

# Behavioral finance in corporate governance independent directors and non-executiv...

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Presented by Introduction many employees sacrifice their careers and reputation because of loyalty to their CEO Loyalty is misused through misplaced loyalty in certain organizations.

Milgram experiment

Milgram experiment test innate loyalty through psychology experiment. psychological attributes of the respondents was testing in mock experiment subjects were made to electrocute stranger contrary to their own beliefs

Leadership and corporate governance

Modern liberal corporate governance calls for different professionals in leadership restrained by laws and rules.

The leaders are given different authorities to run organizations.

The CEO have are appointed by the Board of the organization

The boards remain loyal even to CEOs that are misguided.

Many boards detest disagreeing with CEO they feel that would be perceived as disloyalty.

Dissenting peers and conflicting authorities

The Milgram experiment explains how people dissent peers and conflict authority.

Cases of dissenting peers voice their concerns; the subjects reduce their loyalty levels to the authority.

Encouraging disobedience on boards

Peer concerns may disrupt loyalty and encourage others board members to also disagree.

CEO from certain meetings since that would encourage disobedience that offers objective assessment of company

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## Alternative explanations

People would naturally be obedient until other people including peers voice concern

When concern is raised people begin to question their loyalty.

## Ethics of corporate governance

Organizations are marred with ethical failures where fail to offer right counsel when they are required to

People make excuses of ethical failures

Loyalty and morality often clash among people in authority in corporate bodies.

Through argentic shift, people may forsake rational reasoning for loyalty

## Agency problems revisited

Type I agency problem: Many corporates fail because those tasked with leadership fail to act as agents of the firms.

Many CEO tasked with acting for the good of many other decide to act for their own good.

In other cases, directors collude with CEO to act for their own sake.

## Institutions to balance twin agency problems

Different institutions have a duty to balance the agency problems

Once way of offering balance is vetting those to be given authority in organizations

Appoint people specifically with power to offer criticism to people in authority.

## Critique of the article

people appointed in organizations to criticize the management but fails to

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state how the critics would be criticized

Advocating for vetting of people may be short lived people can devise ways of beating the vetting process.

#### References

Morck, R. Behavioral Finance in Corporate Governance - Independent Directors and Non-Executive Chairs. SSRN Electronic Journal. [http://dx. doi. org/10. 2139/ssrn. 527723](http://dx.doi.org/10.2139/ssrn.527723)