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Corporate Governance and a Paradigm Strategy by Multinational Enterprises in Emerging Markets

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ABSTRACT

This qualitative investigation meticulously identified challenges to corporate governance in operations of Multinational Enterprises (MNEs) in diverse situational positions in emerging markets. These challenges are weak macro institutions, strict government interest and influence, over formalized institutional structure, and overbearing political influence and the obvious; information asymmetries. A flexible mixed allegiance paradigm strategy was identified. It provides alignment of diversities and equilibrium based on micro operational efficacies of the multinational enterprise which are experienced and skilled workforce, related to locality of interest, management of loyalty, trust and negotiation hinged on acceptable agreements to member countries. Trust is emphasized as important for international business.

KEYWORDS: Corporate Governance; Multinational Enterprises; Emerging Economies; Factors; Qualitative.

1. INTRODUCTION

It is a widespread cyber reality in social media news channels and websites that change is a constant paradigm and as such, any functional society and organization that wishes to be constantly in the right path with current realities, such must be willing to adopt and also be flexible enough to move with the trend in perspective. A typical example of countries that have trended for vast array of changes in diverse issues and especially in the aspect of their business lives are China and India. Various examples abound of companies which are multinationals from these countries that have adapted to changes and navigated their business in an adorable way. The quick multinationals that comes to mind are Bharti Airtel in India and Alibàba Group in China. According to Joji (2012), Bharti Airtel is accredited with revolutionary business strategy of outsourcing except marketing. Its strategy has been adopted by numerous businesses. Its constant responses and adoption to change is admirable. The adaptive nature of Alibàba Group is reflective in the fact that, it owns and operates a miscellaneous assortment of corporations around the globe in copious business segments (McClay, 2012).

The reason that necessitate initiations for changes are of paramount concern giving the sophisticated alignment that usually occurs with international standard protocols in business agreements even when most times, there is a strong desire to retain local cultural practices as a strong foremost concern. This is generally typical of Asians as, "*most business activities remain country based, even when they can be conducted across borders*" (Tse, 2010 pg 19). They love to retain strong home cultural practices and values.

The essential issues are how, why, when and at what point that there is a desperate need to rightfully align various interest, regulations, legal local practices and international systems and polices into a standard acceptable unified paradigm acceptable to all parties and in a manner suitable to especially global shareholders and galaxy of investors as new international joint venture, franchise, licensing, lending, know-how are shared and distribution agreements are formed, given the fact that corporate governance is a highly acceptable convincing logical presentation that gives all interest groups confidence on their return in investment. This is necessary given the caliber and manner of organizational management in an elaborate transnational manner as visualized by Bhaumik, Driffield, Gaur, Mickiewicz and Vaaler, (2019).

The above assertion makes it logically imperative to systematically view cooperate governance at various spectrums; the organizational internal structural levels capable of highly competitive advantageous idea to give pinnacle performance, so as to give private investors funds safely in line with public regulation and institutional guide lines. This in simple terms means that management, private investors and national government regulatory laws and policies are aligned towards profitable purposes for the benefit of the economy and all classes of interests.

The idea of this simple paper is an attempt to stimulate the identification of as many as possible situational positions practically available with peculiarities associated with emerging economies, thereby developing a workable strategic paradigm framework for multinational operations in a sustainable manner. The paper develops strong positions on necessitates of alignment of micro, local imperatives and standard international practices with whatever the case maybe. This is important to develop a strong and new insight into how multinationals can have equilibrium between aspirations of all interest groups and acceptable standard of international practice. This is alignment of their operational management principles pivoted on issues necessary for success in each particular situation, creating a paradigm of operation for emerging economies now and in future.

To logically approach these positions, we have organized the articles into six piece logical presentations. The first is the introduction; the second articulation gives the clear idea of corporate governance in nature and importance. The third part gives the full anatomy of emerging economies with topology of government influence, resources orchestration, market entry challenges and corporate governances in internationalized manner. The fourth part tries to show the model for alignment of various issues to give acceptable corporate governance practices paradigm model. The fifth part summarizes the major points and the issues of importance and where to apply particular logical initiative to matter of concern in present and future explorations. The sixth part is the conclusion.

2. UNDERSTANDING THE IDEA OF CORPORATE GOVERNANCE

To understand the true meaning of corporate governance means that it is important to adopt Agency Theory (AT) perspective which according to Filatotchev and Wright (2011) recognizes the major spectrum of corporate governance, which are the function and anatomy of ownership, the make-up of boards of directors, the differentiation of chief executives and board authorities, executive compensation, and the function of the market for corporate regulation. This perspective is reasonable given the wide spread knowledge that most MNEs are associated with Agency Theory to give shape to their strategy and management formulation for successful business exploration. Every organization wishes to do well and investors wishes to get returns on their investment. Therefore corporate governance as identified in line with Agency Theory is the idea that there is an assurance of financiers to get their return on their investment (Shleifer and Vishny, 1997).

As rightly expressed by Filatotcehev *et al* (2006), corporate governance is about both ensuring accountability of management and safe managerial entrepreneurship such that shareholders gain considerably from the internal worth of the firms. For the internal structure to be effective, it may have to involve equity- based managerial benefits that are in line with the interest of agents and officials (Jensen and Murphy, 1990). Nevertheless when considering only Agency Theory (AT) the role of governance structure without contract becomes a challenge when there are needs to minimize the cost of transferring intermediate products which in Agency Theory in pivoted on the optimization of alignment of interest of the principal and the agent. Therefore the internalization theory of corporate governance will also be briefly looked at to give a complete understanding on the idea of corporate governance.

Internalization Theory views corporate governance according to Filatotchev and Wright (2011) as foreign direct investment designed to appropriate rents in international markets from the maximization of the locality of interest unintelligent knowledge of the resources worth and the great potentials it offers and in such approach costs associated with organized activities across national sovereignties are reduced when compared to market based exchange (Kogut and Zander, 1993).

In whatever way one views corporate governance it has objectives that are of paramount concern, with unit of analysis that has various behavioral and organizational assumptions giving a certain element of uncertainty and cost which can rightly or wrongly give predictive results. This means that to appreciate corporate governance, the status of ownership, boards and duality of roles, executive remuneration and alignment of organization and its environment must be understood.

The main concern of any approach one looks at corporate governance, it recognize conflict of interest, the reality of uncertainty and information differences and a need to adopt a path possible for a equilibrium of such diversities towards profitability. The strongest concern of corporate governance according to Agency Theory is incentive alignment while Internalization Theory is governance structure. The unit of analysis is market and contract for internalization and Agency respectively. It is important to understand that Agency theory objective is to optimize the alignment of interest of the principal and agent while internalization seeks to adopt efficiency governance structure that reduces cost. In the aspect of behavioral permutation the psychic distance is maintained in internalization while Agency Theory emphasis bounded rationality opportunism. The fact is both appreciate the realities of conflicts and information asymmetries as well.

According to Baker *et al*, (1988); Hoskison *et al*, (2002) and Carpenter & Fredrickson (2001) uncertainty realism spans from value of intermediate products in Internalization Theory outlook which is different from Agency Theory based on behavior. As earlier stated the understanding of focal cost is essential since internalization bases it in ex-post cost of coordination under alternative governance structures, Agency pivots it on Ex-cost of crafting mechanisms of reconciliation of interest of contracting parties. Therefore the main prediction of Internalization Theory is that firms will supersede markets to effect exploitation of intermediate products while firm strategy is reflected in different objectives and risk propensities of contracting parties according to Agency Theory.

Cooperate governance therefore is dependent of the approach taken and the international business theme of concern. Since Agency approach is decided in this context of discussion as a component of the various triggers for change, the natural governance sub mechanism associated with multinational enterprise in emerging markets will be identified. It's made up of heterogeneity of institutional investors, foreign and domestic owners, and full and partial foreign ownership involvement in control decisions as owners, private equity, sovereign wealth funds, government funds and skills to internationalized professionals (Filatotchev and Wright, 2011).

The basic makeup of great influential consequence: **Ownership**: Ownership as observed by Dounra *et al* (2000) in many emerging economies, it is common place to see family owners and various concentrated holder as very essential part of influencers of critical directions. All manner of input contributors are aligned in the block as ownership related in whatever form.

Boards and Duality: Based on Filatotchev *et al* (2001) assertion, pivoted on deep research, they concluded that the behavior formation and action of executive has influence on the distribution of authority which defines the capability and remuneration of freelance directors as well. This is an important interest line and interest needs to be harmonized.

Executive incentives: The relationship between executive incentives and their ability to carry out their roles in aligning all interest in international engagement is pivoted on the payment value attached to by the executive. This simply means that there is a need for firms to write contracts that gives the executive compensation and over all cover with an objective to promote organizational intentions when managerial effectiveness is split between owners and executives (Jensen and Meckling, 1976) and, even if only by executive with little influence from owners. This alignment is an essential aspect of governance clarity.

3. ANATOMY OF EMERGING ECONOMY

It is an obvious fact that enforcement of corporate governance laws and regulation is very costly and as observed by Courts (2017), many emerging economy are unlike the US federal court system which has great judicial system, various professionals and experienced human capital with a huge budget to support various processes. The nature of emerging markets has components of the institutional system that are not synchronized in a uniform way as observed by Bhaumik *et al* (2019). Emerging economic lack those specific asserts in their locations Ramanurti (2012). And they exhibit most times, only strategic advantage in one dimension as observed by Guillén and Capron (2016). The heterogeneity of emerging economics is a stake reality, domestic firms competing among themselves, and local firm pursuing international connection to broaden their market share as observed by Hoskisson *et al* (2013). It's simply an economy undergoing transition in their institutions, and looking for enhanced capabilities that can increase their value.

Emerging economies have typically weak institutional framework to take care of the challenge of information asymmetry which is capable of declining progressive business activities, (Bhaumik *et al*, 2018). This means that innovative ideas with a blend backed by international laws of various kind and bilateral or regional lateral engagement are attractive options.

Investors put money only where they have strong assurance of return on investment which is fulcrum on the quality of corporate governance. As observed by Bhaumik *et al* (2019), corporate governance is simply the manner and way organization assures all investors of appropriate return on their money put in the enterprise in any form possible.

The structure of emerging economic as observed by Hall and Soskice (2001), keeps changing giving the heterogeneity of these economies and therefore a compact labeling and with an intention of a generalized model maybe paradoxical in nature since each has it is peculiarities and homogeneity is only a mirage in conceptual application. Even though some similarity are indicated by Wan and Hoskisson (2003). In simple terms the nature of emerging economy in stake term can be referred to as economies with varying degree of institutional development, and infrastructural development in transitional mode needing strong political, legal, and institutional stability to enhance economic potentials engraved in diverse factors hard to stratify, with absolute certainty, other than stages of transitional position as also observes by Hoskissin *et al* (2013).

The various possible pivotal situational swing positions practically observed to make sense of, in the dynamic nature of emerging markets even with the difficulty in stratification is observed by OECD (2017); Naughton (2017); Grossman, Aguilera & Wright (2018); Lamberova & Sonin (2018) and Faud & Gour (2019) as macro level institutional weakness; strict and deep government non flexible influence; strict bureaucratic and formalized institutional structures; and deep political connections and consideration as a major influence on decisions in institutions in corporate governance regulatory framework and operations.

The above scenario means that an emerging market may have all the various challenges or at least one of them as observed above, operational in its locality.

4. CORPORATE GOVERNANCE AND EMERGING ECONOMY

As obviously noted, in the past, and currently, the quality and administration of corporate governance in emerging economies is not static but rather progressive. Standard in emerging economies is transforming in particular spectrums that are important to firms and other stakeholders – local – national administrations (Bhaumik *et al* 2019). The various interests that give rise to heterogonous arrays of concern mean that various rules are developed with exceptions in a heterogeneous manner, all with intent to encompass many possible interests so that business of international dimension can happen and also in a sustainable manner. This obviously affects quality of the corporate governance. The nature and structure of institutional level of development and infrastructure is not strong enough to support some of the positions typology. This is true because if it were not, then the World Trade Organization uniformity terms of agreement adopted would have not emerged. The role of MNEs in driving changes in way things should be done cannot be under estimated.

According to Gaur, Ma & Ding (2018), emerging markets have linkages which are good sources to understudy and gain very useful knowledge essential to increasing their strengths that will help in their emergency on the international scene. Nevertheless, as observed by Bhaumik *et al* (2018), the knowledge and strengths are not tremendous enough to overshadow the challenges of choice generated by information inequality which is a typical experience in emerging economy and development of corporate governance. This has negative consequence in attracting investors because they are not sure of the position of their investment.

It's also observed that given the weakness of emerging economies, a development of a good quality governance is an opportunity to attract interest in the local market and as observed by Georgiou, (2019) it is a indicator of their value. The level of quality may differ given the various unique situations of the various emerging markets. This means that a general reference to emerging economies has become paradoxical in nature since each locality may have various levels of institutional development and infrastructural transformation and thus generally classifying them as emerging market may not give the right intended information. A typical illustration of this view is the observation of OECD (2017) which considered four countries with various anatomies. The countries were Russia, China, India and Mexico. The various nations have various level of government interference, and integration, some with more formalized institutional based firms, and others with deep political connection and consideration as a pivot influence to decisions and yet some with very weak institutional framework to ensure contract and business rules are followed to a logical conclusion. More so, some had very strong desires by local ownership to limit internationalization which affected their influence. As observed by Bhaumik *et al* (2010). In India, the most lucrative business is from local sources and research shows that firms with deep family ties are reluctant to internationalize. This simply means that local investors would want to have greater influence in a firm and having corporate governance laws and regulations would definitely be influenced greatly by such interest unless with paradigm of World Trade Organization (WTO) rules standardized and multilaterally accepted by all joining members.

Corporate governance has to encompass all the proven operational components with their strategies worthy in promoting good business in various elements (Aguiler *et al*, 2008). This means that all important positions that will bring about a workable corporate governance and effective performance should be considered by MNEs as possible options given the nature of emerging economies.

5. Alignment of Corporate governance Practice with local and international Concerns

Filatotchev and Wright (2011) recognize a new trend in corporate governance generally, and emerging economy cannot be an exception. They pointed out that new types of MNEs are emerging worldwide and it influences Agency theory view of governance and this reality implies that the need for new perspective is essential (Dan-Jumbo & Akpan, 2018). The broad perspective of Agency theory and the narrow view of internationalization theory and all various theories with their limited definition of ownership, boards and all relevant issues have to be aligned so as to examine its implication in diverse institutional environments.

The implication of the above suggestion means that the level of government interference, deep formalization, political based decisional influences and weak institutional frame work challenges have to be considered with the possible alignment of micro governance structure in lines with cross listing and bonding in order to make up for macro level institutional weakness, be it is any transactional level and even in future expedition of any kind in international business. As emphasized by Bhauik *et al* (2019), they seek a comprehension of a working of corporate governance in definition of features, based on larger institutional framework and how it affects firms, international business line of actions and by implication firm internal organization of governance approach. As identified by Buckley and Storange (2010), the broad nature of corporate governance is beyond regular function of reduction of operational cost given the complex nature of international business. The alignment of various interests based on ownership, board and executive incentives is pivotal to international planning, activities and rating.

The implication of the above is that unity of purpose by all levels of interest to work together formally and informally and forming of strategic alliance become vital. As noted by Filatochev and Nakajima (2010), there is an increase in recognition of network form of business organization as more impactful than continuum, internalization and contracting. With the various transformational level defined by institutional development, and infrastructure development level, there is a need for convergence institutional paradigm flexible enough to accommodate a large spectrum of interest and actors in the process.

A strategy that is flexible enough to take care of government interference, deep formalization, political based decision influence and weak institutional frame work, board interests, executive and ownership concern is suggested by Areneke and Kimani (2018) observation, that suggests a cross- identification and unification of local institution guidelines and employment of experienced workforce and especially managerial levels and director with vast skills, knowledge, a certain relationship with locality of interest and also experience of standard governance practice operations in developed countries. This will help in flexibility in operations, purpose and adoptive manipulation given their experience in good use and application of human skills, management style and loyalty, to render solutions to various challenges associated with emerging market structural realities. This can simply be known as flexible mixed allegiance.

The flexible mixed allegiance simply compensate for macro level institutional weakness at any level of transactional development of institutional local framework and also strengthen micro level ability to adopt to operational realities. The contingency application of the various mix of strategy is dependent on experience of the board, executive and ownership pivoted on the respective national environment. In respect to the challenge of information asymmetries, it is simply based on trust just as allegiance capable of intellectual property transfer of knowledge and willingness of firms to connect in technology relocation to the emerging markets is made possible (Col and Sen 2017). Trust is the bases even for a solution for asymmetric information challenge after flexible mixed allegiance. Depending on level and capacity, been a member of World Trade Organization (WTO) gives a systematic path to many issues of conflict resolution dependent on the country's level of development. Also there is room for bilateral and regional multilateral agreements with a blend of WTO guidelines which can also be useful for present and future situations involving MNEs in member countries.

6. CONCLUSION

This paper identifies various situational positions that are noticeable in emerging markets and their various challenges to corporate governance. The diverse interest groups, national laws and international obligations that have to be aligned in order to allow business function progressively is also acknowledged. A workable strategic paradigm framework for multinational operations in a sustainable manner is discovered. It is referred to as flexible mixed allegiance. It is a model that takes care of formal and informal issues. It builds on understanding of local realities, engaging skilled workforce and managerial skills that are experienced with a track record of efficacy. It involves working with directors that have worked in developed environments where corporate governance is standard and they also have a certain relationship with the locality of operation. They have experience capable of managing loyalty between locality, enterprise operational logistical concern, decision making and the interest of array of global shareholders. The strategy is based on micro capacity, trust and mutual understanding inscribed in agreements of various kinds; contracts, regulatory agreements, bilateral, multilateral and WTO guidelines of member state. Trust is emphasized as very essential to international business.

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