THEORIES OF CORPORATE GOVERNANCE APPLIED TO STATE-OWNED ENTERPRISES

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ABSTRACT
The theories on corporate governance influence both the private and the public sector but need to be adapted to the context of implementation. The aim of the paper is to identify and present the main theories that influence the governance of state-owned enterprises (SOEs), providing the theoretical framework for future studies that analyze the application of corporate governance theories in the case of the mentioned organizations. The theories discussed in the current paper are the agency theory, the stakeholder theory, the resource dependency theory, and the institutional theory. The article focuses on SOEs since they have an important role in the economy, but the research on this topic is still scarce.

KEYWORDS: *governance, state-owned enterprise, theories.*

DOI: 10.24818/IMC/2022/01.15

1. INTRODUCTION

Corporate governance has started to be a priority on the agenda of policy makers, managers and stakeholders of companies operating in both private and public sectors, during the 1980s and 1990s when many British listed companies (Guinness, 1986, Polly Peck International - 1989, Maxwell - 1991, The International Trade and Credit Bank - 1991, Barings Futures - 1995, etc.) went bankrupt in a very short period of time, as a result of repeated fraud and financial abuse (Matei et al., 2015). As pointed out by Matei et al. (2015), it is not only the private sector that has faced financial failures and fraud, but also the public sector: the 1995 Metropolitan Police case - the Deputy Director of Finance of the Metropolitan Police stole over £5 million in the period 1986-1994; the 1997 Inland Revenue case - the head of the Inland Revenue's Number 2 office, which was responsible for investigating the taxes of foreign businessmen in the period 1987-1992, was accused and found guilty of fraud, taking bribes, spending family holidays paid for by certain businessmen, and receiving certain services in return for confidential information. The previously mentioned events are based on issues such as fraud or mismanagement in government departments, agencies, or other public institutions, highlighting significant concerns about the perceived lack of accountability, decrease of trust in public institutions, and the appearance of criticism of regarding (unjustified) salaries for senior managers (Hodges et al., 1996). Corporate governance provides the framework for managing an organization, focusing on stakeholder relations, control, and a strategic and holistic perspective. The need for governance is found at all managerial levels within an organization, not just in higher hierarchical structures (Muller, 2009:4).
State-owned enterprises (SOE) are defined as companies that are wholly or partially owned and control by the state (OECD, 2015). There is international diversity with reference to which entities

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should be defined or classified as "state-owned enterprises". Academic literature shows that, depending on country, different terms are used when referring to SOEs: government-linked companies (GLC) in Malaysia; state-owned enterprise (SOEs) in New Zealand, Germany, Italy, China; government business enterprises (GBEs) in Australia; state-owned companies (SOCs) in Norway; Crown corporations in Canada (Ciolomic et al., 2020). An important role of SOEs (regardless of taxonomy) is the provision of utilities and infrastructural industries development such as energy, transport, and telecommunications. Though, the survival of SOEs continue to face challenges emanating from poor governance, it is estimated that SOEs contribute to the word GDP by approximately 10% (Abang'a et al., 2020; Bruton et al., 2015).
The scope or main objective of the study is to review previous academic literature to identify the theories that influence the concept of governance in the case of state-owned enterprises. By doing this, we were able to contribute to existing literature with a structured overview of multi-theoretical frameworks that may be used by future researchers to explain and predict different aspects related to SOEs' governance. The article describes in the next section the research methodology, followed by findings and discussions section based on the most influential theories used in literature when approaching the governance of SOE. The article ends with a set of conclusions and future research directions.

2. RESEARCH METHODOLOGY

The main research question, correlated to the scope of the study is: What theories have the main influence on developing the concept of SOEs' governance? Another research question relevant to the current study is: How do the identified theories relate to governance of SOEs?
To achieve the main objective of the research and answer the research questions, qualitative research was conducted based on literature review. For the analysis, articles published in Web of Science (WOS) that mention "governance", "state-owned enterprises" and "theories" in the title, abstract and keywords were analyzed for the entire period available (1992 -2022). The search was performed in June 2022. We constrained the search to publications in English, we removed duplicates and reviewed the abstracts of the articles. The relevant sources were then fully read and divided into four categories depending on the theoretical framework, as follows: studies based on the agency theory, on stakeholder theory, on resource dependency theory and on institutional theory. There were also cases when studies also combined the mentioned theories. We then extended the article search by including other relevant sources identified as citations in the main set of analyzed articles.

3. RESEARCH FINDINGS AND DISCUSSIONS

3.1 Agency Theory

The concept of corporate governance was initially associated with and developed around agency theory. The main objective of the theory is to ensure accountability of managers who may adopt opportunistic behavior due to information asymmetry (Eisenhardt, 1989). This theory was developed in 1976 by Jensen and Meckling and assumes the existence of a conflict arising from the fact that the owner/shareholder (principal) is not the same as the one managing the firm (agent). The authors developed the theory starting from the idea formulated by Adam Smith in 1776, which said that when those who own the property and those who manage it are not the same, there is a potential conflict of interest between the two parties. In other words, their interests do not converge (Abang'a et al., 2020). Agency theory grounds its hypotheses on human behaviors: individualism, opportunism, consistent efforts to maximize one's own benefit, and influenceable decision-making behavior. Researchers such as Abang'a et al. (2020), Farinha and Viana (2009), and Nana Yaw

Simpson (2014), as well as international organizations such as the OECD (through developed corporate governance guidelines) propose primary and secondary control measures (Figure 1).

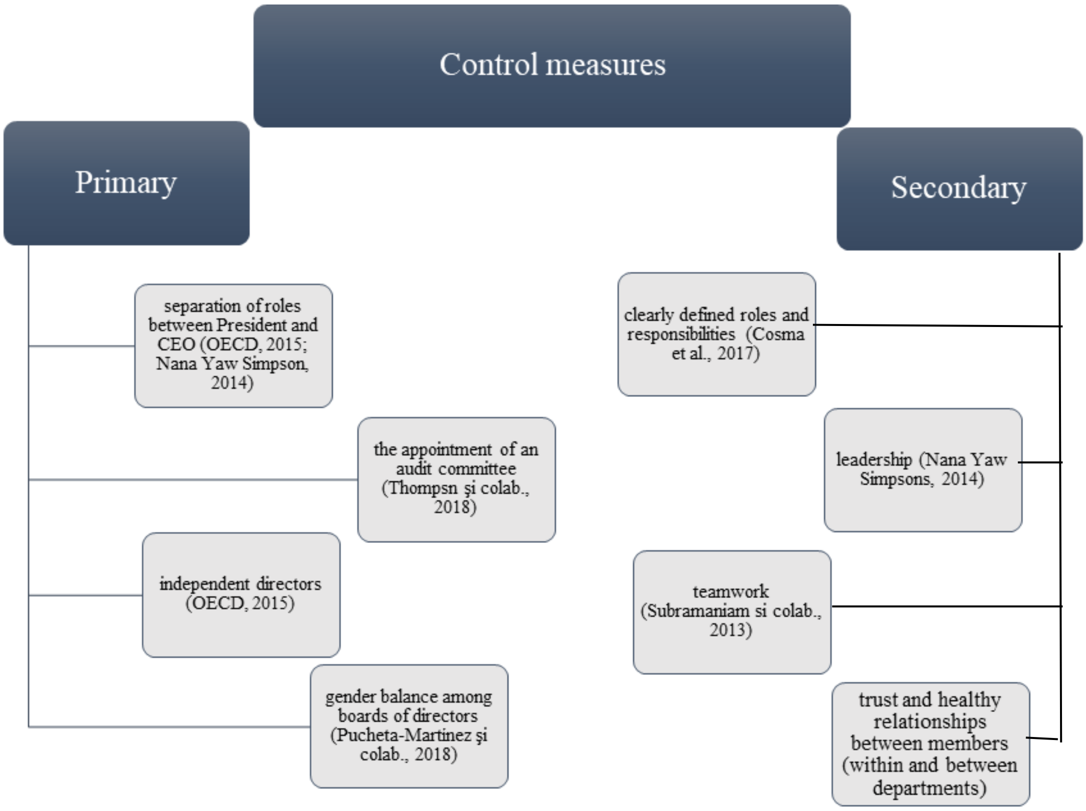

Figure 1. Agency Theory – control measures
Source: Author's projection

In state-owned enterprises the agent is represented by the board of directors appointed by the relevant government officials and the principal is represented by the citizens. However, unlike the private sector, citizens do not have a direct relationship with the SOEs board of directors, as it reports directly to the relevant cabinet Minister or Government. Changing the directors who do not meet the set targets is done by the responsible minister (Abang'a et al., 2020). For example, in Romania, which is under the presidential system of governance, citizens elect their president and members of parliament. The party whose presidential candidate receives more than half of the votes cast will form the governing coalition based on a government plan. The President appoints the Prime Minister on the proposal of Parliament, which gives him/her a vote of confidence. Government then appoints its cabinet secretaries, who have the mandate to appoint and dismiss the board of directors of state-owned enterprises. The members of the board of directors are in turn charged with appointing and dismissing managers.

3.2 Stakeholder Theory

While agency theory views the entity in the context that the manager serves only the interests of the owner, in stakeholder theory developed by Freeman in 1984, the manager serves the interests of any group or individual who may be or is influenced by the achievement of the organization's goals (Freeman, 1983). The stakeholder-oriented governance model attempts to balance the interests of stakeholders involved in the organization (Jackson, 2005). Abang'a et al. (2020) present three important approaches of Stakeholder Theory in their study (Figure 2):

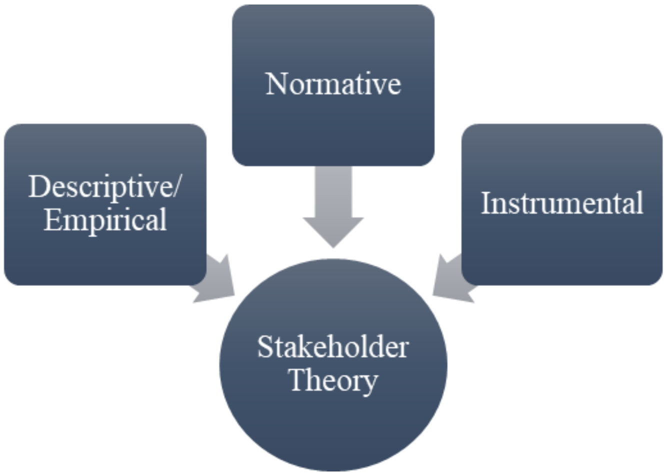

Figure 2. Stakeholder Theory – main approaches
Source: Author's projection

The first approach to stakeholder theory, descriptive or empirical, describes and explains the specific characteristics of entities and their behavior in relation to the quality of corporate governance (Donaldson et al., 1995). The second approach, the normative one, claims that all stakeholders have an intrinsic value, and no interested party has a priority of interests over others (Donaldson et al., 1995). The third category, the instrumental one, is the most popular among researchers who aim to measure the effectiveness of corporate governance (the relationship between attributes of board members and performance – Fahmi et al., (2017), between performance and corporate governance – Ntim (2013); Nerantzidis et al. (2017)). The theory of instrumental stakeholders assesses to what extent the management of the entity helps to meet the traditional objectives: obtaining profit and increasing/developing the entity (Abang'a et al., 2020).
When referring to state-owned enterprises, the stakeholders include customers, suppliers, employees, financiers, managers, but also the public, voters. Both international bodies (OECD – Corporate Governance Code) and researchers (Parmar et al., 2010) recognize the importance of interested parties' involvement. The stakeholders need information revealing the actions carried out by SOEs such as the timely publication of the annual reports as Parliament to exercise its supervisory role, the electorates need audited annual financial reports to assess the use of resources and performance level of the government, the financiers of the government (internal – citizens; external – International Monetary Fund, the World Bank) are interested in disclosing the performance of the government to promote trust among citizens and external partners (Abang'a et al., 2020; Martani et al., 2014). The guidelines on corporate governance of state-owned enterprises require governments and SOEs to recognize and respect the rights of stakeholders established by law or mutual agreements, and to report the relations with such stakeholders (Gnan et al., 2013). By meeting the different information needs of each interested party, state-owned enterprises can be judged favorably in meeting stakeholder expectations of good governance (OECD, 1999).

3.3 Resource Dependency Theory

The resource dependency theory was introduced by Pfeffer et al. in 1978, and according to this theory, the way of functioning of an organization is influenced by external factors. The theory is often used in studies aimed to understand the relationship between the organization and the environment, but the empirical analysis of its prediction is still insufficient (Dress et al., 2013). Wang et al. (2019) and Lioukas et al. (1993) state that independent directors who are politically affiliated are a source of funds for political activities as well as vital factors in accessing external funding. By applying the principles of resource dependency theory on state-owned enterprises, can be stated that corporate governance among SOEs will be influenced (positively or negatively) by the objectives set by the government, due to SOE's dependency on resources from the government in critical situations and the appointment of board members by the government (Abang'a et al., 2020). For example, if the government wishes to exercise an appropriate use of power, SOEs will respect the limits and act accordingly. Otherwise, if the government is corrupt, the enterprise will use the allocation of financial resources inappropriately to achieve this goal (Abang'a et al., 2020). Also, if the public enterprise decides to run the entity against the political force in power, then the allocation of resources can be used as a punishment to align the activities with the requested objectives (Lioukas et al., 1993).

3.4 Institutional theory

Institutional theory was developed by John Mayer in 1977 and claims that organizations can implement certain structures and mechanisms either as a reflection or as a response to the rules, beliefs and conventions created by some powerful forces as a condition to benefit from certain aspects such as vital survival resources (Meyer et al., 1977; DiMaggio et al., 1983). Institutional theory assumes three types of isomorphism (DiMaggio et al., 1983) (Figure 3):

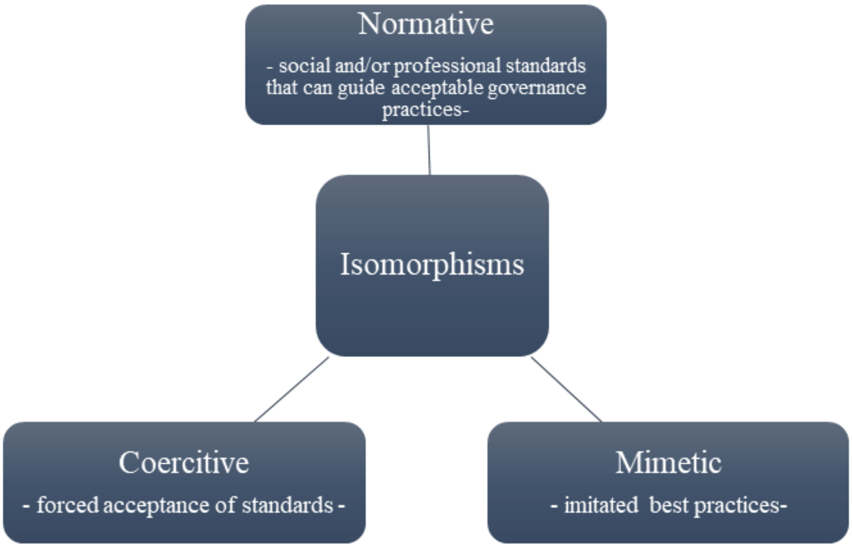

Figure 3. Types of Isomorphism – Institutional Theory
Source: Author's projection

From the perspective of state-owned enterprises, institutional theory proposes that these types of entities should use management systems and structures to obtain legitimacy and guarantee survival (Abang'a et al., 2020; DiMaggio et al., 1983). Normative isomorphism occurs where state-owned enterprises follow accepted norms and best practices established by international bodies such as the OECD. Coercive isomorphism is one in which the state prescribes control measures that influence the behavior of SOEs, such as efficiency in managing the entity to obtain transparency and accountability (Thompson et al., 2018). Rules, regulations or even statutes could be considered such control measures (Hoque, 2008). Mimetic isomorphism is the situation in which public enterprises can imitate similar practices (corporate governance codes) of another state-owned enterprises or similar organization (Thompson et al., 2018).

4. CONCLUSIONS

In the evolution of each research field, it is important to have a structured image of the field and to identify the main concepts that influence the research and practice. This approach can help researchers identify easily future research directions. Corporate governance as a research topic developed continuously in the last period. Comparing the literature on corporate governance in the private sector with the public sector, it can be observed a higher number of studies focused on the private sector, due to the earlier appearance of the concept of corporate governance in the sphere of the private organizations. But all entities, regardless of the sector in which they operate or their purpose, need governance. The quality of corporate governance in public enterprises is influenced by how those who hold management positions perform their duties aiming to satisfy the interests of the interested parties. The quality of SOEs' governance can vary from one situation to another. The theories of corporate governance presented in this paper create a theoretical framework for future studies related to this topic and highlight the main aspects that need to be considered when approaching SOEs' governance. These theories deal with aspects related to ownership, control, disclosure of information or accountability. The applicability of a specific theory of corporate governance is influenced by the context, by the specifics of the SOEs' activities and the involved stakeholders.

ACKNOWLEDGMENT

The publication of this article was supported by the 2021 Development Fund of the Babes-Bolyai University.

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