room for manoeuvre depends on factors such as the level of debt that must be serviced (Bathala and Rao 1995), the nature of bank covenants, and how competitive is the firm's environment. As this might predict, studies have shown that some firms are taking a contingency approach to board composition, as regards the number of outsiders (Bathala and Rao 1995, Pearce and Zahra 1992) rather than slavishly following governance codes. "Decisions on board size and the replacement of inside and outside directors should be made only after considering salient environmental, strategic and performance factors" (Pearce and Zahra 1992: 433). Organisational contingency theory is alive and well in some quarters!

Further support for a contingency approach to the tightness of monitoring by the board comes from Westphal (1996), who showed that higher company performance was associated with a model of board behaviour which de-emphasised monitoring in favour of co-operation with management, provided that there was incentive alignment.

CEO Duality

The paper now looks at another aspect of governance structure presented in the literature as an agency-cost-reducing measure (Dalton et al 1998), aimed at increasing the independence and monitoring ability of the board by reducing the potential for management domination: the ending of "CEO duality", ie the separation of the roles of Chair and CEO, and having an outside director as Chair. This features in most governance codes, although the UK codes are more forceful on the issue. However, it contains a theoretical flaw.

It is intuitively obvious that separating the CEO and Chair has the potential to reduce the agency cost of controlling the CEO and executive management, but at the expense of

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adding the agency cost of controlling the Chair. (Brickley et al 1997). "Granting an outside chairman increased decision rights over such things as firing the CEO and agenda setting can give the individual enormous power to extract rents from the firm". (Brickley et al 1997: 194). Unless the Chair has a significant ownership position, it is the CEO who has the greater reputational and financial capital at risk and who is potentially less costly to control in agency terms. There is also anecdotal evidence that outside chairs sometimes go "native" and align themselves more closely with the CEO than with the owners. If this happens, monitoring of management by the board is actually less than in the case of CEO duality. Moreover, the company has to bear the additional out-of-pocket costs of employing the Chair.

Further agency costs may arise in US boards (Brickley et al 1997) because separating the roles disrupts a common process of handling CEO succession, where the outgoing CEO/Chair serves as Chair while the new incumbent gets up to speed as CEO. The Chair then resigns, restoring CEO duality. Although 70% of all UK listed companies now have a non-executive chairman (PIRC 1998), Brickley et al (1997) found that very few large US firms had an independent outsider as Chair. Most were either significant stockholders or had close connections with the company, for example as a former executive.

Board committees

We now turn to another feature of virtually all corporate governance codes applicable to the UK and US: the requirement for the formation of committees of the board: in particular, audit, remuneration (compensation), and nomination committees, staffed by a majority of outside directors. The agency theory perspective, as already noted, requires the limiting of management discretion through monitoring by the board. Board sub-groups such as the compensation, audit, and nominating committees are central to effective monitoring (Ellstrand et al 1999:68).

The Cadbury report, for example, states that audit committees "offer added assurance to the shareholders that the auditors, who act on their behalf, are in a position to safeguard their interests" (Cadbury 1992:28). The existence of an audit committee may signal to shareholders that their interests are being properly safeguarded (Daily 1996). "Untrustworthy" management again!

The existence of a nominating committee to select new directors further intensifies the board's monitoring ability. A nominating committee composed of independent directors may be more likely to appoint other independent directors who will be vigilant in monitoring the CEO (Ellstrand et al 1999). The remuneration committee, charged with setting the rewards of executive management, self-evidently has the potential to reduce agency costs by restraining management from awarding themselves uneconomic (in market terms) levels of pay and perks. Levels of directors' remuneration have been a political issue in the UK for some years, and indeed one of the reasons given for setting up the Cadbury committee was "the controversy over directors' pay" (Cadbury 1992:9).

We have shown so far how the perspective of agency theory postulates a conflict of interest between owners and managers of public corporations, paints a picture of untrustworthy, self-serving management, and demonstrates the necessity of monitoring of management by their boards. We have also shown how the key structures prescribed by corporate governance codes, strong influence by independent outside directors, CEO non-duality (separation of the roles of CEO and Chair), and the appointment of board committees, all make a contribution to the monitoring process. We now examine the empirical evidence as to what extent these structures are associated with improved company performance, or with other aspects that would support the agency theory perspective.

Empirical evidence – how the prescribed structures affect performance

One of the relatively few corporate governance studies of UK Companies (Ezzamel and Watson 1993) found that the presence of outside directors on the board had little impact on profitability. The study also looked at the separation between "decision management" and "decision control" (Fama and Jensen 1983), and found that it was associated with better performance in multi-divisional companies. But the data collected referred to the separation at different management levels rather than between management and board.

Numerous other studies (predominantly in the US) of the structure-performance relationship conducted in recent years have come up with conflicting results (Dalton et al 1998). A meta-analysis (a method of combining the results of many different pieces of research), involving 159 studies of the performance effects of board composition and 69 of CEO

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duality, led the research team to declare "the conclusion that there is no actual relationship among these variables is quite aggressive" (Dalton et al 1998: 282). However, in commenting on directions for future research, they raise the possibility that although the composition of the board as a whole may not be related to performance, the nature and composition of board committees may be material.

So far there seems little support for this approach. An attempt to link the incidence and nature of bankruptcy proceedings to the composition of audit committees (Daily 1996) failed to find any relationship. Ellstrand et al (1999) found little evidence to support a systematic relationship between the composition of key board committees and either accounting-based or market-based corporate performance, despite controlling for firm size, board size, and industry sector. They cite another study (Singh and Harianto 1989) which found that the number of *inside* directors on the compensation committee was negatively associated with the number of executives with 'golden parachutes', the converse of what agency theory would predict. A similar result was obtained by Boyd (1995).

In another contrarian result, Conyon and Peck found that among the UK FT Top 100, "companies adopting remuneration committees or with high proportion of outsiders on those committees generally had higher levels of top management pay" (1998:154). However, they found a greater alignment between pay and performance in these companies. They also cite studies that found the salaries of remuneration committee members to be positively related to CEO pay (Main et al 1994, Daily et al 1996).

Therefore, there seems to be a lack of evidence so far for a relationship between board committee characteristics and corporate performance or other beneficial outcomes predicted by agency theory, apart from the one finding (Conyon and Peck 1998) that alignment between pay and performance was greater where remuneration committees were involved.

Other approaches – stewardship and resource dependency

We next examine possible causes for the lack of robust empirical support for the value of the widely-prescribed corporate governance structures involving outside directors, CEO-Chair separation, and board committees. Given that much of the theoretical support for these structures derives from agency theory, it is worth looking at alternative theoretical approaches to the management-shareholder relationship. For example, Finkelstein and Hambrick (1996: 359) state "... agency theory ... is too simplistic to be the only theoretical perspective of value in understanding boards".

In contrast to agency theory's "one club" approach to human motivation, organisational psychology has been addressing the issue for at least four decades. For example, Maslow (1954), McGregor (1960), and Hertzberg (1959) held that individuals, in addition to material needs, also have higher-order needs for relationships, belonging, and personal growth which are powerful motivators in the work environment. These factors are ignored by agency theory, which is therefore unable to give a complete picture of the management-shareholder relationship.

An approach with roots in sociology and psychology that broadens the concepts of agency theory to recognise the existence of the higher human needs, taking a collectivist rather than an individual perspective, has been termed, "stewardship theory" (Block 1996; Donaldson and Davis 1991, 1994; Fox and Hamilton 1994; Davis et al 1997). It is gaining some empirical support (Muth and Donaldson 1998) .

Stewardship theory stresses involvement rather than control, trust rather than monitoring, and performance enhancement rather than cost control. It also has a long-term, rather than a short-term, orientation. The major distinction between agency and stewardship theories is the focus on extrinsic rather than intrinsic motivation (Davis et al 1997:27). Unlike the tangible, measurable extrinsic rewards, generally financial, that are assumed to be the motivators by agency theories, the rewards for "stewards" include opportunities for growth, achievement, affiliation, and self-actualisation (Davis et al 1997:28). Managers who are "stewards" achieve these personal objectives by striving for the success of the organisation. In effect the individual becomes integrated with the organisation (Argyris 1990), so aligning the interests of owners and management without the need for external control mechanisms. Shareholders can therefore expect to maximise their returns when the organisational structure gives management the scope to exert effective control (Muth and Donaldson 1998).

The effect of this central proposition of stewardship theory is to predict (in direct contradiction to agency theory) that structures designed to increase the monitoring and control of management will be associated

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with *lower* company performance. Thus CEO duality and a majority of *inside* directors should produce the best results (Muth and Donaldson 1998). Given the divergence of the two theoretical underpinnings, it is perhaps unsurprising that the empirical evidence relating board structure to company performance has proved inconclusive. The main body of research into corporate governance structures has been directed at attempts to confirm the (agency-based) conventional wisdom, rather than testing alternatives. Before reviewing research aimed specifically at verifying the stewardship approach, we will make a brief diversion to examine the resource dependency perspective of board composition.

Resource dependency theory explains certain aspects of internal organisation by linking them to inter-organisational phenomena, although it does not offer a refutation of prevailing theories of organisational behaviour as its authors, Pfeffer and Salancik, have suggested (Donaldson 1995). Applied to boards, this perspective seems most appropriate to the "service" roles of outside directors (Mintzberg 1983), including co-opting external influencers, establishing contacts that can open doors, and enhancing the company's reputation by including "big names" among the directors. These roles can also include scanning the environment for information that can increase the number of strategic options available to the company.

The resource dependency perspective is rather different from that of traditional agency theory as it does not directly concern the alignment of the interests of shareholders and management. It does, however, suggest that outside directors should generally be able to benefit the company through their external organisational links, the more links the greater the beneficial effect on performance. It could therefore be argued that a larger number of outside directors would be associated with higher performance. On the other hand, their presence could obviously be counter-productive if their loyalties were split between the various parties to whom they were linked. In such a situation, there would be an agency cost of having these directors on the board, perhaps offering a further explanation of the inconclusive results of research attempting to link outside director numbers to performance without controlling for the directors' affiliations.

A general review of the empirical evidence for the resource dependency perspective is beyond the scope of this paper, but it is worth citing a study (Muth and Donaldson 1998) which examined the relative power of stewardship, agency, and resource dependency theories to predict company performance from board structure. The research sample consisted of 145 companies listed in Australia. The study identified three mutually independent (orthogonal) factors, board independence, network connections, and director tenure. This study appears to be one of very few that comprehensively included director affiliations and numbers of internal and external directorial and organisational linkages.

Two performance factors were derived from accounting and market data: shareholder wealth and sales growth. Tenure was unconnected with performance. Agency theory was not supported, in that board independence was not associated with superior performance on either measure. Stewardship theory had limited support in that board independence was negatively associated with sales growth, but not with shareholder wealth. (Advocates of the economic value-based management would in any case not accept sales growth alone as superior performance!)

Perhaps the most striking finding was that there was a marked negative association between board independence and shareholder wealth in companies with a high level of network connections, ie where the board is dominated by directors with strong external connections. It is possible that they use their combination of internal and external power to take wealth out of the focal company to the detriment of its shareholders (Muth and Donaldson 1998: 25).

Illuminating the "black box"

In the research reviewed so far in this paper, there is no robust support for agency theory or for the corporate governance codes based on it, nor for the resource dependency perspective. The weakness of all this research is that it treats the board as a "black box" (Pettigrew 1992), taking no account of the dynamics and processes of boards at work. Demographic data alone cannot predict the behaviour of the directors as a group (Forbes and Milliken 1999); only observation of boards at work, or enquiry among individual directors by interviews or questionnaires, can approach this goal. But clearly some sort of framework is desirable to make sense of any data collected in this manner.

The approach suggested by Forbes and Milliken (1999: 502) is to regard the board as a decision-making group and draw on existing theories and empirical studies of group dynamics. They propose a model which suggests that the effect on company performance

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of board demographics, knowledge and skills is mediated by board cohesiveness, and they suggest ways in which this could be operationalised. This looks to be a very promising avenue for new research which should be able to test in the real world the behavioural assumptions on which the agency-based corporate governance codes are based. For example, is cohesiveness damaged by structures designed for monitoring and control?

The basic purpose of such structures is obviously to make the board more powerful in a decision-making sense than the CEO. A study of the effects of different CEO-board power relationships on firm performance should therefore be able to yield useful insights into the benefits or otherwise of structures intended to increase board independence, ie increase its relative power. Such an empirical study using interviews and questionnaires has been conducted by Pearce and Zahra (1991) who examined the outcomes for each type of board in a 4-way typology, board power hi-low, and CEO power hi-low. The findings did not support the conventional wisdom that high board power and low CEO power are superior. Rather, it turned out that the best performance occurred in 'participative' boards where CEO and board power were both high. This result probably has good face validity for practitioners in that all board members would be firing on all cylinders and able to maximise their personal contributions. Disagreements would be made explicit, requiring negotiation and compromise to reach decisions (Pearce and Zahra 1991: 138). Cooperation through robust discussion would replace the confrontation of the agency model.

Asking the participants themselves who is more powerful, board or CEO, was a major advance on the passive studies using only demographic variables, but it would clearly be even more illuminating if the occurrence of interpersonal behaviours in the board could be explored directly. If the frequency of "monitoring behaviours" and challenges to the CEO by board members, could be logged, and compared with advice-seeking and influencing attempts by the CEO, a (rather "grainy") picture of board dynamics would emerge which could be compared with company performance. A study using these principles was carried out by Westphal (1996).

He used questionnaires to collect data from the CEO and at least one outside director of over 200 US companies from the Forbes 1000. A measure of board "independence" was determined partly from published data on structure and demographics and partly from a questionnaire survey on social ties among directors. The survey was also used to measure the frequency of influence attempts by the CEO and challenges to the CEO by board members. Although board independence was associated with greater challenging behaviour, it was apparently offset by increased frequency of influencing behaviours (politicking) by the CEO. According to agency theorists, CEO self-aggrandising activity tends to result in high levels of unwise diversification that destroy shareholder value. The greater control exerted by an "independent board" should lead to a lower level of diversification, but the opposite effect was found.

This study also identified a "cooperation" model of board working, characterised by a high level of advice-seeking behaviour by the CEO and strong friendship ties between the CEO and other board members. This model was associated with superior company performance, provided that the CEO had significant incentive alignment. This study suggests that contrary to the greater board independence advocated in corporate governance codes, firms can enhance board effectiveness by creating close, trusting CEO-board relationships (Westphal 1996: 82).

Are "outside" directors really outsiders?

The failure of many research studies to support the theoretical and conventionally held benefits of outside directors may be due in part to the fact that the assumed alignment of interest between such directors and shareholders is illusory. The outsiders may be "affiliated" to the company (Finkelstein and Hambrick 1996), for example, they may be former employees, advisers or consultants. Many are part of an interconnected management elite who serve on each others' boards and have a "managerialist perspective", sharing the norms and motivations governing the behaviour of inside directors. It has been estimated, for example that perhaps only 25% of UK non-executive directors are genuinely "outsiders" (Samuels et al 1996). Moreover, even if there is a complete absence of affiliation on appointment, it would be surprising if many outside directors did not fairly soon "go native" to some extent (Hill 1996).

UK directors generally feel that they are running their companies in the interests of shareholders. If they do not do this very well, it is probably because they are incompetent, ill-advised, or do not really know what

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shareholders expect (Hill 1996). This implies a sort of modified agency theory (Hendry 1997) in which self-serving behaviour by the agent is replaced by incompetence of the agent.

Discussion

The starting point of this paper was to draw attention to the paradox that corporate governance codes in the Anglo-Saxon world prescribe an essentially uniform structure for boards, whereas well-established contingency theories hold that, for best performance, structural form should be tailored to the company's circumstances. We also pointed out that the architects of the codes appear to have paid scant attention to the consequences for firms adopting their codes. They assert that compliance will improve company performance in the sense of increasing shareholder value, but do so without significant evidence to support their position.

The brief review of theory and evidence we have carried out shows that there is no robust empirical support for the belief that boards which are "structurally independent" of management lead to improved performance. Indeed there is an accumulating body of evidence that boards where there is heavy emphasis on monitoring of management are associated with inferior performance. Even the idea that remuneration committees staffed by outside directors can control the so-called fat cats and restrain executive salaries, is not supported by research.

It can be argued that the empirical research suffers from numerous methodological difficulties. For example, operationalising both the independent and dependent variables is often difficult and is a major potential source of error. The independence of outside directors is assumed in many studies, yet the degree to which their interests are aligned with company management can vary enormously. Perhaps it would be a mistake to place too much weight on the research evidence? However, the theory supporting the value of "structurally independent" boards, agency theory, also has weaknesses, and, as we have noted, is strongly challenged by some scholars in the field. The emphasis on agency theory is another paradox in the field of corporate governance.

Agency theory is based on the concept of "economic man" as a selfish maximiser of his own utility, (a concept which is no longer wholeheartedly embraced even within economics itself). It ignores decades of theoretical and empirical study of human motivation, rooted in the disciplines of sociology and psychology, which rejects this unidimensional view of human nature. It would therefore not be surprising if predictions of board behaviour based on agency theory were at best imprecise, and, at worst, completely wrong.

Given the lack of empirical support and theoretical weakness, how are we to explain the continuing pressures on companies to adopt the structural prescriptions of the corporate governance codes, and the apparently increasing levels of compliance. The most likely explanation is the pervasiveness of regulatory, professional, and other pressures that DiMaggio and Powell (1997) call "institutional isomorphism". A "corporate governance industry" has arisen which feeds on itself and makes it increasingly difficult for practitioners to challenge the conventional wisdom. But does it matter?

It seems likely, confirmed by the writer's personal experience, that most boards, whilst complying with the structures prescribed by the codes, are pragmatic about how they apply them and avoid potentially negative consequences. But it is impossible to be sure that shareholder value is not being destroyed, rather than enhanced, and that the strait jacket of the codes is not having a materially limiting effect on national economic performance.

It would be reassuring if the movers and shakers among the shareholder activists were more aware of the debate between the economic and psychological paradigms of human motivation, and between the "command and control" and "intrinsic motivation" approaches to management? The corporate governance industry should focus more attention on education and research.

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Book Note

Company Structures – tax, accounting and company law; David Wainman; 2nd edition, 1999, Sweet and Maxwell, London

The author, a partner in a major accounting firm and the tax correspondent of the *Financial Times,* is well placed to explain how companies operate within a framework of company law, tax regulation and accounting requirements. This is a detailed text, citing legal precedents, taxation issues and accounting standards, which will be valuable to the corporate financial adviser and the finance director as they try to pull together legal, tax and accounting matters in the face of commercial reality.

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