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Globalization and Corporate Governance

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Dr.C.Mugunthan

Asst Professor Department Of commerce, Salem Sowdeswari college, Salem-10

ABSTRACT *There is growing interest in pressures on national systems of corporate governance to converge that are allegedly being generated by the process of globalization, especially the global integration of financial markets. Advocates of the merits of globalization contend that the trend will lead to a more efficient allocation of capital. Depicting on examples like US, Germany, France, and emerging economies like India, Brazil, Pakistan, china I put forth my argument as there has been a considerable change in national governance systems. These changes cannot be deciphered, nevertheless, as the upshot of a market-driven, efficiency enhancing process that is autonomous of political interests. Rather realignments in corporate governance reflect the growing economic and political influence of those who have accumulated financial assets. Emerging economies follow this queue. Taking Asian countries like India, china, Pakistan it is not only the international virtual pressure they encounter internal changes in their corporate scenario. In this paper I have made an attempt to advocate the structural changes in corporate governance because of globalization and also taken German corporate governance model.*

1.1 Introduction

Corporate governance is under scrutiny as academics and regulators alike are trying to quantify what is "healthy, safe and good practices" for not only the banking industry but other major industries. The current need to compute, evaluate, and weigh against is driven by the desire to spot and deal with "bad and risky" behavior. Virtual mandatory have been created in this era to strengthen the corporate governance in the companies.

The shock and cost of the current global financial crisis of 2008 was overwhelming when compared to previous financial crises like great depression, 1930. We have yet to see the final outcome of this man-made disaster and will likely feel the ensuing consequences for at least another decade. One of the critical repercussions was loss of public and investor confidence in the soundness and stability of the financial systems of the world's most highly developed countries, such as, U.S., U.K., Germany, France, Switzerland, to mention a few. Also this wave has showed a consecutive blow in developing economies like BRICS nations, Pakistan. Of particular concern, is the loss of confidence in the large, too big to fail, global commercial banks. This has for better or worse shaken the bedrock of major financial houses at global arena.

While most experts and researchers see eye to eye that a country's financial sector reliability is a very noteworthy indicator of a country's economic wellbeing, there is considerably less agreement and substantial confusion surrounding what constitutes a healthy corporate governance system in the aftermath of the 2008 financial crisis.

1.2 Corporate Governance and Globalization

Corporate governance firstly need not play a global drama itself. It is derived to perform so. As every nation has its unique economy, business operation likewise corporate governance. The varying systems of corporate governance do seem to be converging, that is, becoming more rather than less alike but this does not mean that systems are becoming homogenized. It does mean that certain common key elements are starting to be implemented, in differing ways perhaps, in many countries around the globe. The major elements are transparency, shareholder equality and protection, especially of minority shareholders, and responsibility to the shareholders. This phenomenon seems to be happening particularly within global corporations who list themselves on the New York or London stock exchanges for access to large pools of financing, and thus must, by default, adhere to "Anglo Saxon" accounting, reporting, and ultimately shareholder styled management and corporate governance.

Good corporate governance is essential for the development of a competitive private sector that in the long-term is able to attract and retain the capital needed for investment (OECD, 1999). The International Corporate Governance Network, a global membership organization, attempts to spread good corporate governance standards world-wide, and has issued its latest ICGN Corporate Governance Principles, and in those Principles. The objective of companies is to generate sustainable shareholders' value over the long term. Sustainability implies that the company must manage effectively the economic, social and environmental aspects of the business. Companies will only succeed in achieving these in the long run if they manage effectively their relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole.

These types of corporate governance assessments have taken on a new urgency as vast amounts of capital flows are being redirected to emerging markets, such as, China, India, Pakistan, Brazil, Russia, and Thailand. The capital flows (over $1 trillion) to these emerging markets are due to the rapid economic growth rates that these countries are experiencing and are forecasted to experience over the next 3-5 years compared to the current and projected sluggish growth in the developed countries. pointless to say, that measurement of corporate governance soundness is even more complicated when it comes to emerging markets where regulations, supervision, corporate governance, and accounting practices are even more unclear than in developed economies.

It should be noted that while measuring and creating indexes for measuring the soundness of corporate governance systems is important, it is perhaps equally important to measure the impact of globalization on corporate governance so that we may better understand the evolving nature of corporate governance in various markets, especially emerging markets. The corporate governance systems used all over the world are generally rooted in either the stock market based Anglo-Saxon (outsider system) used in the U.S. and U.K., or the more traditional bank-based (insider system) European and Japanese governance systems.

"Corporate governance can be viewed as the mechanism

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to minimize the loss of value occasioned by the separation of ownership from the management. Through the institution of the joint-stock company or listed company-as it is widely known in the UK or publicly held corporation as it is called in the US investors are separated from management. While this separation provides benefits, such as the specialization of management functions and diversification of risk across the investor-stakeholder base, there are also significant costs (the foregone value) that arise due to this separation. However, effective corporate governance minimizes these costs".

There are two generally accepted categories of corporate governance: the outsider model with diffuse ownership, and the insider or bank based model, with not such diffuse market based ownership. In truth, however, there are nearly as many types of governance as there are countries to support them. The legal systems and the business customs vary, since the nations and the cultures of the world are different from one another. Corporate governance systems are based on the accepted norm within the particular country, and those norms are in turn a product of the history and the culture of the country and its people. Accordingly, just as there will likely never be a universal language, spoken by everyone as their native language, there will likely never be a complete convergence of systems of corporate governance giving rise to corporations around the globe being governed in exactly the same way. Even so, countries around the world are reviewing the notions of governance that seem to work best, and many are adapting such notions or at least parts of such notions.

1.3 Germany Model: Benchmark Case Study

The European Union wants to complement the corporate governance systems of its member states and is taking the lead in changes in the governance systems of the corporations organized within its member states. A member of the Commission on Internal Markets for the European Union, Frits Bolkestein, stated in a 2002 speech that: "Company law and corporate governance are right at the heart of the political agenda, on both sides of the Atlantic. That's because economies only work if companies are run efficiently and transparently. We have seen vividly what happens if they are not: investment and jobs will be lost; and in the worst cases, of which there are too many, shareholders, employees, creditors and the public are ripped off. Prompt action is needed to ensure sustainable public confidence in financial markets. The Action Plan provides a clear and considered framework combining new law where necessary with other solutions. It will help deliver the integrated and modern company law and corporate governance framework which businesses, markets and the public are calling for. The Commission is shouldering its responsibilities: Corporate Europe must shape up and do the same. Working in partnership, we have a unique opportunity to strengthen European corporate governance and to be a model for the rest of the world". At that time the European Commission issued what it called a plan to move forward on "Modernizing Company Law and Enhancing Corporate governance in the European Union". In that plan the Commission stated that "Good company law, good corporate governance practices throughout the EU will enhance the real economy".

Germany representing 21% of the total population and 23% of the common GDP is the EU's largest and most important economy. Moreover, in contrast to other member nations as, for example, the United Kingdom, the Netherlands, Ireland or Spain, its economy continues to strongly reflect the traditional European welfare state features and values. Germany well illustrates the difficulties of restructuring economies and changing the extant corporate governance systems. Mid-sized family owned and large engineering companies characterize Germany. The current EU corporate governance systems are a patchwork of arrangements. Germany's socio-cultural attitudes are based on teamwork rather than conflict, the collective good, rather than the individual so popular in the Anglo-Saxon system. This makes German model as a outstanding governance model.

Section 76 of the German Stock Corporation Code reflects the cooperative culture. By this law management is given considerable latitude in directing "the company under its own responsibility", but at the same time, it obliges management to take into account the interests of other stakeholders, to include employees, creditors, and the general public. Jonathan Charkham, former advisor, Bank of England, and observer on international corporate governance supposed the following:

It is easy to over-simplify as regards investment and the time-scale of returns, but it does seem highly probable that the absence of pressure from the German stock market reinforces the natural tendency German management would have any way to set the balance at the point they feel right to equal the best foreign competition. If this is true one would expect the German system to show good advantage internationally in areas where the balance needed to be set long-term like engineering. Observation suggests this is so. In industries where the timescale is naturally shorter the comparative advantages are likely to be less marked and so it seems. But this balance seems on the whole satisfactory to the Germans and there is little urge to change.

So far the German Corporate Governance Code has been updated seven times, the last time in 2009. In addition to the foregoing, the Code provides that the German corporation must notify shareholders of the annual general meeting of shareholders and provide a way for shareholders to vote their shares, through proxies if they do not attend meetings; it also suggests the use of the internet for the purpose of permitting shareholders to follow the annual general meeting. The Code admits that: "In practice the dual-board system, also established in other continental European countries, and the single-board system are converging because of the intensive interaction of the Management Board and the Supervisory Board in the dual-board system. Both systems are equally successful".

1.4 Conclusion

In order to bring this to a conclusion, first, governments altering domestic law better adhere to global corporate governance standards in an effort to draw foreign investments into their economies. Second, global corporations, who are constantly seeking cheaper sources of financing, increasingly seeking to be listed on the New York and London stock markets and as a result must adopt more accepted and standardized practices of corporate governance, which in such cases is the Anglo Saxon model of corporate governance. And third, crises such as the 2008 global financial meltdown, drives national governments and multilateral organizations to push for more standardized corporate governance systems globally, all the while seeking practices that appear to work.

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