2009

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Shaomin Li
Old Dominion University, sli@odu.edu

Anil Nair
Old Dominion University, anair@odu.edu

Corporate Governance: An International Review, 2009, 17(4): 407–410

Guest Editorial

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Shaomin Li* and Anil Nair*

Corporate governance has become an important issue for Chinese and Indian firms as they increasingly interact with regulators and investors from developed markets. For instance, tapping into global capital markets to raise funds to finance their domestic and international growth requires firms from China and India to demonstrate strong corporate governance credentials, so that investors do not discount their stock (LaPorta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). The swift action of Chinese and Indian authorities in response to recent corporate scandals – such as the one at Satyam Computers – reveals that even governments in emerging countries such as China and India see the need to promote good corporate governance to ensure the inflow of capital and the outflow of products. Furthermore, understanding corporate governance standards and issues in China and India is also important to executives of foreign multinationals doing business in these two countries.

As concerns about corporate governance gains ascendancy in corporate board rooms and offices of policy makers, business scholars' interest in these issues have also grown significantly, as evidenced by the number of publications on the topic (e.g., Rajagopalan & Zhang, 2008). It is this growing importance of corporate governance to the next phase of development of the Chinese and Indian economies that inspired William Q. Judge, Editor-in-Chief, and us to put together a conference and special issue on the topic for this journal.

THE CONFERENCE

We were pleased when *Corporate Governance: An International Review*'s publisher, Wiley-Blackwell, and Old Dominion University agreed to co-sponsor the conference. Little did we realize that sponsorship was only a small part of the challenges that were involved in organizing the conference. As we started putting together the conference there were many discussions, decisions, debates, and details that had to be resolved. First, we had to decide on the scope of issues to be presented at the conference. Next, given the fact that corporate governance is a multidisciplinary field, we had to ensure that the conference announcement reached all scholars who were involved in research on corporate governance in China and India – not just those in management or finance. Responding promptly to queries that started pouring in from all over the world became a daily routine. Of course, reviewing the nearly 200 submissions that made it through the conference submission deadline, and narrowing it down to the 90 that could be accommodated in the two day conference was not easy either. However, we knew that the topic and the timing were on target given this better than expected response to our call for papers.

Once the papers to be presented were accepted, tasks such as coordinating the program; obtaining visas for international scholars; working out conference venue details; arranging airport pickups; developing the keynote speaker's itinerary; obtaining the obligatory conference bag, receipts, and name tags; and selecting items on the lunch menu, became possible only because we were ably assisted by the Managing Editor Maureen Muller and students in the Ph.D. program in Finance, Marketing, and Strategic Management at Old Dominion University. We would especially like to thank the following students for their dedicated hard work without which the conference would not have been possible: Lee Brown, Jie Chen, Gulfem Kutlu, Sarah Mady, El Rustambekov, Denise Streeter, Joe Trendowski, Weichu Xu, Liu Wang, Judy Wu, and Maya Zhang. We would also like to thank our colleagues in the Management Department and the college, especially Professor David Selover from the Economics Department and Dean Nancy Bagranoff, for their support and suggestions.

On October 27, 2008, over 90 corporate governance scholars from 13 countries gathered in Virginia Beach to hear Anil Gupta start off the conference with a keynote talk on corporate governance in India. His talk was bookended by Minxin Pei's keynote talk on corporate governance in China on October 28. The two keynote talks indentified broad themes and identified the many challenges that lay ahead for corporate governance in China and India; the talks also set the tone for the discussions at the conference. Scholars spent the two days presenting papers and engaging in intense

*Address for correspondence: Department of Management, Old Dominion University, Norfolk, VA 23529, USA. E-mail: sli@odu.edu, anair@odu.edu

doi:10.1111/j.1467-8683.2009.00762.x

discussions and debates about the many facets of corporate governance in China and India. The presenters provided many insights on the issues based on their unique expertise, which covered a wide range of disciplines – accounting, consulting, economics, ethics, finance, law, and management.

This special issue is a product of the discussions and debates at the gathering. More than 50 excellent papers from the conference were subsequently submitted to the special issue and went through a double-blind review process. While we were very impressed by the breadth and depth of these papers and feel that many of them deserve publication, due to space limitations, the reviewers and editors struggled very hard to select seven from this large pool of very promising articles to be included in this special issue.

RESEARCH IN CG IN CHINA AND INDIA

Lurking in the background of academic research on emerging countries and markets is one key question: whether existing theories – which were developed within the context of mature economies – were still relevant. Thus, an underlying theme that many papers are grappling with in this special issue is whether existing theories of corporate governance are applicable in explaining corporate governance in these two largest economies in Asia.

Scholars who disagree that Asia needs uniquely Asian corporate governance theories would argue that by definition, a theory should be generalizable to different observations across countries (e.g., Cheng, 1994). There may be variations in how a theory is implemented in different settings but a theory such as agency theory or institutional theory should be universal. Thus, it is possible for research from a wide variety of settings to build on prior research and extend the theories and our understanding of corporate governance. As such, a call for uniquely Asian theories may not be warranted.

In contrast, some scholars argue that the cultural distinctiveness of Asian and emerging economies call for entirely new theories that are built from the bottom up (e.g., Hofstede, 1993; Meyer, 2006). When China opened up its economy some Chinese scholars believed that China is different from the West, and thus needs to invent its own theories. Some even went so far to propose the establishment of a "Beijing Economics." In responding to such a call, some economists tried to clarify whether there are Chinese economics or Beijing economics.

Qian (2002) laid out a framework to assess this issue. He argued that a well-established discipline should have three commonly recognized dimensions: perspective (i.e., fundamental assumptions); reference (or benchmark, which provides theoretical models); and analytical tools (i.e., statistical analysis, case studies). He concluded that there is no need to invent country-specific economics, but application of current theories could develop unique and country-specific insights. Yet there is no denying that transformations in emerging markets present unprecedented challenges to existing theories. For example, why do some economies based on the rule of law and private property rights, such as India, experience a slower pace of economic growth than some economies in which property rights are less secure, such as China?

Clearly, Chinese and Indian firms have some distinctive (and shared) governance traditions (and problems) due to their histories and the unique challenges they experience as they transition towards freer markets. For example, years of socialistic ideology (in India) and communistic ideology (in China) had led to closed markets and the dominance of the state in both economies (Huang & Khanna, 2003). However, there are striking differences in the political, economic, and cultural dimensions that would exert strong influence on the development (or lack thereof) of corporate governance in the two countries.

In terms of the governance environment, which is the set of political, economic, and social institutions that facilitate or constrain the choices of governance mechanisms, China is more relation-based as it lacks a comprehensive rule of law and has a strong *guanxi* culture, whereas India is relatively more rule-based due to its long tradition of English common law and a democratic political system (Li & Filer, 2007; Li & Nair, 2007). Another interesting difference is that the Chinese economic reforms resulted from Mao's ruinous economic policy and thus was internally driven. But the reform has heavily relied on external resources (e.g., foreign investment). In contrast, the Indian economic reform was triggered by external events (the Gulf War and the collapse of the Soviet Union that drastically reduced foreign currency inflow and trade), but it has primarily relied on internal resources (Li & Nair, 2007). Understanding these different origins may help us better understand how corporate governance practices are being shaped in the two largest emerging economies that account for over one-third of the world's population.

It is these corporate governance challenges in China and India, and the impact of reforms on governance that constituted much of the research that was presented at the symposium. Specifically, the conference revealed the following issues to be of central interest in the context of corporate governance in China and India.

The Governance Environment

To carefully delineate the unique approaches to corporate governance that has evolved in China and India, it is important to understand the environments that firms in these countries are embedded in, and how these environments are changing. The scope of discussion and research here include examining the reforms, cultural norms, rule of law, regulations, and role of history. For example, how do accounting rules in these countries differ from those in mature economies? Research on environments could also build links to other issues and their impact on governance practices and firm performance.

Executives and Directors

Are CEOs and top management behaviors, leadership styles, compensation norms, selection practices, interpersonal networks, unique or different in China and India? How do these elements influence firm performance? What are the specific roles of boards of directors? How are board members selected and evaluated? What determines board effectiveness? How effective are the boards?

Stakeholder Management

How do various stakeholders negotiate their rights? How are powers and influence shifting among various stakeholders? How do institutional investors, NGOs and analysts influence governance practices? How reliable and transparent are organizational communication with stakeholders?

Ownership and Control

What is the structure of firm ownership? What is the impact of state majority and minority ownership on governance? What are the role of business groups and family ownership in governance? How do family dynamics influence governance?

All these questions bear careful scrutiny for corporate governance in general, and corporate governance in China and India in particular.

THE SPECIAL ISSUE

The ultimate mission of *Corporate Governance: An International Review* (CGIR) is to develop a rigorous and relevant global theory of corporate governance. Since the preponderance of theory and research that we have so far has emanated from scholars operating in and studying developed economies, this special issue gives the inter-disciplinary field of corporate governance a chance to redress some imbalances and fill some voids. Indeed, while one special issue cannot address all the issues discussed above, in this volume, we have attempted to assemble a set of papers that were undoubtedly representative of the submissions we received, but also were theoretically grounded, empirically sound and raised provocative new questions. These papers highlight the unique governance issues facing China and India, and use multiple theoretical lenses to interpret and understand them.

The first two articles in this special issue are comparative studies of both China and India. In our lead-off article, "Business group affiliation, firm governance and firm performance: Evidence from China and India," Singh and Gaur (2009) use institutional and agency theories to examine corporate governance practices in both China and India. Specifically, they examine how business group affiliation, ownership concentration, and board independence affect firm performance. Using archival data on top 500 Chinese and Indian firms from multiple data sources for 2007, they found that group affiliated firms performed worse than unaffiliated firms, and the negative relationship was stronger in the case of Indian firms than Chinese firms. They also found that ownership concentration had a positive effect on firm performance, while board independence had a negative effect on firm performance. Intriguingly, they found that the link between group affiliation and firm performance within a country was moderated by ownership concentration.

In our second article, "CSR communications intensity in Chinese and Indian multinational companies," Lattemann, Fetscherin, Alon, Li, and Schneider (2009) address the puzzle of why firms in China, which has a higher level of economic development and thus should communicate more corporate social responsibility (CSR) according to existing theories, communicate less than firms in India? They use a model that includes country-, industry-, and firm-level factors to predict CSR communications intensity, a proxy for CSR activities. Using data on the largest multinational companies in China and India, they show that Indian firms communicate more CSR primarily due to a more rule-based (as opposed to relation-based) governance environment. Also, firms in the manufacturing sector tended to communicate more CSR than firms in service sectors. Finally, firm-level characteristics such as size, CEO duality of CEO, and outsider representation also were found to have a significant influence on CSR communications.

The remaining five articles were single-country studies that focused on corporate governance in China or India. For example, Shen and Lin (2009) studied the relationships between firm profitability, state ownership, and top management turnover at partially privatized firms through the lens of behavioral theory of organizational search in their paper, "Firm profitability, state ownership, and top management turnover at the listed firms in China: A behavioral perspective." They find that firm profitability and state ownership are negatively related to top management turnover only when firm profitability is below target (measured by industry median). They also find that top management turnover has a positive impact on subsequent firm profitability when it occurs under performance below target, but has a negative impact when it occurs under performance above target. In addition, they report that top management turnover under performance below target has a positive impact on subsequent firm profitability when the state is not the largest shareholder, but has no impact when the state is the largest shareholder.

In their article entitled "Non-tradable Share Reform and Corporate Governance in the Chinese Stock Market," Yeh, Shu, Lee, and Su (2009) studied agency problems in Chinese listed firms by examining the tradable and non-tradable shares, a unique phenomenon during China's financial market development that provides a natural experimental setting to observe how agency problems are embedded in different classes of ownership. They found that compensation is positively correlated with non-tradable shares, the pledge ratio, and related-party transactions; foreign ownership is negatively associated with compensation. For firms with relatively weak governance or severe agency problems, tradable shareholders demand higher compensation to compensate their concerns. However, the effect of these variables reverses on the ex-post wealth effect of tradable shareholders.

Liu and Lin (2009) examine the association between the internal corporate governance mechanism of firms and their auditor switching behavior among the listed firms in China in their paper titled, "The determinants of auditor switch from the perspective of corporate governance in China." They distinguished between two types of auditor switching– switching to a larger auditor or switching to a smaller auditor. They find that to protect and realize opaqueness gains, firms with weaker corporate governance (higher ownership concentration and shared CEOs and Board of Directors' chairmen) generally are more likely to switch to a smaller auditor rather than to a larger one.

In "Board structure and firm performance: Evidence from India's top companies," Jackling and Johl (2009) studied how composition of the board, board size, and aspects of board leadership, including duality and board "busyness," impact firm performance within Indian firms. They frame their paper using agency and resource dependence theories. They found that outside directors and larger boards have a role in improving performance, while outside directors with multiple appointments have a negative impact on performance. They also found that CEO power due to duality (or being a promoter) and board meeting frequency was not associated with performance.

Finally, Zattoni, Pedersen, and Kumar's (2009) paper, "The performance of business group firms during institutional transition: A longitudinal study of Indian firms," examined how reforms led to the dilution of the role of business groups within India. They use institutional and transaction cost theories to examine if group affiliated firms outperformed unaffiliated firms. Analyzing data from 1990 to 2006 they found that group affiliated firms enjoyed superior performance in the early stages of the reforms, but the performance leveled out in the latter phase. They also found that older group affiliated firms were better able to cope with institutional transition than younger group affiliated firms, and found that group affiliated service firms were better able to cope with institutional transition than group affiliated manufacturing firms.

SOME PRELIMINARY CONCLUSIONS

Some of the findings presented in the papers in this issue were consistent with the findings in developed economies; other results were contradictory. Do Western theories and findings hold up when applied in the context of China and India? Do we need uniquely Asian theories to address the governance issues in China and India? While the papers in this special issue allow us to begin to answer these questions, we believe many more questions remain to be asked and answered. It is clear that some theories – such as the agency and institutional perspectives – offer useful lenses with which to view corporate governance practices and issues across different cultures. However, we also note that given the unique historical and religious backgrounds, paths of development, and sheer size of China and India, the patterns of corporate governance and the interrelationships among the key concepts and relationships may be considerably different from what have been established in existing theories. If correct, this suggests that contextually rich, new theory building is required.

Nonetheless, we should also keep in mind that the transitions in China and India are not isolated; they are part of a larger global transformation. Thus, many of the governance issues China and India confront also exist in other emerging economies, so future theory building and theory testing studies should aim at discovering patterns that are important and generalizable to emerging economies. This special issue offers a first attempt in testing extant theories, but, unfortunately, we did not receive many theory-building studies for the special issue. In particular, the next phase of research should examine how firms from these countries influence corporate governance in other countries as they expand abroad, and it would be interesting and useful to observe the extent to which corporate governance is similar within a wider variety of emerging market economies.

As we wrap up this special issue, we want to thank the Editor-in-Chief, Bill Judge, the Associate Editors, and the reviewers for their constant support and guidance, for without their effort, this special issue would not be possible. Since we each were born and raised in these two countries, this has been an unusually satisfying endeavor. We commend this issue for your consideration and research.

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