
Article:
Areneke, G., Adegbite, E. and Tunyi, A. orcid.org/0000-0002-5761-931X (2022) Transfer of corporate governance practices into weak emerging market environments by foreign institutional investors. International Business Review, 31 (5). 101978. ISSN 0969-5931

https://doi.org/10.1016/j.ibusrev.2022.101978

Transfer of corporate governance practices into weak emerging market environments by foreign institutional investors

February 7, 2022

Highlights

- Foreign Institutional Investors (FIIs) are agents of governance transfer and improvement in weak business environments.
- The effectiveness of the legal system of FIIs' home country enhances their ability to improve governance practices in weak business environments.
- Cultural differences between FIIs' home and investment countries negatively moderate governance improvement in weak business environments.
- Diffusion and improvement in governance practices by FIIs at the firm level, repeated over time, may lead to future institutional change in governance quality at the country-level.

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Abstract

We advance the practice transfer theorising of corporate governance (CG) by developing a framework that uncovers how foreign institutional investors (FIIs) improve on CG practices of firms in weak institutional environments. Using hand-collected data for 85 listed Nigerian firms covering the 2011-2016 period, we show that FIIs bypass the weak regulatory environment in emerging markets by transferring good CG standards to host countries. Furthermore, FIIs' ability to enhance the CG quality of firms in such environments is moderated by their home country's legal system, with FIIs from countries with strong legal enforcement having an enhanced ability to improve CG practices of firms in weak institutional environments. However, cultural differences between the FIIs' home and host countries negatively moderate this relationship. Our results are robust to the choice of estimation technique and various sources of endogeneity.

Keywords: Corporate governance, foreign institutional investors, cultural distance, legal system, practice transfer, emerging markets, Nigeria.

1 Introduction

Our paper explores whether foreign institutional investors (hereinafter FIIs) can improve on corporate governance (hereinafter CG) practices in weak institutional environments. This is an important topic given recurring CG failures, and the attendant development of codes of good CG practices across the globe (Aguilera and Cuervo-Cazurra, 2004, 2009; Elliott and Stead, 2018; Fauver and Fuerst, 2006). Recent CG research emphasises the importance of institutions in shaping CG practices at the country- and firm-levels (Aguilera and Cuervo-Cazurra, 2004; Bhaumik et al., 2019; Cumming et al., 2017), as well as the adaptation of CG practices to country-level peculiarities (Adegbite, 2015; Schiehll et al., 2018; Areneke et al., 2019). Thus, while there is no universally accepted definition of what constitutes "good" CG, in the context of this study, we draw on prior research and operationalise good governance as regulatory "Code of Best Practices" that set standards to ensure responsible corporate behaviour and defines the roles and responsibility of management and board of directors in ensuring that the expectations of shareholders and other stakeholders are met (Aguilera et al., 2017; Adegbite, 2015; Cumming et al., 2017; Aguilera and Cuervo-Cazurra, 2009; Fainshmidt et al., 2018; Fauver and Fuerst, 2006).

The practice of good corporate governance is essential to emerging market firms for several reasons. First, as part of their sustainable development goals, many governments in emerging markets especially in Africa (e.g. Cameroon, Kenya, Nigeria and Zambia, Ghana, Ivory coast) have emphasised the need for good CG as a necessary mechanism to alleviate corrupt practices in the management of firms (Areneke and Kimani, 2019; Aust et al., 2020; Adegbite et al., 2012). Second, good CG practices show managerial commitment to reducing agency costs and maximising firm value which attracts cheaper capital at home and abroad (Areneke and Kimani, 2019; Ferreira and Matos, 2008). More so, emerging market firms that engage in good corporate governance practices can alleviate their liability of foreignness especially if they want to move abroad and or

maintain competitiveness with firms in developed countries (Estélyi and Nisar, 2016).

In spite of the highlighted importance and efforts (global and local) to incorporate CG practices into firms in the form of CG codes, weak governance environments such as in emerging markets (hereinafter EMs) and notably those in Africa, have not treated the issue with the same urgency (Nakpodia and Adegbite, 2018; Adegbite et al., 2013; Oehmichen, 2018). In the context of this paper, and consistent with prior research (Adegbite et al., 2013; Adegbite, 2015; Cumming et al., 2017; Aguilera et al., 2017), we define weak governance/institutional environments as settings characterised by weak enforcement of laws, absence of market supporting institutions (institutional void), the prevalence of corruption, tribalism, political uncertainty and elitism. Particularly, in this context, informal negative institutional practices such as corruption and tribalism, amongst others, are more powerful in determining the governance of firms than formal or soft laws instituted in the form of CG codes (Adegbite et al., 2013; Adegbite, 2015; Tunyi and Ntim, 2016). For example, in some emerging economies, prior research has established that practices such as religious and political affiliations, elitism, patriarchy and corruption, render the implementation and effectiveness of CG codes futile (Nakpodia and Adegbite, 2018; Nakpodia et al., 2018).

Meanwhile, the last two decades have been characterised by trends in globalisation, market integration and cross-border investments, with EMs attracting substantial interest from institutional investors from other markets (Aggarwal et al., 2011; Cumming et al., 2017; Filatotchev et al., 2013; Ferreira and Matos, 2008; Pope and Lim, 2020; Tunyi and Ntim, 2016; Oehmichen, 2018; Li et al., 2006; Gedajlovic et al., 2005). This trend has motivated recent research that examines the value relevance of FIIs across many dimensions. For example, some researchers have evidenced the positive impact of FIIs on stock price efficiency (Lim et al., 2016), stock market informativeness (Bae et al., 2012), dividend policy (Cao et al., 2017; Gedajlovic et al., 2005), investment prospects (Alvarez et al., 2018), capital expenditure (Ferreira and Matos, 2008), firm performance (Kim et al., 2017; Ferreira and Matos, 2008), amongst others. However, while these potential

benefits offer motivation for promoting foreign investment, FIIs face comparatively higher uncertainties when accessing weak institutional environments. When these investors move to weak governance environments characterised by practices such as corruption and elitism in the governing of firms, they face more pronounced challenges due to their absence from the host country and limited knowledge of these environments (Cao et al., 2017)[1].

Given these challenges facing FIIs, recent advances in international business studies have evidenced the mobility or spillover of CG practices across borders to limit uncertainties and institutional fragilities embedded within weak governance environments (Cumming et al., 2017; Miletkov et al., 2017; Temouri et al., 2016). Miletkov et al. (2017), for example, show that foreign directors from countries with strong governance enforcement, export good governance to weak institutional environments, particularly in cases where there is a high institutional distance between home and host countries. Also, Temouri et al. (2016) find that cross-listing enhances firm-level governance quality in weak institutional environments through bonding. Despite this advancement in the literature, it remains unclear whether FIIs (who are arguably more susceptible to high agency costs and exploitation) can improve firm-level governance quality when they invest in firms in weak institutional environments. We address this gap and contribute to the growing literature on CG mobility by drawing on practice transfer theory (Kostova, 1999; Kostova and Roth, 2002) to show how FIIs impact on CG practices when they invest in weak governance environments.

Specifically, we argue that the powerful influence of practices such as corruption, elitism and secrecy (Berkowitz et al., 2003) in the management of firms in EMs (Adegbite, 2010; Nakpodia and Adegbite, 2018), increases agency cost and investment uncertainty to foreign investors compared to local investors. Therefore, to overcome this disadvantage, foreign investors are likely to engage in improving corporate governance practices of firms through practice transfer drawing on their knowledge from their countries of origin

[1]For example, Cao et al. (2017) suggest that FIIs face information disadvantage in EMs due to high geographical distance, as well as cultural and language barriers

and experiences across various host countries. We contend that foreign investors, either through advisory or coercion can influence recommended corporate governance practices instituted by regulators in the host countries as a minimum threshold to reduce their information asymmetry problem. Hence, improving the CG practices of firms they have invested.

Nonetheless, practice transfer can lead to conflicts between foreign investors and managers as the latter may resist change especially if it impairs their ability to extract private benefits from the firm. However, we contend that due to the financial resource need of firms in EMs (Jormanainen and Koveshnikov, 2012; Machokoto et al., 2021; Tunyi et al., 2019; Hillman et al., 2000, 2009; Sherer and Lee, 2002) management of firms in EMs may want to ensure continuously inflow and or maintenance of foreign capital and therefore are likely to succumb to the transfer of CG practices from foreign investors especially if the ownership is substantial. Therefore allowing practice transfer will benefit the managements of firms in ensuring continuous inflow of capital from foreign investors which provides the firm with financial resources to maintain competitive edge while simultaneously addressing the uncertainty and agency problem that foreign investors encounter when investing in emerging economies. For example, in Nigeria, foreign institutional investors such as Socfinaf S.A, Renaissance Capitals, Kunoch holdings, ACTIS and Capital Alliance continue to play increasingly active role through shareholder activism in the Nigeria corporate governance system (Adegbite, 2010). Specifically, as part of the terms to secure their investment, these investors demand allotment of specific board positions (s) including the appointment of external board chairperson to ensure separation of management from boardroom control. For example, in 2011, the acquisition of 59.29% of the shares of Okomo Oil by Socfinaf S.A (Luxembourg institutional investor) led to the appointment of a French citizen as chief financial officer in addition to the appointment of two Belgian non-executive directors and an independent board chairman. Similarly, the purchase of 9.25% of the shares of Diamond Bank Nigeria by Kunoch holdings in 2014 led to boardroom restructuring and appointment of two non-executive directors.

Our emphasis on FIIs rather than overall foreign ownership is due to several reasons. Firstly, the presence of FIIs better strengthens monitoring and control of management when compared to individual foreign ownership. Shleifer and Vishny (1997), for example, argue that external institutional equity holders can mitigate agency conflicts because of their strong incentives to monitor and discipline. This suggests that FIIs are more likely to use their ownership to monitor and reduce information asymmetry in weak institutional environments when compared to individual foreign shareholders. Secondly, managers of firms are more likely to subscribe to the views and requirements of FIIs when compared to those of dispersed individual shareholders (Geppert et al., 2013; Ferreira and Matos, 2008). Finally, as we will subsequently discuss, most of the observed foreign ownership across our sample is in the form of institutional shareholding (with most of this being block ownership). This is not surprising as prior research (e.g. Hearn and Piesse, 2013) have also shown that most of the foreign ownership of firms in emerging African economies are in the form of institutional shareholding.

Nigeria exemplifies a weak institutional environment that is useful for our study and the Nigeria Securities and Exchange Commission (SEC) 2011 CG code presents an appropriate lens to show how FIIs impact the CG practices in this environment. We address the aforementioned research gap by using mostly hand-collected data from annual reports for Nigerian listed firms for the period 2011 to 2016. We use the level of firm compliance with the Nigerian Securities and Exchange Commission (SEC) 2011 CG code as a measure of governance quality. Our primary empirical test explores the relationship between the level of foreign institutional investment (proportion of foreign institutional ownership and voting right of FIIs in each firm) and the firm's governance quality while controlling for several other antecedents of governance quality, industry and year fixed-effects.

We recognise that an empirical test of this relationship opens up several concerns around endogeneity, specifically reverse causality. To allay these concerns, we primarily deploy a three-stage least squares (3SLS) regression approach and adopt three exogenous

instruments including measures of business ethics, property rights and accountability of the country of origin of FIIs. In addition to our use of instrumental variables, we also lag all our independent variables by one period to further address reverse causality and dynamic endogeneity concerns. Our empirical results evidence a significant positive relationship between FIIs (i.e., foreign institutional ownership and voting rights) and the governance quality of firms. Given our 3SLS framework, we infer causation—FIIs lead to improvements in governance quality. These results are robust to alternative measures of FIIs influence (i.e., FII level of ownership and FII voting rights), as well as, the adoption of a Generalized Least Squares (GLS) estimation approach.

In addition to exploring the direct influence of FIIs on CG quality, we explore how formal and informal institutions in the FIIs home country moderate this relationship. Specifically, formal institutions are the mechanisms that explicitly specifies rules and regulations that shape interactions among societal agents (Holmes Jr et al., 2013; North, 1991). On the other hand, informal institutions represents systems of shared believes, meanings and understandings which are not codified as rules and standards but also shape behavior and interactions among societal agents (Holmes Jr et al., 2013). Therefore, we examine whether the FIIs' home country legal system (formal institution) and the cultural distance (informal institution) with the host country, moderate their impact on the CG quality of firms in weak institutional environments. We find evidence that the legal system of the FIIs' home country, moderates their ability to impact the CG quality in the host country. Specifically, FIIs' ability to enhance governance practices is higher when they come from countries with an effective legal system. Similarly, we find that a high cultural difference between the home country of FIIs and the host country negatively moderate this relationship.

Our paper makes important contributions to the international corporate governance literature. Firstly, we extend practice transfer theorising (Kostova and Roth, 2002; Kostova, 1999) by developing a conceptual framework to show how FIIs improve CG practices in weak institutional environments. Secondly, we extend the governance mo-

bility literature (Cumming et al., 2017; Bhaumik et al., 2019; Miletkov et al., 2017) by evidencing the role FIIs play as agents of good governance diffusion. Thirdly, while the legal system debate has received considerable attention following La Porta et al. (1997), there has been no previous attempt to examine whether the legal system affects the ability of economic agents to impact on governance practices across economic environments. We extend this literature by showing that the legal system in the home country of governance mobility agents moderates their ability to impact governance practices in weak business environments. Furthermore, we extend the cultural distance literature (Cuypers et al., 2018; Klitmøller and Lauring, 2013; Maseland et al., 2018; Minbaeva et al., 2018) by examining its effect on economic agents' ability to impact governance practices in weak institutional environments. Specifically, we show that the higher the cultural differences between the home and host countries of governance mobility agents, the less likely they can enhance CG practices in the latter.

Finally, we contribute to the debate on institutional dynamics (Holmes Jr et al., 2013; Scott et al., 1995; North, 1991) by showing that while formal institutions (legal system) in the home country of governance transfer agents enhances their ability to improve CG quality in weak institutional environment, cultural differences (informal institutions) limits the likelihood of CG spillover. We discuss our contributions in more detail later in the study.

The rest of the paper is organised as follows. In section 2, we present our theoretical framework and develop testable hypotheses. Section 3 presents the context of our research and provides discussions of methods. Section 4 discusses the findings while section 5 summarises and concludes the paper.

2 Theoretical Framework and Hypothesis

2.1 Practice Transfer Perspective

Recent advances in institutional theory from which practice transfer perspective is derived argue that firms operate within powerful and diverse institutional environments that either promote or constrain their activities. As a result, firms tend to adopt similar practices across different institutional environments (Cumming et al., 2017; Kostova, 1999; Kostova and Roth, 2002). Drawing on this, practice transfer explains the process through which strategies that guarantee survival in one institutional environment can be exported to other institutional environments to ensure synergy and efficiency (Kostova, 1999). As organisations move abroad to new business ventures, they adopt business practices that reflect their superior knowledge and core competencies as a source of competitive advantage (Kostova, 1999).

The practice transfer perspective has generally been discussed in the context of the transfer of best practices from one country to another by multinational enterprises. However, we argue that with the global movement of capital across international borders, foreign investors are a plausible source of practice transfer especially when they invest in weak governance environments. Specifically, like organisations, foreign shareholders also face the challenges of moving their investments to institutional environments that are not similar in many aspects to their home country. Therefore, they must use their knowledge from their home country to overcome the uncertainties and reduce agency costs in new business environments. Hence, similar to multinational firms, foreign investors gain a competitive advantage in new institutional environments by promoting practices that reflect their prior experience, core competencies and knowledge.

Specific to this research, EMs have adopted governance codes to meet global standards (Aguilera and Cuervo-Cazurra, 2004; Fainshmidt et al., 2018; Schiehll et al., 2018). However, the weak enforcement of these standards (institutional void) (Amaeshi et al., 2016; Khanna et al., 2006; Meyer et al., 2009) and the powerful influence of informal

practices such as corruption, secrecy and elitism (Berkowitz et al., 2003) might make the effectiveness of normative guidelines/formal institutions (in the form of soft laws in CG codes) ineffective (Adegbite, 2010). This poses a significant risk, uncertainty and a high agency cost to foreign providers of capital who can be exploited by either managers or local shareholders. Given their experience and knowledge in their countries of origin and across various investments, FIIs, either through coercion or through counsel, can influence the firms they invest in, to adopt good governance practices from the host country as a minimum threshold for their investment. More so, coercion can be more effective if the investment is in firms aiming to reduce their liability of foreignness and gain legitimacy through foreign shareholding in foreign markets. This, therefore, enables FIIs to pressure managers to adopt recommended CG practices by regulators in the host country and or integrate other good governance practices from abroad. This thus ensures FIIs help the firm in bypassing weak enforcement and local institutional constraints and enhance the adoption of CG guidelines as required by regulators in weak enforcement environments.

While our main theoretical perspective is practice transfer, we invoke other complementary theoretical perspective such as resource dependency and institutional theories to develop testable hypothesis. Therefore, in the next section, we develop three sequential hypotheses and our proposed conceptual framework.

2.2 FIIs & CG Quality

In this section, we argue that FIIs influence firm governance quality by requiring these firms to adopt good governance practices as required by regulators and align with good CG practices from countries with strong regulatory enforcement. Due to global economic integration, there has been the movement of capital across borders (Aggarwal et al., 2011; Aguilera et al., 2017; Cumming et al., 2017; Kim et al., 2017), especially in EMs, as investors are searching for alternative investment opportunities out of the already saturated developed markets. This has motivated research examining whether such movement in capital across countries by FIIs improves investment prospects (Alvarez

et al., 2018), dividend policy (Cao et al., 2017), firm valuation (Kim et al., 2017; Ferreira and Matos, 2008) and stock market informativeness (Bae et al., 2012). The results from these studies generally suggest that FIIs improve firm competitiveness and performance. Nonetheless, it is unclear whether the reported effect of FIIs on the financial sustainability of firms is because of a reduction in agency cost through improved governance quality in the host country. For example, some authors have postulated that improvement in financial performance of firms may be as a result of enhanced CG standards in countries where investment is risky due to high information asymmetry and weak governance enforcement (Cumming et al., 2017; Aggarwal et al., 2011; Aguilera et al., 2017; Alvarez et al., 2018). On the other hand, recent IB research has offered avenues that reduce the riskiness of firms through improvement of governance quality by foreign directors (Miletkov et al., 2017) and cross-listing (Temouri et al., 2016). However, the interface between both streams of literature remains unexplored.

We close this gap by examining the role foreign providers of capital play in improving firm governance quality in the host country. We argue that the movement of capital across international borders also comes with high agency costs, risk and uncertainty. Information asymmetry, agency cost and cross-national governance differences are much higher for foreign providers of capital compared to local investors (Aguilera et al., 2017). In addition, FIIs are less likely to have access to informal governance practices (available to domestic institutional investors) which further increases their vulnerability to exploitation and misappropriation (Cumming et al., 2017; Kim et al., 2017; Miletkov et al., 2017). Given the lack of FIIs' access to local information channels in the host country, firm compliance with recommended governance practices by regulators becomes an essential instrument of accountability and transparency in countries with weak governance enforcement. The quality of governance practices is likely essential because it curtails agency cost and information asymmetry between local managers and FIIs, as well as between the latter and local investors in challenging business environments where managers and domestic investors may have significant control over firms due to the weak regulatory enforcement

(Adegbite, 2015; Uche et al., 2016).

More so, drawing from a resource dependency perspective, emerging market firms depend on the resources from external environment including financial resources which can be provided by foreign investors (Hillman et al., 2000, 2009; Sherer and Lee, 2002). As noted earlier, in Nigeria FIIs (e.g. Capital Alliance, Renaissance Capitals and ACTIS) generally require certain boardroom positions as a condition of their investment. This therefore enables FIIs to effect changes in the CG structure and practices of firms they have invested. As such, emerging market firms who want to ensure the inflow and or maintenance of foreign financial resources are likely to accept the transfer of CG practices from foreign investors which will improve their CG practices.

Furthermore, FIIs might serve as knowledge resource to the organisation and also creators of trust between foreign and local operations through the transfer and extension of CG practices. For example, FIIs may bring with them foreign regulations (Cumming and Walz, 2010), as well as monitoring mechanisms and technologies (Cumming et al., 2016) that can reduce their exposure to information asymmetry and can enable institutional transfers and enforcement of good governance standards in countries with weak governance regulation and enforcement. More so, FIIs may enforce governance standards that are not location-specific, which may increase the ability of the firm to have more transparent governance standards compared to their peers. For example, FIIs from the UK and South Africa can advocate for a majority of independent directors on the corporate boards of firms they invest in, thus improving on the threshold requirement of Nigeria SEC 2011 CG code of at least one independent director on the board.

In addition, prior research has shown that FIIs increase the possibility of foreign listing and the appointment of foreign directors (Estélyi and Nisar, 2016), which improves firms' governance quality (Miletkov et al., 2017; Temouri et al., 2016). We, therefore, argue that FIIs can enforce the appointment of foreign directors and cross-listing in foreign capital markets which enable the firm to bond with robust governance quality abroad. This bonding will lead to the adoption of good governance practices from abroad

through governance transfer, which improves governance quality in weak governance environments.

More so, we suggest that FIIs will improve the governance quality of firms in weak governance environments which enhances the latter's legitimacy (Judge et al., 2008), reduces the liability of foreignness and improve competitiveness (Bell et al., 2012; Cumming et al., 2016; Cumming and Walz, 2010) abroad whilst curbing information asymmetry and institutional constraint at home. We contend that as FIIs move into in weak institutional environments with their investments, they also move with governance standards. This strengthens the ability of firms with FIIs to adopt good governance standards thus leading to improvements in their governance quality. Finally, local investors may have close business ties and informal relationships with local firms and their managers and hence, might be less critical of the firms' business operations. FIIs, on the other hand, are likely to be more independent and vocal about governance lapses, and hence, can better monitor managers. We, therefore, hypothesise as follows;

Hypothesis 1 (H1): *Ceteris paribus, the presence of FIIs has a positive impact on corporate governance practices of firms in weak governance environments, in line with the host country's governance regulations.*

2.3 Moderating Role of FIIs Home Country Legal System

Legal system research (see La Porta et al., 2008, 1997, for detailed discussions) suggests that the legal system which represents the quality of a country's formal institution, plays a crucial role in the effectiveness of governance mechanisms.[2]The underlying argument is that the common law legal system effectively safeguards shareholders' interest compared to civil law system. Specifically, prior studies have evidenced that common law countries generally have less corrupt institutions and more efficient judicial systems which lead to better governance standards compared to their civil law counterparts (La Porta et al.,

[2]La Porta et al. (2008) classify countries with common law systems as those that have English origin and civil law as countries with French, German and Scandinavian origin.

1997; Cumming et al., 2017; Martínez-Ferrero and García-Sánchez, 2017; Liu et al., 2021). Similar results have been documented across different settings. For example, Leuz et al. (2003); Liu and Huang (2020) show that earnings management is higher in civil law countries due to lower investor protection. Further, Cumming and Walz (2010) find that systematic biases in reporting of fund performance by managers are dependent on a country's legal environment with common law countries having more transparent reporting. However, whether the legal system of the home country of economic agents (e.g. foreign investors) affects their ability to diffuse and improve governance practices across different economic institutions remains unexamined.

To close this research gap, we argue that as FIIs venture into international markets, they may face different pressures from different legal systems, which may affect their ability to influence governance standards across countries. Therefore, the effectiveness of the legal system of their country of origin can influence their ability to improve governance practices in weak governance environments. We suggest that FIIs from countries with strong (weak) legal systems provides them with the background and experience of strong (weak) regulatory environment that can facilitate their ability to transfer governance practices from one country to another. This is more significant in weak governance environments marred by inadequate institutional protection of shareholders, which is more detrimental to foreign investors than domestic investors. More so, FIIs from strong and effective legal systems are more likely to monitor and enforce good governance standards than those from weak legal systems. Consequently, improvement of governance practices may be more (less) effective when the home country of the FII has a strong (weak) regulatory system that encourages (discourages) accountability. We, therefore, hypothesise as follows;

Hypothesis 2 (H2): *Ceteris paribus, the effectiveness of FIIs home country legal system positively moderates their ability to impact on the quality of corporate governance practices, in line with the host country's governance regulations.*

2.4 Moderating Effect of FIIs Home Country Cultural Distance

Cultural distance (hereinafter, CD) research argues that the differences in informal institutions such as history, language, religion, education, and life experiences affect the norms and values of a country that makes it distinct from other countries (Cuypers et al., 2018; Klitmøller and Lauring, 2013; Maseland et al., 2018; Minbaeva et al., 2018). These differences in cultural values shape the behaviour of economic agents across countries. For example, Hutzschenreuter and Voll (2008) report that firm expansion into countries with high CD are less profitable. Reus and Lamont (2009) also report that CD impedes firm's understandability and constrains communications between the acquirer and the acquired unit. However, they also report that acquirer's CD enhances acquisition performance if acquirers overcome the impeding effect of cultural differences. Consistent with the latter results, Dikova and Sahib (2013) find that acquirers with international experience (hence, ability to mitigate cultural differences), perform better in subsequent acquisition.

Furthermore, prior research has shown different moderating effects of CD across many dimensions. For instance, Parente et al. (2011) show that CD negatively moderates the impact of new product development on product modularisation and supplier integration. On the other hand, Ilhan-Nas et al. (2018) show that CD positively moderates the impact of non-executive directors (NED) and family ownership on equity ownership of firm affiliates. Despite these contributions in understanding the effect of CD, whether CD enhances (limits) the ability of agents of governance mobility to export and enhance good governance practices across international borders remains an unexamined issue. We address this gap by examining whether CD between the FIIs home and host country moderates their impact on the governance quality of firms in the host country.

A recent review of CD literature by Maseland et al. (2018); Konara and Mohr (2019) question the use of cultural differences (using Kogut and Singh (1988) national cultural distance index) to ascertain the relationships between the latter and other firm-level outcomes (input-output aggregation) without clearly articulating (theoretically) how it may affect the behaviours of economic actors and their impact on firm outcomes. We

are sympathetic with this line of reasoning and therefore integrate CD literature within practice transfer theorising of FIIs' effect on CG practices of firms in weak institutional environments. Specifically, we argue that high CD between the host country and home country of FIIs potentially impedes their ability to affect governance practices, hence diminishing their impact on firm governance quality.

As FIIs venture into new and unfamiliar business environments, CD increases their uncertainty (Gaur et al., 2014; Gaur and Lu, 2007; Maseland et al., 2018). This may cause significant difficulties for FIIs in terms of transferring organizational practices, knowledge and resource to weak governance environments. We argue that, as the CD between the host and the home country of FIIs increases, the barriers it creates (including language, cultural and historical barriers) may limit their capability to impact on governance practices of firms in weak governance environments. Consequently, this reduces the their ability to transfer and or impact on governance practices in the host country. More so, high CD makes it challenging for FIIs to reduce the influence of domestic investors and/or collaborate with them (Cumming et al., 2017; Gaur et al., 2014) to improve on the accountability of firms. Therefore, local investors may act opportunistic at the expense of FIIs, which increases the overall agency cost for the latter. More so, as the CD between host and home countries increases, FIIs ability to understand governance standards in the host country is limited which may affect their ability to enhance the quality of these practices and therefore limits the mobility of governance practices across countries. We thus, hypothesise as follows;

Hypothesis 3 (H3): *Ceteris paribus, CD between the host and home country of FIIs negatively moderates their ability to impact on the quality of firm corporate governance practices, in line with the host country's governance regulations.*

Figure 1 illustrates our conceptual framework and theorises how the flow of capital from FIIs drive governance improvement across economic institutions. From left to right, there is a direct effect of FIIs on the quality of governance practices (H1) in the host country through transfer of good governance practices, which enhances adoption of

recommended CG practices as required by regulators. Furthermore, the enhancement of governance practices are more effective depending on the quality of the legal system (formal institution) in the investors' country of origin (H2). Finally, high cultural differences (informal institution) between the host country and the home country of FIIs negatively (H3) affect their ability to improve on the firm's governance quality in weak governance environments.

[Insert Figure 1 here]

3 Methods

3.1 The Research Context

We examine our hypotheses within an emerging market context - Nigeria. The Nigerian context is suitable for our study as it reflects many of the characteristics of a weak governance environment, which are prevalent in emerging economies. For example, there is a high level of family control and concentrated ownership which is prevalent in EMs (Adegbite, 2015). More so, the reported weak governance systems in EMs that perpetuate poor property rights with the consequence that informal practices such as corruption, secrecy, elitism and religious affiliations are highly prevalent in Nigeria (Nakpodia and Adegbite, 2018; Nakpodia et al., 2018). Also, like many EMs, Nigeria has implemented pro-market reforms aimed at aligning the country with global economic and governance trends in order to attract foreign inflow of capital (Adegbite, 2015; Areneke and Kimani, 2019).

More so, similar to other EMs that depend on oil resources, Nigeria is one of the largest oil producers (first in Africa), and exporters globally (Areneke and Kimani, 2019) and the continued survival of oil and gas firms depends on the inflow of investment from abroad. Nigeria is also one of the most populated EMs with over 500 ethnics groups which breeds conflicting cultural, religious and ethnic dynamics (Nakpodia and Adegbite, 2018)

in the management of firms and poses a significant threat to foreign direct investment. Furthermore, like other EMs, Nigeria has instituted governance guidelines to ensure the accountability of firms. However, Nigeria is an exemplary EM where rampant corruption has led to corporate scandals in the past, including the 2007 Cadbury Nigeria and the 2008 Halliburton scandals. Hence, the peculiarity of the Nigerian context makes it an exemplary weak EM setting to examine how FIIs can improve governance practices to overcome institutional constraints. We contend that exportation and improvement in governance practices by FIIs at the firm level, repeated over time, may lead to future institutional change in governance quality at country-level.

3.2 Sample

We manually collected panel data for 85 Nigerian firms listed on the Nigerian Stock Exchange (NSX) over a 6-year period (2011-2016 inclusive). Our choice of a manual collection of data from annual reports is due to the unavailability of corporate governance data for Nigerian firms from standard databases such as DataStream, Orbis and Compusat. However, our financial performance-oriented control variables were collected from DataStream. Consistent with prior research (Dikova and Sahib, 2013; Zhou et al., 2019), data for CD was collected from Hofstede's six dimensions datasets.

Despite some concerns about the usefulness and quality of disclosures in annual reports as firms can decouple their reporting (Melis et al., 2012; Tashman et al., 2019; Aabo et al., 2016), we use them as source of our data for several reasons. First, both the Security and Exchange Commission of Nigerian and Companies and Allied Matters Act (CAMA) of 1990 and its subsequent revisions mandate all listed firms to issue annual reports. As argued by Ntim et al. (2013); Al-Bassam et al. (2018); Abraham and Shrives (2014); Lang and Lundholm (1993); Botosan (1997), because annual reports are mandatory, it makes them a regular source of information. Hence, firms can be sued if they provide misleading information in the annual report (Botosan, 1997).

Second, the extant literature has shown that disclosures in annual reports has a

positive association with the amount of information in other media sources (see for example the studies by Botosan, 1997; Lang and Lundholm, 1993; Brown and Deegan, 1998; Kent and Zunker, 2013; Connolly and Kelly, 2020; Shrives and Brennan, 2017). Furthermore, prior research (e.g. Botosan, 1997; Kent and Zunker, 2013; Shrives and Brennan, 2015) has shown that annual reports remain a major corporate reporting document from which every other subsidiary report is derived. More so, because annual reports are audited, they continue to be more reliable than other sources of information (Al-Bassam et al., 2018; Estélyi and Nisar, 2016; Botosan, 1997). Furthermore, CG data for firms in many emerging countries are not available in most databases, as such annual reports continue to be the main source of information for CG research in this context (see for example Ntim et al., 2013; Al-Bassam et al., 2018; Elamer et al., 2019; Ciftci et al., 2019). In cases where databases are available, they capture general CG structures which are different from country-level requirements and hence, are less relevant when examining how firms have adapted to country-level CG regulations (Ntim et al., 2013; Al-Bassam et al., 2018). Therefore, the annual report naturally remains the main source of contextual CG information. Furthermore, the use of annual report is consistent with prior studies (see for example Ntim et al., 2013; Al-Bassam et al., 2018; Ullah et al., 2020; Ntim et al., 2012; Elamer et al., 2019; Munisi et al., 2014) who have used it as source to collect CG information and developing country-level CG index. Finally, as will be discussed later, we have controlled for several factors (variables) that have been identified in the literature as relevant in improving the quality of annual reports as well as the CG information within the report.

Our focus on the period 2011-2016 is informed by several reasons. First, firms were required to comply with the 2011 Securities and Exchange Commission (2011) CG code from the 2011 financial year. Therefore, our measurement of the quality of CG practices using this regulation is to capture the post-implementation period. Second, the choice of 2016 as the last year is because a draft revision of the 2011 CG regulations was circulated in 2017 for stakeholder feedback. Therefore, to avoid new and or future regulatory nuances

from affecting firm compliance and in addition to ensuring measurement consistency (for example, changes in governance provisions, compliance and applicability), we use 2016 as our last sample year. More so, the six-year period is suitable for the research as it ensures that the conditions for a balanced panel analysis are met especially as it contains both cross-sectional and time-series properties and less multicollinearity across variables (Wooldridge, 2010; Ntim et al., 2012; Certo et al., 2017). This is useful in testing if the observed cross-sectional relationship between our independent (FIIs) and dependent (CG quality) variables vary over time. In summary, the choice of six years panel data is to ensure suitability of econometric specification, validity, relevance and consistency in the measurement of governance quality which are aligned to the SEC 2011 CG provisions.

In arriving at the final sample of 85 out of the 188 listed firms as at 31/12/2016, we first examined the number of firms that were listed on the NSX during the six-year period with a cutoff date of 31/12/2016. In this first stage, 11 firms were dropped as they were listed for less than six years. As such, most of these firms did not have annual reports for the sample period and therefore were ineligible for inclusion.

Next, we searched through company websites, Africamarkets.com, and the NSX filings for the annual reports of the remaining 177 firms. Out of this number, 40 firms did not archive historical annual reports covering the sample period (2011-2016). A further seven firms only archived abridged versions of the annual reports. We contacted (by email) the secretariat and investor relations departments of the 47 firms to request for the full annual report but these attempts were futile except for one firm. This left 131 firms available to be sampled.

A majority of the firms with available annual reports were financial firms. As such, we adopted a stratified random sampling technique that ensured all industries were fairly represented in our sample i.e., that our sample broadly reflected the industry distribution of listed firms on the NSX. In summary, our choice of 85 firms and 6 years (510 panel observations, representing 45% of firms listed on the NSX during that period) reflects data availability and representativeness. Table 1 summarises our sample.

[Insert Table 1 here]

We conduct further tests to ascertain that our sample is representative and can be used to generalise to the total population of listed firms in NSX. First, to examine whether our sample is significantly different from the total sample of listed firms, we conduct the Kruskal Wallis Test. The test revealed an insignificant difference (asymptotic significance = 0.434) suggesting that our sample across industry groups is not significantly different from the total population of listed firms on the NSX. Secondly, we compared the market capitalisation of the sampled firms to that of all listed firms in the NSX. The results indicate that, the sampled firms represent 52.8% of the market capitalisation of all firms in the NSX as at 31/12/2016. We consider this a fair reflection given that our sample covers about 45% of listed firms.

Finally, we inspect descriptive statistics for each of our variables to verify whether there is sufficient variability and also check whether our sample includes both small and large firms. Specifically, firms whom annual reports are not available (not sampled) may have the worse corporate governance practices compared to those whose annual reports are available. Our check of the range, minimum, maximum, 25th and 75th percentiles (not reported for brevity but available upon request) shows a wide spread across each variable suggesting that our sample covers the full spectrum including both large and small firms. For example, our dependent variable (corporate governance quality) ranges from a minimum of 16% to a maximum of 100% indicating that there is high degree of heterogeneity across the sample firms in regards to CG quality. This suggests that the sampled firms are representative and that sample selection bias might not be a significant concern.

Furthermore, we include financial firms in our sample due to several reasons. First, financial firms constitute more than a quarter of listed firms in Nigeria and represent a large segment of corporate entities in the country. Second, financial firms have been significantly involved in unethical governance practices and corporate misconducts (Adegbite, 2012). For example, corruption and bad corporate governance practices have accounted

for the failure of many financial firms in the past which led to imprisonment of executives who provided loans to their friends, tribesmen, family members, and themselves (Ogbechie and Koufopoulos, 2010). Third, in addition to control for industry effects, our preliminary analysis of firm-level peculiarities between financial and non-financial firms show no statistically significant differences in firm individualities. Finally, as additional robustness, we exclude financial firms from our sample and examined our hypothesis, and the results show robustness to the inclusion of financial firms (we discuss this in the robustness section).

3.3 Variables

3.3.1 Dependent Variable

Our dependent variable is the corporate governance quality (CGQ) index, which is a measure of how much a firm complies with governance regulations in Nigeria. This is based on the Nigeria Securities and Exchange Commission (2011) CG code which operate within the framework of "comply or explain", similar to the various UK CG codes and the South African King I and II reports. Hence, firms are expected to comply with the code or provide justification(s) for non-compliance. However, contrary to the codes of CG in other countries with recommendations that are applicable and specific to large or premium listed companies (e.g. the 2016 UK Corporate Governance code), all the provisions of the Securities and Exchange Commission (2011) CG code are required to be complied with by all listed firm in NSX irrespective of industry, size or age. Hence, in Nigeria, firms are expected to comply with 75 CG provisions as stated in the SEC 2011 code of good practices in corporate governance (Securities and Exchange Commission, 2011). Departing from the 2003 code, the Nigeria Securities and Exchange Commission (2011) CG code includes issues of sustainability with requirements for triple bottom line reporting which is similar to the South African King II and III reports. Specifically, in contrast to the shareholder centred approach in the 2003 code, the 2011 code included

provisions aimed at meeting the expectations of other stakeholders, not just stockholders.

As such, the Nigeria Securities and Exchange Commission (2011) 2011 code also include substantial improvements in shareholder provisions while adapting to global trends in CG including; approval of remuneration of directors by shareholders, alternative dispute resolution, external validation of corporate governance report, director and board performance evaluation, assessing resilience to risk through internal auditing and establishing audit committee. The stakeholder provisions cover reporting on on cultural diversity, social, ethical behaviour, control of corruption, strategies to address HIV/AIDS and other diseases, helping disabled persons and environmental reporting.

As earlier noted, it is a general practice in CG research to use annual reports to examine the level of firm compliance to CG regulations (see for example Ntim et al., 2013; Al-Bassam et al., 2018; Ullah et al., 2020; Ntim et al., 2012; Elamer et al., 2019) by developing objective coding schemes and indices that capture country-level CG requirements as this recommendations vary from one country to another (Cuomo et al., 2016; Aguilera and Cuervo-Cazurra, 2009, 2004). Hence, following prior studies that have developed and used CG indices based on CG provisions (e.g. Aggarwal et al., 2011; Ntim et al., 2013; Al-Bassam et al., 2018; Ullah et al., 2020; Price et al., 2011), we measure firm governance quality as a continuous variable. Specifically, we employed a binary coding scheme where a firm is awarded a score of '1' for compliance with each of the 75 CG provisions in their annual report otherwise zero ('0'). The development of the index involved manually reading each firm's annual report to assess the level of compliance with the Nigeria Securities and Exchange Commission (2011) CG code. A score of "1" was assigned for compliance with each of the provisions of the code up to a maximum score of 75. Therefore, a firm's governance quality score for the year is a continuous variable ranging from 0% (zero) indicating no compliance with any of the Securities and Exchange Commission (2011) provisions to a maximum of 100% (75) indicating full compliance. For example, a firm that adopts 60 out of the 75 corporate governance guidelines scores 80% for that year.

The index was coded by one of the researchers, and as such inter-coder reliability was not an issue in developing the index. However, to reduce subjectivity in coding, two other researchers and an independent colleague checked on the coding at different intervals to reduce subjectivity in coding. Specifically, after the coding of 5% of the annual reports, two other researchers recorded 1% of these and the results were compared and there was no significant difference in the scores on the the coded sample. This process was repeated after completion of 50% and 100% of the coding. In addition, an independent colleague verified 1% randomly and the coding was consistent with no reported material differences. Finally, consistent with prior research (e.g. Kabbach de Castro et al., 2017; Konara and Shirodkar, 2018; Tunyi et al., 2019), we conducted a confirmatory factor analysis (CFA) and principal component analysis (PCA) of all the categories of CG practices that converge to a single compliance factor. We used these as an alternative measure of the dependent variable and the results remained qualitatively similar (for brevity, only results for dependent variable derived from PCA is reported in the robustness section).

In cases of non-compliance with a particular CG provision, very few firms explained the reasons for their failure to comply. In few cases where firms attempted to explain, the reasons were less about the "why" but inclined towards intentional refusal to comply. For example, in a board chairman's statement on CG structures, he justified that, the reason for not meeting the threshold of at least one independent board member is because outside directors attend board meetings only to "drink tea" and as such he does not see the relevance of such representation. This is not surprising as recent studies have shown firms use silence, vague and apologetic tone as a technique to avoid explaining corporate governance information in annual reports in cases of non-compliance (see for example the studies by; Fisher et al., 2019; Shrives and Brennan, 2017; Arcot et al., 2010; Shrives and Brennan, 2015; D'Augusta and DeAngelis, 2020). Whilst there were other similar explanations in a few instances for non-compliance, this is beyond the scope of this study. Thus consistent with prior studies (Aggarwal et al., 2011; Al-Bassam et al.,

2018; Ntim et al., 2013), we measure compliance to CG regulations as detailed above. As such following from prior research (e.g. Ntim et al., 2013; Aggarwal et al., 2011; Ullah et al., 2020; Fotaki et al., 2020; Kabbach de Castro et al., 2017) we treated cases of non-compliance by awarding a score of zero for each provision(s) which have not been adopted by the firm.

3.3.2 Independent and Moderating Variables

Our main independent variable is FIIs, which is proxied by the number of shares held by non-domestic institutional shareholders as a percentage of the total share value of the firm. On average, majority of FIIs in our sample are from the UK (23%), South Africa and Ghana (18% each), France and USA (12% each). Other countries account for (17%) of FIIs. In addition, our second proxy of foreign institutional shareholding is the percentage of voting rights which captures FIIs with at least 5% of voting rights. This is the minimum threshold to call for a general meeting, recommend resolution to be voted and indicate a course of action to be taken by the board (Securities and Exchange Commission, 2011). Hence, this captures the influence that FIIs can exert in general meetings and CG practices. Therefore, consistent with Melis et al. (2012), our second measure of foreign institutional shareholding is the proportion of the voting shares held by these shareholders. Worthy of note is that, in the annual reports of our sampled firms, very few had FIIs with preferred shares. In this few instances, we exclude the FIIs with preferred shares as they have limited voting rights and thus limited ability to influence CG practices.

For the moderating variables, following La Porta et al. (1997, 2008), we measure legal system of FIIs as a variable which takes the value of '1' for common law system, and a value of zero, otherwise. Common law counties are classified as those with English origin (i.e. have legal system linked to England). Conversely, civil law countries are those with French, German, and Scandinavian origin. However, in cases where FIIs originate from different legal systems, we use the average legal system. For example, suppose a firm has

two FIIs, one from UK and another from France, the legal system for foreign investors for this firm will be 0.5. However, in very few cases was the legal systems of FIIs in a given firm different especially over time. For example, only 2% of FIIs in the sampled firms come from both civil and common law system. Similarly, less than 1% of the sample firms have three or more FIIs originating from different legal systems. This suggest that FIIs turn to invest in firms where other FIIs with similar legal system have invested.

We recognise that the above measure, while extensively used in prior research (see for example, La Porta et al., 1997; Liu et al., 2021; Cumming et al., 2017; Leuz et al., 2003; Cumming and Walz, 2010; Zattoni and Cuomo, 2008; La Porta et al., 2000; Lerner and Schoar, 2005; Liu and Huang, 2020; Demirbag et al., 2017; Martínez-Ferrero and García-Sánchez, 2017), may be biased as some civil law countries may have more transparent and effective laws compared to some countries with common law systems. For robustness, we additionally use "rule of law" from the Worldwide Governance Indicators (WGI) of the World Bank (Kaufmann et al., 2010) and "government integrity" from the Economic Freedom Index of the Heritage Foundation (Chizema and Pogrebna, 2019) as additional measures of the FIIs home country legal system. The Rule of Law (ROL) is an indicator of the extend to which FIIs' home countries abide by the rules of the society including; the quality of property rights, contract enforcement, the police, judiciary and the possibility of violence and crime. Generally, the rule of law scores range from -2.5 to +2.5, where scores close to +2.5 (-2.5) suggest strong (weak) ROL in the FIIs country of origin. Where there are several FIIs in a particular firm, we use the average ROL score. Government Integrity (GI) measures the level of corruption in the public sector in the FIIs home country. The scores range from 0-100 indicating very high corruption (low government integrity) to low corruption (high government integrity). In cases of more than one FIIs in a firm, we use the average government integrity score.

Finally, consistent with prior studies (e.g. Brouthers et al., 2016; Kang and Kim, 2010), we use Hofstede's six dimensions of CD and applied Kogut and Singh (1988) CD-index calculation to get the average CD between the FIIs home and host country. Similar

to our measure of legal system for FIIs from different countries, we use the average CD. For instance, if a firm has two FIIs with one from South Africa and another from France, the CD for FIIs for this firm is the average CD for both countries. Following Maseland et al. (2018) suggestion for mitigating the issues with using Kogut and Singh (1988) CD-index, our aggregation include the six dimensions as control and moderating variable. In addition, we have clearly discussed our application of CD (using Kogut & Singh CD index) within our conceptual framework and explain how it affects our main hypothesised relationship which is consistent with the recommendations of Maseland et al. (2018).

3.4 Control Variables

We control for several variables that can affect the quality of CG practices. First, firm size and performance may affect its ability to adopt recommended governance practices and hence impact on the firms governance quality (Gaur et al., 2014; Aggarwal et al., 2011). For example, highly performing firms have been shown to have the necessary resources to adopt recommended corporate governance practices (Ntim et al., 2013). Furthermore, fast growing and large firms have sufficient resources to enable adoption of recommended CG regulations compared to smaller and slow-growing firms (Ntim et al., 2013; Aggarwal et al., 2011). Hence, we control for firm size, growth and performance using capital expenditure (CAPEX), Return on Assets (ROA) and Tobin's q (Q).

Furthermore, firm-level internal governance mechanisms has been shown to influence governance quality (Cumming et al., 2015; Miletkov et al., 2017). To begin with, due to their independence from the management of the firm, outside/independent directors (non-executive directors) are effective monitors of CG practices which improves the ability of the board to scrutinise and improve compliance with recommended CG practices while reducing the possibility of decoupling and creative compliance (Melis et al., 2012; Tashman et al., 2019; Ananchotikul et al., 2010). For example, prior studies (see for example, Tashman et al., 2019; Ananchotikul et al., 2010) show that outside directors reduce the ability of firms to creatively comply with CG requirements. As such, we

control for board independence using the percentage of non-executive directors (NED) in the boardroom. More so, stock holding by outside directors reduce the ability of firms to mimic and or decouple CG practices as these directors have a stake in the success of the business which provides additional incentives to monitor and ensure the adoption of recommended governance practices (Sauerwald and Su, 2019). Hence, we control for the percentage of shareholding by NED directors. More so, the presence of independent directors in the audit committee is argued to be critical in improving the quality of annual reports (Carcello and Neal, 2003; Be´ dard et al., 2004; Pomeroy and Thornton, 2008; Bronson et al., 2009). Specifically, independent audit committee members are more likely to influence the quality of annual reports as they are effective monitors of reporting quality than executive directors. Hence, they are more likely to reduce compliance decoupling which improves the quality of annual reports including CG disclosure quality compared to non-independent members. Consistence with prior research (Pomeroy and Thornton, 2008; Bronson et al., 2009), we control for audit committee independence as the percentage of outside board members in the audit committee.

In addition, female directors have been noted to bring their ethical behaviour and diversity of perspective in boardrooms to enhance decision-making and CG practices (Cumming et al., 2015). For example, Cumming et al. (2015); Sultana et al. (2020); Krishnan and Parsons (2008); Ben-Amar et al. (2017) show that female directorship improves CG practices including audit quality, CSR reporting, earnings quality and informativeness of disclosures. Hence, we control for boardroom gender diversity using the percentage of female directors on boardrooms (gender diversity). Board interlocks/affiliation exposes directors to CG practices of other firms (in and out of the country) which enhances the ability of interlocked directors to affect the governance practices of firms (Filatotchev et al., 2013; Cai et al., 2014). For example, directors who seat on other boards may bring experiences of CG practices in other boardrooms to enhance on the compliance with recommended CG practices and, as such improve on governance quality. We measure director interlock as the average number of board seats occupied by directors outside of

the firm.

Block shareholding is argued to be essential in monitoring and control of management activities (Lane et al., 1998; Denis et al., 1997; Al-Bassam et al., 2018; Nguyen et al., 2015; Choi et al., 2013; Aggarwal et al., 2011; Brockman et al., 2009; Melis et al., 2012). This is because block ownership provides strong incentives to monitor the implementation of CG practices compared to small shareholding. For example, prior studies (e.g. Al-Bassam et al., 2018; Choi et al., 2013; Aggarwal et al., 2011) show that block ownership enhances firm CG disclosure quality. Consistent with prior studies (e.g. Al-Bassam et al., 2018; Choi et al., 2013; Aggarwal et al., 2011; Brockman et al., 2009), we control for block ownership measured as the percentage of common stocks owned by outside shareholders of least 5% of the firms total stocks.

Prior studies (e.g. Temouri et al., 2016; Tashman et al., 2019) have shown dual listing enhances scrutiny of firm CG practices in foreign markets which reduces the chances of creative compliance and improves governance quality. Specifically, cross listings in foreign markets can coerce firms to comply with CG practices. We thus control this using a dummy variable that measures dual listing as "1" or "0". In addition, the extant literature suggests audit firm size is significant in determining the effectiveness of corporate reporting, governance systems and annual reports quality (e.g. El Ghoul et al., 2016; Ntim et al., 2013). This suggest that the size of external auditors affects the quality of annual reports which includes CG practices. Specifically, the literature suggest firms that use the big four auditors are seen as trustworthy (DeAngelo, 1981; El Ghoul et al., 2016; Ntim et al., 2013) and are more likely to have enhance CG disclosure quality. This may deter firms and encourage them to substantially comply with recommended CG regulations which improves governance quality. Hence, we control for audit firm size (AFS) using a dichotomous variable with "1" representing that the external auditor is one of the big four audit firms (that is; Deloitte Touche Tohmatsu, Ernst and Young, KPMG and PricewaterhouseCoopers), otherwise zero. Finally, we control for year and industry fixed effects using year and industry dummies. Our definitions and measurement

of variables are presented in Table 2. All continuous variables are winsorised at the lower and upper one percentile.

[Insert Table 2 here]

3.5 Estimation Method

To test our hypothesis and address endogeneity concerns, we employed a three-stage least square (3SLS) estimation approach as our main method of analysis. A significant concern is that FIIs can be endogenously determined. Specifically, firms with good CG practices and or expected future improvement in governance may attract FIIs, which may introduce reverse causality in our estimations. For example, Li et al. (2006) show that macro corporate governance factors (including corporate disclosure requirements, regulatory enforcement and shareholder protection) influences foreign shareholding. By extension, this suggest firm level CG quality might attract FII. To address this possible reverse causality issue, we use lagged values as explanatory variables. Specifically, we lagged all the right hand side variables by one period. More so, the 3SLS estimation isolates the effect of governance quality on foreign institutional investment. We followed the method of Larcker and Rusticus (2010); Aggarwal et al. (2011) in our estimation. However, before adopting 3SLS, we first applied the Durbin-Wu-Hausman exogeneity test (see Larcker and Rusticus, 2010, for discussion) to examine whether there exists an endogenous simultaneous link between FIIs (independent variable) and governance quality (dependent variable). The results rejected the null of no endogeneity, suggesting that both variables are endogenously related. Hence, OLS estimations may produce bias results implying 3SLS is a more appropriate method. More so, the 1st stage of our 3SLS estimation with FIIs as dependent variable (not reported for brevity but available upon request) shows governance quality has an endogenous link with the latter. For robustness, in addition to 3SLS, we also estimate Generalized Least Squares (GLS) which is mostly used to analyse panel data (Certo et al., 2017). Our equations are stated as;

$$CGQ_{it} = \beta_0 + \beta_1 FII_{it-1} + \beta_2 D\_LIST_{it-1} + \beta_3 NED_{it-1} + \beta_4 B\_SH_{it-1} + \beta_5 GD_{it-1}$$
$$+\beta_6 ROA_{it-1} + \beta_7 Q_{it-1} + \beta_8 ACI_{it-1} + \beta_9 N\_SH_{it-1} + \beta_{10} CD_{it-1} + \beta_{11} CAPEX_{it-1} + \beta_{12} BI_{it-1}$$
$$+ \beta_{13} LS_{it-1} + \beta_{14} AFS_{it-1} + v_j + v_t + v_t \epsilon_{it-1} \quad (1)$$

$$CGQ_{it} = \beta_0 + \beta_1 FII_{it-1} + \beta_2 D\_LIST_{it-1} + \beta_3 NED_{it-1} + \beta_4 B\_SH_{it-1} + \beta_5 GD_{it-1}$$
$$+\beta_6 ROA_{it-1} + \beta_7 Q_{it-1} + \beta_8 ACI_{it-1} + \beta_9 N\_SH_{it-1} + \beta_{10} CD_{it-1} + \beta_{11} CAPEX_{it-1} + \beta_{12} BI_{it-1}$$
$$+ \beta_{13} LS_{it-1} + \beta_{14} AFS_{it-1} + \beta_{15} FII * LS_{it-1} + v_j + v_t + \epsilon_{it-1} \quad (2)$$

$$CGQ_{it} = \beta_0 + \beta_1 FII_{it-1} + \beta_2 D\_LIST_{it-1} + \beta_3 NED_{it-1} + \beta_4 B\_SH_{it-1} + \beta_5 GD_{it-1}$$
$$+\beta_6 ROA_{it-1} + \beta_7 Q_{it-1} + \beta_8 ACI_{it-1} + \beta_9 N\_SH_{it-1} + \beta_{10} CD_{it-1} + \beta_{11} CAPEX_{it-1} + \beta_{12} BI_{it-1}$$
$$+ \beta_{13} LS_{it-1} + \beta_{14} AFS_{it-1} + \beta_{15} FII * CD_{it-1} + v_j + v_t + \epsilon_{it-1} \quad (3)$$

Equation 1 shows that governance quality (CGQ) is predicted by the independent variable (FII) and control variables; cross-listing (D_LIST), percentage of non-executive directors (NED), block shareholding (B_SH), gender diversity (GD), return on asset (ROA), Tobin's q (Q), audit committee independence (ACI), non-executive directors shareholding (N_SH), cultural distance (CD), capital expenditure ($CAPEX$), board interlock (BI), legal system (LS), industry (v) and year (t) dummies. In Equation 2, we estimate Equation 1 but in addition, we include the interaction between FIIs and their legal system ($FII*LS$) as a moderating variable. Similarly, in Equation 3, we re-estimate Equation 1 in addition to interaction between FIIs and cultural differences between their home and host country ($FII*CD$) as moderating variable.

However, to estimate the above equations using 3SLS, we need instruments that meet both the sufficiency and validity condition (Estélyi and Nisar, 2016; Chenhall and Moers,

2007; Larcker and Rusticus, 2010). Specifically, we need instrument (s) which are highly correlated with our independent variable (foreign institutional investors) but are not correlated with the dependent variable (CG quality index) except via the independent variable and other control variables in our estimation (Estélyi and Nisar, 2016; Larcker and Rusticus, 2010).

Following suggestions by Larcker and Rusticus (2010), we start by identifying the theoretical link before establishing the econometric verification. Drawing on institutional theory, the actions of economic agents are influenced by their institutional environments including; property rights, business ethics and level of accountability (Cumming et al., 2017; Gaur et al., 2014). Specific to this study, FIIs from countries with strong (weak) business ethics enhances (limits) their ability to transfer such practices to improve on firm governance practices in weak governance environments. Hence, the business ethics, property rights and accountability of FIIs country of origin can only affect CG quality of firms in the host country through FIIs as these are the characteristics, cultural and behavioural background which influence their behaviour in affecting changes in the firm. This suggests that business ethics, property rights and accountability of the country of origin of FIIs can be used as an instrument for the latter. Therefore, we used the average business ethics, property rights and accountability of the country of origin of FIIs as instrumental variables. The data for these variables are extracted from the World Economic Forum (WEF) Global Competitive Index (GCI).

Empirically, we estimate whether the identified instruments meet the validity and sufficiency conditions. In terms of sufficiency, the instruments should be highly correlated with both proxies of FIIs. Our test of this shows the three instruments are highly correlated (lowest correlation is 0.78) with our measures of FIIs. This implies they satisfy the sufficiency condition. To test the validity condition, the identified instruments should not correlate with the error term in Equation 1. We investigate this by re-estimating Equation 1 and examining whether the error term correlates with the three instruments. Our results showed the error term is uncorrelated (highest correlation is 0.001) with all

three instruments which suggest they meet the validity condition. Hence, they can be employed as instruments for FIIs in our 3SLS. Also, we conducted Hansen-Sargan test of overidentification, and the results suggest that the instruments meet the exclusion restriction condition with p-values of more than of 0.38 across each model. This suggests that our instruments are exogenous (for brevity reasons we do not include the tabulated results but are available upon request).

4 Results

4.1 Summary Statistics

Table 3 presents the descriptive and correlation statistics for all variables. The results show that on average, firms adopt approximately 74.16% of the recommended governance practices with a variability of 16.81%. This suggests firms are implementing quality governance practices. However, there are significant differences with some firms adopting less than a quarter (25%) of the recommended governance practices. On average, FIIs own approximately 24% of sampled firms which represent about a quarter of Nigerian corporate ownership. Similarly, averagely, FIIs have voting rights (FIIVR) of approximately 22% in firms which implies they have significant control of firms and enhanced ability to call general meetings, recommend resolution(s) and influence decision making in the boardrooms. The average legal system of FIIs is approximately 69% which suggest most of them originate from countries with common law legal system.

[Insert Table 3 here]

Table 4, Panel A, shows comparative governance quality between firms with FIIs and those without FIIs. Firms with FIIs have significantly higher (by approximately 10%) governance quality than those without such shareholding. Similarly, Panel B of Table 4 and Figure 2 show the proportional increase in FIIs and associated improvement in CG quality over our sample period. Specifically, foreign institutional shareholding has

increased from 19.45% in 2011 to 29.31% in 2016 with a corresponding improvement in CG quality from 60% (2011) to 79.50% (2016). This suggests that FIIs may be instrumental in improving firm governance quality in weak governance environments.

[Insert Table 4 here]

[Insert Figure 2 here]

4.2 Correlation Analyses

Correlation results are presented from Columns 4 to 19 of Table 3. Correlations are generally low to moderate (defined as below ± 0.29 for low; and moderate, between ± 0.30 and ± 0.49) (Ghauri et al., 2020) except for a few control variables with high correlations (between ± 0.50 and ± 0.99) (Ghauri et al., 2020), which suggest possible multi-collinearity problems in our subsequent analysis. We hence, inspect the variance inflation factor (VIF) statistics for each of our regression model. All the VIF values are less than 3.0, which is less than the critical value of 10. The results indicate multicollinearity is unlikely to be a concern for our subsequent regressions. Also both of our measures of foreign institutional ownership (FIIs and FIIVR) have strong positive correlation (r=0.95) suggesting that foreign shareholders tend to have block ownership with significant voting rights (i.e. >= 5%). Interestingly, both proxies (FIIs & FIIVR) have significant positive association with governance quality (r=0.29 and 0.30 respectively). This again provides some early evidence in support of our main hypothesis (H1).

4.3 Empirical Results

Table 5 presents the results of our test of the first hypothesis (H1). Models 1 & 2 represent the use of percentage ownership (FII) and proportion of voting rights (FIIVR) as measures of foreign institutional shareholding respectively. Columns 2 and 3 report the results of our main estimation method (3SLS) whereas GLS estimation is presented in columns 4 & 5. To begin with, Hypothesis 1 proposes that FIIs positively impact the governance

quality of firms. The hypothesis is significantly supported in both 3SLS (columns 2 & 3, $\beta = 0.089$, p=0.003 and $\beta = 0.068$, p=0.041, for Models 1 & 2 respectively) and GLS (column 4 & 5, $\beta = 0.063$, p = 0.007 and $\beta = 0.052$, p = 0.034, respectively for Models 1 & 2). This suggest our results are economically significant. Specifically, a 10% increase in foreign institutional ownership (voting right) leads to a subsequent 0.89% (0.68%) improvement in corporate governance quality. This supports our main argument (H1) that FIIs are agents of governance enforcement and improvement when they invest in firms in weak governance environments.

[Insert Table 5 here]

In addition, we hypothesise that the impact of FIIs on firm governance quality is moderated by the effectiveness of the legal system in their home country (H2). The result of this hypothesis is presented on Table 6 with columns 2 and 3 for 3SLS and 4 & 5 for GLS. As anticipated, this hypothesis is significantly supported ($\beta = 0.161$, p = 0.000 and $\beta = 0.168$, p = 0.001) and ($\beta = 0.078$, p = 0.068 and $\beta = 0.077$, p = 0.088, respectively). Interestingly, when we introduced the legal system interaction variable, the impact of FIIs on CG quality becomes insignificant suggesting that FIIs are more influential when they originate from countries with strong legal system. Economically, a 10% increase in ownership (voting rights) by FIIs from countries with effective legal systems subsequently improves the CG quality of firms in weak governance environments by approximately 1.61% (1.68%). This suggest that the legal system of the home country of FIIs enhances (limits) their capacity to affect governance practices. Implying the more stringent (weak) the legal system of FIIs country of origin, the higher (lower) the possibility of transfer of good CG practices into weak governance environments.

[Insert Table 6 here]

Furthermore, we used the FIIs home country Rule of Law (ROL) and Government Integrity (GI) as additional proxies for their legal system. These results[3] are reported on

[3]For brevity reasons, we present only the results of our main estimation method-3SLS

Table 6, columns 6 & 7 (for rule of law) and 8 & 9 (for government integrity). As evident from this Table, both proxies of legal system significantly and positively moderate the impact of FIIs on CG practices of firms. Specifically, a 10% increase in ownership (voting right) by FIIs from countries with strong rule of law is associated with approximately 1.8% (0.88%) improvement in CG practices of firms in weak institutional environment. Similarly, a 10% increase in voting rights by foreign institutional shareholders from countries with strong government integrity improves their effect on the quality of CG practices of firms by 0.03%(0.03%) respectively. These results supports our argument in Hypothesis (H2) that the effectiveness of the legal system of FIIs home country positively moderate their impact on corporate governance quality.

Finally, for Hypothesis 3, columns 2 & 3 (3SLS) and 4 & 5 (GLS) of Table 7, shows the impact of cultural differences between FIIs host and the home country as a moderator. Recall we earlier proposed (H3) that cultural differences will moderate our hypothesised relationship in Hypothesis 1. This hypothesis is also supported with statistical significance (Model 1, β = -0.186, p = 0.000, Model 2, β = -0.231, p = 0.000). Therefore, a 10% increase in cultural differences between FIIs home and host country leads to a subsequent 1.86% (2.3%) decrease in their impact on governance quality. This implies increase in cultural differences between the home and host country of FIIs reduces their capability to enhance governance practices in weak institutional environments and thus hinders the possibility of governance mobility.

[Insert Table 7 here]

4.4 Robustness Test

Our results so far have shown robustness across 3SLS and GLS estimation. Even though 3SLS controls for cross-correlations and is more efficient than 2SLS estimation and OLS (Aggarwal et al., 2011; Estélyi and Nisar, 2016), for additional robustness, we examine our hypothesis using both pooled OLS and 2SLS (tabulated results not reported for brevity

reasons). Our reported findings remain unchanged suggesting robustness to estimation method.

In addition, prior studies (e.g. Ntim et al., 2013) argue that, some CG provisions may be more important than others. Therefore, governance actors are more sensitive to those that are shareholder-oriented than stakeholder-oriented. Specifically, CG guidelines are driven by efficiency and legitimacy (moral/relational) motives (Ntim et al., 2013; Aguilera and Cuervo-Cazurra, 2009). Efficiency guidelines recommend internal CG structures to ensure the interest of managers are align to those of shareholders. Prior research (e.g. Ntim et al., 2013; Aggarwal et al., 2011; Ferreira and Matos, 2008; Aguilera and Cuervo-Cazurra, 2009) have classified these provisions into different categories including board composition and management, risk management, remuneration of directors, general meetings discussions and attendance, director and board performance evaluation, dealings with shareholders, board committees composition and reports, internal control processes and audit, alternative dispute resolution, insider trading policy, and external validation of CG report. According to Ntim et al. (2013, 2012); Aguilera et al. (2017); Aguilera and Cuervo-Cazurra (2009) these provision facilitates efficient allocation and use of scarce resources to identify profitable investment opportunities to meet shareholders value maximisation goal. Thus, while these provisions might be of interest to other stakeholders, they are principally aimed at directing the firm on how CG structures can be configured to maximise returns for stockholders (Ntim et al., 2013; Aggarwal et al., 2011; Ferreira and Matos, 2008; Aguilera and Cuervo-Cazurra, 2009).

In parallel, legitimacy/moral provisions are aimed at ensuring that firms conform to expected social behaviour by engaging with CG practices that are aligned to meeting the expectation of non-equity stakeholders (Ntim et al., 2013). Thus, conforming to such expected social behaviour is likely to enhance social acceptance and legitimacy from stakeholders. Consequently, the compliance to recommended inclusive stakeholder practice is likely to facilitate alignment of organisation norms with those of the business environment which enhances the legitimacy of the firm and access to societal resources

(Ntim et al., 2013; Aguilera and Cuervo-Cazurra, 2009; Kent and Zunker, 2013). This suggests that the failure to adopt such recommended practices may lead to social and political cost. Hence, adopting recommended stakeholder inclusive practices can assist firms in winning the support of stakeholders including politicians, employees, trade unions and governments etc. These provisions generally stipulate and direct firms on how to manage stakeholders expectation, health and safety reporting, equality in employment, gender diversity and social investment policies and practices (Ntim et al., 2012, 2013; Kent and Zunker, 2013). For example, in Nigeria, these inclusive stakeholder provisions include; how firms address diseases (including HIV/AIDS and malaria), managing stakeholders expectation and outcome of their dealings, communication with stakeholders, health and safety reporting, equality in employment, female representation in boardrooms, diversity of staff, assisting physically challenged individuals, social investment policies and practices, adherence to laws and standards, dealing with environmental issues, code of ethics issues including policies and processes to address corruption.

Drawing from the proceeding discussions, FIIs may be more inclined to enforce shareholder-oriented governance practices since it addresses their asymmetry of information and agency problem (this does not mean they may not be interested in stakeholder issues but only as secondary to their value maximisation goal). Therefore, governance practices that are aimed at addressing the expectations of other stakeholders may be less important to FIIs when compared to their value maximization goal. Hence, FIIs may not enforce or transfer these practices across countries especially given these practices may be location-specific. Therefore, alike with previous studies (e.g. Beiner et al., 2006; Ntim et al., 2012, 2013), we test whether FIIs are sensitive to particular CG provisions by splitting governance quality into two sub-indices. Specifically, one captures shareholder-oriented practices index (SCGQ) composed of 61 provisions and stakeholder-oriented index (SKCGQ) with 14 provisions as outlined by the Nigeria Securities and Exchange Commission (2011) 2011 code.

The results using these two sub-indices as dependent variables are presented in Table

8. The SCGQ as the dependent variable is presented in columns 2 to 4 and SKCGQ in columns 5 to 7 respectively. As can be seen from the table[4] , our results for Hypothesis 1 remain robust irrespective of shareholder-oriented (column 2, $\beta = 0.079$, p = 0.006) or stakeholder governance practices (column 5, $\beta = 0.137$, p = 0.003) suggesting that FIIs positive impact is significant for both sub-indices. In addition, these relationships are moderated by the FIIs home country legal system (column 3, $\beta = 0.282$, p = 0.004 and column 6, $\beta = 0.289$, p =0.000) respectively for both sub-indices. Again, this confirms our earlier conjecture that FIIs are more influential when they originate from countries with strong legal systems. Consistent with our results for Hypothesis 3, cultural differences between the home and host country negatively moderate the impact of FIIs on shareholder (column 4, β = -0.218, p = 0.000) and stakeholder (column 7, β = -0.148, p =0.011) CG practices.

[Insert Table 8 here]

Furthermore, financial firms constitute a large part of our sample, which may account for our reported results since these firms have been noted to have high scrutiny, which may improve their governance quality compared to other firms. To address this, we re-estimate all the hypothesis, excluding financial firms to verify whether the results are sensitive to the inclusion of the latter [5]. The results are reported in Table 9, columns 2 to 4. As can be seen, our reported findings are unchanged which implies robustness to the inclusion of financial firms.

[Insert Table 9 here]

Finally, for additional robustness and to ensure our approximation of CG quality measurement is not bias, we follow previous research (e.g. Konara and Shirodkar, 2018; Tunyi et al., 2019) and reduce the 75 CG provisions into a single component using

[4]Note that, we report only the results using percentage of shareholding measurement here. Voting rights measurement results are reported in Appendix A.The results remain unchanged.

[5]Note that, only the results using the percentage of shareholding measure are reported in Table 9. Voting rights measurement results are reported in Appendix B. The results remain qualitatively similar

Principal Component Analysis (PCA). We use this as an alternative measure of CG quality index to test all three hypotheses. Our findings remain qualitatively similar as shown in Table 9, columns 5 to 7.

5 Discussion and Conclusions

On the basis of the foregoing, we argue that when FIIs move abroad with their investment in weak institutional environments, they face significant challenges including liability of foreignness, information disadvantage, as well as cultural and language barriers. In addition, in environments characterised by endemic corruption, political ties, elitism and other vices in the management of firms, FIIs are more likely to be affected by these practices negatively compared to domestic investors who are accustomed to these practices with some of the latter as perpetrators. Therefore, to reduce these disadvantages, FIIs can use their shareholding powers through voting rights and ownership to influence firm CG practices. This ensures compliance with the required CG code in the host country as a minimum threshold. We contend they do this by transferring good CG practices from their home countries and their business environments to improve on the CG practices of the firms they have invested.

Furthermore, we postulate that the effectiveness of legal system of FIIs home country influences their ability to monitor governance practices and consequent diffusion in countries where they encounter weak governance enforcement and unethical practices. Finally, we argue that the more the cultural differences between the home country of FIIs and the host country of their investment increases, the lesser the possibility to transfer good CG practice to firms in weak institutional environments.

Drawing on these conjectures, we develop a framework (Figure 1) showing the direct impact of FIIs on firm CG quality and the moderating effect of the legal system and CD on this hypothesised association. The results suggest that FIIs impact the quality of firms' CG practices in weak governance environments by transferring and enforcing good

governance practices. Also, our framework and a test of its validity indicate that the effectiveness of the legal system in the FIIs home country enhances (limits) their likelihood to export and enhance good governance practices in emerging markets (Nigeria). However increase in cultural differences between the host and home country limits the possibility of governance enforcement and mobility.

5.1 Theoretical and Research Implications

Our study offers several theoretical contributions to the international CG literature. First, we extend practice transfer theorising (Kostova, 1999; Kostova and Roth, 2002) by developing a conceptual framework (Figure 1) showing how FIIs transfer and or impact the CG practices in weak governance settings. Specifically, the constraints of the institutional environment can be bypassed by transferring and enforcing "good" CG standards from countries with strong enforcement especially from the home country of governance agents. This addresses the investment and environmental risk and uncertainty that FIIs face when investing abroad especially in EMs that have high institutional fragilities which increase agency cost (cost of monitoring).

Second, we extend the governance mobility literature (Cumming et al., 2017). On the one hand, existing studies in this growing area of research have mostly focused on foreign directors or dual listing as mechanisms for governance mobility (Miletkov et al., 2017; Temouri et al., 2016). They have overlooked the importance of FIIs in the governance mobility process. On the other hand, most corporate finance studies have examined the financial impact of FIIs (e.g. Cao et al., 2017; Lim et al., 2016) while also overlooking the role FIIs can play as agents of good CG transfers. We addressed this research gap by evidencing that due to the need to overcome the information disadvantage they face when investing abroad especially in weak institutional settings, foreign providers of capital play an essential role in governance mobility. Specifically, we provide evidence that FIIs enhance governance mobility by transferring good governance practices to the firms in the host country of their investment, which is visible through the positive impact on the

quality of firm CG practices as recommended by regulators. As such, we contribute to both strands of literature (CG mobility and corporate finance), by showing the value relevance of FIIs in governance mobility across different institutions. Specifically, we show that governance mobility is high in firms with foreign institutional ownership than those without such shareholding.

Third, while the legal system debate has received considerable attention following La Porta et al. (1997), there has been limited attempt to examine whether the legal system of the home country of governance mobility agents may affect their ability to improve governance practices across economic environments. We extend this literature by showing that the legal system of the home country of agents of governance mobility affects the possibility of diffusion and impact on governance practices in weak institutional environments. Hence, we provide the first attempt to show the impact of the legal system of governance agents on governance mobility in weak regulatory and enforcement environments. Specifically, the effectiveness of the legal system in the home country of FIIs reinforces their ability to improve the governance quality of firms in weak governance environments whilst simultaneously bypassing weak regulatory and enforcement problem. This suggests that the legal system of the home country of governance agents should be considered when evaluating how good CG practices are transferred from one country to another, especially in weak governance environments prevailing in emerging markets.

Furthermore, we extend CD literature (Minbaeva et al., 2018; Reus and Lamont, 2009) by providing novel evidence on how cultural differences between the host and home country of governance agents can limit the likelihood of governance mobility internationally. We show that, it is possible to impact governance practices internationally when cultural differences are low than when they are high. The ability of an agent of governance mobility to understand, enforce and transfer governance standards to another country is limited by cultural differences between their host and home countries, which hinders the impact on governance quality in the host country. We show that CD negatively affect the impact of agents (such as FIIs) of governance transfer in enhancing firm governance

quality in weak governance environments. Like legal system, this also suggests CD should be in cognisance when examining how agents of governance mobility can affect firm-level governance practices in environments with unethical governance practices such as corruption and elitism.

Finally, we contribute to extend the debate on institutional dynamics (Holmes Jr et al., 2013; Scott et al., 1995; North, 1991) by providing evidence that informal institutions (cultural differences) in the home country of governance transfer agents constrain their ability to diffuse and improve CG practices across economic environment. On the other hand, formal institutions (legal system) in the home country of governance agents enhances the likelihood of improvement in the CG quality of firms in weak institutional environment.

5.2 Practical Implications

Our study provides practical implications across several dimensions. First, for foreign investors who are continuously seeking new investment opportunities abroad, our study provides them with an incentive to bypass information disadvantage by participating in the governance of the firms in weak institutional environments. We reckon this will limit the ability of managers and domestic investors to act opportunistic and hence, reduce the uncertainties they face when venturing abroad especially in EMs where they may face a higher risk of exploitation. More so, participating and enforcing good governance practices from abroad in host countries of investment may help foreign shareholders overcome the cultural differences they face when moving capital abroad. Therefore, as investors move abroad, embedding themselves with understanding institutional realities of the countries of overseas investment helps in overcoming institutional distance, which increases their ability to monitor, diffuse and enforce good governance practices. This may help in curbing practices such as corruption prevalent in EMs.

Furthermore, we provide practical implications for firms especially those from emerging economies that are continuously seeking new investment opportunities abroad. To

overcome institutional constraints at home which makes them less competitive in the global market compared to their counterparts from advanced economies, we provide insights on how they can improve on their governance practices by encouraging foreign investment. The inflow of foreign capital does not only increase legitimacy and reduce liability of foreignness abroad but simultaneously improves on their governance quality at home and may enhance their competitiveness internationally.

Finally, we evidence that FIIs and the firms they invest in are mechanisms of institutional change in weak governance environments. Specifically, as firms give up some of their equity ownership to FIIs, they bond and subject themselves to international CG practices and increased scrutiny. This increase in scrutiny reduces the likelihood that these firms will engage in unethical practices such as corruption. The increase in scrutiny together with a simultaneous transfer and improvement in governance quality may lead to mimetic isomorphism that can create institutional change. We contend, therefore, that the continuous improvement in governance quality by firms through FIIs may lead to imitation of similar practices by peers. This may lead to the emergence of new governance institutions through co-evolution of CG practices resulting in new resilient normative institutions that are capable of bypassing corruption, unethical practices and weak regulatory enforcement.

5.3 Future Research Directions

Some of the limitations of our study creates opportunities for future research. First, although the theoretical framework we propose, and the test of its validity provides robust results, which should apply to other weak governance environments, because our sample is based on a single country, it may limit cross-country generalisation. We encourage future research to examine our proposed framework in a multi-country study. This should create new insights on whether institutional maturity across different EMs influences the transfer of governance practices internationally by agents of governance mobility.

Finally, while we have ensured that our measurement, scrutiny, control variables and

robustness that have been identified in the literature (discussed earlier) as important in limiting creative reporting in annual reports, we acknowledge that this may not completely eliminate decoupling. This continues to pose a challenge to researching CG issues in emerging economies (Ntim et al., 2013; Elamer et al., 2019; Al-Bassam et al., 2018) especially as there are currently no existing databases and or agencies that report compliance with CG practices as required by respective country-level CG codes. We contend, when this becomes available, it will be an interesting research to examine whether firms decouple their CG practices in annual reports comparatively to other sources.

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Figure 1 The conceptualisation of FIIs practice transfer and impact on corporate governance practices of firms in weak institutional environments

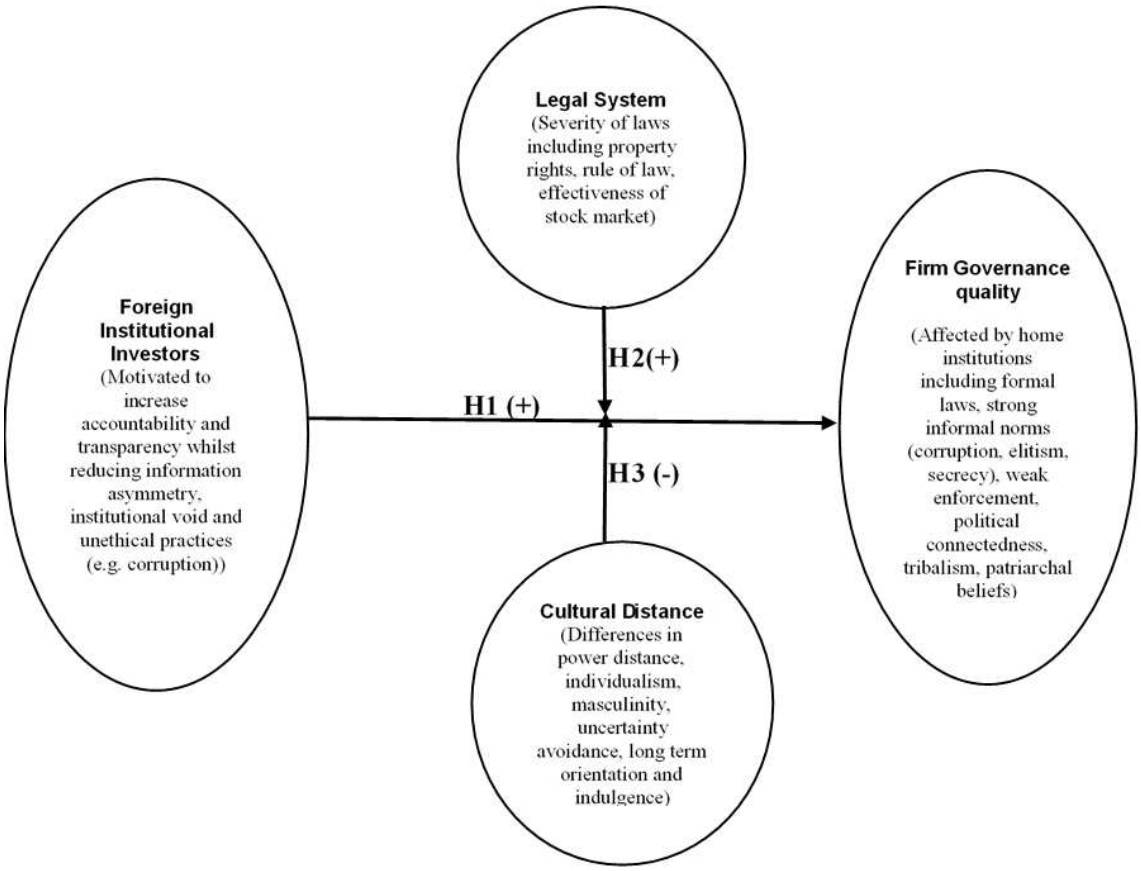

Figure 2 The dynamics of foreign institutional investment (FII) and corporate governance quality (CG Quality).

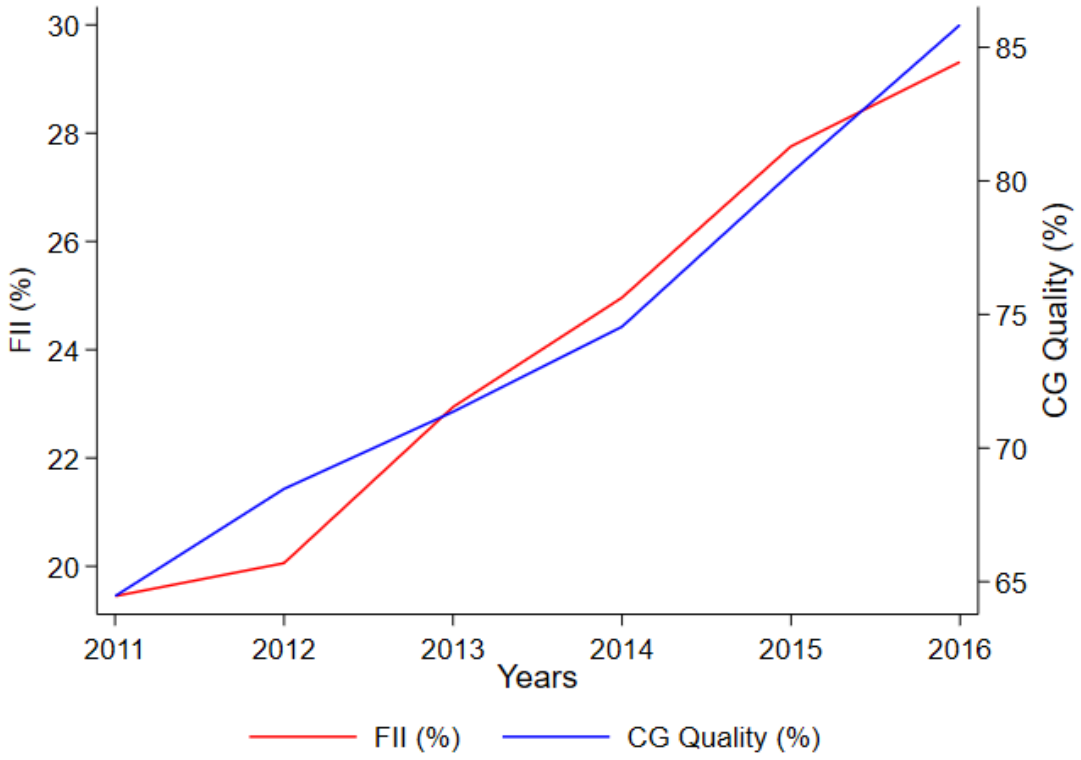

Table 1 Industrial composition of sampled firms

Composition of sampled firms.

Industrial composition of companies available to be sampled	No. of listed firms in each industry	Percentage (%) of total population	Final no. of stratified quota sample	Final Sample percentage of total listed population	Final sample percentage (%) of industrial sample	Industrial Percentage (%) of sampled population
Financials	57	30.30%	32	17%	56%	38%
Industrials /Conglomerates	27	14.40%	7	4%	26%	8%
Natural Resources /Oil and Gas /Utilities	19	10.10%	10	5%	52%	12%
Consumer Services /Health Care	34	18.10%	12	6%	35%	14%
Consumer Goods/Agriculture	33	17.60%	17	9%	51%	20%
ICT/Real Estate	18	9.60%	7	4%	38%	8%
Total population	188	100%	85	45%		100%

Table 2 Definition of variables and measurements

Variable	Definition
SEC 2011 CG quality variable (dependent variable)	
Corporate governance quality (CGQ)	A continuous variable measuring firm governance quality based on the 75 provisions of the Nigeria SEC 2011 code of corporate governance. It involves annually reading of annual reports of a firm for each year and award a score of "1" or "0" for each of the 75 Nigeria SEC 2011 corporate governance guideline It ranges from zero (0%) indicating no compliance to any of provisions up to 75 (100%) indicating full compliance.
Independent and moderating variables	
Foreign institutional investors (FIIs)	Percentage of non-Nigerian institutional equity holders to the total share value of the firm.
Foreign institutional investors voting right (FIIVR)	Proportion of voting shares/rights owned by non-Nigerian institutional equity holders of at least 5%.
Legal System (LS)	A dichotomous variable which that takes the value of "1" indicating the foreign institutional investor comes from a country with common law system, otherwise zero.
Cultural Distance (CD)	Application of Kogut & Singh CD-index formula using Hofstede six dimensions of national culture between the foreign institutional investors home country (e.g. UK) and the host country (Nigeria).
Control variables	
Dual Listing (D_LIST)	A dummy variable "1" if a firm is listed in another stock market, otherwise "0".
Return on Assets (ROA)	Percentage of earnings of the year divided by total asset.
Tobin's q	The ratio of total assets minus equity book value plus the market value of equity to total assets.
Capital expenditure (CAPEX)	Capital expenditure as percentage of total assets
Non-Executive Directors (NED)	Percentage of non-executive directors to the total board size.
Gender diversity (GD)	Percentage of female directors to total board size.
Block Shareholding (B_SH)	The percentage of common stocks owned by outside shareholders of least 5% of the firms total stocks.
NED Shareholding (N_SH)	Number of shares held by non-executive directors to the total shares of a firm as a percentage.
Audit committee independence (ACI)	Percentage of independent directors to the total number of audit committee members.
Board interlocks (BI)	Average number of board seats occupied by directors outside of the firm.
Audit firm size (AFS)	A dichotomous variable with "1" representing that the external auditor is one of the big four audit firms (that is; Deloitte Touche Tohmatsu, Ernst and Young, KPMG and PricewaterhouseCoopers), otherwise zero.
Industry Dummies (ID)	Six industry dummies.
Year Dummy (YD)	Six firm-year dummies.

Table 3 Descriptive and correlation statistics

Spearman correlation coefficients are reported at the top right corner of the table and Pearson correlation coefficients are reported at bottom left corner of the table. Full variable definitions are provided in Table 2.

Variables	mean	sd	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. CGQ	74.16	16.81		0.30	0.29	0.37	0.01	0.03	0.41	0.11	0.21	0.27	0.05	0.36	-0.01	0.40	-0.06	0.38
2. FIIs	24.08	28.24	0.29		0.95	0.33	0.16	0.41	0.06	0.15	0.23	-0.09	0.26	0.42	0.21	0.32	-0.16	0.20
3. FIIVR	22.05	27.18	0.28	0.97		0.36	0.17	0.37	0.09	0.15	0.21	-0.10	0.26	0.43	0.21	0.35	-0.13	0.20
4. D_LIST	0.23	0.42	0.33	0.35	0.38		-0.05	0.16	0.31	0.15	0.36	-0.05	0.13	0.62	0.13	0.21	-0.05	0.35
5. NED	71.73	12.63	0.08	0.17	0.17	-0.05		0.17	-0.21	0.07	-0.02	0.28	0.15	-0.12	0.12	0.13	-0.09	-0.05
6. B_SH	53.52	22.90	-0.01	0.41	0.40	0.16	0.16		-0.10	0.14	0.33	-0.14	0.38	0.14	0.17	0.19	-0.07	0.15
7. GD	13.70	11.52	0.39	0.04	0.06	0.30	-0.19	-0.13		0.08	0.14	0.01	-0.09	0.16	-0.01	0.18	0.12	0.16
8. ROA	3.77	12.64	0.21	0.11	0.10	0.13	0.00	0.08	0.13		0.23	-0.03	0.11	0.21	0.42	0.09	-0.19	0.15
9. Q	1.47	1.69	0.11	0.14	0.10	0.15	-0.04	0.21	0.13	0.30		-0.08	0.17	0.36	0.27	0.10	-0.10	0.29
10. ACI	89.92	16.51	0.35	0.01	0.00	0.01	0.28	-0.17	0.10	-0.04	-0.12		-0.20	-0.09	0.04	0.17	0.14	-0.11
11. N_SH	28.70	28.13	0.06	0.31	0.31	0.16	0.14	0.43	-0.10	0.05	0.09	-0.20		0.10	0.10	0.08	-0.10	0.16
12. CD	0.95	1.00	0.35	0.41	0.40	0.63	-0.11	0.18	0.17	0.15	0.18	-0.02	0.13		0.15	0.24	-0.04	0.45
13.CAPEX	0.06	0.17	0.05	0.12	0.11	0.11	-0.03	0.08	0.00	0.13	0.19	-0.01	0.03	0.14		0.12	-0.13	0.02
14.BI	1.12	2.51	0.21	0.18	0.20	0.15	0.04	0.08	0.12	0.04	0.01	0.11	0.08	0.08	0.00		-0.04	0.07
15. LS	0.69	0.46	-0.05	-0.17	-0.16	-0.05	-0.09	-0.07	0.11	-0.10	-0.17	0.02	-0.11	-0.15	-0.13	0.07		-0.02
16. AFS	0.68	0.47	0.38	0.23	0.22	0.35	-0.04	0.15	0.15	0.14	0.19	-0.07	0.22	0.47	0.05	0.05	-0.02	

Table 4 Trends in Foreign institutional ownership and corporate governance quality

Panel A of the table explores the differences in corporate governance quality between firm year observations with foreign institutional shareholding (FII Firms) and those without (Non-FII Firms). The difference in corporate governance quality (Difference) and the significance of this difference are also presented. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.Panel B of the table explores the increase in FIIs and associated increase in corporate governance quality over the sample period.

Variables	2011	2012	2013	2014	2015	2016	Pooled
Panel A:							
FII Firms	70.00	71.73	75.04	78	83.67	89.42	78.83
Non-FII Firms	60.00	65.80	67.01	69.60	74.71	79.50	68.48
Difference	10.00***	6.16***	8.03***	8.40***	8.96***	9.98***	10.35***
Panel B:							
Proportion of FIIs	19.45	20.06	22.94	24.96	27.76	29.31	24.08
CG Quality	64.45	68.47	71.36	74.54	80.30	85.84	74.16

Table 5 Foreign institutional investors (FIIs) and corporate governance quality

The table explores the relationship between foreign institutional investors and corporate governance quality while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	3SLS		GLS	
	Model 1	Model 2	Model 1	Model 2
Foreign institutional investors	0.089***		0.063***	
	(0.003)		(0.007)	
FII voting right		0.068**		0.052**
		(0.041)		(0.034)
Dual listing	-0.149	-0.409	-0.068	-0.188
	(0.929)	(0.807)	(0.968)	(0.911)
Non-executive directors	-0.024	-0.021	-0.011	-0.011
	(0.609)	(0.658)	(0.809)	(0.817)
Block shareholding	-0.060**	-0.046	-0.035	-0.031
	(0.043)	(0.122)	(0.228)	(0.292)
Gender diversity	0.207***	0.223***	0.232***	0.227***
	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.132***	0.130***	0.130***	0.130***
	(0.001)	(0.001)	(0.001)	(0.001)
Tobin's q	1.048***	1.120***	1.029***	1.072***
	(0.005)	(0.003)	(0.006)	(0.004)
Audit committee independence	0.238***	0.240***	0.247***	0.248***
	(0.000)	(0.000)	(0.000)	(0.000)
NED shareholding	0.031	0.025	0.012	0.013
	(0.132)	(0.233)	(0.593)	(0.542)
Cultural distance	1.670**	2.061***	1.814**	1.957**
	(0.032)	(0.008)	(0.018)	(0.011)
CAPEX	2.494	2.632	2.802	2.838
	(0.399)	(0.375)	(0.342)	(0.338)
Board interlock	3.581***	3.836***	3.542***	3.601***
	(0.000)	(0.000)	(0.000)	(0.000)
Legal system	1.732	1.948	1.905	
	(0.147)	(0.103)	(0.109)	
Audit firm size	10.145***	9.295***	10.290***	10.302***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	36.685***	35.731***	33.987***	33.502***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	425	425	425	425
R-squared	0.598	0.596		
Wald chi2			606.75	630.97
Prob >chi2			(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes

Table 6 Moderating role of Foreign Institutional Investors' Home Country Legal System

The table explores the moderating effect of legal system on the relationship between foreign institutional investors and corporate governance quality while controlling for firm characteristics, as well as industry and year fixed effects. The Rule of Law (Columns 5 & 6) and Government Integrity (Column 7 & 8) are used as alternative proxies for legal system. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	3SLS		GLS		3SLS		3SLS	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Foreign institutional investors	0.022		0.035		-0.096		0.216***	
	(0.564)		(0.211)		(0.345)		(0.000)	
FII voting right		-0.007		0.008		0.010		0.200***
		(0.876)		(0.783)		(0.870)		(0.002)
FII × Legal system	0.161***		0.078*					
	(0.000)		(0.068)					
FIIVR × Legal system		0.168***		0.077*				
		(0.001)		(0.088)				
FII × Rule of Law					0.183**			
					(0.030)			
FIIVR × Rule of Law						0.088*		
						(0.060)		
FII × Government Integrity							0.003***	
							(0.006)	
FIIVR × Government Integrity								0.003**
								(0.024)
Dual listing	-0.699	-1.194	-0.351	-0.454	5.854	0.448	-0.513	-1.175
	(0.675)	(0.478)	(0.834)	(0.792)	(0.106)	(0.822)	(0.765)	(0.492)
Non-executive directors	-0.017	-0.020	-0.010	0.008	-0.110	-0.030	-0.013	-0.017
	(0.722)	(0.670)	(0.838)	(0.873)	(0.237)	(0.584)	(0.778)	(0.718)
Block shareholding	-0.064**	-0.048	-0.038	-0.042	-0.070	-0.055*	-0.078**	-0.064**
	(0.030)	(0.103)	(0.197)	(0.160)	(0.206)	(0.098)	(0.012)	(0.038)
Gender diversity	0.202***	0.224***	0.230***	0.213***	0.296***	0.226***	0.188***	0.194***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.003)	(0.000)	(0.000)	(0.000)
Return on assets	0.143***	0.142***	0.136***	0.133***	0.188***	0.148***	0.141***	0.138***
	(0.000)	(0.000)	(0.001)	(0.001)	(0.010)	(0.001)	(0.000)	(0.001)
Tobin's q	1.086***	1.150***	1.052***	0.921**	0.860	1.159***	1.126***	1.335***
	(0.003)	(0.002)	(0.005)	(0.015)	(0.195)	(0.004)	(0.003)	(0.000)
Audit committee independence	0.240***	0.242***	0.249***	0.232***	0.245***	0.248***	0.232***	0.238***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
NED shareholding	0.036*	0.031	0.013	0.018	0.094**	0.040	0.040*	0.033
	(0.081)	(0.149)	(0.551)	(0.422)	(0.045)	(0.125)	(0.056)	(0.127)

Table 6 Moderating role of Foreign Institutional Investors' Home Country Legal System: Cont'd

Variables	3SLS		GLS		3SLS		3SLS	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Cultural distance	1.418*	1.952**	1.655**	1.661**	0.233	1.319	1.938**	2.217***
	(0.067)	(0.011)	(0.031)	(0.033)	(0.891)	(0.190)	(0.023)	(0.009)
CAPEX	1.330	1.482	2.234	0.892	1.670	2.580	3.513	3.455
	(0.653)	(0.618)	(0.450)	(0.767)	(0.750)	(0.414)	(0.242)	(0.245)
Board interlock	4.110***	4.476***	3.802***	3.834***	5.392***	4.172***	4.387***	4.367***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Legal system	-2.205	-1.714	-0.014	-0.065				
	(0.169)	(0.284)	(0.993)	(0.967)				
Rule of Law (ROL)					-1.263	-0.355		
					(0.518)	(0.754)		
Government Integrity							-0.062	-0.046
							(0.169)	(0.316)
Audit firm size	9.509***	8.655***	9.999***	10.153***	8.474***	8.408***	9.492***	8.569***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	37.336***	36.648***	34.311***	31.111***	66.699***	41.715***	34.081***	34.199***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	425	425	425	425	425	425	425	425
R-squared	0.598	0.593	–	–	0.177	0.541	0.582	0.580
Wald chi2			646.4	592.52				
Prob¿ chi2			(0.000)	(0.000)				
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 7 Moderating role of Foreign Institutional Investors Home Country Cultural Distance

The table explores the moderating effect of cultural distance on the relationship between foreign institutional investors and corporate governance quality while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	3SLS		GLS	
	Model 1	Model 2	Model 1	Model 2
Foreign institutional investors	0.306***		0.122***	
	(0.000)		(0.000)	
FII × Cultural distance	-0.186***		-0.054**	
	(0.000)		(0.022)	
FII voting right		0.344***		0.116***
		(0.000)		(0.001)
FIIVR × Cultural distance		-0.231***		-0.057**
		(0.000)		(0.016)
Dual listing	-1.436	-1.069	-0.422	-0.322
	(0.414)	(0.552)	(0.800)	(0.847)
Non-executive directors	-0.050	-0.028	-0.018	-0.012
	(0.313)	(0.586)	(0.703)	(0.804)
Block shareholding	-0.089***	-0.081**	-0.043	-0.039
	(0.004)	(0.012)	(0.143)	(0.190)
Gender diversity	0.335***	0.393***	0.268***	0.269***
	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.100**	0.085**	0.121***	0.119***
	(0.016)	(0.050)	(0.002)	(0.003)
Tobin's q	1.140***	1.185***	1.055***	1.085***
	(0.003)	(0.003)	(0.004)	(0.004)
Audit committee independence	0.205***	0.195***	0.237***	0.237***
	(0.000)	(0.000)	(0.000)	(0.000)
NED shareholding	0.059**	0.057**	0.020	0.022
	(0.010)	(0.017)	(0.357)	(0.330)
Cultural distance	6.941***	7.726***	3.366***	3.393***
	(0.000)	(0.000)	(0.001)	(0.000)
CAPEX	2.709	2.778	2.876	2.888
	(0.377)	(0.380)	(0.327)	(0.326)
Board interlock	2.876***	2.943***	3.360***	3.412***
	(0.000)	(0.000)	(0.000)	(0.000)
Legal system	5.682***	6.072***	3.064**	3.051**
	(0.000)	(0.000)	(0.017)	(0.015)
Audit firm size	9.238***	8.426***	10.028***	10.047***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	39.109***	37.605***	34.613***	33.888***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	425	425	425	425
R-squared	0.571	0.550		
Wald chi2			651.2	651.2
Prob >chi2			(0.000)	(0.000)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes

Table 8 Robustness to corporate governance quality sub-indices

The table explores the relationship between foreign institutional investors and corporate governance quality sub-indices while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. SCGQ and SKCGQ are, respectively, sub-indices of firm compliance with the 61 shareholder-oriented and 14 stakeholder-oriented provisions recommended by SEC 2011 CG code. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	Shareholder-oriented CGQ [SCGQ]			Stakeholder-oriented CGQ [SKCGQ]		
	(1)	(2)	(3)	(4)	(5)	(6)
Foreign inst. investors	0.079***	-0.024	0.309***	0.137***	0.006	0.323***
	(0.006)	(0.624)	(0.000)	(0.003)	(0.921)	(0.000)
FII × Legal system		0.282***			0.289***	
		(0.004)			(0.000)	
FII × Cultural distance			-0.218***			-0.148**
			(0.000)			(0.011)
Dual listing	-1.268	-2.285	-2.641	4.436*	3.442	3.417
	(0.434)	(0.181)	(0.132)	(0.089)	(0.187)	(0.192)
Non-executive directors	-0.020	-0.007	-0.045	-0.066	-0.050	-0.084
	(0.656)	(0.875)	(0.364)	(0.371)	(0.491)	(0.250)
Block shareholding	-0.046	-0.041	-0.067**	-0.138***	-0.136***	-0.160***
	(0.109)	(0.176)	(0.032)	(0.003)	(0.003)	(0.001)
Gender diversity	0.178***	0.196***	0.328***	0.311***	0.312***	0.418***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.115***	0.133***	0.078*	0.205***	0.224***	0.178***
	(0.003)	(0.001)	(0.060)	(0.001)	(0.000)	(0.004)
Tobin's q	1.044***	1.111***	1.152***	1.138*	1.208**	1.204**
	(0.004)	(0.003)	(0.003)	(0.051)	(0.037)	(0.038)
Audit committee independence	0.250***	0.268***	0.216***	0.203***	0.211***	0.175***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
NED shareholding	0.040**	0.029	0.066***	0.005	0.007	0.016
	(0.048)	(0.181)	(0.005)	(0.869)	(0.819)	(0.634)
Cultural distance	1.435*	0.828	7.744***	2.725**	2.326*	6.782***
	(0.058)	(0.302)	(0.000)	(0.025)	(0.054)	(0.001)
CAPEX	2.607	0.711	3.006	1.700	-0.244	1.874
	(0.364)	(0.815)	(0.324)	(0.713)	(0.958)	(0.683)
Board interlock	3.472***	4.168***	2.711***	4.242***	5.291***	3.563***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Legal system	0.390	-6.551**	5.126***	7.467***	0.517	10.536***
	(0.737)	(0.015)	(0.001)	(0.000)	(0.836)	(0.000)
Audit firm size	7.965***	6.972***	6.990***	19.740***	18.685***	19.092***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	39.696***	39.042***	41.068***	24.800***	24.827***	26.816***
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.000)
Observations	425	425	425	425	425	425
R-squared	0.563	0.539	0.509	0.585	0.585	0.589
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 9 Robustness with exclusion of financial firms and alternative measurement of CG Quality

The table explores the relationship between foreign institutional investors and corporate governance quality after the exclusion of financial firms and using alternative proxy for CG quality while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	Excluding Financial Firms			Alternative measure of CG Quality		
	(1)	(2)	(3)	(4)	(5)	(6)
Foreign inst. investors	0.138***	0.060	0.299***	0.007***	0.002	0.024***
	(0.000)	(0.182)	(0.000)	(0.001)	(0.563)	(0.000)
FII × Legal system		0.172***			0.013***	
		(0.001)			(0.000)	
FII × Cultural distance			-0.115***			-0.014***
			(0.001)			(0.000)
Dual listing	-0.005	-0.155	-0.328	0.067	0.022	-0.032
	(0.998)	(0.941)	(0.877)	(0.607)	(0.866)	(0.815)
Non-executive directors	0.001	-0.018	-0.027	-0.002	-0.002	-0.004
	(0.982)	(0.769)	(0.661)	(0.509)	(0.624)	(0.252)
Block shareholding	-0.029	-0.038	-0.058	-0.006**	-0.006***	-0.008***
	(0.472)	(0.345)	(0.157)	(0.013)	(0.008)	(0.001)
Gender diversity	0.273***	0.288***	0.353***	0.017***	0.016***	0.027***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.150***	0.153***	0.114**	0.011***	0.012***	0.008***
	(0.004)	(0.003)	(0.033)	(0.000)	(0.000)	(0.010)
Tobin's q	1.078***	1.229***	1.119***	0.077***	0.081***	0.084***
	(0.009)	(0.003)	(0.007)	(0.008)	(0.005)	(0.005)
Audit committee independence	0.315***	0.335***	0.317***	0.017***	0.017***	0.014***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
NED shareholding	0.045*	0.047*	0.044*	0.002	0.002	0.004**
	(0.065)	(0.061)	(0.077)	(0.315)	(0.203)	(0.036)
Cultural distance	0.091	-0.062	3.424**	0.139**	0.119**	0.543***
	(0.927)	(0.950)	(0.027)	(0.022)	(0.049)	(0.000)
CAPEX	3.434	2.315	2.622	0.165	0.067	0.181
	(0.275)	(0.460)	(0.406)	(0.474)	(0.769)	(0.447)
Board interlock	4.407***	5.014***	3.620***	0.269***	0.312***	0.214***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Legal system	1.194	-3.534	2.319	0.223**	-0.106	0.525***
	(0.477)	(0.105)	(0.191)	(0.017)	(0.392)	(0.000)
Audit firm size	10.900***	10.121***	10.078***	0.903***	0.849***	0.833***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant	24.098***	25.340***	23.680***	-2.805***	-2.751***	-2.613***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	270	270	270	425	425	425
R-squared	0.609	0.615	0.594	0.612	0.612	0.590
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Appendix A Robustness to corporate governance quality sub-indices using voting rights measure

The table explores the relationship between foreign institutional investors (using voting rights) and corporate governance quality sub-indices while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. SCGQ and SKCGQ are, respectively, sub-indices of firm compliance with the 61 shareholder-oriented and 14 stakeholder-oriented provisions recommended by SEC 2011 CG code. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	Shareholder-oriented CGQ [SCGQ]			Stakeholder-oriented CGQ [SKCGQ]		
	(1)	(2)	(3)	(4)	(5)	(6)
FII voting right	0.057*	-0.012	0.315***	0.114**	-0.023	0.457***
	(0.077)	(0.777)	(0.000)	(0.028)	(0.735)	(0.000)
FIIVR × Legal system		0.168***			0.330***	
		(0.001)			(0.000)	
FIIVR × Cultural distance			-0.212***			-0.257***
			(0.000)			(0.000)
Dual listing	-1.480	-2.293	-2.123	4.078	2.497	3.129
	(0.364)	(0.161)	(0.225)	(0.121)	(0.343)	(0.248)
Non-executive directors	-0.013	-0.014	-0.022	-0.055	-0.054	-0.070
	(0.780)	(0.767)	(0.662)	(0.452)	(0.460)	(0.359)
Block shareholding	-0.036	-0.040	-0.069**	-0.131***	-0.136***	-0.179***
	(0.205)	(0.164)	(0.027)	(0.004)	(0.003)	(0.000)
Gender diversity	0.185***	0.187***	0.343***	0.310***	0.317***	0.502***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.113***	0.125***	0.072*	0.185***	0.188***	0.132**
	(0.003)	(0.001)	(0.089)	(0.000)	(0.000)	(0.014)
Tobin's q	1.069***	1.108***	1.142***	0.004	0.013	0.035
	(0.003)	(0.002)	(0.003)	(0.902)	(0.680)	(0.297)
Audit committee independence	0.242***	0.245***	0.203***	0.202***	0.226***	0.151**
	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.020)
NED shareholding	0.036*	0.041**	0.066***	1.194**	1.261**	1.301**
	1.645**	1.520**	6.849***	(0.041)	(0.031)	(0.031)
Cultural distance	(0.030)	(0.043)	(0.000)	3.031**	2.802**	9.136***
	2.759	1.588	2.871	(0.013)	(0.020)	(0.000)
CAPEX	(0.338)	(0.582)	(0.352)	1.796	-0.487	1.803
	3.682***	4.287***	2.851***	(0.699)	(0.917)	(0.706)
Board interlock	(0.000)	(0.000)	(0.000)	4.452***	5.601***	3.286***
	0.625	-3.055**	4.388***	(0.000)	(0.000)	(0.000)
Legal system	(0.590)	(0.049)	(0.004)	7.757***	0.544	12.180***
	8.020***	7.292***	7.059***	(0.000)	(0.824)	(0.000)
Audit firm size	(0.000)	(0.000)	(0.000)	19.767***	18.329***	18.602***
	(0.075)	(0.043)	(0.004)	(0.000)	(0.000)	(0.000)
Constant	39.182***	40.191***	40.895***	25.077***	27.003***	28.399***
	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)
Observations	425	425	425	425	425	425
R-squared	0.562	0.557	0.512	0.583	0.574	0.569
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Appendix B Robustness with exclusion of financial firms and alternative CG quality proxy using voting rights measure

The table explores the relationship between foreign institutional investors (using voting rights) and corporate governance quality after the exclusion of financial firms and using alternative proxy for CG quality while controlling for firm characteristics, as well as industry and year fixed effects. All the right hand side variables are lagged by one period. Full variable definitions are provided in Table 2. Robust p-values are presented in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Variables	Excluding Financial Firms			Alternative measure of CG Quality		
	(1)	(2)	(3)	(4)	(5)	(6)
FII voting right	0.134***	0.063	0.345***	0.006**	-0.001	0.027***
	(0.002)	(0.221)	(0.000)	(0.026)	(0.832)	(0.000)
FIIVR × Legal system		0.159***			0.015***	
		(0.007)			(0.000)	
FIIVR × Cultural distance			-0.149***			-0.017***
			(0.000)			(0.000)
Dual listing	-0.665	-1.168	-0.517	0.047	-0.025	-0.006
	(0.761)	(0.589)	(0.813)	(0.717)	(0.849)	(0.963)
Non-executive directors	0.011	0.049	0.004	-0.002	-0.002	-0.003
	(0.863)	(0.413)	(0.949)	(0.626)	(0.628)	(0.521)
Block shareholding	-0.026	0.018	-0.069*	-0.005**	-0.005**	-0.008***
	(0.515)	(0.613)	(0.092)	(0.028)	(0.021)	(0.002)
Gender diversity	0.276***	0.335***	0.382***	0.017***	0.017***	0.030***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Return on assets	0.146***	0.145***	0.090	0.011***	0.012***	0.007**
	(0.006)	(0.006)	(0.100)	(0.001)	(0.000)	(0.029)
Tobin's q	1.150***	1.399***	1.222***	0.080***	0.083***	0.086***
	(0.006)	(0.001)	(0.004)	(0.006)	(0.004)	(0.005)
Audit committee independence	0.295***	0.392***	0.278***	0.016***	0.016***	0.012***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
NED shareholding	0.036	0.040	0.037	0.001	0.002	0.004**
	0.344	0.239	4.181***	(0.396)	(0.260)	(0.045)
Cultural distance	(0.731)	(0.810)	(0.006)	0.157***	0.147**	0.570***
	3.471	2.997	2.509	(0.010)	(0.014)	(0.000)
CAPEX	(0.275)	(0.347)	(0.431)	0.175	0.070	0.183
	4.510***	5.133***	3.690***	(0.449)	(0.761)	(0.455)
Board interlock	(0.000)	(0.000)	(0.000)	0.284***	0.339***	0.216***
	1.414	-2.707	2.200	(0.000)	(0.000)	(0.000)
Legal system	(0.406)	(0.218)	(0.210)	0.241***	-0.090	0.541***
	10.964***	11.633***	10.049***	(0.010)	(0.466)	(0.000)
Audit firm size	(0.000)	(0.000)	(0.000)	0.906***	0.840***	0.830***
	(0.128)	(0.121)	(0.134)	(0.000)	(0.000)	(0.000)
Constant	24.856***	24.310***	24.414***	-2.824***	-2.740***	-2.672***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	270	270	270	425	425	425
R-squared	0.601	0.594	0.580	0.610	0.604	0.575
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes