Myths and ceremonies among the corporate governance institutions: introducing the concept of corporate governance culture

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Abstract

Purpose – *The purpose of this study is to provide the conditions for governance effectiveness and explain why the same rules often result in not the same norms.*

Design/methodology/approach – *The author proposes a "corporate governance culture" concept explaining the differences within corporate governance institutions and making it possible to measure their effectiveness. Based on a literature review that included 186 research studies published in the corporate governance field, the author found that most (160) concern structural numerical variables. Only 26 refer to behavioural and cultural issues, and they support the idea of an interdisciplinary approach to governance problems.*

Findings – *A significant contribution of this paper is that it proposes an integrative framework that operationalises psychological, sociological and philosophical issues that influence corporate governance mechanisms. The proposed concept can reanimate the debate about the need for tight governance regulations or leaving room for a loose governance regime.*

Originality/value – *The idea of "corporate governance culture" explains the divergences identified in studies on corporate governance mechanisms, pointing out behavioural and cultural issues as crucial aspects of governance bodies.*

Keywords *Corporate governance, Institutions, Autonomy, Self-identity, Organisational culture, Corporate culture, Board of directors, Boardroom effectiveness*

Paper type *Conceptual paper*

1. Introduction

The problems related to managing modern corporations[1] are one of the key issues in contemporary economic science. Attempts to conceive of organisations that provide permanent incentives for sustainable development are sometimes considered the central problem of economics (Pratt and Zeckhauser, 1985). Meanwhile, the concept of the corporation as a social entity, introduced by Gierke (1950), shows that the issues of corporate governance are not only problems in the business sense but also in social and ethical dimensions. Therefore, it should come as no surprise that there is a growing interest in corporate governance as a system that combines all these aspects and, according to common perception, guarantees the proper functioning of a corporation.

The bankruptcies and corporate scandals in the USA and Europe at the turn of the 21st century, together with the 2007–2010 financial crisis, resulted in the subsequent propagation of various proposals and regulations aimed at improving the quality of supervision. However, a review of the empirical research shows that the most commonly

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proposed governance standards, such as increasing the degree of board independence or increasing managerial ownership, do not bring clear positive effects. It can therefore be assumed that the existing theories of corporate governance, upon which these demands are generally based, are either not universal, or their usefulness has become obsolete in today's constantly changing economic realities.

This paper is intended to initiate a new examination into the discussion on the relationships within corporate management and control. The corporate governance culture theory proposed herein combines the traditional prisms through which problems of governance were viewed – mainly based on agency theory, stakeholders' perspectives or the stewardship model – with neo-institutional, philosophical and behavioural approaches. A governance culture concept based on the analysis of identity and autonomy then has a chance to become a comprehensive approach that reveals the relationships both inside and outside of corporations and explains the conditions for effective institutions to be created.

It is also a voice in the discussion regarding the ways of measuring the institutions (Voigt, 2013), studying progressive institutional change (Bush, 1987) and identifying the conditions of firm reproduction (Dolfsma *et al.*, 2017).

I start this paper with looking at the informal institutions of governance (norms) in terms of ceremonies and rituals that do not necessarily result in organizational efficiency Section 2. Section 3 presents a literature review that identifies the gap that the governance culture concept could help to fill. In Section 3, I will also present studies (both theoretical and empirical) that support the idea of behavioural and cultural conditions that are necessary for building good corporate governance bodies. Section 4 proposes and develops a "corporate governance culture" concept. With this idea, we can evaluate how strongly the organisation is "mythologised" (i.e. packed with formulaic rituals). It also helps to answer the question of what makes the institution effective and how we could measure this effectiveness. Section 5 discusses the identity as one of the determinants of corporate governance culture, whereas Section 6 discusses autonomy as a condition for creating reactive institutions. Section 7 concludes by pointing out the advantages and disadvantages of the proposed concept.

2. Corporate governance institutions as myths and ceremonies

New Institutional Economics strongly emphasises the importance of the institution as the constraints produced by people that shape the structure of human interaction (North, 1994). At the same time, we often find these institutions to be "mythologised", meaning that they are based on schematic ceremonies (scenarios) that hinder the organisation's effectiveness (Meyer and Rowan, 1977)[2]. The institutional structure then reflects the "myths" of the surroundings instead of reflecting the requirements that arise from the statutory activities.

The concept of institutions functioning as myths and being adopted ceremonially within organisations dates back to Meyer and Rowan (1977) and Bush (1987). Bush describes the concept of ceremonial value and points out that "the logic of the ceremonial value system, as Veblen put it, is one of 'sufficient reason'. Validation of ceremonial values is found in appeals to tradition and in the formulation of suitable myths (ideologies) that mystify the origin and legitimacy of their existence". So ceremonial value derives from the answer to the question "where does this ceremony come from?", without caring about "what can we obtain with it?"

Meyer and Rowan (1977) mention several sources of the myths. One of them is the high density and interdependence of relationships, which create a need to organise them by codifying them with forms that resemble a myth. This is a way of imposing a kind of collective orderliness on the environment, and the myths created by the organisational practices lend credence to the supposition that they are reasonably efficient. The legitimacy of some of them is even based on a legal mandate. Such a strong mandate, regardless of the effectiveness of the solutions implemented, is often used as a defence against organisational failure. This happens because they comply with social expectations. The public authorities and other stakeholders endow the institution with social credit and faith, which they are given as a result of fulfilling the ceremonies. This trust results in purely practical benefits – wide cooperation, favourable agreements and government guarantees, which increase the probability that the organisation will survive.

How strongly mythologised is the area of corporate governance institutions? This field is "packed with" institutions that take the form of myths, and many behaviours and procedures are purely ceremonial. It can be easily observed, for example, how strongly researchers, investors or governors accentuate the supposed advantages that arise from the independence of board members, the establishment of board committees (remuneration, audit, risk committees) or managerial ownership participation. However, the impact of such norms on a company's financial, market or social achievements is unclear. As emphasised by Meyer and Rowan (1977), organisations assign externally defined value to governance bodies and procedures, regardless of whether or not these units contribute significantly to the firm's performance. It is assumed *a priori* that the board disciplines the managers, that the audit committee effectively controls the internal procedures, and that the appropriate structure of the remuneration system plays an important motivating role. The implemented standards (which are often untested) legitimise the company in the eyes of the shareholders, customers, state organs, stock exchange participants and other groups of stakeholders. They are perceived as guarantors of a company's good condition. They can even facilitate access to external financing by ensuring positive credit ratings, which in turn sometimes translates into profit levels. In this way, these ceremonial mechanisms may be seen as creating an illusion of their effectiveness, even though their actual role is only to create a positive reputation. There are situations in which it is enough for a company to simply formally meet the "high" standards of governance institutions to enjoy the confidence of market participants. In reality, however, the firm's financial condition is poor[3].

Another example of this mythological value is the significance assigned to supervisory boards/boards of directors. They are considered a key link in the owner-manager relationship. However, many researchers find them to be the weakest element in the corporate governance system (Jensen, 1993, p. 42). Jensen points out several reasons for this, emphasizing a kind of "board culture" that values "politeness" over honesty and integrity. Axworthy (1988, p. 278) goes so far as to state that the function of the board of directors is essentially to ratify the management's decisions and that eliminating this body would not have any significant consequences. This confirms Meyer and Rowan's (1977) observations that the formal structures that celebrate institutionalised myths are different from the structures oriented toward actual effective functioning.

I conducted a review of the research into the effectiveness of the various corporate governance institutions (concerning their impact on the effectiveness of the supervised entities). Table 1 shows the empirical research into verifying the impact on the performance of established corporate governance norms, which often determine the level of social confidence in the entities in which they are implemented. In the context of the above considerations, the majority of these institutions should be considered myths and ceremonies.

The overview of research in the table above confirms the lack of unanimity in the empirical verification of the demands that result from the agency theory. It also creates grounds to assume that many of the accepted standards of corporate governance should be regarded as myths and ceremonies, and the pressure to introduce them is supported only by an illusory belief in their allegedly unambiguous positive impact on a company's results.

3. Literature review

The literature review encompasses studies from "Corporate Governance: The International Journal of Business in Society", a leading journal that covers a broad spectrum of

Table 1 Effect of corporate governance institutions on corporate performance – overview of the research

Tested variable	*Impact on performance*	*The research author(s)*
Board independence	Positive	Baysinger and Butler (1985) Schellenger, Wood, Tashakori (1989) Pearce and Zahra (1992) Dahya, Dimitrov, McConnell (1999) Krivogorsky (2006) Liu, Miletkov, Wei, Yang (2015)
	Negative	Zahra and Stanton (1988) Agrawal and Knoeber (1996) Yermack (1996) Bhagat and Black (2001) Postma, van Ees, Sterken (2001) Vintila, Paunescu, Gherghina (2015)
	Mixed/non-significant results	Rechner and Dalton (1986) Chaganti, Manajan, Sharma (1985) Dalton, Daily, Ellstrand, Johnson (1998) Block (1999) Duchin, Matsusaka, Ozbas (2010) Bhagat and Bolton (2013) Elbarrad (2014)
Size of the board	Negative	Yermack (1996) De Andres, Azofra, Lopez (2005) Guest (2009) Palaniappan (2017)
	Positive	Dalton, Daily, Ellstrand, Johnson (1998) Mak and Li (2001) Alves and Mendes (2004) Adams and Mehran (2008)
	Non-significant results	Dalton, Daily, Ellstrand, Johnson (1998) Beiner, Drobetz, Schmid, Zimmermann, (2004) Gill, Vijay, Jha, (2009)
Separating the CEO and Board Chairman positions	Positive	Pi and Timme (1993) Dahya and Travlos (2000) Lam and Lee (2008)
	Negative	Brickley, Coles, Jarrell (1997) Kholeif (2008) Yang and Zhao (2014)
	Mixed/non-significant results	Baliga, Moyer, Rao (1996) Daily and Dalton (1997) Wijethilake and Ekanayake (2020)
Female board participation	Negative	Shrader, Blackburn, Iles (1997) Darmadi (2011) Minguez-Vera and Martin (2011)
	Positive	Singh, Vinnicombe, Johnson (2001) Campbell and Minguez-Vera (2008) Nguyen and Faff (2012)
	Mixed/non-significant results	Pletzer, Nikolova, Kedzior, Voelpel, (2015) Gruszczyński (2020)
Ownership concentration	Negative	Cronqvist and Nilsson (2003) Thomsen, Pedersen, Kvist (2006) Wang and Shailer (2015)
	Positive	Earle, Kucsera, Telegdy (2005) Grosfeld (2006) Iwasaki and Mizobata (2020)
	No correlation	Demsetz and Lehn (1985) Demsetz and Vilalonga (2001) Baghdasaryan and la Cour (2013)
Managerial ownership	Positive	

(*continued*)

Table 1

Tested variable	*Impact on performance*	*The research author(s)*
		Krivogorsky (2006) Mandacı and Gumus (2010) Jo and Harjoto (2011)
	Negative	Demsetz and Villalonga (2001) Zondi and Sibanda (2015)
	Nonlinear	McConnell and Servaes (1990) Hermalin and Weisbach (1991) Morck, Schleifer, Vishny (1988)
	Non-significant results	Douma *et al.* (2002) Dian, Wiwiek, Dwi (2018)

Note: CEO = Chief executive officer
Source: Author's study

governance-related themes. The author analysed all papers published between 2018 and 2022 (Issues 1/2018–4/2022). Over half of them (namely, 155 out of 300) concern corporate governance measures, which will be classified as myths and ceremonies later in this text. They study the impact of those norms on a wide scope of variables, mostly connected with performance and risk. These norms are easily measurable and can be generated from the companies' financial statements (Table 2).

The measures included in Table 2 above were mainly explanatory variables (also control and moderating ones); in one case, CEO compensation was used as the dependent variable. The other dependent variables include performance and risk measures, dividends, leverage, the scope of disclosures, corporate social responsibility practices, hostile takeover vulnerability, tax avoidance and quality of financial reporting. These are all quantitative studies that assume that firm value, risk and performance depend on the company's compliance with a number of "visible" issues, often from codes of good practices. Few studies (5 out of 310) analysed the impact of external corporate governance issues, like regulations or takeover market, on firms' performance measures. The empirical analyses presented above concerning the effectiveness of corporate governance mechanisms are not convergent (Section 3).

Table 2 Structural corporate governance measures included in the research published in "Corporate Governance: *The International Journal of Business in Society*" in 2018–2022

Corporate governance variable	*(%) of papers including structural variables*
Board size	70
Board independence	63
Board gender diversity	43
CEO duality	32
Ownership concentration	19
Institutional ownership	17
Number of board meetings	12
State ownership	10
Audit committee independence	10
Size of external audit firm (Big4/Big5); board/managerial; foreign ownership; governance indexes; CEO gender; family ownership; board national diversity; audit committee size	5–9
Board age and educational level diversity; audit committee meetings; CEO compensation/option holdings; cg/ESG indexes; audit committee existence; CEO age; CEO tenure; board age; audit committee expertise; CEO ownership, top executive management size, others (less than 6 studies – 4%)	≥ 5

Source: Author's study

Nevertheless, the most important observation from the research review is that 26 studies concern concepts that enhance governance mechanisms that are borrowed from sociology, psychology and philosophy. On the one hand, we may say that researchers note the need for an interdisciplinary treatment of issues related to corporate governance. On the other hand, however, only 8% of papers emphasise peoples' individual attributes or the social conditions that influence the efficiency of corporate governance bodies. Most of these papers will be cited in this section, supporting the idea that two conditions (a lack of conformity to myths and wide autonomy) are necessary to build good corporate governance.

There are a few motifs in the literature that can explain the lack of convergence of traditional corporate governance research. They can be classified into the following groups:

- Happiness in the workplace, which directs people's emotions towards enthusiasm, and results in rising performance (Kawalya *et al.*, 2021). On the other hand, Robina-Ramírez *et al.* (2021) noted that pressure originated by the company's working culture may reduce personal satisfaction. Ravina-Ripol *et al.* (2021) demonstrated that workplace happiness is a trinomial of organisational climate, academic satisfaction and organisational engagement. He underlined significant associations between organisational climate, interpersonal cooperation and productivity and business success. Such a view demonstrates the elusive relationship between Human Resources Management and firm performance, which is conceptualised by Petrovic *et al.* (2018) and Foncubierta-Rodríguez (2021). As the latter noted, the link between happiness and job performance is confirmed by the literature (Foncubierta-Rodríguez, 2021, p. 595), which is probably why an increasing number of companies introduce the concept of Happiness Management, which is found to generate a positive work atmosphere and stimulate creativity and innovation (Castillo-Abdul *et al.*, 2021).
- Stakeholder activism, which is not manifested by "saying the river is dirty but by cleaning up the river" (Viviers and Mans-Kemp, 2021). It is claimed that engagement success is positively associated with a targeted company's capacity to change, which could describe a reactive institution defined within the governance culture concept.
- Team behavioural intervention processes, which symbolize the main determinants of governance at the micro-level. Jansen (2021) demonstrated that board processes are stronger determinants of board effectiveness based on the study by Forbes and Milliken (1999). They highlighted the importance of researching intervention processes that affect team and, ultimately, company performance.
- The range of managers' discretion that may hinder or permit executives to exercise their strategic agenda (Haj Youssef and Teng, 2019). Andersen (2020) assumes that the discretion emerges from the individual, organisational, industry and institutional environments, as well as organisational and national culture.
- The weaknesses of quantitative studies and the need to use qualitative methods to consider the influence of organisation–environment interdependencies on the effectiveness of corporate governance (Cucari, 2019). Nordberg and Booth (2019) allude to this, warning of the limitations of relying on structures to understand the effectiveness of boards
- Psychological challenges of managers and other staff that are ignored by codes of conduct (Eriksson and Svensson, 2018). Saleem *et al.* (2021) also demonstrated that deviating from governance practices boosts firm performance.

The studies cited above reanimate the debate about the need for an interdisciplinary treatment of issues related to corporate governance and the need to consider not only numerical variables but also concepts related to satisfaction, engagement and range of discretion. They all influence individual and team productivity, and are therefore an important determinant of firm value, risk and performance.

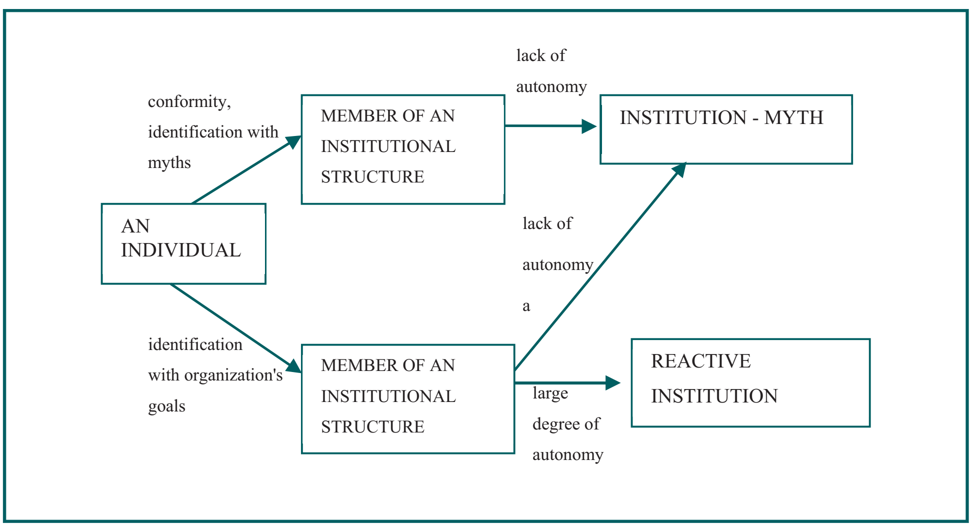
4. Corporate governance culture concept

Considering the rules imposed by law, corporate governance bodies can be considered to have a wide range of powers and abilities. On the other hand, when we look at their factual activities, they often seem to be passive and schematic. Companies' boards are often accused of being only a "rubber stamp" for management decisions. The rules allow them to object to management decisions, demand explanations from directors or other employees, inspect the companies' assets, as well as dismiss or suspend the managers. But norms, or maybe it is better to call them "myths", make them give up these actions. A question then arises: What makes them choose such an approach? Or, harking back to Voigt's dilemma, which seems to be a similar question in this context, how should we measure institutions?

This observation leads me to propose an approach I call the "corporate governance culture concept". It is derived from an attempt to define the behavioural and philosophical nature of humans, the creator of institutions and their sense of self-identity (mainly the degree to which they identify with the objectives of the organisation and conformist attitude, making them likely to identify themselves with the ceremonial institutions). A lack of conformism is a *sine qua non* condition for creating dynamic organisational structures and norms ("reactive institutions") based on standards that increase the effectiveness of a corporation. The other condition, which one may call sufficient, is a large degree of autonomy within the governance bodies, which leads to withdrawal from inefficient ceremonies and/or adapting them to the needs of efficient supervision and taking actions that go beyond accepted bureaucratic norms. The schematic mechanism of this concept is presented in Figure 1.

The proposed idea distinguishes between two types of attitudes towards corporate governance institutions. The first depicts the conformist personality, identifying with the schematic operations that create satisfaction with fulfilling procedures and thus relative stability, but with an absence of orientation on effectiveness criteria. Identifying with a formalised institution-myth is directly related to a lack of autonomy, which is not seen as a disadvantage in such a case. Fulfilling the schematic ceremonies brings satisfaction, and people do not see any need to go beyond the adopted norms or to expand the scope of their autonomy.

Figure 1 Flow chart of a proposed corporate governance culture concept



As has been noted, the activities of an organisation wherein corporate governance functions mainly based on myths are not necessarily doomed to failure. The high level of social approval that results from complying with those standards, which are seen as guarantees for effectiveness, often gives corporations access to resources that determine economic success. It should be noted, however, that mythologised institutions, including formal and informal ones, are rigid and react belatedly to changing environmental conditions. And if these conditions prove to be highly unfavourable, such an organisation may not survive. “While the rules may be changed overnight, the informal norms usually change gradually. Since it is the norms that provide “legitimacy” to a set of rules, revolutionary change is never as revolutionary as its supporters” desire and performance will be different than anticipated” (North, 1994, p. 16).

The second category of the approach to a corporate institution is established by people who strongly identify with the objectives of the organisation, not with rituals and ceremonies. They see their membership in supervisory bodies as a mission-oriented pursuit of these objectives. In this case, the effectiveness of their activities is conditioned by the range of autonomy that is provided by the organisation’s corporate governance system. Without the requisite autonomy, even highly determined and motivated individuals will be unable to change the existing order and the applicable norms of conduct (if they encounter resistance in the form of bureaucratic processes from which derogations are regarded as an undesirable anomaly). Such a situation is particularly common among young members of such company structures, who accede to them with enthusiasm and creative energy. However, they then find themselves enclosed in the engines of the bureaucratic machine, quickly rejecting initiatives and surrendering to functioning in the framework of ceremonies. Alternatively, they may give up their membership and seek other prospects in organisations that offer a wider range of autonomy.

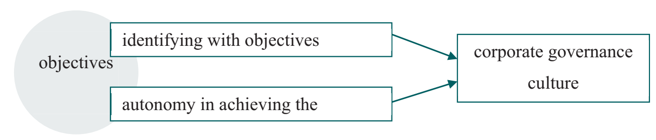
The best situation, from the point of view of the effectiveness of the corporate governance, is when the members of the institutional structures identify with the corporation’s objectives *and* have a wide degree of autonomy, which allows them to customise the norms to adapt to current market conditions. Such an organisational model ensures that corporate governance standards are aimed at improving the performance indicators and other goals if, at a given moment, other goals are deemed crucial.

The existence of such members, i.e. those who identify with the corporate objectives and are provided with a wide degree of autonomy, does not guarantee the success of the organisation in all circumstances. Extremely unfavourable exogenous conditions and an incorrect assessment or prioritisation of targets can decide about the failure of a corporation even despite effective corporate governance standards. It can be concluded then that the latter model is not always enough to protect a company against failure, but it minimises its likelihood.

The two elements described above – identifying with the company’s objectives and autonomy – work together to establish a corporate governance culture. One can therefore conclude that the governance culture can either promote the corporation’s success (the lower part of Figure 1) or make it dependent on external factors not related to the potential of the corporate governance mechanisms (the upper part of Figure 1).

Another important element of the governance culture is the goals a company sets, as well as their hierarchy, as the components of the culture are subordinated to them. Correctly formulating them determines the extent of a company’s success (Figure 2). Targets that are incorrectly identified, described by the wrong economic indicators, or that give an advantage to the wrong group of interests, even when there is a strong identification with them and they function within effective institutions, can lead to actions that will result in the failure of the organisation and, in extreme cases, in its inability to survive.

Figure 2 Corporate governance culture



5. Determinants of corporate governance culture – the identity

The first component of a corporate governance culture is the degree to which the individual identifies with the (well-defined) objectives of the enterprise. This view is shared by Dolfsma *et al.* (2017), for example, who claimed that a company can be reproduced only if there is an organisational identity that is shared by all involved. My contribution to this theory is the condition that such an identity should concern well-defined goals. The alternative option is identifying with the ceremonies, i.e. the norms that may, but need not be, due to an individual's tendency towards conformist behaviour. The desired identity is the inner attitude of man, which can be summed up by the concise statement that "I care about the company's success, not about the company's habits". Such an identity may be characterised by an attitude of commitment and willingness to engage in achieving goals and flexibly responding to changing ambient conditions.

Some studies support the idea that a lack of conformity to myths (self-identity) is necessary to build good corporate governance. Table 3 includes the main aspects of people's personalities that are similar to the concept of self-identity proposed in this paper.

The abovementioned issues concern aspects that relate to personality, engagement, responsibility and behaviour. Thus, scholars note the need to look deeper into governance institutions and study not only structural but also psychological and social attributes.

The problem of identity is recognised mostly in terms of philosophy and psychology. Taylor (1989) defines identity through the prism of commitments and perceptions, allowing people to determine what is valuable, what should be encouraged and what should be opposed. The result of such a perception is strategy, mentioned by Ostrom and Basurto (2011) and defined as "the plans made by individuals in a situation as to what actions he plans to undertake so as to achieve outcomes given his information about the basic structure of the situation". In my concept, it is the identity that determines the strategy – whether it is a strategy of matching ceremonies or a strategy of optimal fit to maximise efficiency and achieve goals.

If people define themselves by placing the exemplary fulfilment of duties (ceremonies) imposed by the system of myths at the top of their hierarchy of values, they will select a conformist attitude towards the existing norms. In contrast, if the effectiveness of an operation is more important, they will decide to adapt the procedures to the goal and will have the opportunity to create something I term a "reactive institution".

A "reactive institution" can be recognised as the "instrumental pattern of behaviour" proposed by Bush (1987). It is the behaviour of a person wondering "what do I behave like that for?" instead of "why do I behave like that?" And as Bush claims, when ceremonial patterns of behaviour are displaced by instrumental patterns, progressive institutional change occurs. I suggest treating instrumental patterns as a kind of norm that I call a reactive institution. I find it to be an institution that is highly flexible and that rapidly responds to changes and adapts to current circumstances. It is an institution that focusses on long-term goals, and its procedures are subordinated to the strategy of achieving the desired effects. Its followers are those self-fulfilling individuals who initiate the necessary changes

Table 3 Concepts that support the idea of a lack of conformity to myths as an important corporate governance issue

Concept	*Description*	*Author(s)*
Organisational commitment	Trinomial of affectivity, socialisation and work loyalty; an emotional force that motivates workers to continue as proactive and loyal members of the organisation for its values, goals and culture; a psychological state that contributes to retaining and socializing employees in organisations and helps them achieve the optimal levels of job satisfaction and professional performance	Ravina-Ripoll *et al.* (2021)
Activism	The use (by investors) of exit or voice mechanisms to raise their concerns, hold boards of investee companies accountable and transform selected corporate policies and practices	Viviers and Mans-Kemp (2021)
Engagement	The use of the organisation members' identities in their work roles; employing and expressing physically, cognitively and emotionally during role performances; measuring employee attitudes to predict organisationally valued outcomes such as enhanced commitment, improved performance, improved satisfaction, reduced turnover intentions, and enhanced financial returns	Chaudhary (2019)
Stewardship behaviour	An individual's willingness to sacrifice; psychological contracts as individuals' belief in the mutual obligations between themselves and another party that may not be written into formal agreements but that operate as powerful determinants of organisational behaviour	Melis and Nijhof (2018)
Corporate responsibility	Psychological challenges in feeling responsible for the stakeholders affected by the business decisions and operations undertaken	Eriksson and Svensson (2018)
Team processes	People's interdependent behaviours that convert inputs to outcomes through cognitive, verbal and behavioural activities directed toward organising task work to achieve collective goals	Jansen (2021)
Cultural intelligence, persuasiveness and the development of coping routines	Forming pressure points that would seem to affect the processes of effort levels, boardroom challenges and the delivery of skills and knowledge that are central to board effectiveness	Nordberg and Booth (2019)
Self-driven personality	Traits that predispose people to appraise life and respond to changes in a manner that is congruent with stable dispositions; enabling institutions to continually think and react to different situations	Kawalya *et al.* (2021)
Self-identity	An important predictor of behavioural intentions	May-Amy *et al.* (2020)

Source: Author's study

and are open to cooperation with the surrounding environment. Due to the presence of a reactive institution, difficult or controversial decisions may be taken that can break formulaic schemes, but that could also be ignored by some social groups.

Reactive institutions create reactive governance bodies (e.g. boards and management). A reactive board of directors will openly oppose those mistaken (in its belief) management decisions. It will also not hesitate to dismiss managers, even if the reigning "ceremony" uncritically approves of their decisions and uninterrupted tenure. Reactive managers, in turn, will seek innovative solutions, both in terms of production and organisation, and build their status based on their ability to meet new challenges and achieve more ambitious goals.

6. Autonomy as a condition for creating reactive institutions

Apart from the identity of its members, corporate governance culture also involves the range of autonomy that the institutions provide to their participants. An individual's personality is rendered unimportant if institutions build a collective personality that deprives its members of their right to their own individual personality (Jameson, 1991). The manifestation of identity can only occur under conditions of relative freedom of decisions and actions. Such a relationship has been noted and supported in the literature, although the concept of freedom of decision is recognised and termed in various ways (Table 4).

Table 4 Concepts that support the idea of autonomy as an important corporate governance issue

Concept	*Description*	*Author(s)*
Organisational climate	Organisational background for individuals' actions; the shared views of the policies, practices and procedures that employees experience, and the behaviours they observe that are rewarded, supported and expected	Ravina-Ripol (2021)
Corporate culture	Corporate culture is defined in terms of values (a set of shared beliefs about how employees should serve the stakeholders), norms (which involves an external sanction as a specific reaction to behaviour that is inconsistent with social expectations) and behaviour (what people do or should do)	Lobrij *et al.* (2020)
Cultural values	National cultural values, including power distance, uncertainty avoidance, individuality and masculinity. Significant relationships have been demonstrated between cultural values and firms' meta-technical efficiency	ElKelish and Zervopoulos (2022)
Autonomy and support	The willingness to promote workers' ideas or initiatives and appropriately manage the resources that allow them to be achieved; an element of the environment where people can easily access the organisation's resources and conditions to implement their ideas	Galván Vela *et al.* (2021)
Pressure	Job insecurity originated by the working culture in the company that reduces the loyalty towards the organisation	Robina-Ramírez *et al.* (2021)
Discretion	Freedom that top executives have to make decisions, inability to define the notion of managerial discretion is tantamount to the inability to research it The extent to which constraints to decision-making are relatively absent and alternatives are available; a function of the individual, the organisation and the external environment; constituting a powerful range of possible limitations or catalysts for people's actions	a) Andersen (2020) b) Haj Youssef and Teng (2019)
Hostile work climate	Refers to the shared perceptions of discrimination and harassment toward minority members	Ali and Ayoko (2020)
External environmental stimuli	The element of the stimulus–organism–response (SOR theory that focusses on the external environmental stimuli that can generate emotional responses in an individual to further elicit the individual's approach or avoidance behaviour towards the environment	Tuan Mansor *et al.* (2021)
Supportive social environment	HR policies and tools that allow individual attributes and motivate people to perform well and achieve their goals	Petrovic *et al.* (2018)

Source: Author's study

Looking at the concepts above, only Galván Vela *et al.* (2021) explicitly used the term "autonomy". The other papers mainly describe the culture, climate or environment that could promote or suppress people's initiatives.

Organisational autonomy is defined as the extent to which someone's work gives him or her freedom and independence in decision-making. Hackman and Oldham (1976) recognised it as a feature of the workplace that determines the range of responsibility, which in turn correlates with an employee's internal motivation and satisfaction. This autonomy/motivation relationship has been confirmed in numerous empirical studies (DeCarlo and Agarwal, 1999; Chu, 2006; De Varo *et al.*, 2007). Meanwhile, Galván Vela *et al.* (2021) suggested that autonomy and support positively and statistically significantly influence the levels of happiness manifested in the workforce. Recent articles also argue that a good organisational climate significantly boosts creativity, positive emotions or altruism (Mutonyi *et al.*, 2020; Thakre and Shroff, 2016). It can therefore be argued that actions taken within reactive governance bodies, in addition to bringing measurable benefits for organisations, also allow an institution's members to meet their own needs at a higher level. They give them the feeling of personal development and self-realisation, and they also satisfy their needs for recognition and success.

The degree of autonomy defines the space in which the members of an institutional structure can reveal their identity. If an organisation is joined by an individual with a strong need for self-realisation [the type Y described by McGregor (1960)], and he or she is "caught" in a procedural machine with no margin of independence, this person will be forced to adopt the ceremonial norms of the organisation game. If his or her identity is so strong that this form of behaviour is unacceptable, he or she will probably give up their membership and begin searching for another organisation. If, however, this personality type joins an institutional body that offers considerable scope for decision-making, there is a good chance that he or she will either build or join a reactive institution. An important condition for shaping reactive governance bodies is that it gathers members with a similar (reactive) personality. It should be noted that a particular organisational culture usually attracts a particular type of worker. Corporations that offer a wide degree of autonomy will attract people keen on autonomy, i.e. who are opposed to unproductive ceremonies.

The degree of freedom and independence of decision-making and action are inherent to each organisational culture. Hence, this paper considers organisational culture in the context of the norms and values internalised by the users of governance institutions and which stimulate their behaviour. Some firms stimulate independent, autonomous decisions, whereas others provide a system of norms and values rewarding conformist actions subject to rules and adopted detailed procedures.

Hofstede and Hofstede (2005) emphasised that people *learn* culture; they do not *inherit* it. Its source lies in the social environment, not in genes. It is important not to confuse culture with human nature, which also affects identity. However, it must be kept in mind that culture is an adopted element, although it is created by human beings.

This paper focusses on one dimension of culture – organisational culture; and specifically on one aspect of organisational culture – the degree of autonomy. Organisational culture will thus be analysed in four dimensions, which are taken from the work of Hofstede and Hofstede (2005): power distance; uncertainty avoidance, connected with long-term vs short-term orientation; individualism vs collectivism[4]. It is worth noting that ElKelish and Zervopoulos (2022) also used Hofstede and Hofstede's (2005) dimensions to describe invisible-external institutional cultural values that affect firm efficiency.

Power distance can be defined as the level of inequality between workers. It results from an organisation's hierarchical structure and the positions that people occupy therein. A wide power distance means a tendency to centralise power and a highly prescriptive management style, expanding the vertical organisational structures. This kind of organisational culture favours the strict execution of a superior's commands, subordination and the uncritical execution of one's duties.

As follows from the above characteristics, power distance is negatively correlated with the degree of autonomy. In corporations with strongly accented inequalities, there is a tendency to increase the number of supervisory staff, who are expected to give strict guidelines to their subordinates. This is not an innovation-friendly culture in which people surprise you with their ingenuity'[5].

The second dimension of organisational culture that is strongly associated with the degree of autonomy is the avoidance of uncertainty by organisation members. The term "uncertainty avoidance" was first defined by Cyert and March (1963, p.119). They described it as an attempt to avoid formulating strategies and long-term forecasts; instead, it focusses on current responses to problems. We can therefore assume that the degree of uncertainty avoidance is related to whether the orientation is long-term or short-term. Hofstede and Hofstede (2005) expanded the range of meaning of the term by assuming that focussing on short-term (operational) objectives is additionally associated with formalising and standardising procedures and behaviour. It is oriented on short-term results, making decisions based on precise plans and it is carried out by rituals. There is strict observance of norms and discipline, the high authority of experts and innovation is considered to be a need.

The opposite of organisational culture with a high degree of uncertainty avoidance is an organisational culture that focusses on implementing a long-term strategy, which is associated with a greater number of uncertainties and various possibilities for it to be realized. In such cases, management and supervisors must move away from precise plans and strict guidelines. The organisational culture here is far less formalised, often based on informal contacts and procedures, with less emphasis on regulations, which may prove to be unsuitable to the changing circumstances over the long term. Such an approach is associated with a wide degree of autonomy. Hence, it may be presumed that a culture with a lower degree of uncertainty avoidance promotes the formation of reactive institutions which can flexibly adapt procedures to the changing conditions.

The last dimension of organisational culture that determines the scope of autonomy is the level of individualism vs collectivism. Collectivist cultures do not treat employees as individuals but as members of particular groups. They are expected to subordinate their interests to those of the super-ordinate group and give up their own needs for the sake of realizing the needs of the group. Thus, during recruitment, candidates are asked about their past or present membership in any formal or informal groups. In such cultures, board members are usually selected from among people from other boards, and the managers chosen are people with many years of experience in managerial positions. It is believed that employing a person "with connections" reduces the risk of making the wrong choice and guarantees that he or she knows the "norms in the game", i.e. the ceremonies within the institutions. Collectivist organisational cultures create a good environment for people with the need for a strong group identity. This feeling of "belonging" is usually associated with the ceremonies and rituals, including even the specific language of the institutions.

Opposite phenomena can be observed in individualistic cultures. Here, an employee is treated as a person, and his or her needs are considered essential. It is the person, not the group, who is assessed, and therefore, individual responsibility is greater. The board, management, committees or shareholder meetings constitute an arena for arguments. They are not just sessions of "impersonal bodies" aimed at achieving the least controversial solutions. Collectivism constricts autonomy – both in terms of expressing opinions and taking actions, while individualism supports autonomous behaviour.

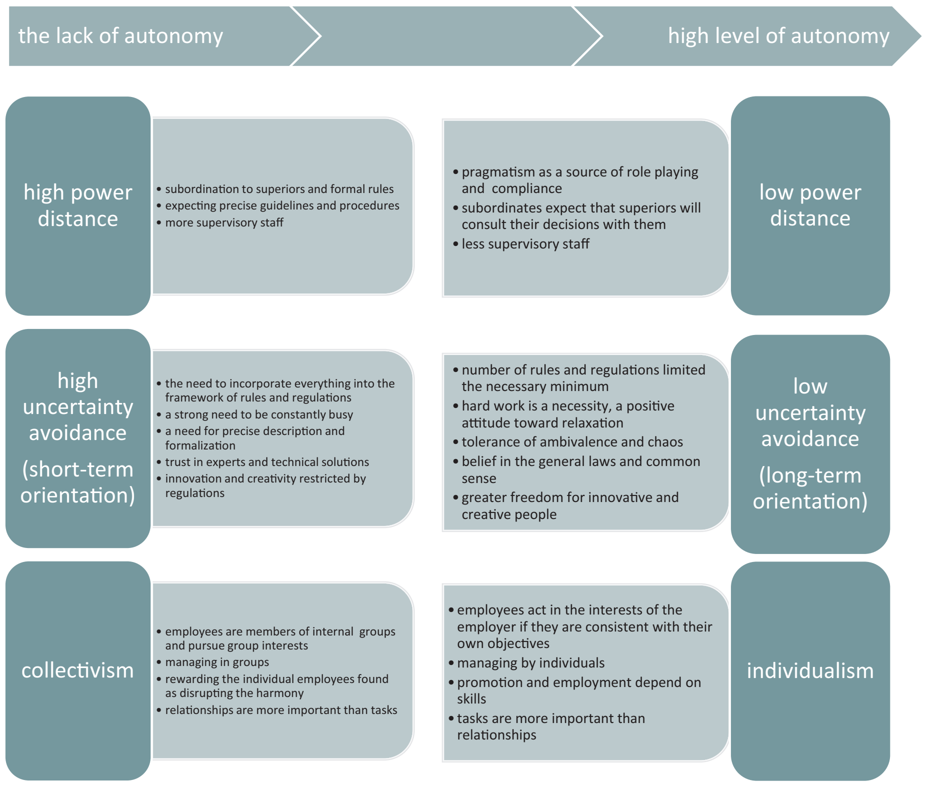
Figure 3 illustrates the basic differences in the dimensions of organisational culture described above, characterised by their manifestations in the context of organisational structures and behaviours. It must be kept in mind that the elements described represent extreme models, and a typical corporation will not neatly fit into all the categories and assumptions. The level of autonomy, which is a determinant of the corporate governance culture, is a consequence of the combination of the described elements of organisational culture.

7. Summary

The corporate governance culture concept presented in this article is in line with the discussion on the ways of measuring institutions. As noted by Voigt (2013), studying formal institutions will often not teach us much about the real world. The statement seems to be confirmed in the case of corporate governance, where norms boil down to ceremonies while the rules give each governance body a broad range of powers, which they generally do not use. My concept assumes that whether the corporate governance bodies will benefit from all the rules and break out of ceremonial standards depends on the culture of corporate governance.

Based on such an understanding of governance institutions (as rules imposed by law and norms imposed by governance culture), I find that norms are often a kind of mythologised

Figure 3 The degree of autonomy and the dimensions of organizational culture



Source: Self-study based on Hofstede and Hofstede (2005)

structure and ceremonial procedure. The corporate governance culture concept points to some sort of "boundary conditions" necessary for institutional change, as well as the creation of an effective governance system.

New Institutional Economics seeks to fill the key conceptual gap in the theory of mainstream sociology and economics by relying on behavioural assumptions (Hodgson, 1998). This psychological dimension is strongly signalised in the proposed formula of boundary conditions. The self-identity of potential members of institutional structures should be defined. Their personal characteristics, whether environmental or inherited, predispose them toward certain attitudes concerning the mythologising tendency of governance institutions. A delineation may be made whereby a non-conformist attitude is a prerequisite for developing those institutions deemed "reactive" in this paper.

"Reactive institutions" are those norms – or, as postulated by Ostrom (1990), "working rules" – that are constantly adjusted to the changing environmental conditions, allowing the governance bodies' members to select the most effective means to achieve the goals (the "institutional adjustment" mentioned by Bush (1987)). However, the governance culture concept emphasises that establishing a reactive institution is possible only within a favourable organisational culture that ensures its members a large degree of autonomy.

Acting in accordance with reactive institutions will lead to success if the organisation's goals are properly defined and if the members of the governance bodies are "the right men in the right place". This means that they have sufficient knowledge and qualifications to choose the most effective methods to achieve these goals. It is important to realise that this is a strong assumption and, as some company examples show, sometimes not fulfilled, even in reputable companies[6]. Nevertheless, education and qualifications are easy-to-measure variables, and it is possible to initially determine whether this assumption is met.

Properly defining objectives depends on internal and external conditions, and it is always subject to the current situation of a particular company. It should be noted that institutions-myths can also be effective, but this effectiveness is not always a result of their members' actions or of responding to market needs. It is more the result of the company's position, favourable economic circumstances, or social mandate, which open up access to particular resources. The social mandate stems from faith, empirically unverifiable, in the efficiency of ceremonies. One example is greater investor confidence in companies with more independent boards, even though, as shown in Table 1, board independence and company results are not always positively correlated. Hence, as Table 1 illustrates, we cannot draw conclusions about the effectiveness of corporate governance without examining the conditions of identity and autonomy.

The application value of the proposed idea appears to be significant. It synthesises existing approaches to corporate governance by proposing a universal tool to evaluate the effectiveness of supervision institutions. As highlighted by Heemskerk (2019), an idea that has been gaining ground is that it is not so much the structural or formal characteristics that determine board performance but the social and behavioural aspects. Nonetheless, as Chaudhary (2019) noted, research of this nature (i.e. that takes into account psychological and sociological issues) is still in the nascent stage. The governance culture concept may be considered a development of Mehrabian and Russell's (1974) stimulus–organism–response (SOR) theory. Autonomy may be an important element of external environmental stimuli (S) that reinforce or undermine the emotional responses (O) that shape an individual's approach towards the environment (R). Another theory the governance culture idea refers to is Forbes and Milliken's (1999) model, which hypothesises that board processes, effort norms, cognitive conflict and the use of knowledge influence the performance of boards of directors. Heemskerk (2019) found strong empirical support for the influence of effort norms and the use of knowledge and skills on board task performance, which are related to my understanding of identity. The evidence for cognitive conflicts, which could be associated with autonomy (allowing members to disagree and possibilities for implementing alternatives), was inconclusive (Heemskerk, 2019).

The practical implications are twofold. Firstly, the governance culture concept should raise a discussion on whether organisations need a tight governance regime defined by a rule-based corporate governance act that enforces strict control procedures (i.e. Sarbanes-Oxley Act) or whether it is more beneficial to leave room for a less strict and looser governance regime, such as the Dutch Corporate Governance Code (Steens *et al.*, 2020).

Secondly, the proposed concept, which draws from many approaches, is not just an abstract idea; it may be operationalised using methods suggested for measuring behavioural and cultural factors. They are usually Likert scales that measure, for example, organisational commitment Ravina-Ripol *et al.* (2021) and self-identity (May-Amy, 2020). Scholars also use other scales or self-constructed indexes to measure, e.g. stewardship (Melis and Nijhof, 2018), organisational climate Ravina-Ripol *et al.* (2021), cultural values (Hofstede and Hofstede, 2005), purposeful motivation and creative adaptability (Visser, 2021) and board effectiveness (Martinez-Jimenez, 2020). There could also be quantitative but sophisticated measures to determine the level of activism, e.g. the number of private engagements proposed by Viviers and Mans-Kemp (2021) or negative group processes (faultlines) proposed by Ali and Ayoko (2020).

The weakness of the presented idea is the need to use a multi-dimensional analysis, which requires a combination of qualitative and quantitative research methods to verify it.

Moreover, the benefits of non-conformity are possible only with appropriate skills and knowledge. Meanwhile, autonomy is beneficial only if people do not use it for their own benefit and engage in opportunistic behaviour as opposed to using it in the interest of their firms (Haj Youssef and Teng, 2019). On the other hand, as Ostrom and Basurto (2011) demonstrated, "some of the lessons coming out of our institutional analyses show that resource users who have relative autonomy to design their own rules for governing and managing common-pool resources frequently achieve better economic (as well as more equitable) outcomes (. . .)".

Nevertheless, determining nonconformity in the area of schematic procedures and the range of autonomy could enrich the corporate governance research and move it closer to reality. The whole idea of the proposed concept argues that in terms of governance institutions, it is not the structure that matters but the person.

Notes

1. I use the following terms interchangeably: corporation, firm, company, entity, enterprise and organisation; however, I concentrate mainly on corporate relations. The proposed concept may be extended to most profit and non-profit entities, where it could be treated not as a "corporate governance concept" but a "governance concept" in general.
2. This problem will be discussed later in the paper.
3. That was the case with the US investment bank Lehman Brothers, which maintained relatively high ratings – A2, A, even just a few days before its bankruptcy (Emilia Klepczarek, 2015).
4. Hofstede and Hofstede actually describe five dimensions, which also take into account femininity and masculinity. This aspect is omitted, however, because its relationship with autonomy is slight.
5. "Never tell people how to do things. Tell them what to do, and they will surprise you with their ingenuity," George S. Patton and Harkins (1995, p. 357).
6. There are known cases of filling boards with management family members who do not have the appropriate experience or education (the case of Jean-Victor Meyers from L'Oreal or Ursula Piëch from Volkswagen).

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Appendix. Literature review contained in Table 1

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