ResearchGate

See discussions, stats, and author profiles for this publication at: https://www.researchgate.net/publication/308357971

Continental-European Governance System: Meta-Analytical Studies

Article *in* International Journal of Economic Research · January 2016

CITATIONS
0

READS
29

1 author:

Lukviarman Niki
Universitas Andalas
39 PUBLICATIONS **54** CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:

Corporate Governance Research in Indonesia: the Use of Theoretical and Conceptual Framework View project

Center for Banking Research View project

All content following this page was uploaded by Lukviarman Niki on 21 September 2016.

The user has requested enhancement of the downloaded file.

IJER © Serials Publications
13(3), 2016: 745-763
ISSN: 0972-9380

CONTINENTAL-EUROPEAN GOVERNANCE SYSTEM; META-ANALYTICAL STUDIES

Niki Lukviarman*

Abstract: *Significant impact of corporate governance studies on business practices have been attracted many researchers during the last two decades. Extensive research have been conducted on diverse aspects in relation to corporate governance issues, yetconclusive results have not been achieved. This study focuses on governance practices within the continental European system, characterized by the use of two-tiers board governance structure utilizing the meta-analytical approach. The study aimed at identifying the pattern of previous studies related to corporate governance issues conducted within the context of countries that adopted the continental European governance system. Data obtained from rigorous academic journals from various sources, such as JSTOR, EMERALD, EBSCO Host, Scopus, Elsevier, and Science Direct among others that are considered as relevant and valid. As such, the study collected 31 articles from journals ranging from 1994-2013 consists of 17,564 observations, and employed meta-analyticalprocedure proposed by Hedges and Olkin. The research found that there exists consistence effect of institutional ownership, board independent, foreigner on board, and board size on firms' performance.*

Keyword: *Corporate Governance, Continental European, Two-tiers Board, Meta-Analysis, Board Composition.*

INTRODUCTION

Corporate governance has become a key policy issue in addressing the way howa company is managed in various countries. Most studies on corporate governance relied on agency theory as the popular theoretical perspective to explain organizational behavior. Prasad (1990) argues that although developed by financial economists, agency theory is a subset of organization theories. In a corollary, Jensen (1988) considers that agency theory is derived from the nexus of contracts view of organization. From this view, agency theory perceives the firm as a nexus of contracts between different parties, known as the firm's stakeholders. This theory assumes that the contract is incomplete in nature, not fully specifying the parties' obligations for every conceivable

* Faculty of Economics-Andalas University, Padang (West Sumatra), Indonesia.
E-mail: lukviarman@gmail.com

contingency (Berglof, 1990). As a result, there can be conflicts of interest among the parties involved. To overcome these potential conflicts, there is a need for guidelines on how the firm should be governed and directed in order to achieve the firm's goals.

The agency theory approach to organization is concerned with the role of capital markets and structure of modern corporations (Davis and Thompson, 1994). The theory assumes that the efficient operation of capital markets and the value of residual claims held by shareholders is reflected in the company's share price on the stock market. The efficient capital market, therefore, serves as a selection mechanism to discipline a company's governance structure that is reflected in a share price. For instance, the takeover processes facilitated by this market ensure that a company that is governed to maximize shareholder wealth survives in the competition for capital.

The agency theory, as has been addressed by Jensen and Meckling (1976) was based on the proposition of the separation between ownership and control. Such a separation will give the agents (managers) incentives to pursue activities which will benefit themselves, at the cost of their principals (owners). The basic premise is that 'if both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal' (p. 308). They believe that the owner-manager's divergence of interests causes agents to fail to maximize the welfare of the principal. This failure is the most important cost resulting from the principal and agent conflict, which is known as the agency problem. Through their convergence-of-interest hypothesis, Jensen and Meckling (1976) argue that corporate performance will increase with the level of management or insider ownership in a company.

On the other hand, Demsetz (1983), within similar theoretical framework, has argued that the increased level of insider ownership will reduce corporate performance. This argument is known as the entrenchment hypothesis, which is in direct contrast with the previous hypothesis. The following studies by Morck, Shleifer and Vishny (1988) and McConnel and Servaes (1990; 1995) support this view through their findings that increased managerial ownership adversely impacts a firm's value over certain ownership ranges. Proponents of this hypothesis suggest that providing managers with share ownership to align their interests with the owners may not effectively solve the agency problems.

Despite their conflicting results, both views recognize the need for control mechanisms to align the interests of principals and agents in order to resolve the agency problem. However, exercising control through monitoring mechanisms is not without costs. Monitoring or agency costs will be borne by the principals as the capital owners in this relationship. The owners have incentive to ensure that managers did not diverge from the goal to maximize shareholder value. However, as rational entrepreneurs, owners have to consider the cost and benefit of monitoring mechanisms that they choose to oversee management. In sum, the agency theory seeks to define the nature

of contracts that will minimize agency costs; that is the costs of monitoring, motivating and ensuring the commitment of the agent (Davis and Thompson, 1994).

The existence of diverse interest between parties in organization triggered the agency conflictwhenever one party pursuing their own goalwhich potentially harmed others.Besanko*et al* (2010) argued that there are two basic sources of agency problems. Firstly,conflicts occurred whenever each party in organization have divergence of interests. Another problememergedwhen decisions and actions taken by a company weredifficult to trace.In order to reduce suchconflicts, companies need to align their goal to accommodate the interest of various parties, especially between those of the owner (principals) and managers (agents). Jensen and Meckling (1976) argued that the alignment of interest should be sealedin the form of formal agreementin providing legal basis for each party involved.

However, previous studies in the fields of corporate governance revealed inconsistentresults.Board composition and performance was found to have positive relationship in several studies (e.g. FauziandLocke, 2012; Adams andMehran, 2005; Dalton andDalton, 2005; MakandLi, 2001), whilstother research showed contrary results (e.g. Rashid *et al*., 2013; Grag, 2007; Bennedsen*et al*., 2006; Yermak, 1996; Eisenberg *et al*., 1998; Rosenstein and Wyatt, 1990). Further, the studies conducted by Bhagat and Black (2002) and Kumar and Singh (2012) found no relationship between board composition and firm performance.

Studies on the effect of outsiders on the company's performance were also inconclusive. Someresearchers found positive effect of outsiders on performance (e.g. Peng, 2004; Uzun*et al.*,2004;Francis *et al*., 2012; Klein, 1998; Dalton *et al*., 1998; Brook andRao, 1994), while others found the contrary results (e.g. AgrawalandKnoeber, 1996; Famaand Jensen, 1983). Interestingly, some studies failed to identifysignificant effect of outsider on firm performance (e.g. Kumar andSingh,2012; BasyingerandButler, 1985; HermalinandWeisbach, 1991; BhagatandBlack, 2002).

Boards' interaction and their level of involvement in a company, which is mostly reflected by boards' meeting frequencies showedsimilar patterns. Some of the studies (e.g. NtimandOsei, 2011; Carcello*et al*., 2002; Mangena*et al*., 2012) found positive effect of board involvement, whilst others found negative correlation between the two variables (e.g. Cheng and Firth, 2006; Beekun*et al*., 1998; Vafeas 1999).Research on board independence as an important governance mechanism within the continental European systemhas also revealed inconclusive results. The study by Kumar and Singh (2012) and Sanda*et al*. (2008) found a positive effect of board independence on company's performance, while the study byPan *et al*. (2013) and Koernieadi and Alireza (2012) showed negative effect of board independence on firm performance.

Inconsistentresults regarding the relationship between governance variables and firm performance of previous studies need to be further analyzed, particularly to

observethe typical patterns occurred. Previous attemptsto address similar objective by using meta-analytical techniquehave been done by researchers. However, further research focusing on specific context of continental European systemwas hard to find.According to Heugens *et al*. (2009) former studies to investigate inconsistency of the result by using similar methodology did not focused on dissimilarities of corporate governance system (*i.e.* continental European versus the Anglo-Saxon). The current study therefore focuses on previous research studies in the countries that adopted continental European system as their corporate governance system.

LITERATURE REVIEW

Corporate Governance

Corporate governance has become a key policy issue in addressing the way a company is managed in various countries. However, the effectiveness of corporate governance reform in a country depends on the distinct national business systems in that country (Pedersen and Thomsen, 1999).Kuada and Gullestrup (1998) argued that macro-cultural variables might have strong influence on the manner in which the firms are governed. Further, these variables will influence the country's economic systems and, in particular, its financial system. This in turn will affect ownership patterns (Berglof, 1990), corporate systems (Moerland, 1995), corporate structure (Roe, 1993), disciplinary mechanisms (Prowse, 1995), as well as the governance orientation (Kim andHoskisson, 1997). In consequence, it might be argued that it is highly unlikely that corporate governance systems that work well in one country will also fit others, due to their different cultural contexts.

Despite continuous growth of corporate governance literature, there appears no single model of corporate governance. This means that there is also no common definition (Keasey, Thompson and Wright, 1997). There are various issues concerning the corporate governance concept; accountability and performance (Cadbury, 1999), mechanisms for controlling managerial inefficiency or failure to maximize value (Macey, 1998), control and coordination of various self-interested stakeholders (OECD 1998), accountability to shareholders (Kay andSilberston, 1995; Blair, 1995), and control mechanisms designed for efficient operation of the corporation (John andSenbet, 1998). Meanwhile, the desired final outcome of corporate governance practices is improved performance of the firm and reduction of conflict of interests within the company (OECD, 1998).

Governance Mechanisms

Governance mechanisms can be broadly characterized as being either internal or external to the firm. The internal mechanisms of primary interest are the board of directors and the managerial incentive schemes, while the external mechanisms rely

on the effectiveness of the market in providing discipline over a company and the legal/regulatory system. Based on such disciplinary mechanisms, one could expect different corporate governance systems to arise as a result of varied financial systems, legal and regulatory framework, and the market for capital mobilization across countries.

Ownership structures are a central distinguishing feature of financial systems (Moerland, 1995). As such, distinctions between different financial systems may help explain differences in corporate behavior, especially with respect to handling the agency problems involved. Following Berglof (1990), financial systems can be differentiated as market or bank-oriented, based on the pattern of capital mobilization used by companies to finance their operations in certain countries. The major financing choice and financial institution's involvement could be used to determine the governance orientation of any country (Kim and Hoskisson, 1997). In Anglo-Saxon countries, for example, ownership concentration is low (Charkham, 1995) and companies rely heavily on stock markets to channel the flow of capital. By contrast, concentrated ownership is a salient feature in some countries in Continental Europe (Moerland, 1995) and in East Asia (ADB, 2000). In these countries, external finance dominates corporate financing through bank loans.

'The market for corporate control' refers to the control function provided by market competition as a corporate governance instrument in disciplining management behavior. Within this mechanism are included the capital market, the product market, and the managerial labor market (Fama, 1980; Famaand Jensen, 1983). It might be argued that both the product and managerial labor market instruments are actually related to the capital market mechanism because the outputs of both are reflected in the value of shares in the capital market. This mechanism operates through the possibility of mergers and acquisitions in disciplining inefficient management. Theoretically, the takeover process occurs if the markets perceive the current management team to be inefficient, based on certain performance indicators. Ideally, the market is supposed to react by offering an alternative to such management through a friendly or hostile takeover. The objective of this mechanism is to ensure that incumbent managers perform competently, lest the market acts in response to discipline them.

The active role of a board of directors in performing their supervisory and advisory tasks is believed to be an efficient and a less expensive governance mechanism than other external mechanisms. The board of directors can act to restrict potential conflicts on interests between managers and shareholders. This can possibly be achieved if directors are independent of management and have appropriate knowledge of the firm (Van den Bergheand De Ridder, 1999). The position and composition of the board differs considerable from country to country (Moerland, 1995). The primary board related issues that have been studied in theAnglo-Saxon countries concern the size and structure of the board.

In the U.S, the most important role of the board is setting the rules of the game for the CEO (Jensen, 2000). The job of the board is to 'hire, fire, and compensate the CEO, and to provide high-level counsel' (p. 49). However, Denis (2001) argues that on average the role of boards of directors in monitoring companies has been poorly executed. One of the major issues is that the independent director lacks information about a company while the CEO holds such information. This information deficiency restricts the effectiveness and the ability of even talented boards to perform to their level of expertise.

In line with the issue of board independence there is also a problem of "board duality" in performing its monitoring role. This situation can be found in the unitary-type of board system, which is prevalent in the Anglo-Saxon governance system. The joint structure of board leadership might potentially intensify the conflict of interest between management and shareholders. Boards might be less likely to exert effective control over management decisions on behalf of shareholders, since they lack ofindependence. The need for director independence, therefore, is important in resolving this conflict through exercising objective judgment of management's performance. In a two-tier board system, as commonly found in continental European countries, a company's board consists of an executive board and a supervisory board. Within this system, executive boards coincide with the top-level management team, while the supervisory board is completely composed of outside experts with a broader control function than in Anglo Saxon countries (Moerland, 1995).

Differences of Governance System

There are distinct differences in corporate governance contexts across countries and they can be seen to change over time. As a consequence, there is no specific corporate governance system that is best suited for every company and all countries. In general, every governance systems could be classified as being either market-dominated or bank-dominated (Schmidt and Tyrell, 1997). Market-oriented governance systems generally refer to the Anglo-Saxon countries (*i.e.* the U.S. and the U.K) where the capital market plays an important role in their economy. In these countries the market for corporate control takes a place at the heart of their control system, which is known as the "outsider control system". Continental European countries and have been categorized as having bank-oriented governance systems. Within these countries, the role played by the market for corporate control is almost insignificant (Schmidt and Tyrell, 1997). The term "insider dominated control" is often used to describe this system, characterized by relatively stable and concentrated ownership structures by some of the shareholders. According to Kuada and Gullestrup (1998) the cultural aspects in the society where the governance system exists could be seen as the cause of the differences between these two systems.

Continental European system of corporate governance was based on the civil law tradition, while the Anglo-Saxon system followed the common law tradition as their legal basis. Corporations in most countries of the world have boards of directors, although they have some differences in practices. In the Anglo-Saxon countries, the unitary board type is common in practice. On the other hand, in Continental European countries and Japan, the two-tier board system is more prevalent. In a two-tier board system, as commonly found in continental European countries, a company's board consists of an executive board and a supervisory board. Within this system, executive boards coincide with the top-level management team, while the supervisory board is completely composed of outside experts with a broader control function than in Anglo Saxon countries (Moerland, 1995).

La Porta *et al*. (1998; 2000) argue that the law and finance approach to corporate governance emphasizes the important role of laws and institutions protecting investors for the development of a country. Specifically, La Porta*et al.* (1998) argue that the value of ownership rights attached to corporate equity depends on the country's legal system and the quality of its law enforcement. As a corollary, Pedersen and Thomsen (1999) argue that company legislation differs from country to country and this affects the financial systems and ownership structures in a number of ways. This view is based on the role of governance concepts in promoting accountability, control, transparency, and predictability. As part of a broad social system, law and regulation serve as the guidance in allocating and enforcing the rights and obligations in one country. In sum, the system of law and regulations are the most basic corporate governance mechanisms that govern the firm's operations that exist outside the firms (Denis, 2001).

Gillan (2006) argues that aspects of the legal and regulatory environment are integrally related to corporate governance. Corporate governance as guidance for a company's best practices arises in the context, and is affected by, differing national frameworks of law, regulation and stock exchange listing rules, and differing societal values. Therefore, to understand one nation's corporate governance practices, one must understand the underlying legal and enforcement framework. As has been argued by the OECD (2004) the primary role for regulation is to shape a corporate governance environment compatible with societal values that allows corporations to succeed in generating long-term economic gain. In order for governance practices to achieve effectiveness, they should be supported by an enabling regulatory framework to achieve better corporate performance.

Board structure and their responsibility were also different between two systems. On the structure of board, Anglo-American grouped all of their board into one institution/structure which leads by CEO. The institution, namely Board of Director,

have direct institutional responsibility to shareholders. Practically, this structure has two different job descriptions either as executive or as supervisor. On the contrary, continental Europeanseparates their board of executives and board of supervision. Both of them are directly responsible toward shareholders. In a two-tier board system, as commonly found in continental European countries, a company's board consists of an executive board and a supervisory board. Within this system, executive boards coincide with the top-level management team, while the supervisory board is completely composed of outside experts with a broader control function than in Anglo Saxon countries (Moerland, 1995). This separation was aimed at distributingthe power and to limit the authority of each party.

METHOD

This research was conducted by utilizing meta-analysis method which enable researcher to draw conclusion based on various results extracted from previous studies. The use of such approach contributesseveral advantagesparticularly on an effort to generalize the results of the study since it was generated from various findings. Previous studies on various aspects of organization and management which employed meta-analytical approach aimed at increasing statistical power and the accuracy of the results. Additionally, the approach acknowledges researcher increating interpretation on inconsistency of the study conducted by previous researchers.

Thereare three systematic stages for employing meta-analytical method in research (PRISMA, 2012). Firstly, the study should identify a specific problem based on inconsistent findings of previous studies. In other words, problematic variables in previous studies should be identified regardless of the research setting or context. Next, a large number of relevant literatures need to be reviewed as the solid basis to reconfirm basic concepts related to the studies. The third stage is deciding the variables and correlations among them. The final process is analyzing appropriate model to confirm the relationships between variables.

Data and Sample

Sample of the study was collected from reputable academic journals sourced from EBSCO, JSTOR, EMERALD Insight, ProQuest, and Google Scholar. Systematic procedure for sample selection started by key in specific keyword through search engine such as "board of directors, "board independence", "board leadership", "board size" and "board attributes". The keywords used are similar to the study conducted by Essen *et al*. (2012) on corporate governance practices in the Asia region by employing meta-analytical method. Further more, snowballing method was also used to search for relevant data in line with research objective. Finally, bibliography of previous and relevant research was reviewed to obtain additional referencesas the basis of the data collection.

Analysis

There are various techniques available to analyze data in meta-studies based on research problem and hypothesis of previous research selected as the sample of the study. Some examples of most popular techniquesare those proposed by Hedges and Olkin-Type meta-analysis (Hedges and Olkin, 1985), meta-analysis structural equation modeling (Viswesvaranand Ones, 1995), and Meta-Regression analysis (Higgins and Thompson, 2002). For thepurpose of this study, meta-analysis technique introduced by Hedges and Olkin was selected. The reason for the selectionrests on its suitability to identify consistency between variables utilize in accordance with the objective of this study, regardlesswhetherthe variable treated as mediating or moderating effects.

The Hedges-Olkin approach requires similar measurement of correlation and the Pearson-correlation technique will be used. The indicated value of Pearson correlation formed as the basis of measurement to identify correlation between variables. Such requirement was also used as the main basis in filtering the selection of the previous studies. Further more, consistency of research was identified by using effect size which reflects the interaction among Pearson-correlation in the analysis (Hedges and Olkin, 1985). As such, high value of effect size perceived as an indicator of statistical consistency among correlations.

RESULT

From originally 48 articles selected through the filtering process, 17 of them were eliminated due to dissimilarity of measurement techniques. Final sample of this study consists of 31 articles covering 17,564 observations. The total number of observations which is collected from the processwill be considered asrandom effect derived fromsimilar measurements of company performance into the list of data. As a consequence, selected studies that used more than one measurement of performance will be counted as many as measurement they used for the accumulation of total observations. Table 1 in the following page illustrates the list of articles used in the analysis of this study.

Table 1 shows the descriptions of data for analysis ranging from 1994-2013 generated from various academic journals related to corporate governance. Additionally, the list also includes two working papers which are considered relevant and valid to be used as sources of data. All of the articles in the sample utilized correlation between several corporate governance variables and company performance employing the Pearson-correlation.

Since each data did not test similar correlations, there are differences in number of observations among independent variables. The highest number of observations appeared in the relationship of board independent on performance with 14,674 observations. Other considerable number of observationswas recorded in the

Table 1
Description of the Sources of Studies

No.	*First Author*	*Years*	*Journal**	*Country***	*Observation*
1.	Kaymak	2008	JCG	TUR	108
2.	Menozzi	2010	WP	ITA	1,642
3.	Buchholtz	1994	AMJ	EUR	406
4.	Boeker	1992	ASQ	EUR	105
5.	Tuschke	2003	SMJ	GER	76
6.	Prabowo	2011	APEL	IND	152
7.	Firth	2008	JAM	CHI	1,647
8.	Choi	2005	FMII	KOR	154
9.	Cheng	2005	CG	HON	2,106
10.	Colpan	2012	CGIR	JAP	936
11.	Lorca	2011	JBE	SPA	936
12.	Lara	2007	EAJ	SPA	2,895
13.	Minichilli	2012	JOB	ITA-NOR	414
14.	Prencipe	2011	JAAF	ITA	414
15.	Cabo	2011	CGIR	SPA	400
16.	Lazarides	2009	IJCG	GRK	800
17.	Banghoj	2010	AF	FIN	125
18.	Holm	2010	CGIR	DEN	200
19.	Rose	2005	CGIR	DEN	116
20.	Nielsen	2010	EMR	NOR	264
21.	Gabrielsson	2000	ERD	SWE	604
22.	Machold	2011	CGIR	NOR	140
23.	Randoy	2002	JMG	NOR-SWE	672
24.	Wincent	2009	RDM	SWE	265
25.	Beiner	2006	EFM	SWS	109
26.	Beiner	2004	KYKLOS	SWS	165
27.	Schmid	2008	JACF	SWS	165
28.	Ruigrok	2006	JMS	SWS	118
29.	Ruigrok	2006	JMG	SWS	496
30.	Chizema	2008	CG	GER	504
31.	Darmadi	2013	CGBS	IND	354
	Total				17,564

* Journal of Corporate Governance (JCG); Corporate Governance (CG); Working Paper (WP); Academy of Management Journal(AMJ); Administrative Science Quarterly (ASQ); Strategic Management Journal (SMJ); Asia Pacific Economic Literature (APEL); Journal of Asset Management (JAM); Financial Market, Institution and Instruments (FMII); Corporate Governance: An International Review (CGIR); Journal of Business Ethics (JBE); European Accounting Journal (EAJ); Journal of Organization Behavior (JOB); Journal of Accounting, Auditing and Finance (JAAF); IUP Journal of Corporate Governance (IJCG); Accounting and Finance (AF); European Management Review (EMR); Entrepreneuship and Regional Development (ERD); Journal of Management and Governance (JMG); RandD Management (RDM); European Financial Management (EFM);KYKLOS; Journal of Applied Corporate Finance (JACF); Journal of Management Studies (JMS); Corporate Governance; the International Journal in Business and Society (CGBS).

** CHI: China; DEN: Denmark; FIN: Finland; HON: Hong Kong; IND: Indonesia; ITA: Italy; JAP: Japan; GER: Germany;KOR; South Korea; NOR: Norway; SPA: Spain; TUR: Turkey; GRK: Greek; EUR: Europe; SWE: Sweden; SWS: Switzerland.

relationship between board size, director ownership, foreign ownership, and ownership concentration with company performance. The smallest number of observations was shown in the relationship between management ownership and CEO ownership toward company performance accounted for 722 observations. Thetotal number of observations was considered fine to analyze since the smallest number of observation used by Essen *et al*. (2012) were 439 observations. The details of total observations for each variable are explained in the following table.

Table 2
Variables and Numbers of Observations

No.	*Independent variables*	*Observations*
1.	Directors Ownership	4,244
2.	Institutional Ownership	1,118
3.	Management Ownership	722
4.	CEO Ownership	1,717
5.	Foreign Ownership	3,841
6.	Ownership Concentration	2,820
7.	Board Independent	14,674
8.	Foreign on Board	1,522
9.	Women on Board	1,114
10.	Board Size	8,963

Data were examined following the procedure explained by Hedges and Olkin (1985) whichutilized Pearson-Correlation as the basis to identify the effect size. The effect size is specific value of probability that reflects to the extent various study are consistent. The effect size was generated from statistical interaction among Pearson value of all observations. Results showed that four variables were consistent while other did not indicate significant consistency along the years of studies (see table 3).

While directors' ownership did not shows significant relationship with performance, institutional ownership has a positive impact on company performance ($Z=2{,}18$, $p<0{,}05$). The finding support the entrenchment hypothesisthat providing managers with share ownership to align their interests with the owners may not effectively solve the agency problems. The positive impact of institutional ownership on company performance was based on 1.118 observations which showed consistent results in the relationship between the two variables. It could be concluded that in governance continental European system, a company which has a large number of institutional ownerships tend to show higher performance.There were noconsistent results between other ownerships variables and company performance in this study. This also implied that institutional ownership is the ownership structure of corporate governance that will be beneficial for the companies to increase its good practice.

Board composition, which is reflected through the proportion of board independence, showed a positive and significant relationship with company performance ($Z = 5{,}05$, $p < 0{,}01$). This result indicated that more involvement of

independent individuals in a company board in continental European system would lead to better company performance. The same results were also found in the relationship between foreign on board and company performance ($Z = 3{,}37$, $p < 0{,}01$). These two variables showed a positive and significant relationship. It can be concluded that bigger proportion of foreign board will increase the performance of a company. Both of these findings also implied that the composition of board should be equipped with diversity of role, perspective, and experience. However, companies' performance was not affected by composition of women on board since the result indicated no significant relationship between variables.

The relationship between board size and company performance established a consistent positive result ($Z = 5{,}22$, $p > 0.01$). This finding suggested that larger size of board members are advisable than small size. Large numbers of board members will make monitoring role become efficient since they could divide their work and responsibility into different particular area. Sufficient size of board members will increase network structure of company because each member who usually has different networks will bring theirs into the company.

Table 3
Results of Meta-Analysis

No.	*Variables*	*Observation*	*SE*	*Std.SE*	*Z-Test*	*CI95% Low/Upper*	*Q-Test*
1.	Director Ownership	4.244	0,02	0,02	1,13	–0,01/0,06	5,96
2.	Institutional Ownership	1.118	0,05**	0,02	2,18	0,005/ 0,09	28,02
3.	Management Ownership	722	–0,03	0,05	–0,71	–0,14/0,06	2,36
4.	CEO Ownership	1.717	0,04	0,03	1,28	–0,02/0,11	12,7
5.	Foreign Ownership	3.841	–0,03	0,02	–1,67	–0,08/0,006	74,89
6.	Ownership Concentration	2.820	0,02	0,02	0,95	–0,02/0,077	26,03
7.	Board Independence	14.674	0,05***	0,01	5,05	0,03/0,08	134,9
8.	Foreign on Board	1.522	0,12***	0,03	3,37	0,05/0,19	15,5
9.	Women on Board	1.114	0,06	0,04	1,53	–0,01/0,14	4,13
10.	Board Size	8.963	0,07***	0,01	5,22	0,04/0,10	100,1

SE: Size Effect; Std. SE: Standarderrorof Effect Size; Q-Test: Sum of Squared standarderror from estimation effect for each studies on SE
**sig. 0,05; ***sig. 0,01

Long research in corporate governance has demonstrated relevance to the best practice of companies. However, the consistency among research is difficult to reveal since it is subject to differences of system and setting. This study which was only focusing on one system and found the pattern of previous findings could be argued as implications of using specific governance system and structure. Consistent finding on the relationship between institutional ownership and performance fits ground basis of civil law which included many parties into the system.

The division of work and responsibility which appeared as fundamental characteristic in Continental Europe system was reflected in the relationship between board independent and performance. This result implicated that companies in two-tier governance structure need to seriously take into account the issue of the significant role of power distribution within top leaders in the companies. Although the findings of foreign on board do not seem to have a connection with characteristics of two-tier system, it should be seen as practical implication from rapid change in business practices which gradually requires internationalization.

High number of board size which positively related to company performance appeared as avowal of the complexity of work on top level. Although equipped with a large number of resources, job at the top has to deal with highly uncertainty predictions. It needs an adequate numbers of experienced executives who are responsible for specific roles in the company. Moreover, specific responsibility of board members helps them in making right decision because of insightful understanding about their own responsibility.

CONCLUSION

Extensive research on corporate governance has produced various practical implications, yet it has not reached a firm conclusion. This study confirms that various research studies relied on contextual setting in deciding variables although it was conducted in a similar governance system. The results also suggested that corporate governance practice was a contextual business practice which incorporated its design with specific regulation imposed in each country.

However, there are patterns resulted from this study which argued that some relationships of corporate governance variables appeared to consistently influenced company performance. Companies need to pay attention to their ownership structure, and seek to increase the proportion of institutional ownership in order to increase company performance. Moreover, emphasizing on board structure by adding other related parties such as board independent and foreign board is advisable in two-tier system. This approach should increase company performance. Finally, a company has to consider the number of board members in order to align the numbers with responsibility of each member.

Limited numbers of studies were observed in this research and thisneed to be increased in future research. Some meta-analysis often used 60-200 previous studies to make more rigorous inferential. Large numbers of studies should confirm the accuracy of consistency between variables. A further limitation of this study was the model used in this study did not consider the effect of moderating and mediating variables. This addition in future studies could discover more details about corporate governance research and its determinants.

References

Adams, R. B., andMehran, H. (2005, August), Corporate performance, board structure and its determinants in the banking industry.In *EFA 2005 Moscow Meetings*.

Agrawal, A., and Knoeber, C. (1996), Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders. *Journal of Fiananacial Quantitative Analysis,* 31(3), 377-397.

Asian Development Bank/A.D.B. (2000), Corporate Governance and Finance in East Asia: a Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand, *Consolidated Report*, *1*, Manila, The Asian Development Bank.

Banghoj, J., Gabrielsen, G., Petersen, C., and Plenborg, T. (2010), Determinants of Executive Compensation in Privately Held Firms. *Accounting and Finance,* 50, 481-510.

Baysinger, B., and Butler, H. (1985). Corporate Governance and The Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics, and Organization,* 1(1), 101-124.

Beekun, R.I., Stedham, Y., and Young, G.J. (1998), Board characteristics, managerial controls and corporate strategy: A study of US hospitals. *Journal of management*, 24(1), 3-19.

Beiner, S., Drobertz, W., Schmid, F., and Zimmermann, H. (2004), Is Board Size an Independent Corporate Governance Mechanism. *KYKLOS,* 57, 327-356.

Beiner, S., Drobetz, W., Schmid, M.M., and Zimmermann, H. (2006), An Integrated Framework of Corporate Governance and Firm Valuation. *European Financial Management,* 12(2), 249-283.

Bennedsen, M., Kongsted, H.C., and Nielsen, K. (2006), *The causal effect of board size in the performance of closely held corporations*. Working Paper (Copenhagen Business School, Denmark).

Berglof, E. (1990), Capital Structure as a Mechanism of Control: a Comparison of Financial Systems', in M. Aoki, B. Gustafson and O.E. Williamson (eds.), *The Firm as a Nexus of Treaties*, London, Sage, 237-262.

Berglund, T., and Westerholm, P.J. (2010), Foreign Inverstor' Reaction to Lower Profitability - The Role of Information Asymmetry. *International Riview of Finance, 10*(4), 455-483.

Besanko, D., Dranove, D., Shanley, M., and Schaefer, S. (2010), *Economics of Strategy* (5 ed.). Denver: John Wileyand Sons.

Bhagat, S., and Black. (2002), The Non-Correlation Between Board Independence and Long Term Firm Performance. *Journal of Corporation Law,* 27(2), 232-273.

Blair, M.M. (1995), *Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century*, New York, the Brooking Institution.

Boeker, W. (1992), Power and Managerial Dismissal: Scapegoating at The Top. *Administrative Science Quarterly,* 37, 400-421.

Brook, Y. and Rao, R.K.S. (1994), Shareholder Wealth Effects of Directors' Liability Limitation Provisions, *Journal of Financial and Quantitative Analysis*, 29, 481-497.

Buchholtz, A.K., and Ribbens, B.A. (1994), Role of Chief Executive Officers in Takeover Resistance: Effect of CEO Incentives and Individual Characteristics. *Academy of Management Journal,* 37(3), 554-579.

Cabo, R. M., Gimeno, R., and Escot, L. (2011), Disentangling Discrimination on Spanish Board of Directors. *Corporate Governance: An International Riview, 19* (1), 77-95.

Cadbury, A. (1999), What Are the Trends in Corporate Governance? How will they Impact Your Company?, *Long Range Planning*, 32(1), 12-19.

Carcello, J., Hermanson, D., Neal, T. and Riley R. (2002), Board Characteristics and Audit Fees. *Contemporary Accounting Research*, 19(3), 365-384.

Charkham, J. (1995), *Keeping Good Company: A Study of Corporate Governance in Five Countries*, Oxford, Oxford University Press.

Cheng, S., and Firth, M. (2006), Family Ownership, Corporate Governance, and Top Executive Compensation. *Managerial dan Decision Economics,* 27, 549-561.

Cheng, S., and Firth, M. (2005), Ownership, corporate governance and top management pay in Hong Kong. *Corporate Governance: An International Review*, 13(2), 291-302.

Chizema, A. (2008), Institutions and voluntary compliance: The disclosure of individual executive pay in Germany. *Corporate Governance: An International Review*, 16(4), 359-374.

Choi, S., andHasan, I. (2005), Ownership, governance, and bank performance: Korean experience. *Financial Markets, Institutions and Instruments*, 14(4), 215-242.

Colpan, A.M., Yoshikawa, T., (2012), Performance Sensitivity of Executive Pay: The Role of Foreign Investors and Affiliated Directors in Japan. *Corporate Governance: An International Riview,* 20(6), 547-561.

Dalton, C., and Dalton. (2005), Board of Directors: Utilizing Empirical Evidance in Developing Practical Perscriptions. *British Journal of Management, 16*(1), 91-97.

Dalton, D.R., Daily, C.M., Ellstrand, A.E., and Johnson, J.L. (1998), Meta-analytic Reviews of Board Composition, Leadership Structure, and Financial Performance. *Strategic Management Journal*, 19(3), 269-290.

Darmadi, S. (2013), Do women in top management affect firm performance? Evidence from Indonesia.*Corporate Governance: The international journal of business in society*, *13*(3), 288-304

Davis, G.T. and Thompson, T.A. (1994), A Social Movement Perspective on Corporate Control, *Administrative Science Quarterly*, 39(1), 141-173.

Demsetz, H. (1983), The Structure of Ownership and the Theory of the Firm, *Journal of Law and Economics*, 26(2), 375-390.

Denis, D.K. (2001), Twenty-five Years of Corporate Governance Research ... and Counting, *Review of Financial Economics*, 10(3), 191-212.

Eisenberg, T., Sundgren, and Wells. (1998). Large Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics,* 48(1), 35-54.

Essen, M.V., Oosterhout, J.H., and Carney, M. (2012). Corporate Boards and The Performance of Asian Firms: A Meta-Analysis. *Asia Pacific Journal of Management,* 29, 873-905.

Fama, E. (1980). Agency Problems and the Theory of the Firm, *Journal of Political Economy*, 88(2), 288-307.

Fama, E., and Jensen, M. (1983). Serparation of Ownership and Control. *Journal of Law and Economics*, 301-325.

Fauzi, F., and Locke, S. (2012). Board Structure, Ownership Structure and Firm Performance: A Study of New Zealand Listed-Firms. *Asian Academy of Management Journal of Accounting and Finance,* 8(2), 43-67.

Firth, M., Fung, P.M., and Rui, O.M. (2007), Ownership, Governance Mechanism, and Agency Cost in China's Listed Firms. *Journal of Asset Management,* 9(2), 90-101.

Francis, B., Hasan, I., and Wu, Q. (2012), *Do Corporate Boards Affect Firm Performance? New Evidance From Financial Crisis.* Finlandia: Bank of Finland Research Discussion Papers.

Gabrielsson, J., and Winlund, H. (2000), Board of Directors in Small and Medium-sized Industrial Firms: Examining The Effects of The Board's Working Style on Board Task Performance. *Enterpreneurship and Regional Development,* 20, 311-330.

Gillan, S.L. (2006), Recents Development in Corporate Governance: an Overview, *Journal of Corporate Finance,* 12, 382-401.

Grag, A. K. (2007), Influence of Board Size and Independence on Firm Performance: A Study of Indian Companies. *Vikalpa, 32* (3).

Higgins, J.P. and Thompson, S.G. (2002), Quantifying Heterogeneity in a Meta-analysis, *Statistics in Medicine*, 12, 1539-1558.

Hedges, L., and Olkin, I. (1985), *Statistical Methods for Meta-analysis.* Orlando: FL: Academic.

Hermalin, B., and Weisbach, M.S. (1991), The Effect Board Composition and Direct Incentives in Firm Performance. *Financial Management,* 20(4), 101-124.

Heugens, P., Essen, M.V., and Oosterhout, J.V. (2009). Meta-Analyzing Ownership Concentration and Firm Performance in Asia: Towards a More Fine-grained Understanding. *Asia Pacific Journal Management,* 26, 481-512.

Holm, C., and Scholer, F. (2010), Reduction of Asymetric Information Through Corporate Governance Mechanism-The Importance of Ownership Dispersion and Exposure Toward The International Capital Market. *Corporate Governance: An International Review,* 18(1), 32-47.

Jensen, M.C., and Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics,* 3(4), 305-360.

Jensen, M.C. (1988). Takeovers: their Causes and Consequences', *Journal of Economic Perspectives*, 2(1), 21-48.

Jensen, M.C. (2000). *A Theory of the Firm: Governance, Residual Claims, and Organizational Forms*, Cambridge, Harvard University Press.

John, K. andSenbet, W.L. (1998), Corporate Governance and Board Effectiveness, *Journal of Banking and Finance,* 22(2), 371-403.

Kay, J. and Silberston, A. (1995), Corporate Governance, *National Institute of Economic Review*, 153(3), 84-97.

Kaymak, T., andBektas, E. (2008), East meets west? Board characteristics in an emerging market: Evidence from Turkish banks. *Corporate Governance: An International Review*, 16(6), 550-561.

Keasey, K., Thompson, S. and Wright, M. (1997), The Corporate Governance Problem: Competing Diagnoses and Solutions, in K. Keasey, S. Thomson and M. Wright (eds.), *Corporate Governance: Economic and Financial Issues,* New York Oxford University Press, 1-17.

Kim, H. and Hoskisson, R.E. (1997), Market (United States) Versus Managed (Japanese) Governance, in K. Keasey, S. Thompson and M. Wright (eds.), *Corporate Governance: Economic and Financial Issues*, Oxford, Oxford University Press, 174-200.

Klein, A. (1998), Firm performance and board committee structure 1. *The Journal of Law and Economics*, 41(1), 275-304.

Koerniadi, H., and Tourani-Rad, A. (2012), Does board independence matter? Evidence from New Zealand.*Australasian Accounting Business and Finance Journal*, 6(2), 3.

Kuada, J. and Gullestrup, H. (1998), The Cultural Context of Corporate Governance, Performance Pressures, and Accountability, in I.S. Demirag, (ed.) *Corporate Governance, Accountability, and Pressures to Perform an International Study*, Connecticut, JAI Press Inc., 25-56.

Kumar, N., and Singh, J.P. (2012), Outside directors, corporate governance and firm performance: Empirical evidence from India. *Asian Journal of Finance and Accounting*, 4(2), 39.

La-porta, R., Lopez-De-Silanes, A, S., and R.W, V. (1998), Law and Finance. *Journal of Political Economy,* 106(6), 1113-1155.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (2000), Investor Protection and Corporate Governance, *Journal of Financial Economics*, 58(1), 3-28.

Lara, J.M.G., Beatriz, G, O., Fernando, P. (2007), Board Directors' Characteristics and Conditional Accounting Consevatism: Spanish Evidence. *European Accounting Review,* 16(4), 7127-7255.

Lazarides, T., Drimpetas, E., and Dimitrios, K. (2009), Ownership structure in Greece: Impact of corporate governance. *IUP Journal of Corporate Governance*, 8(3/4), 75.

Lorca, C., Sanchez-Ballesta, J.P., and Meca, E. G. (2011), Board Effectiveness and Cost of Debt. *Journal of Business Ethics,* 100, 613-631.

Lukviarman, N. (2010), Etika Bisnis tak Berjalan di Indonesia: Ada Apa Dalam Corporate Governance? *Jurnal Siasat Bisnis,* 9(4), 139-156.

Macey, R.J. (1998), Measuring the Effectiveness of Different Corporate Governance Systems: Toward a More Scientific Approach, *Journal of Applied Corporate Finance,* 10(4), 16-25.

Machold, S., Huse, M., Minichilli, A., and Nordqvist, M. (2011), Board Leadership and Strategy Involvement in Small Firm: A Team Production Approach. *Corporate Governance: An International Riview,* 19(4), 368-383.

Mangena, M., Tauringana, V., and Chamisa, E. (2012), Corporate boards, ownership structure and firm performance in an environment of severe political and economic crisis.*British Journal of Management*, 23(S1), S23-S41.

Mak, Y.T. and Li., Y. (2001), Determinants of corporate ownership and board structure: Evidence from Singapore. *Journal of Corporate Finance,* 7, 235-256.

McConnel, J.J. and Servaes, H. (1990), Additional Evidence on Equity Ownership and Corporate Value, *Journal of Financial Economics*, 27(2), 595-612.

McConnel, J.J. andServaes, H. (1995), Equity Ownership and the Two Faces of Debt, *Journal of Financial Economics*, 39(1), 131-157.

Menozzi, A., Urtiaga, M.G., and Vannoni, D. (2010, December), Board Composition, Political Connection and Performance in State-Owned Enterprises. *Carlo Alberto Notebooks* .

Minichilli, A., Zattoni, A., Nielsen, S., and Huse, M. (2012). Board Task Performance: An Exploration of Micro and Macro Level determinant of Board Effectiveness. *Journal of Organizational Behavior*, 33, 193-215.

Moerland, P.W. (1995), Alternative Disciplinary Mechanism in Different Corporate Systems, *Journal of Economic Behavior and Organization*, 26(1), 17-34.

Morck, R., Shleifer, A. and Vishny, R.W. (1988), Management Ownership and Market Valuation: An Empirical Analysis, *Journal of Financial Economics*, 20(1-2), 293-315.

Nielsen, S., and Huse, M. (2010), Women Directors' Contribution to Board Decision-Making and Strategic Involvement: The Role of Equality Perception. *European Management Review*, 7, 16-29.

Ntim, C.G., and Osei, K.A. (2013), The impact of corporate board meetings on corporate performance in South Africa.*African Review of Economics and Finance*, 2(2), 83-103.

Organization for Economic Co-operation and Development/O.E.C.D. (1998), Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets, *The Business Sector Advisory Group on Corporate Governance*, Paris, the OECD.

Organization for Economic Co-operation and Development/O.E.C.D. (2004), OECD Principles of Corporate Governance, Paris, OECD Publication Service.

Osma, B.G., and Noguer, B.G.-d.-A. (2007), The Effects of Board Composition and Its Monitoring Committees on Earning Management: Evidence from Spain. *Corporate Governance; an International Review*, 15(6), 1413-1428.

Pan, L, H., Lin, C, T., Chen, K, C., (2013), Corporate Governance and Firm Performance: The Case of Chinese ADRs. *The International Journal of Finance*, 25(1).

Pedersen, T. and Thomsen, S. (1999), Business Systems and Corporate Governance, *International Studies of Management and Organization*, 29(2), 43-59.

Peng, M.W. (2004), Outside Directors and Firm Performance During Institutional Transitions. *Strategic Management Journal*, 25, 453-471.

Prabowo, M., and Simpson, J. (2011), Independent directors and firm performance in family controlled firms: evidence from Indonesia. *Asian Pacific Economic Literature*, 25(1), 121-132.

Prasad, S.B. (1990), Agency Theory: Historical Antecedents of a Hybrid Management System, in B.S. Prasad (ed.), *Advances in International Comparative Management*, 5, 137-148.

Preferred Reporting Items for Systematic Reviews and Meta-Analyses/PRISMA (2012), *Checklist Items for Reporting Equity-Focused Systematic Review*, available at http://www.prisma-statement.org/documents/PRISMA%20Equity%20Checklist.pdf (access January 21st 2016)

Prencipe, A., and Bar-Yosef, S. (2011), Corporate governance and earnings management in family-controlled companies.*Journal of Accounting, Auditing and Finance*, 26(2), 199-227.

Prowse, S. (1995), Corporate Governance in an International Perspective: A Survey of Corporate Control Mechanisms Among Large Firms in the U.S., U.K. Japan and Germany, *Financial Markets, Institutions and Instruments*, 4(1), 1-63.

Randoy, T., and Nielsen, J. (2002), Company Performance. Corporate Governance, and CEO Compensation in Norway and Sweden. *Journal of Management and Governance,* 6, 57-81.

Rashid, A. (2013), Corporate governance, executive pay and firm performance: Evidence from Bangladesh. *International Journal of Management*, 30(2), 556.

Roe, M. J. (1993), Some Differences in Corporate Structure in Germany, Japan, and the United States, *The Yale Law Journal*, 102(8), 1927-2003.

Rose, C. (2005), The Composition of Semi Two Tier Corporate Boards and Firm Performance. *Corporate Governance: An International Review*, 13(5), 691-701.

Rosennstein, S., and Wyatt, J. G. (1990), Outside Directors, Board Independence and Sharholders Wealth. *Journal of Financial Economics,* 26(2), 175-191.

Ruigrok, W., Peck, S. I., and Keller, H. (2006), Board Characteristics and Involvement in Strategic Decision Making: Evidence from Swiss Companies. *Journal of Management Studies*, 43(5), 1201-1226.

Ruigrok, W., Peck, S., Tacheva, S., Greve, P., and Hu, Y. (2006), The Determinant and Effects of Board Nomination Committees. *Journal of Management Governance*, 10, 119-148.

Sanda, A.U., Garba, T., and Mikailu, A.S. (2008), Board Independence and Firm Financial Performance: Evidance From Nigeria. *CSAE Confrence.* Oxford: University of Oxford.

Schmid, M.M., and Zimmermann, H. (2008), Leadership Structure and Corporate Governance in Switzerland. *Journal of Applied Corporate Finance*, 20(1), 109-120.

Schmidt, R.H., and Tyrell, M. (1997), Financial Systems, Corporate Finance and Corporate Governance, *European Financial Management*, 3(3), 333-361.

Tuschke, A., and Sanders, G. (2003), Antecedents and Consequences of Corporate Governance Reform: The Case of Germany. *Strategic Management Journal*, 24, 631-649.

Uzun, H., Szewczyk, S.H., and Varma, R. (2004), Board composition and corporate fraud. *Financial Analysts Journal*, 60(3), 33-43.

Vafeas, N. (1999), Board Meeting Frequency and Firm Performance. *Journal of Financial Economics,* 53, 113-142.

Van de Berghe, L. and De Ridder, L. (1999), *International Standardisation of Good Corporate Governance: Best Practices for the Board of Directors*, the Netherlands, Kluwer Academic Publisher.

Viswesvaran, C., and D.S, O. (1995), Theory Testing: Combining Psychometric Meta-Analysis and Structural Equation Modeling. *Personnel Psychology, 48*, 865-885.

Wincent, J., Anokhin, S., and Boter, H. (2009), Network board continuity and effectiveness of open innovation in Swedish strategic small firm networks. *Randd Management*, 39(1), 55-67.

Yemark, D. (1996), Higher Market Valuation of Companies with a Small Board of Directors. *Journal of Financial Economics,* 40(2), 185-212.

View publication stats