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An Empirical Investigation of Corporate Governance-Corruption Relationship: A Global Perspective

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Abstract
The study focuses on the relationship between the corruption perception index and mechanisms of corporate governance. We focus on a sample of 130 countries that are included in the data provided by the World Economic Forum and Transparency International from 2006 to 2017. Current research provides empirical evidence that the strength of investors' protection and efficacy of corporate boards help control corruption and the country level. A panel regression model was used to examine the hypothetical relationships. The findings of the study suggest the negative relationship between the efficacy of corporate boards and the corruption perception index. Similarly, we found the negative impact of the strength of investor protection on the corruption perception index. Hence the results indicated that two of the above-mentioned corporate governance mechanisms i.e. the strength of investors' protection and efficacy of corporate boards help reduce corruption at the country level. The policymakers should continue to strengthen the legislation of corporate governance, and the management authorities should adopt corporate governance practices in the true spirit. Hence this paper contributes to existing research on corporate governance and corruption by taking the global perspective.
Keywords- Corruption perception index, the efficacy of corporate boards, the strength of investors' protection

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Introduction

Corruption acts as a harsh acid for society and it affects public trust deeply as well as it also causes harm to a private and public institution. The price of corruption is very high that it can damage the nation's economy, predominantly it shows the worse effect when corruption is exposed by the global market, and it reserves capital flow and investment. Effects of corruption have no boundaries and limits it touches all nature of business including small-medium size firms as well as giant global firms, whereas the damage may vary depending on the capabilities and resources to handle the cost and mitigate the corruption rate. It's been so powerful that it can terminate the firm and disturb the employee livings as they all depend on the firm's feat. (Liu, 2016)

Dealing and controlling corruption cannot be described by one single answer. It varies from firm to firm, in some cases, the organization itself acts as a source of corruption while others have been victimized by the act of corruption private sector is playing a more important role to solve the problem of a corporation. (Liu, 2016). Every firm follows their ways to control corruption some uses collective methods i.e. to eliminate the corporation together by acting all the important actions to rebuild the transparency of the business world, on the other hand, some organization use an ethical standard to deal with the government and earn the trust of the of employee and public. Mostly private sector focuses on corruption externally along with internally. Firms are now more aware to make sure to achieve internal trust and that no intentional or unintentional act of corruption is involved in the firm's operations.

To resolve the problem of corruption by internal measures is to develop a strong system of corporate governance. It is usually misunderstood that good corporate governance only maximizes efficiency, ensures sustainability, and increases capital but, it works as a tool of anti-corruption. Day-to-day transactions make it more problematic to give and hide the bribes. While taking decisions, corporate governance helps to create transparency of why and how the decision has been taken. However, it is ethical to provide strong corporate governance to the firm

To have the best approach to remove corruption it is important to have a clear understanding of the relationship between corruption and corporate governance. The accident of global crises shows how poor corporate governance leads to unnecessary risk-taking it is all because of no or less transparency, integrity, and accountability which permitted false acts and corruption to go unrestrained. Many cases show that the firm fails to respond effectively to these outcomes because they flop to align their mechanisms of anti-corruption and system of corporate governance. (Boateng et al., 2021; Goel, 2018; Liu, 2016; Tseng & Wu, 2016) Researches show the importance and significance of corporate governance and enhance our knowledge regarding demand other corruption whereas, the answer to the supply side of corruption.

Based on the above discussion current study focus on the relationship between corruption perception index and mechanisms of corporate governance. We focus on a sample of 130 countries that are included in the data provided by the World Economic Forum. Current research provides empirical evidence that the strength of investors' protection and efficacy of corporate boards helps control corruption and the country level.

Previously the concept of corporate governance has not been viewed on a large scale. It has an important part of the literature such as: investigating the relationship between corporate governance and firm performance. The current paper analyzes the concept of corporate governance and its impact on corruption at a macro level. Recently, the global attention of authorities is more attracted to the implementation of corporate governance to control corruption. To investigate how the corporate governance factor impacts corruption, some highlighted factors of governance are discussed in the literature like strong protection of investors and usefulness of corporate governance. From the above-mentioned issues, the current study inspects the impact of corporate governance on corruption. Hence this will enhance the knowledge and understanding of the relationship between corporate governance and corruption. The current study uses cross-sectional analysis and has the following contribution. In theory, it enhances and underlines the value of corporate governance in the organization and proposed a new thinking perspective to the mechanism of corporate governance. In performance, this study allows the performer to realize the importance of corporate governance to eliminate corruption. Further, the study supports the legitimacy of corporate governance.

Literature Review

Researcher suggests that the most important ingredient of corporate governance of the economy is the transparency that act (Mehrpouya & Salles-Djelic, 2019). Another researcher claims that crises of the Asian financial market cause damage to the investor trust but it also shows the lack of transparency and effective corporate governance in many Asian organizations and private firms (Jacoby, Liu, Wang, Wu, & Zhang, 2019). Bhatt & Bhatt, (2017) underline the fact that weak investor relations, poor corporate governance, and lack of transparency are the reason for the collapse of many Malaysian companies that are listed in the Kuala Lumpur Stock Exchange (KLSE). To achieve transparency and strong corporate governance Code of Best Practices has been established by listed firms, stock exchanges.

The collapses of the firms are mainly depending on the unsuccessful approach of the regulations that they are incapable to enforce the law and punish the criminals. Furthermore, the developing countries have a different dynamic than the developed countries, especially economically and politically (Schwab, 2018). African countries have a poor structure to implement the codes of corporate governance as they have a weak judicial and legal system, state ownership of companies, a relationship of interlocking with financial and government sectors (Agyei-Mensah, 2017). On the other hand, Agyeman et al. (2013) entitlement that the developing countries have all the possible laws to establish the corporate governance code but are unable to enforce it effectively.

Kiyanga (2014) has mentioned the IMF/World Bank’s report that shows the challenges of corporate reporting such as uneven legal provisions regulating corporate reporting, lack of enforcement of financial charges, poor system of accounting and training, and lack of auditing the report further prerogative that the quality of disclosure are now improving from last rare years even with these challenges However Agyemang and Castellini (2015) state that corporate performance becomes awful if there is lack of good corporate governance, especially in the state-owned organization.

Hypotheses Development

Strength of Investor Protection and Corruption

According to the researcher Çule and Fulton (2013), a country with a high level of governance has more chances to have a high impact of corporate governance because the country has the higher ability to obey the laws and regulation, bureaucracy at an adequate level and most importantly effective ways to control corruption all these factors allow the expected framework for the other business units. Protection of an investor is country-level governance i.e. the state owns and protects the rights of the investors including minor investors as well as, the state protects them from every kind of abuse and expropriation. OECD (2009), discussed the five gaps in his research based on future and current challenges faced by governance at the state level i.e. fiscal gap, information gap, policy gap, capacity gap, and administrative gap. It is the foremost duty of the government to safeguard the interest and well-being of all citizens.

Doidge et al. (2007) further added that financial development, investor protection by the state, and financial openness to the established firm are the key factors to implementing good governance. Another study shows that countries with corporate-level management reduce the worth of countries' firms with low investor protection (Klapper and Love, 2004). According to (Leuz et al., 2009) Foreigners are less likely to invest in companies that exist with insufficient external protections and disclosure, as well as ownership structures that encourage governance issues (Bajaher, Habbash, & Alborr, 2021). Based on the above-discussed literature it can be stated that the protection of investors has significant importance and thus it can increase the rate of investment in a country. With the help of strong protection of investor-state can establish a belief that it can prevent the act of corruption. The area of investor protection and economic growth has now become more eye-catching in the academic especially in the economic zone. It can be explained as the power to protect and expropriate the rights of shareholders of a minority within the law (Ozili, 2018). This argument to protect the investors is significant because it has rules and institutions that shield the moralities of investors which also reduce the power of an organization to have its control and it also alleviates the ability to influence accounting earnings as there is nothing to hide from an outsider (Leuz et al., 2006). Consequently, countries with strong investor protection push their managers to reveal more transparent financial data to avoid any risk of lawsuit ascending from screening significant data from the outsider, thus strong investor protection act as a warning for the management against the false earning as compared to the low investor protection (Ozili, 2019; Van Tendeloo and Vanstraelen, 2008). There are various studies available to explore the relationship between investor protection and corporate governance however a very few of them discussed the impact of investor protection and country-level governance (Rachisan, Bota-Avram & Grosanu, 2017). Investor protection from the perspective of corporate governance mechanism works as a key element to develop the market (Matoussi and Jardak, 2012). Moreover, there are few reservations in the mechanism of corporate governance at the state level that also influence investor protection (Agyemang, Osei-Effah, Agyei, & Gatsi, 2019). Hoque and Monem, (2016), studied the relationship between investor protection and corruption, results show that the strong protection of investors reduces the level of corruption. As discussed above there is much reason to believe that the strength of investor protection at the country level has impacted negatively on the corruption rate and the following hypothesis can be claimed.

H1: Strong investor protection tends to control corruption.

Efficacy of Corporate Boards and Corruption

The corporate board is a key internal element of the corporate governance mechanism that guides the management to protect the interest of shareholders in gratifying the mandate (Nasrallah, & El Khoury, 2022).

The incident of financial crises sifted the interest of researchers toward the corporate governance factors such as a board of directors mainly from the last decades as this financial meltdown also affected advanced economies. The corporate board efficiency is well maintained by (Francis et al. 2012). Scholars underline the importance of good governance at the state level and claim it as a crucial factor to improve the business environment. Researchers provide the impact of corporate governance and framework of business, it includes an assumption that bureaucracy at a moderate level, effective tools, and legislative compliance at a high level to control the corruption and thus recover the business atmosphere as same as economic condition Cule and Fulton (2013). In an identical manner. Good governance affects the transparency and performance of the firm which also increases the competitiveness of the business environment (Heinberg et al., 2021).

The efficacy of a corporate board is also related to anti-corruption. While investigating the impact of corporate board efficacy (Tseng and Wu 2016) found a positive impact on anti-corruption. Moreover, he presented a macro view of corporate governance by investigating at the country level. Boateng et al., (2021) investigated several factors of corporate governance including the efficacy of corporate boards and found a strong relationship with the anti-corruption campaign. Working on the above lines the current study tries to investigate the related corporate governance efficacy and corruption, claiming that:

H2: The efficacy of corporate governance help decrease corruption at the country level.

Variable Measurement and Data collection

The current study uses 2 hypotheses as mentioned above i.e. corruption and governance and data was collected from the year 2006 to 2017 for 130 countries. To measure the corporate governance two factors that are taken from GCI (Global Competitiveness Index) were used. 1st factor shows the board's efficiency as an outside shareholder, 2nd the protection of investors. The GCI has 130 pieces of economic data that have been proposed by thousands of business entrepreneurs and leaders around the world collected from the survey. The first question of the survey is about corporate governance stated that "Corporate boards in your country are (this survey allows the respondent to select from the range of 1-7 where 1 indicate management control and 7 indicate shareholder or outsider control)? Literature shows many studies that use corporate governance factors like board size, ownership, and composition of the board as a proxy to measure the effectiveness of corporate governance. Global Competitiveness Index (GCI) can measure the effectiveness of the board directly, on behalf of shareholders.

The 2nd factor is investor protection and it is measured on the scale of 0-10, it is as per the international sources that have been officially recognized by the World Bank. Investor protection is the combination of three indices i.e. the extent of the director liability index, the extent of disclosure index, and the ease of shareholder suit index. The range of index from 0 (no or little protection of investor) to 10 (higher protection of investor). The data was collected from corporate lawyers' surveys based on company laws, securities regulations, and court rules.

The Corruption perception index (CPI) is used to measure the independent variable. This index has a global worth to indicate the corruption in the public sector, it provides the data on country bases depending on the frequency of their corruption all over the world. CPI arranges 180 countries based on their degree of corruption as per the business and expert persons. The CPI is a composite and combines index as it covers many assessments and surveys of corruption, collected by a different institution. The CPI uses independent 13 surveys from the institution to develop the index concentrating in business and governance environment by using experts' advice and assessments. These surveys were not commissioned by Transparency International.

Moreover, strong reporting standards, protection of minority shareholders, and accountability of firms were taken used as control variables in the model. The data for all control variables were collected from the GCI database. Table 1 presents the variable names, brief descriptions, and sources of data. A statistical summary of the data here is shown in Table 2.

Table 1: Description of Variables

Variables	**Measurement**	**Source**
Corruption Perception Index	*Ranging from 0 to 100 with 100 representing the highest level of corruption*	**Transparency International** (2006-2017)
Efficacy of Corporate Boards	*Ranging from 1 to 7 with 7 representing the highest level of Boards Efficacy*	**Global Competitiveness Index** (2006– 2017)
Strength of Investor Protection	*Ranging from 1 to 7 with 7 representing the highest level of Investor Protection*	**Global Competitiveness Index** (2006– 2017)

Model Specification

This study specifies a model for choosing an appropriate model between the fixed effect model and random effect model several data analysis steps were taken into consideration. The models for the fixed and random effect of panel regression are mentioned as follows:

$$CPIN_{it} = \beta_{0i} + \beta_3 EOCB_{it} + \beta_5 SOIP_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$CPIN_{it} = \beta_{0i} + \beta_3 EOCB_{it} + \beta_5 SOIP_{it} + \mu_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Table 2: Statistical Summary of Variables

	Number of Observations	**Mean**	**Standard Deviation**
Corruption Perception Index (CPIN)	1557	45.473	20.731
Efficacy of Corporate Boards (EOCB)	1557	4.5374	0.979
Strength of Investor Protection (SOIP)	1557	5.2181	1.812

A panel of 130 countries from 2006 to 2017 was established. In the above table, descriptive statistics such as mean and standard deviation are provided. The mean of (CPIN) is 45.473 and the standard deviation is 20.7312 showing that that on average the corruption perception is below 50% however some of the countries may have a very low level of corruption, while others have very high. Furthermore, means of the rest of the variables i.e. (EOCB), (SOIP), (SOARS), (POMSI) and (EBOF) are 4.53, 5.21, 4.58, 4.19, and 4.10 respectively showing the corporate governance factors at the average level with the standard deviation of 0.97, 1.81, 1.16, 1.03 and 1.18 which is not very high.

Table 3: Unit Root Test for Stationarity

Variables	Method	Statistic	Prob.	Combination Order
Corruption Perception Index	Lev, Ln & Ch*	-7.8729	0.0000	
	I, Pesrn & Shn W-st	-2.1163	0.0172	1(0)
	A.D.F - Fsh Ch-sq	313.262	0.0105	
	P.P. - Fsh Chi.sq	360.678	0.0000	
Efficacy of Corporate Boards	Lev, Ln & Ch*	-70.424	0.0000	
	I, Pesrn & Shn W-st	-17.242	0.0000	1(0)
	A.D.F - Fsh Ch-sq	491.285	0.0000	
	P.P. - Fsh Chi.sq	421.145	0.0000	
Strength of Investor Protection	Lev, Ln & Ch*	-60.845	0.0000	
	I, Pesrn & Shn W-st	-13.714	0.0000	1(0)
	A.D.F - Fsh Ch-sq	388.059	0.0000	
	P.P. - Fsh Chi.sq	377.435	0.0000	

The above table 3 shows the results of the unit root test for the panel indicating that no issue of unit root exist which means that all the variables are stationary at level. The probability for all tests is below the threshold value of 0.05.

Influence of Corporate Governance on the Corruption Relationship

The two proxies of corporate governance were tested here in the model below i.e. Efficacy of corporate boards and the Strength of investors protection was tested using the panel regression model. In the panel regression model, we test both the random effect model and the fixed effect model however the results of the Hausman test suggested the appropriate model to be the fixed effect model. Table 4 shows the empirical results of both models.

Table 4: Empirical Results

	Random Effect		***Fixed Effect***	
	Coefficient	***P-value***	***Coefficient***	***P-value***
Efficacy of Corporate Boards	*-2.3676*	*0.000*	*-0.684*	*0.028*
Strength of Investor Protection	*0.0637*	*0.708*	*-0.115*	*0.000*

Constant	*33.024*	*0.000*	*39.537*	*0.000*
R2	***0.1386***		***0.93361***	
Prob. (F-stats)	***0.000***		***0.000***	

Dependent variable: Corruption Perception Index (CPIN)

Above table 4 shows the results for the panel regression using the fixed and random effect model. As mentioned above the model specified using the results of the Hausman test is the fixed effect model. The result shows that the two hypotheses mentioned in the hypothesis development section suggested a negative relationship with corruption. The results depicted in the table above shows that the strength of investors' protection is negatively related to the corruption perception index indicating an inverse relationship providing the evidence that strong protection of investor help decrease corruption. This result supports hypothesis 1 of the study. The above table also shows that the efficacy of corporate boards is negatively related to the corruption perception index indicating that the high efficacy of corporate boards helps control the corruption hence the H2 of the study was found to be supported.

Discussion

The current study focuses on the relationship between the corruption perception index and mechanisms of corporate governance. Current research provides empirical evidence that the strength of investors' protection and efficacy of corporate boards help control corruption and the country level. The findings of the study suggest a negative relationship between the efficacy of corporate boards and the corruption perception index. Similarly, we found the negative impact of the strength of investors' protection on the corruption perception index. Hence the results indicated that two of the above-mentioned corporate governance mechanisms i.e. the strength of investors' protection and efficacy of corporate boards help reduce corruption at the country level.
The first hypothesis of the study states that the strength of investors' protection is negatively related to the corruption perception index and the study findings support the hypothesis. The results are aligned with the existing literature. It can be explained as the power to protect and expropriate the rights of shareholders of a minority within the law (Ozili, 2018). This argument to protect the investors is significant because it has rules and institutions that shield the moralities of investors which also reduce the power of an organization to have its control and it also alleviates the ability to influence accounting earnings as there is nothing to hide from an outsider (Leuz et al., 2006). Consequently, countries with strong investor push their managers to reveal more transparent financial data to avoid any risk of lawsuit ascending from screening significant data from the outsider, thus strong investor protection act as a warning for the management against the false earning as compared to the low investor protection (Ozili, 2019; Van Tendeloo and Vanstraelen, 2008). As per the best of our knowledge, there are various studies available to explore the relationship between investor protection and corporate governance but there are very few researches that discussed the impact of investor protection and country-level governance (Rachisan, Bota-Avram & Grosanu, 2017). Investor protection from the perspective of corporate governance mechanism works as a key element to develop the market (Matoussi and Jardak, 2012). On the other hand, there are few reservations in the mechanism of corporate governance at the state level that also influence investor protection

(Agyemang, Osei-Effah, Agyei, & Gatsi, 2019). Hoque and Monem, (2016) studied the relationship between investor protection and corruption, results show that the strong protection of investors reduces the level of corruption. Hence the results of the study are well supported by the existing studies.

Moreover, the second hypothesis of the study claiming the significant impact of the efficacy of corporate boards on the corruption perception index was found to be supported and aligned with the previous works, discussed as follows. Scholars underline the importance of good governance at the state level and claim it as a crucial factor to improve the business environment. Researchers provide the impact of corporate governance and framework of business, it includes an assumption that bureaucracy at a moderate level, effective tools, and legislative compliance at a high level to control the corruption and thus recover the business atmosphere as same as economic condition (Cule and Fulton, 2013). Good governance affects the transparency and performance of the firm which also increases the competitiveness of the business environment (Heinberg, 2021).

The efficacy of a corporate board is also related to anti-corruption. While investigating the impact of corporate board efficacy Tseng and Wu (2016) found a positive impact on anti-corruption. Moreover, he presented a macro view of corporate governance by investigating at the country level. Tseng and Wu (2016) investigated several factors of corporate governance including the efficacy of corporate boards and found a strong relationship with the anti-corruption campaign. Working on the above lines the current study tries to investigate the related corporate governance efficacy and corruption, claiming that.

Conclusion

The study was aimed to investigate the impact of corporate governance mechanisms on corruption. We took two corporate governance mechanisms i.e. efficacy of corporate boards and strength of investors protection as the proxy of corporate governance and tested its impact on the corruption perception index. The data was collected for 130 economies from 2006 to 2017. We found that the efficacy of corporate boards and strong investors protection help reduce corruption levels. In sum, the influence of corporate governance factors is negative on corruption indicating that sound corporate governance can reduce corruption at the country level. Moreover, we can understand the value of corporate governance best practices as they help control corruption. This result supports the idea that countries having better governance have reduced level of corruption hence the countries with a low level of governance should take it seriously and pay attention towards good governance and forcefully implement the best corporate governance practices in the corporate sector which will reduce the level of corruption and will lead to better economic growth. Hence policymakers should continue to strengthen the legislation of corporate governance, and the management authorities should adopt corporate governance practices in the true spirit.

Limitations and Future Research

The study is limited to a different perspective. First, it took into consideration only two factors of corporate governance and tested their impact on corruption. More factors of corporate governance can be considered in future research to have a better understanding of the phenomena. Secondly, the data included in the study is for 130 economies and they are different in size, per-capita income, and other macro-economic factors. Hence a cross-comparison based on different macro-economic factors can contribute more in-depth to the current body of knowledge. The future researcher can also consider checking the interaction effect of other variables such as financial frauds, bribery, and other banking and financial crimes that can help provide a deeper understanding of the corruption studies at the country level.

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