Corporate Governance: International literature evidence

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Abstract

This research is a review of the literature on corporate governance. Its goal is to consolidate our knowledge in this field, examine its evolution, and suggest future research directions. We discovered that the empirical results for many of the governance mechanisms studied are mixed in our review of the past and current literature on various governance measures and their effect on firm performance. We propose that the mixed results are due to the application of a "one size fits all" set of governance measures, which is ineffective for all types of firms due to organisational complexity and differences in ownership structures. As a result, we investigate more technologically advanced methodologies, such as machine learning. We believe that this line of research could not only improve but also transform.

Keywords: agency theory, corporate governance, ownership structure

Introduction

Recent financial scandals involving accounting and other frauds allegedly blamed on top company executives (e.g., Enron, Worldcom, Adelphia) have made public. bring to light the recurring question of whether companies are managed in the best interests of their shareholders Shareholders and other company stakeholders such as employees, creditors, and the government the general public A frequent point raised is that top executives may possess excessive power within their organisations, as well as a general lack of accountability and control over their activities are common in large corporations.

Corporate Governance….

As previously mentioned, the conflict between shareholders and managers is the main one examined in the context of corporate governance. Theoretical justifications for these

The broad term "corporate governance" refers to the procedures, practises, laws, regulations, and institutions that direct organisations and corporations in how they behave, manage, and oversee their operations. It works to accomplish the organization's objective and oversees relations with all stakeholders, including the shareholders and the board of directors. It also addresses individual responsibility through a mechanism that lowers the organization's principal-agent problem. Good corporate governance is an important essential benchmark for creating the dynamic investment environment that competitive gaining a strong position for businesses in effective financial markets. Effective corporate governance is essential. to the economies with a strong business background and also helps entrepreneurs succeed. The corporate finance sector has received the majority of attention from researchers over the past two decades. governance. The primary agency issue that businesses face is the division of ownership and control. (1932; Jensen & Meckling 1976; Berle & Means). This results in numerous problems with effective control for the assets of corporations in the best interests of all parties interested in the company. Excellent investigation has been made in the by retaining the agency-related issue in the corporate governance area. Core (1999) businesses with weaker Greater agency issues exist in the governance that directs and manages corporate matters. The agency issue enables ultimately performs worse as a result of the manager trying to extract more personal benefits. Thus, businesses are required for improved corporate governance is necessary for long-term survival and growth. A good business By balancing ownership and control, as well as other factors, governance can take place within an organisation. among the firm's stakeholders' interests. This strategy could be useful in creating the positive attitude between the manager and shareholders and lessens the firms' agency issues. This essay presents a comprehensive analysis of corporate governance from a variety of angles and tries to connect it with the agency issues where necessary. An overview of how corporate governance addresses deviations is provided. between the interests of the managers and the shareholders. The system of good corporate governance will be beneficial. to distinguish between ownership and control by presenting the subject from various perspectives. and makes an effort to address organizational agency issues.

Literature review

The separation of management and ownership control in modern corporations increases the importance of corporate governance. The interests of shareholders conflict with those of managers. Because of the disparities in the interests of the firm's stakeholders, the principal agent problem is reflected in management and direction problems. There is no single definition of corporate governance; rather, it can be viewed from various perspectives. Berle and Means (1932), as well as the earlier Smith (1776). Corporate governance is defined by Zingales (1998) as "allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organisational structure, and so on, can all be thought of as institutions that affect the process by which quasi-rents are distributed (p. 4)." According to Garvey and Swan (1994), "governance determines how the firm's top decision makers (executives) actually administer such contracts." Corporate governance is defined by Shleifer and Vishny (1997) as "the methods by which suppliers of finance to corporations ensure that they will receive a return on their investment" (p.737). In 1999, the OECD defined corporate governance as "the system by which business corporations are directed and controlled." The corporate governance structure specifies the distribution of rights and responsibilities among various participants in the corporation, such as the board, managers, shareholders, and other stakeholders, as well as the rules and procedures for making corporate-related decisions.

It also provides the structure for setting company objectives, as well as the means of achieving those objectives and monitoring performance." According to Oman (2001), corporate governance is a term that refers to private and public institutions that include laws, regulations, and business practises that govern the relationship between corporate managers and stakeholders. The Singapore Ministry of Finance (CORPORATE GOVERNANCEC 2001) defines corporate governance as "the processes and structure by which the company's business and affairs are directed and managed, in order to enhance long-term shareholder value through enhanced corporate performance and accountability, while taking other stakeholders' interests into account." As a result, good corporate governance embodies both enterprise (performance) and accountability (conformance)." (Fin, 2004, pp 13-14). La Porta, Silanes, and Shliefer (2000, 2002) define corporate governance as a set of mechanisms that protect outside investors (shareholders) from inside investors (managers). According to the Organization for Economic Cooperation and Development, "corporate governance is the system by which business corporations are directed and controlled." The corporate governance structure specifies the distribution of rights and responsibilities among various participants in the corporation, such as the Board of Directors, managers, shareholders, and other stakeholders, as well as the rules and procedures for making corporate-related decisions. It also provides the structures through which the company's objectives are set, as well as the means for achieving those objectives and monitoring performance.

McColgan (2001) provided a much broader perspective on agency theory and corporate governance. His research was primarily concerned with the areas where the interests of managers diverged from those of shareholders. He kept in mind the agency relationship and the agency cost that these relationships entail. He expanded on Jensen and Meckling's (1976) definition of the agency relationship as a type of contract in which the principal retains the agent to carry out the firm's services on his behalf. The agency problem arises as a result of the conflict between ownership and control as the principal delegate some decision making authority to the agent. Jensen and Meckling (1976) argued that delegating authority reduces the manager's ability to make value-maximizing decisions in the firm. Himmelberg, Hubbard, and Palia. (1999) argued Jenson and Meckling (1976) that principal agent problems are not the same in all firms, but rather differ in different firms, industries, and cultures. According to Himmelberg et al. (1999), Jenson's original theory of "nexus of contract" suggests the same. According to McColgan (2001), who agrees with the authors, the agency problem can be reduced with the help of an effective corporate governance mechanism, which can be important in reducing agency costs and ownership problems in firms. Governance should be designed with the firm's environment in mind, as one general mechanism may be more important for some firms and less important for others. Okeahalam and Akinboade (2003) examined corporate governance issues and challenges in two African countries. They stated that the reason for their review was that many non-financial corporations failed in the United States and Asia due to ineffective corporate governance. They stated that Africa can learn a lot from these countries' experiences and may improve corporate governance in Africa.

Okeahalam and Akinboade (2003) conducted the review by studying a contribution on corporate governance in Africa and stated that modern concepts of management separation from ownership make corporate governance an important issue for research. The interests of those who control organisations differ from those who invest in the company with outside funds. The principal agent problem and shareholder interests can only be reduced through effective corporate governance.

According to Okeahalam and Akinboade (2003), the organisation systems, practises, processes, and rules of governing institutions are closely related to corporate governance, so there is a need to identify those relationships that regulate, create, or determine the nature of those relationships.

Corporate governance requires businesses to strike a balance between the interests of shareholders and stakeholders at all levels of the organisation. According to Okeahalam and Akinboade (2003), Africa is highly influenced by mismanagement and corruption in the business environment; therefore, effective corporate governance can create transparency and safeguard against these threats that companies face in order to promote foreign investment by foreign traders and companies. The authors stated that research publication in the field of corporate governance is extremely low, and they suggested that research be promoted in both empirical and theoretical ways. Farinha (2003) conducted a theoretical and empirical literature review to determine the true nature and implications of corporate governance. The primary goal of his literature was to discover the causes of conflict between managers and shareholders in organisations regarding the ownership mechanism.

He also attempted to determine the relationship between corporate governance and firm value. According to Farinha (2003), a major problem in organisations arises from the relationship of principal and agent relationships, as well as a different approach of the manager than the shareholders. The manager's perspective remains with the limited cash-flows, so the manager's focus is on the short term perspective on investment, whereas shareholders are stuck with the quick return of cash flows. Risk aversion is another major source of disagreement between the principal and the agent. Shareholders are concerned with market risk and stock return risk, whereas managers are always concerned with company risk because their survival is dependent on firm risk. External disciplining devices are lacking in the area of corporate governance. Firms can implement these devices through effective corporate governance, which includes changing the composition of the board of directors, increasing the number of shareholders, maximising inside ownership, and offering different financial policies and compensation packages. Filatotchev, Lien, and Piesse (2004) investigated Corporate Governance and Performance in Taiwanese Publicly Listed, Family-controlled Firms. They investigated the effects of ownership structure and board characteristics on performance in large, publicly traded firms controlled by family businesses. The authors argued that firms in East Asia have a distinct culture and operate in different legal and institutional environments than firms in the West and Europe. According to the findings of agency and strategy research, cultural differences may have a significant impact on governance-performance relationships. The authors found no direct link between family ownership and managerial entrenchment and the extraction of private benefits from this control, which could be a negative cause of financial performance. The authors also discovered differences in corporate governance effects associated with various types of institutional shareholders. According to Filatotchev, Lien, and Piesse (2004), the process of globalisation may attract foreign investors to Taiwan markets, which may result in good corporate governance being imported by Taiwanese firms.

According to the findings of their study, family control over the executive board is a major determinant of performance. Becher and Campbell (2004) investigated bank mergers and acquisitions in terms of corporate governance. He believed that during mergers and acquisitions, CEOs negotiate for their own interests, while outside directors of the company deal with financial problems. The corporate governance of independent companies had a significant impact. Becher and

Campbell (2004) conducted an empirical study to determine the effects of personal benefits and merger premiums on 146 mergers of large US banks in the 1990s. During these mergers, they targeted two thousand directors and executives and discovered that the target's merger premium is inversely related to the number of target directors retained. This includes the corporation's size, incentives, payment methods, and bidder returns. According to three studies, the interests of target directors are more concerned with the size of the company than with performance, and they use their bargaining power with the acquirer to counter the interests of shareholders in the merger. Novikova (2004) investigated the impact of internal corporate governance systems on firms' innovative activities, attempting to answer the question of how much a firm's internal corporate governance system varies with the type and efficiency of its innovative activities. Novikova (2004) identified the board, shareholders, managers, and other stakeholders as the major participatory actors for the firms. He defined institutions as the rules and procedures used to make decisions on the firm's corporate affairs. Novikova (2004) based his research on the OECD definition of corporate governance, which defines it in a narrow sense as a relationship between a company and its shareholders, and in a broader sense as a relationship between the company and society. Kowalewski, Stetsyuk, and Talavera (2007) investigated corporate governance practises in Poland when determining dividend policy. According to Jensen (1986), dividends can reduce agency costs by distributing free cash flows that can be spent on unprofitable projects by the firm's management. In their research on agency cost, Gompers, Ishii, and Metrick (2003) stated that agency cost is the strengthened relationship between shareholder rights and its associated with corporate governance. Kowalewski et al. (2007) studied the views of many authors in their extensive literature on the topic and discovered that corporate governance is an important determinant for explaining dividend policies based on empirical implications.

They also discovered that larger asset-retaining companies and highly profitable firms with few investment opportunities pay higher dividends, whereas high-risk and indebted firms pay low dividends. Companies in Poland with strong corporate governance practises and strong shareholder rights pay higher dividends, which helps to mitigate Poland's agency problems. Cueto (2007) conducted another study to determine the role of ownership mechanisms and corporate governance practises in Latin American emerging markets. In the context of lax shareholder protections, the corporate governance mechanism has an impact on firm value, market liquidity, and industry organisation. Cueto (2007) proposed that the relationship between the corporate governance mechanism and the firm's value, as well as the effects of ownership structure and stock market liquidity, be investigated.

4. **Conclusion**

The importance of effective corporate governance is evident in this review, which is a collection of volumes of research on corporate governance. The purpose of the review is to assess the effectiveness of corporate governance and its mechanisms for running and managing business operations. The main area of research in this review is the issue of ownership and control, as well as the principal-agent problem and its impact on corporate governance. Most studies' findings show that effective corporate governance reduces ownership and control issues and draws a clear line between the shareholder and the manager. Finally, based on the discussions in all of the articles, this review provides a general overview of the principal-agent problem and ownership and control for corporate governance researchers and academic practitioners.

5. **Research Limitations**

The review conducted in this paper has many limitations that can be attributed to a lack of time. Due to the limited time available, the study is limited to studies focusing on different countries' perspectives. Each country is located in its own region, and the cultural aspects of different nations can influence business practises and corporate governance. Due to time constraints, the empirical aspect of the study was never fully explored. More emphasis should be placed on the practical aspects of corporate governance, and its practises in the real business environment should be closely exam

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