Towards mitigating conflicts of interest: An empirical study of typology of corporate governance systems including values

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Abstract

Conflicts of interest are still a major issue in corporate governance systems which concerned with the relationships between owners and top management. Despite the fact, there has been a considerable amount of attention towards a better solution to mitigate conflicts of interest, but the issue is still dubious due to the substantial corporate crisis are outlined. By carrying forward the previous research, typology of corporate governance systems including values, this study identified the research problem that is: “Lacking the justifiability of constructed typology of corporate governance systems including values towards mitigating conflicts of interest.” There were two sets of research data was analysed during this study. One is Doing business data: The World Bank group and the second set of data is Schwartz’s value survey to characterise multiple countries by their culture. The result of the study comes with an empirically justified the best possible corporate governance type including values towards mitigating conflicts of interest.

Keywords: Conflicts of Interest; Corporate Governance Systems; Ordinary Least Squares; Typology; Values

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1. Introduction

As a matter of fact, interest in corporate governance is now truly global (Hilb, 2016) reflecting the recognition by owners (Wahl, 2015) who are well concerned about the diverse and dynamic business environment and knowing what results they want to have from the corporations. On the other hand, conflicts of interest are still a major issue in different corporate governance systems, which concerns with the relationships between owners and top management (Cox, 2003). Therefore, traditional studies on corporate governance are conducted within the framework of agency theory, viewing the modern corporation as a nexus of contracts between principals (owners) and agents (top management) (Aguilera and Jackson, 2003). Unfortunately, conflicts of interest, still dubious due to the substantial corporate crisis, are outlined (Hilb, 2016). Furthermore, researchers have devoted a considerable amount of attention for a better understanding of the heterogeneity and homogeneity of worldwide corporate governance systems (Goergen, 2012). For an example, Banerjee and Wahl (2014) argued values are having significant impacts on different corporate governance systems and in order to stay sustainable under dynamic business environment, owners implement ownership strategies based on values (Banerjee and Wahl, 2016). Hence, Banerjee and Wahl (2017) constructed typology of corporate governance systems consisting three ideal types (I Missionary type, II Visionary type and III Actionary type) including values to enrich the available knowledge for the owners towards implementing will in the form of an ownership strategy. Nevertheless, the justifiability of the constructed typology of corporate governance systems including values (Banerjee and Wahl, 2017) towards mitigating conflicts of interest is still unclear. On the other hand, typologies are conceptual and have significant impacts on organisational outcomes (Miller, 1996; Sanchez, 1993). Such examples are Mintzberg (1992), Miles and Snow (2003), Burns and Stalker (1996) and Miller (1992). Nonetheless, every typology must be capable of refutation (Miner, 2000).

Now, based on the afore-mentioned discussion and arguments, this study has identified the research problem that is: “Lacking the justifiability of constructed typology of corporate governance systems including values towards mitigating conflicts of interest”. In this regard, two research tasks (T) were performed during this study, which are T1: To examine the influences of values on conflicts of interest. T2: To find out the best possible values corporate governance type including values towards mitigating conflicts of interest.

The aim of this study is to investigate whether three constructed ideal types of corporate governance systems including values (Banerjee and Wahl, 2017) fulfil its role as a best possible corporate governance type, towards mitigating conflicts of interest. The result of the study comes with an empirically justified best possible corporate governance type including values towards mitigating conflicts of interest.

The present paper is structured as follows. Section 2, “Theoretical framework” introduces the theoretical foundation of this paper. The first section of this section aims to give a precise overview of corporate governance systems. The second section of this section provides an explicit review of constructed typology of corporate governance systems including values followed by the characterisation of the constructed types. The last section of this section covers the theoretical background and overview of the reasons behind conflicts of interest in corporate governance systems. Section 3, “Research methodology: Data collection, analysis and results of the study” tells the philosophical considerations, research approaches, strategies,
choices, and time horizons. Used techniques and procedures of data collection and analysis are explained and showing the key findings from the empirical research. Section 5, “Discussion and managerial relevance” provides the compressed overview and the scientific contributions that the authors have made based on the research described in this paper. Section 6, “Conclusions” concludes the paper by describing the main insights, limitations and recommendation for the further research.

2. Theoretical framework

2.1. Corporate governance systems

Theoretically as well as practice, it has been presumed two basic systems of corporate governance: the first one is the Anglo-American ‘market based’: Global, which runs for the maximisation of shareholders’ profit, while the second one is the ‘relationship-based’: Local, which emphasises the interest of broader group of stakeholders. Though, it is still unclear which system of corporate governance is ideal? (Hilb, 2016) For that reason, Hilb (2016) introduced an enlightened system of corporate governance, which is known as ‘new corporate governance’: Glocal that integrates the supremacy of both (Global and Local) corporate governance systems. This particular system avoids the traditional question of which systems should be followed as a basis for corporate governance: the widely used, Anglo-American, shareholder-value approach or the stakeholder-value approach (Hilb, 2016) but unfortunately there are still worldwide corporate crises are reported.

2.2. Typology of corporate governance systems including values and characterisation of the constructed types

After analysing the Organisation for Economic Co-operation and Development (OECD) six empirical regularities of corporate governance (https://www.oecd.org/corporate/ca/corporategovernance/21755678.pdf) which are (1) Comply or explain with principles or codes (PC), (2) Defining audit functions and limits on auditors (AF), (3) Improving transparency (TR), (4) Defining and controlling conflicts of interest (CI), (5) Improving or easing voting; Greater role for annual general meeting and (6) Rule for independent directors (ID) and seven empirical regularities of values (Schwartz, 2008) which are (1) Harmony (HAR), (2) Embedded (EMB), (3) Hierarchy (HIE), (4) Mastery (MAS), (5) Affective Autonomy (AFF), (6) Intellectual Autonomy and (7) Egalitarianism (EGA), Banerjee and Wahl (2017) constructed the typology of corporate governance systems including values (Figure 1) focusing on Organisation for Economic Co-operation and Development (OECD) member countries. This typology contains three ideal types of corporate governance systems including values: I Missionary type, II Visionary type and III Actionary type.

The constructed typology shows three different types engaged different paths to achieve motivational based attitude towards societal behaviour and provides a new knowledge and consequently, broadens our understanding of the diverse phenomena of corporate governance and values (Banerjee and Wahl, 2017).
2.2.1. Missionary type (I)

Missionary type has become the representative of countries, which are Canada (CAN), Germany (DEU) and Switzerland (CHE) (Banerjee and Wahl, 2017).

The alternative model of multi-theoretic corporate governance that transcends the classic shareholder-stakeholder polarisation – enlightened shareholder value (Davis et al., 1997; Pfeffer and Salancik, 1978; Hilb, 2016; Scott, 1995) is represented by ideal type I Missionary. Furthermore, as long the values are concerned; Missionary type is very much keen to maintain values. The value items are: A world of beauty, a world at peace, protecting the environment and unity with nature, cleanliness, devotion, forgiving, honouring parents and elders, moderate, national security, obedience, politeness, protecting my public image, reciprocation of favours, respect for tradition, self-discipline, social order, wisdom, authority, humbleness, social power, wealth, ambitious, capable, choosing own goals, daring, independent, influential, social recognition and successful, enjoying life, exciting life, pleasure, varied life, self-indulgence, broadmindedness, creativity, curiosity, freedom, equality, helpfulness, honesty, loyalty, responsibility and social justice. (Banerjee and Wahl, 2017; Schwartz, 2008)

Focusing now on corporate governance, Missionary type reflected in various national corporate principles. Such as disclosed respect to the functions of external auditors and the second most important feature is improving transparency i.e. procedures for shareholders meetings should ensure that votes are properly counted and recorded and that a timely announcement of the outcome is made. (Banerjee and Wahl, 2017; OECD https://www.oecd.org/corporate/ca/corporategovernanceprinciples/21755678.pdf)

2.2.2. Visionary type (II)

Under Visionary type the individual countries are Belgium (BEL), Czech Republic (CZE), France (FRA), Italy (ITA), Japan (JPN), Korea Republic (KOR), Netherland (NLD), Sweden (SWE) and Turkey (TUR) (Banerjee and Wahl, 2017).
The stakeholder value model (Berle and Means, 1932; Freeman, 1984; Goergen, 2012; Hilb, 2016; Roe, 1994) is represented by ideal type II Visionary. Unforeseen, Visionary type failed to maintain values but is active towards the principles of corporate governance. For instance, Visionary type succeeds to managerial performance and achieves an adequate rate of return for owners. (Banerjee and Wahl, 2017; OECD https://www.oecd.org/corporate/ca/corporategovernanceprinciples/21755678.pdf)

2.2.3. Actionary type (III)

Countries under Actionary type are Austria (AUS), Australia (AUL), Denmark (DNK), Finland (FIN), Greece (GRC), Hungary (HUN), Ireland (IRL), Mexico (MEX), New Zealand (NZL), Norway (NOR), Poland (POL), Portugal (PRT), Slovakia (SVK), Spain (ESP), the United States of America (US) and the United Kingdom (GBR) (Banerjee and Wahl, 2017).

The shareholder value model (Alchian and Demsetz, 1972; Eisenhardt, 1989; Hilb, 2016; Jensen and Meckling, 1976) is represented by ideal type III Actionary. It is somewhat surprising that Actionary type could not succeed to come over comparison with Missionary and Visionary types in terms corporate governance principles and values. (Banerjee and Wahl, 2017)

2.3. Conflicts of Interest in Corporate Governance Systems

Agency theory (Alchian and Demsetz, 1972; Eisenhardt, 1989; Jensen and Meckling, 1976) is still the most popular theoretical approach behind conflicts of interest in the area of corporate governance, which concerned with the agency problem between owners (principal) and top management (agent) (Wahl, 2015). The dilemma in the relationship between top management and the owners is the central concern of the conflicts of interest (Gillan and Starks, 2003; Strier, 2005). Gillan and Starks (2003) described the need arises from the potential conflicts of interest among participants (stakeholders) in the corporate structure. While the agent (top management) has been asked by the principal (owner) to perform the managerial duty for profit maximisation, the agent may not act in the best interest of the principal once the complete contract has been signed. In practice, it is impossible to write such complex contracts, and they would be probably impossible to monitor (Goergen, 2012; Jensen and Meckling, 1976; Wahl, 2015). Berenbeim (1987) viewed potential conflicts of interest as ethical issues that corporations must solve.

3. Research methodology: Data collection, analysis and results of the study

There were two sets of research data analysed during this study. The first set of data is used from the Doing business data: The World Bank group, which was covered from the year 2004 to 2016 and provides business regulations and their enforcement across 189 economies. Each economy is ranked according to ten sets of indicators. These are combined into an overall “ease of doing business” ranking. Although this study has considered the only extent of conflict of interest regulation index that is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index ranges from 0 to 10, with higher values indicating stronger regulation of conflicts of interest. The World Bank
group (http://www.doingbusiness.org). The second set of data is used from Schwartz's value survey that was conducted from the year 1988 to 2007 to characterise multiple countries by their culture (Schwartz, 2008). In addition, 75 common countries to compile the both above-mentioned data set for further analysis.

Turning now to the experience of Microsoft Excel, PAST 3.10 and SPSS, firstly correlation matrix was exercised that presents with the correlations between all pairs of columns in multivariate data (Hammer, Harper and Ryan, 2001) among seven values (attributes) that were used by Banerjee and Wahl (2017) to construct the typology of corporate governance systems including values. The seven values attributes are Harmony, Embeddedness, Hierarchy, Mastery, Affective Autonomy, Intellectual Autonomy and Egalitarianism (Banerjee and Wahl, 2017; Schwartz, 2008; OECD https://www.oecd.org/corporate/ca/corporategovernanceprinciples/217555678.pdf). However, due to multicollinearity, this study used the variation inflation factor (VIF) which measures how much the variation of the estimated regression coefficients are inflated as compared to when the predictor variables are not linearly related (Hair, Black, Babin and Anderson, 2010). Following (Table 1) shows the results of variation inflation factor analysis.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>7.331</td>
<td>2.074</td>
<td>3.535</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>0.020</td>
<td>0.501</td>
<td>0.006</td>
<td>0.039</td>
<td>0.969</td>
</tr>
<tr>
<td>Affective Autonomy</td>
<td>1.219</td>
<td>0.518</td>
<td>0.585</td>
<td>2.354</td>
<td>0.022</td>
</tr>
<tr>
<td>Intellectual Autonomy</td>
<td>-0.782</td>
<td>0.838</td>
<td>-0.322</td>
<td>-0.933</td>
<td>0.354</td>
</tr>
<tr>
<td>Egalitarianism</td>
<td>0.397</td>
<td>0.665</td>
<td>0.147</td>
<td>0.597</td>
<td>0.553</td>
</tr>
<tr>
<td>Harmony</td>
<td>-1.282</td>
<td>0.769</td>
<td>-0.447</td>
<td>-1.666</td>
<td>0.100</td>
</tr>
<tr>
<td>Embedded</td>
<td>-0.065</td>
<td>0.587</td>
<td>-0.019</td>
<td>-0.110</td>
<td>0.913</td>
</tr>
<tr>
<td>Mastery</td>
<td>0.365</td>
<td>0.334</td>
<td>0.150</td>
<td>1.092</td>
<td>0.279</td>
</tr>
</tbody>
</table>

The variance inflation factor (VIF) is calculated, some of them between 5 to 10. This value is higher than 5, suggesting that they are highly correlated. From the result of variation inflation factor, the independent variables were selected which are as follows.

3.1. Independent Variables

3.1.1. Embeddedness

Embeddedness cultural values viewed people as entities. Meaning in life is expected to come largely through social relationships, through identifying with the group, participating in its shared way of life, and striving toward its shared goals. Embedded cultures emphasise maintaining the status quo and restraining actions that might disrupt in-group solidarity or the traditional order. Single value items: cleanliness, devotion, forgiving, honouring parents and elders, moderate, national security, obedience, politeness, protecting my public image, reciprocation of favours, respect for tradition, self-discipline, social order and wisdom. (Schwartz, 2008)

3.1.2. Hierarchy

Hierarchy cultural values rely on hierarchical systems of ascribed roles to insure responsible, productive behaviour. They define the unequal distribution of power, roles, and resources as legitimate and even desirable. People are socialised to take the hierarchical distribution of roles for granted, to comply with the obligations and rules attached to their roles, to show deference to superiors and expect deference from subordinates. Single value items: authority, humbleness, social power and wealth. (Schwartz, 2008)

3.1.3. Mastery

Mastery cultural values encourage active self-assertion in order to master, direct, and change the natural and social environment to attain group or personal goals. Single value items: ambitious, capable, choosing own goals, daring, independent, influential, social recognition and successful. (Schwartz, 2008)

3.2. Dependent Variable

3.2.1. Defining and controlling conflicts of interest

The predetermined dependent variable was conflicts of interest. The consecutive (Table 2) is presented towards defining and controlling conflicts of interest, based on the Doing business data: The World Bank group (http://www.doingbusiness.org).

To examine the influences of values on conflicts of interest and to identify the best possible corporate governance system towards mitigating conflicts of interest, this study used ordinary least squares. The under mentioned (Table 3) shows the result of the ordinary least squares analysis.
Table 2. Defining and controlling conflicts of interest

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of disclosure index</td>
<td>Review and approval of requirements for related party transaction</td>
</tr>
<tr>
<td>Extent of director liability index</td>
<td>Minority shareholders ability to sue and hold interested directors liable to prejudicial related party transaction</td>
</tr>
<tr>
<td>Ease of shareholders suits index</td>
<td>Access to internal corporate documents, Evidence obtainable during trial and Allocation of legal expenses</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation with reference to The World Bank (http://www.doingbusiness.org)

Table 3. Ordinary least squares

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>6.502</td>
<td>1.707</td>
<td>3.808</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>0.471</td>
<td>0.473</td>
<td>0.135</td>
<td>0.996</td>
<td>0.323</td>
</tr>
<tr>
<td>Embedded</td>
<td>-0.652</td>
<td>0.468</td>
<td>-0.194</td>
<td>-1.392</td>
<td>0.168</td>
</tr>
<tr>
<td>Mastery</td>
<td>0.226</td>
<td>0.296</td>
<td>0.093</td>
<td>0.763</td>
<td>0.448</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation based on empirical data with reference to Schwartz (2008), The World Bank (http://www.doingbusiness.org)

Ordinary least squares actually analysis the statistical correlation between one variable and a set of other variables. It is only the context of data analysis that infers the independent variables cause the variation in the dependent variable. (Hair, Black, Babin and Anderson, 2010) Since the fact, if the variation inflation factor (VIF) is closer to 1, showing as the factors are not impacted by correlation with other factors (Hair, Black, Babin and Anderson, 2010) the results of ordinary least squares exhibit that the independent variables Hierarchy and Mastery are going to increase the conflict of interest whereas Embeddedness is going to minimise the conflicts of interest.

4. Discussions and managerial relevance

Ordinary least squares revealed that I type (Missionary) is the best possible corporate governance type including values in terms of mitigating conflicts of interest. This result consolidated the idea of Hilb’s (2016) “New Corporate Governance” type Glocal that integrates the strengths of both shareholders and stakeholders.
The contribution of this study to scientific research is threefold. Firstly, in terms of theoretical contribution, this paper improves the understanding of the corporate governance systems and individual country’s motivational based behaviour at the societal level. Secondly, concerning the methodological contribution, the chosen research methodology captures the most up-to-date concepts in the differences of corporate governance systems. Thirdly, this study practically contributes to understanding that Missionary type is the best possible corporate governance type including values towards mitigating conflicts of interest.

5. Conclusions

The identified problem of this study is solved: after examining the influences of values on conflicts of interest this paper is presenting the best possible corporate governance I type (Missionary) including values towards mitigating conflicts of interest. The conducted research allows making a series of conclusions and recommendations too.

In conclusion, it can be stated that values are the driver behind the conflicts of interest in corporate governance phenomenon. As per Schwartz (2012) values are beliefs or thoughts that are associated with the desired effects or behaviours in specific situations persist and to direct the behaviour of people or events. It is obvious that owners know what results they want to have from the corporation in the long run and mitigate conflicts of interest. The research was enforced to find out the best possible corporate governance type including values towards mitigating conflicts of interest. Hence, this phase of the research empirically justified the best possible corporate governance type I (Missionary) including values towards mitigating conflicts of interest by analysing Doing business data: The World Bank group (http://www.doingbusiness.org) and Schwartz’s value survey (Schwartz, 2008). Values and differences in corporate governance systems across the world are part and partially related (Banerjee and Wahl, 2014). This paper states owners’ success by mitigating conflicts of interest depends only if they invest those same values.

The current research has few limitations to be addressed. In terms of research methodology, the number of observation is limited to perform the ordinary least squares. This paper reduced the risks in analysing multiple case databases. Throughout the study, multiple levels of data analyses were exploited. Despite these limitations, this study revealed findings that have both theoretical and practical significance.

Developing a new concept about how the constructed typology of corporate governance systems including values consisting three ideal types will help the owners to implement will in a form of an ownership strategy could be a future scientific problem to solve. Owners are distinctive and having their own will – their own ownership strategy and it is stated that beyond functional-, competitive-, and corporate strategy there is a fourth dimension, a level of an ownership strategy (Collin, 2001; Wahl 2015). In this field, it would be great to pursue the recommended future research to contribute in the area of available knowledge.
References


