Functional Convergence In Emerging Market Firms

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Functional convergence is the ability of firms to adopt 'best practices' of corporate governance, independently of home country. This study demonstrates firm-level changes in board practices of large emerging market firms (EMNEs) despite controlling ownership structures, and provides insights on the relationships between practices and ownership. A uniquely constructed cross-sectional dataset includes 81 Global 500 EMNEs, representing 14 countries. Convergence is evaluated using regression for individual board practices, and through an Index of Functional Convergence to Anglo-Saxon standards (IFCAS). The Index operationalizes wholesale, rather than individual adoption of practices, as a continuous rather than dichotomous process.

INTRODUCTION

This paper investigates the nature of functional convergence in emerging market[1] firms (EMNEs) ranked in the *Fortune Global 500, 2011 (*the *Global 500)*. Gilson (2001) defined functional convergence as the ability of firms to adopt 'best practices' independently of national legal structures. After significant liberalization, outward foreign direct investment (FDI) by emerging markets has grown in absolute and relative importance; EMNEs are critical global investors. I posit that functional convergence is occurring in globally competitive EMNEs, even as country-level reforms lag and controlling ownership endures.

EMNEs are theorized as overcoming institutional voids. These are broadly defined as less developed, inefficient or poorly-functioning institutional forms that exist in any type of market (Khanna & Palepu, 1997; Aulakh, 2007). This conceptualization contrasts the general assumption that developing countries would eventually base economic and corporate governance systems on the developed countries (see Denis & McConnell, 2003; Hermalin & Weisback, 2003). Reform has been slow.

Nonetheless, this study posits that EMNEs of the *Global 500* also adapt firm-level governance practices commensurate with a global standard, and evident in advanced country firms outside of the Anglo-Saxon countries. Importantly, adoption of best practices by firms is a response to global competitive environments, rather than to home-country conditions (La Porta et. al., 2000; Gilson, 2001). Firms in advanced countries including Germany, Japan, and Canada, arise in relatively stable institutional environments, yet are increasingly shown to adopt best practices toward Anglo-Saxon standards (Tusche & Sanders, 2003; Fiss & Zajac, 2004; Buck and Shahrim, 2005; Sanders & Tusche, 2007; Yoshikawa, Tsui-Auch and McGuire, 2007; Chizema, 2008).

To an extent, much research on functional convergence precedes global integration of EMNEs observed at present. Geiger (2008) notes a lack of empirical data on EMNE governance, particularly in terms of board structures. In 2000, EMNEs were 5% of the *Global 500;* by 2010, they were 19% and are expected to increase. This study employs a unique, multi-country dataset including 81 EMNEs identified from the *Global 500* (2011), representing 14 countries.

Using quantitative regression methods, I first evaluate functional convergence of individual corporate governance practices. I also develop a method consistent with theory, to test the likelihood of convergence to the set of practices, called wholesale adoption. This is operationalized through an Index of Functional Convergence (The Index), as a continuous rather than dichotomous event. The findings demonstrate differential convergence of practices and the importance of changes at the firm level. The Index highlights that although controlling ownership endures it does not impede changes in individual practices and is positively associated with the likelihood of wholesale convergence. State ownership is found to reduce that likelihood, but does not entirely limit convergence of individual practices.

Yoshikawa & Rasheed (2009, p. 402) contend that "what is truly important is to understand the underlying processes that facilitate, slow down or prevent" convergence. I propose that changes already underway in EMNE boards are evidence of functional convergence and their study sheds light on the role of firm-level mechanisms as drivers and impediments of convergence. This in turn, can inform our understanding of EMNE prospects for internationalization.

REVIEW OF FUNCTIONAL CONVERGENCE & HYPOTHESES

La Porta et. al. (2000: 20) described functional convergence as "decentralized, market-driven changes at the firm level". These changes in practice are occurring with greater regularity worldwide (Yoshikawa & Rasheed, 2009). The data indicate that even as country-level institutions persist, firms appear able to adopt differing governance practices, synonymous with a global standard. At the same time, firm practices may converge without significant structural changes in firms (Gilson, 2001; Coffee, 1999). Functional convergence has not been studied in the emerging market context, with the exception of Khanna & Palepu (2006; 2004).

Much functional convergence research evaluates changes in practices of corporate governance such as accounting standards and disclosure, and increased independent (outside) directors on boards (Yoshikawa & Rasheed, 2009). Previous data has not shown structural changes. Coffee (1999) interprets functional changes implemented in terms of practices, rather than structural changes, as bringing relative efficiency to the firm.

Notwithstanding, Hansmann & Kraakman (2001) posited that functional convergence would be evident in structural changes in firm-level mechanisms, as firms moved away from controlling ownership, and as adoption of board features consistent with Anglo-Saxon standards increased. This study focuses on those firm-level mechanisms, analytically distinguishable from country-level mechanisms, although boards of directors reflect country characteristics embodied in laws and institutions of corporate governance. Relatedly, concentrated ownership is a consequence of systems where legal conditions do not offer sufficient protection to public or minority investors (Coffee, 1999).

The Anglo-Saxon Model as Benchmark

Khanna & Palepu (2004) highlight the ascendancy of the Anglo-Saxon model as critical to defining 'best practices' globally. In practice, the model consists of market-centered mechanisms, embodying strong institutions and legal protection for diffused shareholders (shareholder model), and emphasizes competition, efficiency and transparency (Mallin, 2013; LaPorta et. al., 1997, 1999). Diffused ownership rather than concentrated ownership (defined as 51% or greater) is the norm. For board mechanisms, Anglo-Saxon standards include: relatively smaller boards, independent (outside) directors rising to the level of majority, and no CEO duality. In theory, the model provides a useful benchmark.

There is a general debate about the system, process, and end-point of corporate governance convergence (Yoshikawa & Rasheed, 2009). Jackson & Moerke (2005) note the "surprising extent" to which the system of the US and UK, the Anglo-Saxon model, remains the implicit baseline in corporate governance. The effort to codify and standardize corporate governance practice is embodied in the development of the Organization for Economic Cooperation and Development's (OECD) *Principles of Corporate Governance* (2004; 1999) (henceforth, *OECD Principles*). The *OECD Principles* (2004; 1999) incorporate Anglo-Saxon and European traditions, and give predominance to the former.[2] Mueller (2006)

questions the applicability of the Anglo-Saxon model particularly in emerging market context, ultimately arguing that it offers the best hope for the development of large equity markets.

Evidence of Functional Convergence and Prospects for EMNEs

The implications of global developments in corporate governance are significant for EMNEs, although mixed. EMNEs operate in environments that reflect persistence of institutional voids in home countries, although a number of emerging markets adopted codes of good governance and reforms (Aguilera & Jackson, 2003; Aguilera & Cuervo-Cazurra, 2004; Khanna & Palepu, 2006).[3] At the same time, EMNEs are subject to international governance standards and regulation as they internationalize. Functional convergence theory highlights the imperative of financial and global product markets in inducing adoption of Anglo-Saxon based practices, independently of home-country reform.

Functional convergence is evident in advanced country firms from Germany, Japan and Canada, although varying widely in sample characteristics (for a review see Yoshikawa & Rasheed, 2009). Bi-country comparisons indicate that German, Japanese and Canadian firms adopt Anglo-Saxon practices, including increased independent directors, accounting and disclosure standards, and executive stock options (Tusche & Sanders, 2003; Fiss & Zajac, 2004; Buck and Shahrim, 2005; Yoshikawa, Tsui-Auch and McGuire, 2007; Sanders & Tusche, 2007; Chizema, 2008). This is despite the strength of home country institutions.

Markarian et. al. (2007), consider 75 *Global 500* firms from advanced countries. The authors examine the effects of international markets on governance and disclosure practices, and show that large firms adopt Anglo-Saxon standards as the proportion of independent (outsider) directors increases on boards. Khanna, Kogan & Palepu (2006) construct aggregated country variables using firm-level survey data, and regress country-level indicators on the dependent variable. They report that countries are not driven by similarities to U.S. standards, but pairs of interdependent countries appear to converge to each other.

The emerging market context is under-researched in terms of functional convergence, with the exception of Khanna, Palepu & Srinivasan (2004) and Khanna & Palepu (2004). In the first study, Khanna et. al. (2004) report greater disclosure in firms from 24 advanced and emerging markets exposed to US capital markets. Alternatively, Khanna & Palepu (2004) demonstrate functional convergence through a case study illustrating inclusion of independent directors and use of global standards for evaluating director performance at Infosys, an Indian technology firm. They do not find that capital markets drive convergence.

The original proposition by Hansmann & Kraakman (2001) that convergence at the firm level should be evident in structural changes in boards of directors has been evaluated with focus on individual practices. As the landscape of firms evolves, this evaluation can include EMNEs. The first hypothesis is as follows:

Hypothesis 1. In emerging market firms, board practices are converging toward Anglo-Saxon standards.

Controlling Ownership: Driver or Impediment?

Controlling ownership by families and the state endures in the EMNE context. Ownership structure is a critical internal governance mechanism (Denis & McConnell, 2003). Hansmann & Kraakman (2001) argue that controlling ownership is incompatible with the Anglo-Saxon model and limits convergence. This is because private value extracted by controlling owners is a barrier to the evolution of efficient structures and governance practice.

In contrast, Shleifer and Vishny (1997) argue that good corporate governance systems can combine "appropriate" combinations of legal investor protections with some form of concentrated ownership. In their perspective, concentration balances agency problems that affect decisions of the firm, not directly dependent on board practices. Relatedly, in tracing the history of corporate governance in India, Khanna & Palepu (2005) do not find fundamental reason to support the view that concentrated ownership limits competitive activity.

Yoshikawa & Rasheed (2009) expose a gap in the study of functional convergence, in that the role of internal governance structures or the interplay between them has not been addressed. Markarian et. al. (2007) show indirectly that increased levels of independent directors precede adoption of other practices. Thus, at least one board practice may drive functional convergence. Theory has more to say about the influence of ownership on board structure, suggesting that ownership structure both limits convergence (Coffee, 1999; Hansmann & Kraakman, 2001) or influences firms toward increased convergence (Shleifer & Vishny, 1997; Khanna & Palepu, 2005).

Critically, empirical research indicates that controlling owners in firms from advanced countries influence adoption of some international standards. Tusche & Sanders (2003) find that controlling owners of German firms drive early adoption of governance reform. They evaluate implementation of stock-based incentive plans and adoption of transparent (i.e. international) accounting standards (GAAP or IAS) commensurate with the U.S. model. Bozec (2007) and Chizema (2008) the same for Canadian and German firms, respectively. The studies above do not find normative changes at the board level. However, I posit that controlling ownership may influence changes in board practices. Thus, a second hypothesis:

Hypothesis 2. Board practices in emerging market firms with controlling owners are likely to converge to the Anglo-Saxon model.

An important related issue is that the effect of ownership may be a function of categories of owners with differing goals. Two studies on German firms are noted. Fiss and Zajac (2004) evaluate types of ownership and owner espousal of shareholder value for 100 German firms. Owners espousing shareholder orientations tend to implement changes commensurate with Anglo-Saxon orientation, although actual change is limited (see also Yoshikawa & Rasheed, 2009). The decoupling may help explain later work by Chizema (2008) showing a positive association of institutional, dispersed, and state ownership on the adoption of more transparent disclosure practices in German firms.

In the emerging market context, families and the state are two important owners. The dataset used in this study includes family-owned firms (11%) and state-owned firms (62%). The general literature on ownership indicates that convergence in emerging markets is not evident, in part due to ownership influences. In India and China, ownership by families and the state has been identified as the crucial challenge to country-level corporate governance reform (Rajagopalan & Zhang, 2008). However, this is not enough to infer changes in firm-level mechanisms that may occur in response to global market demands.

Family-owned firms have become synonymous with diversified business groups tied to powerful families, particularly in the emerging market context (Tata Sauce, 2011). The United Nations Conference on Trade and Development (UNCTAD) defines diversified business groups of any origin as multi-sector firms for which a dominant sector is not identified. Relative to advanced country diversified firms, EMNEs appear "much more diversified and readier [sic] to blur the line between public and private" (Tata Sauce, 2011). The evidence on family ownership and diversified business groups controlled by families, and their effect on general economic activity is not definitive, nonetheless.

Filatotchev et. al. (2007) empirically demonstrate the heavy influence of controlling families on firm decisions. They find that high levels of family and domestic institutional ownership in Asian firms are associated with lower foreign equity commitments. At the same time, Khanna and Palepu (2005) contend that historically, only certain families in India benefitted from advantageous relationships with the state. Thus, family ownership is not the only determinant of business activity. Later multi-country research by Khanna & Yafeh (2007) finds diversified business groups can act as "paragons or parasites" within the same economy, suggesting further complexity.

The Challenge of State Ownership

The resurgence of state capitalism poses a critical challenge to corporate governance reform (Wells, 2009). China's EMNEs in particular, are primarily state-owned enterprises (SOEs) despite significant privatization and reform after 1993 (see Jefferson & Su, 2006 for a review). State ownership is highly

institutionalized and non-financial SOEs are governed by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council. The global prominence of Chinese SOEs and of SOEs across various emerging economies, challenges the view that state ownership, a symbol of inefficiency, failed during the last decades of the 20th century (Shleifer, 1998).

As state capitalism evolves Mussachio & Lazzarini (2014) find that states no longer simply own and manage firms, rather, they tend to be majority or minority shareholders, and indirect investors. New SOEs increasingly resemble non-state-owned counterparts. Such SOEs may adopt governance practices commensurate with global demands, although to a lesser extent, given the centrality of the state. It remains unclear whether corporate governance reform will happen independently of the state as conceptualized by Gilson (2001), or whether states will encourage independent reform by firms for its benefit. A third hypothesis is offered:

Hypothesis 3. Board practices in state-owned firms are less likely to converge to the Anglo-Saxon model, than non-state-owned firms.

Is Wholesale Adoption likely in the Emerging Market Firm Context?

Functional convergence research suggests significant change globally, but varying interpretation. Some scholars see changes observed as small deviations from home country systems that are not evidence of a larger phenomenon (Jackson & Moerke, 2005). Others highlight that individual changes in corporate governance practices should not be evaluated in isolation (Yoshikawa & Rasheed, 2009). Relatedly, much of the research has not shown definitively whether theorized drivers of convergence do in fact drive the changes observed.

In practice, firms use broad discretion in how they incorporate and design governance systems within and outside the bounds of institutional (national level) constraints (Jackson & Moerke, 2005). The hybridization view of convergence states that "pressures for corporate governance change can lead to hybrid practices that combine local practices with new models that are often imported from other institutional contexts" (Yoshikawa & Rasheed, 2009, p. 400). The view developed to explain growing heterogeneity of corporate governance in Japanese and German firms. Moreover, it reflects the reality that a monolithic shift from one corporate governance regime to another has not been observed and is unlikely (Ibid.). Thus, some EMNE practices may well converge toward the Anglo-Saxon standard, with varying characteristics, while others may not.

Theoretically, functional convergence rests on wholesale adoption of the Anglo-Saxon model, including changes in ownership and in board structures (Hansmann & Kraakman, 2001). Relatedly, Aguilera, Filatotchev, Gospel & Jackson (2008) argue that the core of the Anglo-Saxon form of corporate governance rests on what they call "complementarities". These are a key set of features necessary to the overall efficiency of the whole system. They may include, as an example, independent directors, information disclosure, and takeover markets.

It is noted that Aguilera et. al. (2008) incorporate internal and external mechanisms into their example of complementarities; their intent is to highlight a critical impediment to convergence. Nonetheless, I argue that the core of the definition implies that ownership, board structures and cross-listing form a critical firm-level set of complementarities. Convergence theory posits that they should convergence simultaneously toward the Anglo-Saxon standard to attain the most efficient system of governance.

The possibility of wholesale adoption has not been evaluated so far, in terms of a set of practices although it is evaluated in terms of dichotomies. Individual practices are evaluated to determine whether they have shifted to the Anglo-Saxon standard or not. This dichotomy may not be apparent in the EMNE context, particularly because corporate governance reform is a recent undertaking. I suggest a conceptualization where changes in some practices may indicate a move toward Anglo-Saxon standards that is not at present wholesale, but depends on all practices moving toward standards. In this view, hybridization may be an interim stage. Even Yoshikawa & Rasheed (2009) note that only time will tell whether Hansmann & Kraakman (2001) were "merely premature". The final hypothesis is:

Hypothesis 4. In emerging market firms, firm-level mechanisms are converging wholesale toward Anglo-Saxon standards.

DATA

Emerging market firms are identified through the *Fortune Global 500* (2011); the sample includes 95 firms from 12 emerging economies and two developed economies where "non-national" EMNEs,[4] Arcellor-Mittal (India/Luxembourg) and Anglo-American (South Africa/UK). The resulting dataset consists of 81 firms from 14 countries: Chinese companies dominate with 61 firms; Brazil, Russia and India are proportionately represented with seven to eight firms. Twelve companies represent 10 other emerging economies. Summary statistics appear in Table 1 and are described below.

TABLE 1
SUMMARY STATISTICS

Variables	Variable Name	Expected Sign	Mean	Standard Deviation	Minimum	Maximum
Index of Functional Convergence to Anglo-Saxon Standards	IFCAS	Dependent	2.30	0.98	0	5
Ownership						
Controlling	CTL	Indeterminate	0.75	0.43	0	1
State owned	SOE	-	0.62	0.49	0	1
Family owned	FAM	Indeterminate	0.11	0.32	0	1
Board Composition						
Board Size (# of Directors)	BSZ	Indeterminate	10.74	2.81	4	18
Majority Independent	MAJ	+	0.16	0.37	0	1
Independence (%)	IND	+	22.43	25.18	0	77
Non-executive non-independent (%)	NXI	-	19.92	25.98	0	100
CEO Duality	CEOD	-	0.36	0.48	0	1
Global 500						
Years on Global 500	G500	+	4.64	2.24	1	7
Rank[a]	RANK	-[§]	246.73	134.26	5	496
Revenues ($ '000 of Millions)	n.v.[b]	not used	51.29	44.84	19.66	27.34
ln Revenues	REV	+	10.64	0.58	9.88	12.52
Profits ($ '000 of Millions)	PFT	+	4.39	6.17	-3.76	31.90
Listing						
Domestic	$LIST^{Dom}$	+	0.70	0.46	0	1
NYSE	$LIST^{NY}$	+	0.14	0.35	0	1
OTC Pink	$LIST^{OTC}$	-	0.30	0.46	0	1
Controls						
Age (years)	AGE	Indeterminate	47.65	44.63	0	205
Size (ln # employees)	FSZ	+	11.61	1.13	8.82	14.33
Chinese EMNE	CHI	-	0.59	0.49	0	1
Petroleum	PET	-	0.26	0.44	0	1
Diversified	DIV	-	0.12	0.33	0	1
Financial	IIB	+	0.17	0.38	0	1

Source: The dataset was compiled using Fortune.com, as well as company documents and websites.
Note: a) As rank increases, rank number decreases; b) No variable (n.v.) was designated for Revenues as reported by Fortune. The normalized variable was used.

Fortune ranks firms by revenue earned in the preceding year, and provides data on profits, chief operating officer (CEO), headquarters, stock ticker if listed in the NYSE, number of employees, and government ownership. Company documents are used to determine ownership and board structures, in terms of size, CEO duality, director function and independence. To obtain additional data or for cross-referencing, the databases *BoardEX* and *Morningstar*, and publications such as *Bloomberg BusinessWeek* are used.

Dependent Variables

Functional convergence holds that firms adopt governance practices synonymous with a global standard. The set of practices evaluated include: ownership concentration and types (state or family); board structures based on relatively smaller boards, percent of independent directors, and no CEO duality; and cross-listing in the NYSE . Ownership is a marker of internal governance but separate from board practices; Controlling ownership (CTL) takes a value of one (1) if control is 51% or greater.

Individual Corporate Governance Practices

Board size, director independence and CEO duality are evaluated. Board size (BSZ) is based on number of directors, although size is not absolute. A report by *GMI Ratings* and *The Wall Street Journal* ("Board Size", 2014) suggest small boards have 9.5 directors; large boards have more than 14 directors. Recent studies suggest that board size varies with the firm's risk profile and strategy needs (Nakano & Nguyen, 2012; Coles, Daniels & Naveen, 2008).

Board independence is defined as the percent of independent directors on the board. Outside directors exercise independent judgment in conflict-of-interest situations and should be the majority (Mallin, 2013). Convergence in independence is evaluated in two ways: based on percent independence (IND) and using a categorical variable for majority independence (MAJ). The latter takes a value of one (1) if independence is 50% or more. Summary statistics on Table 1 show that 41 EMNE boards (51% of dataset) appoint independent directors; the average percent of independence on boards is 22%, well below majority.

CEO duality (CEOD) takes a value of one (1) if the CEO is also chairperson of the board. Duality is complex and persists even in U.S. firms. It is detrimental to the essential monitoring function of boards, although some scholars suggest that it provides for unity of command (Finkelstein & D'Aveni, 1994). CEO duality is also negatively associated with convergence (Sanders & Carpenter, 1998). Globally, the *OECD Principles* (2004) specify that CEO and chairperson positions should not be held by the same person.

The role of cross-listing on the New York Stock Exchange (NYSE), as a firm-level choice in corporate governance practice, is also evaluated. Cross-listing is a form of legal bonding, signaling adherence to stronger corporate governance (Ferris et. al., 2009; Coffee, 1999). In practice, stock exchange regulations of the NYSE provide enforceable guidelines for boards of listed companies. Notwithstanding, foreign issuers may waive compliance with board guidelines by invoking home-country regulations, although disclosure requirements are mandatory. Only 11 of 81 firms cross-list in the NYSE. However, the practices are part of the Index developed for this study, and are tested as individual dependent variables for consistency. Firms that cross-list on the NYSE ($LIST^{NYSE}$) take a value of one (1).

Index of Functional Convergence to Anglo-Saxon Standards

Functional convergence is operationalized as a continuous, rather than as a dichotomous event through the Index of Functional Convergence to Anglo-Saxon Standards (the Index). It is calculated as a composite of six variables. For each firm, a value of one (1) is assigned to characteristics reflecting Anglo-Saxon standards: no controlling ownership (CTL), board size (BSZ) between 9.5 to 14 directors, no CEO duality (CEOD), majority independence (MAJ), no designation of non-executive non-independents (NXI), and listing in the NYSE ($LIST^{NY}$). The variable NXI reflects board composition in EMNEs, which commonly designate non-executive non-independent directors. The function is accepted for EMNEs though not well understood and suggests lack of convergence. The highest value indicating

full convergence is six (6). An Index value of zero (0) indicates lack of convergence. The Index for each firm (i) is computed using equation 1 below:

$$Index\ of\ Functional\ Convergence_i = CTL_i + BSZ_i + CEOD_i + MAJ_i + NXI_i + LIST_i^{NYSE} \quad (1)$$

Independent Variables

Independent variables represent controlling and type of ownership, board practices as described above, *Global 500* and listing characteristics, as well as a set of controls identified through the literature. Table 1 indicates the expected values for independent variables.

Ownership (OWN)

Controlling ownership (CTL) takes a value of one (1) if control is 51% or greater. The effect of controlling ownership is mixed in the literature and the expected sign is indeterminate. Types of owners are tested separately from controlling ownership, with dummy variables taking the value of one (1) are assigned to state-owned (SOE; 62% of firms) and family-owned (FAM; 11% of set) firms. Following the literature, the expected effect of state-ownership is negative; the effect of family-owned firms is indeterminate, reflecting the lack of evidence and complexity in data so far.

Board Composition (BOARD)

Governance practices include board size (BDZ), percent independence (IND), CEO duality (CEOD) and percent non-executive non-independents (NXI). The first three practices are defined in the dependent variable section. As indicators, the expected effect of board size is indeterminate; Independence is expected to have a positive effect on convergence of other practices, since outsiders tend to enhance corporate governance practice. CEO duality is expected to have a negative impact on convergence. Non-executive non-independents are expected to negatively impact convergence. They are accepted as an idiosyncrasy of the emerging market context (Mallin, 2013). Separate research by this author suggests that non-executive non-independents tend to be family members of close associates with non-executive roles in the firm.

Global 500 (GLOBAL)

Firms ranked in the *Global 500* are exposed to 'best practices' and face pressures to adopt them. Longer tenure on the *Global 500* (G500, in years) and higher profits (PFT, in $Millions), as well as Rank (RANK), based on revenues ($Millions) should be positively associated. However, the sign for the latter will be negative, since rank value decreases as revenue increases. Revenues (REV) are normalized and are one measure of firm size relative to the global environment. It is expected that larger firms, more profitable firms are able to accommodate board changes.

Listing (LIST)

Firms are evaluated in terms of listing in domestic stock ($LIST^{DOM}$) exchanges, and cross-listing on the New York Stock Exchange ($LIST^{NYSE}$). The effect of domestic listing is not usually considered to the same extent as cross-listing. However, within country governance standards generally apply to listed firms only and encourage 'best practice'. For example, the Brazilian stock exchange *BM&F BOVESPA* differentiates levels of corporate governance adherence; firms that list in the *Novo Mercado* level (New Market) follow international standards and owners are expected to reduce control. Indian firms follow *Clause 49 I(A)* of the *National Stock Exchange (NSE) Listing Agreement* defining independence practice, in addition to other regulations (Mallin, 2013). Listed firms take the value of one (1). The association with the Anglo-Saxon standard is positive.

Some EMNEs cross-list shares in the New York Stock Exchange (NYSE), and a significant portion cross-list in the unregulated OTC Pink ($LIST^{OTC}$) exchange. Two separate dummy variables taking the value of one (1) reflect the listings. The bonding mechanism of cross-listing is thought to lead to improved governance structure (Ferris et. al., 2009). The expected sign is positive. The OTC Pink however, is an unregulated tier for recent issuers or for firms delisted from the NYSE. There are no disclosure requirements for OTC Pink firms; the expected sign is negative.

Controls

There are three levels of controls in this study: firm, industry and country. At the firm level, age (based on date of founding) and size (based on employee number, normalized) are common controls. In the corporate governance literature, firm age (AGE) limits convergence since it is a proxy of evolutionary trajectory of the governance system (Yoshikawa & Rasheed, 2009). From an internationalization perspective, older firms are more likely to internationalize and face pressures to adapt internal structures. Yet, Barroso, Villegas, & Peréz-Calero (2011) note older firms are also more likely to withstand pressures of global environments. Thus, the effect of age is indeterminate. In terms of size, larger firms (FSZ) tend to be more active internationally, and possess greater financial and managerial capabilities (Filatotchev et. al., 2007; Barroso et. al., 2011). Larger firms may also be more apt to adopt new practices of corporate governance (Yoshikawa & Rasheed, 2009). The expected sign is positive.

Industry controls are used for the most represented industries which account for 56% of the firms investigated. Three dummy variables reflect petroleum firms, the diversified sector, and investment, insurance and banking (financial) firms (PET, DIV, and IIB, respectively). In the literature, more global industries have higher overall governance scores, although governance varies with different types of industries (Khanna et. al., 2006).

Petroleum firms are arguably global, yet tend to be state-owned and controlled. Diversified business groups, are multi-sector firms; they tend to have resources to bypass under-institutionalized environments (Khanna & Palepu, 2004), suggesting decreased emphasis on corporate governance adaptation. The financial sector includes a range of ownership and is likely more sensitive to global corporate governance demands, than would be other sectors. Financial firms are often treated as separate from non-financial firms, suggesting a critical control. Moreover, in China, it is the only sector that SASAC does not oversee. Thus, only the financial sector is expected to be positively associated with convergence.

I control for country fixed effects since 60% of the EMNEs identified, are from China. A dummy variable (CHI) takes the value of one (1) and the expected sign is negative. Although China underwent a period of corporate governance reform, there is a high proportion of SOEs, unlisted firms that are not subject to governance regulation, and a high proportion of boards comprised of insiders.

METHODOLOGY

This study employs quantitative regression methods to test convergence, using STATA. Cross-sectional studies are believed to identify only similarities between countries but "not definitive evidence of convergence, in the absence of knowledge about prior states" (Yoshikawa & Rasheed, 2009: 402). I argue that persistence of institutional voids (as defined above) in EMNE economies provides a differential lens by highlighting lack of reform at the country level (Khanna & Palepu, 2006; Aguilera & Cuervo-Cazurra, 2009), indicating that the prior state of EMNEs is distinctive enough to allow for claims beyond similarity.

OLS or logistic regressions are used to test functional convergence for individual practices (Hypothesis 1); ordered probit regression is used to test the likelihood of wholesale convergence (Hypothesis 4). The impact of ownership (controlling or state; Hypotheses 2 and 3, respectively) on different board practices is evaluated by including ownership variables as indicators regressed on individual practices, and on the Index of Functional Convergence (IFCAS) developed. The equations are specified below.

Functional Convergence to Individual Practices

Six corporate governance practices are tested as separate dependent variables. Four board practices are hypothesized to converge toward Anglo-Saxon standards, they are: CEO duality, majority independence, percent independence and board size. Non-board practices where convergence would be unlikely are tested for consistency with the Index: controlling ownership and NYSE cross-listing.

The models are presented in terms of vectors of variables as presented in the data section including: ownership (OWN), board composition (BOARD); *Global 500* characteristics (GLOBAL); listing

tendencies (LIST); and the set of controls (Z). Functional convergence in a given firm-level practice (FP) is a function of the firm's controlling ownership or type of ownership (OWN); board composition and practice (BOARD); listing tendencies (LIST); Global 500 characteristics (GLOBAL); and a set of controls (Z). Variables used as dependent variables are not included with independent variables. The general model is specified as follows:

$$FP_i = \beta_0 + \beta_1 OWN_i + \beta_2 BOARD_i + \beta_3 GLOBAL_i + \beta_4 LIST_i + \beta_5 Z_i + \varepsilon_i \quad (2)$$

Controlling ownership, NYSE cross-listing, CEO duality and majority independence are dichotomous variables, tested using logistic regression. The coefficients obtained are measures of the change in the ratio of the probabilities that the dependent variable occurs (1) or does not (0), given the indicators. A positive sign on the coefficient is associated with an increase in the predicted probability, and vice versa for a negative sign. The results are reported in terms of coefficients and in terms of odds of the outcomes occurring in the absence of the independent variables (odds ratios). Board size and percent independence are tested using OLS regression.

Likelihood of Functional Convergence to Anglo-Saxon Standards

Ordered probit regression is employed to test the Index of Functional Convergence to Anglo-Saxon Standards (IFCAS). I posit that firm-level practices of corporate governance are converging simultaneously but differentially, toward Anglo-Saxon standards. The general model for an ordered regression holds that the probability of functional convergence to the Anglo-Saxon standard is a function of the relationship between the Index (IFCAS) and the explanatory variables (Gujarati, 2004). The Index takes a range of values from zero to six (0-6) to operationalize functional convergence as a continuous, rather than dichotomous, event. Equation 3 specifies the model as follows:

$$IFCAS_i = G(\beta_0 + \beta_1 OWN_i + \beta_2 BOARD_i + \beta_3 GLOBAL_i + \beta_4 LIST_i + \beta_5 Z_i) \quad (3)$$

FINDINGS

Functional Convergence in Individual Firm-Level Practices of EMNEs Varies

Functional convergence in board practices was tested in the presence of controlling ownership (Table 2) and in the presence of types of owners (Table 3). Board size, percent independence, majority independence, and CEO duality, were evaluated as separate dependent variables, and observed changes in board structures are posited as evidence of functional convergence. The first three practices are shown in each table; full models are not obtained in STATA for majority independence. Importantly, the results establish that functional convergence is evident in EMNEs - a finding not previously shown in the literature.

The nature of convergence differs among practices with minimal associations between each practice and corporate governance indicators. In the presence of controlling ownership, board size decreases if there is CEO duality on the board (β = -1.36, p 0.05). Alternatively, increases in board size, decrease the log odds that there is CEO duality on boards (β = -0.34, p 0.05); the odds of CEO duality increase 0.71. The impact of board size is relative, since 9.5 to 14 directors reflect an "optimal" size. Increased independence also decreases the log odds that there is CEO duality on boards (β = 0.04, p 0.1). Increases in non-executive non-independent directors tend to decrease independence on boards (β = 0.29, p 0.01).

The relationships and significance described above are almost equal in the presence of types of ownership (Table 3). This is likely because the state is the dominant controlling owner in the sample. However, there are some differences when type of owner is specified. Independence increases in controlled Chinese EMNEs (β = 21.95%, p 0.01), but less when types of owners are specified (β = 16.24, p 0.01).

TABLE 2
FUNCTIONAL CONVERGENCE IN BOARD PRACTICES, CONTROLLING OWNERSHIP

Indicator		Board Size	Independence (%)	CEO Duality Coefficients	CEO Duality Odds Ratios
Ownership	Controlling	1.37	7.45	0.38	1.46
		(0.85)	(5.06)	(0.82)	
Board Composition	Board Size		0.96	-0.34*	0.71*
			(0.90)	(0.14)	
	CEO Duality	-1.36*	-2.94		
		(0.61)	(6.01)		
	% Independence	0.02		-.04†	0.96†
		(0.02)		(.02)	
	Non-Exec-non-Indpt	-4.43E-03	-0.29**	-0.02	0.98
		(0.01)	(0.10)	(0.02)	
Global 500	Years Global 500	-.11	-0.51	-0.58*	0.56*
		(0.18)	(1.56)	(0.27)	
	Rank	1.01E-03	-0.04	-4.34E-03	1.00
		(3.00E-03)	(0.02)	(3.90E-03)	
	Profits ($'000s M)	0.12†	0.51	0.50**	1.00**
		0.06	0.79	0.18	
Listing	Domestic	-1.15	-7.04	-3.17†	0.04†
		(.75)	(8.02)	(1.18)	
	NYSE	1.74	-8.39	1.34	3.8
		(1.07)	(7.81)	(1.16)	
	OTC Pink	0.19	-21.64**	-0.73	0.48
		(0.90)	(7.24)	(1.03)	
Controls	Age (years)	3.85E-03	0.01	-9.82E-04	1.00
		(0.01)	(0.06)	(9.46E-03)	
	Size (ln #employees)	-0.1	-5.75*	-0.30	0.74
		(0.32)	(2.29)	(0.38)	
	Chinese EMNE	0.41	21.95***	2.44*	11.50*
		(0.97)	(5.99)	(1.18)	
	Petroleum	0.46	-14.74†	-2.67*	0.07*
		(1.00)	(7.89)	(1.29)	
	Diversified	1.45*	-7.04	3.23*	25.32*
		(0.71)	(5.10)	(1.54)	
	Financial	1.52	-14.33†	-1.11	0.33
		(1.10)	(7.75)	(1.28)	
	Constant	10.05	116.63		
		(4.21)	(35.24)		
F-Statistic		0.00	0.00		
R-squared		0.33	0.56		
Prob>Chi^2				0.00	

Source: The dataset was compiled using Fortune.com, company documents and websites. Notes: The number of observations for all models is N = 81; Coefficients listed with standard error in parentheses. †, *, **, and *** indicate significance at the 10% (marginal), 5%, 1% and 0.1% levels, respectively.

TABLE 3
FUNCTIONAL CONVERGENCE IN BOARD PRACTICES, TYPES OF OWNERSHIP

Indicator		Board Size	Independence (%)	CEO Duality Coefficients	CEO Duality Odds Ratios
Ownership	State owned	-0.93	-5.14	-0.33	0.72
		(0.79)	(5.65)	(.70)	
	Family owned	0.06	12.04	0.67	1.95
		(1.26)	(8.44)	(0.69)	
Board Composition	Board Size		0.96	-0.33*	0.72*
			(0.92)	(0.14)	
	CEO Duality	-1.37*	-3.27		
		(0.63)	(5.95)		
	% Independence	0.02		-0.04†	0.02†
		(0.02)		(0.02)	
	Non-Exec-non-Indpt	-1.63E-03	-0.27**	-0.02	0.98
		(0.01)	(0.10)	(0.02)	
Global 500	Years on Global 500	-0.12	-0.50	-0.59*	0.55*
		(0.20)	(1.61)	(.28)	
	Rank	-1.51	-0.04	-4.43E-03	1.00
		(3.27E-03)	(0.03)	(4.08E-03)	
	Profits ($'000s M)	0.1	0.54	0.50**	1.00**
		(0.07)	(0.82)	(0.11)	
Listing	Domestic	-1.29	-7.56	-3.28**	0.04**
		(0.79)	(7.96)	(1.19)	
	NYSE	1.93*	-3.33	1.67	5.33
		(0.97)	(8.74)	(1.36)	
	OTC Pink	0.12	-21.89**	-0.76	0.47
		(0.95)	(7.54)	(1.07)	
Controls	Age (years)	5.10E-03	0.02	-4.28E-05	1.00
		(0.01)	(0.05)	(9.53E-03)	
	Size (ln # employees)	-.14	-6.21**	-0.31	0.74
		(0.33)	(2.26)	(0.38)	
	Chinese EMNE	0.08	16.24**	2.12†	8.33†
		(1.08)	(6.44)	(1.28)	
	Petroleum	0.47	-11.94	-2.48†	0.08†
		(0.98)	(7.76)	(1.34)	
	Diversified	1.27†	-7.85	3.09*	22.20*
		(0.73)	(5.26)	(1.49)	
	Financial	1.55	-14.58†	-1.14	0.32
		(1.15)	(7.76)	(1.28)	
	Constant	11.7	122.44		
		(4.54)	(35.06)		
F-Statistic		0.00	0.00		
R-squared		0.32	0.57		
Prob>Chi^2				0.01	

Source: The dataset was compiled using Fortune.com, company documents and websites. Notes: The number of observations for all models is N = 81; Coefficients listed with standard error in parentheses. †, *, **, and *** indicate significance at the 10% (marginal), 5%, 1% and 0.1% levels, respectively.

The practices that comprise the Index were tested for consistency and to establish whether some non-board practices may be converging (table not shown). There is no convergence toward diffused ownership in EMNEs of this study. Moreover, the indicators tested have no impact on controlling ownership with the exception of board size, which is marginally associated with decreased probability of controlling ownership.

NYSE cross-listing is negatively associated with convergence. A one unit increase in size of firm by revenue, decreases the log odds of cross-listing (versus not cross-listing) in the NYSE (β = -6.84, p 0.1). This is consistent with Khanna & Palepu (2006) which argues that cross-listing is unlikely to modify corporate governance practice. Moreover, firms of Chinese origin are less likely than other EMNEs to cross-list in the NYSE (β = -4.42, p 0.05).

Ownership and Functional Convergence

The impacts of controlling ownership and state ownership on corporate governance practices were evaluated by considering the practices individually, and as wholesale adoption. Previous research on advanced-country firms suggests that controlling ownership can influence corporate governance practice toward Anglo-Saxon standards, and may not limit convergence. I posited that this was possible in the EMNE context (Hypothesis 2). The results indicate that controlling ownership does not limit convergence (coefficients are not significant). The results for individual practices appear on Table 2 and Table 3, respectively. Results addressing wholesale adoption are discussed in the next section.

Conversely, it was posited that functional convergence is less likely in state-owned firms than in non-state-owned firms (Hypothesis 3). Controlling for country origin (CHI) suggests that independent directors are increasing in Chinese SOEs (β = 21.95, p 0.1), in the presence of controlling ownership. This is also the case when types of ownership are used (β = 16.24, p 0.01). In both instances, increasing independence indicates that state ownership is not limiting functional convergence in the practice. Chinese firms however, also have increased probability of CEO duality (β = 2.44, p 0.05), as shown on Table 2. State ownership in the Chinese context also influences the firm away from convergence.

Likelihood of Wholesale Convergence

The Index operationalizes convergence as a continuous rather than a dichotomous event. Table 4 shows four models: Model 1 tested ownership and board structure; Model 2 tested ownership, *Global 500* and listing characteristics; Model 3 tested board structure, *Global 500* and listing characteristics; Model 4 is the full model. I posited that wholesale adoption of practices in EMNEs is possible at the firm level, with the caveat that a full monolithic shift would not be evident since reform is recent.

Functional convergence was operationalized in terms of wholesale adoption of a key set of internal governance practices including: ownership, board features and cross-listing. Moreover, based on the idea of complementarities, key internal practices should reinforce each other. The results support Hypothesis 4, as a number of indicators are associated with increased Index value, or the likelihood of functional convergence. Practices are converging simultaneously but differentially. At the same time, the results suggest strong complementarity between ownership and board practices.

Controlling ownership is positively associated with likelihood of functional convergence to Anglo-Saxon standards. Controlling ownership increases the likelihood of convergence when tested with board practices (β = 1.30, p 0.01), when board practices are not included (β =.0.87, p 0.10), and for the full model (β = 2.39, p 0.01). State ownership is marginally associated with a decrease in the likelihood of wholesale adoption when board practices are included (β = -.87, p 0.1), and when only ownership variables are tested (β = -.87, p 0.1).

NYSE cross-listing however, limits functional convergence. It decreases the likelihood of functional convergence when ownership is not included (β = -1.29, p 0.01) and for the full model (β = -1.97, p 0.01). Importantly, financial firms are associated with significant and decreased likelihood of functional convergence for Model 2 (β = -1.42, p 0.001), Model 3 (β = -1.34, p 0.01) and Model 4 (β = -1.84, p 0.01).

TABLE 4
INDEX OF FUNCTIONAL CONVERGENCE TO ANGLO-SAXON STANDARDS

Indicator		Model 1	Model 2	Model 3	Model 4
Ownership	Controlling	1.30**	0.87†		2.39***
		(0.53)	(0.51)		(0.70)
	State-Owned	-0.87†	-0.90†		-0.83
		(0.48)	(0.49)		(0.59)
	Family-Owned	0.44	0.07		-0.43
		(0.56)	(0.60)		(0.71)
Board Composition	Board Size	0.03		0.10†	0.34
		(0.06)		(0.06)	(0.07)
	CEO Duality	1.98***		1.71***	2.49***
		(0.38)		(0.38)	(0.55)
	% Independence	0.02**		0.02**	0.02†
		(7.02e-03)		(8.24e-03)	(0.01)
	Non-Exec-non-Indpt	-0.02***		-0.02***	-0.05***
		(6.64e-03)		(6.8e-03)	(0.01)
Global 500	Years on Global 500		-0.04	0.05	0.00702
			(0.10)	(0.10)	(0.12)
	Rank		0.0042	0.01**	8.66e-03†
			(3.45e-03)	(3.81e-03)	(4.51e-03)
	Revenues (ln)		1.34	2.12*	2.18*
			(0.85)	(0.91)	(1.12)
	Profits ($'000s M)		0.06*	0.04	0.08*
			(2.93e-05)	(3.14e-05)	(3.89e-05)
Listing	Domestic		-0.69†	-0.44	-0.68
			(0.38)	(0.42)	(0.50)
	NYSE		-0.82	-1.29**	-1.97**
			(0.50)	(0.51)	(0.68)
	OTC Pink		-0.28	-0.44	0.01
			(0.41)	(0.46)	(0.54)
Controls	Age (years)	-5.99e-06	1.74E-03	-1.38e-03	1.19E-04
		(3.77e-03)	(3.81e-03)	(3.95e-03)	(4.71e-03)
	Size (ln #employees)	0.18	-0.06	-0.04	-0.07
		(0.14)	(0.17)	(0.17)	(0.20)
	Chinese EMNE	0.52	0.48	0.79†	0.76
		(0.49)	(0.47)	(0.47)	(0.61)
	Petroleum	0.10	-0.51	-1.19*	-1.18†
		(0.45)	(0.49)	(0.54)	(0.64)
	Diversified	-0.72	0.21	-0.64	-0.62
		(0.49)	(0.44)	(0.49)	(0.59)
	Financial	-1.09	-1.42***	-1.34**	-1.84**
		(0.46)	(0.44)	(0.49)	(0.61)
Prob>Chi^2		0.00	0.00	0.00	0.00

Source: The dataset was compiled using Fortune.com, company documents and websites.
Notes: The number of observations is N = 81 for all models; Coefficients listed with standard error in parentheses †, *, **, and *** indicate significance at the 10%(marginal), 5%, 1% and 0.1% levels, respectively. The full model equation is: $IFCASi=G(\beta 0 + \beta 1 own_i + \beta 2 board_i + \beta 3 G500_i + \beta 4 list_i + \beta 5 Z_i + \varepsilon_i)$

In terms of board practices, independent directors are associated with an increase in likelihood of convergence as observed in Model 1 and Model 3 (for both, β = 0.02, p 0.05). The significance is marginal for the full model. The negative impact of non-executive non-independent directors holds (β = -0.02, p 0.01) for Model 1 and Model 3; and slightly more negative for the full model (β = -0.05, p 0.01). CEO duality is driving convergence toward the Anglo-Saxon model. It has comparable impact when ownership and board practices are evaluated (β = 1.98, p 0.01) and when ownership is not included (β = 1.71, p 0.01), and stronger impact for the full model (β = 2.49, p 0.01).

DISCUSSION

There are implications for the literature on corporate governance and the nature of functional convergence in EMNEs of the *Global 500*. First, the findings highlight changing board practices in EMNEs, and the implications for functional convergence. The results underscore the role of the board mechanism in driving changes toward Anglo-Saxon standards. The findings on controlling ownership add critical insight to a contested area. It is unlikely that powerful families or the state will move toward diffused ownership structures, yet functional convergence may not depend on the Anglo-Saxon form of ownership. Finally, prospects for wholesale adoption are discussed.

Implications for Functional Convergence in the EMNE boards

Increased participation by EMNEs in the global ranking implies a need to evaluate whether corporate governance evolves. Critically, the results provide evidence that EMNEs are operating with board structures that imply understanding of the global environment. The nature of convergence allows for firm discretion in the adoption of practices. EMNEs are subject to pressures to converge, and not mere subjects of under-institutionalized environments. The results also indicate that even Chinese firms are institutionalizing features that have been shown, previously and in this paper, to drive convergence toward global standards.

This research highlights a critical need to move away from studying corporate governance practices in isolation. The regressions to individual practices illustrate key changes, and relationships between those practices. For example, board size and increased independence are significantly associated with whether boards also have CEO duality. Although low levels of independent directors are observed across the dataset, at such levels, independence has an impact on other features, and in driving the likelihood of convergence. In contrast to much of the literature, changes captured for EMNE boards in this study, illustrate that structural changes are possible, consistent with original convergence theory.

Firm-Level Drivers and Impediments of Functional Convergence

The emerging market context means that controlling ownership is an enduring challenge, at least to theory. It is a marked feature that shows little move toward the diffused model of Anglo-Saxon corporate governance. State ownership in addition is increasing and there are many questions about the ability of EMNEs to behave as "good" corporate governance actors globally. This study posited that controlling ownership can influence functional convergence toward the Anglo-Saxon standard, even if it does not itself change. At the same time, state ownership was expected to limit functional convergence.

The findings of the research illustrate a dual, and possibly neutral, role for ownership. When individual practices are considered, controlling ownership has no impact on the varying practices; it is at best, neutral. When the Index as proxy for wholesale adoption is considered, controlling ownership plays a critical positive role in driving the likelihood of convergence to Anglo-Saxon standards. In the German context, this has been interpreted as owner disposition toward global standards, although best practices reflect their interests. EMNE owners may well mirror German counterparts. At the same time, this study highlights a difference between non-state and state owners, illustrating that the state counteracts the likelihood of wholesale convergence in some instances.

When board practices are considered as part of a set of key internal corporate governance mechanisms, they are shown to impact the likelihood of functional convergence. In the case of CEO duality, a powerful CEO may drive convergence; increased independence drives functional convergence as well. The results generally highlight that much corporate governance change takes place at the level of the board. However, changes in boards do not seem to impact ownership structure or to determine whether firms cross-list in the NYSE.

Prospects of Wholesale Adoption

A key contribution of this paper is the operationalization of functional convergence as a continuous event, dependent on a set of key firm-level practices. This underscores the view that the effectiveness of convergence will not be understood based on individual practices. The research to-date suggests that wholesale adoption of practices is unlikely, and that firms can choose from a set of practices that combine various models of corporate governance. Although adoption of global standards is less of a choice for EMNEs, the firms seem to choose among practices that balance the demands of the global environment and home environments.

The findings with respect to the Index illustrate wholesale adoption as a differential and ongoing process. Firms can change structures but tend to do so slowly. The findings show that the impact differs between controlling ownership and by types of owners, and among board practices. Increased independence is necessary for further changes, but board size is not. Moreover, the EMNE context highlights that CEO duality may be necessary at certain stages of internationalization, or when owners are powerful. Alternatively, CEO duality may not have the same meaning as it does in the diffused ownership context.

The outcomes shown in this paper provide critical insight to the possibility of functional convergence in the EMNE context, and in general. That a monolithic shift is not observed should not stand as evidence that functional convergence is unlikely. Functional convergence may be conceptualized as a complex, ongoing and uneven process. The EMNEs of the *Global 500* show that likelihood of functional convergence depends on various factors. Controlling ownership and increased independence increase the likelihood of adaptation by firms. On the other hand, continued use of non-executive non-independents and in some instances, use of cross-listing in the NYSE, allow the firm to avoid structural changes as it navigates internationalization.

CONCLUSIONS

The definition of functional convergence holds that firms adapt corporate governance practice independently of home countries. The large EMNEs of the *Global 500* are subject to global forces and offer a critical context that highlights functional convergence occurring as a structural process that depends on the interplay between board features, and on ownership structures. Much of the research has focused on financial markets and codes of good governance as drivers, but this paper illustrates drivers and impediments within the internal mechanisms and practices of corporate governance. Yet, the mechanisms do not affect each other equally. Controlling ownership can influence whether board structure changes even if changes at the board level do not change ownership structures. Methodologically, this paper advances the view that corporate governance mechanisms hinge on complementarity between features. The method to test wholesale adoption as a composite of various practices is consistent with theory.

The EMNE context highlights critical conceptualization as to the boundaries between firms and countries. To an extent, an assumption in the emerging market context is that firm-level structures depend on home country conditions. The context of state-owned EMNEs increases the complexity of the relationship between firms and countries, and blurs theoretical distinctions. This research shows that the limiting effect of state ownership does not impact individual practices in the same way. Notwithstanding, the limits of state ownership are considerable in the aggregate.

Yet, EMNEs adapt as do advanced-country counterparts, separately from home-country institutions. The question also remains if structural changes are likely in advanced-country firms from countries with stronger corporate governance systems, or if structural changes are more likely in EMNEs, due to general under-institutionalization. Although there are differences among scholars as to the "inevitability or desirability" of convergence, the EMNE context provides new opportunities to develop insights about the way various internationalization processes are intersecting.

ENDNOTES

1. Emerging Markets are defined as "capital markets of developing countries that liberalized their financial systems to allow private asset trade with foreigners" (Krugman & Obstfeld, 2003). They are developing countries with fast growth markets that industrialized later than advanced countries. This paper follows general designations by UNCTAD. However, International Business (IB) scholars consider Taiwan, South Korea, and Singapore to be advanced countries in terms of development characteristics (Northeastern University, Conference on Emerging Market Multinationals, August 5, 2012). The countries are not included in the sample.
2. Corporate governance codes were developed for continental Europe based on the *Cadbury Combined Code* of the U.K., to counter lack of legal protection for investors (Mallin, 2013; see also Dennis & McConnell, 2003).
3. Since 1999, the larger emerging markets moved to institute corporate governance reforms. Brazil was the first to develop a corporate governance code in 1999, based on Anglo-Saxon, German and Japanese models; India's code established in 2000 follows the *Cadbury Combined Code* of the UK; Russia and China adopted codes in 2001 based on the OECD Principles (data collected by author, using various sources including Mallin, 2013).
4. Non-national EMNEs "belong to expatriated owners [of emerging markets] or expatriated corporations" in developed countries (Wells, 2009, p. 37).

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