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Unified Corporate Governance Practice of Trade Partners with India: Towards International Code of Best Practices

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Abstract

This paper investigates the uniformity of corporate governance practices towards international code of best practices. The top 5 trading partner countries with India and export network worldwide have been selected, then from each country, 5 companies are selected which are leading in merchandise export. This study is based on secondary data sourced from published annual reports of the listed companies for the financial year from 2015 to 2017. The study employs descriptive statistics and ANOVA to evaluate the uniformity of corporate governance practices namely; some board characteristics, board committees, listing abroad, international segment or branch, and international governance indicators. It has found that there is statistical significance at the level of 5% that companies follow uniform corporate governance practices relating to board characteristics, board committees, listing abroad, having international segment, and international governance indicators except for executive members, risk management committee, corporate governance and grievance committee, total assets and sales of the company. It is recommended that countries and international bodies should encourage companies toward uniformity of corporate governance.

Keywords: Corporate Government Practice, Trade Partners, Best Practice
JEL Classification: M00

INTRODUCTION

Corporate governance has been a topic of research for decades (Wang & Campbell, 2012). Recent research studies in the international level on corporate governance indicate that the results of corporate governance studies are debatable among researchers and the results are differed either on the basis of country-specific factors, firm characteristics, thematic presentation, or some other factors. Corporate governance in other countries can be looked upon from different perspectives. For instance, some studies investigated the related issues of shareholding and ownership structure; (Ducassy & Guyot 2017; Lozano et al., 2015; Aguilera & Crespi-Cladera 2015; Garcia-Torea et al., 2015; Janggu et al., 2014; Chua et al., 2007). They advocated that protection of minority interests is a better corporate governance mechanism, shareholders homogeneity reduces the agency conflicts, and effective corporate governance is likely to address the interests of firm's stakeholders and enhance the firm value. Importantly, Cao, Li, & Zhang (2015) advocated that effective corporate governance helps to optimize audit resource allocation.

This paper discusses the uniformity of corporate governance practices of some selected companies listed in the top trading partners with India and export network worldwide. This paper is organized as follows; the Next, Section 2 discusses the literature review. Section 3 defines the objectives of the papers. Section 4 illustrates the hypotheses of the study. Section 5 describes the research method. Section 6 discusses the results and analysis, and Section 7 concludes.

LITERATURE REVIEW

Several empirical studies have been carried out to examine the relationship between corporate governance and firm performance; (Akbar et al., 2016; Thenmozhi and Narayanan, 2016; Villanueva-Villar, Rivo-López, & Lago-Peñas 2016; Shawtari et al., 2015; Ararat, Black, & Yurtoglu, 2016). They argue that effective corporate governance is a major key determinant of corporate performance. In this quest, some studies examine the relationship between corporate governance and some financial indicators. They found that there is a significant and negative relationship between corporate governance and leverage; (Nadarajah et al., 2016), negative relationship between board size and cash holding; (Al-najjar & Clark 2017), the FR categories of solvency and profitability and the CGI categories of board structure and ownership structure are the most important features in bankruptcy prediction; (Liang et al., 2016), and better governed firms reduce the profitability of insider sale; (Dai et al., 2016). Contradictory, (Ramli & Ramli 2016) found that all board attributes fail to prove their significant influence on the profit moderation as well as profit maximization.

Prior studies in other countries also examined corporate governance from different quests. The findings of these studies are very important for developing countries in developing their corporate governance codes and in guiding the academic research in these countries. Bokpin (2017) found that the governance and institutional policy prescriptions are important in reducing the negative impact of FDI flows on environmental sustainability within the sustainable development preposition.

Similarly, Chen and Yu (2015) reported that companies with a higher degree of internationalization have boards with stronger monitoring ability and therefore can fend off intervention by government. In general, Kusumaningtias et al. (2016) argue that the concept of corporate governance works stable in the framework of capitalism but, Brada (2016) advocated that neither anecdotal evidence of managerial malfeasance nor the theories of tunneling and looting provide strong evidence for this view of corporate governance. Consistently, Riwayati et al. (2016) advocated that companies doing aggressive or accrual earning management practices tend to apply corporate governance. In another quest, particularly in the impact of board of directors Anokhin, Peck, & Wincent (2016) found CVC activity and board governance influence each other. The lack of support to CEO tenure as an important factor affecting a corporation's CVC strategies is important areas for further research. Also, (Liang, Chen, and Chen (2016) concluded that governance structure, particularly the leadership structure, the ratio of certified inside directors on the board, and the level of managerial entrenchment plays an important role in determining the excess value of diversified banks.

Importantly, Briano-Turrent & Rodríguez-Ariza (2016) advocated that the variables that affect CGR are the independence of the board, the ownership concentration, stakeholder orientation, and the age of the company. Further, Aggarwal, Schloetzer, & Williamson (2015) reported that Reforms and mandated CG rules provide motivation and guideline on changing CG culture and drive long-term firm value. Furthermore, Hamid, Ting, & Kweh (2016) found that audit committee independence would help reduce the tunneling and/or propping activities in a company.

Based on the review of literature discussed above, the need for international corporate governance code, the disclosure and transparency of corporate governance practices, and the objectives outlined for this study; the hypothesis can be framed as follows:

Ho1: There is no significant difference and uniformity of corporate governance practices among the selected companies from different exporting countries.

METHOD

The aim of the study is to investigate the uniformity of corporate governance practices of some selected companies of top 5 trading countries with India and trade networks worldwide. The choice of the top 5 countries is justified by the economic theory of network (Katz & Shapiro, 1985). From the perspective of the economic theory of networks, developing countries are likely to adopt uniform practices if their trade partners or countries within their geographical region are following the same (Ramanna & Sletten, 2009).

Further, the selection of these companies from these different counties as a sample for this study is justified by increasing number of listed companies abroad especially, in the US and Europe. This is supported by some Indian companies listed on NASDAQ or NYSE which show that 4 Indian IT companies listed on NASDAQ among other 12 different Indian businesses (2 Banks, 1 Pharma, 1 travel, 2 industrial, 1 TV Services, and 1 support services). Accordingly, the top 5 trading partner countries with India have been selected, then from each country, 5 companies which have trading relationship among these top 5 countries have been randomly selected as a sample for this study. This study is based on secondary data sourced from published annual reports of the listed companies for the financial year 2015 to 2017.

This study is analytical as well as descriptive in its nature. The study is mainly conducted on the basis of two steps. The first step is analyzing the corporate governance codes and regulations of the selected countries. The second step is analyzing data collected form annual reports of the selected companies. The study employs descriptive statistics, ANOVA using SPSS 17 software to test the uniformity of corporate governance practices among the companies of the top 5 trading countries. Besides, data collected from other data streams of World Bank, Economic Forum, and some other indicator will be considered. The following table summarizes the operational definition and measurement of the variables of the study:

Table 1. Variable Description

Variables	Measures	Description
Independent Variables		
Board of Directors Characteristics (BODC)		
Size	BSZE	Total No. of the members of B.O.D
Independence	BIND	No. of Independent Board members / total No. of B.O.D
Diligence	BDLG	Total No. of meetings attended by all board members/ total No. of meetings held during the year
Committee	BCOM	No. of board committees
Dependent Variables		
CG Uniformity	CGUNIF	
Mediator Variables		
Institutional infrastructure	NFR	Big 4 auditors
Controlling Variables		
Controlling Variables (Firm-Specific)		
Firm Size	FSIZE	Natural logarithm of total assets in $ thousands for the firm I in year t.
Growth	FGRW	Sales growth rate, defined as the sales in year t minus sales in year t-1 and scaled by sales in year t-1
Cross listing	CLIST	A dummy variable, which equals 1 if a firm’s shares are traded on foreign exchanges and 0 otherwise
Geographical Segments	GSEG	Takes the value 1 if the company has international branches, and segments or 0 otherwise
Control of corruption	CNTCRP	International Governance Indicator by World Bank
Government Effectiveness	GOVEFF	International Governance Indicator by World Bank
Political factors	POLT	International Governance Indicator by World Bank
Regulatory Quality	RE	International Governance Indicator by World Bank
Voice and Accountability	ACCNT	International Governance Indicator by World Bank

Source: Data Processed 2017

RESULT AND DISCUSSION

The study includes five leading export companies from China, USA, UAE, Saudi Arab, Hong Kong and India respectively. As per the World Fact book of CIA, These countries are popular worldwide for merchandise exports and also a trading partner of India. In this globalize scenario, uniformity in international corporate governance is required to reduce the diversity among countries which are barriers for international business. The trade relation and other international relation requires uniformity in governance which will give universality and help in better understand and communication among companies which are from different countries.

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The ANOVA analysis is used to study comparison of the corporate governance among these countries. The result inferred that numbers of board member are not uniform between the companies because the composition of the Executive member are varied while other member board members are almost same in number among the companies of different countries. As far as Board Diligence is concerned, it is also significant, implies that all the companies' board member are careful and regular in attending the board meetings and try to assemble when it is required. The committees of the board are formed by companies for the better governance by assigning a different committee to the board members. The analysis shows that Audit Committee, Remuneration, and nomination committee are significantly uniform among the companies but lacking in risk management committee, Corporate Governance and Grievance Committee. They are homogeneous in the formation of audit and remuneration committee. Also, it is found the auditors play a significant role in support of uniform corporate governance that gives assurance and reliable financial report for business decision making and can be used for investors, customer, and creditor for analysis the performance of companies. The KPMG, Price water house Coopers, Ernst & Young and Deloitte are found to be renowned independent auditors whose auditing are trustworthy and recognize for its authentic reports worldwide. Therefore, result inferred that there is a significant impact of these auditors on the uniformity of corporate governance at global level.

Table 2. ANOVA Analysis

		Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
No. of Board Members	Between Groups	51.067	5	10.213	1.406	.258
	Within Groups	174.400	24	7.267		
	Total	225.467	29			
No. of Board Executive Members	Between Groups	18.700	5	3.740	1.457	.241
	Within Groups	61.600	24	2.567		
	Total	80.300	29			
No. of Board Non- Executive Members	Between Groups	79.467	5	15.893	3.334	.020
	Within Groups	114.400	24	4.767		
	Total	193.867	29			
No. of Board Independent Members	Between Groups	125.767	5	25.153	5.133	.002
	Within Groups	117.600	24	4.900		
	Total	243.367	29			
Board Diligence	Between Groups	4.518	5	.904	30.287	.000
	Within Groups	.716	24	.030		
	Total	5.234	29			
Remuneration and Nomination	Between Groups	.667	5	.133	2.667	.047

		Sum of Squares	df	Mean Square	F	Sig.
Committee	Within Groups	1.200	24	.050		
	Total	1.867	29			
Risk Management Committee	Between Groups	1.867	5	.373	2.240	.083
	Within Groups	4.000	24	.167		
	Total	5.867	29			
Corporate Governance and Grievance Committee	Between Groups	1.367	5	.273	1.093	.390
	Within Groups	6.000	24	.250		
	Total	7.367	29			
Audit Committee	Between Groups	1.500	5	.300	6.000	.001
	Within Groups	1.200	24	.050		
	Total	2.700	29			
Other Committees	Between Groups	.667	5	.133	2.667	.047
	Within Groups	1.200	24	.050		
	Total	1.867	29			
Big 4 Auditors	Between Groups	1.467	5	.293	3.520	.016
	Within Groups	2.000	24	.083		
	Total	3.467	29			
International Segments	Between Groups	3.500	5	.700	4.200	.007
	Within Groups	4.000	24	.167		
	Total	7.500	29			
LOGASSETS	Between Groups	5.279	5	1.056	1.603	.197
	Within Groups	15.804	24	.659		
	Total	21.083	29			
LOGSALES	Between Groups	4.577	5	.915	2.118	.098
	Within Groups	10.372	24	.432		
	Total	14.949	29			
Listing abroad	Between Groups	4.267	5	.853	6.400	.001
	Within Groups	3.200	24	.133		
	Total	7.467	29			
control of corruption	Between Groups	19.616	5	3.923	1.146 E34	.000
	Within Groups	.000	24	.000		
	Total	19.616	29			
Government	Between	15.769	5	3.154	2.041	.000

		Sum of Squares	df	Mean Square	F	Sig.
Effectiveness	Groups				E33	
	Within Groups	.000	24	.000		
	Total	15.769	29			
Political factors	Between Groups	16.227	5	3.245	5.835 E33	.000
	Within Groups	.000	24	.000		
	Total	16.227	29			
Regulatory Quality	Between Groups	25.631	5	5.126	3.236 E33	.000
	Within Groups	.000	24	.000		
	Total	25.631	29			
Voice and Accountability	Between Groups	35.088	5	7.018	7.717 E33	.000
	Within Groups	.000	24	.000		
	Total	35.088	29			

Source: Data Processed 2017

As far as international involvement of company is concerned, some of these companies have foreign branch and listed on the stock exchange of other countries. The analysis shows that both the factors have a significant effect on corporate governance. If there is uniformity in governance then it becomes easier for companies to expand their business in other country. It helps in reducing the geographical difference between the countries whereas differences in total assets and sales of companies have an immaterial effect regarding uniform governance.

Furthermore, it is also found that the worldwide governance indicator (WGI) have a significant effect on corporate governance. These indicators are estimated by World Bank which includes control of corruption, government effectiveness, and political factors, Regulatory Quality, Voice and Accountability of a country. The WGI reported on the basis of these indicators that involve aggregate and individual governance indicator for 200 countries. These indictors help in evaluating the performance of countries and important for corporate governance because these are an external business environment that directly or indirect affect operation of the business enterprise. Therefore, companies have to consider these factors for the effective and efficient corporate governance which help in developing the uniformity in governance at global level.

CONCLUSION

The study aimed to investigate the uniformity of corporate governance practices towards international code of best practices. The study employed descriptive statistics and ANOVA tests to evaluate uniformity of corporate governance practices among the selected companies from different countries. The study found that board characteristics namely; non-executive members, Independent members, board meetings and diligence, remuneration and nomination committee, and audit committee have statistical evidence at the level of 5% i.e. companies follow uniform corporate governance practices relating to board characteristics and board committees except for executive members, risk management committee, corporate governance, and grievance committee. Further, the study found that listing abroad, having international segment, and international governance indicators have statistical evidence at the level of 5% which indicate that these variables play an important role in unified corporate governance practices. Importantly, the study found that there no statistical evidence at the level of 5% that total assets of the companies and net sales play any role in shaping the corporate governance practices. It is recommended that countries and international bodies such as OECD and World Bank should encourage companies toward uniformity of corporate governance. This study is subject to some limitations which are as follows: a) the study is limited to one financial reports period, future research may expand the period of the study; b) the sample of this study contains only 5 companies from each country, future research may increase the sample size; c) this study is limited to some board characteristics; future research may consider the other board characteristics or the other attributes of corporate governance such as audit committee characteristics, ownership structure, and audit quality.

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