The relationship between corporate governance and foreign ownership of the banks in developing countries

La relación entre gobierno corporativo y propiedad extranjera de los bancos en los países en desarrollo

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Abstract

The aim of this paper is to determine the effect of corporate governance on foreign ownership of the banks. Within this context, annual data of 65 developing countries for the periods between 2004 and 2013 was analyzed. In addition to this situation, 7 explanatory variables were used in this study in order to achieve this objective. As a result of the analysis, it was identified that there is a strong relationship between operations of foreign banks and governance levels of the countries. In this regard, it was determined that the factors of corruption, political stability, rule of law and flexibility in legal regulations affect foreign bank operations. Moreover, it was also analyzed that foreign bank operations are stronger in the countries that have low poverty, high political stability and efficient legal infrastructure. On the other hand, it was defined that strict legal regulation affects foreign bank operations negatively which shows that foreign banks prefer to enter into the countries that have flexible legal regulations. This study gives essential information to developing countries about the factors that affect the decisions of foreign banks in order to enter into a developing country. Therefore, by considering the results of this study, the authorities of these countries can have a chance to take necessary actions so as to attract foreign banks.

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Resumen

El objetivo de este trabajo es determinar el efecto del gobierno corporativo sobre la propiedad extranjera de los bancos. En este contexto, se analizaron los datos anuales de 65 países en desarrollo de los períodos comprendidos entre 2004 y 2013. Además de esta situación, se utilizaron 7 variables explicativas para alcanzar este objetivo. Como resultado del análisis, se identificó que existe una relación fuerte entre las operaciones de los bancos extranjeros y los niveles de gobierno de los países. A este respecto, se determinó que los factores de corrupción, estabilidad política, estado de derecho y flexibilidad en las regulaciones legales afectan a las operaciones de los bancos extranjeros. Además, se analizó que las operaciones de bancos extranjeros son más fuertes en los países que tienen baja pobreza, alta estabilidad política y una eficiente infraestructura jurídica. Por otra parte, se definió que una estricta regulación legal afecta negativamente a las operaciones de los bancos extranjeros, lo que muestra que los bancos extranjeros prefieren entrar en los países que tienen regulaciones legales flexibles. Este estudio proporciona información esencial a los países en desarrollo sobre los factores que afectan las decisiones de los bancos extranjeros antes de entrar en un país en desarrollo. Por consiguiente, al considerar los resultados de este estudio, las autoridades de estos países pueden tener la oportunidad de adoptar las medidas necesarias para que atraigan bancos extranjeros. © 2017 Universidad Nacional Autónoma de México, Facultad de Contaduría y Administración. Este es un artículo Open Access bajo la licencia CC BY-NC-ND (http://creativecommons.org/licenses/by-nc-nd/4.0/).

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Introduction

Corporate governance means the processes and relations that are controlled by the companies (Shailer, 2004). In addition to this definition, in banking sector, corporate governance refers to the purposes, regulations and strategies which are directed by the top management of the bank. The main purpose of corporate governance is to satisfy the demands of the shareholders. Owing to this issue, companies will be more transparent and people will have more confidence to them. Moreover, this situation also leads to increase in the performance of the companies (Barakat & Hussainey, 2013).

In addition to the companies, corporate governance is also significant for the countries. With respect to higher corporate governance, political intervention is expected to be at the minimum level in the country. Therefore, transparency can be increased it this country (Ho, Lin, & Tsai, 2015). Otherwise, the political and economical stability cannot be obtained. Due to this problem, foreign investors become reluctant to enter this country.

Furthermore, it was thought that there is a relationship between corporate governance levels and foreign ownership of the banks. According to the empirical studies, this relationship has two ways. Firstly, it was defined that foreign banks prefer to enter into the countries that have high corporate governance levels. Similar to this situation, it was also determined that foreign banks increase the corporate governance levels of the countries in which they operate.

When taking into the consideration of these factors, in this paper, we tried to understand the relationship between corporate governance and foreign ownership of the banks. In order to achieve this objective, we made a panel data analysis to 65 developing countries. By making this analysis, it will be possible to define the effect of corporate governance on foreign ownership of the banks. The paper is organized as follows: in the second part, we give general information about
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