Guest editorial

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Shareholder primacy corporate governance and financial market growth

Introduction

The OECD Principles of Corporate Governance (OECD Principles) are viewed by global financial organisations such as the IMF and the World Bank as the essential reference point for company law reforms in individual countries. The OECD and the global financial organisations claim that countries transposing the OECD Principles into domestic law and regulation will experience higher financial market growth. Whilst there are competing models of corporate governance around the world, the one promoted by the OECD Principles borrows heavily from Anglo-American corporate governance model, which focuses on shareholder primacy, and places emphasis on securing the rights of foreign investors. Critics have claimed that Anglo-American corporate governance encourages short-termism (that is, companies and their management prioritise short-term financial gains over long-term sustainable growth) and financial engineering (executives focus on increasing share prices through financial manoeuvres rather than increases in productivity). Whilst institutional investors exert pressure for shareholder value everywhere, the pressure to conform to the OECD Principles and converge on the practices of Anglo-American corporate governance is highest in developing countries. This special issue of *Corporate Governance: The International Journal of Business in Society* aims to find out whether those developing countries that have adopted the OECD Principles have, as a result, actually experienced the “promised” growth in their financial markets. The special issue also traces the development of corporate governance norms in other countries, identifying the factors which drive change and analysing their impact on firm level financial outcomes.

A total of 28 papers were submitted for inclusion in the special issue and, after a year involving multiple rounds of revisions and reviews, 12 papers were selected for publication (the accepted papers are set out in Table I). The papers can be divided into four broad themes: macro empirical analysis of legislation in sphere of corporate governance in one or more countries; panel data analysis of changes in corporate governance policies of a single country; empirical analysis of the linkage between corporate governance practices and investment flows in a single country; and empirical analysis of the impact of corporate governance models on the development or dynamics of financial markets.

The research published in this special issue contributes to our understanding of the actual contribution of corporate governance in generating financial market growth. It highlights the macroeconomic risks and potential of making far-reaching legal changes by transplanting foreign norms. As such, we hope that it will inspire the OECD and international financial organisations to take a more nuanced approach to corporate governance, drawing on the various extant corporate governance traditions, rather than simply adopting shareholder primacy corporate governance as a blueprint for the whole world.

The first article of the special issue “Convergence to shareholder primacy corporate-governance: Evidences from a leximetric analysis of evolution of corporate-governance regulations in 21 countries, 1995-2014” provides the foundation for this issue by analysing panel data on the evolution of corporate governance across 19 developing and 2 developed countries. The data have been collected from subject experts from each of the countries

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Table I

Author	Region	Topic
Navajyoti Samanta	Misc.	Convergence to shareholder primacy corporate-governance: Evidences from a leximetric analysis of evolution of corporate-governance regulations in 21 countries, 1995-2014
Navajyoti Samanta	Misc.	Transplantation of Anglo-American corporate governance and its impact on financial market growth: A comparative analysis of nineteen developing countries 1995-2014
Alikhan Abakanov and Abzal Temirbayev	Kazakhstan	Changes in Corporate Governance in Kazakhstan and its impact on financial market growth: An empirical analysis (1991-2017)
Shouvik Kumar Guha, Navajyoti Samanta, Abhik Majumdar, Mandeep Singh, Ananya Bharadwaj	India	Evolution of corporate governance in India and its impact on the growth of the financial market: An empirical analysis (1995-2014)
Ding Chen, Navajyoti Samanta and James Hughes	China	Does law matter? Changes in corporate governance in China and its impact on financial market growth: An empirical analysis (1995-2014)
Kohei Miyamoto	Japan	The evolution of the monitoring board in Japan: how the board performs a monitoring function in Japanese corporate governance
Stefanie Pletz and Joan Upson	The UK	The Normative Evolution of Corporate Governance in the UK: An Empirical Analysis (1995-2014)
Andreas Rühmkorf, Felix Spindler and Navajyoti Samanta	Germany	Evolution of German corporate governance (1995-2014): an empirical analysis
Navitha Singh Sewpersadh	South Africa	A theoretical and econometric evaluation of Corporate Governance and Capital Structure in JSE listed companies
Ruan Carlos dos Santos, Lidinei Éder Orso, Mônica Cristina Rovaris Machado and Antonia Márcia Rodrigues Sousa	Brazil	Foreign Investors? The Effects of the Property Structure and Legal System as Mechanisms of Corporate Governance in Brazilian Regulated Companies
Monika Rajput and Shital Jhunjhunwala	India	Corporate governance and payout policy: Evidence from India
Otuo Serebour Agyemang, Christopher Gbettey, John Gartchie Gatsi and Innocent Senyo Kwasi Acquah	Africa	Country-level corporate governance and foreign direct investment in Africa

using over 50 variables spread over a 20-year period. Each piece of data is given a score on a three-point scale, indicating whether a particular rule is compulsory, voluntary or absent. The data assembled in this article are then further interpreted in the seven articles that follow. This article clearly shows that the countries examined are converging on a shareholder primacy corporate governance regime, but that that convergence has slowed in recent years. The article represents an important step forward because it uses Bayesian methods to assign scores to particular corporate governance regulations and practices. This goes beyond all previous corporate governance impact research, which relies on classical statistical models, and allows for more reliable analysis.

The next article, entitled "Transplantation of Anglo-American corporate governance and its impact on financial market growth: A comparative analysis of nineteen developing countries 1995-2014" is a companion to, and follows on from, the first article. It uses Bayesian methods to ascertain whether changes in corporate governance had any impact on financial market growth in the developing countries investigated in the research. The article finds that shifting towards a shareholder primacy model in corporate governance has only a very small effect on growth of financial market in developing countries. Overall, financial and economic factors along with enforcement quality (which are controlled for) have much more impact on the growth of financial markets. This suggests that developing countries which want to foster financial market growth would be better advised to focus on these factors, and the article makes some suggestions in this regard. In addition, the analysis produced some other interesting results showing notable inter-country variations in impact, which required further country-level research, the results of which are set out in the next six articles.

Three of those articles explore the changes to the corporate governance regimes of Kazakhstan, India and China and their impact on financial market growth. "Changes in

Corporate Governance in Kazakhstan and its impact on financial market growth: An empirical analysis (1991-2017)" finds that transposing shareholder primacy regulations to the Kazakhstani corporate governance system has not yet stimulated high foreign investment flows and financial market growth. Similarly, "Evolution of corporate governance in India and its impact on the growth of the financial market: An empirical analysis (1995-2014)" finds that change in corporate governance in the direction of shareholder primacy has had little effect on financial market growth in India. Moreover, it highlights the gap between law in the books and law in action. Finally, "Does law matter? Changes in corporate governance in China and its impact on financial market growth: An empirical analysis (1995-2014)" finds that the changes in corporate regulation during the period have in fact made no statistically significant contribution to China's rapid financial market growth in recent years. Instead, it suggests, financial market growth was a result of high macroeconomic growth coupled with the unique political economy of China.

The next three articles focus on the evolution of corporate governance in three developed economies – the UK, Japan and Germany – and in particular on their rate of adoption of shareholder primacy norms. All three articles conclude that the corporate governance regimes in their countries are quite stable; there have been no major changes in the direction of shareholder primacy, nor have their comparative rankings in terms of how far they prioritise shareholder interests changed in the last two decades. This interesting finding shows that the developed countries, which are among the main practitioners of the major competing shareholder and stakeholder corporate governance models, have not shifted their stances in the last few years, despite the financial crisis and other macroeconomic changes.

After the macro country-based analyses, the contributions to this special issue then focus on the firm-level impact of corporate governance. "A theoretical and econometric evaluation of Corporate Governance and Capital Structure in JSE listed companies" examines 713 annual reports in an unbalanced panel of 130 Johannesburg Stock Exchange (JSE) listed companies from 2011 to 2016 and finds that corporate governance practices and firm-specific variables such as profitability, firm size and firm age have a significant influence on the capital structure decisions of JSE-listed firms. The study also finds that there are significant sectoral differences in the way corporate governance norms are implemented within firms, and that there is a set of governance attributes that are catalysts and/or inhibitors of leverage.

The penultimate article, entitled "Corporate governance and payout policy: Evidence from India" focuses on the impact of corporate governance on dividend policy in Indian companies. It examines the extent to which board independence has a moderating effect on dividend payouts within both widely held and family-controlled companies. It finds that corporate governance norms of board independence have a significant positive correlation with the decision to pay dividends and are an important determinant of the payout decision. It shows for the first time that family firms where the board is characterised by a high degree of board independence tend to make higher dividend payouts.

The final article of the special issue, entitled "Country-level corporate governance and foreign direct investment in Africa" looks at the impact of corporate governance on foreign direct investment across 40 countries in Africa between 2009 and 2015. This study finds that, among the 40 African countries sampled, there were more foreign direct investments in economies which provided better minority shareholder protection, ensured greater managerial accountability to investors and boards, and in which firms behaved more ethically. The article also suggests that a reduction in political interference in the affairs of companies may help in increasing inflows of foreign direct investment.

Directions for future research

The research in this special issue shows that corporate governance across developing countries have been converging on shareholder primacy. However, the impact of this on markets, as well as the rate of change, varies. While for large developing countries, changes to corporate governance do not seem to have much effect on financial market growth, for emerging and frontier economies better minority protection and rule of law does translate into higher foreign direct investment. More research is now required to isolate the factors which contribute to higher foreign direct investment in these countries; in particular, the co-evolution of corporate governance and financial markets in other frontier economies, especially in the Central Asia, Middle East and North Africa regions, is a subject worthy of more in depth study.