EFFECTIVE MODEL OF CORPORATE GOVERNANCE IN THE TREND OF GLOBALIZATION

Author- Dr. Sindhu mani Bag

Assistant Professor, Department of Commerce, Sri Venkateswara College, University of Delhi, Delhi, India

Abstract

In present context economic reform means: Liberalization, privatization and globalization. Even though it is implementing in the basis of it, but way of implementation of these term very from countries to countries. Because different countries have different form of government, social and cultural life, economic and educational standard and different model of corporate governance. Even though there is international policy for corporate governance but every country have there own governance policy and through which government has to achieve their goals. So every member country of an organization following their organizational policy with state policy. So in globalization trend it is difficult to say some governance model is successful for one country so that would be effective and successful for other countries. So there is not any unique model, which can be successful and effective for every countries. The study highlighted the different model of corporate governance and effectiveness of corporate governance in international business. Corporate body is dealing with business activiti es and major contribution of growing economic activities of a country. So it is essential to give more importance to corporate sector on the process of governance and management, so if corporate would be successful economy of the country can be prosperous. Globalization making united of all countries of the world in a platform, but every country have their way of doing the work and policy is different. But lastly all the countries ambition is one and for that purposes all the countries are working.

Keywords: *Globalization, Multinational, Foreign Direct Investment, Venture capital, Private equity, Hedge fund.*

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1. Introduction:

Corporate governance is a set of prescription and practices that provides guidelines with regards to the effective control of a company in the best interest of its stakeholders. By the frame works of rules and practices a board of directors ensures accountability, fairness and transparency in a company's relationship with all its stakeholders and achieve the goal of the stakeholders as wll as the state. So here the author mentioned that 'corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuits of the corporate objectives and that the corporation itself conforms to the law and regulations (www.businessmanagementideas.com). So effective corporate governance ensures that, the resources are allocated sufficiently, productively to keep all stakeholders satisfied. After globalization and mostly after economic reform in India, the concept of multinational is very popular and lots of multinational company operated all over world. So here research scholar like to presents challenges face by trend of global business in the emerging form of world economy. The dramatic increase in the level of globalization over the past couple of decades has contributed to firms being expanded into international markets and it has increased the managerial challenges of the organization. Here Luo (2007) mentioned that, International status has also brought about significant managerial challenges involving the management of a multitude of structures, strategies and environments. The increased complexity of surrounding, international expansion and associated difficulties in measuring international outcomes has also contrib uted to the growing importance of corporate governance in internationalizing firms. There is very little research on corporate governance in the context of internationalization of firm. (Hitt, Tihanyi, Miller & Connelly, 2006).

In the process of globalization, implementation of a unified management system in corporate sector is a difficult task, because it has a lot of challenges, so in the point of view the scholar mentioned that 'the reality of globalization and the governance challenge has put established theories of international relations to severe test (Rosenau, 1997)'. The state remains the primary actor in the global governance process, but scholars now acknowledge that it does not dominate this process in all places and at all times. States often must share or delegate influence to non-state actors such as non-governmental organization, international economic institutions and increasingly active civil society groups that wield considerable power and consequently demand governance input (Held, 1995). So by doing continuous and concrete research work can sort out the problem of implementation of corporate governance model in the globalised economy. A growing literature reflects these realities by examining how the Field's established theories can evolve to deal effectively with the governance challenges posed by globalization (Castells, 1996).

In the globalized system corporate sector plays important role in development of a country's economy. Its effectiveness and successful is essential for sustaining a country's economic growth. The concern country has to choose and concentrate an effective code of corporate governance by applying favorable conditions and environment of the country. The trend of corporate failure of recent past shows that it happened not only to developing countries also to developed countries, such as Enron, WorldCom, Parmalat and Hollinger Inc. etc. All these corporate failure shows that, even though they are implementing the model code of governance after a lot of research, still than something wrong in somewhere so it is not effective to provide efficient management. The cause of these scandals has been attributed to the poor corporate governance standards practiced by the offending companies, leading to research scholar has re-examined how corporate governance affects economic development. Effectiveness of code corporate governance depends on many factors, so it may not be effective of other organisation of same state also. There is extensive evidence relating to the relationship between corporate governance mechanisms and firm performance across a variety of institutional contexts (Schleifer/Vishny 1997). In this point of view the research scholar mentioned that the Evidence from various countries shows that boards with more outside directors are more likely to dismiss top management and that there is a negative relationship between board size and performance (Denis/ McConnell 2005). For protection of self interest directors are not be able to practice independence, they are biased on this side or that and trying to protected their future interest. So the scholar mentioned that effectiveness of the board also depends on number of executive and non-executive director, a consequence of it is that if insiders are majority, monitoring by outside directors may be ineffective and vice versa. The separation of the roles of the CEO and the Board chair is argued to resolve the duality problem where the board is dominated by an insider. Board of directors decide and approve executive remuneration and key governance objective is to ensure in such a way that managers and shareholders interest are aligned with financial disclosure. Financial reporting regime are important for two reasons, on the one side providing the basis for the disclosure of reliable information of the governance actions and the other side the increasing involvement of institutional investors and other sources of financial capital that firms are increasingly obliged to meet targets for a range of accounting measures and this has an impact upon firm strategy (Anderson et al. 2008). At last the environment for corporate control provides an external governance mechanism if manager's behavior deviates too far from shareholder's interest. The other form of board of directors are supervisory and executive, the supervisory representing a range of stakeholders. So interlocking directorships may effectively combine firms, without formal takeover, stakeholder's share ownership and board representation, stakeholder may influence important firm decisions through a variety of channels, including strikes, political influence and use of the media. The state may effectively exercise corporate governance through range of administrative devices, subsidies, permit etc. While there is considerable evidence from the United States and the United Kingdom in particular on the typical weak relationship between executive pay and performance, this has only become available in some other countries only recently (Buck et al. 2008). In general there is no relationship between pay and performance, it also depends on infrastructure and environment. Different form of corporate governance mechanism has developed in different countries and effectiveness of the mechanism depends on lots of factors. There is mix evidence from the United States on the relationship between ownership concentration (block holders) and firm performance. Worldwide evidence on the influence of block holders on performance varies both by country and the nature of the block holder but in general is more positive than in the United States. Shareholders may gain private benefits from control rights that exceed the proportion of shares they own, such as though pyramid structures; cross holdings etc. these mechanisms are widespread outside the United States (Claessens et al. 2000, Faccio/Lang 2002). International evidence suggests that accumulation of control rights in excess of cash flow rights reduces the market value of firms and concentrated ownership is a rational response where minority investors are not protected.

2. Corporate Governance and International Business Research:

Technology and capital are the main factors of globalization. New technology and investment need every country for rapidly development of economic condition of that country. Technology is concentrating only on few countries but Capital market have been plying important role of rapidly growing globalization. Increased globalization of capital markets has called for increased movement towards convergence guidelines. This movement towards convergence may be explained in some part by efforts to gain legitimacy in the global environment. However, to avoid superficial changes to corporate governance guidelines, efforts to improve such guidelines should be matched with corresponding to supporting changes in the underlying institutional environment. Further, changes to institutions should be made in agreement with the prevailing national culture. Such an approach can aid in avoiding a "Deoupling" of stated intent and actual practice (Crooke 2002; Fiss and Zajac 2004; Westphal and Zajac 2001). Every country have their banking and financial regulations, they have developed it on the basis of the overall infrastructure and environment. But whenever any developed country develop any code or law other country like to follow and implement it. Many developed countries have developed their Financial and banking regulations. But every countries like without doing any research on the code or laws. So there is not any concrete evidence that how much effective that policy in the country. The recent global financial crisis has brought light to questions about whether the US' laissez faire approach to regulation is suitable in an international banking environment. The European and the U.S leaders are calling for increased regulation of banks and hedge funds and there is growing talk of the need for a global regulatory body to address the increasingly interdependent capital markets. Yet given the variation in legal and regulatory infrastructures, trading volumes and dispersion of ownership, one wonders whether a 'one size fits all' approach to regulation and corporate governance is appropriate or even impossible across countries (Davies 2008). Some countries have their successful policies in their own countries not mean it would be effective for other country. There has been a little work on how different governance components impacts firm's strategic decision, such as whether, when, where and how to internationalize and upon how firm organize and manage their activities across national boundaries. It has typically focused on strategies of multinational enterprises for global expansion in diverse regions, infrastructure, environment and countries with an emphasis on corporate and business level strategies.

3. Hypothesis:

The hypothesis focused issue on the notion that an appreciation of the corporate governance mechanisms can enrich insights into international business. First, proper and effective model of corporate governance and institutions of a particular country can influence and attract for international investment. They influence the nature of foreign market entry modes since different corporate governance institutions are likely to have different implications for the most appropriate and feasible form of control of foreign activities. Second, the power, influence and expertise of different stakeholders within corporate governance have a strong influence on strategic decision making, in general and international strategies in particular. Third, internationalizations and activities of MNEs impact corporate governance, by exposing firms to diverse sets of institutions and stakeholders pressures.

4. Objectives:

The paper focused on the Effective Model of Corporate Governance in the Trend of Globalization. Research scholar has concentrated on the five important points on emerging trend of corporate governance and its effectiveness in international level. The study covered the five important elements for understanding the importance of corporate governance in International level. The five elements are:

4.1. International Diversification:

Globalization is the process of diversification and distribution of resources. The traditional view of international diversification is to exploit and augment resources in overseas markets. There are different theory and different perspective of relation of the organizational management. There are different theory of governance and every theory have its own perception. Such as Agency Theory (AT) provides different perspective of corporate governance, it states that corporate executives have moral and financial duty to act in the best interest of the parties, especially the shareholder. The studies have identified two types of associations between environmental dynamism, governance, content and context of business strategy (Filatotchev et al. 2007, Sanders/Carpentar, 1998). On the basis of these points association is developing and establishing. First, multipoint competition is associated with

international diversification. It increases both specialist knowledge within top management teams and the ambiguity surrounding manager's actions. This leads to a classic principal and agency problem between investors and subsidiary management, when outside stake holders are unable to observe and evaluate manager's strategic decisions and their outcomes. Second, economic and institutional transitions increase the complexity of transaction and affect how managers process information when developing corporate strategy (Hoskisson et al. 2000). Here even though agent is working in favor of the principal, but principal is not be able to observe the strategic decision and their outcome. This may lead to strategic errors even when the interests of managers and shareholders are aligned (Hendry, 2002). These strategic errors are particularly harmful when investors use local firms as a base for exporting or as suppliers to their global production network. Both of these perspectives suggest that general governance factors should have important impacts on the strategic decisions of subsidiaries. Here the author (Filatotchev et al. 2008) mentioned that the internationalization of decision of multinational corporation (MNC) subsidiaries in transition economies are positively associated with both parent's ownership and its extent of control over the affiliate one's strategic decisions. However, Tien and Chuang (2008) find mixed support for an Agency Theory perspective of the relationship between chief executive officer (CEO) compensation schemes and internationalization. Further the Agency theory need more clarity on the role of different ownership configurations and governance structures on international diversification, particularly the role of boards. The influence of other stakeholders on international diversification has also not been widely considered. Similarly, although there has been some attention to the importance of the institutional environments and changes in these environments, research remain partial in its coverage of the range of institutional contexts Identified. (Hoskisson et al. 2000).

4.2. Business Group:

The study identifies four avenues for future research on corporate governance in business groups. It is consist of examination of complex relationships and co-evolutionary processes among corporate governance attribute and organizational and performance outcome of business groups. The effects of ownership goals on groups performance outcomes. The role and the actual functioning of boards inside business groups and the analysis of cross national comparision and long term development of the governance of business groups. Business groups are agglomerations of private sector firms, common in emerging markets (Yiu et al. 2008). The Transaction Cost Economics (TCE) describes governance frame works as being based on the net effects of internal and external transactions rather than as contractual relationships outside the firms. And Resource Based View (RBV) suggests that the resources possessed by the firm are the primary determinants of its performance, and this may contribute to the sustainable competitive advantage of the firm. The TCE and RBV theory of governance perspective see these groups are providing organizational solutions to the high transaction cost by institutional voids (Khanna/ Palepu 2000) and by the need for domestic firms to key resources. The influence of business group is generally seen as beneficial but research on their stability is limited. There are different theory and it is varies from theories to theories and organization to organization. Agency Theory provides a different perspective such as in emerging markets, there is typically inadequate disclosure, weak securities regulations and other problems that give rise to institutional voids and suggest that improved governance is achieved through membership of business groups (Khanna/ Palepu 2000). However, business groups may create agency problems through their pyramidal structures of intergroup block holdings that entrench controlling shareholders who run their groups maximize their utility rather than maximizing wealth for all shareholders. As a result, traditional principal agent problems may be replaced by a separate set of agency problems associated with principal-principal goal incongruence (Dharwadkar et al. 2000).

Despite these situations, corporate governance systems differ from country to country with regard to purpose, structure and function. Often the purposes of corporate governance systems are framed in the language of economics. Economic analysis of corporate governance system focuses on the structuring of contracts to overcome the agency problems created by the separation of ownership and management characteristic of the publicly held firm (Berle & Means, 2004). Even though ownership has invested their resources in the organization but management vested with the power to make policy decision. Widespread share ownership results in owners entrusting professional managers to make decisions on company affairs and to act as agent for their interests; yet, managers' privileged positions in terms of in-depth knowledge of the company provides them with an opportunity to act in shareholder to act in self aggrandizing ways. Effective contracts discipline managers to act in shareholders' interests by aligning the economic interest of management, labor and owners through the provision of appropriate incentives. They can do so in several ways, first, compensation mechanisms that depend on firm's performance. It provide incentives to ensure that managers and shareholders interest are aligned. Second, meticulous board of directors' supply and oversight mechanism designed to identify inappropriate managerial conduct and take disciplinary actions

to correct it. Third, when neither contract nor internal oversight prove sufficient, the economic threat of takeover, ever present in active capital markets disciplines poorly performing companies (Hart, 1995). Finally, corporate disclosure rules and securities legislations are designed to ensure fiscal transparency and clarity and to provide punitive measures in the case of transgressions. The purpose of corporate governance in economic terms is to overcome agency problems through the instruments of contracting, oversight a liquid capital market and a rigorous regulatory framework.

4.3. Entry Modes:

The most common mode of international market entry in the globalization are exporting, licensing, partnering, acquisition and Greenfield venturing. Entry-mode choice represents a key strategic decision and is widely recognized as being one of the most important in a firm's quest for internationalization (Brouthers & Brouthers, 2001). research indicates that choices of entry modes are influenced by a variety of firm, industry and country related factors. The considerable International Business literature to determines on whether a foreign multinational enterprise (MNE) would choose for a wholly owned subsidiary, joint venture entry or any other form of entry depends on its investment decision. Institutional factors such as cultural distance between the home country and host country also have an influence. There is increasing recognition that agency hazards may impact entry mode decision (Reuer & Ragozzino 2006). Foreign institutional investors with globally diversified portfolios and superior monitoring abilities more likely encourage high risk, high commitment FDI decisions by firms in emerging markets. but domestic institutions more likely form coalitions with risk averse family block holders and parent company insiders, supporting a low commitment entry mode (Filatotchev et al. 2007). Yet both foreign and domestic investors may be heterogeneous in their foreign entry objectives so that firm with different ownership and governance structures may have different approaches to entry. 'The impact that multinational corporations can have on the global economy is also significant, leading many outside stakeholders to demand more of such corporations in terms of their environmental and labor records and to questions the method by which and the goals for which, these corporations are governed' (Hall and Biersteker 2002). The specific national corporate governance context may also be important. Here the scholar (Luo et al. 2008) examine how family ownership and control in large group-affiliated firms in Taiwan affect joint venture investment from US and Japanese firms. Their finding that home country corporate governance models likely shape foreign firm's choice of local partners support a neo-institutional perspective of FDI. More generally, there is a need to consider the relationships between different institutional environments and configurations of entry modes for control versus resources access or transfer.

4.4. Subsidiary status:

Director of the subsidiary are responsible for the affairs of a wholly owned subsidiary. The director must act in behalf interests of the subsidiary even at the time of conflict with the parent company. MNEs may establish overseas subsidiaries with various strategic 'mandates' relating to their decision making processes and strategy. The subsidiary may develop its own resources and capabilities that enable it to become more autonomous in pursuing its own resources, entrepreneurial activities that the present could not foresee (Birkinshaw, 1997). However some foreign MNE have been facing some difficulties in dealing with some transaction. Here scholar mention that foreign MNEs face particular risk associated with securing and enforcing contracts (Mudambi 1999). There is thus a need for research that considers the appropriate configuration of subsidiary mandates for resource versus control objectives. Changes in institutional environments aggravate agency problems and that increases the specialist knowledge of subsidiary managers and ambiguity surrounding their actions, if parent companies are typically unable to observe their decisions. Strategic errors may also arise, when changing institutional contexts increase the complexity of information processing. Governance mechanisms such as ownership and MNEs involvement in the subsidiaries decision making processes may be able to offset these problems (Filatotchev et al. 2008). However, evidence as yet remain limited on the circumstances under which different governance mechanisms achieve a balance between permitting subsidiary discretion and ensuring the interests of the parent company are pursued. It needs a larger studies and research because the scholar knew a little about the role and composition of subsidiary boards in different markets with different subsidiary mandates.

4. 5. Ownership structures:

The ownership structure is defined by the distribution of equity with regards to votes and capital but also by the identity of the equity owners. Ownership structures plays important role in corporate governance because managements performance depends on it. Many multinational companies operating in different governance

characteristics across border, and gaining prominence, through which the acquisition of traditional manufacturing and service organizations have major implications of future developments in corporate governance in the globalization trend. The second wave of private equity backed buyouts that peaked in the middle of 2007 drew considerable attention for a number of reasons (Cumming et al. 2007).the aspect attracting the attention was the role of foreign private equity firms. For example, the number of non-UK private equity backed deals in the United Kingdom had raised almost three fold to 57 in 2007, while deal value rose tenfold to some £18 billion over this period (Wright 2008). Cross border venture capital (VC) and private equity (PE) investment raises important governance issues relating to the monitoring of transactions. Syndication with local partners provide a mechanism for foreign VC and PE firm to select better deals and spread risk as well as enabling better access of information and involvement for monitoring purposes. Much of this literature has focused on the earlier stage venture capital end of the market (Makela/ Maula 2006). There is also a need to examine differences in terms of ownership stakes, use of leverage as a governance device, board presence, board composition and reporting requirements between international and domestic VC and PE firms (Meyer et al. 2008). The issues arises here is about Sovereign Wealth Funds (SWFs) as they invest for strategic rather than economic reasons. Here the scholar examines investment patterns exhibited by SWFs and find that SWFs generally purchase minority stakes directly from target companies and are typically long term investors who are often unwillingly to quickly unwind their positions. However, their evidence on negative two year abnormal returns of SWFs suggests that these acquisitions are followed on average by deteriorating firm performance. However the effects of SWFs on the strategies of the firms in which they invest, including internationalization aspects that may contribute to this performance change (Fotak et al. 2008). Hedge funds typically face regulations than mutual funds and PE funds, although hedge fund managers perusing strategies with potentially more pronounced agency problems systematically select jurisdiction with less stringent regulations (Cumming/Johan 2008). Teo (2008). However distant fund raise more capital and charges higher fees and set longer redemption periods despite their under performance relative to local funds.

5.Conclusions:

Generally globalization is transferring of resources, skill, ability, capital and technology from one place to other place across the border. Every organization have their registered country, and the country have their own infrastructure abd environment and on the basis of the infrastructure, they have developed their own code of corporate governance. The code ehave developed and implemented ein the organization but when the same organization operate in any other country, may be whatever the ownership status of the organization, that code of corporate governance may not fbe successful in other country. Because of difference many factors infrastructure and environment. Corporate governance structures represent the main channel through which firm's strategic decisions may be influenced by their national and international environment. Without effective governance, a firm may not allocate additional resources efficiently, nor may it introduce retrenchment and restructuring of resources. Therefore the scholar suggests that greater attention should be paid to study the role of code corporate governance and effectiveness on the basis of environment and infrastructure. Firms in different countries face variations in geography, climate, language, culture as well as more clearly identifiable institutional variations. Geopolitics also plays important role in the globalization trend and it is influencing the political factor and government of the country. Besides it day to day many international organization also establishing on the basis of region, status, standard and form of government also. And on their point of view they are promoting the organization and doing changes of model code of corporate governance. Because most of the international organization formed for promotion of trade and industry, so they making changes of the model code in favor of promoting that activities of the corporate governance. So all these factors plays important role for making success of corporate governance. One success model of corporate governance of one country may not be successful model of other corporate body of other country.

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Author:

Dr. Sindhumani Bag, Assistant Professor,

Department of Commerce,

Sri Venkateswara College

South Campus

University of Delhi.