

Good emerging financial markets case study example

[Business](#), [Company](#)



Emerging Financial Market

Over the past more than ten years, world economic growth is characterized by emerging economies that represent different economic portfolios. Countries that are in the phase between developed and developing economies are emerging markets. They face a number of challenges ranging from underdeveloped financial markets to heavy reliance on debt capital. Inadequacy of accurate information is also a challenge in these economies thus affecting their decision-making. The investors in emerging markets finance their business ventures with short-term loans as opposed to long-term loans. Due to their poorly developed financial markets, they primarily rely on debt from banks as opposed to bonds and other securities used in advanced economies. The banks, due to the high default rates mainly offer secured loans further restricting a large number of investors who lack the securities. All these issues, with the right corporate governance, would end. Corporate governance relates to the rules and regulations that guide the way organizations operate. It outlines the way the management should handle their work, the employees' duties and responsibilities, and the corporate accountability to the stakeholders. This includes both internal and external stakeholders since they are affected by the activities carried out by companies. Good corporate governance favors the businesses in that it can operate under a reduced agency risk. The conflicting interests between the shareholders are also mitigated by good corporate governance. Corporate governance defines the roles and responsibilities of the board of directors, integrity and ethical behavior and disclosure and transparency of corporate affairs.

The challenge is not only encountered in developing nations, but also in already developed economies. However, developing economies are characterized by a number of challenges. The developing nations are characterized by inadequate policies that may control the performance of businesses. Political events in most cases disrupt the flow of events in these markets. To have a clear perspective of these markets, a focus on Flex Company in India is essential. It is due to the fact that, over the past decade India has emerged as one of the emerging financial markets. A focus on corporate government policies in emerging financial markets is thus essential in determining the challenges and focusing on required measures. Although countries like India have led in growth of industries, the policies governing these economies do not only challenge the industries action but also the economy as a whole.

Flexi Company, registered as a group of industries operations began back in the year 1988. The company is records the highest annual turnover in that industry making it the biggest flexible company in the Indian economy. Engaging in polyester films production, and other products like machinery, the company has established stable selling points in more than fifty countries in the world. Ashok Chaturvedi is the individual credited for the growth of Flex Company. His leadership qualities and expansionary views led to the development of the company. His experience in the packaging industry and efforts as well as visions led to success of Flex Company. The company growth achievement did not only represent an income source for the stockholders but also a leading example in the whole Indian economy. However, Chaturvedi operations and the company dealings remained

questionable. The company was charged with for misconduct and corruption that did not go well in the eyes of the public. Allegations levied on the company's conduct stems from corruption to illegal business operations. The company's CEO Mr. Chaturvedi accusations involved supporting and financing Pan Masala, a company that sells chewable tobacco. Other charges levied on the company included tax evasion. To enhance the vice, the company bribed officials who as well as the company stood for accusations. On receiving these news, the market reaction became negative as stockholders and interested parties became wary of the company's dealings. As a leading company, Flexi company operations encountered a bad image from the public and around the globe where it conducted business. The negative reaction from investors and the public derived attention to competitors like the BSE 500. These actions are common in emerging markets where corporate governance has failed to introduce policies to control industries and individual companies. Although, it sounds unusual how such a big company like Flexi could evade tax, it is important to note that the Indian taxation system requires more than what the company used to bribe. Company's operations are not only taxed by the union government but also by the state and local governments. These taxes are derived depending on a company's operations. However, the Indian government as other emerging markets government policies failed to fully effect charges on Chaturvedi. Although the charges were presented and what amounts to quantifiable evidence given, the charges were dropped on the basis of lack of evidence.

The case with Flexi Company is an example of what emerging financial

markets economies encounter. The case is however different from developed economies. The stock holders should ensure the company's operations are not only good but accurate to avoid such occurrences. Markets react to both negative and positive information of a company. The negative reaction from investors after the news of Flexi company were received is a case example of how potential investors are concerned about the image of an organization. Different stakeholders have the role of ensuring companies and the industry in general adheres to the right policy. Although, stakeholders like the media are important in ensuring that the policies are adhered to, it is the role of the government to ensure corporate governance is effective. Governments in emerging markets should ensure stiffer penalties are imposed on companies that do not adhere to the set guidelines. Developing economies governments needs to borrow a leaf from the already developed economies to ensure that effective guidelines are adhered to. Due to the availability of inexpensive raw materials, emerging financial markets attract foreign investors. Poor market management and ineffective government policies scares away investors.

Conclusively, state ownership and control of companies can be used as a tool for corporate governance in emerging markets. It is because issues like inadequate information will be curbed due to a central control body, the state. The control of companies will ensure that there is a reliable financial market with which the investors can trade securities. The governments of emerging financial markets also needs to ensure that policies formulate are efficient and effective in order to enhance growth of industries and companies. Effective policies will attract investors leading to developments.