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Corporate Governance Codes and Their Role in Improving Corporate Governance Practice

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Abstract

Good corporate governance (CG) is primarily the responsibility of every company, and both hard law and soft law should provide comprehensive corporate governance framework, thereby encouraging the introduction of high governance standards and best practices in the companies' corporate governance system. The aim of this contribution is to broaden understanding on the role of codes of good governance in improving corporate governance practice on the case of Slovenia. The findings of research studies and analyses of the content of the Slovenian CG Code and its adoption in Slovenian companies show that the code has been playing an important role in developing corporate governance practice in Slovenia. Additionally, such analyses provide important cognitions on the adoption of the CG Code in Slovenian companies by revealing improvements in the governance practice and indicating those areas where changes are required. That is a way such monitoring and analyses should be done on the regular basis together with reporting on the monitoring results. This can considerably contribute to better understanding of the code's recommendations among companies, promote debate and thus foster awareness of the underlying issues. Future analyses should address not only the statements on compliance but also how companies actually implement the code's recommendations.

Keywords: corporate governance, corporate governance code, disclosure, transition economy, Slovenia

1. Introduction

Numerous research studies in the corporate governance (CG) field are based on a universal model outlined by principal-agent theory where central premise is that shareholders and managers have different objectives and different access to firm-specific information.

Self-interested managers as agents of shareholders (principals) have the opportunity to take actions that benefit themselves, and shareholders are those that bear the costs of such actions (i.e. agency costs) [1, 2]. In many countries, not only managers but also controlling shareholders can expropriate minority shareholders and creditors [3, 4]. Several mechanisms are proposed to resolve principal-agent problems such as monitoring by boards of directors or large outside shareholders, equity-based managerial incentives or the market for corporate control [1, 2, 5]. These different types of control and monitoring in companies are referred to as corporate governance [2, 6].

Many cases of corporate fraud, accounting scandals and other organizational failures leading to lawsuits, resignations or even bankruptcy have made corporate governance as especially important and often discussed topic among professionals and scholars. The main feature of many of these cases is the assumption that the system of checks and balances designed to prevent potentially self-interested managers from engaging in activities detrimental to the welfare of shareholders and stakeholders failed [2]. Several formal regulations and informal guidelines, recommendations, codes and standards of corporate governance have been established or improved in order to determine good corporate governance. These efforts to improve corporate governance practices have raised an important dilemma within the corporate governance field, whether to develop hard law (i.e. mandatory requirements, hard regulations and regulatory approach) or soft law (i.e. voluntary recommendations, soft regulations and market-based approach) in order to improve corporate governance across countries [7, 8]. In this contribution, we explore governance codes that are a form of soft regulations (i.e. soft law) presenting a set of voluntary best governance practices without the force of law [7, 9, 10]. The issue of the Cadbury Report and the Code of Best Practices in the UK importantly affects the diffusion of codes around the world after 1992 [7], and similar effects on new codes' creation or revision of the existing ones can be observed after 2008 due to the global financial crisis [10].

The number of research studies on codes of good governance has considerably expanded after 1992 and especially in the early 2000s [7, 10]. Because of the voluntary nature of the majority of codes, there has been a considerable debate in the literature on whether the code recommendations affect the corporate governance quality [7, 8]. Research studies demonstrate that the introduction of corporate governance standards in the form of a code has positive effects on the evolution of governance practices [10] and especially on transparency and disclosure [8, 11].

The aim of this contribution is to broaden our understanding on the role of corporate governance codes in improving corporate governance practice. We explore how the introduction of corporate governance code influences the corporate governance quality in the case of Slovenia. We selected the case of Slovenia due to the lack of research that would address codes' evolution and their adoption in the transition economies [12]. Slovenia is one of the transition countries that present a large sub-category of emerging economies [13]. As a new European state, it was founded in 1991, and has been in last decades under several transition processes [12, 14, 15]. Even though some authors [16] claim that Slovenia is no more a transition countries since it joined the European Union (EU), several indicators show that economic

transition from routine to innovative economy and society has not been finished yet in this country [17, 18]. In the case of Slovenia, we limit our research on the corporate governance codes, which were created at the national level as the result of joint efforts of the Ljubljana Stock Exchange (LJSE), the Managers' Association of Slovenia and the Slovenian Directors' Association. We did not explore any other codes and their adoption in the governance practice of Slovenian companies that are relatively free in selecting their governance code.

The paper is divided into several sections. Following the introduction section, the literature review on corporate governance codes is conducted followed by the study of the case of Slovenia. In order to provide a comprehensive insight into the introduction of corporate governance codes in Slovenia and their impact on the quality of corporate governance practice in Slovenian companies, we explored the corporate governance framework in Slovenia and conducted comparable analysis of data on the codes adoption in Slovenian companies. Concluding section highlights the most important findings, implications for research and practice, and future research directions.

2. Theoretical background

2.1. Institutional environments and corporate governance systems

A universal model outlined by principal-agent theory dominates the corporate governance research field. Its central premise is that shareholders and managers have different interests and objectives as well as different access to specific information of a company. That is a way self-interested managers have the opportunity to take actions that benefit themselves, and shareholders are those that bear the costs of these actions. Such costs are referred to as agency costs [1, 2]. In many countries, it has been noted that not only managers but also controlling shareholders (both are also referred as insiders) can expropriate minority shareholders and creditors (referred also as outsiders) [3, 4].

Several scholars [1, 5] criticize the closed-system approach within agency theory that implies a universal and direct linkage between corporate governance practices and performance and devotes little attention to the distinct contexts in which companies function. They claim that the structure of governance systems is influenced by several external forces such as efficiency of local capital markets, legal tradition, and reliability of accounting standards, regulatory enforcement, and societal and cultural values [2, 19, 20]. Research studies show that there are substantial variations in institutional environments that shape the degree and nature of agency conflicts and the effectiveness of corporate governance mechanisms [21, 22].

Schiehll et al. [22, p. 180] suggest that corporate governance system should be viewed as 'bundles of interrelated or even intertwined external (country-level) and internal (firm-level) forces, which provide structures and processes of the relationship between firm's management and stakeholders'. They also apply the term national governance bundles, which are 'configurations of governance mechanisms that simultaneously operate at the firm and national levels to govern firms within an overall economy or collection of economies' (p. 180).

The historical path dependence among country- and firm-level mechanisms results in a variety of country- and organization-specific governance systems that are effective within the institutional environments in which they have been developed [23].

Therefore, we believe that understanding of attempts in distinguishing and describing different institutional environments and corporate governance systems enables us to more appropriately assess the role of corporate governance codes in improving corporate governance practices.

When distinguishing corporate governance systems, two perspectives should be considered based on the role of companies in the society [2, 24]. Taking a shareholder perspective, where a company's primary obligation is to maximize shareholder value, effective corporate governance should protect shareholders from being expropriated by the management [2, 24]. The system of corporate governance in the Anglo-Saxon countries is characterized as a shareholder-based system [2, 24] and the law strongly protects shareholders [20]. Anglo-Saxon countries' firms are relatively widely held (low ownership concentration). It is estimated that in the USA and the UK, the largest five shareholders hold on average 20–25% of the outstanding shares. Due to this fact, on one hand less mechanisms shareholders can use effectively to influence managerial decision-making in a direct manner [24], but on the other hand 'interdependence among institutions may lead to substitution among functionally equivalent corporate governance mechanisms' [5, p. 980]. Examples include takeover markets in the USA and the UK, where external governance in the form of the market for corporate control with the takeover threat presents disciplining mechanisms for managers [5].

In most European and Asian countries, the stakeholder-based systems prevail [2, 24]. From stakeholder perspective, where a company has a societal obligation that goes beyond increasing shareholder value, effective governance should 'support policies that produce stable and safe employment, provide acceptable standard of living for workers, mitigate risk for debt holders, and improve the community and environment' [2, p. 9]. In the majority of these countries, ownership concentration is significantly higher than in Anglo-Saxon countries [25]. For example, in Germany the largest five shareholders hold on average 41% of the outstanding shares [24]. Concentrated ownership on one hand may reduce agency costs stemming from the separation of ownership and control, but on the other hand may induce new conflicts that arise between majority and minority shareholders. The primary agency problem in this institutional context is the possible expropriation of minority shareholders by the controlling shareholders such as related-party transactions [5]. Therefore, in countries where a vast majority of companies has a concentrated ownership and control structure, the function of corporate governance regulation is to minimize the extent of agency problems between majority and minority shareholders and that between shareholders and creditors [24]. As noted by Larcker and Tayan [2, p. 9] 'the governance system that maximizes shareholder value might not be the same as the one that maximizes stakeholder value'.

In relation to the previously discussed perspectives, scholars often made division of corporate governance systems between the Anglo-American and the Continental European system. While short-term equity finance, dispersed ownership, stronger shareholder rights, active market for capital control and flexible labour market characterize the first one, the Continental

European corporate governance system is characterized by long-term debt financing, concentrated block-holder ownership, weak shareholder rights, inactive markets for capital control and rigid labour markets [19].

Combination of the Continental European capitalism characterized by large controlling shareholders and elements of entrepreneurial or founders capitalism mostly associated with the USA is characteristic of new emerging capitalism not only in the transitions economies of Central and Eastern Europe but also in other parts of the world [26]. Many transition economies (i.e. former socialist countries) are characterized by a relatively high level of ownership concentration leading to the agency problems between majority and minority shareholders. Concentration of ownership in the hands of a few or even one block-holder assures a significant control and direct influence on the nomination and control of management team, which for this reason cannot be expected to be independent [26, 27].

A legal system and tradition also has important implications for corporate governance system [2]. According to institutional theory, legal rules and norms are important component of national institutional systems [5]. In terms of legal origins, common-law and non-common-law (i.e. civil-law) countries are distinguished [2], even though this corporate governance research stream has been criticized due to its simplistic theoretical and empirical grounds [5]. Non-common-law countries (such as Germany, Scandinavia and French countries) are countries with poorer investor protection, and have smaller and narrower capital (both equity and debt) markets and less widely held companies (more ownership concentration) than common-law countries (such as UK). Countries whose legal system is based on a tradition of common law afford more rights to shareholders and more protection to creditors than countries whose legal systems are based on civil law (or code law) [28].

In common-law countries, there are mainly information asymmetry and agency problems between managers and (majority) shareholders; in non-common-law countries, these are mainly information asymmetry and agency problems between minority and majority shareholders. The research findings of Bauwhede and Willekens [29] showed that the level of corporate governance disclosure was significantly lower in non-common-law countries than in common-law countries due to the greater pressure that shareholders can put on managers in comparison to the pressure minority shareholders can put on majority shareholders.

2.2. Corporate governance codes

2.2.1. Codes as a form of soft governance regulations

Several authors [7, 8] identified as an important dilemma within the corporate governance field on whether to develop *hard law* (i.e. mandatory requirements, hard regulations and regulatory approach) or *soft law* (i.e. voluntary recommendations, soft regulations and market-based approach) in order to improve corporate governance across countries. Hard laws are legal requirements regarding governance mechanisms in a country issued by a government in order to improve governance practice and prevent conflict of interests [2, 30]. According to the opinion of several researchers, one of the most important pieces of formal legislation is the Sarbanes-Oxley Act of 2002 (Sox) issued in the USA as a reaction on several cases of failure

along many legal and ethical dimensions [2, 7, 30]. Regarding corporate governance legislation, Larcker and Tayan [2] identify an important issue on how such legislation is prepared—whether it has its origins in rigorous corporate governance theory and empirical research or it is more the product of political adequacy. Berglöf and Pajuste [26, p. 182] also address this issue by claiming that large controlling owners ‘tend to get involved in politics influencing the legislative and regulatory processes as well as the enforcement of adopted laws and regulation’.

Corporate governance codes are a form of soft regulations or the so-called soft law. They comprise a set of voluntary best governance practices and do not have the force of law [7, 9, 10]. Governance codes are established to ‘address deficiencies in the corporate governance system by recommending a comprehensive set of norms on the role and composition of the board of directors, relationships with shareholders and top management, auditing and information disclosure, and the selection, remuneration, and dismissal of directors and top managers’ [31, pp. 417–418]. Cromme [30, p. 364] claims that the governance codes’ key function is transparency as ‘there can be no better form of control than transparency, for open explanation of management decisions is a major plus point for company credibility’. High-quality disclosure on companies’ corporate governance arrangements and increased transparency to the market provides information to investors, facilitates their investment decisions and brings ‘reputational benefits for companies, and more legitimacy in the eyes of stakeholders and society as a whole’ [32, Article 4]. Research studies show that the introduction of a code positively influences the evolution of companies’ governance practices [10]. Even though there are several reasons behind companies’ decision to comply with the codes’ recommendations, especially two reasons are in front, and that are to increase companies’ legitimation among investors and to improve the effectiveness of companies’ governance practices.

Corporate governance codes ‘do encourage companies to implement stronger corporate governance structures and release more information in a timelier manner to market participants’ [8, p. 475]. According to Nowland [8, p. 477], the success of codes ‘relies on market mechanisms enticing or pressuring companies to improve their governance and disclosure practices’.

Corporate governance codes can be developed *at the national level, the level of an individual company and at the international level* [10]. Individually or jointly, governments, stock exchanges, employer associations and director associations can issue governance codes in order to address corporate governance specifics in a particular country and to improve the national corporate governance system, especially in the case when other governance mechanisms fail to do that [31]. In authors’ opinion, the issuer’s ability to enforce changes in governance of companies importantly affects the codes’ role in improving governance practice. Governance codes that are issued by governments and stock exchanges have stronger enforceability since they present a norm of operation and therefore might have a stronger impact on improving governance practice. Codes that are developed by professional associations, directors or management associations have lower enforceability due to their voluntary nature and therefore have lower impact on the promotion of good governance practice.

When a firm introduces its own code, the main objective of such a code is ‘to establish, and to communicate to investors and other stakeholders, the governance principles adopted by the firm’ [10, p. 223]. In this case, a code applies only to that company. Transnational institutions

such as the World Bank, the Organization for Economic Cooperation and Development (OECD) and the International Corporate Governance Network (ICGN) have also created governance codes. The introduction of such codes highlights their importance for prosperity of national economies and specific geographic regions. They are usually more general than a governance code established at the national or firm level [7, 10]. The issue of this type of codes started at the end of the 1990s (first such code was issued in 1996), and there were 14 transnational institutions that issued 21 corporate governance codes by the end of 2014 [10]. A majority of codes issued by transnational institutions are developed for listed companies. However, an increasing number of codes have been issued for non-listed companies, for special types of companies (e.g. state-owned and family ones) or for different types of financial institutions [10, 33]. Governance codes issued by transnational organizations are important for two reasons according to Aguilera and Cuervo-Cazurra [7]. Firstly, they emphasize the importance of good corporate governance and provide best governance practices across several countries. Secondly, they can provide basis for the creation of national governance codes. There is evidence that the creation of national governance codes usually accelerates after the issue of influential transnational codes and the occurrence of corporate scandals and frauds [10].

National governance codes 'tend to be adapted to the country's economic environment and address the country's most salient governance problems' [31, p. 436]. The so-called domestic forces influencing the development of governance codes refer to demands from investors who prefer better protection of their interests. Codes are then introduced to improve governance practice and to close the perceived gap in the domestic national governance system and improve its efficiency. That is often in the cases when other governance mechanisms (e.g. takeover markets and legal environment) fail to protect adequately shareholders' rights [31]. In some countries, corporate collapses and scandals triggered the issues or revisions of corporate governance codes. For example, in Cyprus, the Cyprus Stock Exchanges introduced the Cypriot Corporate Governance Code in 2002 as a response to the major stock exchange collapse [34].

2.2.2. The role of codes in convergence of governance practices

Some evidence [7, 30, 35] demonstrate that governance codes can be viewed as mechanisms facilitating governance convergence across countries. Such convergence is the result of several external forces among which the most powerful are globalization, market liberalization and influential foreign investors [7, 30]. Namely, globalization, the internalization of markets and deregulation have led to rapid changes in traditionally grounded models of corporate governance [19]. These external forces 'lead to pressure on national governments, institutions and companies, to conform to internationally accepted best practices of corporate governance at the international level' [12, p. 54], thereby influencing the attractiveness of countries and companies for foreign investors. Countries that are more exposed to other national economic systems experience greater pressure to change governance practice not only to improve efficiency of domestic companies but also 'to harmonize the national corporate governance system with international best practices' [9, p. 4].

Several research findings on corporate governance codes revealed the governance convergence towards the Anglo-Saxon model (i.e. shareholder model) [30, 34, 35]. Governance

codes, which are more in line with the Anglo-Saxon model, can be found not only in the established European economies [30] but also in emerging economies [34]. The explanation for this convergence may lay in the efforts of transnational organizations (e.g. the World Bank and the OECD) to promote those global standards of corporate governance that are more in line with Anglo-Saxon model [7]. The European Commission (EC) also encourages the convergence of governance practice in European countries by issuing recommendations in the area of corporate governance [7, 30, 32]. According to Cromme [30], the governance guidelines at the European level are highly aligned with the country codes. This can be due to the fact that certain governance issues (e.g. stakeholders rights and responsibilities) have been taken more seriously in countries of Continental Europe since 'their former weak capital markets are strengthened and institutional investors become more assertive in promoting more effective governance measures such as higher accountability and better disclosure' [7, p. 381]. Berglöf and Pajuste [26] claim that the introduction and the contents of governance codes of the Eastern European countries were the result of external pressure in terms of the EC corporate governance recommendations. The codes in these countries were largely determined by the demands that resulted from the EU accession process; many contents of the codes were also more or less copied from the UK and the USA codes. However, based on the research results on the comparison of the codes contents of the Eastern European countries, which are the EU member states, Hermes et al. [12] claim that domestic forces (e.g. the extent of enterprise restructuring, large-scale privatization and stock market development) in some of the analysed countries played an important role in shaping the codes' content.

Several scholars [1, 2, 20, 25, 36] raised doubt about 'one size fits all' corporate governance regulations. It is highly unlikely that a single set of best practices exist for all companies since corporate governance is a very complex and dynamic system and not all mechanisms may work well in all governance contexts [2]. The corporate governance practices and regulations should reflect particularities of companies' ownership and control structures that differ across countries and industries and determine the type and severity of agency costs [36].

2.3. 'Comply or explain' approach

The codes' voluntary nature is realized by the 'comply or explain' approach [7, 10] that is 'an enforcement mechanism that allows companies to deviate from the code norms, but at the same time requires them to disclose these deviations' [37, p. 255]. The basic idea of this approach is that a company has to disclose the compliance with recommendations of a particular code adopted by a company, or in the case of non-compliance, a company must explain the reasons for it [8]. The 'comply or explain' approach enables a company to adapt its governance practices to its particular circumstances [36], its size and shareholding structure [32, Article 7], to consider sectoral specifics [37], thereby allowing flexibility in choosing 'which corporate governance structure to adopt to better pursue their objectives' [10, p. 223]. Departing from the codes recommendations enables companies to govern themselves more effectively by adapting their corporate governance practice to their particularities [32, Article 7].

Differences exist among countries regarding the implementation of this approach. There are two ways of implementing the 'comply or explain' approach and that are mandatory and

voluntary one [10]. The mandatory disclosure on the adaptation of code's recommendation or explanation of deviations is required by listing authorities (e.g. in Australia, Canada, Estonia, Luxemburg, Malta, Malaysia, Russia, Singapore and the UK) or by law (e.g. in several EU countries). The voluntary disclosure is present in some emerging economies (e.g. Algeria, Lebanon, Tunisia and Yemen). However, such lack of disclosure may decrease the effectiveness of governance codes since investors cannot understand 'if the company does not adapt the best practices or adopts the best practices, but does not disclose their adoption' [10, p. 224]. In the recent World Bank analysis [33] of corporate governance codes, 112 codes were found. Of the 112 codes, some 27 were purely voluntary with no link to regulatory frameworks, eight were mandatory and seven countries appeared to have some level of mandatory provisions. All other codes were variations of the 'comply or explain' approach.

The 'comply or explain' mandatory disclosure requirement is implemented by most stock exchanges. Companies listed on the stock exchange must explain the reasons for non-compliance with the (country) governance code in their annual report [30, 31, 36]. By realizing mandatory 'comply or explain' approach, the code 'helps companies exercise greater self-responsibility in their dealings with the capital market' [30, p. 364] and 'promotes culture of accountability, encouraging companies to reflect more on corporate governance arrangements' [32, Article 7]. Luo and Salterio [36, p. 460] claim that the disciplining power of this approach 'is the required public disclosure of governance practices that allows market participants to evaluate the effectiveness of the firm's governance system and to make informed assessments of whether noncompliance is justified in particular circumstances'. Appropriate disclosure of non-compliance with the code recommendations and of the reasons for these is very important for ensuring that stakeholders can make informed decisions about companies and for reducing information asymmetry between companies' management and shareholders, thus decreasing the monitoring costs [32, Article 17].

Several research findings demonstrate that listed companies tend to comply with codes recommendations [25, 36] which might be due 'to the market forces and pressures to comply with legitimating practices or "doing the right thing"' [31, p. 419]. Since the best governance practices are generally recognized as value enhancing, listed companies try to make clear explanation on why they do not comply with particular codes' recommendations [25]. Empirical evidences revealed some other factors that influence the rate of compliance with the codes' recommendations—see Ref. [10]. One of them is the firm size—larger companies require more sophisticated governance practices, their ownership structure is more dispersed and they are more under the control from the external environment (i.e. their greater visibility) [37]. Important factors are also the overall institutional environment, especially the legal norms and cultural values, and the development of national economy—the level of compliance with codes' recommendations is higher in developed than in developing countries that lack a tradition of sound corporate governance—see Ref. [10].

Even though analysis indicate gradual improvement in the way companies in the EU member states apply corporate governance codes, shortcomings were identified in the application of the 'comply or explain' approach. There are critiques of this approach as being ineffective due to 'the poor quality of explanations and because it provides a rather soft option, which

proved in the financial crisis that it could not be trusted' [33, p. 70]. There are also interesting observations and empirical evidences regarding the explanations for deviations from codes' recommendations. In some European countries (e.g. UK, Netherlands and Germany), companies often use standard explanations for deviations, and often firms complying with the same recommendations use similar explanations for non-compliance. As the level of compliance increases over time, the quality of explanations for non-compliance remains very low showing only marginal improvements – see Ref. [10].

2.4. The diffusion of codes of good governance around the world

The first code came into being in the late 1970s in the USA. That was a period of 'transition from the conglomerate merger movement of the 1960s ... to the empire-building behaviour by management through hostile takeovers ... and to the shareholder rights movement of the late 1980s and early 1990s' [31, p. 418]. The year 1992 presents an important landmark in the development of governance codes around the world. That year, the Cadbury Report and the Code of Best Practices were issued in the UK, and since then the number of countries issuing governance codes has been increasing [7]. The Cadbury Report was a result of several financial scandals in the UK in the 1980s and early 1990s. This was the first corporate governance code adopted by the London Stock Exchange. The Cadbury Report is recognized in the literature and in the governance practice as one of the most influential codes, and several dimensions of that code were introduced into corporate governance systems not only in the UK but also around the world, including the USA and Germany [11]. After the issue of the Cadbury Report, the diffusion of codes has been rather slow and accelerated after the issue of both the OECD Principles of Corporate Governance and the ICGN Statement on Global Corporate Governance Principles in 1999. There were only nine countries that issued a code by 1997, while a further 34 countries issued their first code by 2002 [10].

Another important landmark in the diffusion of codes around the world presents the recent financial crisis (with beginnings in 2007–2008) and accompanying scandals that brought attention to the importance of introducing adequate governance mechanisms. The number of corporate governance codes has increased especially between 2009 and 2010 [10]. The recent analysis revealed that since the financial crisis codes have been and are being revised more often than before crisis. For example, the website of the European Corporate Governance Institute (ECGI) reported on 14 code revisions since 1 January 2015 [33].

The research findings show that first countries that issue governance codes, that is, the USA as first, followed by Hong Kong, Ireland, the UK and Canada, were countries with a common law, or English-based, legal system [7]. This is a more flexible legal system in contrast to civil-law system since judicial precedent shapes the interpretation of laws and their application. In the civil-law system, judiciary must base its decisions on strict interpretation of the laws that are issued by legislative bodies [2, 28]. Three types of the civil-law system exist and that are French, Scandinavian and Germanic. Research findings of Aguilera and Cuervo-Cazurra [31] indicate that codes are more likely to be issued in countries with a common-law system. In authors' opinion, there are two explanations for their research findings. Firstly, common-law countries, where strong shareholder rights are embedded in their legal system, are more

likely to emphasize continuously good governance practice introduced by codes. Secondly, the common-law legal system's characteristics facilitate the enforceability of the codes. Even though in the common-law countries the good governance practice 'tend to reach the level of enforceability in courts, in civil-law system such practices do not have enforceability through the courts unless they become codified into law' [31, p. 434]. This cognition is confirmed by the research results of Zattoni and Cuomo [9] which show that countries with civil-law system issue codes later than common-law countries, and create fewer codes that often comprise ambiguous recommendations. Their research results suggest that 'the issuance of codes in civil-law countries is prompted more by legitimation reasons than by determination to dramatically improve the governance practices of national companies' [9, p. 12].

Aguilera and Cuervo-Cazurra [31] identified three exogenous pressures on the development of codes. The first pressure can be explained by the economic integration of a country in the world economy that positively influences the adoption of governance codes. The second pressure that is positively related to the code's adoption is the processes of government liberalization in a particular country. The withdrawal of government presence in the economy creates a need to establish new governance system in the newly privatized companies. The third pressure refers to the presence of foreign institutional investors that positively influence the code's adoption. Institutional investors search for companies with good governance practice since they need assurance for their investment to be protected.

Important research findings on codes' diffusion refer to the relationship between the development of capital markets and the number of governance codes. Countries with larger and deeper capital markets have more governance codes since 'the need for good governance increases as the number of public firms grows because agency problems between disperse owners and managers, or between majority and minority shareholders emerge' [7, p. 379]. Research findings show that developed countries issued more codes than developing countries that are more reluctant to revise their first code. Recent data show that 91 countries issued 345 codes by the end of 2014, of which 91 were first codes and 254 codes were revisions of previous codes. Developed European countries issued more than half of codes issued by all countries (174 out of 345), thereby playing a significant role in the diffusion of codes [10].

A majority of national codes are designed for listed companies. Recently, an increasing number of codes have been issued for specific types of companies (e.g. state-owned or family-owned), for different types of financial institutions (e.g. commercial banks, institutional investors and mutual funds) and for voluntary and charitable organizations [10].

The total number of codes issued in European countries increased after the publication of two important reports and that are The European Union Action Plan on 'Modernizing Company Law and Enhancing Corporate Governance in the EU' published in 2003 and the report by the High-Level Group on Financial Supervision in the EU published in 2009. The aims of both reports were encouraging the convergence of company law and corporate governance practices within the EU [10].

In the EU countries, governance codes are recognized to have a significant role in establishing principles of good corporate governance. Especially listed companies are required to include

a corporate governance statement (CG Statement in their management report. In this statement, a company should disclose its corporate governance arrangement [Article 4(1) (14) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004]. Since the 'comply or explain' approach is the key principle in the EU governance system, a company is required to explain in its corporate governance statement the deviations from the code's recommendations and the reasons for doing so [32, Article 4, 6]. A company is required to describe the alternative measure taken 'to ensure that the company action remains consistent with the objectives of the recommendation, and of the code' [32, Article 17]. In this respect, the EC emphasizes the required high quality of explanations on non-compliance reported by companies [32, Article 8, 11]. The EC recommendation on the quality of corporate governance reporting predominantly addresses listed companies. However, it suggests that other companies might also benefit by following the EC recommendation [32, Article 14].

In Germany, a corporate governance code was found as being unnecessary until 2002 when the German Corporate Governance Code (GCGC) was adopted [30]. This code contains standards of good governance that represent internationally and nationally recognized best practice. German companies are not required to follow these standards with the exception of listed companies. Listed companies have to disclose the (non)-compliance with the GCGC recommendations [37]. The research study by Talaulicar and Werder [37] showed high degrees of compliance with the GCGC, especially among German-listed companies. The authors were also able to identify some recommendations (i.e. 24 recommendations) that many companies do not comply with. However, in authors' opinion low rates of acceptance of these recommendations do not necessarily imply that they need to be changed. On the contrary, such a situation may reflect 'that firms take advantage of the flexibility the code grants and disregard certain code norms in order to address company-specific peculiarities' [37, p. 268].

Hermes et al. [12] conducted a research on codes adoption in seven Eastern European countries or the so-called transition economies (i.e. Czech Republic, Hungary, Lithuania, Poland, Romania, Slovak Republic and Slovenia) that were at the time of the research already the EU member states. Romania was one of the first countries that issued a code in 2000. Other countries such as Slovenia and Hungary followed a few years later and issued a code in 2004. Twelve Eastern European countries issued their own code by the early 2006: Czech Republic (2001, 2004), Poland (2002, 2004), Russia (2002), Slovak Republic (2002), Macedonia, Ukraine (2003), Lithuania (2004), Slovenia (2004, 2005), Hungary (2004), Latvia (2005) and Estonia (2006); some of these countries published the new version of the code in the following years [12]. Hermes et al. [12] conducted analysis of the contents of the governance codes that are based on the analysed seven transition countries on the 'comply or explain' principle. They focused their research on three areas and that were disclosure rules, strengthening shareholder rights and modernizing boards.

Since in many cases these codes were adopted as listing requirement for stock exchanges, this gave codes a formal and compulsory character. The research results show that the codes of the Eastern European countries on average cover only around half of the EC recommendations. For some of the countries included in the research (especially Romania, Hungary and Poland), domestic forces related to country-specific characteristics of corporate governance system

influenced considerably the contents of corporate governance codes. Codes in other countries covered a majority or almost all the EC recommendations of the governance principles [12].

Several research findings show that the adoption of corporate governance codes considerably affects the level of disclosures. Sheridan et al. [11] found this in the case of the UK where the introduction of governance standards in terms of reports concerning best practice and codes of good corporate was accompanied by a significant increase in the number of news announcements. The research in eight East Asian (i.e. Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand) countries indicates that voluntary national codes had both direct and indirect effects on companies' disclosure improvements. That is especially the case in those countries where codes have special sections designated to disclosure [8].

3. Corporate governance codes in Slovenia

3.1. Development of corporate governance codes

Slovenia is a new European state that was founded in 1991 and is nowadays one of the EU member states. Since the early 1990s, Slovenia like other Eastern European countries has made considerable efforts in transition to market economy [12, 26]. After its foundation, Slovenia has been faced with a three-way transition process [14]: (1) the transition to an independent state, (2) the reorientation from the former Yugoslav to Western-developed markets and (3) the transition to the market economy. These include several developments such as privatization of companies, trade liberalization, development of domestic financial markets and their integration to global capital markets, and development of the institutional framework in terms of regulations and law systems. All these developments have triggered the need to regulate the governance of companies in order to mitigate agency problems [12]. The transformation of companies' ownership from social into private one was realized based on the law on ownership transformation that came into force in 1992. The first Companies Act was adopted in 1993. Since then, corporate governance has been regulated by a number of acts that have been amended and supplemented as response to changes in legislation, market conditions and cases of good governance practice [15].

Corporate governance codes present an important element of corporate governance regulations in Slovenia. The first governance code was introduced for public joint stock companies. The Slovenian corporate governance code for public companies (in continuation: the Slovenian CG Code) was the result of joint efforts of the Ljubljana Stock Exchange, the Managers' Association of Slovenia and the Slovenian Directors' Association in creating recommendations on the best governance practices. The Slovenian CG Code came into force in 2004. Since then, the code has been revised several times: in 2005, 2007, 2009 and the last revised version of the code came into force in January 2017 [38–41]. Not only listed companies can apply the Slovenian CG Code's recommendations but also all those companies that would like to establish a transparent and understandable governance system [42].

First versions of the code included besides recommendations of the best governance practices also legal provisions on corporate governance. The Slovenian CG Code, which came into force in 2009, comprised only recommendations that are not legally binding (i.e. soft law). It is based on Slovenian legislation and incorporates 'the guidelines and recommendations of the European Union, principles of business ethics, internal bylaws of the three institutions (authors comment: the Ljubljana Stock Exchange, the Managers' Association of Slovenia, and the Slovenian Directors' Association) and the internationally recommended standards of diligent and sound corporate governance' [42, p. 2].

Companies, which are listed on the Slovenian-regulated market, must disclose to which code they adhere, any deviations from the code and reasons for them in their corporate governance statement, thus realizing the 'comply or explain' principle [43]. Shareholders have a right to demand additional explanations from a management board regarding the content of the statement at the shareholders meeting [40, 46]. According to the LJSE Rules [44] and LJSE Guidelines [45], prime and standard market companies are requested to disclose (non)-compliance with the code in the Statement on Compliance with the code that is the part of the CG Statement. The CG Statement was introduced by the Slovenian Companies Act [46] in 2009 and must be published as a part of annual reports. It is recommended that listed companies published it separately on their website [45]. This is in line with Article 20(1) of Directive 2013/34/EU that requires listed companies to provide information of their corporate governance arrangements as well as how they applied the relevant corporate governance code recommendations. It is believed that such requests would improve transparency for shareholders, investors and other stakeholders [32]. From 2015, the CG Statement is obligatory not only for listed companies but also for those companies that are bound to auditing.

Companies in Slovenia are relatively free in choosing a governance code to which they adhere. However, it is expected that companies listed on the prime and standard market of the Ljubljana Stock Exchange will largely follow the Slovenian CG Code [42, 47]. Companies can also create their own code, which might be a reasonable approach in the cases of adopting more codes. The selection of a code can also be influenced by the expectations or preferences of the company's shareholders [40]. However, other codes are not the subject of this contribution.

Since several research studies discussed in the next section explored the adoption of the CG Code from 2009 as well as this code has been adopted in the practice of Slovenian companies longer than any other Slovenian code did, we explain in more detail the content of this code. The recommendations of the CG Code from 2009 [42] cover several broad areas of corporate governance and that are corporate governance framework, relations with shareholders, supervisory board, management board, independence and loyalty of members of supervisory board and management board, audit and system of internal controls, and transparency of operation.

Recommendations in the area of the corporate governance framework:

- the management board together with supervisory board creates and adopts a Corporate Governance Policy (CG Policy);
- with the CG Policy they lay down major corporate governance outlines that should be compliant with the long-term goals of a company [42].

Recommendations in the area of the relations with shareholders:

- a company should ensure such a corporate governance system that treats equally all shareholders as well as encourage a responsible enforcement of shareholder rights;
- shareholders should be informed about the convening and progress of general meetings in a timely and accurate manner;
- a company should provide shareholders with reliable data that enables them to make informed assessments of the items on the general meeting's agenda [42].

Recommendations in the area of the supervisory board:

- the composition of the supervisory board should ensure responsible supervision and decision-making that are in the best interest of a company (i.e. re-members of the board should have professional expertise, experiences and skills);
- the selection procedure of the board members should be transparent and well defined in advanced;
- the board monitors a company, evaluates the work of the management board and actively cooperates in creating CG Policy;
- members of the supervisory board sign a statement in which they disclose whether they meet the criteria of independence and the possession of relevant professional training and know-how required to act as the supervisory board member;
- the president of the board is elected by simple majority;
- members of the board should be adequately paid for their work;
- the supervisory board sets up special committees dealing with special issues;
- the supervisory board assesses its work and work of its committees once a year [42].

Recommendations in the area of the management board:

- a company is managed by the management board that should ensure long-term performance by defining values and strategies;
- the composition of the management board should ensure decision-making in the best interest of a company and functioning in compliance with high ethical standards considering the interests of diverse groups of stakeholders;
- a remuneration system should enable composing of the managements board that best suits the needs of a company and ensures the alignment of the board's and the company's long-term interests [42].

Recommendations in the area of the independence and loyalty of members of supervisory board and management board:

- members of both boards make independent decisions taking into consideration the goals of a company [42].

Recommendations in the area of the audit and system of internal controls:

- an auditor is appointed in order to ensure an independent and impartial audit of the company's financial statements;
- an efficient system of internal controls is set up that also ensures a quality-risk management; together with its auditing committee, a company ensures periodical and impartial professional surveillance of the system of internal controls [42].

Recommendations in the area of the transparency of operation:

- a corporate communication strategy should be defined as a part of the CG Policy dictating high-quality standards in preparing and publishing accounting, financial and non-financial information;
- informing both shareholders and public should be set up in a manner providing equal, timely and economical access to information related to all aspects of a company;
- the company's governance practice is presented in the CG Statement taking into consideration the Companies Act;
- the Statement is a part of the annual report published as an independent document on the company's website [42].

At the beginning of 2017, a new version of the CG Code was issued where the purpose remains the same. That is to provide corporate governance recommendations for joint stock companies that are listed on the Ljubljana Stock Exchange. Other companies may also follow the CG Code's recommendations, thereby establishing transparent governance system in order to increase companies' legitimation among different groups of stakeholders (i.e. domestic and international investors, employees, banks, public, etc.). There are three main reasons for renewal of the previous version of the CG Code [48]:

- The regulatory framework has changed in the last 7 years. Several changes in legislation, especially in the area of corporate governance, reporting and public disclosure on governance system of a company came into force.
- Several changes in international and domestic recommended governance practice also importantly influenced a decision to renew the CG Code from 2009. In 2015, the OECD adopted new principles of corporate governance. Consequently, several countries have issued new codes (e.g. Austria, Finland, Germany, Denmark, Sweden, UK, Romania and Baltic countries). At the same time, advanced recommended governance practice has been developed in Slovenia (e.g. corporate governance codes for non-public companies in 2016, recommendation for auditing committee in 2016, practical advices for quality explanations in Statement on Compliance in 2015, etc.). The EC recommendations on the quality reporting on governance issued in 2014, which propose the EU members to monitor the codes' compliances, also importantly influence the development of the new CG Code in Slovenia.
- The results of the latest analysis of disclosures of compliances with the Slovenian CG Code from 2009 for the 2011–2014 periods (which are in more detail discussed in the next section)

were also one of the reasons for introducing changes in the corporate governance recommendations of the CG Code. The analysis revealed those recommendations that the majority of companies complied with and which recommendations were among those that companies reported on non-compliances. The analysis and the issuers of the CG Code tried to improve those recommendations that were recognized as being described not clear enough, and therefore their introduction in the company's governance practice caused unnecessary problems.

Therefore, several changes were introduced in the new CG Code. We present the major changes by organizing them according to the major areas of the Slovenian CG Code from 2017 [48, 49]:

- *Corporate governance framework*: additional recommendation regarding diversity of the boards' membership and representation of both sex (i.e. women and men) in the boards and committees. The recommendations on the CG Statement now include additional explanation on how to prepare this statement. Previous analyses (LJE Analysis 2012 and 2015 that are discussed in the next section) revealed that several companies still did not understand the 'comply or explain' principle. The new CG Code also introduces the recommendation on external monitoring of the CG Statements, thus following the EC recommendation on the quality of corporate governance from 2014.
- *Relations with shareholders*: recommendations on equal treatment of shareholders were supplemented. Previous analyses indicate that recommendations in this respect were not comprehensive and clearly stated in the previous version of the code.
- *Supervisory board*: recommendations on self-evaluation of the supervisory board were updated. Recommendations on the audit committee were updated as well taking into consideration the new provisions of EC directives and the Slovenian Companies Act. Recommendations on additional training of the supervisory board members were added. These changes should positively influence the work of the supervisory board.
- *Management board*: recommendations on planning a succession in the management board were updated. Additionally, the tasks of the management board regarding the management system are recommended; the system should be transparent in terms of jurisdiction, connected with the risk management system and should encourage ethical and responsible behaviour of key stakeholders in a company.
- *Independence and loyalty of members of supervisory board and management board*: the definition of the independence is updated in order to make a clearer distinction between independence and conflict of interests. Criteria for conflict of interests are updated and more clearly presented. The recommendation on independence of the supervisory board members in this new CG Code extends to all members of the board (in previous version, this recommendation refers to only half of the board's members).
- *Transparency of operation*: several changes were made in this important area of corporate governance by taking into consideration the changes in legislation and the rules of the Ljubljana Stock Exchange. These updated recommendations also enable better comparisons among companies and transparency for all stakeholders.

3.2. The role of codes in improving corporate governance practice in Slovenia

Even though research studies on the adoption of governance codes in the corporate governance practice in Slovenia are scarce, the existent research results provide an important insight into the development of governance practice in Slovenia and the role of the corporate governance codes in this process. In this section, we analyse the findings of the previous research studies on governance codes in Slovenia. The structured content analysis was done chronically, starting with the research that explored the earlier version of the CG Code from 2005 and continuing with the research studies on the CG Code from 2009. The research conducted by the Ljubljana Stock Exchange together with the Slovenian Director's Association in 2015 [50] provides the most comprehensive insight into dynamics of the corporate governance codes' adoption and implementation of 'comply or explain' principle in Slovenian companies. Other research studies gave only partial and often static view in the role of governance codes in the practice of Slovene companies. The main research findings are presented in **Table 1**.

The Slovenian CG Code that came into force in 2005 (i.e. the revised version of the first code) was included in the *comparative analysis of the codes contents of seven Eastern European countries* (i.e. Czech Republic, Hungary, Lithuania, Poland, Romania, Slovak Republic and Slovenia) that was conducted by Hermes et al. [12]. The research covered three areas of recommendations that were disclosure rules, strengthening shareholder rights and modernizing boards. The main findings of the research were explained in one of the previous sections. In this section, we focus on the research findings for Slovenia.

The comparison of the Slovenian CG Code with respect to the EU recommendations on enhancing corporate governance disclosure showed that the Slovenian CG Code included five out of nine analysed recommendations. Those recommendations that were not included in the code were those not addressed in the codes of the majority of other six analysed countries as well. Research findings showed that 'openness from shareholders in general and from institutional investors in particular, with respect to their holdings and policies as major owners of companies' [12, p. 65] were not recommended by the analysed codes. The results can be explained by the corporate governance systems in these countries where important features are controlling shareholders and block-holdings. According to Berglöf and Pajuste [26], companies with controlling shareholders are less prone to disclose information.

The comparison of the Slovenian CG Code with respect to the EU recommendations on strengthening shareholder's rights shows that the Slovenian CG Code included two out of three analysed recommendations. Those were the recommendation dealing with providing shareholders information for evaluation of a company's performance and operations (not included only in the Romanian code), and the recommendation on shareholder democracy (i.e. the one share-one vote democracy). The last recommendation was found only in Slovenia and Lithuania [12].

Regarding the EU recommendations on modernizing the boards of directors, the Slovenian CG Code included four out of six analysed recommendations. Recommendations not included in the code were the recommendation on disclosure of the remuneration policy (included in three analysed codes) and the recommendation on prior approval by the shareholder meeting of share and share option schemes in which directors participate (included in four analysed

Authors/source	The scope/subject of analysis	Sample	Code under investigation	Main findings
Research conducted by Hermes et al. [12]	Comparison of the codes' contents with the EU recommendations on disclosure rules, strengthening shareholders rights, modernizing boards.	Seven Eastern European countries, also the EU member states: Czech Republic, Poland, Russia, Slovak Republic, Macedonia, Ukraine, Lithuania, Slovenia, Hungary, Latvia and Estonia.	Slovenian CG Code 2005	<p>Main findings:</p> <ul style="list-style-type: none"> codes' content of some countries differ from the best governance practices, domestic forces related to specifics of national corporate governance systems shape the codes' content. <p>Findings with respect to Slovenian CG Code:</p> <ul style="list-style-type: none"> recommendations on disclosure rules (five out of seven), recommendations on strengthening shareholder rights (two out of three), recommendations on modernizing board of directors (four out of six).
Ljubljana Stock Exchange with the support of the Slovenian Director's Association [40]	Disclosures of (non)-compliance with the Slovenian CG Code 2009 for 2010 and 2011.	Ten companies listed on the prime market of the Ljubljana Stock Exchange.	Slovenian CG Code 2009	<ul style="list-style-type: none"> Companies on average comply with 81% of recommendations. All companies comply with 63 (56%) out of total 112 recommendations. The comparison between 2010 and 2011 shows that the level of compliance with the CG Code (2009) has been improving. The quality of explanation of deviations should be improved.

Authors/source	The scope/subject of analysis	Sample	Code under investigation	Main findings
Ljubljana Stock Exchange together with the Slovenian Director's Association [50]	Disclosures of (non)-compliance with the Slovenian CG Code 2009 for 2011–2014.	Companies listed on the Ljubljana Stock Exchange: 58 companies for 2011 and 2013, 57 companies for 2012, and 60 companies for 2014.	Slovenian CG Code 2009	<ul style="list-style-type: none"> The number of companies adopting the Slovenian CG Code (2009) has increased from 63.8% in 2011 to 71.7% in 2014. Companies on average comply with 89.8% of recommendations in 2011, 90.6% in 2012, 89.9% in 2013, and 89.8% in 2014. Companies complied with 22 recommendations (out of 112) in all observed years. The number of specific, high quality explanations of deviations has increased—23.5% of such specific explanations in 2011 and 27.8% in 2014. Half of the most frequent deviations were deviations from the principles on the transparency.
The SEECCAN Index [38, 39]	<p>The adoption of codes in the listed companies in Slovenia was explored by the following questions as a part of the SEECCAN Index methodology:</p> <ul style="list-style-type: none"> Has the company developed and publicly disclosed its own Corporate Governance (CG) Code? Has the company adopted some official CG Code (CG Code of the Chamber of Commerce, CG Code of the Stock Exchange or similar)? Does the Company disclose the extent to which it is complying with its Corporate Governance Code (does it explain possible deviations from the Code)? 	All prime and standard market companies were listed on the Ljubljana Stock Exchange in June 2014; in total 22 companies.	Any corporate governance code.	<ul style="list-style-type: none"> More than three-quarter of prime and standard market companies disclose a code. Companies refer to one of the official codes. 88.9% of prime and all standard market companies disclose the compliance with the code and explain the deviations from it.

Table 1. Scope (subject) of analysis and major findings of the research on corporate governance codes in Slovenia.

codes). The Slovenian CG Code was the only code of the analysed ones that included the recommendation on the recognition in the annual accounts of the costs of share and share option schemes of directors [12]. These findings indicate that the Slovenian CG Code from 2005 already included recommendations not only on disclosure of fixed and variable remuneration of individual directors but also on disclosure of more sensitive information on how option and share schemes are constructed and how much that costs a company. These results indicate that the Slovenian CG Code introduced at that time many of the best governance practices at least in listed joint stock companies in Slovenia.

In 2012, the Ljubljana Stock Exchange initiated the analysis of the companies' disclosures on the compliance with the Slovenian CG Code from 2009. The analysis was conducted with the support of the Slovenian Director's Association. Ten companies listed on the prime market of the Ljubljana Stock Exchange were included in the analysis since these companies were expected to adhere to high governance standards. Companies were obliged to disclose any deviation from the code's recommendation together with the explanations in their annual reports. The main goal of the analysis was to explore the level of credibility and quality of explanations of deviations in accordance with the 'comply or explain' principle in order to identify those factors that could improve the quality of information on corporate governance system for investors [40]. The analysis and its results directly addressed the agency problem since an active monitoring of the governance mechanisms could present an additional pressure on the companies' management to consider the interests and goals of a company and not their personal interests and goals. The disclosures on compliance for 2010 and 2011 published in the annual reports in 2011 and 2012 were the subject of the analysis.

The major findings of the analysis were that both the level of compliances with the best corporate governance practices and the quality of explanations of deviations from the CG Code's recommendations have increased in the observed period [40].

The results of the analysis indicated that two companies in 2011 and one company in 2010 complied with all code's recommendations. The rest of the analysed companies disclosed on average a compliance with 81% of the code's recommendations. More than half of total 112 code's recommendations were identified as those that all analysed companies complied with. The comparisons for the observed 2-year period show that the level of compliance with the CG Code from 2009 has been improving [40]. Such results suggested that companies have been trying to consider the CG Code's recommendations as much as possible, thereby also raising the quality of their governance practice.

The analysed listed companies disclosed deviations especially from the following six recommendations of the Slovenian CG Code from 2009 [40]:

- definition of goals in the company's statute,
- use of information technology to inform and conduct sessions of a supervisory board in a safe way,
- self-evaluation of the supervisory board composition, functioning, conflict of interests, cooperation with the management board and its committees once per year,

- the principle regarding payments of the supervisory board members that are determined at the shareholder meeting,
- appointment of an audit committee and a remuneration committee and a nomination committee as soon as possible after the constitutive meeting of a supervisory board,
- disclosure of payments of the members of a management board and a supervisory board.

Effectiveness of the CG Code in practice depends also on the transparency of deviations that should be reliable and complete. The detailed analysis of explanations of deviations shows that only 27% in 2010 and 44% in 2011 were such that could be classified as specific, high-quality explanations on deviations describing besides deviations also alternative governance practice and reasons for its adoption by a company [40].

Even though the quality of explanations of deviations has increased in the observed period, the comparisons of the reported disclosures and the actual governance practices raised an important question of the quality, completeness and credibility of these disclosures. The research results revealed that companies did not disclose all deviations mainly for two reasons. Firstly, companies did not interpret a particular recommendation correctly, and secondly, companies did not find a particular recommendation as relevant [40].

The Ljubljana Stock Exchange together with the Slovenian Director's Association conducted *the next analysis in 2015* in order to be able to observe development in the adoption of the CG Code from 2009. The analysis covered disclosures of compliances with the code for the 2011–2014 periods. The sample consisted of companies listed on the Ljubljana Stock Exchange: 58 companies for 2011 and 2013, 57 companies for 2012, and 60 companies for 2014 [50]. This sample was therefore much larger than the one of the 2012 analyses since it included not only prime market companies but also other companies listed on the Ljubljana Stock Exchange. The comparisons of the results of both analyses are therefore only limited possible. The major sources of data were companies' annual reports and especially the CG Statement with the Statement on Compliance with the code being a compulsory part of the annual report.

The first step in the analysis was to explore the adoption of the Slovenian CG Code from 2009 in the analysed companies. The results show that the share of companies adopting the Slovenian CG Code from 2009 has increased from 63.8% in 2011 to 71.7% in 2014. The analysis reveals that even though the law enables companies to select any publicly accessed corporate governance codes, only one company decided on such solution. Reasons for not adopting the Slovenian CG Code are diverse and are mainly due to the fact that companies [50]

- neither disclosed the code in their annual report nor published the CG Statement,
- referred to legislative and other regulations, internal rules and/or their Corporate Governance Policy,
- developed their own governance practice without adopting any official code,
- companies' shares were not traded at the market,
- referred to invalid CG Code (e.g. from 2007), and so on.

Results of the analysis on the compliance with the Slovenian CG Code show that only few companies comply with all 112 recommendations. Those were three companies in 2011, two companies in 2012, three companies in 2013 and four companies in 2014. Companies complied on average with 89.8% of recommendations in 2011, 90.6% of recommendations in 2012, 89.9% of recommendations in 2013 and 89.8% of recommendations in 2014. Only 22 recommendations (19.6%) were found that all analysed companies complied with in the observed period [50]. The percentage is lower than in the 2012 analysis, but we should take into consideration that in 2012 analysis only primer market companies were explored that are expected to adhere to the majority of the code's recommendation.

As stated in the report of the analysis [50], the number of companies complying with all code's recommendations is still low. However, this does not necessarily indicate lower quality of companies' governance practice. The main purpose of the analysis of compliance with the code's recommendations is not to ensure compliance with all recommendations if that is not an optimal solution for a company. If deviations are explained and alternative solutions are presented, such non-compliance indicates that a company has developed an alternative practice that best suits its specifics. Therefore, in-depth analysis of explanations was conducted. The findings demonstrate that the share of specific, high-quality explanations of deviations that described both deviations and alternative solutions has increased. The share of such high-quality explanations was 23.5% in 2011 and 27.8% in 2014 [50]. Even though the results suggest that companies have becoming aware of the importance of good disclosure practices, the quality of disclosures on deviations still needs to be improved. Contrary to the 2012 analysis, this analysis did not include investigation on whether companies really disclosed all deviations.

The results of the analysis also provide a comprehensive insight into those recommendations that companies did not comply with. The list of the most frequently disclosed deviations is organized per main areas of the CG Code accompanied with the data on the share of companies that disclosed deviations from a particular recommendation [50]:

- *Corporate governance framework*: definition of goals in the company's statute (29.3% companies in 2011 and 35% companies in 2014), creation of a Corporate Governance Policy (25.9% companies in 2011 and 31.7% companies in 2014).
- *Relations with shareholders*: a company encourages shareholders to disclose the policy of managing their investment (19% companies in 2011 and 23.4% companies in 2014).
- *Supervisory board*: the supervisory board functions in accordance with the code (27.6% companies in 2011 and 30% companies in 2014), setting up specialized committees (27.6% companies in 2011 and 28.4% companies in 2014).
- *Transparency of operation*: a corporate communication strategy (20.7% companies in 2011 and 21.7% companies in 2014), rules about the limitations for trading with the company's shares (17.2% companies in 2011 and 25% companies in 2014), public announcements and reports in foreign language (31% companies in 2011 and 40% companies in 2014), disclosure of remuneration of each member of the management board and of the supervisory board (17.2% companies in 2011 and 21.7% companies in 2014).

A closer look at the results shows that the share of companies disclosing deviations from particular recommendations has increased in the observed period. Half of the statistically most frequent deviations were those from the recommendations on the transparency.

Another research on corporate governance codes in Slovenia was conducted as a part of research on measuring the corporate governance quality by applying *the SEECGAN Index of Corporate Governance* [38, 39]. The main goal of the SEECGAN Index of Corporate Governance (the SEECGAN Index) is to enable assessment of the quality of governance practice in individual companies as well as the situation regarding overall corporate governance practice in a national economy. Additionally, it makes possible to compare corporate governance practices in South Eastern European countries since the SEECGAN Index methodology pays attention to the particularities of these economies. Seven governance categories are assessed [51, 52]:

1. Structure and Governance of Boards,
2. Transparency and Disclosure of Information,
3. Shareholders' Rights,
4. Corporate Social Responsibility,
5. Audit and Internal Control,
6. Corporate Risk Management and
7. Compensation/Remuneration.

All companies of the prime and standard market, in total 22 companies, that were listed on the Ljubljana Stock Exchange in June 2014 were explored. The main source of data was annual reports for the year 2013. Additionally, reports and documents published on the companies' websites were analysed. Research results revealed that more than three-quarter of the prime and the standard market companies disclosed a code. The majority of companies referred to one of the official codes. All standard market companies and 88.9% of the prime market companies disclosed the compliance with the corporate governance code and explained the deviations from it. Even though the disclosure of compliance with the chosen code is obligatory for the prime and the standard market companies in Slovenia [45, 46], one of the prime market companies did not disclose compliance with the code [39].

4. Conclusions

Good corporate governance is primarily the responsibility of every company and regulations at the national level taking into consideration specifics of the national economy, and the latest developments of governance practices and regulations at the European or even global level should ensure that certain governance standards are respected. Therefore, it is important that both hard law and soft law (i.e. especially corporate governance codes) provide comprehensive corporate governance framework, thereby encouraging the introduction of high governance standards and best practices in the companies' corporate governance system. This is of key importance for performance, growth and long-term sustainability of companies.

The findings of research studies and analyses discussed in this contribution show that the Slovenian CG Code has been playing an important role in developing corporate governance practice in Slovenia. Especially this is true for Slovenian-listed companies supporting cognitions by Aguilera and Cuervo-Cazurra [31] about the issuer's ability to enforce changes in the companies' governance system. Codes that are developed by the stock markets have strongest enforceability, since they are designed as the norm of operation, and thus having a greater impact on the promotion of good governance. The CG Code itself as well as mandatory disclosure of compliance with the code's recommendations serves as a guideline to different groups of stakeholders by clearly describing the particularities of the Slovene business world. Disclosures in the CG Statement based on 'comply or explain' approach should be specific and of high quality so that shareholders, investors and other stakeholders get a transparent and a reliable picture of the company's governance system.

The LJSE analyses from 2012 and 2015 of disclosures of compliances with the Slovenian CG Code [40, 50] show that the number of specific, high-quality explanations of deviations describing besides deviations also alternative solutions has increased. Even though these results indicate that companies have become aware of the importance of good disclosure practices, their share is still relatively low and therefore improvements are needed in this respect. Such situation is not specific for Slovenia, but has been noticed in other European countries where companies often use standard explanations of deviations, see [10]. The 'comply or explain' approach is effective only when high-quality explanations of deviations are disclosed. That is a way we find of crucial importance to raise awareness of the companies' key stakeholders on the main features of the high-quality explanations. According to the EC Recommendations, the high-quality explanations of deviations mean [32, Article 18]

- avoiding the use of the standardized language,
- focusing on the specific company context explaining the departure from a recommendation and
- the explanations should be structured and presented in such a way that they can be easily understood and used.

EC recommends companies [32; Section III, paragraph 8, 33; Section III, paragraph 8] to clearly state which specific recommendations they do not comply with and for each deviation, they should

- explain in what manner the company has departed from a recommendation;
- describe the reasons for the departure;
- describe how the decision to depart from the recommendation was taken within the company;
- where the departure is limited in time, explain when the company envisages complying with a particular recommendation;
- where applicable, describe the measure taken instead of compliance and explain how that measure achieves the underlying objective of the specific recommendation or of the code as a whole, or clarify how it contributes to good corporate governance of the company.

The research findings show that the level of compliance with the codes' recommendations has been increasing in Slovenia. However, as stated in both reports [40, 50], we cannot make a firm conclusion on the actual level of compliance with the CG Code's recommendations. Companies may not disclose all deviations or may find them as unimportant in their attempt to disclose compliance with as many recommendations as possible. That is a way companies should be made aware of the main purpose of the corporate governance code and accompanying 'comply or explain' approach since 'departing from a provision in the code could in some cases allow a company to govern itself more effectively' [32, p. 44]. A non-compliance with the 'best practice' which is accompanying with an explanation of how the alternative approach achieves the goal of the non-adopted recommendation can present significant benefit when creating the governance system that best suits the company's specific circumstances, see [36]. Companies should be aware of the flexibility enabled by the 'comply or explain' approach, and develop a governance system that in the best possible way addresses the company's specifics. The practice of not disclosing all deviations could be a very dangerous one since it can raise doubt about the implementations of the rest recommendations for which a company disclose compliance, see [40].

Both analyses on disclosures of compliances with the CG Code [40, 50] provide important cognitions on the adoption of the CG Code in Slovenian companies. Findings of such analyses reveal improvements in the governance practice and indicate those areas where changes are required. That is a way such monitoring and analysis should be done on the regular basis. Since we can observe high concentrated ownership in Slovenia [50] and companies with controlling shareholders are found to be less prone to disclose information [26], a regular monitoring of disclosures is of great importance. The EC recommends that public or specialized bodies should regularly monitor corporate governance statements published by companies in order to make 'comply or explain' approach effective [32, Article 19]. Shareholders should also perform effective monitoring in order to encourage good-quality explanations [32, Article 20]. Shareholders should play an active role in improving the quality of explanations in Slovenia as well. A dialogue between shareholders, a management board and a supervisory board is of great importance in the process of creating a suitable governance system. External institutions as professionals in monitoring the quality of disclosures [40] cannot do this. However, such professionals can play an important role in the process of monitoring due to knowledge and expertise they possess.

Reporting on the monitoring results can considerably contribute to better understanding of the code's recommendations among companies, promote debate and thus foster awareness of the underlying issues, see [26]. Regular monitoring of the codes adoption can provide legislators, policy makers and stock exchanges with an important insight into the effectiveness and efficiency of the codes, thus providing basis for developing and updating the recommendations 'in order to address the potential failures of corporate governance mechanisms' [10, p. 222]. Such monitoring can be the opportunity for regulators to 'make the rules less ambiguous' [26, p. 196] as it is the case with the last revision of the Slovenian CG Code that considered the findings of analysis of disclosures of compliances with the Slovenian CG Code from 2009 for the 2011–2014 periods.

The research studies and analysis not only in Slovenia but also in other surroundings deal mainly with the disclosures of compliance with the codes' recommendation. However, we believe that future research should address not only the statements on (non)-compliances but also how companies implement and practice the code's recommendations. Effective governance is demonstrated by the implementation of the regulations and recommendation in the practice and 'whether a code really contributes to improving practices depends on the extent to which companies actually comply with the recommendations in the code and to what extent compliances leads to changes in corporate behaviour' [12, p. 63]. We believe that a more in-depth analysis of the declared and implemented governance arrangements and their consequences is needed. An important contribution in this direction can be the SEECGAN Index that enables to measure how the codes' recommendations and national regulations contribute to the quality of corporate governance practice. The SEECGAN Index enables the comparisons of governance practices among South Eastern European countries, thereby creating a platform for debate about the best governance practices considering the specifics on national economies in that part of Europe.

Future research should also address the relationship among the code's compliance and the company's performance in general as well as in Slovenia. None of the researches and analyses conducted in Slovenia have addressed this question yet. We find this issue to be of great importance especially since mixed results about the impact of the level of compliance with the code's recommendations on companies' performance can be found in the literature, see [10]. Some research studies even showed that financial performance could justify non-compliance [7]. Diverse and mixed results can be explained by cognitions of several authors that corporate governance is a complex construct influenced by many factors, see [37]. Both the research and the practice regulated by different forms of hard and soft laws should adequately address the complexity of corporate governance construct. We hope that findings presented in this paper contribute to better understanding on how the codes of good governance as a form of soft law address this complexity and where improvements are required.

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