

The Value Added Efficiency and Corporate Governance within SAARC



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Abstract

The corporate scandals of 21st century have established the need for having corporate governance mechanism in place in order to be able to protect various stakeholders' interests. Consequently, many countries have responded to these pressures by working closely with international institutions such as World Bank, IMF and Organization for Economic Co-operation and Development by adopting codes of corporate governance. To mitigate the conflicts arising from separation of control and ownership, board of directors is known to be one of the internal corporate governance controls in place while external actors of corporate governance are various types of shareholders themselves.

The main objectives of the study are to explore various ownership structures and the board practices, their changing dynamics and to examine the impact these variables on the corporate performance measured as value added efficiency of corporate resources from four of the SAARC countries namely Bangladesh, India, Pakistan and Sri Lanka. This research uses data of listed companies in chemical and pharma sector for a period beginning 2010 and ending 2015. The study, based on the prior literature, uses selective ownership structures as external actors of corporate governance and selective attributes of Board of Directors to measure the internal corporate governance practices and uses Pulic's Value Added Intellectual Coefficient (VAICTM) model to measure value added efficiency of corporate assets.

The exploratory process reveals a thin improvement in corporate governance landscape over the six-year observatory period where Pakistan and India improved significantly while the corporate governance worsened in Sri Lanka. Variation of internal corporate governance practices has been also observed as certain companies within the region were found not adopting the codes of corporate governance while some entities stepped beyond the minimum requirements of the codes. Moreover, the regression results indicate that various ownership structures significantly impact corporate performance in most of the region. On the other hand, corporate performance is not significantly affected by the selective board practices as certain coefficients were found insignificant in various regions. This process was further repeated for firms of different asset sizes revealing little evidence of the impact of various corporate governance indicators on corporate performance.

These findings are important to practitioners as well as policy makers as it allows them to have an insight into the corporate governance practices within firms allowing them to make investments with care, finding deficiencies within the system and making recommendations such that an optimal corporate governance system is enacted.

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Chapter 1:Introduction

A list of corporate scandals in every sector exists where the managerial malpractices and misreported results led to companies declaring insolvency while management had to face legal consequences. The most prominent of those are Enron in energy sector and WorldCom in telecommunication sector. Financial firms such as Bayou Hedge Fund Group, Refco and Lehman Brothers were all forced to close down due to their fraudulent activities and malpractices. The corporate scandals did not just begin in twenty-first century but can be dated back to fifteenth century when Medici Bank failed to continue its operations after managers were motivated by the monetary benefits to take decisions that did not favor the Medici family. All these scandals have led institutions such as World Bank, Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF) and others such as Asian Development Bank come up with better techniques where organizations can be effectively managed and the malpractices by the management may be reduced at macro level (Coffee, 2005). In addition Kim (2001) stated that the crisis of 1997 in Korea was brought about by the crisis of 1997 in Southeast Asian countries and there was a dire need of rules and regulations to respond to these pressures. If reforms with support of international lending institutions are put into effect at domestic level, they can bring a dramatic economic change in no time. By now, many countries have implemented several rules and regulations and structured code of corporate governance that mitigates the irregularities. On the other hand, the benefits of implementing a sound corporate governance system in organization can be realized in terms of achieving better organizational performance and a viable

