Globalization and Corporate Governance

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***Abstract*—Globalization is a leading concept which has become the main factor in business life during the last few decades. This phenomenon affects the economy, business life, society and environment in different ways, and almost all corporations have been affected by these changes. We can see these changes mostly related with increasing competition and the rapid changing of technology and information transfer. This issue makes corporations more profit oriented than a long term and sustainable company. However, corporations are a vital part of society which needs to be organised properly. Therefore we need some social norms, rules and principles in society and business life; this is the role of governance.**

***Index Terms*—About competition, corporative governance, business, globalization.**

I. Introduction

Globalisation can be defined as the free movement of goods, services and capital. Definition does not cover all the aspects of globalisation or global changing.

Globalisation also should be a process which integrates world economies, culture, technology and governance.

This is because globalisation also involves the transfer of information between developed countries and developing countries.

Moreover globalisation has religious, environmental and social dimensions. In order to encompass this broad impact area globalisation covers all dimensions of the world economy, environment and society. Moreover, it is apparent all over the world and the world is changing dramatically.

Every government has a responsibility to protect all of their economy and domestic market from this rapid changing [1]. The question is how a company will adapt to this changing. First of all, companies have to know different effects of globalisation. Globalisation has some opportunities and threats. A company might have learnt how to protect itself from some negative effects and how to get opportunities from this situation.

Globalization affects the economy, business life, society and environment in different ways:

- Increasing competition,
- Technological development,
- Knowledge/Information transfer,
- Portfolio investment,
- Regulation/deregulation, International standards,
- Market integration,
- Intellectual capital mobility,
- Financial crisis-contagion effect-global crisis.

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II. Competition

Globalisation leads to increased competition and therefore increased competition is a consequence of globalisation. This competition can be related to product and service cost and price, target market, technological adaptation, quick response and quick production by companies, in addition to such things as quality and customer satisfaction.

When a company produces with less cost and sells cheaper, it will be able to increase its market share. Customers have too many choices in the market and they want to acquire goods and services quickly and in a more efficient way. Also they are expecting high quality and a cheap price which they are willing to pay [2].

All these expectations need a response from the company, otherwise the sales of the company will decrease and they will lose profit and market share. A company must be always ready for price competitions for product and service and for changes in customer preferences because all of these are global market requirements.

III. Exchange of Technology

One of the most striking manifestations of globalization is the use of new technologies by entrepreneurial and internationally oriented firms to exploit new business opportunities. Internet and e-commerce procedures hold particular potential for SME's seeking to broaden their involvement into new international markets.

Technology is also one of the main tools of competition and for enhancing the quality of goods and services. On the other hand it necessitates quite a lot of cost for the company.

The company has to use the latest technology for increasing their sales and product quality. Globalisation has increased the speed of technology transfer and technological improvement. Customer expectations are directing markets.

Mostly companies in capital intensive markets are at risk and that is why they need rapid adapting concerning customer and market expectations. These companies have to have efficient technology management and efficient R&D management.

A. Knowledge/Information Transfer

Information is a most expensive and valuable production factor in the current environment. Information can be easily transferred and exchanged from one country to another.

If a company has a chance to use knowledge and information then it means that it can adapt to this global changing. This issue is similar with the technology transfer issue in global markets. The rapid changing of the market requires also quick transfer of knowledge and efficient using of that knowledge and information [3].

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B. Portfolio Investment (Financial Fund Flows)

Globalisation encourages increased international portfolio investment. Additionally, financial markets have become increasingly open to international capital flows.

For this reason, portfolio investment is one of the major problems of developing economies. It is almost the only way to increase liquidity of the markets and economies for emerging countries through attracting foreign funds. Significantly, this short term investment can dramatically impact on the financial markets.

When the emerging economies have some problem in their country or investors make enough profit from their investment then these investors might leave the market.

This would mean that market liquidity decreased and financial markets indicators plummet immediately.

C. Regulation/Deregulation and International Standards

Globalisation needs more regulation of the markets and economy. There are many new and complicated financial instruments and methods in the market and such instruments easily transfer and trade in other countries because of the globalisation effect [4], [5].

Every new system, instrument or tool requires new rules and regulations to determine its impact area.

These regulations are also necessary to protect countries against global risks and crises. When the crisis comes out of one country then it influences other countries with trade channels and fund transfers, which we call the contagion effect. On the other hand, during globalisation the shares of big companies are trading in international stock markets and these companies have shareholders and stakeholders in many different countries. International rules and regulations offer protection particularly to small investors against the big scandals and other problems in companies, examples of which we have seen during the recent financial crisis.

International standards also regulate markets and economies by means of international principles and rules such as international accounting standards, international auditing standards. These aim to make corporate reporting standardised and comparable. So that is why the globalised world has more rules and more regulations and international standards than before [6].

D. Market Integration

In fact globalisation leads to the conversion of many markets and economies into one market and economy.

The aim of international standards and regulations is also to deregulate all these markets. The economy needs financial structures capable of handling the higher level of risk in the new economy. For this reason financial markets must be broad, deep, and liquid and at present only the U.S. financial markets are large enough to provide this financial structure in the world market.

Global stock market projection and Pan-European stock market projection are part of this changing.

There are many similar examples in the current situation for market integration which are also the result of increasing competition in the economy. Integration examples are prominent in company mergers and acquisitions as well.

E. Qualitative Intellectual Capital Mobility

Another effect of globalisation is human capital mobility through knowledge and information transfers.

One of the reasons is that international/multinational companies have subsidiaries, partners and agencies in different countries. They need skilled and experienced international employees and rotation from country to country to provide appropriate international business practice.

This changing also requires more skilled, well educated and movable employees who can adapt quickly to different market conditions.

F. Financial Crisis-Contagion Effect-Global Crisis

Financial crises are mostly determined through globalisation and as a result of the globalisation impact.

The financial world has witnessed a number of crises in recent years. Generally financial crises come out from international funds/capital flows (portfolio investments), lack of proper regulations and standards, complex financial instruments, rapid development of financial markets, asymmetric information and information transfers.

One country crisis can turn into a global crisis with systemic risk effect [4]. Systemic risk refers to a spreading financial crisis from one country to another country.

In some cases, crises spread even between countries which do not appear to have any common economic fundamentals/problems. Previous global crises have also shown that one of the reasons for the crisis is unregulated markets.

IV. The Concept of Global Governance

All systems of governance are concerned primarily with managing the governing of associations and therefore with political authority, institutions, and, ultimately, control. Governance in this particular sense denotes formal political institutions that aim to coordinate and control interdependent social relations and that have the ability to enforce decisions. Increasingly however, in a globalised world, the concept of governance is being used to describe the regulation of interdependent relations in the absence of overarching political authority, such as in the international system.

Thus, global governance can be considered as the management of global processes in the absence of any form of global government. There are some international bodies which seek to address these issues and prominent among these are the United Nations and the World Trade Organisation [7].

Each of these has met with mixed success in instituting some form of governance in international relations but is part of recognition of the problem and an attempt to address worldwide problems that go beyond the capacity of individual states to solve.

To use the term global governance is not of course to imply that such a system actually exists, let alone to consider the effectiveness of its operations. It is merely to recognise that in this increasingly globalised world there is a need for some form of governance to deal with multinational and global issues. The term global governance therefore is a descriptive term, recognising the issue and referring to concrete cooperative problem-solving arrangements.

These may be formal, taking the shape of laws or formally constituted institutions to manage collective affairs by a variety of actors – including states, intergovernmental organisations, non-governmental organisations (NGOs), other civil society actors, private sector organisations, pressure groups and individuals. The system also includes of course informal (as in the case of practices or guidelines) or temporary units (as in the case of coalitions).

Thus global governance can be considered to be the complex of formal and informal institutions, mechanisms, relationships, and processes between and among states, markets, citizens and organizations, both inter- and non-governmental, through which collective interests on the global plane are articulated, rights and obligations are established, and differences are mediated [7], [8].

Global governance is not of course the same thing as world government: indeed it can be argued that such a system would not actually be necessary if there was such a thing as a world government [8].

Currently however the various state governments have a legitimate monopoly on the use of force – on the power of enforcement. Global governance therefore refers to the political interaction that is required to solve problems that affect more than one state or region when there is no power of enforcing compliance.

Improved global problem - solving need not of course require the establishing of more powerful formal global institutions, but it would involve the creation of a consensus on norms and practices to be applied.

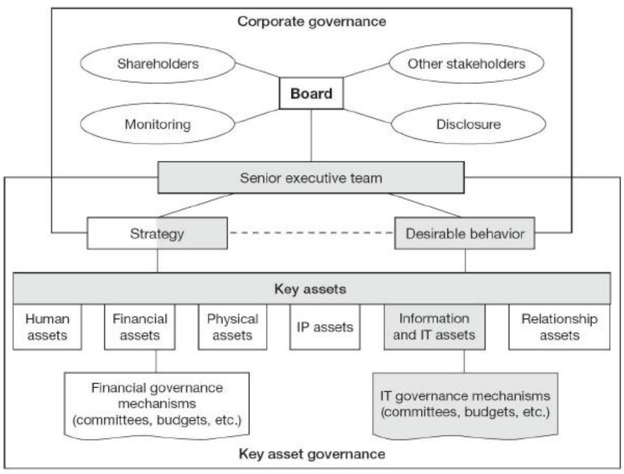

Fig. 1. Model of corporate governance.

Steps are of course underway to establish these norms and one example that is currently being established is the creation and improvement of global accountability mechanisms.

In this respect, for example, the United Nations Global Compact[1] – described as the world's largest voluntary corporate responsibility initiative[2] – brings together companies, national and international agencies, trades unions and other labour organisations and various organs of civil society in order to support universal environmental protection, human rights and social principles. Participation is entirely voluntary, and there is no enforcement of the principles by an outside regulatory body.

Companies adhere to these practices both because they make economic sense, and because their stakeholders, including their shareholders (most individuals and institutional investors) are concerned with these issues and this provides a mechanism whereby they can monitor the compliance of companies easily. Mechanisms such as the Global Compact can improve the ability of individuals and local communities to hold companies accountable.

As stated previously, good governance is of course essential for good corporate performance and one view of good corporate performance is that of stewardship.

Good governance is of course important in every sphere of the society whether it be the corporate environment or general society or the political environment [9].

V. How Globalisation Affects Governance

The question might be how globalisation affects governance. But the answer to this question is not only related to the last quarter of the 20th century but also related to previous centuries. John Maynard Keynes calculated that the standard of living had increased 100 percent over four thousand years. Adam Smith had a seminal idea about the wealth of communities and in 1776. He described conditions which would lead to increasing income and prosperity. Similarly, there is much evidence from economic history to demonstrate the benefit of moral behaviour; for example, Robert Owen in New Lanark, and Jedediah Strutt in Derbyshire – both in the UK – showed the economic benefits of caring for stakeholders.

More recently, Friedman has paid attention to the moral impact of the economic growth and development of society.

It is clear that there is nothing new about economic growth, development and globalisation. Economic growth generally brings out some consequences for the community.

This is becoming a world phenomenon.

One of the most important reasons is that we are not taking into account the moral, ethical and social aspects of this process. Some theorists indicated the effect of this rapid changing more than a hundred years ago. Economic growth and economic development might not be without social and moral consequences and implications.

Another question is who is responsible for this ongoing process and for ensuring the wellbeing of people and safeguarding their prosperity.

Is this the responsibility of governments, the business world, consumers, shareholders, or of all people?

Government is part of the system and the regulator of markets and lawmakers. Managers, businessmen and the business world take actions concerning the market structure, consumer behaviour or commercial conditions.

Moreover, they are responsible to the shareholders for making more profit to keep their interest long term in the company. Therefore they are taking risk for their benefit/profit. This risk is not opposed to the social or moral/ethical principles which they have to apply in the company. There are many reasons for ethical and socially

[1] See www.unglobalcompact.org

[2] Possibly the newly introduced ISO 26000 will become bigger and more important in this respect.

responsible behaviour of the company [9], [10]. However, there are many cases of misbehaviour and some illegal operations of some companies.

Increasing competition makes business more difficult than before in the globalised world. The good news and our expectations are that competition will not have any longer bad influence on company behaviour.

According to international norms, (practice) and expectations, companies have to take into account social, ethical and environmental issues more than during the last two decades. One of the reasons is more competition and not always more profit; another reason is consumer expectation is not only related to the cost of products but also related to quality, proper production process and environmental sensitivity.

Moreover shareholders are more interested in long term benefit and profit from the company. The key word of this concept is long term which represents also a sustainable company. Shareholders want to get long term benefit with a sustainable company instead of only short term profit.

This is not only related to the company profit but also related to the social and environmental performance of the company. Thus, managers have to make strategic plans for the company concerning all stakeholder expectations which are sustainable and provide long term benefit for the companies with their investments [10].

However, Sustainability can be seen as including the requirement that whatever justice is about – fair distribution of goods, fair procedures, respect for rights and social justice, and is capable of being sustained into the future indefinitely.

Globalisation has had a very sharp effect on company behaviour and still we can see many problems particularly in developing countries. This is one of the realities of the globalisation process. However, we are hoping to see some different approaches and improvements to this process with some of them naturally related to some international principles, rules and norms. But, most of them are related to the end of this flawed system and the problems of capitalisation.

The challenge of governance in a globalizing world is to engage in a process of political deliberation which aims at setting and resetting the standards of global business behaviour.

While stakeholder management deals with the idea of internalising the demands, values and interests of those actors that affect or are affected by corporate decision-making, Scherer & Palazzo, 2000, argue that political CSR[3] can be understood as a movement of the corporation into environmental and social challenges such as human rights, global warming, or deforestation.

A. Globalisation, Corporate Failures and Corporate Governance

Enron, WorldCom, Parmalat, and various other failures of global corporations bring out some governance issues and have increased attention to the role of business ethics. Managers and CEOs of these companies must be considered responsible for all of these failures and these are cases of "corporate irresponsibility". Many people have the opinion that if corporations were to behave responsibly, most probably corporate scandals would stop.

Corporate governance protects firms against some long term loss. When corporations have social responsibilities, they calculate their risk and the cost of failure.

Firstly, a company has to have responsibility to shareholders and also all stakeholders which means that it has responsibility to all society. Corporate failures have an important impact on all society also. In particular, big scandals such as Enron have sharply affected the market and the economy. Various stakeholders as well as shareholders and regulators of the firm have a responsibility to ensure good performance.

Therefore, corporate governance is not only related to firms but also related to all society. So changing the role of corporate responsibility shifts the focus from the real problem that society needs to address. One of the reasons for this result is increasing competition between the company and the market. Managers tend to become much more ambitious than before in their behaviour and status in the globalised world.

The question is how to behave as a socially responsible manager and how to solve this vital problem in business life and in society. In the business world there are always some rules, principles and norms as well as regulations and some legal requirements.

However, to be socially responsible one must be more than simply being a law abiding person who has to be capable of acting and being held accountable for decisions and actions. The problem is the implication for all of these directions for company and managerial behaviour.

On the other hand, one perspective is that a corporation is a "legal person" and has the rights and duties that go with that status—including social responsibility.

In the case of Enron, managers were aware of all regulations, even though they have known all irresponsible and unethical problems in the company management; they did not change their approach and behaviour.

The conclusion is that it is not always possible to control behaviour and corporate activity with regulations, rules and norms. So another question arises in this situation, that if people do not know their responsibility and socially responsible things to do and if they do not behave socially responsibly then, who will control this problem in business life and in the market.

The concern is that the social responsibility implication of the company cannot be controlled through legal means.

This is the only social contract between mangers and society and stakeholders of the company and for responsible and accountable behaviour [8], [9]. Firms will consciously need to focus on creating value not only in financial terms, but also in ecological and social terms.

The challenge facing the business sector is how to set about meeting these expectations. Firms will need to change not only in themselves, but also in the way they interact with their environment.

[3] Corporate social responsibility - CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business. Responsible Business is a form of corporate self-regulation integrated into a business model.

VI. Development of Codes of Governance and International Comparisons

A. Corporate Governance Principles

Since corporate governance can be highly influential for firm performance, firms must know what the corporate governance principles are and how it will improve strategy to apply these principles. In practice there are four principles of good corporate governance, which are:

- Transparency,
- Accountability,
- Responsibility,
- Fairness

All these principles are related with the firm's corporate social responsibility.

Corporate governance principles therefore are important for a firm but the real issue is concerned with what corporate governance actually is. Management can be interpreted as managing a firm for the purpose of creating and maintaining value for shareholders. Corporate governance procedures determine every aspect of the role for management of the firm and try to keep in balance and to develop control mechanisms in order to increase both shareholder value and the satisfaction of other stakeholders [10].

In other words corporate governance is concerned with creating a balance between the economic and social goals of a company including such aspects as the efficient use of resources, accountability in the use of its power, and the behaviour of the corporation in its social environment.

The definition and measurement of good corporate governance is still subject to debate.

However, good corporate governance will address all these main points:

- Creating sustainable value
- Ways of achieving the firm's goals
- Increasing shareholders' satisfaction
- Efcient and effective management
- Increasing credibility
- Ensuring efficient risk management
- Providing an early warning system against all risk
- Ensuring a responsive and accountable corporation
- Describing the role of a firm's units
- Developing control and internal auditing
- Keeping a balance between economic and social benefit
- Ensuring efficient use of resources
- Controlling performance
- Distributing responsibility fairly
- Producing all necessary information for stakeholders
- Keeping the board independent from management
- Facilitating sustainable performance

All of these issues have many ramifications and ensuring their compliance must be thought of as a long term procedure. However, firms naturally expect some tangible benefit from good governance. So good governance offers some long term benefit for firms, such as:

- Increasing the firm's market value
- Increasing the firm's rating
- Increasing competitive power
- Attracting new investors, shareholders and more equity
- More or higher credibility
- Enhancing flexible borrowing condition/facilities from financial institutions
- Decreasing credit interest rate and cost of capital
- New investment opportunities
- Attracting Better personnel / employees
- Reaching new markets
- Enhanced company image
- Enhanced staff morale

B. Developing a Framework for Corporate Governance

The first report which set out a framework for corporate governance was the Cadbury Report which was published in 1992 in the UK. Since then there have been a succession of codes on corporate governance each making amendments from the previous version.

Currently all companies reporting on the London Stock Exchange are required to comply with the Combined Code on Corporate Governance, which came into effect in 2003.

It was revised in 2006 and became the UK Corporate Governance Code in 2010. It might be thought therefore that a framework for corporate governance has already been developed but the code in the UK has been continually revised while problems associated with bad governance have not disappeared.

So, clearly a framework has not been established in the UK, and an international framework looks even more remote.

One of the problems with developing such a framework is the continual rules versus principles debate.

The American approach tends to be rules based while the European approach is more based on the development of principles – a slower process. In general rules are considered to be simpler to follow than principles, demarcating a clear line between acceptable and unacceptable behaviour [10]. Rules also reduce discretion on the part of individual managers or auditors. In practice however rules can be more complex than principles. They may be ill-equipped to deal with new types of transactions not covered by the code. Moreover, even if clear rules are followed, one can still find a way to circumvent their underlying purpose - this is harder to achieve if one is bound by a broader principle.

There are of course many different models of corporate governance around the world. These differ according to the nature of the system of capitalism in which they are embedded. The liberal model that is common in Anglo-American countries tends to give priority to the interests of shareholders. The coordinated model, which is normally found in Continental Europe and in Japan, recognises in addition the interests of workers, managers, suppliers, customers, and the community.

Both models have distinct competitive advantages, but in different ways. The liberal model of corporate governance encourages radical innovation and cost competition, whereas the coordinated model of corporate governance facilitates incremental innovation and quality competition.

However, there are important differences between the recent approach to governance issues taken in the USA and what has happened in the UK.

C. ISO 26000

Corporate governance or, as defined in ISO FDIS 26000[4], organizational governance is the system by which an organization makes and implements decisions in pursuit of its objectives. Simply put "governance" means: the process of decision-making and the process by which decisions are implemented (or not implemented).

And according to ISO FDIS 26000, it is the most crucial factor in enabling an organization to take responsibility for the impacts of its decisions and activities and to integrate social responsibility throughout the organization and its relationships.

Communities and their environments are increasingly impacted by any kind of organization including small, medium, large-sized, domestic or multinational, private or governmental enterprises. This standard is concerned with social responsibility and sustainability and offers guidance on socially responsible behavior and possible actions; it does not contain requirements and, therefore, in contrast to ISO management system standards, is not certifiable.

Although this standard by its current concept is just a collection of previously existed and globally agreed codes and principles; however there is a hope for its progressive movement to more specific requirements and procedures for implementation internationally.

In this document it is emphasised that effective governance should be based on incorporating the principles of social responsibility where these principles are accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour and respect for human rights into decision making and implementation.

Actually, the Anglo-Saxon model which has led directly to the notion of a free market as a mediating mechanism and the acceptance of the use of power for one's own end, in true utilitarian style, has caused the loss of a sense of community responsibility which removed any sense of social responsibility from business.

According to a socially responsible code of governance, all organizations should put in place processes, systems, structures, or other mechanisms that make it possible to apply the principles and practices of social responsibility.

VII. Conclusion

Good governance is of course important in every sphere of society whether it be the corporate environment or general society or the political environment. Good governance can, for example, improve public faith and confidence in the political environment. When the resources are too limited to meet the minimum expectations of the people, it is a good governance level that can help to promote the welfare of society. And, of course a concern with governance is at least as prevalent in the corporate world.

Good governance is essential for good corporate performance and one view of good corporate performance is that of stewardship and thus just as the management of an organisation is concerned with the stewardship of the financial resources of the organisation so too would management of the organisation be concerned with the stewardship of environmental resources.

The difference however is that environmental resources are mostly located externally to the organisation. Stewardship in this context therefore is concerned with the resources of society as well as the resources of the organisation.

As far as stewardship of external environmental resources is concerned then the central tenet of such stewardship is that of ensuring sustainability.

Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in the future are not constrained by decisions taken in the present.

This necessarily implies such concepts as generating and utilising renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future.

A great deal of concern has been expressed all over the world about shortcomings in the systems of corporate governance in operation, and its organization has been exercising the minds of business managers, academics and government officials all over the world.

Often companies' main target is to become global – while at the same time remaining sustainable – as a means to get competitive power. But the most important question is concerned with what will be a firms' route to becoming global and what will be necessary in order to get global competitive power. There is more than one answer to this question and there are a variety of routes for a company to achieve this.

Corporate governance can be considered as an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituents of society – that is the stakeholders, including government; the general public; professional / service providers – and the corporate sector.

Of equal concern is the question of corporate social responsibility – what this means and how it can be operationalised. Although there is an accepted link between good corporate governance and corporate social responsibility the relationship between the two is not clearly defined and understood.

Thus many firms consider that their governance is adequate because they comply with The UK Corporate Governance Code, which came into effect in 2010. Of course, as we have previously stated, all firms reporting on the London Stock Exchange are required to comply with this code, and so these firms are doing no more than meeting their regulatory obligations.

Although many companies regard corporate governance as simply a part of investor relationships, the more enlightened recognise that there is a clear link between governance and corporate social responsibility and make efforts to link the two. Often this is no more than making a claim that good governance is a part of their CSR policy as well as a part of their relationship with shareholders. It is recognised that these are issues which are significant in all parts of the world and a lot of attention is devoted to this global understanding.

[4] International Standard on Social Responsibility, The International Organization for Standardization (ISO), New York, May 27, 2010.

Most analysis however is too simplistic to be helpful as it normally resolves itself into simple dualities: rules based or principles based or Anglo-Saxon or Continental.

It cannot be understood without taking geographical, cultural and historical factors into account in order to understand the similarities, differences and concerns relating to people of different parts of the world.

The two key components of sustainability and sustainable development therefore are efficiency and equity.

But efficiency needs to be redefined to prioritise the efficient use of environmental resources rather than the efficient use of financial resources.

And equity requires as a minimum the satisficing of all stakeholders, and not merely the provision of returns to owners and investors. These are the prerequisites for sustainable development.

One thing which is apparent is that the current financial crisis, much as previous ones, has highlighted failures in regulation just as much as failures in governance.

Indeed this has been a focus of much attention and some have argued that the regulators are more culpable even than the perpetrators and should be sanctioned accordingly.

As we can see, globalisation has an enormous effect on society and business life which can be manifest in a number of different ways. So, business life needs more regulation and proper and socially responsible behaviour than before.

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