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Critical Evaluations of the Mechanisms Used by Multilateral Financial Institutions and the Organization for Economic Cooperation and Development to Curb Corruption Practices of Global Corporate Governance

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Abstract: The convergence of Global Corporate Governance has been as a result of global harmonization of international trade, transnational businesses, international accounting standards, international investments, financial markets and international capital markets. Within these remits, the globalization of corporate and administrative law has also promoted the growth of economic globalization on essential sections and sub-systems of international business activities especially in finance, financial institutions and markets and international businesses. Hansmann and Kraakman (2001) state: "that the pressures of further convergence on shareholders' models are now rapidly growing". Among the most important of these pressures is the recent dominance of a shareholder centred ideology of corporate law within businesses, governments and legal elites. Within the above framework of international principles, good Global Governance helps to create a better world through the activities of governments, intergovernmental networks and non-state-actors. These goals directly or indirectly help to curb corruption practices. At the same time, it is contended that good global corporate governance should demonstrate accountability, reliability, transparency and legitimacy. It is also considered that at the global level, various governments and their agencies have made frantic efforts to curb corruption within the global corporate governance practices. Significant of these institutions working to curb corruption practices of global corporate governance are the World Bank, the International Monetary Fund and the Organization of Economic Cooperation and Development. While the Multilateral Financial Institutions provide loans to Member Countries from their "Ordinary Capital Resources" and additionally, "Soft Window" Funds to the Developing Member Countries, the Economic Cooperation and Development, formulated the "Global Corporate Governance Principles" in 2004 which were aimed to promote best practice and improve good standards. As the World Bank and International Monetary Fund continue to promote good global governance, by strengthening the conditionality of their loans to governments and other institutions, each of them ensures that the borrowers conform with the principles of accountability to their stakeholders. Simultaneously, the borrowers must also demonstrate transparency and

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comply with the relevant regulatory requirements including legal, financial and other institutional reforms that will enhance the role of the markets and maintain sound and adequate capital capable of protecting the shareholders and enhancing the liquidity of the Institutions.

Key words: Global Corporate Governance; critical evaluations; economic cooperation and development

JEL codes: F33; F6

1. Introduction

Global harmonization of businesses and other organizations have expanded in recent years as such, their expansions have provided strong moves towards international convergences of global corporate governance. Contextually, international business links, governments and their agencies are also expanding the developments of their internationally comparable businesses, service practices and standards of their operations. In complementation with these public and private initiatives, it is further stated that the proliferation of international trade, foreign investments, international financial markets, increased international investments and the expansion of foreign subsidiaries have enhanced the growth and importance of global corporate governance (Keasey et al., 2009; Solomon, 2013). In this regard, transparency and accountability which are characterized by global corporate governance have been greatly acknowledged by international institutions and governments as evidence of good practice (International Chamber of Commerce, 2007; Allen & Overy, 2006; Monks & Minow, 2001).

Within this premise, global corporate governance addresses common global concerns through the activities of governments, inter-governmental networks, private sectors and other service organizations. The changing dynamics in the global, political, economic and social spheres brought about by globalization suggests that global corporate governance is not only about national governments and inter-governmental networks, but encompasses a broad, dynamic, complex process of interactive decision making systems (Freeman et al., 2001; Monks et al., 2011). As a result, the process of global corporate governance is constantly evolving and responding to changing circumstances. In doing so, it brings together a wide range of actors and partnership building for developing joint policies and practices on matters of common concern.

With the interdependence of nations, and institutions internationally, global corporate governance includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions have either agreed to or perceived to be in their interest. The formulated principles and convergences of various actors in enhancing good global corporate governance extend to the command or control mechanisms of governmental systems and private enterprises (Belke et al., 2005). Within this arena, it is considered that a broad based international institution such as the United Nations Organization should continue to play a central role in global corporate governance (Dietrich, 1998). In the same vein, the United Nations should serve as the principal mechanism through which governments collaboratively engage each other and other sectors in promoting and fostering the key constituents of the global corporate governance. With the United Nations centrally involved in fostering good global corporate governance, the principle of corporate governance will effectively create a better world through the activities of multiple actors establishing multiple policies and practices (Bantekas, 2006; Rezace, 2008; Alves & Mendes, 2004).

2. Global Corporate Governance and Co-ordination of Anti-corruption Practices

In some situations, corruption practices can be linked to bad governance or poor government decisions.

Within such arena, the global society is concerned to show an increased awareness of the need to curb corruption. Similarly, there is no lack of instruments, especially at national and international settings that are essential for use in curbing global corporate governance corruption practices (Cheng & Firth, 2005; Collier & Zamgn, 2005). Accordingly, in order for global institutional settings to be more effective, there should be sufficiently and effective enforcement mechanisms for implementing appropriate decisions on the policies and objectives of the international financial institutions regarding the monitoring operations within the global corporate governance practices.

In facilitating the monitoring processes so as to minimize corruption practices within the global corporate governance three issues need to be addressed. Firstly, how will the efforts and policy goals of the essential international institutions be measured in minimizing the corruption and its practices associated with global corporate governance, and if so, which of them will be co-ordinated? Secondly, is the United Nations Office on Drugs and Crime (UNODC) the appropriate institution to assume a leading role in reducing crimes and corruption? Thirdly, how can it be ensured that the voices of relevant sectors of society are heard and their participations sought, particularly, the developing countries or those nations that are classified as “Highly Indebted Countries”?

Within the principle guidelines of the UNOs it is argued, that the UNODC effectively collaborates with international, regional and bilateral agencies, as well as the Non-Governmental Organizations (NGOs) in providing technical assistance to state parties. The assistance that these Institutions provide is for the implementation of the UNODC’S policies on shared good practices and efficient strategies to fight international corruption relating to global corporate governance (Bantekas, 2006a; International Chamber of Commerce, 2007a; and Freeman et al., 2001a).

3. Major Institutions Involved in Curbing Global Corporate Governance Corruption Practices

The reforms and strengthening of national and international institutions and their systems are effective mechanisms in minimizing corruption practices within global corporate governance. These institutional systems and initiatives have also fostered the economic globalization of developmental sub-systems such as, international trade, the growth of capital, the speed of competition and increased demand for industrial outputs. Notwithstanding, the global corporate governance has been exposed to some corruption practices. A number of Countries, Institutions and International Organizations have established appropriate mechanisms to deal with national and international corruption practices. The Institutions that have been involved in minimizing corruption at global cooperate governance operational levels include mainly the Organization for Economic Cooperation and Development (OECD), the World Bank and the International Monetary Fund (IMF).

4. The Organization for Economic Cooperation and Development (OECD)

With the globalization of corporate governance and the impact of international corporate law (Gilson, 2000) on international institutions and their operational sub-systems, the Organization for Economic Cooperation and Development (OECD) has formulated the “Principles (2004)” of Global Corporate Governance with the mandate of Ministers of Member Countries of the OECD (Dignam & Gannis, 1999). The Principles have no legal powers on Member Countries. In expanding the importance of the Principles of Global Corporate Governance, the OECD stated that the revised Principles represent the structural relationships within the Member Countries. They also confer on the OECD the privileges of maintaining corresponding responsibilities with its core member states. The impact of the OECD's initiatives on global corporate governance has led to the establishment of "Joint Initiative Forum". As it is recognized, that the initiative has no legal powers, its setup constitutes a forum for several Regional and International policy makers to carry out useful deliberations, notably on global governance. The Forum has engineered numerous useful deliberations, which have often resulted to the promotion of the principles of good global corporate governance principles (Hansmann & Krasakman, 2001; Can Atacik & Javis, 2006). Also, the Forum offers the public and private establishments the scopes for the application of the "Principle-Based Approach Theory" into practice.

Although, no imposition of any legal, economic and cultural bindings are or envisaged on Member Countries' however, in its collaboration with the World Bank Group, the OECD' s Conclusions on the framework of the "Principles", were that the global corporate governance should promote transparency, accountability and efficient markets. The Principles should also be consistent with the International Administrative Law.

5. The World Bank Group

In connection with the minimization of corruption and its practices within global corporate governance, the World Bank and other global financial institutions enforce strictly their terms and conditions on financing substantial projects. In the case of Member Countries that are tainted with corruption and its practices (Kirkbride & Letza, 2005), the World Bank's framework on lending and procurement guidelines are also strictly adhered to. For example, the Bank has called for intensive audits on more than 450 firms and most of them had been debarred from carrying out the Bank's funded projects for periods lasting from a year to permanent disbarment.

With the strict guidelines on financing of projects the World Bank is considered as the most active of the three Multilateral Financial Institutions in curbing corruption both directly and indirectly (Alves & Mendes, 2004a). As a result, the Bank is validly acclaimed as the most important institution in playing a pivotal role in co-ordinating efforts with the global financial institutions to curb corruption practices. Consequent upon the effectiveness of the success of the framework on the Bank's approach to its lending guidelines which has resulted in curbing global corporate governance corruption practices, the World Bank has also been regarded as more prospective.

In conclusion, as the role of the World Bank is similar to that of the International Monetary Fund, the Bank sees corruption as a symptom of failed governance. However, the Bank addresses corruption directly. This is due to the fact that the World Bank's overarching mission is the reduction of poverty and the harmful effects of corruption on the poor in the society (Melis, 2005; Cheffins, 2003; Mintz, 2005).

6. The International Monetary Fund (The IMF)

The essential principle of the International Monetary Fund (IMF) is to promote good global corporate governance among its Member Countries. The IMF believes that poor governance provides scopes and incentives for corruption; hence it ensures that by promoting good governance, corruption will be combated (La Porta et al., 1999). However, the other aspects of good governance that the IMF appreciates is the adherence to the rules of Administrative, Civil and Criminal Laws as these help to improve the efficiency and accountability of the public and private sectors within the Member States of the Fund. The IMF also focuses on good global corporate governance and commends it if it is carried out effectively. While this is true, especially for developing countries, it must be accepted that good governance does not necessarily equate to less corruption. Nevertheless, a well-functioning civil service is generally cited as an example of transparency in good governance (Mallin, 2002a). Other principles of good governance clearly advocated by IMF include transparency in decision making and its implementation. Mallian et al. (2005) also argue that good global corporate governance encompasses efficient decision making, with Management instituting a clearly coherent system that will provide access to information, with relevant reporting procedures, good financial management and the recognition of the roles of various stakeholders.

7. Conclusion

In conclusion, it is considered that several issues have been attributed to thwart the effective minimization of corruption practices of global corporate governance practices. Among these causes are the lack of due adherence to law, regulatory systems and the absence of compliance with norms of international mutual assistance. In addition to these causes are the absence of adequate maintenance of human rights and ineffectiveness or lack of independent judiciary. It is also recognized that the actual tracing of stolen assets in many countries is extremely difficult to recover because of the mobility of wealth and sophisticated modes of laundering money. Finally, it should be noted that with the increasing bank secrecy no longer an obstacle to money laundering and investigations, this Paper strongly contends that efficiency, transparency, honesty and integrity should be immensely regarded as among the most desirable qualities and requirements that international financial institutions should uphold at all times in order to ensure the consistent maintenance of good global corporate governance.

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