THE INFLUENCE OF CORRUPTION ON CORPORATE GOVERNANCE STANDARDS: SHARED CHARACTERISTICS OF RAPIDLY DEVELOPING ECONOMIES

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Abstract

This article evaluates the relationship between the level of corruption in rapidly developing economies and corporate governance processes therein. Previous literature illustrates a strong relationship between corporate governance and corruption and suggests that in countries with high levels of corruption, firms lack efficient corporate governance practices. Similarly, countries with deficient corporate governance practices and low levels of compliance to these standards breed corruption leading to a wide range of transparency dilemmas. This study delves deeper through careful examination regarding the level of compliance with corporate governance standards and the pervasive effects of corruption on the governance processes of firms with specific regard to rapidly developing economies as well as offering comparisons and similarities of shared characteristics among these countries.

Keywords: Corporate governance, corruption, rapidly developing economies, foreign direct investment, emerging markets, transparency.

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The Influence of Corruption on Corporate Governance Standards: Shared Characteristics of Rapidly Developing Economies

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I. Introduction

The primary focus of this study is to examine the level of compliance with corporate governance standards and the pervasive effects of corruption on the governance processes of firms with specific regard to rapidly developing economies, henceforth RDEs, as well offer comparisons and similarities of shared characteristics of firms in these countries. The methodology implemented to prove this correlation involves analyses and ranking of each profiled RDE according to the degree of the perceived level of corruption reported by Transparency International and the level of corporate governance standard compliance as reported by the eStandards Forum Financial Standards Foundation which considers (a) Macroeconomic Policy and Data Transparency, (b) Institutional and Market Infrastructure, and (c) Financial Regulation and Supervision.

This paper spotlights the following RDEs; Argentina, Brazil, China, Chile, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Russia, Thailand, Turkey and United Arab Emirates as they represent the premier class emerging markets attracting foreign direct investment and increasing levels of GDP. These profiled RDE countries represent the fastest growing emerging markets. RDEs have the ability to attract foreign direct investment despite higher levels of corruption versus developed economies. The growth experienced by RDEs, with regard to gross domestic product and foreign direct investment, come such obstacles and hindrances as corruption which may be dealt with through effective corporate governance.

Each one of the BRIC countries (Brazil, Russia, India and China) is considered rapidly developing economies due to their ever-increasing annual growth rates. What separates an emerging market (henceforth “EM”) from a RDE? The short answer is that RDEs grow at faster rates than EMs. According to Arnold & Quelch, there are three aspects of a country’s economy that make it so (Arnold and Quelch, 1998, p. 8):

“First is the absolute level of economic development, usually indicated by the average GDP per capita, or the relative balance of agrarian and industrial/commercial activity. This overlaps with other categorizations such as ‘less developed countries’ (LDCs) or ‘Third World Countries’. Second is the relative pace of economic development usually indicated by the GDP growth rate. Third is the system of market governance and, in particular, the extent and stability of a free-market system…”.

RDE countries were chosen as they represent the premier class of emerging markets, attracting significant foreign direct investment and increasing levels of GDP. With this growth come such obstacles and hindrances as crime and corruption and the challenges that come with implementing effective corporate governance practices.

Consequently, the purpose of this paper is to determine whether corruption will be lower in RDEs that have higher levels of compliance to corporate governance standards. What sets this article apart from previous works is that the profiled countries represent RDEs specifically. This research holds value to the field of International

Business due to the aforementioned analysis of the degree of compliance with corporate governance standards as well as the extent to which these economies share similar characteristics. The paper concludes with a summary of the findings in the study as well as areas of future study with regard to corruption and corporate governance practices.

II. Review of Related Literature

Previous literature illustrates a strong relationship between corporate governance and corruption and suggests that in countries with high levels of corruption, firms do not demonstrate good corporate governance practices. Similarly countries with deficient corporate governance practices and low levels of compliance to these standards by firms breed corruption leading to a wide range of transparency dilemmas. [(Modigliani and Perotti (2000), Hellman et.al. (2000), Xun (2002), Wei (2000), LaPorta et.al. (2000), Kauffman and Wei (2000), Rose-Ackerman (1997), and Gambetta (2000)]. Hence, in order to be able to better grasp and systematically examine the relationship between the level of corruption and corporate governance processes in RDEs, it is important to integrate two strands of previous literature to this study, one on corruption and the other on corporate governance.

First, let's begin with corruption. Known as "suborno" in Portuguese, "huì" in Mandarin, and "bribery" in English, corruption has been a major deterrent to prospective multinationals in RDEs such as those identified on Boston Consulting Group's "Top 100 Global Challengers", which are profiled in this study: Argentina, Brazil, China, Chile, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Russia, Thailand, Turkey and United Arab Emirates as Brazil, Russia, India, and China (BCG, 2009). Commerce Secretary, Mickey Kantor, states that bribery and corruption represent the number one complaint of U.S. executives operating overseas (Blustein, 2007).

Gambetta (2000) explains the word 'corruption' in several different ways, but in an ethical sense corruption refers to humiliation of agents due to the deficiency of moral principles. According to Gambetta practices such as bribery or kickbacks are considered acts of corruption because of the virtues they display. In the practice of corruption, Gambetta considers the involvement of three agents rather than two, the 'truster', the 'fiduciary', and the 'corrupter'.

Hence, corruption is multifaceted. "There are primarily three different types of corruption: bureaucratic corruption where officials take bribes; political corruption where politicians take bribes using their positions of power; and grand corruption meaning misuse of public power by heads of states, ministers and top officials for private, pecuniary profit" (Osbourne, 1997, p. 10). Corruption may also affect other areas such as such as threats to defense and national security, environmental degradation, and dissatisfaction with the system of democracy. There are many forms of corruption including bribery, kickbacks, extortion, and embezzlement to name a few. Corruption is more prominent in countries where the anti-corruption laws are weak, such as emerging markets. Managers are more tempted to pay off government officials to get what they want to close the deal.

Causes of such corruption are often directly related to the level of development within the country. Emerging market countries typically have issues with poor economic policies, deprived civil society, low levels of education, and weak accountability of public institutions (World Bank, 1997a, b). Government contracts may be awarded to contractors who are unwilling or incapable of completing the work to comply with industry standards. This makes it hard for a country to grow and attract foreign direct investment if the infrastructure is not improving.

On the other hand, Kaufmann and Jin Wei (2000) suggest that in the past, political scientists pointed out that corruption may improve efficiency, especially in developing countries since it is related to bribery and gradually leading to "lower effective red-tape." Consequently, Kaufmann and Jin Wei label the theory as the "efficient grease theory". However, other scholars propose that with corruption come a variety of consequences such as negative economic growth, foreign and domestic investment and so forth. Shleifer and Vishny (1993) point out that a country's regulatory significance can be exploited by corruption. Similarly, in a World Bank study on Transition Economies, corruption is defined as the "Major institutional constraints on business" where conventionally, corruption is defined as the abuse of public office for private gain." (Hellman, Jones, Kaufmann, and Schankerman, 2000, p. 19).

Thus, previous studies find that corruption is a problem of governance. As a result, the second strand of previous literature in this paper is related to corporate governance. Cochran and Wartick describe corporate governance as an "umbrella term that includes specific issues arising from interaction among senior management, shareholders, board of directors, and other corporate shareholders" (Cochran and Wartick, 1988, p. 9). "Corporate governance ensures transparency, full disclosures and accountability of companies to all its stakeholders" (Fernando, 2009, p. 31). The importance of evaluating corporate governance becomes obvious when profitability is questionable due to disruptions in operations or having to incur additional unforeseen costs due to corruption. Corporate governance is 'typically perceived by academic literature as dealing with 'problems that result from the separation of ownership and control'. From this perspective, corporate governance would focus on: The internal structure and rules of the board of directors; the creation of independent audit committees; rules for disclosure of information to shareholders and creditors; and, control of the management (Fernando, 2009, p. 9, OECD, 1997).

Wu argues "corporate governance is among the important factors determining the level of corruption and shows that corporate governance standards can have profound impacts on the effectiveness of the global anti-corruption campaign." (Wu, 2007, p.152). Corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs (OECD, Wu, 2007). A result of such studies has suggested that private firms are entwined in the process as they take advantage of administrative corruption, become involved in public procurement kickbacks and state capture due to the economic implications of corruption.

Generally, in weak states controlling the bureaucrats is almost impossible thereby furnishing an effectual rule of law becomes impossible as well. All of these elements encourage the spread of corruption. The authors further argue that having a large state intervention in the economy but not acknowledging that corruption does in fact exist creates the enigma of 'state-capture'. The authors define 'state-capture' as "the effects of firms to shape and influence the underlying rules of the game (i.e. legislation, laws, rules, and decrees) through private payments to the public." (Hellman, Jones, Kaufmann, and Schankerman, p.1, 2000).

Xun (2002) finds that poor corporate governance standards contribute to the proliferation of corruption due to damaging the interests of investors and reducing existing transparency. Asset diversion, transfer prices and theft are all examples of preferential treatment of investors and insiders as a result of the corrupt practice of falsifying information. Inevitably, impaired investor confidence, exacerbated by inferior corporate governance standards and corruption negatively

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affects the operating performance, raises the cost of capital and reduces firm value.

Yet there are other components within the business practices of corporations that encourage corruption in RDEs. In a study entitled "Corporate Ownership Around the World," La Porta, Silanes, and Shleifer (1998) reference the 1932 archetypal, "The Modern Corporations and Private Property," written by Berle and Means, to show the ownership structure of widely held corporations of the United States. In the theory of Berle and Means, although the capital was separated between small shareholders, the control was still concentrated within the management. Despite the study being done for the United States' corporations, years later, this is still unequivocally the case within the corporations in RDEs. The component of ownership structure brings in the issue of shareholder rights as well as the issue of transparency.

Albeit Perotti and Von Thadden (1998) suggest that corporate transparency has both strategic advantages and disadvantages; in general the outcome of having transparency is usually positive. Perotti and Von Thadden look at transparency from a competitive position affecting market liquidity and cost information; however, when shareholder rights are considered, more transparency supports incontestable outcomes. La Porta, Silanes, Shleifer, and Vishny (1998) in "Agency Problems and Dividend Policies Around the World," suggest that shareholder protection and minority shareholders rights are not considered when there is less or no transparency and that the issue becomes the 'agency problem' between corporate insiders and outside shareholders. The interests of those who control the firm can differ from the interests of those who supply the firm with external finances. This problem is the principal agent problem that derives from the separation of ownership and control and from corporate outsiders and insiders.

Although there is no single model of corporate governance, the internal and external factors that influence firms together influence the creation of corporate governance systems. Usually the factors mirror specific market structures, legal systems, regulations, and cultural values. These factors affect the efficiency and profitability of the firms. Over the years many public and private entities attempted to establish standards and norms for bettering corporate governance practices.

Business practices and efficiency are greatly impacted by government policies towards crime and corruption. Although crime and corruption are present in every country of the world, they are quite prevalent in emerging markets, henceforth EMs, and RDEs. Dealing with corruption can be costly. The World Bank "warns that corruption is the greatest obstacle for economic and social development in developing countries" (Pacek, p. 492). "Agency problems arise within a firm whenever managers have incentives to pursue their own interests at shareholder expense" (Agrawal and Knoweber, 1996, p. 377). Undoubtedly, foreign direct investment would be adversely affected in areas in which crime and corruption were of great concern. Growth rates would also decrease as participation in world trade and exports decline.

RDEs share these same characteristics as emerging markets (EMs), but to a greater degree. EMs share the following characteristics with RDEs: rapid industrialization, modernization, privatization of state enterprises, robust private sector activity and entrepreneurship, liberalization of trade and investment, rapidly improving living standards, young population, and growing middle class with rising economic aspirations" (Cavusgil, 2007, p. 15). According to the Economist article, "The New Titans", such countries have a significant role on the global economy. These countries make up more than half of the world's population, roughly 43% of GDP on a purchasing power parity basis, and greater than a third of the world's energy

consumption and exports (and growing) to name some major components (Economist, 2006).

More countries are paying closer attention to corporate governance policies as a result of financial crises impacting countries to varying degrees on a global scale. Not having efficient corporate governance can decrease efficiency of operations, increase the cost of a company's funds, and open the door to more corruption.

"Nonetheless, the impact of corruption on business in particular and society in general is such that it diverts resources from productive to non-productive sectors, and makes a few rich at the expense of others…Apart from increasing risk and the cost of doing business, corruption damages investor confidence, stifles economic growth, and deters foreign direct investment. Although the incidence of corruption varies among countries, most studies have ascertained that corruption is detrimental to society and business" (Frisch, 1996, p. 68).

For example, Mauro (1995), Kaufmann (1997), Tanzi (1998), and Wei, (1997) have demonstrated that corruption does have a negative effect on economic growth, business development, public expenditures, and domestic and foreign investment (Zarb, 2007). "Firms under the influence of low quality government tend to have complex organizational structures, poor transparency and weak corporate governance" (Fan, Joseph et. al. 2010, Leuz and Oberholzer-Gee, 2006; Fan, Wong, and Zhang, 2009; Jiang, Lee, and Yue, 2010, p. 209).

Further studies (Klapper and Love, 2002) find a positive correlation between corporate governance structures and country level measures of investor protection. In addition, they suggest that it is crucial for firms located in countries with weak legal systems to adopt improved corporate governance practices. Since firms located in developing countries may have weaker rules, Black (2001) suggests that the corporate governance structures may have larger effects. Corporate governance is related to firms and firms from these EMs and RDEs set standards in the economies of these nations.

Corporate governance mechanisms as well as ownership structure, dividend payout, cost of external finance, and market valuations have been significantly impacted due to variations in home country legal structure and the laws designed to protect investors, according to a growing body of literature valuations [(La Porta, Lopez-de-Silanes, and Vishny (1999); Klapper and Love, (2002)]. In some countries, firms may decline specific provisions causing investor protection laws to be nonbinding. American Depository Receipts (ADR) issuing firms may improve the rights of investors through implementing additional provisions to facilitate increased disclosure, to institute more efficient and effective boards, and to enact disciplinary action to ensure the rights of minority shareholders. This type of protection and/or the responsibility towards the minority shareholders can be observed in the Anglo-American system of corporate governance, which is usually referred to as "outsider system" where there is dispersed ownership and dispersed equity markets. Although the "outsider system" encourages institutional investors to take part in the process, in this system the regulations are based on separation of ownership and control, the equity markets, and information disclosure to public (Clarke, 2007).

On the other hand, in western and eastern European as well as in Asia Pacific countries, the "insider system" dominates the scene where the system is a self-serving one in which there is evidence of a relationship based approach with concentrated ownership, bank finance, and representation of majority interest (Clarke, 2007). Hence, the agency problem is much more of an issue in this system. Although in most parts of Europe this system is evolving and becoming more converged and harmonized, in the EMs and RDEs family controlled pyramidal corporate governance

structures, and business networks still set the stage and create challenges for OECD standards of fairness, accountability, responsibility and transparency. However, it is also worth noting that there is a wide range of differences between corporate governance structures and standards in these countries depending on diverse social and economic circumstances.

III. Research Method

Two key variables were utilized in order to determine the influence of corruption on corporate governance standards in RDEs: the perceived levels of corruption present in the country as well as the standards compliance index rating. The Corruption Perception Index, henceforth CPI, values represent the time period of January to December of 2009 (Transparency International). The corporate governance factors to be examined in this study are compiled from a list of "12 Key Standards for Sound Financial Systems", which were developed by the eStandards Forum Financial Stability Foundation in 1999 in response to a need for a global set of best practices. These standards are divided into three areas: Macroeconomic Policy and Data Transparency, Institutional and Market Infrastructure, and Financial Regulation and Supervision. The Foundation monitors and reports economic, financial, and political conditions in countries across the globe to assess compliance utilizing the Financial Sector Assessment Program and Reports on Observance of Standards and Codes of International Monetary Fund the World Bank launched the same year. The Standards Compliance Index rating is converted to a numerical score or ranking in which higher scores represent the most compliance with these standards as reported by eStandards.

The process of a country implementing standards and codes is based on six categories: full compliance, compliance in progress, enacted, intent declared, no compliance, and insufficient information. The most desired category for any country to have is "full compliance" in which they have made all information public and transparent regarding each standard and the laws and regulations are enforced. The second most desirable category is "compliance in progress", which deems that the country has made the relevant standards into laws or regulations and are making enforcement a priority. Such information regarding these standards has been made publicly available and the country is working towards full compliance. Acquiring "enacted" status means that most of the principles of the relevant standards have been made publicly available and have been made into laws or regulations, however, enforcing these laws and regulations is lacking. The "intent declared" category means that the country has stated that it will take the necessary steps to comply with the compliance of these standards and declare them into laws or regulations. The "no compliance" category means that the country has not incorporated any of the relevant standards into laws or regulations and no enforcement exists. The final category is "insufficient information" in which there simply is not enough information publicly available to assess the level of compliance. (eStandards, 2010).

Based on these aforementioned categories, each country is given a score from 0 (representing insufficient information) to 10 (representing full compliance). To come up with an overall rating, the country is measured on the degree of compliance based on the following scale to come up with an overall rating: very high compliance 80-100, high compliance 60-80, medium compliance 40-60, low compliance 29-40, and very low compliance 0-20. This would enable countries with insufficient information to still obtain a financial standards index score with regard to the level of compliance with the standards.

The CPI values range from 0 (no corruption present) to 10 (rampant corruption), however, this rating was reversed to comply with the other variable, Standard Compliance Index rating. This

index ranges from 1 to 100 in which higher scores are desirable and represent the best performance. In the case of CPI, lower scores are desirable; therefore a score of 2.0 depicting little corruption was reversed to 8.0 and multiplied by 8.3 to be on the same scale as the standards compliance index.

IV. Research Findings

A majority of the profiled RDE countries have acquired "enacted" status: Argentina, Chile, Hungary, India, Indonesia, Malaysia, Mexico, Russia, Thailand, and Turkey. Acquiring "enacted" status means that most of the principles of the relevant standards have been made publicly available and have been made into laws or regulations, however, enforcing these laws and regulations is lacking. This is certainly a step in the right direction, but these countries need to do more to improve their level of compliance. There were no profiled RDE countries with "full compliance" or "compliance in progress" status. Developed countries are more apt to fit into these two categories: "enacted" or "intent declared". Acquiring either rating would certainly assist in making these countries more attractive to foreign investors. This study includes three profiled RDE countries that have "intent declared" status: Brazil, China, and the United Arab Emirates. The "intent declared" category means that the country has stated that it will take the necessary steps to comply with the compliance of these standards and declare them into laws or regulations. No profiled RDE countries fell in the "no compliance" category, however, one country from this study falls under the "insufficient information" category, which is Kuwait. This country does not have enough information publicly available to assess the level of compliance. Kuwait is nevertheless included in the study as it still obtained a standard compliance rating based on the information it did provide albeit rather low despite high inward FDI and a predicted 2.4% growth rate as reported by the International Monetary Fund for 2010. Kuwait is also included due to being identified as a "top global challenger" by the Boston Consulting Group for 2009 as previously stated. (eStandards, 2010). See Table I on the following page.

The profiled RDEs have the following Standards Compliance ratings in order from best performance to worst performance based on the aforementioned criteria: Hungary (60.83), India (58.33), Chile (54.17), Mexico (53.33), Thailand (50.83), Turkey (48.33), Malaysia (46.67), Indonesia (43.33), Russia (42.50), Brazil (37.5), Argentina (35.00), China (25.83), Kuwait (22.50), and the United Arab Emirates (20.83). Based on these ratings, each country is ranked with a numerical value denoting their level of compliance: high, medium, low, or very low compliance. The only profiled country acquiring a high compliance rating in this study was Hungary. Countries acquiring medium compliance include: India, Chile, Mexico, Thailand, Turkey, Malaysia, Indonesia, and Russia. Low compliance countries included the remaining countries: Brazil, Argentina, China, Kuwait and the United Arab Emirates. See Table I below.

The CPI scores for the profiled RDEs from least corruption to most corruption based on a scale from 1-10 as reported by Transparency International (2009) are: Chile (6.7), United Arab Emirates (6.5), Hungary (5.1), Malaysia (4.5), Turkey (4.4), Kuwait (4.1), Brazil (3.7), China (3.6), India (3.4), Thailand (3.4), Mexico (3.3), Argentina (2.9), Indonesia (2.8), and Russia (2.2), as shown on Table I below.

Table 1: Compliance and Corruption Data for RDEs

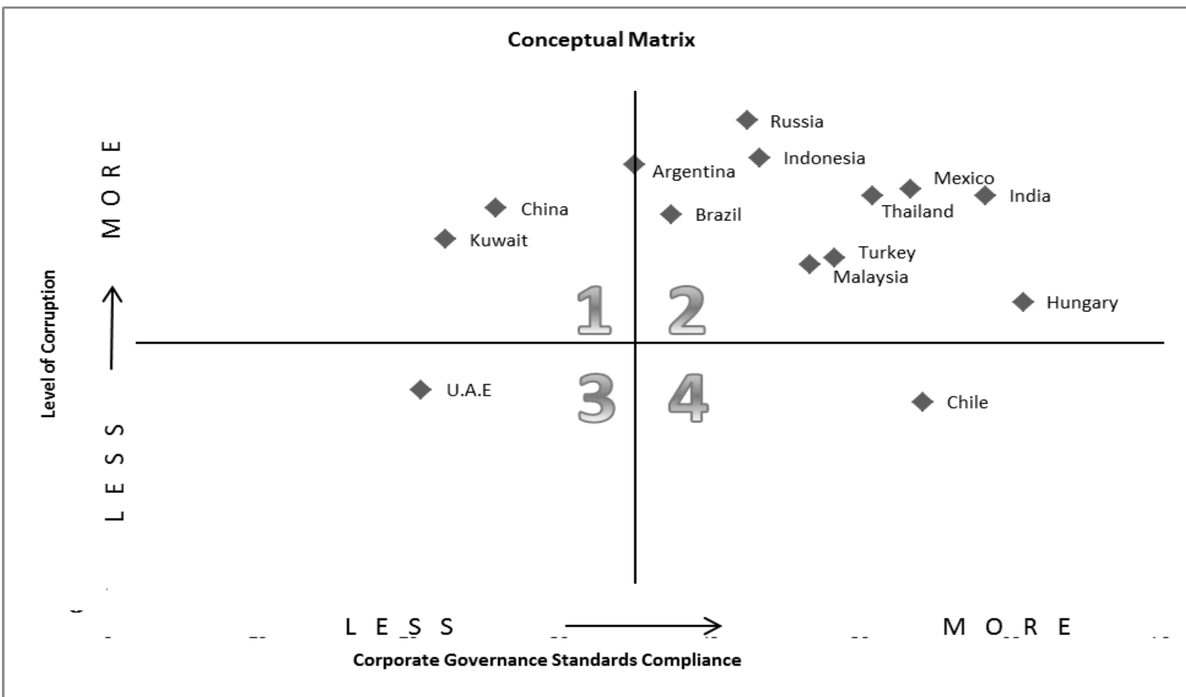
RDE	Compliance Level	Standards Compliance Index	Global Compliance Ranking	CPI	IFDI USD billion UNCTAD
Argentina	Enacted	35	61	2.9	4.90
Brazil	Intent Declared	37.5	55	3.7	25.95
Chile	Enacted	54.17	27	6.7	12.70
China	Intent Declared	25.83	70	3.6	95.00
Hungary	Enacted	60.83	11	5.1	-5.58
India	Enacted	58.33	18	3.4	34.61
Indonesia	Enacted	43.33	48	2.8	4.88
Kuwait	Insufficient Info.	22.5	73	4.1	0.15
Malaysia	Enacted	46.67	43	4.5	1.38
Mexico	Enacted	53.33	28	3.3	12.52
Russia	Enacted	42.50	49	2.2	38.72
Thailand	Enacted	50.83	34	3.4	5.95
Turkey	Enacted	48.33	40	4.5	7.61
U.A.E.	Intent Declared	20.83	78	6.5	4.00

This table depicts the level of compliance, the standards compliance index rating 1/100, global compliance ranking, CPI for 2009, and inward foreign direct investment for 2009 in billions of U.S. dollars.

An important goal of this study is to measure the influence of corruption on the level of compliance with the standards. Each country was plotted on the following matrix as a result of their Standards Compliance Index rating (eStandards, 2010) and the CPI score (Transparency International, 2009). This places each country in one of four quadrants in which comparisons and similarities may be drawn.

The most desirable quadrant to attain is Quadrant 4, held by Chile. This quadrant represents the most compliance with corporate governance standards and the least corruption. See Figure I below.

Figure I: Conceptual Matrix of the influence of corruption on Corporate Governance Standards Compliance



This matrix depicts the level of corruption (y axis) and compliance with corporate governance standards(x axis). The most desirable quadrant would be number 4 as it represents the most compliance and least corruption. On the other hand, the least desirable quadrant is number 1 as it represents the least compliance and most corruption.

Quadrant 1

This quadrant is characterized by having the most corruption and the least compliance with global standards and codes with regard to corporate governance thus making it the least desirable quadrant to be placed in. As illustrated in the above matrix, both China and Kuwait are in Quadrant 1. China holds “intent declared” status and Kuwait holds “insufficient information” status. Both countries have low compliance ratings. In China, a system of corporate governance has emerged as a result of enterprise, legal, institutional and regulatory reforms. In January 2001, the China Securities Regulatory Commission (CSRC) issued the Code of Corporate Governance for Listed Companies in China. Based on the "comply or explain" principle, the Code has “strictly followed” the Organization for Economic Cooperation and Development Principles of Corporate Governance. Revisions to the Company Law and Securities Law in 2006 have also strengthened minority shareholder rights and disclosure requirements for listed firms. The publication of the Basic Standard for Enterprise Internal Control in 2008, to be implemented over time, signals another important step towards enhancing corporate governance. However, highly concentrated ownership structure, the dominance of state-owned enterprises, and the resulting weak minority shareholder protection remain as major obstacles to develop a corporate governance culture in China. Lu et al. also noted that the gap between good and poor corporate governance among listed companies is significant. Various recommendations are being put forth to improve corporate governance in China, including speeding up share reform, shareholding diversification, reducing government intervention in state owned enterprises, improving minority shareholder rights, and enhancing board structure and responsibility. (eStandardsForum, 2009)

According to the IMF, Kuwait needs to address “serious gaps” with regard to corporate governance principles (2004), therefore, this country has been identified as having insufficient

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information to establish compliance with the OECD principles of corporate governance. This report recommended "strengthening minority shareholders' protection and raising awareness and understanding of standards of disclosure, governance, the liability of the Board of Directors, and the role of auditors" (IMF, 2004). The Central Bank of Kuwait's listed firms has been acknowledged as having adequate basic governance arrangements. The assessment also raised the possibility of amending the Commercial Companies Law. (eStandardsForum, 2009)

Quadrant 2

A vast majority of the RDEs hold Quadrant 2: Argentina, Brazil, Russia, Indonesia, India, Mexico, Turkey, Malaysia, Hungary, and Thailand. All of these countries have a medium or low compliance rating. Brazil is the only country with "intent declared" status, while all others have "enacted" status. Having enacted status may be a common component for this quadrant. This quadrant is characterized as having the most compliance with global standards and codes with regard to corporate governance however they also have high levels of corruption.

Argentina has achieved low overall compliance with international standards and codes and has "enacted" status. There have been serious concerns in the recent past about the independence of the Central Bank of Argentina and doubts about the accuracy of inflation data. Credible implementation of Argentina's comprehensive legal framework for fiscal transparency remains one of the country's top priorities since local accounting standards differ from International Financial Reporting Standards. In the area of corporate governance, the National Securities Commission mandated listed companies in October 2007 to annually disclose whether they comply with a minimum set of governance standards or to explain the reason for not doing so. (eStandardsForum, 2009)

Brazil has "intent declared" (ID) status and a low overall compliance with international standards and codes. The 2001 and 2009 reforms of the Corporations Law strengthened minority shareholders rights and improved standards for disclosure, with improved laws on tag-along rights, de-listing, non-voting shares, election of board members by minority shareholders and private arbitration. Brazil has also declared a "comply or explain" policy for all listed companies, however, weaknesses still persist. The concentration of control in the hands of a few shareholders and issuance of preferred or non-voting shares is prevalent, which to a large extent is due to the family controlled ownership structure. Other problems range from the poor functioning of boards, the disregard of minority shareholders' rights to the lack of adequate legal protection to investors. (eStandardsForum, 2010)

Russia has achieved a medium compliance rating and "enacted" status. It has also adopted a "comply-or-explain" policy. The European Bank for Reconstruction and Development (EBRD) had assessed Russian corporate governance legislation to be in "high compliance" with OECD Principles of Corporate Governance in 2004. However, it is important to note that there is still an exorbitant amount of state intervention in the economy and pervasive corruption in Russia, which creates a difficult obstacle to overcome with respect to improving the country's corporate governance as noted by the Institute of International Finance's 2004 Task Force Report on Corporate Governance. A significant regulation issued by the Federal Financial markets Service (FFMS) required listed companies to enforce the Code of Corporate Governance Conduct and publish financial statements that conform to the International Financial Reporting Standards in an attempt at improving transparency. (eStandardsForum, 2010)

Thailand also has "enacted" status and a medium compliance rating with a "comply-or-explain" approach. According to the Asian

Corporate Governance Association, the updated code follows recommendations by the World Bank and the OECD and that the overall practices were at a satisfactory level. Despite these improvements, however, it is still noted that the legal enforcement of the new codes remains a challenge. In March of 2006, a 2009 International Monetary Fund report emphasizes that the 2005 World Bank recommendation on shareholder protection should be implemented into securities laws and that the enforcement authority of the Securities and Exchange Commission should be strengthened. (eStandardsForum, 2009) Hungary is the highest performer out of all profiled RDEs holding "enacted" status as well as a high compliance rating. In its 2003 Corporate Governance Sector Assessment Project, the European Bank for Reconstruction and Development (EBRD) observed that corporate governance legislation in Hungary is in "high compliance" with the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance. A World Bank assessment conducted the same year confirmed that the Hungarian regulatory and legislative framework with regard to corporate governance is "robust." Two more EBRD reports published in 2008 strike a similar note, finding that the Hungarian capital market and corporate governance frameworks are in line with best international practice. Nonetheless key deficiencies identified by the reports remain, especially regarding the enforcement of corporate governance provisions. For instance, per the EBRD reports, while minority shareholders receive equitable treatment, the enforceability of minority shareholders rights, related party transactions and efficiency of redress actions are areas of particular concern. (eStandardsForum, 2009).

Malaysia has attained "enacted" status and is medium compliance with standards and codes. In the wake of the Asian financial crisis, steps have been taken to improve accounting transparency and corporate governance in Malaysia. According to the World Bank's 2005 Report on the Observance of Standards and Codes (ROSC) on corporate governance in Malaysia, the incidence of concentrated shareholding is very pronounced in the Malaysian market, particularly through pyramid structures. Furthermore, companies are usually majority-controlled by a small group of related-parties and managed by owner-managers. Weaknesses exist with regards to the overlapping authority of the regulatory institutions governing the: securities market, the government's high level of equity ownership, low free float, weak protection of minority shareholders, and directors' accountability. In this regard, it was advised to: enforce disclosure and reporting requirements in a continuous and consistent manner, to strengthen directors' independence and accountability to investors, and to enhance the role of institutional investors and shareholder activism in the corporate governance framework. (eStandardsForum, 2009)

Turkey has achieved a medium compliance rating and "enacted" status. Turkish corporate governance is characterized by concentrated ownership with family-owned company groups and cross-ownership between companies. While corporate governance in Turkey is improving, key issues remain as the ownership structure is still composited within the business groups (BGs) and the ownership is still pyramidal as well as consolidated within families, which are the primogeniture shareholders that dominate the decision-making process based on insider expropriation (Yurtoglu, 2000). However, a joint study conducted by Standard and Poor's and the Corporate Governance Forum of Turkey in 2008 found that the legal and regulatory framework in Turkey regarding corporate governance standards and their enforcement had drastically improved. Overall the EBRD finds Turkey's law on the books to be "generally good," but improvements are still needed, particularly in the areas of shareholder rights and the role of stakeholders in corporate governance. The report recommended that shareholders be enabled to participate more

effectively in meetings and that stakeholders be offered access to corporate information and specific independent committees. (eStandardsForum, 2010)

India has attained "enacted" status and is reported to be in medium compliance. The World Bank in its 2004 Report on the Observance of Standards and Codes (ROSC) on Corporate Governance practices in India acknowledged that considerable efforts had been made to reform the corporate governance framework and to improve the accountability/responsibility of insiders, fairness in treatment, board practices, and transparency. The establishment of the Securities and Exchange Board of India (SEBI) in 1992 has been described as the single most important event with respect to investor protection in India. However, significant weaknesses in the enforcement of provisions exist, particularly with respect to insider trading and related party transactions. This is, in part, attributed to some regulatory overlap between SEBI and the Ministry of Company Affairs. Other weaknesses identified include constraints to participation in Annual General Meetings and the need for corporate governance codes for unlisted companies. (eStandardsForum, 2009). In India, bank monitoring may also lead to less public transparency, which in turn encourages low level of trading liquidity and discourage aggregation of information by investors (Perotti and Von Thadden, 1998).

Indonesia also has "enacted" status and medium compliance and has been described as having an elaborate system of corporate governance rules. The ROSC notes that actual corporate governance practices in Indonesia often fall short of OECD's recommendations. Business culture in Indonesia is based on relationships rather than rules, largely as a result of the high incidence of concentrated ownership, family-owned businesses, a weak capital market, and controlling shareholders. It further advised establishing nomination committees and a cumulative voting system, ensuring disclosure and transparency in annual reports and financial statements, and improving the roles and responsibilities of the audit committees. A 2006 OECD report, "Implementing the White Paper on Corporate Governance in Asia" states that awareness of the importance of corporate governance has increased considerably in Indonesia. Regulations regarding roles of independent commissioners (supervisory directors) have been introduced to improve board practice and strengthen the protection of non-controlling shareholders. (eStandardsForum, 2009)

Mexico has achieved medium compliance and "enacted" status. According to the World Bank and the Institute of International Finance, major progress had been achieved by Mexico in establishing a successful structure and culture for good corporate governance. The World Bank rated most principles as either "largely observed" or "partially observed," indicating either only minor shortcomings or a legal and regulatory framework that complies with the principles, but suffers from diverging practices and a lack of enforcement. The country was cautioned that real progress in corporate governance has to account for the concentrated ownership and control structure of many Mexican firms. Mexican business environment is still characterized by concentrated ownership, interlocked boards of directors, inadequate insider trading enforcement, and an overall poor protection of minority investors. (eStandardsForum, 2010)

Quadrant 3

Countries in Quadrant 3 are characterized as having the least amount of corruption and the least amount of compliance to global standards and codes with regard to corporate governance. The United Arab Emirates (UAE) is the only profiled RDE country in this quadrant holding "intent declared" status and a low compliance rating. The United Arab Emirates Code of Corporate Governance was created by the Emirates Securities and Commodities Authority for listed companies in May of 2007. The Abu Dhabi

Securities Exchange, the Dubai Financial Market and the UAE Ministry of Economy have produced and circulated draft corporate governance guidelines and regulations. Corporate governance codes and guidelines are also promoted throughout the region. As the capital markets strengthen and mature in this country, the IMF is encouraging their authorities to "allow foreign investors to fully access the securities markets by removing restrictions on stock ownership and board membership. It added that the authorities should foster the public listing of large, quasi-public companies on the stock exchanges to help develop the market" (IMF, 2007). "A new Companies and Commercial Activities Law is expected to be introduced at the end of 2008, allowing 100 percent foreign ownership of companies in some sectors outside the free trade zones" (eStandardsForum, 2008).

Quadrant 4

This is the most desirable quadrant, which is characterized by having the least corruption and most compliance to global standards and codes with regard to corporate governance. Chile is the only profiled RDE in this quadrant attaining "enacted" status and a high level of compliance. According to a 2003 World Bank assessment of Chilean corporate governance practices, Chile scores well on the assessment on compliance with the Organization for Economic Cooperation and Development (OECD) principles. Nonetheless, certain weaknesses were identified and the World Bank made policy recommendations in three broad areas relating to legislative reform, institutional strengthening, and voluntary/private initiatives. The World Bank recommended amending the legislative framework to achieve greater transparency and strengthening the market surveillance mechanisms. Improvements in the general enforcement of investor property rights were also suggested. Ownership is highly concentrated and that minority shareholder dissatisfaction is "substantial", however, Chile has been taking initiatives to achieve greater convergence with international practices. Law No. 19,705 known as the Corporate Governance Law was introduced in 2000 with the main goal to protect minority shareholder rights in Chilean companies, especially during changes in corporate control. (eStandardsForum, 2008)

V. Concluding Remarks

Entrepreneurship is abundant and even thriving in RDEs despite obvious corruption and varying levels of compliance with corporate governance standards. The race to provide the infrastructure necessary for these businesses to prosper is well under way to ensure business efficiency. Assurances of safeguards to protect valuable assets of multinationals must be in place in order to continue to attract and retain foreign direct investment in these countries.

The Organization for Economic Cooperation and Development (OECD) and the Report on Observance of Standards and Codes (ROSC) on Corporate Governance practices advise many of the profiled countries to enforce disclosure and reporting requirements in a continuous and consistent manner, to strengthen directors' independence and accountability to investors, and to enhance the role of institutional investors and shareholder activism in the corporate governance framework (eStandardsForum, 2009). A majority of the leading firms in the profiled countries are family-controlled companies and have elaborate systems and rules governing their principles of corporate governance. The World Bank also suggests improving the effectiveness of implementation and enforcement of legislation and regulations to improve the corporate governance framework (eStandards, 2010).

Zarb's study found that a relationship existed between corruption, credible financial reporting, as well as government intervention (2007). This emphasizes the necessity of adequate

disclosure and accurate financial records to ensure transparency. According to Zarb, disclosure not only increases transparency, but also increases firm value which in turn increases stock prices and reduces agency costs. Therefore, Zarb asserts that increased disclosure levels may lead to increased credibility and less corruption (2007).

"Corruption is corrosive to development", as stated by James Wolfensohn, President of the World Bank (Gloster-Coates & Quest, p. 3). Year after year the World Bank and the International Monetary Fund have demonstrated the fact that corruption "deters investment and retards growth", which RDEs depend on (IMF, n.p.). The key findings of this paper clearly demonstrate a relationship between levels of corruption and their effects on corporate governance practices present in RDEs. Corruption has not been consistently lower in RDEs that have higher levels of compliance to corporate governance standards. Also, it was evident that RDEs, similar in many characteristics that endear them to such a term indeed cluster with specific regard to their level of such aforementioned compliance and levels of perceived corruption. The best way to maintain foreign direct investment to an already attractive location in terms of future growth, specifically RDEs, would be to find a way to safeguard their investments against corruption and enact effective and efficient corporate governance standards.

VI. Future Research

Future studies may involve researching the corporate governance structures of the leading firms identified as "Top Global Challengers" by the Boston Consulting Group, as well as, how the significance of these structures enable and/or sustain such growth. Furthermore, future studies may also probe the evolution of insider and outsider corporate governance systems in Eastern Europe or Asia, for example, and discuss the variations and differences in these structures as well as explore their standardization.

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