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A cross-national analysis of perceptions of corporate governance principles

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ABSTRACT

Increased trade between developed and emerging economies has led to a gradual convergence of policies related to corporate governance as multinational firms attempt to standardize best practices worldwide. Due in part to this movement organizations such as the OECD and World Bank have contributed to the streamlining of acceptable protocol for publicly traded firms around the globe. In 1999 the OECD Principles of Corporate Governance were endorsed by OECD ministers in an attempt to influence policymakers by setting global governance standards. Yet the extent to which perceptions of these principles vary between OECD members and non-members is unclear. Obtaining a greater understanding of how individuals from diverse nations perceive these principles is important to managers as they maneuver through the complex world of international business. In this study we employ relational demography theory to develop and test a survey instrument in the Kingdom of Saudi Arabia and in the United States to assess perceptions of OECD principles. Results from a survey of 284 managers (Saudi Arabia $n = 168$, USA $n = 116$) suggest that regardless of culture perceptions of shareholder rights are positively related to beliefs about the integrity of the national legal and regulatory framework. Also, differences between the Saudi and U.S. samples on perceptions of shareholder participation, disclosure and the role of the audit function are identified. Managerial implications and future research directions are also discussed.

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1. Introduction

One of the most fundamental differences across borders that managers of multinational firms must face is the variation in corporate governance standards. Doing business in unfamiliar foreign markets can be incredibly complex and challenging due to unique country specific customs and laws that are often quite different from what managers are accustomed to at home. In an attempt to streamline some of the best practices related to corporate governance around the globe the Organization for Economic Co-operation and Development (OECD) developed a working document in 1999 of core governance principles. The thirty OECD member countries later approved these principles, which have led to the establishment of a number of fundamental guidelines related to governance across the member nations.

Despite the excellent progress that has been made by OECD nations little is known about the accomplishments of non-OECD members on the governance front. Moreover, as trade increases between developed and emerging economies obtaining a deeper comprehension of how managers from emerging markets perceive principles and guidelines, such as the

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OECD governance principles, will become increasingly valuable. This knowledge of ideological differences in corporate governance must be built into policy development and is clearly an ingredient that is essential to market entry success (Strange, Filatotchev, Buck, & Wright, 2009; Young, Peng, Ahlstron, Bruton, & Jiang, 2006). From a research perspective there is little doubt that in developing countries less is known about beliefs about corporate governance and the role that factors such as culture and economic ideology play in shaping corporate policy and strategy (Young et al., 2006).

In this study we have selected an economically powerful OECD member, the United States, and a non-OECD member with a strong and burgeoning economy, Saudi Arabia. Trade between the United States and Saudi Arabia has surged in recent years with U.S. exports to Saudi Arabia rising from US\$ 6.8 Billion in 2005 to US\$ 11.5 in 2010 (US Census, 2010). Over the same period Saudi exports to the U.S. increased by 15.8% (US Census, 2010). Trade between the U.S. and Saudi Arabia is a special case that is rarely witnessed in international trade. While Saudi Arabia primarily exports oil to the United States, the U.S. exports a wide variety of items to Saudi Arabia; ranging from oil rigs to aircraft to know-how (management contracts). Such trade can be augmented if both nations make a stronger attempt to understand different viewpoints. Further, due to some of the recent conflicts in the Middle East and North Africa we believe that shedding some light on how cultures from this region view Western standards of governance is not only interesting but also important. From an organizational behavior perspective, there has been a gap in the literature related to how demographic and social group traits in the Middle East relate to perceptions of Western-based governance constructs, such as the OECD principles (Mellahi, Demirbag, & Riddle, 2011; Robertson, Al-Khatib, Al-Habib, & Lanoue, 2001).

There has indeed been a surge of corporate governance related research in the literature in recent years (i.e. Aguilera, 2011; Aguilera & Jackson, 2010; Al-Abbas, 2009; Strange et al., 2009). The topic now appears to have global presence and as more emerging and transitional economies engage in trade with partners from developed nations bridging the gap in what is considered 'good governance' in the local context will rise in importance (Ozen & Kusku, 2008). As more firms formalize the role of board members as overseers of shareholder interests, specific board functions, transparency and disclosure policies will be of keen interest to internal and external stakeholders. Moreover, the link between individual traits and perceptions of salient governance phenomena is a valuable relationship to explore in a cross-cultural setting.

The purpose of this study is therefore to examine perceptions of OECD governance principles in the United States and Saudi Arabia. Not only is the Saudi business environment of special interest to the United States but it is also a salient topic to researchers due to its unique economic model and recent major investment in economic diversification by ramping up areas such as education and governance (Noer, Leupold, & Valle, 2007). Yet the Saudi business environment lacks some essential components such as professional analysis community and financial databases (Al-Razzen & Karbhari, 2004). The cultural complexity of Saudi Arabia, especially when juxtaposed with the cultural fabric of OECD nations such as the U.S.A., made Saudi Arabia a particularly attractive choice for this study. We contribute to the literature by building upon relational demography theory through the use of governance principles as an endogenous variable and by contrasting perceptions by managers from two diverse nations. Additionally, we build upon our relational demography contribution by assessing the extent to which particularistic ties relate to perceptions of governance principles (King, 1991; Tsui & Farh, 1997).

In the next section of this paper a brief overview of corporate governance in emerging markets is discussed. Hypotheses are then developed related to perceptions of OECD principles by Saudi Arabian and U.S. managers utilizing a relational demography approach. The paper concludes with a description of our samples and methodology, analytical procedures, results and future research directions. Limitations and managerial implications are also discussed.

2. Corporate governance in emerging markets and the OECD principles

The realm of corporate governance is relatively new to emerging market scholars despite numerous examples from industry of poor governance that has led to high profile scandals in a wide selection of emerging markets (Strange et al., 2009; Wright, Filatotchev, Hoskisson, & Peng, 2005). We define corporate governance as the responsibility that is held by members of boards of directors to grow, preserve and protect the interests of shareholders and related stakeholders. Peng (2003) asserts that the dominant model of corporate governance is essentially a product of ideology developed in Western nations such as the United States and the United Kingdom, whereas in emerging economies the institutional context tends to play a larger role in shaping governance mechanisms. As a result, Western governance practices have, in many emerging markets, helped shape the current governance paradigm, while in other markets, primarily where cultural distance is high, the institutional context has trumped Western influence and local rules have prevailed (Peng, 2003).

The role of different stakeholders and individuals with varying degrees of demographic backgrounds in comparative governance research is essential when attempting to ascertain how perceptions and governance standards may vary across borders (Aguilera, 2011; Aguilera & Jackson, 2010). Indeed, factors such as ownership control, family influence on ownership structure and the role of institutional investors can have an impact on the role of board members and their related decisions geared to maximize shareholder interests (Aguilera & Jackson, 2010). National laws related to governance as well as internationally recognized governance principles can also play a role in shaping the institutional environment in which a firm operates.

The OECD published a working document of governance principles in 1999 (it was later revised and ratified in 2004) and six fundamental principles of corporate governance were proposed (see Appendix A for further details). The six OECD governance principles are:

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