

Setting Your Own Standards: Internal Corporate Governance Codes as a Response to Institutional Pressure

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This paper is concerned with organizational response to institutional pressure. We argue that when faced with externally imposed standards, organizations can sometimes respond by developing alternative standards for the same practices. This “substitution response” can shift the attention of stakeholders away from noncompliance with the original standards to adherence to the alternative standards. Empirically, we examine organizational response to the introduction of a government-sponsored but nonmandatory corporate governance code. Unable to comply with all of the requirements of this very specific and demanding code, many firms responded by developing their own internal corporate governance codes. We predict and show that adoption of these internal codes is driven by the visibility of a firm’s corporate governance practices and by mimetic forces. We also find that internal governance codes differ in their degree of ceremoniality and that ceremoniality is inversely related to organizational dependence on stakeholders who value good corporate governance. These findings help us to understand when organizational responses to institutional pressure take a ceremonial as opposed to substantive form.

Key words: institutional pressure; standards; substitution response; ceremoniality; symbolic adoption; signaling; corporate governance

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Introduction

Building on earlier research on organizational response to institutional pressure (e.g., Oliver 1991, Goodstein 1994, Goodrick and Salancik 1996, Westphal and Zajac 2001), we examine a particular response that has been given little attention to date, one that we refer to as substitution. Institutional pressures that are difficult to comply with leave organizations in a position of either being noncompliant or complying at high cost. A substitution response seeks to resolve this conundrum by directing the attention of stakeholders away from the original set of institutional requirements to another set targeting the same practices. If the organization can claim to satisfy these alternative requirements, it may be able to avoid some of the negative consequences of noncompliance with the original requirements. We focus both on identifying the conditions that encourage this type of strategic response as well as the factors that influence whether it takes a more ceremonial or substantive form. Organizations faced with demanding external requirements, we argue, are more likely to choose a substitution response when their actions are highly visible to key stakeholders and when this type of response is commonly used by other organizations in their peer group. We also argue that a substitution response may or may not be ceremonial: organizations may substitute original institutional

requirements with an alternative set of detailed, practice-oriented requirements, or they may adopt a set of ceremonial requirements that have minimal implications for organizational operations. We demonstrate that the probability of a ceremonial (as opposed to substantive) response is influenced by organizational dependence on stakeholders who value the institutional requirements in question.

The specific kind of substitution response that we study is the development of internal standards in response to nonmandatory external standards. The proliferation of standards is evidence of the growing popularity of non-legal forms of regulation of business practices (Brunsson and Jacobsson 2000, Djelic and Sahlin-Andersson 2006). Standards can take the form of national or international codes and principles regulating business practices, such as the Organisation for Economic Co-operation and Development (OECD) guidelines for multinational enterprises, the United Nations Global Compact, or the Combined Code of Corporate Governance (Jacobsson and Sahlin-Andersson 2006, Seidl 2007, Aguilera and Cuervo-Cazurra 2009). Codes of business conduct, codes of corporate governance, corporate social responsibility codes, and other guidelines for business practices are also commonly developed by individual organizations (Sethi 2003, Bondy et al. 2006). Whereas documents such as

the OECD guidelines or the Combined Code are seen as “external” standards that impinge on organizations, documents with similar content and function developed by individual firms can be treated as “internal” standards that are voluntarily adopted. Internal standards can play a dual function—regulating practices within the firm and sending a signal to external observers.

Our empirical analysis focuses on the adoption of internal corporate governance codes (ICGCs) by Russian firms in response to new national standards. In 2002, the Federal Commission for Securities Markets (FCSM)¹ instituted a national code of corporate governance, endorsed by the Russian federal government. The FCSM code presents very specific and demanding requirements, and, as we explain below, deviations from these requirements are very common because of the high costs of compliance. ICGCs constitute a strategic response to this new institutional pressure and provide a means for firms to signal adherence to “good corporate governance” despite their deviations from the FCSM code. In this way, ICGCs are an attempt to substitute internally defined standards for externally defined ones. There is great variance in the kind of internal code that firms adopt for themselves. Firms can develop very detailed ICGCs with clear targets and measures; alternatively, they can adopt very general, superficial standards that would allow them substantial discretion while still claiming “compliance.” Such superficial standards do not provide tangible guidance for behavior and thus serve mainly ceremonial functions. Accordingly, we study both the adoption of ICGCs as well as their degree of ceremoniality.

In the next section, we provide the theoretical background that helps us understand firms’ responses to externally imposed standards. Subsequently, we describe our empirical context. Then we develop specific hypotheses about (1) factors that influence firms’ decisions to develop internal corporate governance codes and (2) factors that affect the ceremoniality of these codes. We proceed to describe our research methods and the results of our empirical analysis. In the final section, we discuss these results along with their implications for institutional theory, the study of standards, and research on corporate governance.

Alternative Standards as a Substitution Response

In her influential treatment of strategic response to institutional pressure, Oliver (1991) presented a typology of organizational responses to institutional pressure, ranging from acquiescence and compromise to avoidance, defiance, and manipulation. Many empirical studies have used Oliver’s (1991) typology and systematically studied the conditions under which organizations are more likely to resist institutional pressure (e.g., Goodstein 1994,

Ingram and Simons 1995, Clemens and Douglas 2005). Empirical work has paid particular attention to symbolic adoption without implementation—responses that provide the appearance of compliance without doing so in practice. For example, Westphal and Zajac (2001) studied decoupling of policy and practice in the adoption of stock repurchase programs, and Fiss and Zajac (2004) studied symbolic adoption of a shareholder value orientation. A number of other studies have described partial compliance; for example, Goodrick and Salancik (1996) demonstrated that doctors may exercise some discretion in their compliance with institutional pressures to follow accepted practices for caesarean deliveries, and Sine et al. (2009) examined variation in the degree of implementation of tenure systems across colleges and universities. Organizational attempts to modify the policies that they are expected to follow have also been studied, as exemplified by the literature on corporate political activities and nonmarket strategies (e.g., Bonardi et al. 2006).

Although these studies provide important insights on how firms respond to institutional pressure, our review of this literature revealed a neglect of what we think is an important form of response, a response that we refer to as substitution—a situation when an organization seeks to replace one set of rules with another set of rules that the organization presents as more relevant for regulating its practices. Although some studies have considered situations where organizations face different institutional requirements simultaneously, these studies focused on organizational ability to present itself differently to different audiences and thus to create an impression of compliance for both audiences (D’Aunno et al. 1991, Ruef and Scott 1998, Brunsson 2002). But organizations can also deemphasize one set of requirements and make explicit the existence of an alternative set of requirements. Compliance with these alternative requirements may help justify noncompliance with the original requirements and thus decrease any negative consequences of such noncompliance. By emphasizing compliance with alternative requirements, organizations demonstrate that they do not ignore important issues that are subject to regulation but instead use different approaches in addressing these issues.

Although standard-based regulation represents just one type of institutional pressure, standards present an excellent context for studying the substitution response. The substitution response becomes feasible when no actor has a monopoly on rule creation, and standard-based regulation is typically characterized by the absence of an exclusive right to generate rules (Brunsson and Jacobsson 2000). We have reviewed the literature about compliance with standards and have found several case studies that describe how organizations responded to pressures to comply with a particular standard by introducing alternative standards. In one of these case

studies, Hoffman (1996) traces the development of environmental reporting standards by Amoco Corporation. Amoco was pressured to adopt strict environmental standards (Valdez Principles) developed by the Coalition for Environmentally Responsible Economies. Amoco was reluctant to make a commitment to follow the Valdez Principles and instead created a coalition with several other major corporations to develop alternative principles for public disclosure of environmental data that effectively represented a substitute for the Valdez Principles. Another example is the response of forestry companies and industry associations to the introduction of standards regulating the use of forestry resources (Bartley 2007). The transnational environment protection initiative, the Forestry Stewardship Council (FSC), developed strict standards of sustainable forestry and convinced important buyers (such as Home Depot) to give preference to wood produced by companies certified by the FSC; however, forestry companies were reluctant to support the FSC standards because they had no control over the certification process (McNichol 2006). Instead, associations of forestry companies in the United States, Canada, and Europe developed alternative standards that better accommodated their interests and presented these standards as legitimate alternatives (Cashore et al. 2003, Bartley 2007). Although the above-mentioned case studies about the development of alternative standards provide examples of substitution responses (even though they are not theorized as such in these studies), this phenomenon has not been studied systematically.

To study the likelihood of using a substitution response to original standards, we focus first on organizational visibility, because prior research suggests that more visible organizations are exposed to higher degrees of institutional pressure (Bansal 2005, Clemens and Douglas 2005, Julian et al. 2008). In addition to their visibility, however, organizations also have different sensitivity to institutional pressure as they can be more (or less) dependent on actors exercising this pressure (Edelman 1992, Sine et al. 2009). Below, we predict that visibility, or organizational exposure to institutional pressure, will increase the probability of adopting alternative standards; however, we argue that the content of the adopted standards—their substantiveness versus ceremoniality—will be predicted by organizational sensitivity to institutional pressure as indicated by dependence on actors enforcing compliance with this institutional pressure. We reason that under conditions of low dependence, organizations are more likely to choose a less costly ceremonial response, whereas under conditions of high dependence, organizations may decide to incur the more significant costs associated with the adoption of substantive standards. We test these arguments in the context of corporate governance standards in Russia, a setting that we describe next.

Corporate Governance Standards in Russia

The growing complexity of relationships between corporations and society as well as recent high-profile corporate governance scandals have created worldwide pressure for rules that regulate corporate relations with various stakeholders. Often, this regulation has taken the form of voluntary standards rather than mandatory laws. In most countries, governments have limited the legal requirements to a few basic rules and supported development of nonmandatory standards for corporate governance practices (Pierce and Waring 2004). Usually, these standards are formulated as codes or guidelines, and their enforcement is often based on reputational mechanisms (Wymeersch 2005).

After the introduction of the Cadbury Report in 1992, which provided guidelines for improving corporate governance in UK firms, many countries adopted national codes of corporate governance (Aguilera and Cuervo-Cazurra 2004, 2009; Enrione et al. 2006; Otten et al. 2006).² Most of these codes are based on the “comply or explain” principle: compliance is not mandatory, but the firm has to explain the reasons why it deviates from the code (Charkham 2005). Such nonmandatory codes can be effective in promoting good corporate governance because they attract the attention of investors to deviations (Wymeersch 2005). Firms report whether they comply with national codes in annual reports and other publicly accessible documents, and researchers have analyzed these documents to find out which guidelines firms are more likely to follow (Werder et al. 2005) and whether compliance with a national code is associated with the market value of the firm (Fernandez-Rodriguez et al. 2004, Goncharov et al. 2006).

The Russian national code of corporate governance is entitled the Code of Corporate Conduct, but it is focused specifically on corporate governance (Kostikov 2002, Roberts 2004). This 86-page document contains detailed guidelines that cover major corporate governance topics from shareholder meetings and boards of directors to dividends and corporate conflicts. Compliance with this code is voluntary, but the FCSM recommends that all firms disclose their degree of compliance in annual reports (and has even developed a recommended template for detailed reporting of deviations).³

The FCSM code was developed by a team of lawyers and corporate governance experts under the direct supervision of the FCSM head, Igor Kostikov. The experts working on the FCSM code were well informed about governance codes adopted in other countries by 2001 when the FCSM code was first drafted. The Russian code was also influenced by the OECD Principles of Corporate Governance (OECD 1999); however, the developers of the FCSM code went much further than just adapting policies from Western codes to the Russian context. A lawyer from Coudert Brothers LLP, who actively participated in the development of the FCSM

code, reported that the decision was made to create a code that would be much more detailed than national governance codes found in most other countries (Ratnikov 2002). The team working on the FCSM code believed that in Russia a governance code could only be effective if it provided, besides general principles, a detailed description of policies with precise guidelines for implementation of these policies. As a result of these development efforts, the FCSM code prescribes many procedures and actions that are rarely specified in other national governance codes. For example, governance codes have a long tradition in the United Kingdom; however, its Combined Code does not specify many issues described by the FCSM code (especially if we compare the FCSM code with the version of the Combined Code used in 2002 when the FCSM code was introduced).

Such an approach to the development of the Russian governance code is not surprising. First, Russia has a tradition of active government involvement in the economy (Yakovlev 2006, Okhmatovskiy 2010), and, whereas in some other countries prescribing governance practices for private firms could be deemed as excessive regulation, in Russia the government is usually not shy to provide detailed guidelines for organizations in the private sector. Second, the need for explicit governance policies in Russia is higher than in most developed countries. In the United Kingdom and other countries with a long tradition of public ownership of corporations, many corporate governance practices have been institutionalized and are governed by informal but very influential norms. In Russia, such customs and traditions have not developed yet, and it was deemed necessary to spell out explicitly the characteristics of good corporate governance and thus establish detailed rules to compensate for the lack of informal norms.

Meeting the FCSM code requirements can be associated with significant costs for the firm (in time, money, management attention, and flexibility). Often, these requirements run counter to the interests of executives and large shareholders and thus are “costly” from their point of view. For example, appointing independent directors as chairs of board committees will decrease the influence and flexibility of management and large shareholders while at the same time potentially increasing opportunity costs and proprietary costs (Aguilera et al. 2008, p. 485). Another example is the FCSM policy to refrain from takeover defenses that protect the interests of executives and board members. The high costs of implementing the FCSM code requirements are to a large extent due to a mismatch between the model of corporate governance represented by the FCSM code (which has many features of the Anglo-American model of corporate governance) and the actual practice of corporate governance in Russian firms (McCarthy and Puffer 2004). As a result, Russian firms often deviate from these requirements and find themselves in an

uncomfortable position where they have to convince investors that they have sound corporate governance practices despite their inability to meet many of the requirements of the FCSM code.⁴

One way of doing this is to develop alternative standards of corporate governance. These standards often take the form of ICGCs approved by the boards of directors and publicized as the official guidelines regulating corporate governance practices within the firm. ICGCs usually describe the firm’s policies regarding such issues as electing members of the board, functioning of board committees, providing information to shareholders, paying dividends, etc. ICGCs typically target “external” audiences, notably shareholders (these codes are usually publicly available and can be found on firms’ websites along with annual reports). Firms make their ICGCs visible and accessible not only to inform constituents about their internal policies but also to signal commitment to high standards of corporate governance.⁵

Because ICGCs are developed by firms themselves, there is significant variation in the content of these documents. Some ICGCs provide very detailed and instrumental guidelines, whereas others describe very general policies with minimal practical implications for actual corporate governance practices. To illustrate these differences, we show in Table 1 sample policies related to the board of directors from a substantive ICGC and a ceremonial ICGC developed by YuTK and AvtoVaz, respectively (the difference between substantive and ceremonial codes will be described in more detail below). We also provide for comparison purposes a sample of board-related policies from the FCSM code. We draw two main insights from this table. First, there is only partial overlap in the policies included in these codes. Some aspects of board functioning described by the FCSM code are not mentioned by the substantive YuTK code (e.g., composition of board committees), whereas some of the YuTK guidelines are missing from the FCSM code (e.g., orientation programs for new board members). Table 1 also demonstrates that the ceremonial AvtoVaz code lacks a number of key policies found in both the FCSM and YuTK codes. Second, whereas the FCSM and YuTK codes contain very specific requirements (e.g., how to assess independence of directors), the AvtoVaz ICGC consists mainly of general declarations (e.g., rather than specifying a required proportion of independent directors, the AvtoVaz code states that it is “important” to have such directors on the board). This table thus demonstrates significant variation in the content of ICGCs: whereas some ICGCs include a substantial number of demanding policies,⁶ other ICGCs may be quite ceremonial, with mostly superficial policies that create minimum constraints for actual governance practices.

The adoption of ICGCs is a recent trend—very few firms developed ICGCs before 2002. Despite increased

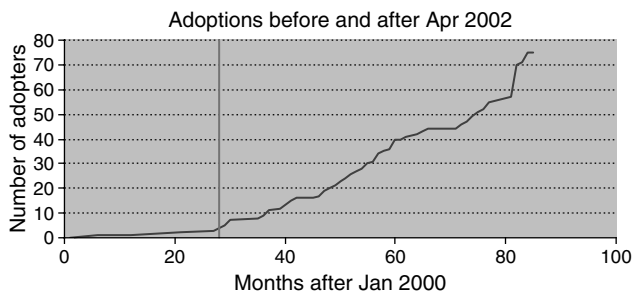
Table 1 Examples of Board-Related Requirements from the FCSM Code and Two ICGCs

Board-related requirements	FCSM code	Substantive code (YuTK)	Ceremonial code (AvtoVaz)
Which directors should be considered independent	Detailed specification of seven criteria used to determine independence of directors	Detailed specification of eight criteria used to determine independence of directors (some of them are more strict than FCSM's criteria; some, less strict)	For directors to be considered independent, they should be able to make independent decisions; this requires avoiding circumstances that may bias their opinions
Proportion of independent directors on the board	At least one-fourth of the total number of board members should be independent (and no less than three directors)	At least 3 of 11 board members should be independent	AvtoVaz perceives as important having on the board independent directors and representatives of minority shareholders
Compensation of board members	Equal compensation of all board members is recommended	Compensation of directors is determined based on their involvement in work of the board	Not specified
Composition of board committees	Personnel and corporate conflict committees should be headed by independent directors and consist of nonexecutive directors	Not specified	Composition of board committees is determined to ensure comprehensive consideration that takes into account different points of view
Meeting in person to vote on important decisions	Nine decisions are specified that require directors to meet in person	Six decisions are specified that require directors to meet in person	Not specified
Frequency of meeting in person	Not specified	At least 15% of all board meetings should be meetings in person	Not specified
Shareholders who can request board meetings	A board meeting can be initiated by shareholders who control at least 2% of shares	A board meeting can be initiated by shareholders who control at least 5% of shares	Not specified
Preparing newly elected directors for serving on the board	Not specified	Program for newly elected directors to familiarize them with the company and its businesses	Not specified
Records of board meetings	Besides the proceedings, all board meeting discussions should be recorded verbatim	Proceedings of board meetings should include information about voting of each board member	The company will keep records required by the corporate law

attention to corporate governance in the late 1990s (Yakovlev 2004), Russian firms did not adopt ICGCs. Even though many firms made significant progress in improving their corporate governance practices, they did not perceive the need to develop explicit codes describing internal corporate governance policies. The adoption of ICGCs was triggered by the introduction of the FCSM code in 2002 (see Figure 1). The FCSM code, supported by the Russian federal government, provided a benchmark for evaluating actual governance practices. Although corporate governance was already an important issue before the FCSM initiative, investors and other stakeholders did not evaluate corporate governance practices against a particular standard. Before the FCSM code was introduced, firms that took steps to improve their corporate governance could present themselves as leaders in the adoption of best corporate governance

practices. Once the FCSM code with its very high standards was introduced, even those companies that were ahead of others in adopting leading corporate governance practices discovered that their practices often fell short of the FCSM requirements. In this situation, firms experiencing shareholder pressure to improve corporate governance could benefit from offering these shareholders alternative benchmarks for evaluating the quality of their corporate governance.

The adoption of ICGCs after the introduction of the FCSM code (as shown in Figure 1) provides an excellent context in which to study how internal standards are developed in response to the imposition of external standards. ICGCs contain policies that are generally easier to comply with than those in the FCSM code and thus cast firms' corporate governance practices in a better light. Firms experience pressure to have "good" corporate governance and at the same time face high

Figure 1 Adoption of ICGCs Among Large Russian Firms

Note. Our sample of 265 firms is described in the Methods section. The vertical line corresponds to April 2002, when the FCSM code was introduced.

costs of complying fully with the FCSM code; ICGCs are an attempt to satisfy (at least to some extent) this external pressure, but at a lower cost.⁷ In the next section, we expand on this argument and develop predictions about both the adoption of these ICGCs and their degree of ceremoniality.

Hypothesis Development

Although full acquiescence with institutional requirements can be costly for organizations, in most cases they cannot simply ignore these requirements because outright defiance may be associated with punitive sanctions or loss of legitimacy (Meyer and Rowan 1977). It is therefore not surprising that organizational response often falls between full acquiescence and outright defiance (Oliver 1991). We suggest that when faced with standards that are costly to comply with, organizations may respond by adopting a substitute set of rules for the same activities. This form of response can be less costly than full compliance with the original standards; at the same time, it can allow the organization to point to compliance with an alternative set of rules. In this section, we develop hypotheses about the likelihood that firms will use this kind of substitution response within our context.

In the context of widespread attention to corporate governance practices, firms face strong pressure to comply with national corporate governance standards. Deviations from a national standard such as the FCSM code in Russia may put at risk a firm's legitimacy in the eyes of stakeholders. Nonetheless, although Russian firms have incentives to comply with the FCSM standard, there are costs to actually doing so, and in practice, all Russian firms deviate to some extent from the highly detailed FCSM code.⁸ This puts firms in a position where they may want to deemphasize their compliance or noncompliance with the FCSM code by publicizing commitments to follow alternative standards that allow the firm to claim a higher degree of compliance. Rather than be seen as lacking attention to crucially important issues, firms that respond in this way can claim to be using

alternative approaches in addressing these issues. In other words, ICGCs signal that the firm cares about good corporate governance even though it may deviate from some of the FCSM requirements. Although pressure to follow the original FCSM standard remains and deviations from this standard are likely to negatively affect the firm's reputation, this impact may be reduced if the firm can claim that it follows an alternative standard.

Which firms are most likely to adopt internal standards as a substitute for external standards that they do not fully meet? We consider here two major factors predicting the adoption of ICGCs—the visibility of a firm's governance practices to constituents who value good corporate governance and the prevalence of the substitution response among a firm's peers. Our first set of arguments revolves around visibility, or exposure to institutional pressure: we expect that the more a firm's corporate governance can be scrutinized, the more likely the firm is to develop an internal code. Although the external corporate governance standards originate from the FCSM, it is reputation in the eyes of investors (current and potential) that creates incentives to comply with these requirements. The more exposed a firm is to the scrutiny of constituents who value good corporate governance, the less it will be able to conceal its deviance from the national code, and the more it will need to demonstrate compliance to an alternative set of standards to protect its legitimacy. Specifically, we argue that an organization will be more likely to adopt an ICGC if its corporate governance practices are closely examined by constituents who value good corporate governance: such firms have greater need to “weaken the bite” of noncompliance with one set of rules by stressing instead compliance with an alternative set of rules for these same practices.

We examine three factors that are likely to increase visibility in our context. First, we consider the effect of being a publicly traded firm. The practices specified in the FCSM code are recommended for all corporations, not just publicly traded ones.⁹ However, publicly traded firms are likely to receive greater scrutiny of their corporate governance practices than privately held firms. Several empirical studies of Russian publicly traded firms have demonstrated that investors are ready to pay large premiums for good corporate governance (Black 2001, Goetzman et al. 2002, Black et al. 2006), and as such, these investors are likely to scrutinize the corporate governance practices of publicly traded firms. Because the corporate governance of publicly traded firms attracts the attention of investors and may influence their decisions to buy and sell shares, these firms may benefit from sending signals of good governance. Although publicly traded firms have a need to reassure investors that they care about good corporate governance, at the same time they face high costs of complying with the FCSM code. We posit that these firms are more likely than privately

held firms (who do not have to be concerned about sustaining market value by sending the right signals to investors) to attempt to switch attention from the FCSM code to an internal code. By developing ICGCs, publicly traded firms can send a signal of good corporate governance to investors that is less costly than compliance with the FCSM code. Thus, we expect the following.

HYPOTHESIS 1A. *Firms with shares traded at stock exchanges are more likely to adopt an internal corporate governance code.*

Second, in Russia, only some firms that are traded on stock exchanges are “listed.” Whereas at the New York Stock Exchange (NYSE) and most other stock exchanges, “listing” refers to being included in the list of stocks officially traded at these stock exchanges, at major Russian stock exchanges, Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX), it refers to being included in quotation lists. More than half of the firms traded on the two largest Russian stock exchanges are officially admitted for trading without being listed on their quotation lists.¹⁰ The listing procedure imposes special requirements on share issuers over and above the requirements needed to have shares traded. One of these requirements is a disclosure of detailed information about corporate governance practices. In particular, firms on the quotation lists of RTS and MICEX have to disclose information about their compliance with key requirements of the FCSM code. Even though FCSM recommends that all firms report their degree of compliance with its code, it does not monitor whether firms actually disclose this information. As a result, firms on quotation lists usually provide more information about their corporate governance practices than nonlisted firms, and as such, their corporate governance practices are more visible than those of other publicly traded firms.

As explained previously, all firms have some deviations from the FCSM code, and these deviations would be difficult to eliminate. Whereas nonlisted firms may be able to conceal these deviations by not reporting them, listed firms can be more closely monitored by investors because of strict disclosure requirements, and thus their deviations from the FCSM code would be more readily apparent. Development of an ICGC provides listed firms with an opportunity to demonstrate that, even though their corporate governance practices deviate in some respects from the FCSM requirements, these firms still value good corporate governance. By developing an internal code, a firm signals its commitment to a set of standards of good corporate governance, even though these substitute standards may differ somewhat from the standards in the FCSM code.

HYPOTHESIS 1B. *Firms included on the quotation lists of RTS and MICEX are more likely to adopt an internal corporate governance code.*

Third, during the last several years, a significant number of Russian corporations have been able to access international financial markets by offering their securities on the NYSE, London Stock Exchange, and several other major stock exchanges (McCarthy and Puffer 2008). Entering these foreign stock exchanges facilitates access of Russian corporations to the financial resources of large institutional investors that have a limited presence on Russian stock exchanges. To initiate trading outside of Russia, Russian corporations deposit their shares in banks (most often, the Bank of New York or Deutsche Bank), which issue depositary receipts that can be traded at foreign stock exchanges. American depositary receipts (ADRs) are issued for trading in the United States, and global depositary receipts (GDRs) are issued for trading in other countries, primarily in Europe. Investors in international capital markets are used to high standards of corporate governance, and Russian corporations that decide to initiate ADR/GDR programs—which indicates trading on foreign exchanges—attract the attention of these investors and have strong incentives to enhance legitimacy in their eyes.¹¹ The higher visibility of firms that initiate ADR/GDR programs, not only among domestic but also among international investors, creates pressure to demonstrate commitment to good corporate governance. We therefore posit the following.

HYPOTHESIS 1C. *Firms that issue ADRs or GDRs are more likely to adopt an internal corporate governance code.*

In addition to the visibility of a firm’s governance practices, we also consider how its response to institutional pressure is affected by the responses of other organizations. DiMaggio and Powell (1983) described mimetic processes that lead to isomorphism in organizational fields. We bring this idea of mimetic isomorphism into our analysis of factors affecting the choice of strategic response to institutional pressure and suggest that mimetic processes will increase the probability of choosing a particular strategic response. Specifically, we suggest that organizations are more likely to use strategic responses that were used previously by other organizations within their reference group.

Imitation is a natural response under conditions of uncertainty (DiMaggio and Powell 1983). Russian firms, responding to the pressure for better corporate governance, had to deal with considerable uncertainty. As we described above, concern about corporate governance is a recent trend in Russia, and most Russian firms have very limited experience with corporate governance (basic corporate governance procedures were defined only in 1996 by the Law on Corporations). As public discourse about the importance of corporate governance intensified over the ensuing years, firms faced considerable uncertainty as they tried to improve corporate

governance. How would they meet the changing expectations of various constituents? Without much experience with corporate governance and given substantial skepticism regarding practices promoted by the business press and consultants, Russian firms naturally looked at their peers when deciding how to meet the expectations of investors, stock exchanges, and regulatory agencies.

With this context in mind, we consider three factors that facilitate imitation of prior adopters. First, we argue that regional proximity can increase the probability of imitation: firms are more likely to observe and imitate prior adopters located in the same region than adopters located in other regions (Galaskiewicz 1997, Marquis et al. 2007). Regional proximity can facilitate communication among executives and directors from different firms, e.g., through local business associations, social clubs, and local media. As a result, executives and directors of a focal firm are aware of the choices made by other firms in the same region and are likely to imitate these choices when responding to institutional pressure. Existing research suggests the plausibility of this argument. For example, Burns and Wholey (1993) provided evidence that matrix management programs are more likely to be adopted by hospitals located in regions with a higher proportion of prior adopters. Davis and Greve (1997) demonstrated that regional effects explain the pattern of diffusion of “golden parachutes” that provide generous compensation to chief executive officers (CEOs) of firms that become targets of takeovers. We expect to observe a similar dynamic in our empirical setting. Information about prior adopters in the same region will not only be more accessible, but in a large and diverse country such as Russia, firms in the same region are also likely to be judged as more relevant models for imitation. We therefore expect the following.

HYPOTHESIS 2A. *Firms located in regions with many prior adopters are more likely to adopt an internal corporate governance code.*

Second, firms also tend to watch especially closely their competitors and will be more sensitive to information about adoption of new practices by firms in the same industry (Rao and Sivakumar 1999). Firms not only process information about the benefits and drawbacks of different management practices, but they also exhibit a tendency to imitate practices used by other firms even if the benefits of these practices have not been proven (DiMaggio and Powell 1983). Mimetic pressures will be especially strong if prior adopters are in the same industry, as previous empirical studies demonstrate (Fligstein 1985, Haveman 1993). Industry publications and events facilitate communication within an industry and expose executives to detailed information about the actions of their competitors. Investors often make within-industry comparisons when making investment decisions, and their expectations with respect to corporate governance

practices will be raised if other firms in the same industry have taken steps to improve their corporate governance. Based on these reasons, we expect the following.

HYPOTHESIS 2B. *Firms in industries with a higher proportion of prior adopters are more likely to adopt an internal corporate governance code.*

Third, having direct contacts with prior adopters is likely to increase chances of adoption, especially if we consider the adoption of standards, where negative feedback from prior adopters is unlikely (Eden et al. 2001). Specifically, board interlocks with prior adopters increase the chances of adoption by the focal firm (Davis 1991, Davis and Greve 1997, Rao and Sivakumar 1999, Sanders and Tuschke 2007). These interlocks serve as communication channels and induce adoption by providing direct access to information about a practice and about the experience of those who have already adopted this practice (Haunschild and Beckman 1998, Connelly et al. 2011). Directors of a focal firm who serve on other boards that have adopted internal codes may come to see internal codes as an important element of signaling good governance (and thus their effectiveness as directors). Corporate governance policies are also the purview of the board itself, and thus board interlocks should have a strong influence on governance decisions. Therefore, we expect the following.

HYPOTHESIS 2C. *Firms that have board interlocks with prior adopters of internal corporate governance codes are themselves more likely to adopt an internal corporate governance code.*

The adoption of an internal corporate governance code indicates a choice of a specific response to institutional pressure. We now turn our attention to the content of such codes—in particular, their ceremoniality. Ceremonial adoption—whereby organizations symbolically adopt structures and practices that are consistent with institutional requirements but that are decoupled from actual organizational operations (Meyer and Rowan 1977, Meyer and Scott 1983)—has been the focus of many institutional studies (e.g., Tolbert and Zucker 1983; Edelman 1992; Westphal and Zajac 1998, 2001). Given the focus of institutional theory on ceremoniality, we ask, what factors affect the degree of ceremoniality of internal codes? Whereas researchers have studied ceremonial responses to institutional pressures using data on organizational practices (Boxenbaum and Jonsson 2008), it is also possible to distinguish between ceremonial and substantive responses based on the analysis of documents describing or regulating organizational practices. Specifically, internal standards such as corporate codes can be considered ceremonial if they are not likely to have practical consequences for organizational operations. Corporate codes with superficial content that do not describe specific requirements needed to monitor and

enforce compliance are unlikely to produce changes in actual organizational behaviors (Sethi 2003). We consider such codes as ceremonial, in contrast with corporate codes (whether for corporate social responsibility, business ethics, or corporate governance) that provide specific guidelines and targets.

In Hypotheses 1A–1C we argued that organizational visibility, or *exposure* to institutional pressure, will predict the adoption of an alternative set of standards; however, we do not think that this exposure will predict the content (degree of ceremoniality) of these adopted standards. The existence of an audience that cares about good corporate governance and the visibility of the firm's corporate governance practices to that audience is likely to predict the act of adoption but not necessarily the kind of code that will be adopted—some firms will decide to develop rigorous codes, whereas others will adopt ceremonial codes. Instead, we argue that the ceremoniality of alternative sets of standards will be a function of organizational *sensitivity* to institutional pressure as indicated by dependence on the actors enforcing compliance with this institutional pressure.

Previous work has suggested a relationship between organizational dependence and the degree of compliance with institutional requirements (Salancik 1979, Tolbert 1985, Oliver 1991, Eden et al. 2001). However, existing empirical studies have not demonstrated how dependence on constituents affects the ceremoniality of responses or the likelihood that organizations adopt a symbolic response with little impact on actual operations. In other words, existing studies demonstrate how dependence affects the probability of partial implementation (Goodstein 1994, Ingram and Simons 1995, Sine et al. 2009) or implementation without embracing beliefs about the value of adopted practices (Kostova and Roth 2002), but the choice between a ceremonial and a substantive response as a function of dependence has not been explored.

ICGCs lie on a continuum that ranges from ceremonial to substantive. On the one hand, we interpret ICGCs with superficial, nonspecific provisions as a ceremonial response because they are likely to have minimal impact on actual corporate governance practices. Adoption of superficial ICGCs is associated with minimal constraints for the firm. On the other hand, ICGCs can specify detailed behaviors, targets, and limits. Such ICGCs are much more likely to influence actual practice. There is a significant variation in the content of ICGCs along this continuum, and we argue that organizational dependence on shareholders who highly value good corporate governance will predict whether the firm adopts an ICGC with superficial provisions or a detailed ICGC with specific requirements.

Although corporate governance is important for all shareholders, some shareholders have a greater interest in promoting “best practices” in corporate governance

through ICGCs than others. Basic corporate governance mechanisms provided by corporate law already give large shareholders (i.e., shareholders with large blocks of shares) the means necessary to protect their investments; for example, by using voting rights, these investors can initiate shareholder meetings, elect directors, and choose auditors. Minority shareholders, in contrast, are much more vulnerable because they do not have enough votes to use the mechanisms of corporate governance available to large shareholders. For this reason, the protection provided by corporate governance codes is especially important for minority shareholders. In other words, corporate governance standards that ensure transparency, accountability, and independent monitoring of strategic decisions made by the firm are generally more valued by minority shareholders who cannot use direct means of control over management. Similar to other national corporate governance codes, the FCSM code was developed primarily to protect minority shareholders, whose interests are often threatened in Russia by the opportunistic behavior of management and large shareholders (Filatotchev et al. 2003, McCarthy and Puffer 2003).

The adoption of a detailed code with specific provisions means self-imposing significant restrictions, and we expect that firms less dependent on their minority shareholders will be reluctant to develop such codes. One factor that makes a firm less dependent on minority shareholders is the presence of shareholders with large blocks of shares. In contrast with the diffused ownership of most publicly traded U.S. corporations, even some of the largest Russian firms have high ownership concentration, with a large proportion of shares owned by one shareholder (Guriev and Rachinsky 2005). Despite a large number of initial public offerings in recent years, ownership concentration in Russian companies remains high because only relatively small portions of outstanding shares are usually floated, and original owners retain majority blocks to preserve control. Because of their voting rights, large shareholders often have control over the boards of directors, and such boards are less likely to adopt detailed codes with specific provisions defending the interests of minority shareholders. Firms with diffused ownership that experience greater dependence on minority shareholders, on the other hand, are more likely to adopt ICGCs that clearly spell out practices valued by these shareholders. We thus predict the following.

HYPOTHESIS 3A. *Ownership concentration is positively associated with the ceremoniality of internal corporate governance codes.*

Another factor that can make a firm less responsive to the concerns of minority shareholders is its profitability. Profitable firms will experience less pressure from shareholders and will have more latitude in choosing their corporate governance practices. In profitable firms, management autonomy is less likely to be restricted by a

detailed ICGC because shareholders of such firms have fewer reasons for dissatisfaction: the fact that a firm is highly profitable suggests that its management is making the right choices, and the firm is thus less likely to be the target of criticism from minority shareholders. Profitability is also related to capital needs: profitable firms are less likely to depend on investors for new funds. In contrast, firms that demonstrate lower profitability are likely to face demands for organizational changes to improve the situation. The development of a detailed, instrumental ICGC represents a credible commitment that may please minority shareholders dissatisfied by low profitability—in such a scenario, vague statements are unlikely to be enough.

HYPOTHESIS 3B. *Profitability is positively associated with the ceremoniality of internal corporate governance codes.*

Methods

Data

To create our sample we started by selecting the 250 largest industrial companies in Russia as measured by sales in 2002 and the 50 largest banks as measured by assets at the end of 2002. Our sample excludes large state unitary enterprises and limited liability enterprises because, not being corporations, they are not at risk of adopting ICGCs. We have also excluded wholly owned subsidiaries of foreign firms. Similar to studies that focused on Fortune 500 companies to analyze the diffusion of various management practices in the United States (Davis and Greve 1997, Rao and Sivakumar 1999), we look at the largest firms in Russia to study the diffusion of ICGCs. Large corporations are more likely to pay attention to corporate governance practices because smaller firms usually have few shareholders, and the relationships between managers and shareholders in smaller firms are informal and do not require elaborate corporate governance practices. Moreover, several of our independent variables, such as stock exchange listing and ADRs/GDRs, take nonzero values only for large firms.

The data on adoption of ICGCs were obtained from quarterly reports that corporations file with the FCSM. We also consulted firms' websites as an alternative source of information about the date of ICGC adoption. We contacted directly those firms that did not disclose relevant information in quarterly reports or on their websites, and we requested information about the availability of ICGCs and about the date of ICGC adoption. These data collection efforts yielded 265 firms for which data on adoption (or nonadoption) of ICGCs were available.

The first ICGCs were developed in 2000, and thus our observation period starts in 2000, but only four firms had developed ICGCs before 2002. The observation period

ended in January 2007, and by that time, of the 265 firms, 75 had adopted ICGCs and 33 were censored, mostly because they were acquired by other firms.

Measures

Dependent Variables. In our analysis of ICGC adoption, the dependent variable is defined as the hazard rate of adopting an ICGC. This hazard rate for firm i at time t can be expressed as

$$r_{it} = \lim_{dt \rightarrow 0} \frac{\Pr(t \leq T < t + dt, | T \geq t)}{dt},$$

where $\Pr(\cdot)$ is the probability of adoption between times t and $t + dt$, given that the firm is at risk of adoption at time t .

For each firm, we record the event of adoption or censoring and the date of adoption or the date of censoring (liquidation date or the end of the observation period). Our observation window includes the very first adoption events, and thus left truncation is not an issue. Because the observation period was terminated in January 2007, the firms that have not adopted ICGCs are still at risk of adoption, but this right truncation does not create biases in the event history analysis (Tuma and Hannan 1984).

In our analysis of factors predicting the ceremoniality of codes, the dependent variable is *code ceremoniality*. This variable is based on the degree of details provided in a firm's code and captures whether the code mainly consists of general statements or describes in detail specific corporate governance procedures and practices. All ICGCs have been coded into four categories: many details, substantial details, few details, and no details. Code ceremoniality increases as ICGCs become less detailed. A similar four-grade scale was used in previous studies for coding corporate codes of ethics (Cressy and Moore 1983, Lefebvre and Singh 1992). All internal codes adopted by firms included in our sample were coded by two independent raters (both native Russian speakers) who received instructions from one of the authors on how to distinguish between more and less detailed codes. The analysis of interrater reliability demonstrates high agreement (91%) between the raters. In cases of disagreement, raters reviewed their ratings and reached a consensus.

Independent Variables. The variable *RTS/MICEX trading* identifies companies with shares traded at major Russian stock exchanges—RTS and/or MICEX. The variable *RTS/MICEX listing* identifies all companies that went through the listing procedure and were included on quotation lists of these exchanges. The data on all companies that were traded at RTS and MICEX as well as data on companies that were included in quotation lists at these stock exchanges were obtained from their websites (<http://www.rts.ru> and <http://www.micex.ru>, respectively). These variables take a value of 1 for traded and listed firms, respectively, and a value of 0 otherwise.

The variable *ADR/GDR* was constructed to identify firms that issued ADRs or GDRs. We used information about the date of issuing ADRs/GDRs with a one-year lag to account for the fact that firms usually make preparations before they issue ADRs/GDRs, and these preparations often include development of the corporate documents that could be of interest for potential shareholders. The dates of ADR/GDR issues were obtained from the Bank of New York directory (<http://www.adrbny.com>). The variable equals 1 if a firm has ADR and/or GDR programs, 0 otherwise.

We used data on directors of all firms included in the sample to construct the *interlocks to adopters* variable. These data were obtained from quarterly reports and have been used to identify both “primary” interlocks created by executives of one firm sitting on the board of another firm and “secondary” interlocks created by outside directors who sit on boards of two firms without holding executive positions in any of them (Scott 1985). For each firm, the variable takes the value of a count of all its interlocks to prior adopters. When firms in our sample adopted an ICGC, the data were updated for all other firms to show changes in the number of interlocks to prior adopters.

To generate the variable *prior industry adopters*, we calculated for each firm the proportion of prior adopters in the firm’s industry (Davis 1991, Rao and Sivakumar 1999). To identify the primary industry for each firm, we relied on information from the database of the Expert Rating Agency (in all, 15 industries are represented in our sample).

To test the hypothesis that regional proximity to prior adopters may affect the decision of the focal firm to develop an ICGC, we constructed a *prior region adopters* variable. Similar to prior imitation studies (e.g., Burns and Wholey 1993, Davis and Greve 1997), we operationalize regional proximity as a location in the same region. Russia consists of 83 federal regions (or “federal subjects”), and for each firm we calculate the number of prior adopters in the same region. In practice, if firms are located in the same federal region, it means that executives of these firms spend a lot of time in the administrative center of this region (usually the largest city) where offices of the regional administration are located. These executives communicate with the same regional administrators and participate in the same regional economic initiatives. This should facilitate contact between executives and thus increase the probability of interorganizational imitation.

All independent variables used in the event history analysis were updated on a monthly basis. Almost all adoption events in our sample happened during a relatively short period of five years, and thus a yearly time scale would be too crude for our analysis. Thus, we chose to update monthly the records of prior ICGC adoptions and the records indicating whether firms’ shares

are traded at major Russian stock exchanges, whether these firms completed the listing procedure, and whether they issued ADRs/GDRs.

In our models predicting the ceremoniality of ICGCs, we use a measure of *relative profitability* that captures deviations of actual returns on sales from the average for the corresponding industry. There is a significant variation across industries in average profitability, and shareholders usually evaluate performance of the focal firm in comparison with performance of its industry peers.

Another independent variable predicting the ceremoniality of response is *ownership concentration*, which we measured as the proportion of shares controlled by the largest owner. In Russia, ownership concentration is very high compared with the United States or Britain (La Porta et al. 1998), and it is common for large Russian firms to have a single shareholder that has a block of shares that significantly exceeds blocks owned by other shareholders (Guriev and Rachinsky 2005).

Control Variables. The rate of ICGC adoption may be affected by the size of the firm. Larger firms often have investor relations departments and staff that prepares reports, codes, and other internal documents. To control for size heterogeneity within our sample, we include a *size* variable calculated as log-transformed total revenues in 2002.

Adoption decisions may be associated with the identity of shareholders (Fiss and Zajac 2004), and we expect that some shareholders, particularly foreign and state shareholders, may facilitate the adoption of an ICGC. Foreign shareholders of Russian firms are often concerned with corporate governance issues and may take actions that affect corporate governance practices (e.g., Dyck et al. 2008). Because the Russian government officially endorsed the FCSM code and supported other initiatives to promote better corporate governance, Russian corporations with state shareholders may be under strong pressure to improve corporate governance practices. To control for these influences, we used data from quarterly reports to identify foreign and state shareholders and to construct *foreign ownership* and *state ownership* variables.¹² These variables take on a value of 1 if foreign or state ownership is present, respectively, and a value of 0 otherwise.

Several studies demonstrated that adoption decisions may be affected by the degree of CEO influence within the firm (Westphal and Zajac 1994, 2001). We control for this effect by including two variables: *CEO tenure* (the number of years spent by the CEO in the current position) and *CEO ownership* (the percentage of total shares owned by the CEO). A longer tenure provides the CEO with more opportunities to accumulate personal power (Fredrickson et al. 1988) and expert power (Singh and Harianto 1989). Ownership of a significant block of shares may also boost CEO power. Data about shares

owned by CEOs and about the length of CEO tenure were obtained from quarterly reports.¹³

The probability that a firm will adopt new practices may be affected by its centrality in the network of interorganizational ties (Burt 1982). For example, Davis (1991) found that centrality in the network of interlocking directorates was associated with a higher risk of adopting “poison pills.” We include a *centrality* variable to capture the centrality of each firm in the network of interlocking directorates among firms in our sample. Following previous studies about diffusion of management practices through board interlocks (Davis 1991, Fiss and Zajac 2004), we measure the Freeman degree centrality.

We also include a dummy variable for banks, because FCSM had limited authority over banks supervised by the Central Bank of Russia, and it is possible that banks responded differently to the introduction of the FCSM code. Finally, government agencies, professional associations, and other organizations promoting good corporate governance practices (e.g., the Russian Institute of Directors) are usually located in Moscow, where they run most of their workshops, conferences, and training programs. We have included a dummy variable to control for firms registered in Moscow (about one-fourth of our sample), because these firms are more likely to be influenced by the activities of organizations promoting high standards of corporate governance.

Analysis

Analysis of Adoption. Following previous studies of diffusion (e.g., Young et al. 2001, Edling and Sandell 2001, Connelly et al. 2011), we use a Cox proportional hazard model that does not specify a particular form of time dependence for the adoption rate and allows for both time-constant and time-varying covariates (Kalbfleisch and Prentice 2002):

$$r(t) = h(t) e^{[\beta_1 X + \beta_2 Y(t)]},$$

where $r(t)$ is the hazard rate of adoption, $h(t)$ is an unspecified baseline hazard, X is a vector of covariates measuring time-invariant firm characteristics, $Y(t)$ is a vector of covariates measuring time-varying firm characteristics, and β_1 and β_2 are vectors of coefficients that measure shifts in the baseline hazard rate that are due to the covariates in X and Y , respectively.

Analysis of Ceremoniality of Response. The variable *code ceremoniality* is an ordinal dependent variable¹⁴ and can be modeled by using an ordered logit regression (Long and Freese 2003). In ordered logit regression, we estimate the probability that a linear function of independent variables is within the range of cut points for the outcome:

$$\begin{aligned} \Pr(\text{outcome}_j = i) \\ = \Pr(k_{i-1} < b_1 x_{1j} + b_2 x_{2j} + \cdots + b_n x_{nj} + u_j \leq k_i), \end{aligned}$$

where $k_1, k_2, \dots, k_{n-1}$ are cut points, n is the number of possible outcomes, u_j is a random error assumed to be logistically distributed, and $b_1, b_2, \dots, b_n$ are estimated coefficients. Because we analyze ceremoniality of codes only for those firms who chose to adopt them, we also run a model that corrects for sample selection bias (Heckman 1979), a robustness check that we discuss in more detail in the next section.

Results

We report descriptive statistics and correlations in Table 2. The results of our analysis are summarized in Table 3 (for adoption of ICGCs) and Table 4 (for ceremoniality of ICGCs).

The coefficients reported in Table 3 represent hazard ratios with standard errors in brackets. In Model 1 we estimate the effects of the control variables. The only control variable that has a statistically significant effect on the rate of ICGC adoption is the size of the firm. Besides the fact that large firms are more likely to allocate resources for development of internal standards, it is possible that size also contributes to visibility of corporate governance practices because large firms in general attract more attention. We also tried adding ownership concentration and relative profitability as control variables (not shown); neither of these two variables is significant in predicting ICGC adoption, and adding them does not change substantially the results for the independent variables described below.

The results for Model 2 demonstrate that, consistent with Hypothesis 1A, firms traded at RTS or MICEX have a higher risk of adopting an ICGC than nontraded firms (this risk is four times higher). In accordance with Hypothesis 1B, we find in Model 3 that firms included in quotation lists, and thus obliged to report whether they comply with the FCSM code, have a 4.57 times higher risk of adopting an ICGC than nonlisted firms. Hypothesis 1C is also supported, as indicated by a significant hazard ratio for the ADR/GDR variable in Model 4. Firms that issued an ADR or GDR have a 3.47 times higher risk of adopting an ICGC.

Model 5 demonstrates that the number of prior adopters in the same region does not have a statistically significant effect on the risk of adoption by the focal firm. Therefore, this analysis does not provide support for Hypothesis 2A. Model 6, however, provides strong support for Hypothesis 2B: a 1% increase of the proportion of prior adopters in the same industry is associated with a 4.5% higher hazard rate of ICGC adoption. Similarly, Model 7 shows that firms with interlocks to prior adopters have a significantly higher risk of adopting an ICGC, thus providing empirical support for Hypothesis 2C. One extra interlock to a prior adopter increases the chances of adoption by 23%.

In Model 8 we include simultaneously all independent variables predicting ICGC adoption. Some of these

Table 2 Descriptive Statistics and Correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Size (log revenues)	8.911	1.105															
2 Bank	0.190	0.393	−0.201														
3 Moscow	0.271	0.445	0.124	0.528													
4 State ownership	0.132	0.338	0.136	0.011	0.081												
5 Foreign ownership	0.130	0.336	−0.012	−0.010	0.086	−0.010											
6 CEO ownership	0.015	0.074	−0.108	0.078	0.034	−0.036	−0.067										
7 CEO tenure	3.538	2.651	−0.006	−0.003	0.046	−0.039	0.082	0.118									
8 Centrality	4.839	5.611	0.390	−0.168	−0.044	0.180	−0.003	−0.119	−0.009								
9 RTSMICEX trading	0.495	0.500	0.279	−0.200	−0.136	−0.013	−0.031	−0.057	0.114	0.372							
10 RTSMICEX listing	0.142	0.349	0.503	−0.112	0.160	0.098	0.128	−0.050	0.112	0.218	0.398						
11 ADR/GDR	0.118	0.322	0.413	−0.129	0.145	0.100	0.069	−0.042	0.126	0.298	0.344	0.469					
12 Prior region adopters	2.009	4.447	0.016	0.355	0.610	0.052	0.065	0.045	0.032	−0.054	−0.119	0.037	0.063				
13 Prior industry adopters	6.017	8.791	−0.025	−0.030	0.021	0.069	0.043	−0.042	−0.031	0.030	0.058	−0.043	0.061	0.362			
14 Interlocks to adopters	0.452	0.971	0.189	−0.046	−0.001	0.141	0.053	−0.083	−0.029	0.439	0.141	0.065	0.153	0.194	0.467		
15 Ownership concentration	0.441	0.237	0.122	−0.125	−0.072	0.072	−0.003	−0.120	−0.150	0.165	−0.057	−0.087	−0.106	−0.035	−0.007	0.107	
16 Relative profitability	−0.001	0.096	0.136	0.013	0.047	0.025	0.155	−0.003	0.006	0.045	0.081	0.094	0.079	0.037	0.049	0.030	0.041

Notes. The size of the risk set declined from $n = 265$ to $n = 157$ during the observation period. Correlations greater than 0.015 and less than -0.015 are significant at $p < 0.05$.

Table 3 Results of Event History Analysis (Cox Proportional Hazard Models) for ICGC Adoption

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
<i>Size</i> (log revenues)	1.475*** (0.160)	1.379** (0.152)	1.131 (0.137)	1.254* (0.137)	1.482*** (0.161)	1.529*** (0.163)	1.423*** (0.154)	1.132 (0.141)
<i>Bank</i>	1.453 (0.583)	1.584 (0.617)	1.774 (0.713)	1.854 (0.749)	1.485 (0.600)	1.800 (0.729)	1.509 (0.606)	2.456* (1.005)
<i>Moscow</i>	0.957 (0.318)	1.287 (0.421)	0.892 (0.283)	0.883 (0.280)	1.648 (0.889)	0.806 (0.271)	0.899 (0.297)	1.384 (0.736)
<i>State ownership</i>	0.582 (0.231)	0.562 (0.226)	0.586 (0.224)	0.579 (0.223)	0.581 (0.231)	0.527 (0.203)	0.639 (0.246)	0.586 (0.218)
<i>Foreign ownership</i>	0.835 (0.320)	0.904 (0.337)	0.725 (0.274)	0.751 (0.288)	0.842 (0.323)	0.667 (0.267)	0.823 (0.314)	0.729 (0.272)
<i>CEO ownership</i>	0.839 (1.60)	0.993 (1.630)	0.695 (1.238)	0.817 (1.488)	0.898 (1.717)	1.562 (2.716)	1.012 (1.902)	0.931 (1.514)
<i>CEO tenure</i>	1.045 (0.044)	1.013 (0.044)	1.014 (0.043)	1.025 (0.044)	1.047 (0.044)	1.049 (0.046)	1.055 (0.045)	1.012 (0.044)
<i>Centrality</i>	1.024 (0.016)	1.010 (0.017)	1.025 (0.016)	1.020 (0.016)	1.023 (0.016)	1.030 (0.017)	0.998 (0.019)	1.000 (0.021)
<i>RTS/MICEX trading</i>		4.049*** (1.314)						1.870*** (0.314)
<i>RTS/MICEX listing</i>			4.569*** (1.352)					1.312** (0.128)
<i>ADR/GDR</i>				3.468*** (0.991)				1.280** (0.119)
<i>Prior region adopters</i>					0.951 (0.038)			0.955 (0.040)
<i>Prior industry adopters</i>						1.045*** (0.011)		1.217* (0.113)
<i>Interlocks to adopters</i>							1.232* (0.104)	1.250** (0.100)
No. of subjects	240	240	240	240	240	240	240	240
No. of adoptions	74	74	74	74	74	74	74	74
Log likelihood	−377.128	−365.745	−365.078	−368.596	−376.339	−370.317	−374.328	−352.958
χ^2	23.44	46.21	47.54	40.51	25.02	37.07	29.04	71.78
df	8	9	9	9	9	9	9	14

Note. Standard errors are given in parentheses.

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

independent variables are highly correlated, and to avoid collinearity we orthogonalize highly correlated variables before including them into the model (Golub and Van Loan 1996). The results demonstrate that the independent variables, which were significant in the previous models when included separately, remain significant in the full model.

Table 4 presents the results of models predicting ceremoniality of ICGCs adopted by firms in our sample. Model 1 includes only control variables and demonstrates that size has a positive effect on ceremoniality of ICGCs.¹⁵ Taking into account that our sample includes only large firms, a positive effect of size reflects a tendency of very large firms to have more ceremonial codes. Although we had no prior hypothesis that links size with dependence on minority shareholders, it is quite possible that very large firms—the “blue chips” of the Russian stock market—can be less responsive to expectations of minority shareholders because most investors would include shares of these blue chips in their portfolios even

if they are not satisfied with the corporate governance of these firms. In contrast, smaller firms have to compete for attention of investors and thus have to be more responsive to the expectations of minority shareholders. The presence of the state among shareholders and registration in Moscow have negative effects on ceremoniality that become marginally significant in subsequent models. This result suggests that these firms may experience stronger influence from the FCSM and other organizations promoting good corporate governance.

In Models 2 and 3 we test separately the effects of ownership concentration and relative profitability, respectively. Model 2 shows that firms with higher ownership concentration are more likely to have ceremonial ICGCs, which is consistent with Hypothesis 3A and our argument that ceremonial codes are more likely to be adopted by firms with lower dependence on minority shareholders. In Model 3, relative profitability is highly significant, as predicted by Hypothesis 3B: more profitable firms are more likely to develop ceremonial

Table 4 Results of Ordered Logit Regressions for ICGC Ceremoniality

	Dependent variable: <i>Code ceremoniality</i>				
	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Size</i> (log revenues)	0.802** (0.246)	0.790** (0.252)	1.202*** (0.323)	1.196*** (0.319)	0.355*** (0.095)
<i>Bank</i>	−1.172 (0.246)	−0.221 (0.885)	0.811 (0.991)	0.845 (1.013)	0.225 (0.289)
<i>Moscow</i>	−0.898 (0.660)	−0.510 (0.690)	−1.730* (0.806)	−1.607* (0.821)	−0.473+ (0.263)
<i>State ownership</i>	−0.153 (0.820)	0.049 (0.821)	−1.983* (0.956)	−1.870+ (0.959)	−0.610+ (0.334)
<i>Foreign ownership</i>	−0.139 (0.696)	−0.154 (0.735)	−0.217 (0.859)	−0.264 (0.881)	−0.054 (0.290)
<i>CEO ownership</i>	1.611 (2.669)	0.953 (2.745)	8.324 (15.503)	12.248 (16.276)	2.685 (6.016)
<i>CEO tenure</i>	−0.032 (0.096)	−0.017 (0.097)	−0.090 (0.105)	−0.082 (0.106)	−0.035 (0.037)
<i>Centrality</i>	−0.003 (0.032)	−0.017 (0.033)	0.019 (0.036)	0.014 (0.691)	0.015 (0.014)
<i>Ownership concentration</i>		2.643* (1.299)		1.307 (1.610)	−0.058 (0.478)
<i>Relative profitability</i>			11.775** (4.005)	11.417** (4.066)	3.087** (1.171)
<i>Mills lambda</i>					0.204 (0.288)
No. of subjects (obs.)	72	72	64	64	62
Log likelihood	−83.264	−81.064	−61.822	−61.490	—
χ^2	17.61	22.01	36.03	36.70	53.43
df	8	9	9	10	20

Note. Standard errors are given in parentheses.

+ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

ICGCs. Model 4 includes both independent variables and demonstrates that after including ownership concentration and relative profitability in the same model, the effect of relative profitability remains strong, whereas the effect of ownership concentration loses statistical significance (possibly because the number of observations is reduced as several firms lacking relative profitability data are excluded from the analysis).

It is possible that results reported in Models 1–4 are affected by sample selection bias (Heckman 1979), because the same factors may predict both ICGC adoption and ICGC ceremoniality. To account for this possibility, we use a two-stage model where we first predict ICGC adoption and generate a correction term (lambda). This correction term was then included in the second-stage model predicting the ceremoniality of ICGCs. The results are reported in Model 5, which shows that more profitable firms are more likely to develop ceremonial ICGCs, whereas no significant differences are associated with ownership concentration. In summary, our models demonstrate a significant positive association between relative profitability and ceremoniality of ICGCs, thus providing strong support for Hypothesis 3B. The effect of ownership concentration disappears in Models 4 and 5, thus weakening support for Hypothesis 3A.

To further investigate how ceremonial and substantive codes are different, we analyzed a subset of ICGCs with low and high ceremoniality scores in more detail. First, we found that substantive codes pay considerable attention to topics that are sensitive for minority shareholders, whereas ceremonial codes often neglect these issues. Among topics sensitive for minority shareholders are payment of dividends (controlling shareholders may extract benefits from the firm without paying dividends), corporate conflicts (minority shareholders are often negatively affected by corporate conflicts), and takeover defenses (management may adopt hostile takeover defenses that would reduce the market value of the firm). Substantive codes often include policies that protect minority shareholders against such risks; for example, Irkut's code (which scored low on ceremoniality) specifies that the company will avoid issuing additional shares or using poison pills and golden parachutes as takeover defenses. NMK's code (which received a high ceremoniality score), in contrast, says little if anything about these issues. The absence of policies regulating these issues in ceremonial codes means that these ceremonial codes fail to provide minority shareholders with protection against corresponding risks.

Second, even when both substantive and ceremonial codes address the same issues, they address them quite

differently. There are several topics that no corporate governance code can ignore, because these topics are widely seen as indispensable elements of good corporate governance (for example, composition of boards of directors or organization of shareholder meetings). Our analysis reveals that sampled substantive codes have specific policies surrounding these issues that empower minority shareholders and prohibit actions that may have negative consequences for these shareholders. In contrast, ceremonial codes, when addressing the same issues, make general statements that create minimum constraints and thus cannot guarantee minority shareholders that their rights and interests will be protected. For example, in describing shareholders' rights, Irkut's substantive code specifies that records of ownership will be kept by an independent registrar, that information about shareholder meetings will be available at the company's website, that shareholders should be informed about these meetings at least 30 days in advance, that Irkut's executives and auditors should be present at these meetings, that representatives of shareholders should be able to monitor how votes are counted during shareholder meetings, etc. In contrast, NMK's code contains mostly general policies about the rights of shareholders (e.g., "Shareholders have the right to regular and timely access to information needed for making decisions about transactions with shares"). These policies just reiterate some general statements from the Law on Corporations without creating any obligations on the part of the company to take specific actions that would ensure the ability of minority shareholders to exercise their rights.

Discussion

This paper addressed the question of how organizations respond to institutional pressure. We argued that organizations can respond to one set of requirements by adopting a substitute set of requirements that target the same practices. Empirically, we found that two main mechanisms drive the adoption of internal corporate governance codes among Russian firms in response to a new national standard. First, the likelihood of adoption is increased by the visibility of firms' corporate governance practices. Visibility, or the degree of exposure a firm has to constituents who demand good corporate governance, seemed to compel firms to adopt ICGCs. Second, mimetic factors also drive the adoption of ICGCs: firms connected to prior adopters by board interlocks and firms operating in industries with a higher percentage of prior adopters are themselves more likely to develop an ICGC. Thus, although visibility creates greater *need* to respond, firms also have a tendency to *imitate* related firms when selecting their means of response.

In addition to studying the adoption of ICGCs, we also studied the degree of ceremoniality of these codes. Although we cannot observe the implementation of corporate governance practices directly, we reason that the

impact of internal codes as instruments for regulating corporate governance practices is a function of their content: some firms develop vague ICGCs with minimal details, whereas others develop ICGCs with specific requirements that have practical implications for corporate governance practices. Our analysis demonstrates that ICGC content is a function of dependence: factors that decrease firms' dependence on minority shareholders increase the probability of a ceremonial ICGC (i.e., one with little specific content to regulate actual practices). Taken together, our findings demonstrate that although the visibility of firms' governance practices stimulates the adoption of ICGCs, these codes are likely to be ceremonial if the firm's dependence on constituents who value good corporate governance (such as minority shareholders) is low.

We find it interesting that exposure and sensitivity to institutional pressure have different effects. Visibility predicts the act of adoption (easily observed by external audiences) but not the content of the adopted standards—firms exposed to institutional pressures may respond by adopting either substantive or ceremonial codes. Conversely, sensitivity to institutional pressure stemming from dependence on concerned constituents predicts the content (ceremoniality) of adopted standards but not the act of adoption. Adoption per se may be associated with minimal costs for a firm if it chooses to include in the adopted code only superficial policies that do not impose tangible constraints. Thus, even firms with low dependence may decide to adopt nonconstraining, ceremonial codes if the mere act of adoption might be positively perceived by external audiences (Meyer and Rowan 1977); it is only when dependence is higher that firms will incur the real costs of adopting more constraining, substantive codes.

We highlight three scope conditions for our study that are suggestive of future research. First, the national standard that we study is both recent and nonmandatory. We acknowledge that a substitution strategy seems less likely to be available when a standard has been widely accepted for a long period of time or is strictly enforced (such as by the state or a professional association). Second, we acknowledge that our study is geographically confined to Russia. Our findings regarding corporate governance might be more representative of transition and developing economies where governance standards are still taking shape and firms may have more scope and incentive to differentiate themselves based on the perceived quality of their corporate governance (Durnev and Kim 2005).

Finally, we did not study the implementation or effectiveness of ICGC standards. Collecting systematic data on actual corporate governance practices would be difficult, because information such as the proportion of independent directors or the existence of board committees is not available for all firms in our sample—some

firms choose to publicize this information; others do not. Although our study is not focused on actual practices, we believe that the content of an ICGC is indicative of its impact on practice. In general, we expect correspondence between ICGC policies and actual practices because a firm that violates the policies described in its internal governance documents is subject to legal action (Drankina 2001, Ratnikov 2002); however, future research should investigate systematically the relationship between ICGC policies and actual governance practices (cf. Terlaak 2007). It is also important to study how stakeholders perceive internal codes and whether firms are able to achieve intended effects by emphasizing compliance with alternative standards. In-depth fieldwork on a small number of firms with ICGCs would be well suited to these avenues of inquiry.

Even given its limitations, our work contributes to institutional theory in two main ways. First, we develop the idea of substitution as a possible response to institutional pressure. Organizations operating in an environment with nonmandatory standards may be able to (at least partially) justify deviations from one standard by highlighting their compliance with an alternative. We see this strategy as related to, but distinct from, the responses (acquiescence, compromise, avoidance, defiance, and manipulation) suggested by Oliver (1991). Russian firms do not fully acquiesce to the FCSM code but do not simply avoid or defy it either. In some respects, ICGCs can be seen as a form of compromise strategy, which Oliver (1991, pp. 153–154) described as “partial conformity” and “bargaining”; indeed, all Russian firms, with or without an ICGC, are partial conformers in that they comply with some of the FCSM requirements but not with others. ICGCs, however, go beyond partial conformity. With an ICGC, firms elaborate an explicit alternative to the FCSM code. As we discussed previously, ICGCs are more than simply a subset of the FCSM requirements: in many cases, ICGCs fundamentally alter the nature of FCSM stipulations and/or present stipulations not mentioned in that code. Finally, individual ICGCs are not intended to manipulate national or field-level standards (for examples of such a process, see Garud et al. 2002, Sine et al. 2007, Lee 2009). Although ICGCs might collectively influence the national standards embodied in potential future revisions to the FCSM code (pointing to an interesting avenue for future research), no single ICGC could accomplish this, and we found no evidence that organizations were consciously attempting through their ICGCs to manipulate the national standard. In sum, we see substitution as an understudied response to institutional pressure, one that merits more attention in the context of the growing prevalence of standard-based regulation.

Second, our study helps us better understand the nature of ceremonial conformity, a core construct within institutional theory (Meyer and Rowan 1977). In most

previous work, the likelihood of ceremonial conformity is seen as increasing with time and the number of prior adopters (Tolbert and Zucker 1983, Westphal et al. 1997). Here, we find that the likelihood of adopting a ceremonial ICGC is a function of organizational dependence that makes firms more sensitive to institutional pressure. This finding helps to answer a long-standing question in institutional theory surrounding the conditions under which formal elements adopted by organizations as signals to external constituents will take a ceremonial form (Meyer 1979, Tolbert 1985). Specifically, when organizations depend less on minority shareholders, who are likely to place great value on “good” corporate governance practices, they are more likely to adopt a ceremonial ICGC. Whereas Oliver (1991) considered dependence on constituents as a determinant of the type of response to institutional pressure (e.g., high dependence predicts acquiescence), we find that a substitution response (i.e., adoption of an ICGC) is used by organizations with both high and low dependence on constituents. The degree of dependence still matters in our context but in a different way: substitution responses are more ceremonial in situations of low dependence and more substantive if dependence on concerned constituents is high. By focusing on dependence, we specify organizational-level drivers of ceremoniality rather than seeing ceremoniality as simply a function of exogenous factors such as the number of prior adopters. Also, we see ceremoniality as a variable that ranges from low to high rather than as a dichotomy (ceremonial or substantive). This allows us to predict the *degree* of ceremoniality rather than just its presence or absence.

Whereas existing studies of organizational responses to institutional pressure usually consider institutional requirements as given (for exceptions, see Edelman 1992, Edelman and Suchman 1997), research on alternative standards may help us understand how organizations can collectively influence the very rules they are subject to. Resistance to institutional pressure can take different forms, and although most studies consider forms of noncompliance that do not affect the substance of rules (e.g., Goodstein 1994, Ingram and Simons 1995), development of alternative standards may affect shared understandings of what these rules should be. We argue that organizations develop alternative standards to justify the lack of compliance with the original standards; however, development of such alternative standards may also influence which practices are perceived as appropriate and what might emerge as an institutionalized norm in a particular area of organizational activity. The introduction of a standard in a previously unregulated area of organizational activity can trigger an ongoing process of rule creation as other actors become involved in this process by developing alternative standards. Studying the role of alternative standards developed by individual

organizations in the emergence of field-level norms is thus a promising direction for future research.

Our work also contributes to the research stream on corporate governance. The globalization of corporate governance models is a complex process—existing models are not just replicated, they are customized to local settings (e.g., Ahmadjian and Song 2004, Yoshikawa et al. 2007). This customization, also described as translation and editing (e.g., Sahlin-Andersson 1996, Sahlin and Wedlin 2008), happens at the national level, as demonstrated by studies that compare different national corporate governance codes (Otten et al. 2006, Hermes et al. 2007). Our analysis suggests that customization of corporate governance standards also happens at the firm level: firms develop internal governance codes according to the specific conditions they face (e.g., their degree of dependence on minority shareholders).¹⁶

We also demonstrate that although standards of good corporate governance are supplied and promoted by government agencies and professional associations, acceptance of these standards depends on firms' relationship with shareholders whose interests are protected by these standards. Our analysis suggests that it is unlikely that corporations with low dependence on minority shareholders will make serious efforts to improve their corporate governance practices (i.e., adopt substantive ICGCs). Just by imposing strict requirements regarding corporate governance practices, government agencies and professional associations are likely to stimulate ceremonial responses unless minority shareholders of these firms have enough influence to convince management to make substantial changes.

Consistent with the institutional perspective on corporate governance (Davis 2005, Fiss 2008), we see good corporate governance as socially constructed. Whereas institutional theories of corporate governance in economics and political science focus on cross-national variation of the institutional environment (La Porta et al. 1998, Roe 2003), the institutional approach within organization theory describes a variety of strategies for responding to the same institutional environment. Under pressure to use “best” corporate governance practices, firms can respond with symbolic adoption of these practices without actual implementation (Westphal and Zajac 1994, 2001), but they can also try to redefine what constitutes good corporate governance and what is used as a benchmark for evaluating actual corporate governance practices. Studying this process sheds light on how good corporate governance is constructed and how actors redefine good corporate governance in accordance with their interests. Our study contributes to this line of research by demonstrating the active role played by firms that develop their own alternatives to existing standards of good corporate governance.

In closing, we note that ICGCs are much more common in Russia than codes focused on ethics, corporate social responsibility, or the environment. Whereas

Russian firms may signal that they pay attention to corporate governance issues, firms in Europe and North America tend to signal that they pay attention to business ethics, corporate responsibility, and environmental impact. There may be fewer opportunities for firms to differentiate themselves based on corporate governance in developed market economies, where the average quality of corporate governance is relatively high. At the same time, stakeholders concerned about business ethics, corporate responsibility, and environmental impact are probably more influential in Europe and North America than they are in Russia. The popularity of environmental and social responsibility standards in Europe and North America (Leipziger 2003, Etzion and Ferraro 2010) creates an opportunity to explore whether the factors that predicted the adoption of ICGCs in our study also predict the adoption of alternative standards in these areas of organizational activity.

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Endnotes

¹This federal agency was later renamed the Federal Service for Financial Markets.

²Sometimes these corporate governance codes are sponsored by government agencies, and sometimes their development is initiated by professional associations (e.g., the Danish Shareholders Association, the Irish Association of Investment Managers), but they are usually intended to have nationwide application (Weil, Gotshal & Manges 2002).

³Many firms, however, do not provide detailed compliance information and instead make only vague statements to the effect that they “seek to comply” with the FCSM code.

⁴Frequent deviations from national governance codes have also been reported in studies of other countries. For example, Werder et al. (2005) reported that despite improvements in the level of compliance with the German corporate governance code, many firms still do not comply with certain requirements, such as requirements regarding personal liability of board members or transparency of their remuneration.

⁵Although some Western companies also develop corporate governance guidelines, by comparison these guidelines tend to be less comprehensive and less publicized than the ICGCs of Russian companies. Western corporations instead tend to develop internal codes focused on corporate responsibility, ethics, and sustainability (Leipziger 2003, Bondy et al. 2006),

whereas policies regulating corporate governance practices are rarely presented as internal codes.

⁶We note, however, that if we were to include in this table all board-related requirements from these codes, the list of requirements from the FCSM code would be much longer than the list of requirements from the substantive YuTK code. Moreover, instances where the YuTK code exceeds the FCSM requirements tend to be in areas that are not particularly sensitive, such as those related to training and orientation of board members.

⁷Because all ICGCs are less stringent than the FCSM code (and the vast majority are significantly less stringent), the costs (broadly conceived) of complying with an ICGC are always lower than the costs of complying with the FCSM code.

⁸For example, YuTK, a leader in introducing good corporate governance practices in Russia, reports noncompliance with 12% of the FCSM code requirements (YuTK 2006). Another firm with highly rated corporate governance, JSFC Sistema, reports that it does not comply with 20% of the FCSM requirements (JSFC Sistema 2006).

⁹This is consistent with Zattoni and Cuomo (2008), who note that in many countries, especially those with civil law, national corporate governance codes target both publicly traded and nontraded firms.

¹⁰Being included in the quotation lists is a next step after being officially admitted for trading. Securities can be included in the quotation lists if their monthly volume of trading exceeds a threshold level specified by a stock exchange. If firms meet the minimum volume of trading requirement, they can apply to be included in the quotation lists.

¹¹For example, VimpelCom and Yukos improved their corporate governance in anticipation of launching ADR at the NYSE and were rewarded by a steep growth in their market value (McCarthy and Puffer 2004, p. 401).

¹²State ownership is transparent because the state does not use nominal shareholders. Determination of foreign ownership is more complicated because some “foreign” shareholders are, in fact, offshore firms controlled by Russian beneficiaries, who minimize taxes and expropriation risks by using these intermediary shareholders. To take into account a possible bias created by foreign shareholders from offshore territories, we use two foreign ownership variables—one that includes ownership by firms registered in Cyprus, Bahamas, or other “tax havens” and another that excludes ownership by firms from these offshore territories. Models with different foreign ownership variables produce similar results, and we report only those for “true” foreign ownership.

¹³In Russia, the most senior executive officer usually has a title of president or general director, but we call these executives CEOs to use the term that is more conventional in the management literature.

¹⁴Ordinal variables are categorical variables that can be ordered in a logical sequence of the increasing prominence of some property, e.g., a variable that takes values “poor,” “satisfactory,” “good,” and “excellent.”

¹⁵Besides estimating effects of control variables included in Model 1, we also checked whether variables associated with higher visibility among investors (*RTS/MICEX trading*, *RTS/MICEX listing*, and *ADR/GDR*) have any impact on the content of ICGCs. These variables have a marginally significant negative effect on ceremoniality that disappears when we

control for sample selection bias. The results for independent variables do not change if *visibility* variables are added to the model.

¹⁶It is important to notice, however, that customization observed in the development of national corporate governance codes produces noncompeting standards because original and “translated” standards regulate practices in different organizational populations. In our study, the original standard (the FCSM code) and the substitute standards (ICGCs) target the same organizations—this situation of competing standards is quite different from those described in studies about the customization of national codes.

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