Corporate Governance And Competitiveness - The Prospects For Global Convergence

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I - INTRODUCTION

The forces of globalization and liberalization have altered the whole market structure and operational behaviour both at the domestic as well as the international level. These waves have resulted in unprecedented changes in the corporate world and have brought an influential impact on the organizational performance. The main outcome is the move towards market economies. The doctrine of liberalization forcefully argues that economic welfare will be improved by freeing private business from regulation by the state. It would stimulate both economic efficiency and growth. Market requires no big administrative apparatus, no central decision making and very little policing other than the provision of a legal system for the enforcement of contracts. Competition has in reality become a discernible force in developing economies. In an increasingly integrated global economy, domestic firms and industries cannot be completely insulated from external competitive pressures. Trade liberalization exposes the business sector to competition from imports, provides access to new technologies and skills from abroad, facilitates the realization of economies of scale in production and stimulates industrial technological activities and competitiveness (Bhalla, 1993 and Wignarja and Taylor, 2003).Global competition is a potent force in ensuring good corporate governance. Corporate governance, which is also the outcome of the new economic policies, has significant impact and contribution towards the stimulation of competitiveness of a firm, industry and nation as a whole. Good corporate governance, complemented by a sound business environment, can strengthen private investment, corporate performance, and economic growth. Corporate governance establishes the relationship among these three groups in determining the direction and performance of the organization (Hunger and Wheelen, 1998).Corporate governance exists at a complex intersection of law, morality, and economic efficiency. The impact of market competition would be greater in firms with efficient governance structure. The substitution effect implies when corporate governance is weak; competition plays an important role as a disciplinary device forcing mangers to improve performance and reduce slack. If competition and corporate governance complements, product market competition might not alone be sufficient to reduce productive inefficiencies in an environment with poor corporate governance.Against this background, the present paper is an endeavour to examine the rationale or relevance of corporate governance in enhancing the organizational competitiveness in the realm of global competition with special reference to developing economies like India.

METHODOLOGY AND PLAN OF THE PAPER

The present study is conceptual in nature based on secondary sources of data. Section II describes the evolution and role of corporate governance. Section III incorporates the rationale of corporate governance practices in stimulating the organizational competitiveness in the light of challenges. Section IV concludes the paper along with certain suggestive measures.

II -CORPORATE GOVERNANCE - AN OVERVIEW

Since the second half of the 19th century, the corporate sector in India has been structured under the English common law framework of joint-stock limited liability. Despite this long corporate history, the phrase "corporate governance" remained unknown until 1993. It came to the forefront due to corporate scandals in the era of economic liberalisation. The first was a major securities scam that was exposed in April 1992, which involved a large number of banks, and resulted in the stock market collapse for the first time since the advent of reforms in 1991. The second was a sudden growth of cases where multinational companies started consolidating their ownership by issuing preferential equity

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allotments to their controlling group at steep discounts to their market price. The third scandal involved disappearing companies of 1993-94. Between July 1993 and September 1994, the stock index shot up by 120%. During this boom, hundreds of ambiguous companies made public issues at large share premia, supported by sales pitch of obscure investment banks and misleading prospectuses. This shattered investor confidence, and resulted in the virtual destruction of the primary market for the next six years. These three episodes led to the prominence of “corporate governance” within the financial press, banks and financial institutions, mutual funds, shareholders, the more enlightened business associations, the regulatory agencies and the government. Economic theory holds that when a sole proprietor manages a firm, the owner-manager will maximize profits because they are directly linked to his or her self-interest. But when ownership is separated from control, the manager's self interest may lead to the misuse of corporate assets. Therefore, corporate financiers need assurances that their investments will be used as intended for the agreed corporate objective. These assurances are at the heart of what effective corporate governance is all about. **Advisory Group on Corporate Governance to the OECD has articulated a set of core principles of corporate governance practices that are relevant across four aspects: (1) Fairness, (2) Transparency, (3) Accountability, and (4) Responsibility.** With this in mind, we consider whether the overseas status can improve the governance practices of the corporations in these four aspects. Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align, as nearly as possible, the interests of individuals, corporations and society (World Bank, 2000). Generally, two groups of governance mechanisms might be served to reach this general aim of corporate governance: (1) A whole set of legal, social, and institutional systems of corporations, which form the external governance environments of the corporation; and (2) The functions of internal mechanisms, mainly including the management incentive plan, board of directors, special governance committees, power of the minority shareholders and stakeholders. More broadly, corporate governance involves the relationship of the corporation to stakeholders and society and the combination of laws, regulations, listing rules, and voluntary private sector practices that enable the corporation to perform efficiently in achieving the corporate objective, and meet both legal obligations and general societal expectations. There have been two major corporate governance initiatives launched in India since the mid- 1990s. The first has been by the Confederation of Indian Industry (CII), which is India's largest industry and business association. The second is by the SEBI.

III - CORPORATE GOVERNANCE AND COMPETITIVENESS

The main driving force behind corporate governance revolution is the movement of market globalization. Interest in corporate governance is now global in nature, reflecting acknowledgment by world leaders, business leaders, and investors that the quality of corporate governance is a factor in the ability of a nation's economy to thrive. Corporate governance is a multi-faceted subject which deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders.

The market economy is known to be the most efficient resource allocation system ever made by humans. Among various economic systems, which have been made to produce, distribute and consume limited goods and services, the market economy has proved to be the best. This is mainly because it enables resources and energy to be mobilized in the most efficient and cost-effective manner. However, it does not mean that the market economy is perfect. A market economy takes place in certain period in human history, being under progress. In the primitive economy, when there was no market in a modern sense, resource allocation by tradition had been efficient. For over three decades since the early 1950s, India's vigorous democracy was also committed to economic planning, inevitably limiting the scope for a free market economy, an essential feature of all democratic systems. The restraints on the free market added up to what became the most extensive system of controls outside the ranks of socialist countries. Globalization offers fair to continue, bringing countries together through widening and deepening interconnections. For countries that are seeking increasing gains of trade and welfare through this process, like Brazil, Russia, China and India, the perennial question is how to make globalization work in their respective countries and what are the prime challenges that it poses to their business and industry and to their political economies. Among those challenges, national competitiveness will be seen to rank above the rest. That is all the more so with India because issues of competitiveness had hardly figured in policy in all the years of economic planning, the primary focus being national development based on the largest measure of self-reliance.Open market economy is regarded as an effort to enhance competitiveness to survive in this globalised era. Competitiveness is one of the key subject matters in the present context of national economic performance. The concept of competitiveness has evolved over time into concerns with the advent of globalisation. Competitiveness refers keenness or urge to compete. It indicates the capabilities of a firm or a sector or a nation to compete successfully. Competitiveness for a nation is the degree to which it can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens (Cohan and Zysman, 1987). Competitiveness refers to the ability of companies, industries and regions, nations or supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis (OECD, 1997). Rapid liberalization of trade and investment is exposing countries to unprecedented intensity of global competition. Improving competitiveness is central to raising the underlying rate of growth of the economy. Corporate governance is one of the key ingredients in creating and sustaining the organizational competitiveness. Therefore, each nation around the globe is making a lot of endeavors to establish good governance through government innovation. This implies that the government has done away with its past practices of intervention, thereby strengthening market functions and re-establishing the role of the government and the market. Spread of market principles, regulatory reform, privatization and restructuring are currently spreading across the world like a fad, showing the active movement towards more market-oriented economy.

It is widely believed that one of the main barriers to hamper the sustainable development of emerging or transition economies is a lack of effective corporate governance. Over the last decade, financial firms and organizations including the World Bank Group, International Finance Corporation, and the Organization for Economic Cooperation and Development have taken great efforts to help the authorities of emerging countries to improve their regulatory framework in corporate governance and transparency. Much attention of policymakers and professions has focused on the role of governance in facilitating the emerging market companies to access into global capital markets to satisfy their funding needs, and to attract foreign direct investments from developed countries reversely (Charles et al.; 2003).Good and desirable corporate governance is the one to ensure maximized corporate value and fair distribution of profits to shareholders through transparent business management and appropriate rules of management executives. Recognizing the importance of corporate governance, OECD announced the OECD Principles of Corporate Governance to take the Principles as measures for market participants to review and develop rules and systems on corporate governance, and behavioral conduct. The OECD Principles set five important sectors related to corporate governance, including shareholders' rights, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board, suggesting principle and recommendations of each sector. According to the Principles, corporate governance should have the structure, which can: i) Protect shareholders' rights (the rights of shareholders); ii) ensure the equitable treatment of all shareholders, including minority and foreign shareholders, and give them the same opportunity to obtain effective redress for violation of their rights (the equitable treatment of shareholders); iii) admit the legal rights of stakeholders, and stimulate active cooperation between companies and stakeholders in order to maintain financial soundness and create the opportunity for social welfare and employment (the role of stakeholders); iv) accurately and timely disclose the important business information, such as financial status, performance, ownership structure and corporate governance (disclosure and transparency); and v) ensure the strategic direction of companies, the accountability of board of directors on business and shareholders, and effective monitoring on business executives by the board of directors (The responsibilities of the board). The revised version of the OECD Principles stressed the seriousness of the problem arising from abusive behavior by controlling shareholders, in particular in business conglomerates, and regarded internal trading as an important problem, under the recognition that ownership structure can have an impact on governance structure.

KEY REASONS FOR POOR CORPORATE GOVERNACE

1) Lack of Transparency.; **2)**Inefficient Internal Control Systems.; **3)** Imperfect Risk Management.
4) Inappropriate monitoring system by the government. ;**5)** Anti competitive business practices.

COMPETITIVENESS VIA GOOD CORPORATE GOVERNANCE

Best corporate governance practices equipped with efficient monitoring system will improve transparency in business management, lower capital costs, and enhance corporate value, thus reinforcing organizational competitiveness. The spread of interventionism restrains free competition and freedom of participation, which is a basic value of market economy, thereby weakening the principles of equal opportunity and fairness. Principles of free market economy are more important to strengthen international competitiveness arising from increased competition. Strengthened international competitiveness cannot be achieved when the government works on the forefront of economic management. For free market to function well, there should be strong confidence in the rule that competitors are engaged in fair competition. In addition, in order to keep and develop the market, the basic principle of capitalism, forming the ethical foundation and confidence among participants is more important for establishing free and fair market economic rule, and this has become a common challenge for all countries. In order to ensure competitiveness in the era of competition, there is a need to ensure the mechanism of free and fair competition by establishing level playing field for domestic and foreign enterprises. It is possible only by a proper check on anti competitive business practices which are detracting the basic essence of competitiveness. Business competitiveness is a driving engine of economic growth, and the rise and fall of corporations, having huge influence on the development of national economy. The goal of corporate governance lies in maximizing business performance and market and share value by enhancing transparency and efficiency in business management. Therefore, improved corporate governance enables to select the most competent business executives, ensure effective management, checks and balances system over managerial rights for holding any responsibility for wrong management. Given the fact that the goal of improveed corporate governance lies in increasing business value and facilitating the national economy through enhanced transparency and efficiency in business management, exhausting efforts should be made to build good corporate governance. According to recent several studies on emerging countries, corporate governance has had a huge impact on business value. Therefore, international investors are paying a lot of interest in enhancing the value of investment assets through business monitoring, and corporate governance structure of target companies, in making investment decisions. Corporate governance is the result of the environment: Appropriate corporate governance helps to improve competitiveness and vice versa. In particular, with the spread of market opening, corporate governance has become a more important factor, determining individual business performance as well as transparency and efficiency of economic system of a nation. Along with this trend, many countries are making efforts to improve the governance structure. With growing awareness over corporate social responsibility, more and more companies are introducing ethical management. Ethical management has become an important criteria to evaluate international competitiveness of companies.

IV - CONCLUSION

Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. Moreover, with growing public awareness and interests in globalization, corporate governance also seems to be globally converged. With the opening of economies word wide, the main thrust is to enhance competitiveness for sustainable development in the competitive environment. In this context, corporate governance is the key factor among others. Free and fair market economic rules should be rightly established. Moreover, transparency and fairness in market competition should be ensured.

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