Conceptual framework and hypothesis development in corporate governance essay sam...

Corporate Governance is affected by a multiplicity of factors. It is affected by the relationships among participants in the governance system. The legal, regulatory and institutional environment in which, a corporate body operates affects the manner in which it governs. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates can also have an impact on the governance of the corporate body.

There is no globally accepted corporate governance structure. Differences in corporate governance structure are primarily driven by a country's statutes, corporate structure, and culture. For example, corporate governance reforms in the U. S. are typically regulator-led whereas reforms in European countries are normally shareholder-led. Nonetheless, the OECD has established a set of corporate governance principles that have received global acceptance.

A conceptual framework developed in this chapter provides a framework to understand the variables of corporate governance practices in Indian and abroad companies, and identifies the hypotheses regarding the comparisons and differences of corporate governance variables in Indian and abroad companies. Section 3. 2 Justification and relevance of the study 3. 3. Statement of the problem 3.

4 Scope of the study 3. 5. A theoretical framework 3. 6 Development of a conceptual framework for this study 3. 6. 1 The variables, considered important in analyzing the corporate governance practices in India and abroad companies 3. 7 Hypothesis Development 3. 8 The comparisons and

differences between Indian and abroad companies 3. 8. 1 The Benefits of corporate governance 3. 9 conclusion of the chapter.

The organization must prioritize the interest of the major groups involved in corporate governance such as Shareholders, Board of Directors, Management, Employees, Government etc as these are the ones who in turn would provide the strengthening effect to the firm from within. But in reality companies fail to prove themselves on this part. This creates a need to study the prevailing way of Corporate Governance in companies and assess how far the improvements made in past have made it credible in eyes of the shareholders. The present study is concerned with evaluating the performance of the companies in terms of their code of conduct of Corporate Governance.

The present study aims at understanding the prevailing levels of Corporate Governance in Indian public & private sector companies and abroad companies. Twenty five companies representing the public sector & Twenty five companies representing the private sector and fifty abroad companies are taken in the study to assess the changes brought down in their governing pattern.

The primary focus of the study is on the way of handling Corporate Governance issues in Indian public and private sector companies and abroad companies. Twenty five companies taken into consideration will be from Indian Public sector & Twenty five companies taken from Indian Private Sector and fifty companies taken in to consideration from abroad. The scope of the study is to study the aspects related to Corporate Governance and stakeholders of the companies’

A framework drawn from major groups involved in Corporate Governance shown in figure 3. 1. It suggests that in this study the analysis of all the major groups involved in corporate governance such as Shareholders, Management, Government, Employees and Board of Directors.

The review of all major groups of corporate governance and research suggests that different forms of accountability of all groups involved in corporate governance.

Development of a Conceptual Framework for this study

The conceptual framework (Figure 3. 2) illustrates the link between the above theoretical framework and operationalisation of the corporate governance variables and Comparisons that are investigated in this study. It is an inductive process; theory is developed from empirical observations. The research suggests that there are several variables that influence the corporate governance practices. (Refer to Chapter 2). Internal corporate governance mechanisms include Shareholders, Management, Government, Employees and Board of Directors. Some of the variables identified in the corporate governance literature to study the corporate governance comparisons between the Indian and abroad companies.

This study examines the corporate governance practices between Indian and abroad companies. The conceptual framework comprises of internal corporate governance variables, Shareholders, Management, Employees and

Board of Directors and corporate reporting practices, which are considered important in analyzing the corporate governance practices in Indian and abroad companies. Corporate reporting includes financial reporting and annual reports.

Indian Companies

Public & Private

Testing of Corporate Governance General Variables, Objectives & Hypotheses

Corporate Governance Comparisons

Corporate

Governance

Abroad Companies

Indian and abroad companies' corporate governance comparisons in this study are observed and evaluated by the above variables. The above variables are observed through their companies' websites

The conceptual framework presented above will be used to develop the testable hypothesis for the study. The basis of the hypothesis is that the corporate governance practices variables named above, will be reflected in the comparisons and differences of corporate governance practices in Indian and abroad companies. Therefore, the hypothesis presented in this study will be tested to investigate the comparisons and differences between Indian and abroad companies.

Hypothesis:

Organizations in countries with poor governance practices find it difficult to globalize and enter foreign markets for business.

Also good governance is essential to prevent financial crises and to build image and credibility.

There will not be any differences in the quality of governance between Indian and foreign companies.

The comparisons and differences between Indian and abroad companies.

Good Corporate Governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. A company that is well-governed is one that is accountable and transparent to its shareholders and other stakeholders. Conversely, weak Corporate Governance leads to waste, mismanagement, and corruption. It is also important to remember that although Corporate Governance has emerged as a way to manage modern joint stock corporations it is equally significant in state-owned enterprises, cooperatives, and family businesses. Regardless of the type of venture, only Good Governance can deliver sustainable Good Business Performance.

A – The Benefits to Companies

Compliance with the Corporate Governance principles can benefit the owners and managers of companies and increase transparency and disclosure by:

It improves the access to capital and financial markets

It helps to survive in an increasingly competitive environment through partnerships, acquisitions, mergers and risk reduction through asset diversification

It provides an exit policy and ensures a smooth inter-generational transfer of wealth and divestment of family assets, as well as reducing the chance for conflicts of interest to arise (very important for the investors).

It also, adopting good Corporate Governance practices leads to a better system of internal control, thus leading to greater accountability and better profit margins.

Good Corporate Governance practices can pave the way for possible future growth, diversification, or a sale, including the ability to attract equity investors – nationally and from abroad – as well as reduce the cost of loans/credit for corporations.

Many businesses seeking new funds often find themselves obliged to undertake serious corporate governance reforms at a high cost and upon the demand of outsiders, often in a time of crisis. When the foundations are already in place investors and potential partners will have more confidence in investing in or expanding the company's operations.

B – The Benefits to Shareholders

Better Corporate Governance can provide the proper incentives for the board and management to pursue objectives that are in the interest of the company and shareholders, as well as facilitate effective monitoring.

Good Corporate Governance can also provide Shareholders with greater security on their investment.

Better Corporate Governance also ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc.

C – The Benefits to the National Economy

Empirical evidence and research conducted in recent year's supports the proposition that it pays to have good Corporate Governance. It was found out that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed but with a comparable financial record.

The adoption of Corporate Governance principles – as good Corporate Governance practice has already shown in other markets – can also play a role in increasing the corporate value of companies.
" If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country suffer the consequences." (Arthur Levitt, former chairman of the US Securities & Exchange Commission)

Conclusion

This chapter discussed the development of the hypothesis for the study. Firstly, it examined the theoretical framework that applies to the study. Secondly, the theoretical framework was linked to the conceptual framework through corporate governance variables to develop the hypotheses for the study to observe if the corporate governance in India and abroad companies.

Thirdly, the hypotheses identified were discussed. Therefore, this chapter plays an important role in understanding the comparisons' and differences of corporate governance practices in India and abroad companies. In the next chapter, we will present the methodology to test the hypotheses developed for the conceptual framework in this chapter.