

EURASIAN JOURNAL OF BUSINESS AND MANAGEMENT

<http://www.eurasianpublications.com>

GOOD GOVERNANCE AND SUCCESSFUL DEVELOPMENT: CROSS COUNTRIES INVESTIGATION

Tabthip Kraipornsak

Kasetsart University, Thailand. E-mail: fbusttk@gmail.com

Abstract

Good Governance is one of the essential factors of success in business as well as in a country's development. This study aimed at examining the role of good governance and the success of the development. The comparable per head GDP measured in PPP (purchasing power parity) was used as the proxy of the successful economic development of countries in the study. Four out of total six factors (indicators) being the good governance and the other two being social environmental factors were employed in the investigation following concept of the role of external business environmental factors so called "PESTLE or Political, Economic, Social, Technological, Legislative or Legal, and Eco-environmental analysis". These four indicators of good governance are political stability, control of corruption, rule of law, and voice and accountability which are available from the World Bank's governance project data base. In addition, the other two indicators, country's openness and size of population, are the major social variables included in the study which can also affect the success. The total six indicators are taken to examine with the GDP per head to see whether these factors can help countries achieve higher levels of income per head. The study indicates connection between the levels of success with these four indicators of the good governance and the two external social variables. For Thailand, the political instability was found to be a problem of the progress of development among those six indicators.

Keywords: Good Governance, Successful Development, Cross Countries Investigation, PESTLE

1. Introduction

Good governance is helpful to all business enterprises as it increases competitiveness at both national and international level promoting accessibility to global capital markets and increasing opportunities for business networking and collaboration. This study aims to examine evidence emphasizing on role of the good governance as a major contributor to successful development. However the term "good governance" is rather abstract and hard to prove for the contribution. The data of governance indicators are available from the World Bank's Worldwide Governance Indicators project data base. The study examined the indicators to see the connection of the Good Governance and the effectiveness of development across countries worldwide.

2. Good Governance and its Contribution

Good governance in its broad definition can refer to the interaction and interrelation between economic, politic, society and human rights. Good governance promotes good management of a national's business activities with fair decision making on the government policy. Good governance will ensure quality of community management under justifying leadership.

The good governance can be classified into 8 areas; those are (1) Transparency (2) Accountability (3) Participation (4) Responsiveness (5) Rule of Law (6) Consensus Oriented (7) Equity and Inclusiveness (8) Effectiveness and Efficiency (United Nations Economic and Social Commission for Asia and the Pacific, 2009). Business executives should put attention on the sounding business environment, economy, culture, society, politic, technology and the structure of law which differ from country to country so that the maximum benefits can be achieved.

As regards to the effects of good governance on growth (increase in output of the economy) and the nation's income distribution, good governance plays a major role on both national growth and income distribution (Khan, 2009). The reform for the nation's good governance can enhance market efficiency. Good governance tends to increase social equality and can improve services to the poor. However, the claim that good governance increases productivity has yet inconclusive.

Moreover, the relationship of good governance and globalization seems to suggest that the country must carefully consider issues on good governance so as to increase its social responsibilities. Tangsupvattana (2010) conducted an analysis and found that a massive transfer of capital form aboard and many foreign enterprises to Thailand had a tendency to cause drastic changes negatively as well as positively of its impact on the Thai economy. It is imperative that Thailand and other countries where rely on foreign investment must seek protection to deal with economic change. The good governance can be a way to safeguard and benefit from the inflow of foreign investment under the current globalization era.

3. Framework of Analysis

This study is conducted in line with concept of the external environmental factor of the PESTLE analysis (Elearn, 2005). This study focused on macro or national point of view of the good governance of which is an environmental factor for efficient management for the successful development of nations. The PESTLE's good governance indicators can be discussed in details as follows.

a) Political factor includes local problem, international politics, tax system and taxation, political pressure, and lobbying.

b) Economic factor includes inflation, unemployment, foreign trade, monetary policy, finance, free trade and globalization.

c) Social factor includes population structure, age, gender, family, education, health, distribution of income, and social and ethical responsibilities of private sectors.

d) Technological factor includes information and communication technology, new energy sources, microbiology and biotechnology.

e) Legal and legislative factor includes law employment, health security and various laws for private enterprises.

f) Eco-environmental factor such as energy consumption, global warming, pollution and nuclear energy, and other unsustainable development.

The PESTLE analysis was revised in consistency with indicators of those proposed by (Kaufmann *et al.* 2009). This study evaluates whether the six indicators listed above are relevant to the level of the country's development (so saying achievement). The study used the GDP per capita measured in purchasing power parity (PPP) as the wealth of nations to be the proxy of achievement of countries. Four indicators of good governance consisting of political stability, control of corruption, rule of law, and voice and accountability, in addition with the other two major social indicators, country's openness and size of population, were used to examine their importance with the GDP per capita. All those selected six indicators and the developmental achievement or GDP per capita were then investigated. The governance

indicators and the international tourist arrivals were drawn from Worldwide Governance Indicators (WGI) research project of the World Bank (www.worldbank.org). Per head GDP and number of population were drawn from International Monetary Fund (www.imf.org). The hypotheses are detailed as follows.

1) Country's openness: This study uses ratio of tourists' arrival to countries as ratio of number of countries' population. It is based on the hypothesis that the higher the rate of the country's openness the more opportunities the people in the country expose to different cultures and societies. The country's openness has gained direct and positive impact on its development especially for the private sector's business. The countries' openness involves in more transparencies in all practices thus promotes growth.

2) Political stability: Political stability is measured at the level -2.5 to 2.5 points. The higher rate of political stability positively indicates higher level of achievement on national development. Political stability reflects the more secured benefit of business.

3) Corruption index: This indicator is also measured at the level of -2.5 to 2.5 points. Corruption status on its own should be negatively impact on development and achievement of the country. The higher degree of corruption means the higher cost of doing business.

4) Rule of law: This indicator is measured at the level of -2.5 to 2.5 points. The higher score of rule of law indicates positive effect on development and achievement of the country. Protection of individual or business property right is essential in doing business.

5) Voice and accountability is the indicator of which is ranging between -2.5 to 2.5 points. The high score of voice and accountability is favorable to the country's development. Accountability is also essential for business practice.

6) The Number of population: It is based on the assumption that many more number of people in the country can make government difficult to manage or admin.

The data used was in 2011, the most recent available statistic from the World Bank. The paper divides countries into 6 groups. These six groups are different for one another according to the economic, geographic and size or number of population. These six groups of countries are detailed as follows.

1) The ten highest income OECD industrial countries (highest GDP capita measured in PPP in 2011) include Luxembourg, Norway, United States, Switzerland, Netherlands, Ireland, Austria, Canada, Sweden and Australia.

2) The other eighteen OECD industrial countries include Germany, Iceland, Belgium, United Kingdom, Denmark, Finland, France, Italy, Spain, New Zealand, Epirus, Czech Republic, Greece, Portugal, Slovakia, Poland, Hungary and Mexico.

3) East Asia countries include Macao, Hong Kong, Japan, Korea Republic and Mongolia.

4) South East Asia countries include Singapore, Brunei, Malaysia, Indonesia, Philippines, Vietnam, Laos, Cambodia and Myanmar (excluding Thailand).

5) China: China is separated from other Asia as it is the largest country in terms of population.

6) Thailand: Thailand is separated from Southeast Asia as being assessed individually. The cross country analysis and comparison are conducted by ranging the countries according to achievement of countries' development, i.e. from the countries with the highest GDP to the lowest GDP. The indexes of good governance together with the countries' openness and size of population are then examined to verify the hypothesis. The findings can then reconfirm if the good governance can play a key role in the development.

4. Finding of the Role of Good Governance and the Success

The paper seeks to access whether the good governance supports the countries' successful development. This implies a country to a business company of which a different organization can have a different level of good governance. Groups of countries selected in this study are widely diversified and they are grouped together in the same group according to their similarity. The conclusions of the finding are as follows.

1) Countries in the same group are found similar to each other in each column. According to the six indicators (Table 1 - 4), Z score (statistic) indicates this similarity as their scales of Z score are mostly small and insignificant at the level of 5% (smaller than 1.96). The bold typed figures indicate strong or significant differences from others. This finding can therefore confirm that geographical region is naturally being a factor of the successful development of nations.

Table 1. Similarity in the same group of countries (by Z Score) - Ten richest countries of OECD

Country	Income	Per capita	Openess	Political	Control	Rule of	Voice	Number
	Rank			Stability	Corruption	Law	Accountability	Population
LUXEMBOURG	1	2.6479	0.8179	0.9213	0.7228	0.1706	0.6772	-0.4366
NORWAY	2	0.5371	-0.0346	0.9927	0.7115	1.0603	1.0457	-0.3900
UNITED STATES	3	0.1172	-1.0410	-2.2289	-1.8352	-2.1235	-2.1176	2.8302
SWITZERLAND	4	-0.1828	0.0616	0.7637	0.3034	-0.3539	1.0516	-0.3590
NETHERLANDS	5	-0.4048	-0.4432	0.0909	0.7122	0.3280	0.3461	-0.2667
IRELAND	6	-0.4645	0.8013	-0.4043	-1.0602	-0.3299	-0.9043	-0.3940
AUSTRIA	7	-0.5027	2.1394	0.3561	-1.2850	0.1778	-0.3432	-0.3536
CANADA	8	-0.5400	-0.7103	-0.2331	0.1970	-0.4242	-0.3380	-0.0799
SWEDEN	9	-0.6002	-0.6281	0.6545	0.8522	1.6603	0.8005	-0.3428
AUSTRALIA	10	-0.6072	-0.9632	-0.9129	0.6811	-0.1656	-0.2180	-0.2076

Source: The World Bank and author's calculation.

Notes: Bolded type means statistically significant different from the others in column.

Table 2. Similarity in the same group of countries (by Z Score) - Other OECD

Country	Income	Per capita	Openess	Political	Control	Rule of	Voice	Number
	Rank	GDP in PPP		Stability	Corruption	Law	Accountability	Population
GERMANY	11	1.3101	-1.0183	0.2762	0.6998	0.7179	0.5087	1.3936
ICELAND	12	1.1603	1.6243	0.9530	0.9861	0.8427	0.9303	-0.8844
BELGIUM	13	1.0715	-0.4046	0.3093	0.5799	0.4724	0.7648	-0.5844
UNITED KINGDOM	14	1.0500	-0.7959	-0.6469	0.5319	0.8196	0.4039	0.8611
DENMARK	15	1.0071	0.7866	0.7369	1.5362	1.2019	1.3502	-0.7375
FINLAND	16	0.9193	-0.2201	1.2515	1.2681	1.2685	1.1560	-0.7426
FRANCE	17	0.6015	0.6452	-0.1992	0.5035	0.5444	0.1924	0.9344
ITALY	18	0.1540	-0.2544	-0.2475	-1.2218	-1.1486	-0.5193	0.8044
SPAIN	19	0.1386	0.6127	-1.1019	-0.0136	0.0898	-0.0639	0.3977
NEW ZEALAND	20	-0.1453	-0.5795	1.1901	1.4328	1.1918	1.1519	-0.7701
CYPRUS	21	-0.2098	2.3059	-0.3350	-0.1267	-0.1322	-0.1393	-0.8621
CZECH REPUBLIC	22	-0.2961	-0.1127	0.7540	-0.8552	-0.2075	-0.4007	-0.5998
GREECE	23	-0.5754	1.0309	-1.4739	-1.3792	-0.8930	-0.8642	-0.5773
PORTUGAL	24	-0.6836	-0.3866	-0.0315	0.0220	-0.2071	-0.0239	-0.5981
SLOVAKIA	25	-0.7940	-1.1598	0.4667	-0.8814	-0.7812	-0.4968	-0.7423
POLAND	26	-1.2440	-1.0191	0.7017	-0.6301	-0.6451	-0.2566	0.1841
HUNGARY	27	-1.3487	0.2426	0.0598	-0.8258	-0.5816	-0.7813	-0.6145
MEXICO	28	-2.1154	-1.2975	-2.6632	-1.6265	-2.5526	-2.9121	2.4438

Source: The World Bank and author's calculation.

Notes: Bolded type means statistically significant different from the others in column.

Table 3. Similarity in the same group of countries (by Z Score) - East Asia

Country	Income	Per capita	Openess	Political	Control	Rule of	Voice	Number
	Rank	GDP in PPP		Stability	Corruption	Law	Accountability	Population
MACAO	1	1.4318	1.7743	-0.2050	-0.2636	-0.1984	0.0827	-0.6819
HONG KONG	2	0.3785	-0.2230	0.9520	1.1336	0.9666	-0.1431	-0.5618
JAPAN	3	-0.1942	-0.5257	0.9979	0.7924	0.6049	1.2184	1.6607
KOREA Rep.	4	-0.3268	-0.5113	-1.3890	-0.2673	0.2402	0.3743	0.2243
MONGOLIA	5	-1.2893	-0.5143	-0.3558	-1.3951	-1.6133	-1.5324	-0.6413

Source: The World Bank and author's calculation.

Notes: Bolded type means statistically significant different from the others in column.

Table 4. Similarity in the same group of countries (by Z Score) - Southeast Asia, excluding Thailand

Country	Income	Per capita	Openess	Political	Control	Rule of	Voice	Number
	Rank	GDP in PPP		Stability	Corruption	Law	Accountability	Population
SINGAPORE	1	1.9244	2.3853	1.4539	2.0990	1.8668	0.8787	-0.6977
BRUNEI	2	1.5223	0.2185	1.3581	1.0031	1.0706	0.2468	-0.7592
MALAYSIA	3	-0.0119	0.6246	0.3070	0.2817	0.7151	0.5103	-0.3943
INDONESIA	4	-0.5076	-0.6486	-0.7544	-0.2845	-0.4397	1.0279	2.3734
PHILIPPINES	5	-0.5292	-0.6335	-1.3697	-0.3949	-0.2925	1.1250	0.4590
VIETNAM	6	-0.5592	-0.5916	0.3217	-0.2309	-0.2466	-0.9776	0.3661
LAOS (PDR)	7	-0.5904	-0.2757	0.1473	-0.6349	-0.6907	-1.1493	-0.6805
CAMBODIA	8	-0.6068	-0.3935	-0.3412	-0.6693	-0.7984	-0.1501	-0.5764
MYANMAR	9	-0.6417	-0.6854	-1.1228	-1.1694	-1.1847	-1.5117	-0.0906

Source: The World Bank and author's calculation.

Notes: Bolded type means statistically significant different from the others in column.

2) When examining the income of countries by groups or regions and ranging from the highest income country to the lowest income country, the finding reveals the factors on good governance are mostly recorded from the highest to the lowest also. There therefore is strong relevance between the good governance indicators and effective development with only few exception cases (Tables 5 and 6).

Table 5. Average score of six regional countries including Thailand and Republic of China

Country	Income	Per capita	Openess	Political	Control	Rule of	Voice	Number
	Rank	GDP in PPP		Stability	Corruption	Law	Accountability	Population*
OECD 10	1	41,250.81	1.0295	1.0990	1.9077	1.7943	1.4663	42.0922
East Asia	2	35,464.26	5.4454	0.6638	0.7163	0.8356	0.5678	37.5937
Other OECD	3	26,051.02	0.8969	0.7176	1.0687	1.1463	1.1272	31.9508
Souteast Asia	4	14,466.79	1.3021	-0.1266	-0.3246	-0.2127	-0.8005	59.3914
Thailand	5	7,972.44	0.2888	-1.0197	-0.3666	-0.2411	-0.4482	66.5763
China, Rep.	6	7,417.89	0.0428	-0.6983	-0.6197	-0.4277	-1.6436	1,344.1300

Source: The World Bank and researcher's Calculation

Notes: Bolded type to indicate different ordering among the others in column.

Table 6. Rank of six regional countries including Thailand and Republic of China

Country	Per capita GDP in PPP	Openess	Political Stability	Control Corruption	Rule of Law	Voice Accountability	Number Population*
OECD 10	1	3	1	1	1	1	4
East Asia	2	1	3	3	3	3	5
Other OECD	3	4	2	2	2	2	6
Souteast Asia	4	2	4	4	4	5	3
Thailand	5	5	6	5	5	4	2
China, Rep.	6	6	5	6	6	6	1

Source: The World Bank and researcher's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

3) More details from Tables 5 - 6 above, arranged by regional comparison, it shows most consistency of all indicators as expected. However, it is noticeable that many indicators of the other OECD countries recorded some wrong ordering in some columns of good governance index. This is mainly due to the fact that these OECD countries were affected by the recent economic crisis resulting in lowering the recorded GDP in the year 2011 used in this study especially when compared to countries like the stronger growth East Asia. The good governance index is nevertheless related to the long term structure and does not immediately change by the crisis that impacted to the GDP.

4) The number of population shows clear sign of inverse relation with the income per head. Size of countries in terms of population therefore can be another factor causing complicated organization and management. The larger countries are unlikely to achieve successful development under this factor of population.

5) In addition, from Tables 5 - 6, degree of openness of those East Asian and Southeast Asian nations is not ordering in clear sequence. The high degree of openness of East Asia and Southeast Asia does not appear to connect much with their record of income per head. Mostly they are not high income countries, except Singapore. If Singapore is excluded from the Southeast Asia, the result then appears to show better sequential (Table 7).

Table 7. Rank of six regional countries (excluding Singapore from Southeast Asia)

	Per capita at PPP	Openess	Political Stability	Corruption	Rule of Law	Voice Accountability	Number Population
OECD 10	1	2	1	1	1	1	4
East Asia	2	1	3	3	3	3	5
Other OECD	3	3	2	2	2	2	6
Southeast Asia	4	5	4	4	6	5	3
Thailand	5	4	6	5	4	4	2
China, Rep.	6	6	5	6	5	6	1

Source: The World Bank and Author's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

6) Voice and accountability index shows unclear connection with income for Southeast Asia when Thailand and China are excluded (Table 7). It appears to become clearer relation between voice and accountability and the level of GDP if both countries are included in this region (Tables 8 - 9 below, Thailand is included in Southeast Asia and Tables 10 - 11 below, Thailand is excluded). In addition, for Thailand, the political instability was obviously found to be

a problem of the progress of development among those six indicators (Tables 7 above and Table 11 below).

Table 8. Average score of 5 regional countries (Thailand was included in Southeast Asia)

	Income	Per capita	Openess	Political	Corruption	Rule of	Voice	Number
	Rank	at PPP		Stability		Law	Accountability	Population
OECD 10	1	41,250.81	1.0295	1.0990	1.9077	1.7943	1.4663	42.0922
East Asia	2	35,464.26	5.4454	0.6638	0.7163	0.8356	0.5678	37.5937
Other OECD	3	26,051.02	0.8969	0.7176	1.0687	1.1463	1.1272	31.9508
Southeast Asia	4	13,817.36	0.4099	-0.0899	0.3288	-0.2155	-0.7653	60.1099
China, Rep.	5	7,417.89	0.0428	-0.6983	-0.6197	-0.4277	-1.6436	1,344.1300

Source: The World Bank and Author's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

Table 9. Rank of 5 regional countries (Thailand was included in Southeast Asia)

	Per capita	Openess	Political	Corruption	Rule of	Voice	Number
	at PPP		Stability		Law	Accountability	Population
OECD 10	1	2	1	1	1	1	3
East Asia	2	1	3	3	3	3	4
Other OECD	3	3	2	2	2	2	5
Southeast Asia	4	4	4	4	4	4	2
China, Rep.	5	5	5	5	5	5	1

Source: The World Bank and Author's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

Table 10. Average score of 7 regional countries

	Income	Per capita	Openess	Political	Corruption	Rule of	Voice	Number
	Rank	at PPP		Stability		Law	Accountability	Population
SINGAPORE	1	53,877.93	2.0044	1.2097	2.1179	1.6949	-0.1867	5.1837
OECD 10	2	41,250.81	1.0295	1.0990	1.9077	1.7943	1.4663	42.0922
East Asia	3	35,464.26	5.4454	0.6638	0.7163	0.8356	0.5678	37.5937
Other OECD	4	26,051.02	0.8969	0.7176	1.0687	1.1463	1.1272	31.9508
Southeast Asia	5	9,540.40	0.2593	-0.2936	-0.6299	-0.4511	-0.8773	66.1673
Thailand	6	7,972.44	0.2888	-1.0197	-0.3666	-0.2411	-0.4482	66.5763
China, Rep	7	7,417.89	0.0428	-0.6983	-0.6197	-0.4277	-1.6436	1,344.1300

Source: The World Bank and Author's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

Table 11. Rank of 7 regional countries

	Per capita at PPP	Openess	Political Stability	Corruption	Rule of Law	Voice Accountability	Number Population
SINGAPORE	1	2	1	1	2	4	7
OECD 10	2	3	2	2	1	1	4
East Asia	3	1	4	4	4	3	5
Other OECD	4	4	3	3	3	2	6
Southeast Asia	5	6	5	7	7	6	3
Thailand	6	5	7	5	5	5	2
China, Rep	7	7	6	6	6	7	1

Source: The World Bank and Author's Calculation

Notes: Number is the rank in each column from 1 (the highest=1)

7) In overall (Table 11 above), all the six factors (the six columns) were mostly found to contribute clearly to the success of development. Uncommon rank was found for Singapore in the voice and accountability index. Singapore as being the first rank of income however uniquely shows being poor rank in the voice and accountability as being less liberalized system. In addition, if compared across the six indicators of Thailand, i.e., in the same 6th row of Table 11 above, the rank of political stability was the worst of all regional countries while the other factors of Thailand were ranked better.

5. Conclusion

This study examines whether good governance is a significant factor contributing to successful development for countries. The paper views achievement of country's success by the level of income per head or per capita GDP. It is found that most indicators of good governance appeared strongly connected to the income per head of countries in the study. A large number of populations are on the contrary an obstacle to the success as management and organization are likely difficult. An interesting finding is that although countries in the same group have mostly found not difference in each area of good governance; by examining across groups of countries, they can be found differing in their development success due to these different levels of the good governance.

To sum up, the climate of good governance can be an essential factor promoting efficient management, administration and leading to sustainable development. Corruption control and political stability are two strong pillars of being good governance and directly related to country's overall success.

References

- Elearn, 2005. *Management extra: Business environment*. Oxford: Elsevier Butterworth-Heinemann.
- Kaufmann, D., Kraay, A., and Mastruzzi, M., 2009. Governance matter VIII, aggregate and individual governance indicators 1996–2008. *The World Bank Policy Research Working Paper*, 4978.
- Khan, M.H., 2009. Governance, growth and poverty reduction. *DESA Working Paper*, 75. Department of Economic and Social Affairs, United Nations.
- Tangsupvattana, A., 2010. Globalization, governance, development and socioeconomic structure change in Thailand. In: *Good Governance, Economy, Education, Culture and Tourism of Thailand and Korea Conference*, Bangkok, Thailand, 10-11 February, 2010.

United Nations Economic and Social Commission for Asia and the Pacific, 2009. What is good governance. [online] Available at: <<http://www.unescap.org/resources/what-good-governance>>. [Accessed 20 November 2010].