Journal of Korea Trade Vol. 23, No. 6, October 2019, 93-112
https://doi.org/10.35611/jkt.2019.23.6.93
ISSN 1229-828X

Study on Corporate Governance in Emerging Markets: A Focus on Compliance of South African and South Korean Listed Companies*

JKT 23(6)

Received 10 August 2019
Revised 24 September 2019
Accepted 21 October 2019

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Abstract

Purpose – First, this study contextually examines the governance codes of South Africa and South Korea. Second, it analyzes board features of South African (JSE) Mainboard and South Korean (KRX) KOSPI-listed companies.
Design/methodology – This review is qualitative and uses data from the annual reports of the selected markets' companies, respective exchanges' official web sites and corporate governance-related web sites in order to examine the corporate governance practices in the two markets. In addition, Nvivo is employed in analyzing the content of the corporate governance codes of the selected countries.
Findings – Our analysis indicates that the corporate governance codes of the two countries are evolving to keep up with the international trend of principles-based approach. The composition of the board of directors (BODs) of non-financial companies of both South Africa and South Korea shows no significant variation between the companies with regards to the executive (inside) and non-executive (outside) directors. On the contrary, there is a significant variation between South African and South Korean listed companies with respect to diversity.
Originality/value – While previous studies are centered on the impact of governance codes on performance, this study intends to contextually evaluate the codes and features of South Africa and South Korea listed companies. This is essential and timely for regulators and policy makers given the importance of corporate governance features such as board independence and diversity in recent times.

Keywords: Board of Directors, Compliance, JSE, KRX, Ownership Structure
JEL Classifications: G32, G34, G38

1. Introduction

In recent times corporate governance is gaining more attention both in the academic field as well as the corporate world. This may be partly due to the emergence of corporate scandals that began in the late nineties in the U.K, U.S and the financial crises that hit some countries in Asia. These scandals range from the case of Maxwell Communications in the UK in the late 1980s (Arcot and Bruno, 2006), Enron in 2002 in the U.S, OneTel in 2001 in Australia and most recently the Satyam Computers in 2009 in India. Another factor that cannot be easily ignored is the financial crisis that has hit many countries in Southeast Asia including but not limited to South Korea in 1997. These events have resulted in investors and countries losing their investments and monies, and costing the employees their jobs. Oehmichen (2018)

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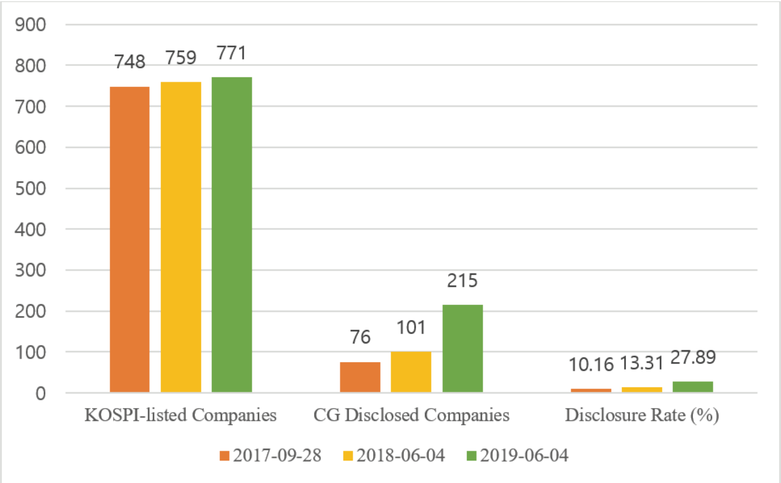
argued that this has led many countries to revisit their corporate governance structure. Most recently, OECD (2019) published report on corporate governance and pointed out that about half of the countries have updated their corporate governance report. South Africa and South Korea are no exceptions. While South Africa has constantly updated their corporate governance codes over the years and the compliance of South African JSE listed companies are relatively high, the same cannot be said about South Korea's corporate governance. This unwillingness of Korean companies complying with the Korea code of best practices for corporate governance are attributed to the family-ownership structure that dominates Korea. However, it is important to note, the number of Korean companies complying with the Korea's Best Practices of corporate governance are slowly picking up. For instance, the number of companies disclosing their corporate governance reports have been increasing since 2017. However compared with the number of companies listed, it is clear that disclosure rate for KOSPI-listed companies are relatively low. As illustrated in Fig. 1, the disclosure rate for KOSPI-listed companies in 2017 is 10.16 percent.

Previous researches have studied the Anglo-American model of corporate governance which is basically focused on the U.K, America, Canada and Australia with regards to firm performance and compliance. For instance, Engel, Hayes and Wang (2007), Gompers, Ishii and Metrick (2003), Johnston and Madura (2009) and Kang, Mandy and Gray (2007) investigated corporate governance with regards to performance in developed markets. Other prior researches such as Arcot and Bruno (2006) for UK; Salterio, Conrod and Schmidt (2013) for Australia and Canada investigated corporate governance in general and the degree of compliance for principle-based regime in particular.

Fig. 1. KOSPI-listed Companies and CG Disclosure Rate (2017-2019)



Notes: 1. Disclosure rate is the number of the corporate governance report's disclosed companies divided by KOSPI listed companies multiplied by 100.
2. CG refers to Corporate Governance.

Source: Authors' calculation using KIND data.

Quite a number of previous literature documented on the corporate governance of the sample countries. With regards to South Africa, Rossouw, Van der Wattt and Roussouw (2002) reviewed King I, West (2006) surveyed King I and King II. Empirically, Ntim and Osei

(2011) focusing on King II, analyzed the effect of board meeting on corporate performance and found that corporates' boards that meet frequently have the ability to effectively monitor, supervise and discipline management which results into enhanced financial firm performance. Additionally, most recently, Dzingai and Fakoya (2017) focusing on King IV examined the impact of board features such as diversity and independence and suggested that functional corporate governance through a small effective board and supervision by an independent board will bring about increased corporate financial performance.

In the case of South Korea, Kim Byoung-Gon and Kim Dong-Wook (2006) descriptively analyzed corporate governance of Korea from internal and external governance mechanism viewpoints. They concluded among other points that for Korea corporate governance to be advanced there is the need to strengthen the independence of shareholders. Claessens and Fan (2002) qualitatively touched on Asian countries including South Korea with regards to corporate governance. Nam Il-Chong (2004) analyzed corporate governance in Korea post-1997 financial crises and found that legal infrastructure with regards to corporate governance has improved compared to the pre-crises era.

While prior studies for example, Black and Kim Woo-Chan (2012), Kim Byoung-Gon and Kim Dong-Wook (2006), Lee Jung-Wha and Sohn Sung-Kyu (2005) and Pae Jin-Han and Choi Tae-Hee (2011) focus solely on South Korea, others are comparison of corporate governance codes of Korea and mostly other Asian countries (Claessens and Fan, 2002; Lee, Lan and Rowley, 2014; Low, Roberts and Whitening, 2015; Oehmichen, 2018,). However, prior works on South Africa and South Korea which adopt the principle-based corporate governance approach is limited. Fauver et al. (2017) most recently using data from 1990 to 2012 studied 41 countries including South Africa and South Korea and found that board reforms increase firm value.

Since South Africa and South Korea's corporate governance best practices were upgraded in 2016 (see Table 1 and 2), it is just appropriate to update the review on the corporate governance codes in both countries with particular interest in non-financial publicly traded companies that disclose their corporate governance report from 2015 to February 2017 for South African companies and September 2017 for Korean companies. Reviewing the corporate governance in both countries is expected to be of importance to policy makers and regulators in enhancing their corporate governance practices on par with the international best practices. Furthermore, it will be beneficial for international investors who are looking for avenues to diversify their portfolio.

The main aim of this review is two-fold. First, this study intends to contextually analyze corporate governance codes of the two selected countries. Second, is to examine the ownership structure and corporate governance features in South Africa's Johannesburg Stock Exchange (JSE) main board and South Korea's stock Exchange (KRX) KOSPI listed companies.

This study contributes to the existing corporate governance literature in three important ways. To begin with, this study reviews the evolution of corporate governance codes of two key emerging countries in Africa and Asia. Second, examining the diversity of the board of companies in the two countries is timely given the importance of gender diversity in recent times. Finally, in contrasting the South African and South Korean corporate governance codes, this study offers insight into the differences between the two countries' corporate governance codes. This study points out areas where future empirical research is needed.

The major finding of our review is in four parts. First, the corporate governance codes of the two countries are evolving to keep up with the international trend of principles-based approach. South Korea has adopted the stewardship code that will empower institutional investors to exercise their shareholder rights. Second, the result of the composition of the board of directors of both South Africa and South Korea shows no significant variation between the companies with regards to the executive (inside) and non-executive (outside) directors. Third, there is significant variation between South African and South Korean listed companies with respect to diversity. The age distribution of directors of South African listed companies appears to be more diverse compared to their South Korean counterparts. Similar trend is evident for gender diversity. Finally, South Korean companies appear to have board meetings more frequently compared to their South African counterparts.

The remainder of this review is as follows. The next chapter touches on the theoretical background and prior literature. Chapter 3 presents methodology, data, and the rationale behind the selection of the two countries. In Chapter 4, we give an account on the corporate governance of the two countries. We present the ownership structure and corporate governance features of the sample firms in Chapter 5. Chapter 6 summarizes the findings and discussion of policy implications.

2. Theoretical Background and Literature Review

Corporate governance is a huge and complex concept. Abdellatif (2009) in his dissertation on corporate governance mechanisms and asymmetric information attributed this complexity to agency theory, heterogeneity of corporate governance systems, and drastic change in the development of corporate governance. Corporate governance can be broken down into internal and external governance. Rossouw, Van der Watt and Rossouw (2002, 290) referred to the external version as broad concept and the internal as narrow concept of corporate governance.

Previous researches documented on different types of corporate models but for the purpose of this we focus on shareholder and stakeholder models (West, 2006; Freeman and McVea, 2001). West (2006) points out that the theory of corporate governance is commonly characterized with two opposing models (shareholder and stakeholder). Fundamentally, as the name suggests, in the shareholder model the corporation is answerable to the owners (shareholders). West (2006) stated that the view of the corporation being accountable and responsible to its shareholders is basically dominant in U.S and is accepted in English speaking countries.

On the other hand, the stakeholder model sees the corporation as a “social entity” and should render account not only to the owners but also to others that may shape or be shaped by the corporation. These stakeholders as stated by Donaldson and Preston (1995) and Freeman and McVea (2001) includes shareholders, employees, customers, suppliers, communities, trade associations, political groups and other groups. The stakeholder theory is sub-classified by Donaldson and Preston (1995) into descriptive (empirical), instrumental and normative theories. Descriptive theory emphasizes on the description and in some cases, explanation of specific features and behaviors. Instrumental theory is employed in the identification of connections (or lack of them) between stakeholder management and achievement of conventional corporate aims. Normative is adopted in order to elucidate the conventional role of the corporation such as profitability. As noted by West (2006), stakeholder approach is dominant in Europe and Japan.

Oehmichen (2018) most recently reviews the characteristics of the two essential corporate players (board members and owners) for the Philippines, Malaysia, India, Indonesia, China, and Thailand. Oehmichen pointed out that these countries are distinguished by certain context factors such as diverse, weak, and dynamic institutions which have effect on corporate governance.

Carney and Child (2013) analyze corporate governance from the ownership and control perspective for Korea and eight other East Asian companies in 1996 and 2008. Out of the five ownership types (individual or family, domestic government, widely held financial institutions, widely held corporations, and foreign government) they found family control to be the most popular type of ownership among the selected countries especially in Japan and Taiwan and very essential in Thailand and Korea. While Taiwan has experienced downward trend with regards to family control, the Philippines has witnessed the largest upward trend in family-controlled firms. They also pointed out state control in 2008 in five countries (Hong Kong, Malaysia, Singapore, Thailand, and Indonesia) to be essential. In addition, they found separation of management from ownership to be uncommon. They uncovered that family controlled ownership has skyrocketed in Korea from 1. 61% in 1996 to 3.22% in 2008.

The empirical results of the board composition and firm performance are mixed. For example, Hermalin and Weisbach (1991) empirically analyzed 142 NYSE listed companies and found out that there is no impact of board composition on performance and argued that board composition does not matter. On the other hand, Beasley (1996) empirically investigated 150 (75 fraud and 75 non-fraud) companies with regards to the inclusion of larger outside directors and financial statement fraud. Beasley's result indicates that the involvement of larger composition of outside directors significantly lessens the chance of financial statement fraud. Similarly, Lee Jung-Wha and Sohn Sung-Kyu (2005) argued that the role of outside directors is vital in resolving the agency problem that exist between managers and shareholders and that the disclosure is positively correlated with the number of outside directors. Fauver et al. (2017) pointed out that the reason for majority outsider representation on a board is to deter the insiders from extracting private benefits, motivate them to invest in projects that benefit all shareholders and to enhance financial reporting transparency. They also empirically documented that firm value increases following corporate governance reforms.

One of the factors that cannot be easily ignored, in this era of technological advancement and globalization, is the diversity of board of directors. Diversity of the board is simply the heterogeneity in the board make-up with regards to gender, age, race and educational background and so on. Arfken, Bellar and Helms (2004) state that diversity is necessary in gender, ethnicity as well as in age, background, status, income level and educational experience. For the purpose of this study, we follow Kang, Cheng and Gray (2007) in analyzing gender, age and director qualification (Bathula, 2008) of the board composition of South African and South Korean non-financial companies. This is significant because the corporate governance code of the two countries considered in this study touches on the issue of diversity with regards to board composition. Gender diversity is believed to enhance board monitoring (Low, Roberts and Whiting, 2015) increase innovation and creativity; improve the effectiveness of corporate leadership; assist in understanding of the market place (Carter, Simkins and Simpson, 2003, 36) and is significant in growing business (Arfken, Bellar and Helms, 2004).

Ferrero-Ferrero, Fernández-Izquierdo and Muñoz-Torres (2015) empirically examine the impact of age diversity of board members of 205 European-listed companies. They found age diversity to positively affect firm performance. Ferrero-Ferrero, Fernández-Izquierdo and Muñoz-Torres (2015) and Kang, Cheng and Gray (2007) argue that an age-diverse board comprised of different generations will result into information richness. Furthermore, the existing literature documents mixed results on the effect of female board member on both firm and market performance. For example, most recently Tanaka Takanori (2019) empirically analyzed Japanese listed companies from 2006 to 2015. Their Tobin's Q result indicates that female directors irrespective of whether they are inside or outside director have significant positive impact on firm performance. With regards to market performance, their result indicates that the markets react positively when a female director is selected. Also using Spanish data, Abad et al. (2017) found evidence in support of gender diversity of boards being negatively related to information asymmetry in the equity market [See also, Dezsö and Ross (2012)] On the contrary, Dobbin and Jung Ji-Wook (2010) analyzed 432 largest American firms from 1997 to 2006 and found that women on boards have negative impact on stock value and no impacts on profits.

Ntim and Osei (2011) examined the South African publicly listed companies from 2002 to 2007 with regards to board meeting frequency. They found a statistically significant correlation between the degree of board meetings and firm performance. Bathula (2008, 91) analyzed the level of board meetings for New Zealand publicly traded companies from 2004 to 2007 and documented a negative impact on performance.

3. Research Methodology

This review is qualitative and uses data from annual reports of the selected markets' companies, respective exchanges' official and corporate governance-related web sites in order to examine the corporate governance practices and characteristics of the publicly listed companies in the two markets. In particular, for South African companies, we hand-collected annual reports from JSE website in order to extract information on corporate governance characteristics of the selected companies which are included this study. This is essential in analyzing the corporate governance compliance for the individual companies. With regards to South Korean companies, the data on corporate governance variable was collected from Data Analysis, Retrieval and Transfer System (http://dart.fss.or.kr), Korea Investor's Network for Disclosure System (KIND) and the Korean Exchange (KRX).

Companies we hand-collected for this study should satisfy two main criteria. First, the company had to be listed on the Main-board of JSE and KOSPI of the KRX and should be a non-financial company. This is important because financial companies and companies listed on alternative boards are required to apply (if not different) only some of the corporate governance principles. Second, with respect to South Africa companies, their integrated report should fall within 2015 and February 28th, 2017. On the contrary, South Korean companies should disclose their 2016 corporate governance report in 2017 to be included. As a result of data limitation of South African companies' integrated annual reports and relatively low disclosure of governance report by the non-financial companies in South Korea, our final data for the analysis was 18 and 22 sample companies respectively.

This review is two-fold. The first part focuses on the contextual aspect of the principles and recommendations of the corporate governance of the two countries. This is important because it is necessary to investigate whether the contents of the codes are moving towards the international best practices which is important for an exchange to be globally relevant. The second part delves into the internal parts of the corporate governance (board and ownership) of South Africa and South Korea. The motivation of focusing on the board of directors stemmed from the significant roles they play in achieving the set goals of a company. Salterio, Conrod and Schmidt (2013) argue that board of directors will directly affect the approach that a firm takes with regards to accountability, monitoring, responsibility, financial reporting and are also perceived as the internal control authority of a firm.

We selected South Africa and South Korea for this study because of three main reasons. First, they both introduced corporate governance in the nineties and upgraded their corporate governance practices in 2016. Second, not only do they both adopt corporate governance code similar to the Anglo-American model but they're both among the top twenty exchanges in the world with regards to market capitalization. Their respective market capitalization was more than US$ 1 trillion. Precisely, the market capitalization for JSE was $1,256,759 million and $ 1, 771,776 million by the close of 2017 (OECD, 2019) and a population above 50 million over the same period. Finally, they both have similar cultural elements. South Africans have the Ubuntu while Korea's have the *weness* and *jung*. All else equal, these features might have some impact on their respective corporate governance codes. However, unlike JSE-listed firms, the degree of corporate governance compliance among KRX-listed firms remains relatively low despite the recent upward trend in corporate governance disclosure since 2017 as illustrated in Fig.1. As a result, there is the need to compare the KRX-listed firms with another emerging market whose corporate governance approach follows international best practices.

4. Corporate Governance Environment in South Africa and South Korea

4.1. South Africa's Corporate Governance

Corporate governance in South Africa started in 1992 by combination of stakeholders such as directors, private and government sectors. The directors formed a group called Institute of Directors in Southern Africa (IoDSA) and along with the above-mentioned stakeholders formed the King Committee. The Johannesburg Stock Exchange (JSE) and Financial Services Board (FSB) are some of the private and public sector actors that are members of the King committee.

Table 1. Corporate Governance Reforms Timeline in South Africa from 1994-2017

Commission Establishment		Publishing King I		Reform King II		Reform King III		Reform King IV
Duration	⇨	11/1994-2002	⇨	03/2002-02/2010	⇨	03/2010-03/2017	⇨	04/2017-Present
Governance Approach		N/A		Apply OR Explain		Apply OR Explain		Apply AND Explain

Note: N/A depicts Not Available.
Source: Authors' compilation using King Reports.

Two years after its establishment (in 1994), under the supervision of the Mervyn E. Kings S.C (the Chairman), the King Committee compiled the first report on corporate governance with the ultimate goal of enhancing corporate governance system in South Africa. This report is commonly referred to as the King I. Rossouw, Van der Watt and Rossouw (2000, 296) point out the main dimension of King I to be financial and ethics dimensions. Post-King I, there have been subsequent versions of the King report, namely King II, King III, and currently King IV. These codes became effective in 2002, 2010, and 2017 respectively. Table 1 demonstrates the corporate governance reform timeline of corporate governance in South Africa. Some of the reasons for the reform development of corporate governance in South Africa are classified by Rossouw, Van der Watt and Rossouw (2002) as internal pressure (e.g 1994 general election in South Africa) and external pressures (e.g OECD corporate governance principles announcement). It is interesting but not shocking to know that King II when compared with previous UK corporate governance principles showed similarity with regards to internal control, boards of directors, risk management, directors remuneration, and accounting and audit but not Integrated Sustainability found in King II (West, 2006).

West (2006) argued that South Africa's corporate structure, having a single-layered board structure; vibrant stock exchange and among others make it closer to Anglo-American approach.

4.2. South Korea's Corporate Governance

Similar to South Africa, South Korea first established its corporate governance code in September 1999 shortly after the financial crises that hit most Southeast Asian countries including but not limited to South Korea in 1997. Sonu Suk-Ho (2002) pointed out that Korea's 1999 corporate governance best practices are rooted in the OECD'S corporate governance principles which basically emphasize the shareholder-centered management. As indicated in Table 2, the first reform (KCGS R-1) of the Korea corporate governance took place in February 2003. The reasons given for the reform can be classified between domestic and external changes that have taken place since 1999. Domestically, the revision of the corporate governance, securities and exchange laws; internationally, the accounting scandals in the United State were cited as some of the reasons for the Korean Corporate Governance Service (KCGS). Most recently, in August 2016 the corporate governance code was revisited (KCGS R-2), for the second time, with the ultimate goal of "enhancing the transparency and efficiency of the corporations for the future".

Sonu Suk-Ho (2002) stated that, in spite of the efforts to improve the corporate governance of conglomerates, financial institutions, and public corporations, the Korean corporate governance when compared to the international standards was lagging behind. Previous researches attributed the unwillingness of Korean companies to voluntarily apply the governance code to the dominance of family ownership (chaebol) in Korea. However, this appears to be changing. Gupta and Sharma (2014) pointed out that LG Electronics and Kia Motors, which are parts of the chaebol (family-run conglomerates), have started to partially disclose their information while POSCO on the other hand is recognized both domestically and internationally for its disclosure. Compared to the past, there are more companies that are voluntarily disclosing their corporate governance best principles. However, majority of the companies remain adamant. As shown in Fig. 1 the number of KOSPI listed companies that voluntarily disclose their corporate governance report as of September 2017 was only 76 out of 746 companies listed (a disclosure rate of 10.2%). This low participation by KOSPI listed companies are some of the reasons why the FSC and KRX have come up with the mandatory disclosure for companies whose assets are above 2 trillion Korean won as indicated in far right of Table 2. This appears to be having the expected effect since the number of companies disclosing their governance report has more than doubled as of July, 2019.

Korean Corporate Governance Service (KCGS) code is structured on five major sections and these include shareholders, board of directors, audit systems, stakeholders, and management monitoring. The need for the KCGS code 2016 is documented to have been rooted in the international-level discussion of corporate governance and the development of corporate governance reforms in most countries. Another reason given for the reform is the "Korea Discount", which results in lesser value of Korean stocks compared to other countries' due to lack of transparency as far as the corporate governance is concerned.

Table 2. Corporate Governance Reforms Timeline in South Korea from 1999-2016

Commission Establishment	Commercial Code	KCGS R-1	KCGS R-2	Governance Report Disclosure System
Duration	09/1999	02 /2003	08/2016	2019
Governance Approach	Ruled-based	Comply or Explain	Comply or Explain	Mandatory Requirement (KOSPI Listed)

Notes: 1. KCGS R-1 denotes Korean Corporate Governance Service (KCGS) 1st Reform.
2. KCGS R-2 depicts Korean Corporate Governance Service (KCGS) 2nd Reform.
Source: Authors' compilation using Korea Code of Best Practices for Corporate Governance Reports.

4.3. South Korea and South Africa Corporate Governance Approach

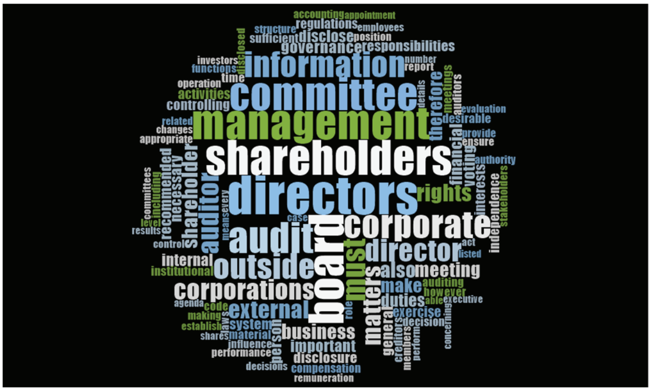
In the nineties, the corporate governance approach of both countries was different. While South Africa used the voluntary approach (commonly referred to as 'comply or explain') to corporate governance in 1994, South Korea adopted the rule-based (the Commercial Act) approach in 1999, two years after the Asian financial crises (See Table 1 and 2). Salterio, Conrod and Schmidt (2013) stated that comply or explain are collection of corporate governance principles coupled with 'best practices' in accomplishing desired results. South Korea in 2003 reformed their corporate governance to follow the international best practices of voluntary disclosure.

While the KRX is ahead of JSE in terms of the number of companies listed and market capitalization, South Africa seems to be taking the lead with regards to the implementation of corporate governance codes. Presently, the JSE has moved from the "comply OR explain" approach to adopting "comply AND explain" for to-be-listed and listed companies to comply, while the KRX on the hand, has adopted the "comply or explain" approach in 2016 for all listed companies. Most recently, the KRX in order to improve transparency has mandated all KOSPI listed companies whose total asset is more than 2 trillion Korean won to comply with the "comply or explain" approach of corporate governance. Companies which fall under this categories but refuse to comply will be branded according to the FSC as unfaithful corporations.

Fig. 2. Contextual Analysis of South Africa Corporate Governance Code

Source: Author's Compilation using King Report (2009).

Fig. 3. Contextual Analysis of South Korea Corporate Governance Code



Source: Author's Compilation using Korea Code of Best Practices for Corporate Governance Reports (2016).

Table 3 depicts the chapters of the respective corporate governance codes of both South Africa and South Korea. The codes elaborate on matters related but not limited to board of Management Monitoring by the Market and stakeholders. It is evident that both countries have some practices in common.

Table 3. Comparisons of Corporate Governance Codes between South Africa and South Korea

Chapters	South Africa Governance Codes	South Korea Governance Codes
One	Ethical leadership and corporate citizenship	Shareholders
Two	Boards and directors	Board of Directors
Three	Audit Committees	Audit Systems
Four	The governance of risk	Stakeholders
Five	The governance of information technology	Management Monitoring by the Market
Six	Compliance with laws, codes, rules and standards	N/A
Seven	Internal audit	N/A
Eight	Governing stakeholder relationship	N/A
Nine	Integrated Reporting and disclosures	N/A

Note: N/A depicts Not Applicable.
Source: Authors' compilation using KIII-2009 and KCG-2016 Reports.

4.4. Corporate Governance and Listed Firms Compliance

As mentioned above, the 2009 corporate governance best practices of South Africa and South Korea's 2016 corporate governance best practices follow the "comply or explain" approach. This indicates that compliance can either be the application of the recommended principles or explaining the reasons why the company deviated from applying the recommended principles or codes. Salterio, Conrod and Schmidt (2013) argue that companies are noncompliant if they refuse to adopt and failed to provide explanations on why they could not comply.

In quest to improve the compliance level of corporate governance codes of the firms listed and to-be-listed firms on KRX, a couple of measures are taken. First, most recently, the KRX in collaboration with the FSC requires KOSPI listed companies that have their asset above KRW 2 trillion to disclose ten vital principles of the KCGS and the G20/OECD principles of governance. Failure of companies that fall under this category to comply with recommended principles will not only result into the KRX labelling them as unfaithful disclosure company, but also will be given penalty points (FSC, 2018). Further, the KRX drawing on the Korea's Code of Best Practices for Corporate Governance revealed 10 core principles that listed corporations should comply with. Finally, the Korean institutional investors are given the power to play a key role in the firms' compliance to the corporate governance codes through stewardship codes.

5. Ownership Structure and Corporate Governance Features of Listed Firms

5.1. Types of Ownership

Table 4 demonstrates the variations in major shareholders between companies listed on the main board of JSE and KRX's KOSPI listed companies. It is evident that the major share owners in South African companies appear to be institutional investors. This finding is in line with Campbell and Mínguez-Vera (2008) that pointed out U.S and U.K had the lowest levels of individual share ownership but highest levels of institutional ownership compared to Spain. For example, Spain has the highest level of individual ownership which according to Campbell and Mínguez-Vera shows the significance of family ownership. Our result is not surprising since South Africa laws and corporate governance codes are benchmarked from U.K.

Analysis of the ownership structure of the KOSPI-listed companies shows that the majority of shares are owned by a family member(s) and a group of affiliated listed and non-listed companies. In addition, our result indicates that the average ownership of largest shareholders (founding-family member) and other affiliated companies stands at 37.30%. As pointed out by Claessens and Fan (2002, 74) the families attain effective control through stock pyramids and cross-shareholdings which according to them can be a complicated structure. This finding is similar to Joh Sung-Wook (2003) who found that the largest shareholder and family of a listed firm owns not more than 31.7% of shares on average. Joh Sung-Wook argues that in spite of low ownership, controlling shareholders in South Korea publicly traded companies retain control because of diffused ownership among individual shareholders and lack of monitoring of firm activity by institutional shareholders. Similarly, prior researches such as Claessens and Fan (2002) point out that compared to developed markets (e.g., U.S and U.K) where shares are diffusely held, shares in an average Asian corporation are tightly held by a family member or couple of family members. They added that "The company is often affiliated with a business group also controlled by the same family, with the group consisting of several to numerous public and private companies." This according to Claessens and Fan enable the family attain effective control of the companies through cross shareholding as well as stock pyramids.

Table 4. Ownership Structure of South Africa and South Korea Companies

	JSE Companies Major Shareholders	KOSPI Companies Major Shareholders
Mean	61.70	37.30
Median	58.60	35.81
Std. Dev.	20.65	17.13
Min.	35.42	8.71
Max.	97.97	75.06
Obs.	17	22

Source : Authors Compilation using ShareData and DART Data for South Africa and South Korea respectively.

However, with the recent introduction of the Korea stewardship code in 2016, it is expected that this code will help institutional investors in accomplishing their fiduciary duties by monitoring the activities of the companies that they have invested in. One way of creating the motivation of complying to corporate governance codes is that, with rising demand for capital, firms will have to be more responsible to investors' (e.g., institutional) demand Classens and Fan (2002,80). Consequently, future research is needed to empirically investigate if the adoption of the stewardship code achieves its expected result.

5.2. Corporate Governance Features

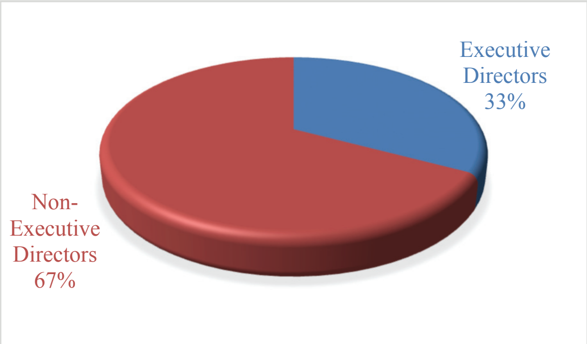
5.2.1. Board of Directors Composition

Of the numerous internal governance mechanisms, boards of directors are very essential with respect to reducing the information asymmetry between owners and agents. Kang, Cheng, and Gray (2007) pointed out that board of directors is an internal governance tool that aims at ensuring discipline or flashing out ineffective management teams and closely aligning interest of shareholders and managers. One of the proxies employed in measuring the independence of the board from management is the ratio of outside (independent) to inside (non-independent) directors. While there is much debate still on-going on the definition of outside or independent directors, most corporate governance place emphasis on the dominance of outside or independent directors in the board-room. The King III's 2009 and the KCGS's 2016 codes are no exceptions.

Principle 1.17 of the South Africa's King III states that "The Board should comprise a balance of executive and non-executive directors, with a majority of non-executive directors. Similarly, South Korea's Corporate Governance Service's Code 2016, paragraph 2.2 elaborates "...the number of outside directors should be at a level where the board is able to maintain practical independence. Particularly in the case of large listed corporations, it is recommended that half of its directors be composed of outside directors (minimum of three outside directors)." The independence of the board is significant because it is found to reduce the disclosure of fraudulent financial statement, positively contribute to the monitoring responsibility of the board, enhance firm performance (Beasely, 1996; Kang, Cheng and Gray, 2007) and resolve agency problems (Lee Jung-Wha and Sohn Sung-Kyu, 2005).

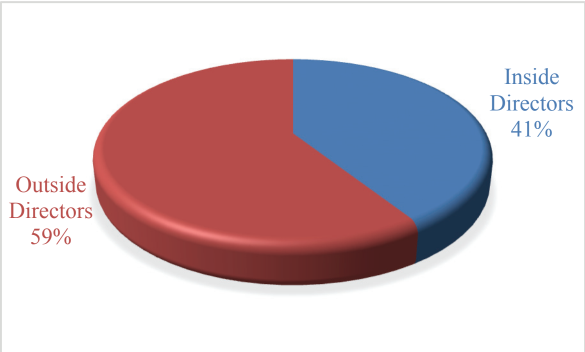
A critical review of the board composition of the corporations in both South Africa and South Korea indicates that corporations in the two countries are following the international best practices of good governance by involving more non-executive (outside) directors in their respective boards in order to improve the productiveness and performance of the board. This implies that most companies considered in this study have the majority of the boards composed of outside (non-executive) directors apart from one KOSPI-listed company whose inside directors make up the majority of the board. Precisely, the non-executive (outside) directors are 67% (59%) for the companies in the two countries respectively for South Africa and South Korea companies as indicated in Fig. 4 and 5. While this shows that the directors of the corporations are independent from management, their definition of independence appears to vary. For example, South African corporations reviewed in this study refer to their directors as executive and non-executive directors while Korean corporations identify their board as inside and outside directors. Kang, Cheng and Gray (2007) pointed out that in spite of lack of consensus on the definition of outside or independent directors, it is the most recommended corporate practice and a corporate that intends to boost the effectiveness of its board and corporate performance should form a board with the majority being outside directors.

Fig. 4. Board Composition of South African Non-Financial Companies (2015-2017)



Source: Authors' compilation using the selected countries corporate governance report.

Fig. 5. Board Composition of South Korean Non-Financial Companies (2016)



Source: Authors' compilation using the selected countries corporate governance report.

5.2.2. Separation of the Chairperson and CEO

Furthermore, we investigate the separation of roles of the board chairperson from the CEO which is another proxy of the independence of the board. Our results indicate that 94.44% of

South African companies separate the roles of the chairperson of the board from the chief executive officer (CEO). On the contrary, only 36.4% of Korean companies separated the roles of the Chairperson from the CEO. This result might be partially attributed to the family-ownership structure that dominates in Korea. However, it should be noted that Korean companies are making efforts to keep up with the international best practices of an independent director and separating the roles of the chairperson and the CEO. For instance, Samsung Electronics, in order to enforce the board of director's responsibility and transparency, has from March 2018 separated the roles of the chairperson and the CEO.

5.2.3. Diversity of the Board

a) Gender diversity of South Africa and South Korea Boards

In South Africa, the chapter 2 and recommended practice 2.18.71 of the King III states that "Every board should consider whether its size, diversity and demographics make it effective. Diversity applies to academic qualifications, technical expertise, relevant industry knowledge, experience, nationality, age, race and gender." This is not very different from what is included in the latest version of the King IV of which contextual analysis indicates that gender has been mentioned five times compared to two times in King III. This implies that much attention is being paid to diversity in the current governance code.

It is also included in the paragraph 3.84(i and j) of the JSE's listing requirements in order for the companies to enhance diversity of the board with respect to gender and race. With regards to South Korea the principle 2.5 of the board composition of the 2016 KCGS states that "It is recommended that the board be composed of directors with a diversity of backgrounds. To fulfil its role and responsibilities, the board needs to be composed of the directors with diverse knowledge, experience, and capabilities in harmony."

The results of the analysis of the board composition of South African and South Korean non-financial companies are interesting. First, South Africa boards are at least composed of one female as recommended by King III. However, this appears contrary to the result of South Korean companies. Of the twenty-two non-financial KOSPI-listed companies studied only 2 companies have a board that constitutes of female. This result is in line with Low, Roberts, and Whiting (2015) who analyzed gender diversity on Korean, Singaporean, Hong Kong and Malaysian board and found 1.0% of female directors to be on the board of Korean companies. Similarly, Arfken, Bellar and Helms (2004) examined the presence of women on companies in Tennessee and concluded that women are almost not present in the board-rooms of Tennessee's companies. Furthermore, Lee, Lan and Rowley (2014) touches on eight factors that limit women's role on Asian board. However, there appears to be a wind of change blowing family-owned companies with regards to corporate governance. For example, Samsung Electronics has appointed a female board member from March 2019 to enrich the diversity of its board.

For South Korea's board to become globally competitive and effective, Korean companies should follow the international trend of engaging more females onto the boards. The recent OECD (2019, 132) touches on disclosure requirements and regulatory measures (mandated quotas; e.g. Spain, France, Denmark, Iceland and Norway (40%) and / or voluntary targets) as some of the ways of increasing the number of women on the boards.

b) Age Diversity of Board Members

One of the board features that is drawing attention from the corporate governance literature, but which is less empirically examined is the age diversity of the board of directors. While in the past most boards are composed of directors who are middle-age and retired executives in the same industry (Gilpatrick, 2000); Kang, Cheng, and Gray (2007) argue that there is gradual paradigm shift to more age-diversified boards in order to uplift various viewpoints of divergent age groups. Like any other phenomenon, the empirical results on age heterogeneity of the board and firm performance are mixed. This includes positive, negative or neutral results on performance.

Siciliano (1996) studies 240 YMCA organizations and found out that age diversity among directors had no relationship to the organization's efficiency or its social performance ranking. However, the result was different with regards to donations. Siciliano found that age diversity among directors is somewhat related to bigger donations. Ferrero-Ferrero Fernádez-Izquierdo and Muñoz-Torres (2015) hypothesized that greater variety (such as age and gender) results to a higher level of corporate performance and found evidence in support of it. They argue that variety widens the cognitive, behavioral repertoire, and views of the board which results to better choices and enhancement in performance.

Table 5 shows the average age distribution of South African (S.A) and South Korean (S.K) directors as a whole and CEOs and chairpersons in particular. The age distribution of the CEOs (Chairman) of South African companies considered in this review ranges from 45(45) to 70(88) and with the mean age of 53.31(60.59).

Table 5. Average Age Distribution of South Africa and Korea Directors

	S. A Directors	**S.K Directors**	**S.A CEO**	**S.K CEO**	**S.A Chairman**	**S.K Chairman**
Mean	55.52	60.56	53.31	58.93	60.59	65.71
Median	55.23	60.78	51	59	61	63.5
Min.	49.67	45.88	45	41	45	52
Max.	65.13	75	70	71	88	84
Obs.	18	21	16	15	17	14

Notes: 1. S.A denotes South Africa.
2. S.K denotes South Korea.
Source: Authors' compilation using integrated annual report and DART data.

c) *Outside Directors Qualification*

Bathula (2008,62) argues that appointing candidates with higher educational qualifications on boards of directors will represent skills as companies require more refined talents to enhance organizational effectiveness.

A closer contextual review of the outside director's qualification reveals that there is an existence of qualification pattern between the outside (non-executive) directors of each country. For instance, while there is a majority of outside directors being a chartered accountant (CA/SA) and a manager (current or former CEO, COO or an outside director on another board) on South African boards of directors considered in this review, the same cannot be said about the external board of directors on the South Korean sample firms. It is noticeable that the greater number of outside directors on the Korean boards is professors and lawyers.

There is the need for future research to empirically investigate the effect of director's qualification on firm performance especially for these two countries. Bathula (2008, 91-92) hypothesized that the number of directors with PhD will be positively associated with firm performance. On the contrary, this hypothesis was rejected and Bathula concluded that specific skills such as accounting and finance as pointed out by Yermack (2006) are desirable not higher academic qualifications.

5.2.4. Degree of Board Meetings

Another corporate governance feature that is touched on in the corporate codes of the two countries with regards to enhancing board independence is the degree of meetings of the board of directors. The frequency of boards of directors' meetings is addressed in the governance codes of the two countries. King III recommends categorically the minimum number of times board meeting should be held, Principle 2.1.1 of the King III states that "…it (the board) should meet as often as is required to fulfil its duties, preferably at least four times per year." This is directly synonymous to the Paragraph 4.1 of the Korea's 2016 code of best practices for corporate governance which also states that "The board meetings should, in principle, be held regularly, at least once every quarter." This is necessary in the effective monitoring of management by the board of directors. In order words, prior researches such as Ntim and Osei (2011) pointed out that crucial proxy for determining intensity and the effectiveness of corporate supervising and disciplining is the frequency of board meetings.

Our analysis of the board meetings of the companies considered in both countries indicates that companies considered in this study adopts two kinds of board meetings-the regular or scheduled (which take place at least once every quarter) and the special board meetings (that take place when the need arises or if there is an urgent matter to discuss). It should be pointed out that while majority of the KOSPI-listed companies quantified both their regular and special board meetings, their counterpart in the JSE Main Board focused more on the regular meetings. Table 6 shows descriptive statistics of the average board meeting of the companies considered in this study. KOSPI-listed companies appear to have board meetings more frequently than their South African counterparts. To put this in perspective, KOPSPI-listed companies' total average board meeting is 11.3 times, average regular meetings is 5 times and special meeting was 4.5 times as indicated in Table 6.

Table 6. Average Board Meetings Attendance Distribution for JSE and KOSPI Firms

	Regular Meetings		Special Meetings		Total Board Meeting	
	JSE	**KOSPI**	**JSE**	**KOSPI**	**JSE**	**KOSPI**
Mean	4.56	5.58	3.67	4.58	5.72	11.27
Median	4.00	5	1.50	4.5	5.00	10
Std. Dev	1.62	2.02	5.13	2.84	4.23	4.19
Min	2	4	1	1	2	5
Max	7	11	14	10	21	21
Obs.	18	12	6	12	18	22

Source: Authors' compilation using the selected countries' firms' corporate governance report.

Higher board meetings are equated to higher quality managerial monitoring and positive firm financial performance (Ntim and Osei, 2011; Ntim 2009, 110). On the contrary, Bathula (2008) and Johl, Kaur and Cooper (2015) found board meetings to be negatively correlated to firm performance for Malaysian and New Zealand listed companies respectively. Vafeas (1999) analyzed 307 firms with regards to board meeting frequency and firm performance. Vafeas suggests that board activity which is a proxy for board meeting frequency is an essential dimension of board operations. As a result, future research is needed to investigate the frequency of board meetings and firm performance of the corporates of the countries considered in this study.

6. Conclusion and Policy Implications

This review analyzes the corporate governance, "comply or explain", regime of two emerging countries that reformed their corporate governance code in 2016, had their market capitalization more than USD 1 trillion in 2017, and have similar culture element of collectiveness (*ubuntu* and *weness* for South Africa and South Korea respectively).

This review also intends to examine the corporate governance structure, board composition, and compliance level of publicly traded non-financial firms that disclose their corporate governance in South Africa and South Korea. The results of this study are as follow.

First, the corporate governance codes of the two countries are evolving to keep up with the international trend of principles-based approach. South Africa has recently upgraded its corporate codes by reducing the number of principles in King IV to make it easier for companies to comply with the corporate governance codes. Similarly, in order to improve compliance among Korean companies, KOSPI-listed companies whose assets are more than KRW 2 trillion are required by the FSC and the KRX to mandatorily comply with the corporate governance best practices. While there exist vast difference between the number codes for each country's corporate codes, both countries (refer to Table 3) have devoted a chapter each for the board of directors and audit which are very significant in corporate governance. This might be partly due to the importance of board of directors' (Kang, Cheng and Gray, 2007) role in running the affairs of a company.

Second, the result of the composition of the board of directors of non-financial companies of both South Africa and South Korea shows no significant variation between the companies with regards to the executive (inside) and non-executive (outside) directors. This implies that the companies examined in this study have complied with their recommended principle of having more non-executive (outside) directors relative to executive (inside) directors. However, it is evident that board composition of the individual companies varies among the companies in the two countries that are analyzed in this review. Further empirical research is needed to investigate the impact of higher number of non-executive (outside) directors on firm and market performance.

Third, there is significant variation between South African and South Korean listed companies with respect to diversity. The age distribution of directors of South African listed companies appears to be more diverse compared to their South Korean counterparts. Similar trend is evident for gender diversity. While the majority of the South African listed companies' board are comprised of at least a female board member, the same cannot be said about KOSPI-listed board members. Only 2 companies out of the 21 companies investigated have a board composed of a female director. This result is in line with previous researches such as Low, Roberts and Whiting (2015) that found female composition of boards to be relatively low. This finding implies that much have not changed with regards to gender diversity in South Korea over the years.

The findings of this study offer essential policy implications for policy makers and regulators. With regards to South Korea, much attention is needed with respect to diversity (especially, gender and age). These are found to widen the cognitive, behavioral repertoire, and views of the board which results to better choices and enhancement in firm performance (Ferrero-Ferrero, Fernández-Izquierdo and Muñoz-Torres, 2015). In order to increase the number of women on corporate boards, a couple of countries have come up with gender diversity quota strategies Ali, Ng, and Kulik (2014). For instance, while Spain, Denmark, France, Iceland, and Norway have made it compulsory for listed companies to have at least 40 %, four countries have lower percentage of between 20% to 35% and three countries require "at least a female" director on their boards (OECD, 2019). Regulators and policy makers should implement policies that conform to latest international best practices of diversity quota.

Finally, from the number of companies listed and market capitalization perspective, the performance of the KRX outweighs the JSE. However, for the KRX listed companies to achieve maximum compliance with the corporate governance codes, there is the need for the KRX, Korea Corporate Governance Service and other stakeholders to implement governance approach such as the JSE's current 'comply AND explain' which all else equal might increase the compliance rate of the Korean companies.

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