

Why do firms voluntarily comply with the Codes of Best Practice?

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Abstract: This paper attempts to analyze the determinants that affect compliance with voluntary Codes of Best Practice by firms when no mandatory disclosure is required. More precisely, it studies company characteristics that influence both the decision to comply and the decision to inform of such compliance with the Spanish Code of Best Practice, dubbed the Olivencia Code, by using a sample of firms listed on the Spanish Stock Exchange in the late 1990s. Firms with higher levels of free-float, larger companies and companies that have recently made public offerings are shown to be more willing to comply on both the above counts. Our results cast doubt on the effectiveness of self-enforceable Codes in the absence of a mandatory disclosure of corporate governance related information.

Keywords: Corporate Governance, Board of Directors, Codes of Best Practice, Disclosure of information, Self-regulation.

JEL: G30, G32