

EVALUATING THE INFLUENCE OF GLOBALIZATION ON PERFORMANCE OF CORPORATE GOVERNANCE

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ABSTRACT

In a world where business practices vary widely from one country to the next, good corporate governance is a crucial metric for achieving uniformity. Industries now do business in a globally integrated, interdependent business environment subject to sound corporate governance regulations. To do this, 205 non-financial firms were included in a panel data analysis. We employ a composite measure that takes into account the economic, social, and political aspects of globalization (the KOF Globalization Index). It was shown that the systems of corporate governance are affected by all aspects of globalization. The purpose of this research is to examine how different aspects of globalization have an impact on corporate governance.

Keywords: Globalization, Economic, Harmonization, Governance, Firm

I. INTRODUCTION

As a result of globalization, cross-border institutional investors have a vested interest in the harmonization of standards on a worldwide scale (the global convergence of good corporate governance practices). An increase in investment rivalry in both developed and emerging economies has led to a rise in calls for convergence. As a means of advancing and enforcing standards for corporate governance, such convergence has been championed by international and regional organizations. Corporations, which account for a substantial share of global economic activity, have undoubtedly been affected by globalization's effects on corporate governance. As a result of globalization, there is a pressing need for all corporations to adopt similar policies regarding corporate governance. This is because corporations serve not just their shareholders but also the local community and government, and thus must feel at home wherever they operate. This current direction in corporate governance calls for a harmonization of standards in this area. Companies must adhere to a governance structure established by legislation (statutory provisions) and then further refined by regulations (non-statutory provisions or codes of best practices) issued by the regulatory authorities to which they are subject. In addition, publicly traded corporations are answerable to their shareholders at annual meetings, and all businesses are vulnerable to the influence of the public. The corporate governance systems of various jurisdictions vary greatly despite this overarching structure. Utilizing its own unique history, culture, political structure, and economic growth, each jurisdiction develops its own corporate governance system. However, the same standards of ethics, justice, and honesty must be upheld by all national systems of corporate governance.

II. GLOBAL GOVERNANCE

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Managing political power, institutions, and, ultimately, control, are essential concerns for all governance systems. In this context, "governance" refers to the formal political institutions with the power to execute decisions and the goal of coordinating and controlling interdependent social ties. However, in today's more interconnected and globalised world, the term "governance" is increasingly being used to refer to the process of regulating dependent relationships when no one political authority is in charge, such as in the international system.

So, without a central authority to oversee everything, we may define global governance as the process of overseeing international activities. The United Nations and the World Trade Organization are only two of the international organizations working to find solutions to these problems. Each of these attempts to establish some sort of governance in international relations has had varying degrees of success, but they all represent an acknowledgment of the problem and an effort to tackle global issues that are beyond the scope of what any one state can do on its own. Naturally, the very usage of the word "global governance" does not imply the existence of any such system, much less any evaluation of its efficacy. Simply put, it's an admission that multilateral and global problems necessitate some kind of government in today's interconnected globe. Therefore, global governance is an explanatory word that acknowledges the problem and alludes to specific cooperation mechanisms for addressing it.

III. METHODOLOGY

A panel data of businesses other than banks was used for this analysis. Info culled from the annual report's books. There were 205 participants that were observed throughout the trial. The research employs the KOF Globalization Index, a composite index evaluating globalization for every nation in the globe along economic, social, and political dimensions, to assess the impact of globalization on the corporate governance performance of various organizations.

IV. DATA ANALYSIS AND INTERPRETATION

The descriptive statistics for all of the variables in our analysis are shown in Table 1. Board structure index (BSI), board process index (BPI), and board disclosure index (BDI) each have valid ranges of 1-6, 1-4, and 5-23, respectively, with mean values of 6.86, 4.17, and 18.75. Our analysis of globalization variables included the whole gamut of its economic, social, and political components, which each had their own unique ranges of 39.066–51.00, 37.67–51.00, 41.16–85.08. This demonstrates how, in recent years, the world's developing nations have become increasingly open to globalization. Considering that the Return on Equity varies from -2.65 to 0.013, the ROI is pitiful. This backs up the findings of the IIAG 2018 study, which found that falling ROI caused a decline in FDI flows to developing nations. Mean values of 3851162 for working capital management and 1.03 for managerial efficiency illustrate the effectiveness with which capital investments are put to use. The range of possible Growth values is 3.25–9.18, with a mean of 6.66; similarly, the range of possible audit reputation (Big 4) values is 0–1, with a mean of 0.55, indicating that more than half of the firms use the service of the big 4 audit firms in the world, which further expands the scope of those firms reporting in accordance with IFRS. The ages of these companies vary from 0 to 1.70, with a mean of 1.2. The maximum (minimum) of GOVR is 0.44 and 0.67, with a mean of 0.495 indicating that governance rating from 2012 to 2016 falls below 50%, which has a major effect on corporate governance of firms.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
BSI	6.864705	1.01817	3	8
BPI	4.17452	1.099624	1	5
BDI	18.74902	3.825741	5	23
GEI	42.00108	3.139792	39.06671	51.00101
GSI	41.16816	4.230097	37.68982	51.01119
GPI	85.08677	2.471059	79.02924	86.87934
ROE	0.013773	7.537668	-1.7782	1.6522
MAEFF	1.009252	0.928021	0	10.40887
WCM	-3851163	29600000	-322000000	64000000
GROWTH	6.67456	1.129638	3.256426	9.184097
BIG4	0.558824	0.497015	0	1
FAGE	23.30784	12.57251	1	51
IIAG	0.495618	0.078823	0.444	0.672

Correlations between the various factors are shown in Table 2. There was a highly substantial correlation between the three elements of globalization and the corporate governance indices (BSI, BPI & BDI). Corporate governance sub-indices associated with operational performance indicators (ROE, WCM, Managerial efficiency), and with the country's governance grade. There is no severe multi-collinearity among the dependent variables; however there was considerable multi-collinearity among the independent variables. The results of a GMM analysis performed to address multi-collinearity are shown in Table 3 for models 4–6.

Table 2: Pearson Correlation

	BSI	BPI	BDI	GEI	GSI	GPI	ROE	MAEFF	WCM	GROWTH	BIG4	FAGE	IIAG
BSI													
BPI	0.2879	1											

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BDI	0.38 97	0.44 47	1										
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GEI	-0.0293	-0.1169	-0.1674	1									
GSI	0.1236	-0.0492	-0.0829	0.7114	1								
GPI	-0.0813	0.0718	0.1025	-0.6723	-0.9559	1							
ROE	-0.0621	0.054	-0.0246	0.0124	0.009	-0.01	1						
MAEF	0.1039	0.0711	0.0541	0.0758	0.1039	-0.105	0.0323	1					
WCM	0.0714	-0.0225	-0.07	0.0865	0.0649	-0.065	0.0122	0.0655	1				
GROWTH	0.1487	0.1954	0.298	-0.4461	-0.6414	0.6491	-0.009	-0.0857	-0.255	1			
BIG4	0.2468	0.2777	0.2258	0.0808	0.1186	-0.119	0.056	0.1003	-0.097	0.1468	1		
FAGE	0.1523	0.1914	0.1624	-0.2398	-0.2949	0.305	0.0917	0.12	0.0155	0.2212	0.064	1	
IIAG	0.1504	-0.0209	-0.0438	0.6165	0.9446	-0.963	0.0102	0.0954	0.0592	-0.645	0.119	-0.281	1

Table 3: OLS regression of dimensions of globalization on corporate governance

	1	2	3	4	5	6
VARIABLES	BSI	BPI	BDI	BSI	BPI	BDI
GEI	-0.0547***	-0.0386*	-0.187**	-0.0547***	-0.0386*	-0.187**

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	-0.0185	-0.0213	-0.0723	-0.0178	-0.0225	-0.0753
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GSI	0.124***	0.0496	0.166	0.124***	0.0496	0.166
	-0.0359	-0.0413	-0.14	-0.033	-0.0419	-0.136
GPI	0.341***	0.262***	0.925***	0.341***	0.262***	0.925***
	-0.07	-0.0805	-0.274	-0.0574	-0.0865	-0.281
ROE	-0.0117**	0.0042	-0.0208	-0.0117***	0.0042	-0.0208***
	-0.00521	-0.006	-0.0204	-0.0027	-0.00559	-0.00628
MAEFF	0.0715*	0.0502	0.199	0.0715**	0.0502	0.199
	-0.0431	-0.0497	-0.169	-0.0326	-0.0506	-0.13
WCM	0.00572***	0.000181	0.000462	0.000572***	0.000181	0.000462
	-0.0000139	-0.0001.60	-0.0005.42	-0.0001.33	-0.0001.27	-0.0003.80
GROWTH	0.354***	0.203***	1.300***	0.354***	0.203***	1.300***
	-0.0498	-0.0574	-0.195	-0.0453	-0.0624	-0.172
BIG4	0.300***	0.499***	1.088***	0.300***	0.499***	1.088***
	-0.0839	-0.0965	-0.328	-0.0812	-0.0946	-0.351
FAGE	0.0117***	0.0117***	0.0302**	0.0117***	0.0117***	0.0302**
	-0.00334	-0.00385	-0.0131	-0.00325	-0.00338	-0.013
IIAG	10.66***	7.965***	34.22***	10.66***	7.965***	34.22***
	-2.011	-2.315	-7.868	-2.006	-2.16	-7.33
Constant	-33.10***	-24.43***	-86.07***	-33.10***	-24.43***	-86.07***
	-7.304	-8.409	-28.58	-5.93	-9.2	-29.47
R-squared	0.266	0.166	0.204	0.266	0.166	0.204

Notes: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

The OLS regression analysis provided in Table 3 models 1-3 shows a substantial correlation between the BSI, BPI, and BDI and all three aspects of globalization (economic, social, and political). This demonstrates how globalization has affected the management of economies in transition. Foreign investors are attracted to companies with strong corporate governance practices, and these businesses are more likely to expand into new markets. The governance policy and code of ethics that are put in place to guide operational activities may be responsible

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for the significance of the operational performance variables ROE, MEFF, and WCM in BSI, but not in BPI and BDI. All models have important controls for growth and age of firm.

Table 4: Tobit Regression of dimensions of globalization on corporate governance

	1	2	3
VARIABLES	BSI	BPI	BDI
GEI	-0.0596***	-0.0530*	-0.200***
	-0.0217	-0.0301	-0.0386
GSI	0.194***	0.107*	0.149*
	-0.0438	-0.0635	-0.0834
GPI	0.572***	0.640***	1.200***
	-0.0872	-0.127	-0.166
ROE	-0.0149*	0.000665	-0.0109
	-0.00863	-0.00742	-0.0116
MAEFF	0.106	-0.1	-0.133
	-0.0849	-0.11	-0.171
WCM	0.000450**	0.000640	-0.000103
	-0.0002.28	-0.000359	-0.000503
GROWTH	0.469***	0.387*	0.752*
	-0.106	-0.219	-0.396
BIG4	0.358**	1.206***	1.409*
	-0.181	-0.396	-0.757
FAGE	0.0206***	0.0406**	0.0599**
	-0.00724	-0.0158	-0.0298
IIAG	16.42***	19.24***	39.59***
	-2.485	-3.69	-4.951
Constant	-59.00***	-65.15***	-107.5***

	-9.098	-12.98	-15.92
sigma_u	0.717***	1.677***	3.501***
	-0.076	-0.177	-0.277
sigma_e	0.952***	1.121***	1.755***
	-0.0432	-0.066	-0.0687

Notes: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 4 displays the Tobit model's presentation of the globalization's effect on corporate governance procedures. From the results, it is clear that all aspects of globalization have a major impact on the estimated models (BSI, BPI, BDI). One percent change in BSI and BDI, and ten percent change in BPI can be attributed to the effects of economic globalization (GEI). The impact of social globalization (GSI) on BSI is small (1%), but significant (10% each for BPI and BDI). Political globalization has a positive and substantial effect on all dimensions of corporate governance (BSI, BPI, BDI). This exemplifies the way in which globalization affects the institutional framework of governments. The effects of globalization on developing economies are higher because it helps these countries improve their administrative systems for making the most of their limited resources.

V. CONCLUSION

Globalization as a phenomenon has assumed a new status in contemporary global political economy to confront its challenges in the 21st century by adhering to the good corporate governance principles. The new trends of globalization make it imperative for companies to adopt framework for the global industry that align business enterprises with global characteristics of corporate governance. Based on the above discoveries we recommend corporate governance rating for all firms must be put in place. Good corporate governance principles of OCED must be adhered to by all listed firms. International Non- Profit Organizations (INGO's) must be well established to look into the governance structure of organizations.

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