Corporate Governance: A Study In The Context Of Globalisation

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Abstract: *Corporate governance, meaning the mechanism by which corporations and their managers are governed, encompasses the structural and behavioural issues of the corporate board as to how it should respond to its shareholders, financiers, government and employees—the stakeholders. But, in practice, there is no clear-cut definition of corporate governance. According to Milton Friedman, "Corporate governance is to conduct the business in accordance with owners' or shareholders' desire, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and social customs." Apparently, in the present-day concept, Friedman's definition is narrow in scope. Over the period of time, the definition of corporate governance has been widened. It now encompasses the interest of not only the shareholders but also other stakeholders. There is considerable debate about what actually constitutes corporate governance, but its key elements concern the enhancement of corporate performance via the supervision or monitoring of management performance and ensuring the accountability of management to shareholders and other stakeholders.*

Corporate governance has become a special aspect of political and economic debate in the wake of rapid economic and technological change and recurrent crises in global economy. In this context, the study of the relationship between performance of corporations and corporate governance vis-à-vis globalisation assumes considerable significance. The distinction between developing and the developed countries exists on the capacity of these countries to fashion complex institutional frameworks and enforceable legal relationships among the management and ownership.

Globalisation is more a syndrome than a unified process or phenomenon. As such, it is considered as a set of political economic development. The entire process has been immensely helped by the development of communication and information technologies.

Keywords: Cooperate, Governance, Globalization and Political Economy

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Introduction

Corporate governance, meaning the mechanism by which corporations and their managers are governed, encompasses the structural and behavioral issues of the corporate board as to how it should respond to its shareholders, financiers, government and employees—the stakeholders. In a wider sense, it means how the corporate board should respond to regulatory and environmental aspects (Panchali N. Jinesh, 1999, p. 439).But, in practice, there is no clear-cut definition of corporate governance. According to Milton Friedman, "Corporate governance is to conduct the business in accordance with owners' or shareholders' desire, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and social customs." Apparently, in the present-day concept, Friedman's definition is narrow in scope. Over the period of time, the definition of corporate governance has been widened. It now encompasses the interest of not only the shareholders but also other stakeholders. According to Sir Adrian Cadbury (1992), corporate governance is the system by which companies are directed and controlled. There is considerable debate about what actually constitutes corporate governance, but its key elements concern the enhancement of corporate performance via the supervision or monitoring of management performance and ensuring the accountability of management to shareholders and other stakeholders.

Corporate governance has become a special aspect of political and economic debate in the wake of rapid economic and technological change and recurrent crises in global economy. In this context, the study of the relationship between performance of corporations and corporate governance vis-à-vis globalisation assumes considerable significance. The distinction between developing and the developed countries exists on the capacity of these countries to fashion complex institutional frameworks and enforceable legal relationships among the management and ownership.

Globalisation is more a syndrome than a unified process or phenomenon. As such, it is considered as a set of political economic development. First, the scale and scope of international trade has grown substantially as a share of global GDP and this growth has sharpened product and services market competition to an unprecedented degree (Irwin, 1996). This intensifying competition has revealed the relative efficiencies and competitiveness of firms and national economies alike.

Second, capital markets have become truly global because of development of digital communication technology that ensures safety, easiness, transparency and speedier transactions.

In the scenario, the competition among corporations of different nations has intensified for easier funds from international sources, limiting the scope of operation of the Keynesian concept of the importance of demand side. Thirdly, state policies, particularly in the hitherto regulated regimes, have honoured their commitments for opening of their internal markets for goods and services despite unrest and even socio-political dislocation in some of these countries. Fourthly, production has become increasingly cross-national as the value chain is

splintered, reorganized and relocated around the globe to exploit comparative advantage in different localities. The entire process has been immensely helped by the development of communication and information technologies.

Globalisation and Convergence

Globalisation signifying withdrawal of all regional restrictions to the flow of goods and services, should facilitate corporate governance systems of countries participating in the process to converge on a set that emerges as the best practices and institutions as determined by competitive markets. But the above argument neither adequately describes nor explains, developments in corporate governance throughout the industrialized world. First, the view that autonomous international markets drive their own development and erode the power and capacities of nation states ignores the fundamental fact that international markets are defined by the interactions of national policies and nationally based actors.

Second, path dependency remains an extremely powerful force that buttresses established institutions and practices. Four factors influence the power of path dependence. One is the number of institutional features that must be changed to effect reform. A second factor is the number of political actors and organized interests incorporated within or implicated by the institutional structure. Likewise, the intensity of interest in a given institutional structure will determine how actively these organized political forces will pursue or resist institutional change.

Lastly, the relative power of these political actors and organized interests shape or block policies and institutional changes that determine whether institutional reform is politically feasible. Third, these theories of globalisation ignore the role of different institutional structures in creating comparative economic advantage. Different institutional and organizational structures endow national economies with divergent capacities and competitive advantages in certain markets and industries. Such institutionally rooted comparative advantages are not only a powerful factor in the growth of international markets; they are also a factor in the path dependence and maintenance of divergent political and economic models. Comparative advantage contributes to path dependency by lowering or eliminating cost of maintaining alternative institutional arrangements and thus the demand for legal and institutional change.

Corporate governance regimes of countries are the products of multiple, often interpenetrating, institutions and bodies of law that may make the alteration of one feature at a time exceedingly difficult, while simultaneously reforms would impose enormous political costs and technical burdens. In addition, corporate governance regimes configure and institutionalize the basic interests and incentives of the most powerful political and economic actors in industrial societies; capital, management and labour. The power of the actors and constituencies directly involved in corporate governance and the intensity of their interests in any attempts to change the governance regime further increase the costs of institutional change.

Domestic complementarities among factors of production and their organization form the basis for the emerging global division of labour and thus, to a significant extent, for globalisation. Thus, globalisation and the governance of multinational enterprises remain firmly dependent upon the policies and legal institutions of the state, even as state policies are increasingly informed by international economic competition.

Corporate governance as Institutional framework

Corporate governance, as the nexus of law, markets, public and private hierarchies, and national and international political economies, provides an ideal vantage point to analyse the evolving relationships among states, markets and firms in an era of globalisation. Globalisation has neither overpowered nor left them untouched and unchanged. The task, then, is to identify the patterns of stability and change that characterize the relationship between corporate governance regimes and globalisation.

Basis of Corporate Governance

In the supply of risk capital and consequently in the governance of corporations the financial systems of countries played the most important role. Among the developed countries, the financial systems of Japan and Germany were bank based, where as in UK and USA the systems were market based. But, it is also true that in all these developed countries the securities markets are also as active. In the developing countries on the other hand, because of the absence of developed capital markets, it is the banks and financial institutions on which depended the mobilization of resources for industrial development. In the developed countries, over the last few decades some distinguishing features have| crystallized. In the first systematic study on the issue Singh and Hamid (1992) have summarized the following facts:

1) During the period 1970-85, retained profits accounted for more than 100 per cent of all net sources of finance for non-financial corporations in the UK, about 85 per cent in the USA, less than 60 per cent in Japan a little over 60 per cent in France and a little over 70 per cent in Germany.

2) In none of the advanced countries is the equities market an important source of finance for the non-financial corporations, in the US and UK new share issues made a negative contribution to the financing of corporate growth over the period 1970-85, indicating that the value of shares redeemed during the years (on account of takeovers) was greater than the amount raised by corporate new issues.

(3) Bank Loans are the main source of external finance in all countries particularly in France, Italy and Japan where they accounted for nearly 40 percent of gross source of finance. From the institutional logic of financial systems of countries emerge the conceptual and normative principles of the economic theory of the corporation and corporate governance shareholder primacy. From this perspective, the function of corporate governance addresses the principal-agent problem created by the separation of ownership and control. The theoretical arguments for the priority granted to shareholder interests masks the distribution and exercise of political power underlying the principle of shareholder primacy as a legal norm.

Globalisation and Modalities of Governance

Globalisation forces state to confront conflicting policy imperatives. The effects of globalisation are equivocal; they may generate demand for greater state intervention as well as for withdrawal from interventionist governance strategies. One set of market forces presses for reduced government intervention in economic affairs to raise short-term profitability and return to capital. Yet, political and economic demands grow for increased state oversight of economic institutions and processes as globalisation gives rise to an international economy that is more complex, interdependent and volatile (Rodrik, 1997). What has been striking in the fallout of the crisis is the absence of a clear, systematic pattern of structural changes and outcomes at the national and international levels. First, despite the extraordinary conditions favouring the reform and liberalisation of the Asian economies, no consistent trend of liberalization has emerged. Japan, Korea, Taiwan, Thailand and Malaysia have been struck by the crisis in different ways and have adopted different policy responses to stabilize their political and economic systems. However, the preliminary evidence does not indicate that their policies of corporate governance are converging even after the recent experience of crisis.

Further, the relief measures imposed by the IMF and the World Bank raveled the inevitable entanglement of governments and financial systems. Third, Asian crisis demonstrated just how difficult it is to substantially change governance regimes. The political character and sensitivity of these institutions has been laid bare along with the enormous difficulty of the technical task of creating new legal and institutional frame works. Finally, the best condition to compel governance reforms-a serious systemic crisis-may also be the worst. The Asian economies are so vulnerable to financial collapse, deflation and the contraction of credit that the state must intervene in finance to prevent the deterioration of the entire system. And yet, our most recent experiences with the bankruptcy of Enron, World Tel and several other such incidents suggest that the governance of corporations even in USA has strayed from the perceptions of how it is supposed to work. By law, shareholders own the corporations and, ideally, corporate managers should be working on behalf of shareholders to allocate business resources to their optimum use. But the economy has grown, and business units have become ever larger, de facto shareholder control has diminished. The growing interdependence of national economies brought into being by the globalisation created the most vexing problems of policy and governance precisely because the territorially defined nation state remained the basic constituent political unit in the world economy and the support behind the institutional order. Under the situation, intervention at the international level has been and likely to remain piecemeal. Nations are not yet ready to part with sovereignty for the sake of a global system of corporate governance for making globalisation purposeful.

Political Economy and Regulatory Change

In the absence of a global legal and regulatory framework, the relation of corporate governance to globalisation must be sought at the level of the national political economy. We therefore look at the exact legal and political structures of countries that inhibit convergence. Two categories of variables describe these dynamics. One category is

composed of the institutional structures built around three categories of legislations generally;

(1) corporate law
(2) financial market regulations and
(3) labour law.

Different types of political economic systems constitute the second category of variables. The political economic variables are of three basic types: (1) neo- liberal, (2) neo-corporatist and (3) statist. The financial markets and financial market regulations have changed most substantially in the recent past around the world under the pressure of globalisation. Labour laws have not changed substantially because of strong trade union movement both in the developed and the developing countries. On the other hand corporate law changed moderately everywhere to safeguard the interest of the investors. But the other hand the political systems of countries, built upon the socio-economic needs and imperatives of the country are not supposed to change substantially under the pressure of globalisation.

Conclusion

The existence of different corporate governance regimes around the world even in the context of globalisation confirms the fact that the economic and political systems of countries provide necessary support to the perpetuation of the differences in governance. This leads us to conclude that the impact of globalisation has not and most likely will not produce convergence but globalisation will produce a new set of differentiated political economic systems integrated into global capital markets. The need for capital and movement of capital across the globe for exploring emerging possibilities will facilitate the integration into global capital markets. Globalisation does not control the development of national institutions any more than nations govern globalisation.

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