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Comparing board-level governance at MNEs and local firms: Lessons from Turkey

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Abstract

Multinational enterprises (MNEs) have been the subject of academic research from a variety of perspectives. However, the question of whether and how MNEs differ from local businesses in terms of their corporate governance mechanisms concerning the way they are directed and controlled by the board of directors is still largely unexplored. This question must be answered before researchers, policy makers and managers can identify action areas to improve governance and accountability in MNEs. In this paper, we empirically analyze the structures, systems and effectiveness of evaluation processes relating to the board of directors in MNEs and local companies in Turkey, an emerging country. We identify the significant differences on various key aspects of corporate governance among the groups, explore reasons to explain these differences and draw implications for further study of corporate governance in MNEs. A conceptual model is presented where institutional and organizational factors leading to governance differences are linked to how MNEs configure their boards in a host country setting.

Keywords: Corporate governance; Multinational enterprise; Accountability; Board of directors; Transparency; Turkey; Emerging country

1. Introduction

The emergence of multinational enterprises (MNEs) as powerful actors of the international business environment inevitably means that an important part of "going

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global" is to find ways to effectively manage and control business organizations in different host countries. The literature on MNEs therefore focus on many operational aspects of the MNEs business, such as entry strategies, growth and knowledge spillover considerations (Driffield and Taylor, 2002; Lipsey, 2002). Judging from the abundance of research on the MNE and how it impacts its business surrounding, it is natural to assume that the recent rise of corporate governance as a prominent avenue of research should be accompanied with studies dealing with what makes corporate governance special in the case of MNEs. However, this has so far not been the case. Instead, corporate governance studies are largely regional or national in scope and mostly deal with elements such as board structure, executive compensation, takeover markets or legal systems. Moreover, an even smaller number of studies deal with these issues in emerging country settings and none directly focus on MNEs within the corporate governance framework (Denis and McConnell, 2003).

This paper attempts to explore the theoretical intersection of research on corporate governance and on MNEs. Of particular interest is the issue of how MNEs build and maintain an effective monitoring process in host countries. Given the particular difficulties that MNEs face in coordinating and integrating their worldwide operations, the monitoring functions of boards of directors in host countries attain particular importance. We therefore pose the following fundamental question in this paper: "In what ways do MNEs differ from local firms in terms of critical aspects of their board of directors in an emerging country context[2]?" The answer to this question holds the key to understanding various aspects of corporate governance in MNEs. By identifying what–if anything–makes MNEs different in terms of the basic elements of corporate governance, control and direction by the board of directors, researchers can identify the starting point of the governance relationship between MNEs and their host environment. When key differences are identified, researchers will be in a better position to analyze whether and how corporate governance practices of MNEs and host country companies interact.

In the next sections, we continue by presenting a theoretical background on corporate governance, MNEs and the factors that would lead us to expect differences between MNEs and local firms in terms of governance. Hypotheses are developed, tested and findings are reported. Finally, a comprehensive model incorporating our conclusions is presented.

2. Theoretical background

2.1. Corporate governance and MNEs

Finance, economics, management and law researchers, along with professionals at regulatory and intergovernmental organizations have long been working in the area of corporate governance and formulating alternative definitions of the concept. One of the more widely accepted definitions of the concept comes from the Organization for Economic Cooperation and Development: "Corporate governance is the system by which

[2] We use the term "emerging" to refer to countries with low, but increasing, levels of economic and institutional development.