



Responses to corporate governance code: evidence from a longitudinal study

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Abstract

Drawing upon neo-institutional theory as the perspective for research on corporate governance, we present the results of empirical studies on compliance with best practice codes. We view the declarations of conformity as the organizational response to institutional pressure and address questions on (1) how companies respond to recommendations on board best practice and (2) how these reactions evolve over time. The study employs the mixed method approach and is based on a time-series sample of conformity declarations published by 126 companies listed on the Warsaw Stock Exchange during the period 2006–2019. Descriptive statistics indicate an increase in the number of complying companies, an improvement in compliance quality and the growing length of conformity declarations. In the content analysis we identify two main reaction strategies (acceptance and rejection) with seven selected responses. We discuss the contribution to the existing literature on reactions to new practices in corporate governance.

Keywords Corporate governance · Corporate governance code · Best practice · Compliance · Neo-institutional theory

JEL Classification M10 · L20

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1 Introduction

Corporate governance codes are formal documents based on fundamental norms of justice, fairness and equality (Zattoni and Cuomo 2008) that outline recommendations to improve governance and increase the accountability of companies to shareholders (Hermes et al. 2007; Aguilera and Cuervo-Cazura 2009; Krenn 2015). Such codes have become an increasingly important element of the business environment and are viewed as a systemic response to governance inefficiencies. The annual statement of compliance, known also as a declaration of conformity constructed according to the “comply or explain” rule, has become an essential element of company communication to investors.

Within two theoretical approaches—the efficiency theory and the institutional theory—researchers have sought the determinants that stimulate or inhibit the implementation and diffusion of new practice by companies with different organizational characteristics operating in various institutional environments (Nerantzidis 2015). In line with the efficiency perspective (Nerantzidis 2015), studies have adopted agency theory and signaling theory (Shrives and Brennan 2015) to show that corporate governance codes protect investors (Zattoni and Cuomo 2008). The existing literature suggests that the codes may improve the quality of company governance when recommendations are implemented in a reliable manner (Gompers et al. 2003; Kaspereit et al. 2015; Outa and Waweru 2016; Roy and Pal 2017). Nevertheless, recognizing the effectiveness of increased transparency and accountability, studies indicate several limitations related to the one-size-fits-all approach and flexible adoption of corporate governance codes (Healy and Palepu 2001; Goncharov et al. 2006; Nerantzidis 2015; Lepore et al. 2018). Since significant discretion is offered by the “comply or explain rule”, with no external verification or audit of conformity declarations, companies may respond to code provisions in a variety of ways. While some countries have already implemented verifications of compliance statements, other countries have not developed formal solutions in this area what may undermine the credibility of corporate governance statements. Specifically, studies suggest that the positive outcomes anticipated from adoption of corporate governance codes may be limited by the phenomena of instrumental box ticking (Fotaki et al. 2020), decoupling (Martin 2010; Krenn 2015), substitution response (Okhmatovskiy and David 2012) or overstatement of compliance (Sobhan 2016).

Research shows that corporate disclosure and diffusion of new practice are complex matters, giving rise to the use of the institutional perspective, which views the aim of governance codes as not only to increase governance efficiency but also to improve harmonization of a national system with international best practice (Zattoni and Cuomo 2008). According to neo-institutional theory (Meyer and Rowan 1977; Oliver 1991; Deephouse 1996; Roberts and Greenwood 1997), companies need to respond to pressure from their constituencies to survive, “even though these expectations may have little to do with short run technical notions of efficiency or performance accomplishments” (Nerantzidis 2015:376). Corporate governance recommendations formulated by different stakeholders exemplify

institutional pressure, which necessitates some form of organizational response (Enrione et al. 2006; Seidl et al. 2013). Companies need to incorporate new practice and translate it into their strategy and operations. In spite of this, organizational response to institutional pressure and the patterns of adaptation of new practice depend on the organizational characteristics and context (DiMaggio and Powell 1983; Chizema 2008), which define the determinants of organizational flexibility and change. As argued by Oliver (1991: 145), organizations follow different strategic responses “as a result of the institutional pressures toward conformity that are exerted on them”.

In this paper, we present results of an empirical study on corporate governance compliance with the focus on the content of company statements. As noted by Shrives and Brennan (2015), prior research describes compliance according to a dichotomous categorization, noting the adoption of certain corporate governance principles or lack thereof (Renders et al. 2010a,b), but they do not capture the quality of disclosure itself, failing to distinguish between differences in the content and rhetoric of explanations in non-compliance statements (Soobaroyen and Mahadeo 2008; Lepore et al. 2018). Drawing upon neo-institutional theory, our study adds to this body of research on the content of company declarations (MacNeil and Li 2006; Andres and Theissen 2008; Arcot et al. 2010; Hooghiemstra 2012; Seidl et al. 2013; Albu and Girbina 2015; Manzanares and Leal 2021). Following the frameworks offered by Oliver (1991), Seidl et al. (2013), Shrives and Brennan (2015) and Thanasis et al. (2018), we address questions on how companies respond to the institutional change brought by corporate governance codes, analyzing both compliance statements and explanations of deviation from best practice (Hooghiemstra 2012). Company responses to institutional pressures depend on their willingness and ability to conform. The first is limited by organizational skepticism about the legitimacy of a particular practice, conflict between institutional rules and organizational goals and efforts to maintain control over internal processes. The latter is restrained by inadequate organizational resources or the capacity to meet particular institutional requirements, conflicting institutional pressures and also a lack of recognition or awareness of institutional expectations.

The goal of the paper is to address two issues regarding how organizations react to institutional change. Specifically, we intend to identify strategic responses adopted by listed companies in reaction to the new rules brought by corporate governance codes and to track the dynamics of these strategic responses over a long period of time. Referring to prior studies (Okhmatovskiy 2017; Seidl et al. 2013; Shrives and Brennan 2015; Thanasis et al. 2018), we present the results of a content analysis of compliance statements with regard to board practice by 125 companies listed on the Warsaw Stock Exchange (WSE) in the years 2006–2019. The study provides an answer to two research questions concerning (1) how companies respond in their compliance statements when reacting to institutional pressure and (2) how these strategic responses evolve over time. In a sense, we expand the approach offered by Seidl et al. (2013), who identify discourse legitimacy tactics on reporting compliance with codes of corporate governance that companies follow in their adoption of the “comply or explain” rule. Our study contributes to the existing literature in two ways. Firstly, unlike several studies (Lepore et al. 2018; Manzanares and Leal 2021)

we do not analyze compliance records for one specific year but offer a longitudinal study and identify two main strategies (acceptance and rejection) with distinct types of organizational responses (top of class, acquiescence, compromise and understatement as well as avoidance, maneuvering and defiance). The analysis of compliance statements and non-compliance explanations shows the evolution of these responses, documenting the frequency of their use over a 14-year period. The paper offers a complementary view to findings by Shrives and Brennan (2015) and Thanasis et al. (2018), who introduce taxonomies of detailed categories of explanations. Secondly, while the predominant portion of the literature offers analysis on corporate governance compliance in developed economies, we provide much-needed evidence of compliance from a post-transition country (Albu and Girbina 2015), characterized by a post-socialist legacy of skepticism towards institutions and rules (Mishler and Rose 1997; Tilly 2004) and lacking the tradition of a principle-based approach. In discussing the evolution of corporate governance compliance, we indicate implementation difficulties (Manzanares and Leal 2021) in the context of a country that has a limited history of stock market operation, insufficient investor protection and significant ownership concentration of listed companies.

The remainder of the article is organized as follows. Based on the review of existing literature, we discuss the phenomenon of corporate governance codes, formulated recommendations and the “comply or explain” rule. Secondly, referring to prior studies (Martin 2010; Seidl et al. 2013; Okhmatovskiy 2017) and using neo-institutional theory (Oliver 1991), we present the conceptual framework to explain the company response to institutional pressure. Subsequently, we outline the institutional background of the Polish corporate governance system, followed by presentation of the research design and discussion of the compliance practices of WSE companies. In doing so, we provide answers to the questions regarding the typology and dynamics of organizational responses to institutional change exemplified by the best practice code. We distinguish two main strategies of acceptance and rejection to the code recommendations, using examples extracted from the declarations of conformity of companies in our sample. Our findings show the evolution of compliance and the frequency of the selected responses over the analyzed period. Finally, we discuss the results and the contribution to the existing literature.

2 Theoretical background

2.1 Code of best practice

Corporate governance codes, viewed as the generally recognized solution for improving corporate governance, are sets of recommendations and guidelines to address company mismanagement and ineffective control (Cuervo 2002; Mallin 2006; Cuomo et al. 2016). In particular, “a code can be interpreted as a standardizing mechanism of the behaviors adopted to better protect minority investors” (Lepore et al. 2018: 811). With an effective structure of checks and balances in place to assure the creation of long term sustainable value (Tricker 2012), corporate governance codes are intended to increase executive accountability and mitigate the

agency conflict (Dedman 2002; Hermes et al. 2007). Guidelines address the functioning and composition of the board (regulation, procedures for appointment, meetings, voting, number of independent directors, gender balance, self-evaluation), the formation of specialized board committees (audit, risk management, remuneration) and the formulation of directors' duties based on accountability and responsibility to shareholders and stakeholders (Daily et al. 2003; Lipman 2007; Zattoni and Cuomo 2008). Best practice recommends equitable rights of all shareholders, who are encouraged to actively participate in shareholder meetings by exercising their voting and decision making power, submitting proposals and appointing directors (OECD 2004, 2015). The codes set standards of transparency and define the scope of corporate disclosure provided to investors and the general public. The recommendations also refer to compensation schemes, with special concern given to the pay scale and structure, bonuses and incentive programs, the time horizon of the variable component to be paid in cash or stock, the functioning of the remuneration committee (structure, composition), and transparency standards ("say on pay" principle). Specificities of national systems of corporate governance give rise to recommendations of related party transactions, relations between a company and the media or empowerment of shareholders. Regardless of the country of origin, corporate governance guidelines emphasize fundamental issues, such as "fairness to all shareholders, clear accountability by directors and managers, transparency in financial and non-financial reporting" (Zattoni and Cuomo 2008).

Corporate governance codes are often based on the "comply or explain" rule, which offers flexibility in adopting the guidelines and assumes voluntary decisions on the part of listed firms (Nerantzidis, 2015; Calderón et al. 2018; Tan 2018). Discretion may contribute to the improvement of internal corporate governance (Aguilera and Cuervo-Cazura 2004; Chizema 2008; Tricker 2012) and may add more value to governance practice than regulatory reforms (Zattoni and Cuomo, 2008). Different cultural, political and social determinants as well as institutional contexts have a significant impact on attaining agreement upon principles in national codes of corporate governance. The flexibility notion also diminishes the limitations of a one-size-fits-all approach and allows for national specificities. Yet, the alternative approach suggests "the apply and explain" rule adopted for instance by King Report in the Republic of South Africa or the no longer binding 2004 Dutch Corporate Governance Code. The King Committee on Corporate Governance issued the first report in 1994 (King I) followed by four revisions in 2002 (King II), 2009 (King III) and 2016 (King IV). Consistent with the concept of best practice King Report remains non-legislative tool formulating principles and practices, yet unlike the "comply or explain" rule it follows "apply or explain" approach calling for the shareholders to enforce the code.

The code adoption is motivated by a number of reasons. Prior studies presume that the motivation for compliance "is based on the assumption that the market will monitor compliance with a code and will either (a) penalize non-compliance through lowering share prices (Easterbrook and Fischel 1996) or (b) accept for whatever reason than non-compliance is justified in the circumstances (Anand 2005)" (MacNeil and Li 2006: 487). According to the efficiency premise (Nerantzidis 2015), compliance with the code increases investors' trust (Arcot et al., 2010), lowers the risk

associated with firm operation (Bistrowa and Lace 2012) and is expected to increase firm value (Gompers et al. 2003; Black et al. 2006; Goncharov et al. 2006; Renders et al. 2010a, 2010b; Bistrowa and Lace 2012). Compliance with the code recommendations is a signal for investors that the firm, its executives and board directors aim to protect shareholder interest and strive to enhance shareholder value (Shrives and Brennan 2015). The publication of the conformity declaration increases transparency, which may encourage investors to allocate funds and have a positive effect on overall performance (Pott et al. 2008). It is also motivated by financial investors, whose mobility and portfolio orientation induce competition between countries and companies to attract funds for growth (Mallin 2006; Tricker 2012).

Studies indicate shortcomings in actual compliance (Martin 2010; Krenn 2015; Nerantzidis 2015; Fotaki et al. 2020) which are exacerbated in emerging markets (Sarhan and Ntim 2018; Claessens and Yurtoglu 2012). Companies tend to focus more on form than on substance (Martin 2010), attempt to navigate around the conformity declaration or choose non-compliance. For instance, a study on Bangladesh reports that companies overstate their compliance, particularly with respect to principles which are less directly observed (Sobhan 2016). In their research on Russia, Okhmatovsky and David (2012) reveal that companies tend to set their own standards in internal corporate governance codes in order to sidestep the guidelines formulated by the stock exchange. The substitution response occurs more frequently in circumstances where corporate governance practice has greater prominence (Okhmatovsky and David 2012). The recent evidence from Brazil indicates shortcomings in non-compliance explanations, which commonly display a generic and uninformative character (Manzanares and Leal 2021). Contrary to the results from studies on developed economies (Chang 2018), compliance in the post-communist economies remains low.

2.2 Compliance from the perspective of neo-institutional theory

Research on compliance with corporate governance codes is embedded in a multi-conceptual framework (Abraham and Shrives, 2014). Studies based on agency (Hooghiemstra 2012; Lepore et al. 2018) and signaling theories attempt to understand why companies comply or do not comply with corporate governance codes, whereas resource dependency theory helps identify determinants of compliance and explain the differences in the quality of disclosures (Shrives and Brennan 2015). Understanding company reactions to code recommendations, particularly the decision on conformity or lack thereof, and the content and rhetoric of explanations in non-compliance statements, lie conceptually within the domain of neo-institutional theory (Meyer and Rowan 1977; Oliver 1991; Deephouse 1996; Roberts and Greenwood 1997).

A firm's decision to declare compliance and to adopt code guidelines remains within the remit of organizational decision-makers, and represents the organizational response to institutional change (Meyer and Rowan 1977; DiMaggio and Powell 1983; Mizruchi and Fein 1999). Such decisions reveal how a company translates the institutional pressure of corporate governance code into its strategy, and depends

on the organization's willingness and ability to conform. This derives from the interplay of actors' interests and powers interacting in the organizational context (Oliver, 1991). Studies on corporate governance conformity embedded in neo-institutional theory draw upon the concepts of best practice diffusion, institutional isomorphism and corporate symbolism (Soobaroyen and Mahadeo, 2008). Differences in compliance practice and explanations of deviation from code provisions (Hooghiemstra 2012; Seidl et al. 2013; Okhmatovski 2017) are found to be a function of institutional context and organizational characteristics such as company and board size, leverage (Hooghiemstra and van Ees 2011; Bradbury et al. 2019), ownership structure (Lepore et al. 2018) and firm performance (Manzanares and Leal 2021).

In responding to institutional pressure, organizations need to decide how and to what degree they adopt a new practice. Organizational studies show that in the early stage of best practice implementation companies differ significantly in their responses. The new practice may be rejected, viewed as an additional cost, partially or fully adopted. Its implementation can be instrumental or manipulative (such as when a substitution adoption is employed). Yet, over time, companies' response to institutional pressure and the experience of interactions with their peers result in a growing homogeneity between them (DiMaggio and Powell 1983). The process which makes organizations resemble each other is known as competitive isomorphism, driven by the quest for higher efficiency, and institutional isomorphism, motivated by the interplay between political and institutional legitimacy (DiMaggio and Powell 1983; Deephouse 1996). DiMaggio and Powell (1983) propose three mechanisms—coercive, mimetic and normative—which make the isomorphism happen and which show how new behavior diffuses.

The adoption of the corporate governance code represents the case of diffusion and institutionalization of change in formal organization structures (Greenwood et al. 2002) under the influence of lawmakers, market makers, model makers and governance actors that carry normative, coercive and mimetic pressures (Enrione et al. 2006). Corporate governance conformity not only aims at the development of efficient monitoring and oversight to protect shareholder value but it also intends to license the presence of the firm on the stock market (Seidl et al. 2013). Roberts and Greenwood (1997) argue that efficiency seeking may not be the goal for all organizations. In the language of neo-institutional theory, once a firm decides to declare corporate governance conformity, it may undergo the isomorphism process to demonstrate value commitment and attain legitimacy from its constituencies (DiMaggio and Powell 1983; Mizruchi and Fein 1999).

Organizations may be limited by cognitive and institutional constraints and their choices may be biased in favor of certain structures and practices that are legitimated within their institutional contexts (Roberts and Greenwood 1997). Assuming a variety of organizational reactions to institutional change, Oliver (1991: 145) identifies a “different strategic response that organizations enact as a result of the institutional pressures toward conformity that are exerted on them”. The variety of sources of external power and the complexity of processes between organization and environment result in differences in organizational reactions to institutional pressures. With the motives of obtaining stability and legitimacy, companies follow one of five options—acquiescence, compromise, avoidance, defiance and manipulation.

The institutional change, that forces organizations to react, may be brought about by the implementation of new legislation (Edelman 1990) or new best practice codes (Bromley and Powell 2012; Seidl et al. 2013; Wijen 2014; Okhmatovskiy 2017). The introduction of a corporate governance code comprises both dimensions, as it demands disclosure of “comply or explain” status of formulated principles, allowing for some discretion in the adoption of these principles.

3 Institutional background

Polish listed companies operate in a specific post-transition context, corresponding to the characteristics identified by Berglöf and Claessens (2006) and Hardi and Buti (2012) which include inter alia the blockholders as the most important governance mechanism, limited role of independent directors, insufficient minority investor protection, limited role of market for corporate control and litigation dependent on general enforcement. Overall, Polish corporate governance is based on hierarchies, while the external mechanisms still remain weak. The ownership concentration is significant, with the average dominant shareholder stake estimated at 41% (Aluchna and Kamiński 2017). Public companies are governed by a two-tier board, including a supervisory board and a management board (Jeżak et al. 2016). The supervisory board is responsible for monitoring and supervising company activities (Campbell et al. 2009), yet is often controlled by the representatives of large shareholders. In the context of the principal-principal conflict, with weak legal institutions based on a civil law tradition, firms are expected to “develop alternative solutions to guarantee investor protection, such as establishing good corporate-governance practices” (Renders et al. 2010a,2010b:91).

The first Polish stock exchange was opened in Warsaw on May 12, 1817 and developed successfully until the breakout of World War II (gpw.pl/historia). It ceased its operation during WWII and did not operate in the post-war centrally planned economy. With the transition reforms, the Warsaw Stock Exchange (WSE) re-opened on April 16, 1991, initially hosting 6 companies that were quoted only once a week. Faced with the absence of adequate regulation for the effective operation of the WSE, the government initially adopted the pre-war Company Act of 1934. As Poland underwent dramatic institutional changes through introducing new laws and institutions, rebuilding human capital and inviting FDIs (Frydman et al. 2001), the WSE developed successfully into the largest Central European stock market, which currently hosts over 480 companies with a total capitalization of 28bn USD (gpw.pl). After 2004, the process of corporate governance institutionalization speeded up, under the aegis of EU accession and the subsequent harmonization of laws.

The initiative of the corporate governance code was introduced by the WSE in 2002, in the manner of the “comply or explain” rule. From the outset, operating under an underlying assumption of balancing stakeholder interests, the process of code formulation was based on a multilateral dialog and consultations with market participants (Aluchna 2013). WSE offered expertise for listed companies in the course of interpretation and practical implementation of principles. The process of

formulating corporate governance best practice resulted in the publication of the first code in 2002, subsequently revised two years later. The first code embodied five essential principles: (1) premise of the company goal, (2) governance of the majority with the protection of minorities, (3) honest intentions and non-abuse of power, (4) decisions of corporate entities not to overrule court decisions and (5) the independence of external auditors and analysts. Significant changes introduced in the 2008 version of the code, followed by a series of amendments in the 2010, 2011 and 2012 revisions, include increasing transparency standards and facilitating the execution of shareholder rights, in addition to specifying the structure and functioning of the supervisory board. In a similar vein, more focus was devoted to issues characteristic for post-transition economies (Berglöf and Claessens 2006), including those addressing relations between majority and minority shareholders and related party transactions. These changes were driven mostly by the Warsaw Stock Exchange efforts to harmonize the code guidelines with the EU recommendations and update them in accordance with the current needs of listed companies. The 2016 document “Best Practice of GPW Listed Companies 2016” consists of recommendations and detailed guidelines, organized into six main sections which refer to the following areas: (1) information policy and communication with investors, (2) management and supervisory boards, (3) system and internal functions, (4) annual shareholder meeting and relations with shareholders, (5) conflicts of interest and related party transactions and (6) executive remuneration. The recent study on compliance with the code principles indicates that Polish companies are the most reluctant to adopt recommendations on information policy (recording and broadcasting the AGM), setting risk management systems, reporting on executive remuneration policies, disclosing diversity management policies, identifying conflicts of interest, assuring auditor independence, division of tasks and responsibilities by members of the management board, and the independence of supervisory board directors (PWC 2017). Recently, the Warsaw Stock Exchange initiated a round of consultations to formulate a new version of the corporate governance code—the code came into effect on July 1st 2021. The 2021 code follows the previous structure, yet it is both more comprehensive and simplified. A greater emphasis is devoted to transparency and non-discrimination of board members with regard to gender and race in the practice of executive compensation.

The code amendments corresponded with the changing nature of corporate governance and the process of harmonizing laws within the process of the EU integration. Following the “comply or explain” rule, WSE listed companies have been obliged from the outset to publish a declaration of conformity, either forming a separate statement or part of the annual report, where they present the corporate governance structure, report on compliance, or provide a justification if either of these are absent. Furthermore, in light of criticism and difficulties in the adoption of some of the provisions, the WSE authorities responded to expectations formulated by companies and shareholders by tailoring the code to the specific nature of the Polish context (Campbell et al. 2009). Consistent with the assumption of the new institutionalism (Kraatz and Zajac 1996), organizations adopt new practice within the process of interaction between organizational context and organizational actions. In consequence, the WSE was forced to change the provisions, giving guidelines concerning the functioning of the board with

respect to independent directors and the formation of audit committees. The principle of 75% of independent directors (introduced in 2002) was amended to over 50% in companies with no majority shareholders or a minimum of two independent directors for companies with concentrated ownership (Campbell et al. 2009). Subsequently, every listed company, regardless of ownership structure, was subject to the universal provision of at least two independent directors on the board. Other changes were also introduced with regard to the structure of the investor relations website (originally created in 2008), with more freedom being granted to listed companies in 2015.

While several articles and reports document adherence to the code by the majority of listed companies (Campbell et al. 2009; Deloitte 2016; PWC 2017), they also reveal numerous cases of non-compliance (Campbell et al. 2009; Kołodkiewicz 2014; Grabowska 2015; Gad 2020) which de facto represent structural shortcomings of the Polish corporate governance that persist over time (Berglöf and Claessens 2006). WSE listed companies are the most reluctant to carry out the following actions (Aluchna, 2013; Aluchna and Kołodkiewicz 2018):

- Appoint at least two independent directors to the supervisory board
- Publish the board's self-assessment
- Form an audit committee within the supervisory board (this guideline was subsequently enacted in law, but allowed companies with a supervisory board of 5 members to bypass this requirement; in response, a number of companies decreased the supervisory board to 5 directors)
- Form a remuneration committee and other specialized committees
- Provide an interactive shareholder meeting with online voting
- Publish up-to-date company information, including information in English

In light of non-compliance, several code recommendations were enacted into law (Kołodkiewicz 2014). In 2009, the amendment of the Act on Auditors introduced the obligation to form an audit committee for any board having more than five members. In the case of a five-member board, the law allowed the whole board to function as the audit committee. The 2017 Act, covering auditors, audit firms and public supervision, introduced the obligation to form an audit committee within the supervisory board of all companies. Additionally, financial institutions are required to appoint at least two independent directors to the board. The Accounting Act (article 4a) introduced additional provisions on board responsibility for information policy, developed in response to the European Commission recommendation 2014/208/UE (point 20), which states that boards should be involved in the monitoring of information disclosure by the company, and also provide support to the management board in its reporting on compliance with best practice (Aluchna and Kołodkiewicz 2018).

4 Methodological approach

4.1 Sample and data collection

We analyze information collected from 1,750 statements on corporate governance compliance, published by 125 companies listed on the Warsaw Stock Exchange over 14 years, in order to conduct a longitudinal analysis and observe the dynamics of company responses to institutional pressure exerted by code provisions. Our goals are to (1) identify strategies for responding to institutional change brought about by the code and (2) trace the dynamics of these responses in the light of isomorphic mechanisms. We analyze compliance practices by following the research procedures adopted in prior studies (Chizema 2008; Seidl et al. 2013; Nerantzidis 2015; Albu and Girbina 2015; Rose 2016). We focus on compliance with board best practice as this constitutes the core of good governance (Spira 1999; Seidl et al. 2013). In addition, the quality of board work is viewed as one of the key challenges of governance (Bradbury et al. 2019) in listed companies, due to the significant ownership concentration (Baixauli-Soler and Sanchez-Marin, 2015) and insufficiently developed market for professional directors. WSE companies tend to appoint directors affiliated with dominant shareholders to the supervisory board, being reluctant to nominate independent directors. They also refrain from identifying the status of board directors, avoid the formation of board committees and reject the idea of appointing an independent board chair.

We purposefully choose the period of 2006–2019, since earlier data are very noisy. We construct a balanced dataset, for which we collect corporate governance characteristics over the analyzed period. Beginning with the 284 firms quoted on the WSE in 2006, we then eliminate companies operating in the insurance sector, real estate firms, any companies with missing observations, and firms delisted over the analyzed period. Our final sample consists of 125 companies, which comprises the entire population of companies that remained listed over the entire 14-year period. With 60 companies operating in industry, 42 in services, 14 in construction and 9 in the financial sector, the sample breakdown reflects the sectorial structure of the Polish economy. Owing to the lack of any authoritative database on compliance, we collect information on board structure and practice by hand.

4.2 Data analysis

We analyze compliance practice in two ways. Firstly, we employ a basic quantitative approach and use descriptive statistics to explore the range and scope of the adoption of code provisions. We identify the range as the number of complying companies, which indicates the pace at which norms are adopted. Scope is understood as the average number of board principles, with a maximum of 6. In addition, we analyze the presence (binary variable) and the length of the declaration of conformity (number of pages) included in the annual report.

Secondly, with an understanding of general trends in compliance, we employ qualitative methods to study the descriptions of internal governance and explanations given in the case of non-compliance. In line with the conceptual framework outlined by Oliver (1991), Seidl et al. (2013) and Nerantzidis (2015), we interpret reporting of corporate governance compliance as the process of company reaction to institutional change. We identify distinct case studies of sample companies which exemplify how companies seek to explain their behavior (compliance practice), declaring a commitment to formulated principles. Since listed companies operate in an environment of flexibility (Nerantzidis, 2015; Tan, 2018), they can decide which principles they implement (comply rule) and how they explain their compliance or the lack thereof (explain rule). Thus, companies are given a lot of freedom in addressing these recommendations and choosing the appropriate strategy in response. Specifically, we formulate two research questions:

- How do companies, in their conformity declarations, respond to institutional pressure?
- How do these strategic responses evolve over time?

Our research is based on the methodology adopted in earlier studies (Seidl et al. 2013; Nerantzidis 2015) and investigates the degree of adherence with the code provisions and the content of explanations for deviation from the code (Albu and Girbina 2015). Nevertheless, we do not use the scale developed from taxonomy (Arcot et al. 2010; Albu and Girbina 2015) or the typology of quality of explanations (Shrives and Brennan 2015) but categorize the statements in accordance with the rhetoric employed. We adopt a content analysis approach (Krippendorff 2004) and examine the language used in corporate governance sections. Exploring the ways in which companies function within the conditions of institutional change and how they interpret distinct principles of corporate governance, a summative content analysis is used (Hsieh and Shannon 2005). Specifically, based on neo-institutional theory and work by Oliver (1991), we identify keywords prior to the data analysis and we develop them during the data analysis itself, going through several iterations of the theory-empirical data-theory cycle (Hsieh and Shannon 2005; Palermo et al. 2017).

We employ the procedures used by Nerantzidis (2015) and Shrives and Brennan (2015) and map the coding scheme as follows:

- At the first level we determine whether the company complies or does not comply with the code provisions.
- At the second level:
 - We examine the length and the content of the declaration for complying companies. The iteration between neo-institutional theory and compliance practice results in the identification of general codes (going beyond the code provisions, acceptance of code provisions, partial adoption of provisions, delayed adoption with explanations, adoption of provisions with a very short description).

- o We examine the length and the content of the declaration for non-complying companies. The iteration between neo-institutional theory and compliance practice results in the identification of general codes (no statement provided, direct rejection with an explanation that redirects attention towards other standards or internal company rules, direct rejection with an appeal to universal guidelines, direct rejection with limited explanation, direct rejection without any justification for deviating from code provisions).
- At the third level—“classifying large amounts of text into an efficient number of categories that represent similar meanings” (Hsieh and Shannon 2005:1278)—we aggregate the categories of identified responses into four specific approaches in the acceptance category (top of class, acquiescence, compromise, understanding) and three rejection categories (avoidance, maneuvering, defiance).

5 Findings

5.1 Scope and range of compliance

Our analysis reveals that the range and scope of board compliance have varied over the years, showing a slow but steady improvement. Due to the changing content of the codes over the analyzed period, we report the number of complying companies with reference to particular provisions. In Table 1 we begin with the results concerning information relating to publication of the compliance statement and adherence to two main principles—the presence of at least 2 independent directors on the board and the formation of an audit committee from within it.

Table 1 shows that the number of companies which publish the annual declaration of conformity grew from 20 in 2006 to 123 in 2016, and then to 125 companies in 2018 and 2019. This means that in 2019 all of the sample companies published a compliance statement. The number of companies adopting the principle of at least 2 independent directors on the board increased respectively—from 16 companies in 2006 to 110 in 2019. In addition, the number of companies complying with the best practice of an audit committee on the board increased from 7 firms in 2006 to 125 in 2018 and 2019. Since 2018, every company has complied with this provision, a fact attributed to its transition from recommendation to legal requirement (Kołodkiewicz 2014).

Furthermore, to understand the differences in compliance practice by the sample companies, we analyze the information concerning the more demanding principles—the identification of independent directors by their names (Ined identified), the formation of a separate audit committee and the formation of a remuneration committee, as presented in Fig. 1.

Figure 1 shows that the number of companies which identify the names of independent directors on board (Ined identified), has grown from 7 in 2006 to 104 in 2019, with the largest increase observed between 2017 and 2018. The number of companies which form a separate audit committee within the supervisory board jumped during the period 2007–2008, as well as in 2015–2016. The 2007–2008

Table 1 Compliance statement and adherence to board practice (number and percentage of companies)

Year	Publication of compliance statement (number of companies; percentage of companies)	Compliance with best practice of at least 2 independent directors on board (number of companies; percentage of companies)	Compliance with best practice of audit committee on board (number of companies; percentage of companies)
2006	20 (16%)	16 (13%)	7 (5.5%)
2007	24 (19%)	35 (28%)	22 (18%)
2008	76 (61%)	60 (48%)	47 (38%)
2009	105 (84%)	71 (57%)	78 (62%)
2010	116 (93%)	79 (63%)	90 (72%)
2011	120 (96%)	81 (65%)	95 (76%)
2012	122 (98%)	84 (67%)	97 (78%)
2013	121 (97%)	87 (70%)	99 (79%)
2014	121 (97%)	85 (68%)	99 (79%)
2015	122 (98%)	85 (68%)	100 (80%)
2016	123 (98%)	87 (70%)	110 (88%)
2017	123 (98%)	89 (71%)	122 (98%)
2018	125 (100%)	95 (76%)	125 (100%)
2019	125 (100%)	110 (88%)	125 (100%)

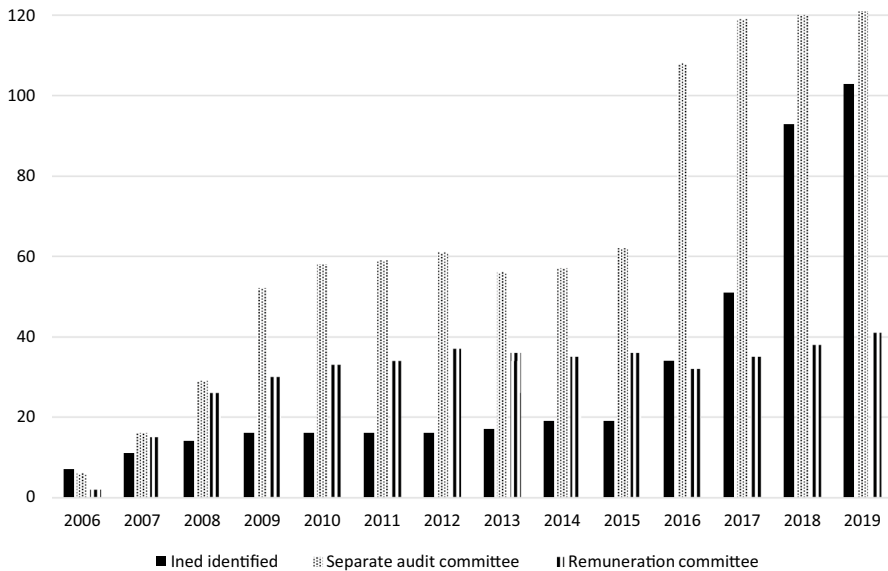


Fig. 1 Dynamics of board compliance (number of companies, 2006–2019)

increase was driven by the change in the code provision, while the larger rise seen in the years 2015–2016 is related to the transition of the audit committee provision from guidance to enforceable law. There is also an increase in the number of companies forming a remuneration committee on the board, from 2 companies in 2006 to 41 companies in 2019. We also analyzed compliance statements with regard to the independent status of the board chair (not shown in Fig. 1). The number of firms with an independent board chair increased from 7 in 2006 to 28 in 2019. In summary, the evidence shows that the number of companies adopting certain code provisions has increased over time. While companies initially differ more in their practice, the difference in corporate governance practice declines as norms become institutionalized. We complete our quantitative analysis of the scope of compliance by reporting the length of the conformity declaration, as measured in terms of normalized text pages (shown in Fig. 2).

Figure 2 demonstrates that the average length of the statement increased from approximately 6 pages in 2006 to 16.5 pages in 2019. The length of declarations did not exceed 16 pages in 2006, whereas in 2019 half of the sample companies disclosed reports between 4 to 15 pages long, with the longest reports covering 53 pages. Median of the length of compliance statements is close to average value suggesting the symmetry of value distribution.

5.2 Strategic responses to institutional processes

We employ the content analysis of compliance statements to understand how companies react to the enacted principles of corporate governance and how they respond

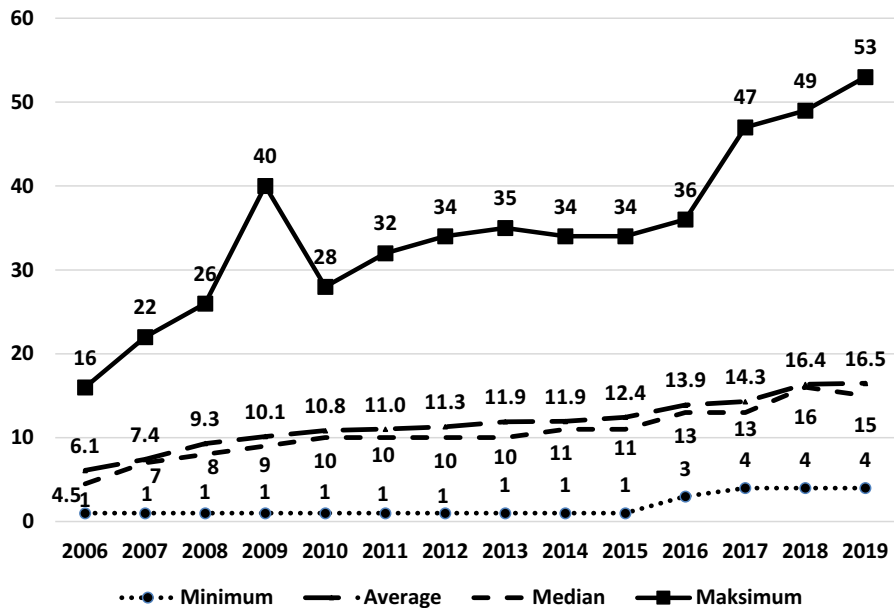


Fig. 2 Length of the compliance statement (2006–2019)

in justifying their compliance or lack thereof. Following the approach proposed by Oliver (1991), Seidl et al. (2013), Shrivies and Brennan (2015) and Thanasas et al. (2018), we identify two main strategies of organizational reactions to institutional change—acceptance and rejection. Differences in the approach indicate how companies seek consent within organizational context. An overview of these strategies is given in the Appendix.

5.2.1 Acceptance strategy

Based on the content analysis, we identify companies which to differing extents declare their acceptance of corporate governance guidelines. Within this strategy, which we term acceptance, we distinguish four main responses communicated by companies in our sample—*top of class*, *acquiescence*, *compromise* and *understatement*. Firstly, we identify companies which in their statements not only declare their adoption of best practice but communicate compliance with more demanding recommendations that exceed the scope of the Warsaw Stock Exchange code. We call this approach *top of class*. *Acquiescence* is understood as the organizational consent to institutional change and the acceptance of new practice (Oliver 1991). We define it as the general acceptance of the code provisions communicated in an informative report. Companies identified in this category recognize the importance of corporate governance and address investor expectations.

Compromise describes the tactic where a company agrees to partial adoption of new norms brought about by institutional change (Oliver 1991). In our study, *compromise* represents the response when companies adhere to code provisions and

Table 2 Organizational responses within the acceptance strategy

Response	Message
Top of class	<p>The company authorities state that it recognizes the importance of corporate governance principles provided by the Code, together with the role which these principles play in strengthening the transparency of listed companies, and it uses best efforts to incorporate these principles in the broadest scope (Netia 2012)</p> <p>In accordance with § 29 of WSE regulation, the executive board of Agora submits the following corporate governance statement (...) §20 Sect. 6 of the Statute requires that at least 3 of 5 board directors are independent directors wherewith it prescribes the status of independent directors as follows: such person cannot have any relations with the Company [Agora Group (...)], cannot have any relations with any entity dominant or affiliated with the Company [Agora Group] in accordance with the Securities Law (...) and cannot be a relative or in-law relative of the second degree (Agora 2006)</p>
Acquiescence	<p>The company complies with the recommendations and rules formulated in 2016 Best Practice Code [description follows] (CCC, 2016)</p> <p>In accordance with § 29 of WSE regulation (...) Action executive board present the following corporate governance system: a) Action will comply with all best practice formulated in the WSE Code of Best Practice. In addition, Action explains that with respect to rule 7 in section III of the Code of Best Practice, the function of audit committee will be played by the supervisory board as this board comprises of the minimum number of directors legally required (Action 2007)</p> <p>The requirements of directors independence in the Company Statute does not follow the appendix II of Commission recommendation on the role of no-executives directors (...) The Company initiated works to adjust the independence criteria to criteria formulated in the appendix II of European Commission recommendation as of February 15, 2005 (Suwary, 2009)</p>
Compromise	<p>Shareholders of the company did not predict in the accepted Statute the formation of board committees, yet the present board directors, including two independent directors, making decisions collectively, do possess high qualifications in the area of finance, which allows them to fulfill the duties of the audit committee. In the case of increasing the number of supervisory board directors, an audit committee will be established (Pamapol 2009)</p> <p>In the reporting period the company complied with corporate governance principles in the broadest scope possible, departing from the rules set out below as provided for in the WSE Code of Best Practice [detailed description provided] (Sfinks 2015)</p>
Understatement	<p>The company complies with the principles of WSE Best Practice Code as presented in the current report (Elektrobudowa, 2006)</p> <p>The management board informs about the compliance with corporate governance code as presented in the current reports no. 25/2005 from July 8, 2005 and no. from 27/2006 from June 28, 2006 (both reports state that "The comply complies with the corporate governance code") (DGA, 2006)</p> <p>Within the period of April 1 2012 and March 31, 2013 the company did not comply with 3 rules formulated in WSE Code of Best Practice: [presentation of these 3 rules, none refers to the supervisory board]. For March 31, 2012 the supervisory board consisted of: [names and function of board members, no information on the independence status] (Swissmed 2013)</p>

attempt to balance different institutional logic. They aim to accommodate the corporate governance provisions on audit committee in the context of organizational shortcomings (Oliver 1991). The last response in the category of acceptance strategy is *understatement*, defined as the marginal compliance approach and identified

when companies offer the façade of declaring adherence to new practice without any substantive action. Table 2 presents sample statements taken from declarations of conformity published by sample companies.

5.2.2 Top of class

We identified several companies which not only publish compliance statements and report a high degree of best practice adoption but also provide detailed information going beyond the code recommendations on the Warsaw Stock Exchange. They adopt rules, which are recommended in advanced economies, and are stricter than proposed by the Polish code. Table 2 presents excerpts by various companies, such as the media company Agora (from 2006) or the IT firm Netia (from 2012), which disclose information on the status of each board director, confirm the presence of an independent board chair, report the attendance of board directors or the formation of board committees other than the audit committee (remuneration, strategy). These companies, in their compliance statements, declare transparency and adherence to code principles. We refer to this strategic response of compliance leaders as *top of class*. This response has not been initially offered in the framework by Oliver (1991), yet we identify it in reaction to data obtained from compliance statements of sample companies. Interestingly, we observe examples of compliance leaders as far back as the first year of observations, i.e. in 2006.

5.2.3 Acquiescence

The acquiescence approach represents the strategy of following proposed guidelines, obeying rules and accepting norms (Oliver, 1991). We identify this strategy whenever a company accepts new practices imposed by the WSE code and follows the requirements of compliance and reporting. As shown in Table 2, companies following the acquiescence strategy, such as the trading company Action (in 2007) or the retailer CCC (in 2016), report the integration of the principles into their internal governance structure. This suggests that they adhere to the norms of accountability, fairness and equality, disclosing information to all interested stakeholders. In their declarations, companies emphasize the importance of compliance with principles and provide descriptions of internal governance. Statements are well prepared, informative and detailed. While the compliance quality varies for our sample companies, it grows significantly over the analyzed period.

5.2.4 Compromise

Compromise is distinguished in the original typology by Oliver (1991: 153) as a reaction by companies which are “confronted with conflicting institutional demands or with inconsistencies between institutional expectations and internal organizational objectives related to efficiency or autonomy”. It represents a reaction within which organizations balance expectations of different stakeholders or comply partially with the principle. *Compromise* includes partial adoption of code provisions or their delayed adoption (accompanied with a brief explanation). Confronted with

characteristics of the Polish corporate governance system, companies declare potential adoption of new practices after some organizational reforms or statutory amendments. Our findings suggest that this strategy is not often used by the companies under analysis. Despite this, some of them declare the adoption of best practice over time under certain circumstances. In Table 2 we quote the statements by the food company Pamapol, which in 2009 intended to form an audit committee whenever the board size required them to do so, and the statement by the restaurant chain Sfinks that in 2015 complied with a number of principles and openly revealed the ones they depart from.

5.2.5 Understatement

We distinguish the organizational response of *understatement* in the cases when companies claim full compliance with the code provision while providing marginal communication. These reports are façade. The information regarding full compliance is limited to one or two sentences in the annual report, without any reference to formulated provisions. As shown in Table 2, companies state full conformity with every principle in the compliance statement without giving any details, as did the consulting company DGA or the construction company Elektrobudowa in 2006. Both companies in that year did not provide any detailed description but instead referred to general information in annual reports. We also note examples of firms such as the medical company Swissmed, that declare compliance with the code provision on board composition, independent directors and audit committees, yet do not disclose more precise information, such as how many independent directors sit on the board or which of the board directors are independent directors. Companies pretend to conform with all the formulated rules while refusing to provide any descriptions of internal control or governance structure, or refraining from any explanation of possible non-compliance.

5.2.6 Rejection strategy

In the analysis we identify companies which directly or indirectly communicate that they do not implement and do not plan to adopt corporate governance guidelines. We call this approach the rejection strategy. We distinguish three main responses communicated by companies in our sample—*avoidance*, *maneuvering* and *defiance*. While *avoidance* and *defiance* are responses proposed in the typology offered by Oliver (1991), we identify the response called *maneuvering* as representing companies that claim adherence to universal norms or the formulation of their own standards. In contrast to the framework offered by Oliver (1991), we do not refer to this response as “manipulation”, which is described as an active response to change or exert power over the content of institutional demands or expectations. Specifically, our study reveals that companies openly admit non-compliance and explain their choice, more in an effort to convince and persuade stakeholders and justify their decisions than to resort to a strategy of overt manipulation. Table 3 presents statements extracted from the declarations of conformity published by sample companies.

Table 3 Organizational responses within the rejection strategy

Response	Message
Avoidance	No report: Colian (2006), Tell (2007), Betacom (2008)
Maneuvering	<p>The supervisory board does not see the need to form separate board committees since the matters of audit are subject of work of all board directors (Polnord, 2008)</p> <p>The company authorities argue that according to the general principle of majority rule and the protection of rights of minority shareholders, for the shareholders who have contributed the greatest amount of capital and bears the greatest risks it is reasonable that their interests are taken into account proportionately to the capital provided, and thus they have the right to appoint board members who guarantee the execution of the formulated strategy (Getin, 2012)</p> <p>The decision on choosing the board members is the sovereign decision at the Annual Shareholder Meeting and there are no reasonable arguments to constrain this freedom [of shareholder] in the process of candidate selection and therefore disavow the strict Polish legal order which protects the corporate rights of shareholders to the norms of the highly discretionary and relatively binding norms (Intercars, 2013)</p> <p>Currently, the supervisory board consists of 5 members and fulfills duties of the audit committee. (...) the duties of the audit committee are fulfilled by the corporate body, which is significantly better placed in the corporate structure of the company (Intercars, 2013)</p> <p>The character of the current shareholder structure does not enable introduction of this rule [on independent directors]. This rule would play its function in the case of dispersed ownership, when it is problematic to reach stability on Annual Shareholder Meetings and the supervisory board functions as an objective watchdog in the company. In the current situation, the majority of the company shares are controlled by a number of leading shareholders which execute their rights by appointing selected directors to the supervisory board (Ferrum, 2006)</p> <p>This rule [on independent directors] is not complied with in 2007. The members of the supervisory board are appointed in the sovereign matter by the Annual Shareholder Meetings according to the law. The company argues that there are no merits to limit the shareholder freedom to choose board directors. In addition, the criterion of "independence" does not properly define the position and criteria that the board directors should be guided with once making decision according to his mandate. The fact of the possibility to appoint and the possibility to recall a director from the board, which represents shareholders, by the shareholders, makes the term "independent director" unclear and illusory (Echo, 2007)</p> <p>The Statute of CNT and the supervisory board charter accepted by the Annual Shareholder Meeting neither introduce the obligation of the supervisory board to assess whether there are circumstances that may influence the compliance by a distinct board director the criteria of independence nor define such criteria (CNT, 2016)</p>

Table 3 (continued)

Response	Message
Defiance	<p>Two shareholders who are founders of the company and have been managing the company for years own respectively 32.99% and 29.85% votes in ASM. Half of the supervisory board members are individuals nominated by founders to secure the adequate and effective execution of the company strategy. The company does not formulate the independence criteria of supervisory board members (LPP, 2007)</p> <p>The recommendations were not adopted due to the lack of information to state the independence status of board directors (Ciech, 2007)</p> <p>The company in its operation is directed by the norms of transparency and professionalism, thus all investment decisions are supported by the opinions of recognized and independent experts. Since the majority of board directors are also shareholders, there are no independent members on boards (Muza, 2007)</p> <p>So far no separate committees have been created within the supervisory board. AmRest's supervisory board is of the opinion that current size of the company's operation does not require the creation of the such committees (AmRest, 2007)</p> <p>The lack of separate board committees does not affect negatively the functioning of the company supervisory board and the company (CCC, 2008)</p>

5.2.7 Avoidance

Avoidance is defined as the attempt to preclude the necessity of conformity when organizations conceal their practice (Meyer and Rowan, 1977; Oliver, 1991). We distinguish *avoidance* as a strategic response to describe the situation where companies refuse to publish the compliance statement. This is illustrated in Table 3, in the case of the food processing firm Colian (2006), the telecommunication company Tell (2007) and the IT company Betacom (2008). The failure to produce a compliance report may be interpreted as a breach of law—according to the code, companies are not obliged to comply with the recommendations, but in any case they are required to report compliance or non-compliance. In spite of this, *avoidance* was practiced by many companies, particularly at the initial stage of compliance practice, where they did not face any adverse consequences or fines. We attribute this practice to uncertainty and a lack of understanding of the corporate governance concept. The adoption of new principles requires time that is needed to interpret the values introduced within the existing system, and to accept their role within the interaction of organizational context and action. Nevertheless, such practice may suggest that companies are willing to provide incomplete information, rejecting the norms of transparency and accountability.

5.2.8 Maneuvering

Maneuvering is defined as an active form of resistance to institutional demands and expectations, since it requires a purposeful and opportunistic change in

communication and the employment of effective tactics to influence or control institutional pressure. As noted above, we do not use the term “manipulation” (Oliver 1991), since our results indicate that companies openly explain their decisions and admit non-compliance in their efforts to convince their stakeholders. *Maneuvering* means a direct rejection of compliance in which a company claims to apply a different set of rules. It consists of a variety of actions, including redefining values and criteria, setting one’s own standards or appealing to more universal principles. It is a well-known strategic response to institutional pressure, observed in areas of non-financial and ESG reporting when companies disclose information to gain legitimacy of external constituencies.

In this category we identify companies which publish statements and, in their explanations of non-compliance, refer to universal norms in flexibly defining code principles. Our findings reveal that companies listed on the Warsaw Stock Exchange choose from a wide range of different rationales when they maneuver and refrain from providing detailed information on the supervisory board structure. Specifically, companies resort to using one of three main explanations—(1) arguing that the code is not useful and that the law offers sufficient rules, (2) maintaining that the code recommendations may conflict with more universal values and (3) redefining standards.

In Table 3 we present a series of excerpts from compliance statements which represent a wide range of responses within the *maneuvering* approach. Firstly, companies argue that a certain rule is unnecessary—a response illustrated by the case of Polnord, who in 2008 stated that all directors deal with supervision and audit functions, so it is inappropriate to form a separate group from the specialized board committee. In a similar vein, companies avoid publishing information about independent directors on supervisory boards, arguing that other, more universal values, take precedence and may interfere with best practice. For instance, Getin Bank, in its 2012 explanation of non-compliance, claimed to be following the norms of fairness and loyalty to shareholders, which should be among the principles driving the actions of each board member. The company rejected the independent directors principle, arguing that it is in conflict with the principle of property rights. According to the compliance statement, the rights which give the majority shareholder the ability to retain the prerogative to appoint board members must prevail over any other guideline or recommendation.

Secondly, as exemplified by the communication of Intercars (a provider of spare parts in the automotive sector) in 2013 or the metal industry company Ferrum in 2006, companies suggest that the norms of accountability and objectivity of board directors may be in conflict with the principles upholding the liberty and sovereignty of shareholders, who have the right to choose whichever director they prefer. Such responses suggest that the criterion of independence is not sufficient to adequately describe the features of board directors. Also Intercars (2013) argues that additional changes in governance structure, such as the formation of an audit committee, may be costly and may interfere with prior corporate practice. According to the construction company Echo (2007) the term independent director is “unclear and illusive”.

Thirdly, companies such as the IT company CNT argue that the board does not define the independence criteria but rather that they rely on the director’s

self-assessment in that regard following the company statute and the supervisory board charter.

5.2.9 Defiance

The last type of rejection response is *defiance*. It is based on the rejection of a given rule, supported with a direct communication (Oliver 1991). In our study *defiance* refers to a direct rejection of compliance with only limited explanation provided or without any explanation whatsoever. We identify companies which simply reject the adoption of the best practice of independent directors. The clothing retailer LPP (2007) refuses to formulate the independence criteria of supervisory board members. The chemical company Ciech (2008) does not even collect information about the independent status of board directors. WSE companies claim that adopting code principles undergoes the preferences of (majority) shareholders and the overreaching norms of transparency and professionalism. As presented in Table 3, this was argued by the publishing company Muza in 2007. In calling for the prevalence of the rights of majority shareholders, the company has chosen non-compliance with the best practice on the independent directors on board.

Finally, we note that *defiance* is adopted in reaction to the principle on the formation of the audit committee. For instance, as shown in Table 3 in its 2007 compliance statement, the restaurant chain AmRest communicates its rejection of the idea of board committees and argues that this practice is not needed. Companies also refer to the efficiency argument—according to the declaration of conformity by the retailer CCC (2008) the lack of compliance with the rule on a separate board committee does not adversely affect the functioning of the board.

5.3 The evolution of responses

Our study is based on a longitudinal analysis over a 14-year period and provides evidence for the evolution of compliance statements and non-compliance explanations. Consistent with prior studies (Shrives and Brennan, 2015; Rose 2016) we observe an increase in the number of adopted principles (Table 1) and a rise in the quality of communication, as measured by the length of the corporate governance sections (Fig. 1). We also note that companies appear to evolve in their compliance strategies and responses. Seminal examples come from a number of WSE companies. For instance, the company Rawplug, which operates in the sector of highly specialized mounting solutions, did not provide information on independent directors, changing its practice in 2015 by reporting detailed data on members of the supervisory board. Directors submitted special statements on their independent status to the supervisory board and the management board. The supervisory board carried out an analysis on the relationships and conditions of each of the directors with regard to his/her independence (Rawplug 2015).

The non-compliance explanation by Intercars (the provider of auto spare parts) given in Table 3 suggested that the company “does not want to constrain the freedom of shareholders” in refraining from appointing independent directors. The narrative

changed in 2015, when the company reported having two independent directors on the board (Intercars 2015). In spite of this, the entire board fulfills the duties of the audit committee. In a similar vein, Getin Bank emphasized the notion of “shareholder sovereignty”, its reluctance to “limit shareholder freedom” or the rule of “loyalty to shareholders” when explaining its non-compliance with board independence. Consequently, in 2015 the company changed their communication and declared compliance with the principle of having two independent directors on the board (Getin 2015). Further, in the case of a persistent lack of conformity, companies tend to incorporate the rule of “comply or explain” and provide detailed reports. For instance, the company Paged reported the practice of non-compliance without giving any explanations for it. In 2014 the company changed this practice, publishing detailed information on the lack of independent board directors and asserting no detrimental effects of non-compliance while also declaring an inherent non-adoption of the principle. We summarize findings on the dynamics of responses to code provisions in Table 4, which are broken down according to the year of observation (2006, 2014 and 2019).

As shown in Table 4, companies tend to evolve in their responses from rejection to acceptance in general, and from *avoidance* to *acquiescence* in particular. Specifically, while in 2006 an overwhelming 87% of companies choose to reject the concept of corporate governance best practice, this percentage drops to 10% at the end of the analyzed period of 2019. Correspondingly, the acceptance strategy is adopted by just 13% of companies publishing compliance reports in 2006, peaking at 90% in 2019. Recognizing the heterogeneity of responses to institutional pressure by the board practices, we identify a dominant use of the *avoidance* response in the first years of code implementation. We note that *avoidance* appears to be the initial approach for compliance with board best practice—the percentage of companies which do not publish a declaration of conformity is estimated at 84% in 2006 and declines over the analyzed period to 0% in 2019. Accordingly, within the category of acceptance strategy *acquiescence* appears to be the most popular response, growing from 3% in 2006 to 69% in 2019. An increasing number of companies choose *compromise*, growing from 3% in 2006 to 9% in 2019, and also the *top of the class* response, progressing from 2% in 2006 to 12% in 2019. Interestingly, the process does not appear to be of a linear character—in the middle of the analyzed period (i.e. in 2014) 68% of companies followed the acceptance strategy with *acquiescence* and *compromise* chosen by 44% and 15% of companies respectively. With 32% of companies rejecting the code in 2014, *avoidance* is adopted by 12% of them and *defiance* chosen by 11%.

6 Discussion

In this study we draw upon neo-institutional theory to explain compliance practice with corporate governance codes. A governance code describes what is considered good behavior and represents the consent to a set of collected norms (Aguilera and Cuervo-Cazzura 2004; Anand 2005; Cuomo et al. 2016). It imposes distinct principles (Zattoni and Cuomo 2008), leaving the companies with substantial discretion

Table 4 Evolution of strategic responses (% of companies, 2006, 2014, 2019)

Response	% of companies using this response, 2006	% of companies using this response, 2014	% of companies using this response, 2019	General characteristics of adoption
Acceptance strategy	13%	68%	90%	Significant increase over the analyzed period
Top of class	2%	6%	12%	Used by small percentage of leaders; increase over the analyzed period
Acquiescence	3%	44%	69%	Dominant strategy in the late stage; increasing popularity among firms which were resistant at the beginning
Compromise	3%	15%	9%	Intermediate stage
Understatement	5%	3%	0%	Early stage; used by small percentage of firms
Rejection strategy	87%	32%	10%	Significant drop over the analyzed period
Avoidance	84%	12%	0%	Dominant response in the initial stage; decreasing over time
Maneuvering	1%	9%	0%	Intermediate stage; used by small percentage of firms
Defiance	2%	11%	10%	Used by small percentage of firms; slight increase over the analyzed period

on compliance (Calderón et al. 2018; Tan, 2018). The content and explanation of the conformity declaration reveals how companies argument their practice of (non-) compliance, referring to fundamental governance principles in a specific local context. The information concerning whether a company adopts corporate governance principles, how it reports about its internal governance and how it explains non-compliance, is a manifestation of its response to institutional pressure (Oliver 1991; Okhmatovskiy 2017). To state this in different terms, investigating how these principles work in business practice allows one to understand how best practice is disseminated and how corporate governance rules are institutionalized.

The goal of this study was to expand the current state of knowledge and to address two questions on (1) how companies react to recommendations concerning board functioning, and (2) how these responses evolve over time. In line with research on other markets (Soobaroyen and Mahadeo 2008; Hooghiemstra 2012; Nerantzidis 2015; Rose 2016), the results demonstrate that there is a significant improvement in compliance, as measured by the number of adopted code provisions and the length of corporate governance statements. The analysis offers two main contributions to the existing literature. Firstly, the longitudinal study reveals that companies do not choose a homogeneous response with regard to all code provisions (Seidl et al. 2013; Shrives and Brennan 2015; Thanasas et al. 2018). In particular, based on the content analysis of conformity declarations (including both statements of compliance and explanations of deviation from the code), we identify two main reaction strategies (acceptance and rejection) with selected discourse tactics. These strategies are viewed within the framework of neo-institutional theory and interpreted as organizational reaction to institutional change. We also address gaps in the dynamic perspective of compliance and show that organizational responses to institutional pressure do not stand still. While the rejection strategy dominates amongst the sample companies in the initial stage of the code implementation, over the years the number of complying companies increases. Within the rejection strategy we note the *avoidance* approach, which represents companies that do not publish a declaration of conformity, to be the most popular response in 2006 and 2007. Strikingly, the percentage of companies which follow the rejection strategy in general, and *avoidance* in particular, diminishes over the analyzed period. Respectively, the adoption of the acceptance strategy grows and within this strategy companies choose the *acquiescence* and *compromise* responses, with the former prevailing at the end of the period of observations. Companies which initially were reluctant to report non-compliance or to describe internal governance, turn towards increasing their disclosure and adhering to the norms of accountability. We also note the increasing number of leaders following *top of class* response. We interpret these findings as companies evolving in their responses as the code provisions are institutionalized (Enrione et al. 2006; Seidl et al. 2013).

Secondly, the results of our study add to the discussion on corporate governance practice in the post-transition environment (Albu and Girbina, 2015), characterized with significant ownership concentration (Baixauli-Soler and Sanchez-Marin, 2015), where compliance practice may be viewed as the exemplification of an equilibrium between institutional pressure and company characteristics (Le et al. 2010). The low compliance, with 87% of statements in 2006 classified as a rejection strategy,

observed in the early years of the WSE code being in effect, may be explained by the fact that Poland has a short history of stock market operation, lacks the tradition of a principle-based approach and struggles with a low level of trust towards institutions (Mishler and Rose 1997). While Poland was understandably facing difficulties at the beginning of the twenty-first century with insufficient protection of minority investors (Pistor 2001) and weak law enforcement (Report on the Observance of Standards and Codes, 2003), various international reports in recent years have shown that problems still remain. In particular, the Department of State (2014) described the Polish legal system as relatively weak, bureaucratic, opaque and inefficient. In the 2020 World Economic Forum Global Competitiveness Index, Poland received 46.7 (out of 100) in the category of ensuring that public institutions embed strong governance principles and a long-term vision, and build trust by serving their citizens. The World Bank Indicators (2020) assess Poland's rule of law as 0.45 and its regulatory quality as 1.01 (both indicators range between -2.5 and 2.5).

As shown in our study, companies react differently to institutional change brought about by a corporate governance code, publishing reports with varying levels of best practice and offering divergent explanations for non-compliance. Firstly, in line with prior studies (Thanasas et al. 2018) we note that some of the companies refused to publish the compliance statement or issued extremely limited or generic information, some declared compliance without any proper description of the governance system, some provided statements that amounted to a façade. Moreover, companies offered differing explanations to defend their non-compliance (Bradbury et al. 2019) and did not provide description of their governance structures (Manzanares and Leal 2021). For instance, the reluctance to comply with the principle of independent directors is explained by the prevalence of director loyalty to the company. Once companies in general recognize compliance as an important element of their activity, they emphasize that it cannot conflict with the norm of efficiency. Thus, new corporate governance practices and required changes to the corporate structure need to adhere to the fundamental assumptions of cost control and shareholder value maximization. Finally, the implementation of governance principles must be constrained by the property rights norm, understood as the majority rule, with recognition for protection of minority interests, which gives the majority shareholder a proportionately justified influence in deciding on both corporate structure (e.g. board) and practice (e.g. compliance). This evidence remains in line with the decoupling process of response to corporate governance reforms (Krenn 2015), where compliance appears to be a complex matter, limited by the risk of being superficial in character and revealing the gap between form and substance (Martin 2010). Driven by motivations for legitimization, companies may rationally choose loose coupling between procedures and corporate organizational activities, so as to lower the costs of changing core organizational activities (Edelman 1990; Bromley and Powell 2012), thus resulting in a divergence between means and ends (Wijen 2014). Companies are flexible in their compliance strategy and more willing to adopt less demanding provisions, while remaining resistant to more demanding ones. This observation is consistent with prior studies on companies from New Zealand (Chang 2018) and Bangladesh (Sobhan 2016). Using a sample of

Russian companies, Okhmatovskiy (2017:499) shows that “firms tend to adopt less restrictive policies than what is recommended by the national standard and are more willing to adopt policies regulating governance procedures than policies regulating governance decisions”.

Since 2004 the process of implementation of corporate governance rules has been taking place in an environment of significant regulatory impact from the European Union, pressure from investors and stakeholders, and a growing awareness among the general public (Pott et al., 2008). With the code amendments, the transition of selected code provisions into law, pressure from regulatory authorities (Djokic and Duh 2018; Nerantzidis 2018) and the dialog between WSE and the listed companies, the compliance record has been improving, supporting findings from other countries (Lepore et al. 2018). The longitudinal analysis reveals the evolution of reporting practice from a strategy of rejection to one of acceptance, and a development from the *avoidance* approach, preferred by companies in the early stage of code implementation, to *acquiescence*. We treat these findings with some degree of reservation with regard to compliance in actuality, since the communication in the areas of governance procedures suggests attempts for attaining legitimacy amongst different constituencies (DiMaggio and Powell 1983; Okhmatovskiy 2017). Finally, we are keenly aware of the limitations of the concept of compliance itself. As recently emphasized by Roberts et al. (2020), corporate governance codes are aimed at achieving normative objectives and cannot be taken as a proxy for board effectiveness.

7 Conclusion

Our study offers an in-depth examination of organizational responses to institutional pressures in the form of a corporate governance code. In particular, we investigate the content of compliance statements by companies listed on the Warsaw Stock Exchange. Based on the basic descriptive statistics analysis, consistent with prior studies, we identify an initially low level of compliance that gradually improves via the process of norm institutionalization, in addition to regulatory pressure and legal provisions.

Next, we employ the content analysis, which is based on the coding of discourse in the declarations of conformity, and we identify significant variations in that responses that companies choose in reacting to the institutional pressure. This is consistent both with theoretical conceptualization (Oliver 1991; Deephouse 1996; Roberts and Greenwood 1997) and prior empirical studies (Seidl et al. 2013; Okhmatovskiy 2017). In coding discursive communication of the analyzed companies, we distinguish seven responses within two main strategies. Firstly, we show that companies in general follow acceptance or rejection strategies. The acceptance strategy represents a response which indicates different approaches to the adoption of the code provisions. Within the acceptance strategy we recognize four distinct kinds of responses: *top of class*, *acquiescence*, *compromise* and *understatement*. *Top of class* addresses the cases where companies report full compliance and go beyond the scope of code provisions. Companies

choosing the *acquiescence* response implement a code of best practice and provide complete disclosure of the governance structure. With the *compromise* response, listed companies declare compliance, yet they emphasize either some tensions related to the time of implementation or clashes with the prior organizational structure. Finally, with the *understatement* response companies provide hollow declarations, claiming compliance without any disclosure on the governance structure.

In the opposing strategy of rejection, companies reveal their reluctance to implement code provisions and they openly declare non-compliance. Within this category we identify the three responses of *avoidance*, *maneuvering* and *defiance*. The *avoidance* response is found in the case where companies ignore the existence of the code and do not address its provision in any document, such as a stand-alone report or a dedicated section in the annual report. Although this response appears to be in conflict with the existing legal requirements on transparency and information policy, contrary to the policy implications formulated by Seidl et al. (2013), we do not observe any reactions from the supervisory institutions. By contrast, *defiance* is noted for companies which openly reject code recommendations and argue that the provisions do not offer any value for governance quality, or are unnecessary in light of the existing legal framework. The third and the final response to institutional pressure is *maneuvering*, which represents an active approach where companies resist the function of code provisions and follow their own standards, or appeal to more universal values such as shareholder sovereignty, director responsibility or the right to privacy. Such an approach has already been identified in prior research, which noted the proactive reaction of listed companies towards shifting to their own standards (Okhmatovskiy and David 2012), in which companies replace code provisions with independently formulated rules, choose self-regulation or flexibly interpret external standards (Okhmatovskiy 2017).

Our study reveals some limitations related to the sample and the method. While we thoroughly analyze sections of board practice in the declarations of conformity, we limit our analysis to one selected dimension of compliance. Additionally, since we decided to investigate the dynamics of compliance in the specific context of ownership concentration and the post-socialist legacy of skepticism towards institutions and rules (Mishler and Rose 1997; Tilly 2004), we focus on one specific country. In view of these limitations, we have considered potential new avenues for research. Further studies could explore the impact of contextual factors upon compliance practice. Specifically, different periods of IPOs and different times of stock market quotation may determine a firm's response to code provisions. In addition, forthcoming analysis could investigate the effect of selected organizational and environmental drivers for the adoption of new practices.

Appendix

Strategic responses to code recommendations.

Strategy	Response	Message	Communication in compliance statements
Acceptance	Top of class	Going beyond the scope of the code recommendation Implementing best practice suggested in more developed economies Providing a detailed corporate governance statement	“We do our best and adopt more strict rules than proposed by the code”
	Acquiescence	Accepting best practice recommendations Providing a corporate governance statement	“We adopt the recommendations (...) and adhere to the principles of transparency, accountability and responsibility”
	Compromise	Partial adoption of best practice or delayed adoption of best practice with short explanation	“It is a bit problematic and requires additional effort but we will implement it” “We implement the recommendation partially as at this stage we cannot do more”
	Understatement	Providing short notice on full conformity without reference to formulated rules	“We comply with all recommendations”
Rejection	Avoidance	No statement of compliance	Lack of report
	Maneuvering	Direct rejection of compliance with the explanation in which a company claims to follow a more universal or own formulated principle	“We do not adopt this practice because we follow our standards” “We do not comply with this practice because it is against universal principle of [privacy, sovereignty]/ it is against the law”
	Defiance	Direct rejection of compliance with limited explanation or without any explanation	“There is no reasons to adopt this practice”

Within acceptance strategy, which is based on the adherence to code principles, we distinguish four main ways in which companies report the adoption or non-adoption of best practice: —(1) *leading* (top of class), (2) *acquiescence*, (3) *compromise* and (4) *understatement*. Choosing rejection strategy companies declare direct or indirect rejection of the best practice and in consequence do not adopt changes in structure of the supervisory board. Within rejection strategy we identify three responses: (1) *maneuvering*, (2) *avoidance* and (3) *defiance*. We argue that the way companies approach compliance indicates the processes whereby they react to the code provisions.

Authors contributions Maria Aluchna—concept, analysis, discussion; Tomasz Kuszewski—analysis, discussion.

Declarations

Conflicts of interest The author declare that they have no conflict of interest.

Availability of data and material All materials derived from annual reports of listed companies; available on the websites of respective companies.

Code availability Not applicable.

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