



Remedy for “One Size Fit to All”: A Flexible Corporate Governance Model to Accommodate Sectoral Technicalities

Abdul Aziz Khan Niazi

Institute of Business & Management, University of Engineering and Technology, Lahore, Pakistan

Tehmina Fiaz Qazi

Institute of Business & Management, University of Engineering and Technology, Lahore, Pakistan

Abdul Basit

Lahore Institute of Science and Technology, Lahore, Pakistan.

Abstract

Asian countries, while on the road to industrialization catch-up, are facing enormous change. Corporate structures in most of these countries follow Anglo-American Corporate Governance (CG) model and that “one size” is fit to all. The principle “one size fit to all” ignores corporate/sectoral peculiarities. Contemporary CG models do not address structural adjustments attributable to change. Aim of this study is to address the problem “one size fit to all” in CG models. This conceptual study advances a flexible CG model to accommodate sectoral technicalities. In fact, Anglo-American CG model has been modified to accommodate the sectoral peculiarities by using elementary concepts of graph theory and drawing. The model is more logical and useful for CG practitioners as compared to contemporary models.

Keywords: Corporate governance, CG Model, sectoral specialty board, sectoral technicalities

JEL Codes: G34, C2, L52

I. Introduction

Popular form of business organization is Joint Stock Company. The culture of joint stock companies thrived as pre-requisite of industrialization. China and Taiwan, inter alia, other Asian countries are success stories of catch-up regime of industrialization. The manufacturing sector has developed enormously, in other words, capital accumulation took place in these economies rapidly. The capital accumulations require different forms of business organization. Wherever there is capital accumulation and corporate culture, there is conspicuous need for Corporate Governance (CG). CG is generally perceived as a set of codes and guidelines to be followed by companies. However, it is more than just broad processes and procedures. In fact, it involves relationships among company's management, board of directors, shareholders and other stakeholders (Fernando, 2009; Hemphill & Laurence, 2014; Yaacob & Basiuni, 2014). The economies of Asia, particularly that of China, Taiwan, Japan, and India etc. chased the development track. They also tried to adopt regime of CG, therefore, to study the CG in the context Asia is of vital importance.

Falling trade barriers, rapid political reforms, joining of more developing countries the bandwagon of global business, emergence of new technologies, fast transportation & communication, and special features of modern production have made the CG a *sin-qua-non* (Fernando, 2009). Concurrent and simultaneous efforts to protect domestic industry from international competition and to protect the intellectual property rights are other important issues those necessitate the presence of the CG. Protection of environment and the rights of the society may be yet another eve new of importance of CG. The whole story of CG including developing countries of Asia is built around concurrency, simultaneity and prevalence of trust, honesty, transparency, and values. Success and failures are competing values on the basis of which the future course of action is decided (Quinn et al., 1983). The harms of corporate negligence to humans and number of corporate prosecution are speaking examples of failure of CG (Haines, 1999; Merino et al., 2010). There is a long list of cases of CG failure that is making mouths at champions of CG (Jones & Thompson, 2012; Rajagopalan et al., 2009). The list of known frauds, inter alia, includes Adelphia, Enron, Arthur Andersen, Tyco, Xerox, World Com, Satyam Computers, Sanlu and so on. It is not possible to fix any one stakeholder for failures. However, two factors are very important for fixing responsibility, first one is overall legal environment and second one is sectoral environment. This study gives conceptual framework to make CG more effective on the basis of sectoral adjustments (Alves & Barbot, 2007). To be more effective the structure of the organizations and CG models should be aligned to change and changing criterion of effectiveness. To be compliant of CG, overall legal environment of the country should be improved. Unfortunately, in Asian countries, the legal environment is fragile. Improvement in overall legal environment will automatically fix the stakeholders for their negligence. There are many models of CG prevailing in different countries (Fernando, 2009). The researchers find consensus on following three basic models of CG:

- Anglo-American CG model
- German CG model
- Japanese CG model

Tawani firms follow German model (Lee et al., 2011; Wójcik, 2003), whereas, other Asian countries follow Anglo-American model with little bit customized changes (Cernat, 2004; Sami et al., 2011). These models are at higher abstraction and most of the other countries have conceptualized their customized models based on the above three abstract models. The molding of CG in research is a recent phenomenon. The research in this domain is nascent. The contemporary modeling tantamount to “one size fit to all”.

In real life situation, there is a variety of corporations working in different sectors engaged in altogether different types of activities. Sectoral differences and the nature of jobs being performed by corporations negate the underlying principle of “one size fit to all”. It is the main issue which generates set of sub-issues that cause sheer failure of CG. These conceptual level problems let other problems nurture and ultimately corporations come across to the problems of anonymity of shareholders, incompetent board, incompetent management, fragile legal environment, conflicts of interest, nascence of research, asymmetries of information and history lockups. These problems existed across the board irrespective of stage of economic development. However, the developed economies have realized the consequences and are in the phase of corrective measures and are embarking on better and effective legislation but the developing countries, like that of Asia, are at very initial stage of recognition of the problems.

Underdeveloped countries are far behind in this behalf. Asian countries are on the road to industrialization. They consider industrialization as an engine of growth. Therefore, peculiarities of Asian countries are more or less same and attributed to change in the area of information technology (Probst et al., 2005). The complexity, uncertainty and flexibility are common features of Asian countries. Topic of CG in context of Asia is of vital importance (Young & Thyil, 2008). Therefore, the study is focused on the foremost problem of “one size fit to all”. In fact, apart from country wise customization, the sectoral adjustments are needed in the CG models. Anglo-American CG model has been modified to accommodate the sectoral peculiarities by using elementary concepts of graph theory and drawing.

II. Literature Review

Corporate Governance (CG) is built around the “rights and responsibilities of the stakeholder parties having a certain stake in the firm” (Aguilera et al., 2012). CG can be broadly defined as a system of laws, policies and processes that direct and control a firm. The idea of CG originated from the agency theory, and is based on the premise of maximization of shareholder value (Chow et al., 2018). Various countries across the globe are practicing different models of CG. Among them, the most prominent and widely used models are Anglo-Saxon, Continental European, Islamic Model and Family Business Organizations. Furthermore, there are some country-specific models which are used for instance, in Japan, Germany, France, China and India (Aluchna & Ray, 2009). The most attention seeking attribute of all these different models is that all of them are extracted and formed on the foundation of basic principles of the very basic models like Anglo-American and central European (Mullineux, 2010; Ooghe & De Langhe, 2002). While literature has identified several models, Continental European models and Anglo-Saxon are deliberated two elementary models, whereas other models have been basically devised from them. CG has not been given proper due credit until this new millennium, and it has received fame and acknowledgement once the role-model entities in particular collapsed (Ahmad & Omar, 2016).

The well-known view regarding CG convergence debate revolves around that states are changing their rules and practices pertaining to CG towards the Anglo-American shareholder-oriented model (O’Sullivan, 2003), as compared to a logical system, where the best rules shall prevail in the different CG models (Ntongho, 2016). The first difference identified between two models is that Anglo-American countries have low concentration of shareholders as compared to Continental European countries including Belgium where the groups of shareholders on large percentages of shares which are publicly traded (Ooghe & Langhe, 2002). The second difference among the models is that of identity of shareholders. Due to regulatory sanctions in Anglo-American countries, financial institutions act as agents rather than holding shares in publicly listed companies in their own names, whereas, in Continental European countries private entities act directly (Prowse, 1994). One of the main differences is the extent of liquidity of the market. In which the number of listed companies are taken as a percentage of the total number of companies. Precisely, it can be said that in this model the shareholders have very limited contact with the companies. In Anglo-American countries, pension is treated as a source of many financial resources which ultimately flow into the stock market through the investors. On the other hand, in European model countries there is a strong personal relationship between the shareholders and management of the company. Along with that there are very few companies which are publicly traded (Ooghe & Langhe, 2002).

CG practices found in Japanese CG model are different from those in the U.S. As in Japan, they are more bank centered than in U.S. where independent board of directors, institutional investors control the governance mechanism (Miyajima et al., 2018). In contrast, we have not found any consensus in the literature on the solid explanation provided by the Asian model (Luo, 2005). Whereas, few countries like Japan, Korea, China and Thailand have adopted the stakeholder’s model, while others like Malaysia and Singapore adopted the shareholder model (Yaacoob & Basiuni, 2014). For the better performance of a company, both kinds of discipline mechanisms are preferably used. Since the European model is of internal mechanism which originates from inside the company itself i.e. it is basically depends on stakeholders as stated by Freeman (2010), whereas, Continental European model, as compared to Anglo-Saxon model is of external nature and related to shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976).

III. Methodology

This is a conceptual study based on literature review pertaining to CG models. The review has been performed keeping in view sectoral peculiarities and typifications of CG models in order to embark on a customized country-wise sectorally aligned model. Degree of CG effectiveness has been aligned by using spatial model of effectiveness by Quinn et al. (1983). The spatial model placed organization and sectors in one of the quadrants in original model and binding force of the quadrants is the quality in center. But, we have replaced quality with CG as binding force and placed sectors of economy in relevant quadrant and adjusted degree of implementation and effectiveness of CG on distality-axis. The adjustments are visualized on graph. Hard ground has been taken from Anglo-American model. Model’s behavior qua reality has conceptually been arrested on Cartesian plane that follows general rules of plotting variables on x-axis and y-axis.

III.I. Developing the Modified CG Model

From review of literature, it can be found that common constructs like: shareholders, board of directors, stakeholders, management, company, regulators, creditors, banks and employers are used mutually interactively in models. The propensity of failures is in the area of effectiveness. The rules, laws and guidelines of governance are available but the problem lies in their effective implementation. Without analyzing the sectoral peculiarities and typifications, one cannot get desired results of CG. CG models should not only be customized country-wise but also be aligned sectorally (Nemetz & Fry, 1988). Sectoral alignment can be done by sorting the organizations, on the basis of economic sectors. Degree of CG effectiveness can be aligned in accordance with spatial model of effectiveness by Quinn et al. (1983). The common organizational structure in a sector can be identified (Figure 1). Four quadrants of Figure 1 represent four different types of models (best fitted to organizational goals) are mostly employed by the originations for structuring. Organization and sectors can be categorized in one of the quadrants; binding force of the quadrants is the quality in original model. In the context of the problem of this study quality can be replaced with CG as binding force and sectors of economy can be placed in relevant quadrant and degree of implementation and effectiveness of CG on depth or distality-axis which can be adjusted. More the effectiveness needed more emphasis on CG is required.

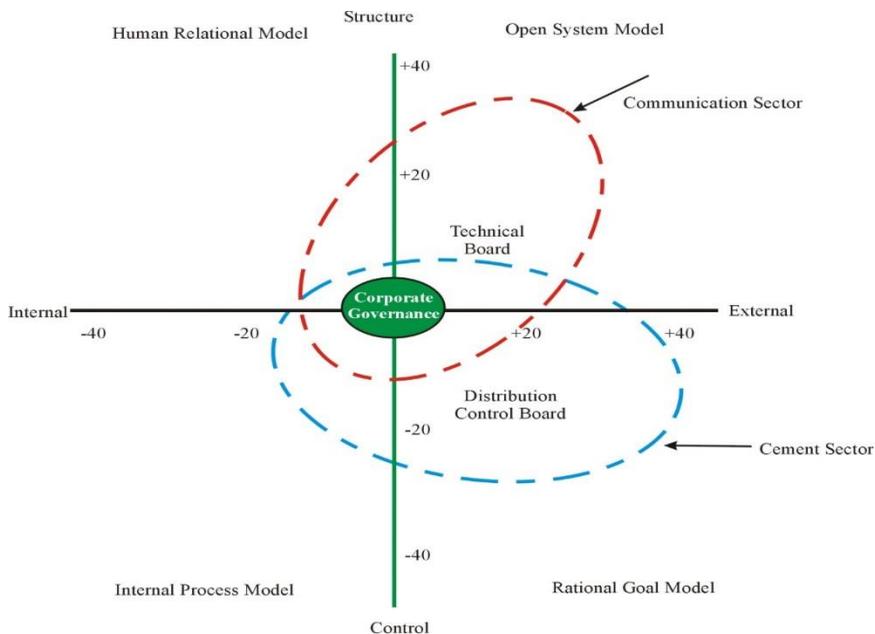


Figure 1. Illustration of Possible Sectoral Adjustment of CG Model for Communication and Cement Sector (Framework adopted from Quinn et al. 1983)

The point here is that the principle of one size fit to all is not valid in the case of the models of CG, particularly at operational levels in globalization scenario. At higher abstraction, for theoretical purposes, Anglo-American, German, Japanese and Indian CG models may be perfectly alright but at lower abstract precision is needed. Therefore, a modified conceptual model is proposed (Figure 2).

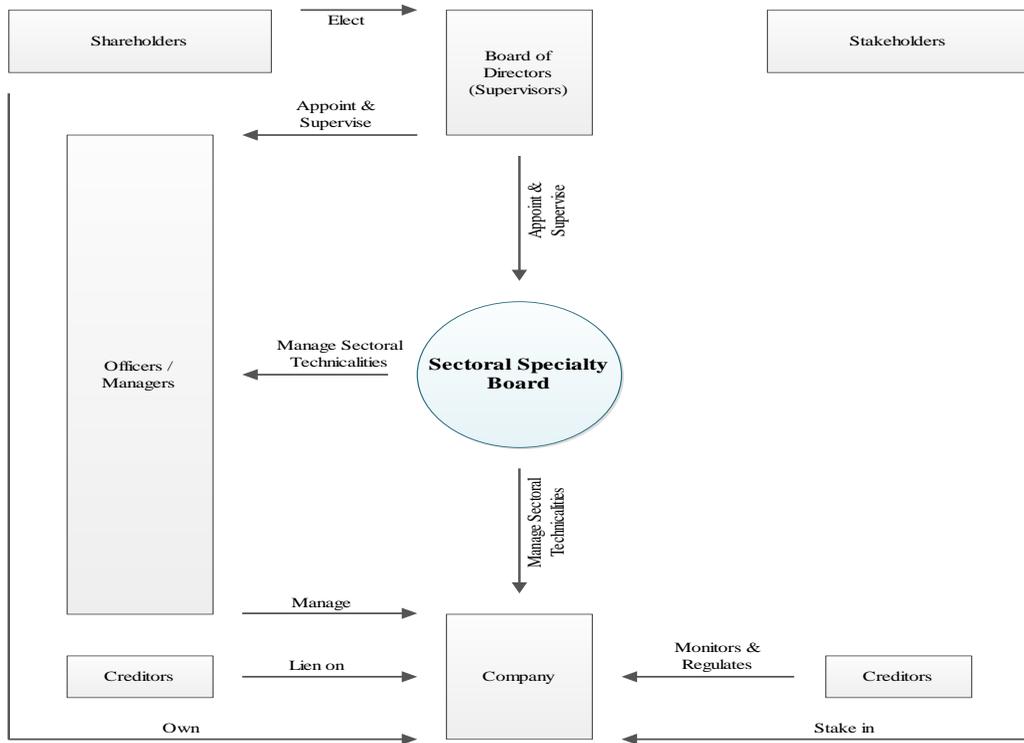


Figure 2. Sectorally Adjusted CG Model i.e. Modified Anglo-American Model (Fernando, 2009)

The above model has taken hard ground from Anglo-American model and is adjusted for sectoral alignment. The focal point is not the company management but the sectoral specialty board. This board means the board of experts of technicalities of the sector that is able to determine the degree to which force is needed to implement CG. It will technically coordinate with management, board of directors and shareholders regarding peculiarities of sector. This new suggested board looks like second tier board of German model but in real sense it is different from the supervisory board of German model in nature.

IV. Conclusions

This is a conceptual study that attempts to conceptualize the sectoral adjustments in CG models. It addresses the problem of one size fit to all. The principle “one size fit to all” ignores corporate/sectoral peculiarities. Contemporary CG models do not address structural adjustments attributable to change. Topic of CG in context of Asia is of vital importance because Asian countries, while on the road to industrialization catch-up, are facing enormous change. Corporate structures in most of these countries follow Anglo-American CG model and that allegedly follows the principle “one size fit to all”. In order to address the issue, Anglo-American CG model has been modified to accommodate the sectoral peculiarities by using elementary concepts of graph theory and drawing. A qualitative conceptual study which follows inductive approach has been conducted that took hard ground from Anglo-American CG model. Model’s behavior qua reality has conceptually been arrested on Cartesian plane that follows general rules of plotting variables on x -axis and y -axis. Anglo-American CG model has been modified to accommodate the sectoral peculiarities. As a result, a sectorally adjusted CG model (i.e. Modified Anglo-American CG model) has emerged. Hence, sectorally adjusted CG model is proposed at higher abstraction. It has implications at conceptual as well as practical level. It underpins new directions for future research in domain of CG. The model is more logical and useful for CG practitioners as compared to contemporary models. This is a preliminary study that has many limitations. Firstly, it is a qualitative conceptual study and it could not provide any statistical evidence for failure of CG models, therefore, future studies should be designed to provide that such evidence. Secondly, the model has been modified conceptually based on limited amount of literature, therefore, future studies may build this idea through scientific system dynamic modelling approaches e.g. ISM, MICMAC, SEM, etc. after accounting for

further literature. Thirdly, the study focused on Asian countries only, therefore, future studies should also focus on other regions as well.

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