

How corporate governance is implemented in the uk



The structure of ownership of a corporation determines how the corporation is managed, controlled and how it implements its approaches. In the UK, the ownership structure can be dispersed among institutional and individual shareholders. Furthermore, the UK corporate sector is characterized by the co-existence of private, state-owned and multinational corporations. The implementation of a corporation's activities and approaches is procedural and follows a specific chain of command. There is always a board of management that is collectively responsible for running the operations of the corporation (Mcgarvey & Hannon, 2004). The board is in charge of formulating policies to be implemented. However, before implementation, the agreement by the board is made known to other relevant stakeholder, who in turn is charged with the responsibility to approve the approaches put forth. Furthermore, they are also tasked with the responsibilities of evaluating the implementation process and have the ability to dismiss the nonperforming members of the board.

A key principle on which it is based

The companies Act of 2006, in the UK, provides a guideline on corporate governance. Based on the Act, the UK has developed a market-based model that permits the board to have flexibility in the manner in which it organizes itself and implements its responsibilities and at the same ensuring that it is properly accountable to its shareholders. Corporate governance implementation is attained primarily through the UK Corporate Governance Code that is always maintained by the FRC. 'Comply and explain' is the basis under which the code operates (Carmichael & Pomerleano, 2002).

The code identifies good governance practices relating to risk management,
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the board and its committees and internal control. However, still based on the code, companies have the liberty to adopt a particular approach that is more suitable to their situation. As much as there is this liberty, they are needed to provide an explanation of a reason to their shareholders who in turn either decides that the approach is implemented or rejected.

The ‘comply or explain’ approach allows for judgments about the performance and composition of the board to be made on a scenario by scenario basis. This approach is highly supported by investors, companies and regulators in the UK. This approach, however, works best when the shareholders have the relevant and appropriate information that enables them to make a prudent judgment on the governance practices of the organizations in which they invest. Furthermore, they need to have the freedom that enables them to influence the management when they do not concur with the approaches put forth. The ‘comply or explain’ approach thus, requires being underpinned by the relevant regulatory framework (Dumas, 2013). Based on the UK law, corporations shareholders possess a right to vote and also rights to dismiss or appoint individual directors.

Failures in corporate governance in the UK

While it does not entirely imply that poor corporate governance accrues all corporate failures in the UK, the general implication failed corporate governance implies the inability of the UK corporations to attain the intended purpose. There are major failures of corporate governance in the UK. Some of the major failures include;

Questionable ethics: primarily, by law, it is required that corporations adhere to the set code of ethics. However, many UK corporations have been reported in the recent past to have failed to comply with such obligations. Many corporations do not adhere to comply with the needed ethics especially with regards to environmental conservations and human resource management. According to Calder & Moir (2009), many employees from corporations complain of un-conducive work environment or complain of being overworked and being underpaid. Despite, labor unions championing for the rights of employees, some corporations have been reported not to be in adherence (Solomon, 2007). Standard Chartered bank has also had problems regarding improper share deals, overstated earnings and human resource problems.

Shortcomings in accounting and reporting: this was a major failure in some of the major financial institutions in the UK such as the Barclays bank. The challenge was more profound during the period 2001 and 2002 when most corporations were reported to have had issues with accounting fraud (Forbes & Hodgkinson, 2014). The resultant impact was dire on the corporations and even resulted in huge losses and derailed operations.

Impact of failure on financial institutions in the UK

Weak internal control

The success of any corporations is mainly pegged on the nature of internal relations. Well-coordinated corporations with effective teamwork are more likely to accrue operational efficiency and effectiveness. However,

corporations such as the Barclays bank had been engulfed by failures in its <https://assignbuster.com/how-corporate-governance-is-implemented-in-the-uk/>

internal control. Issues of conflict of interest have been reported where loyalties have been compromised. Similarly, issues of transparency and accountability have been profound in most UK corporations (Bates, 2005). Barclays bank was once reported of providing false information about their accounts. Through techniques such as ‘creative accounting’ such corporations have been able to falsify their account figures; this is primary to inflate their profits so as to attract investment. Royal Bank of Scotland Group was reported to have devious accounts that indicated enormous profits while in the actual sense this was not.

Methodology

According to Fligstein, (2016) research studies are undertaken by individuals to look into details why certain things are the way they are in the systematic manner. Research studies have formed the basis for further researches in what already exists. People have also been able to increase their knowledge and understanding of particular issues that affect them in their environment. The main reason for conducting this research proposal is to establish more facts about “something.” Fligstein, (2016) defines methodology as a tentative collection of assumptions and goals, underlying methods as well as the outcome of carrying the steps that are being evaluated and interpreted. To make research more easy and understandable by the target audience, it is necessary to arrange the ideas of the research in a systematic manner (Fligstein, 2016).

Research question

The case analysis in this research will answer the question: did relation of agent-principal and corporate governance contribute to the financial crisis?

The research will focus on the financial crisis that was experienced on 2007-2009 in the British banking and other financial institutions.

Instrumentation

According to the research topic for this research proposal, Questionnaires for interviews will be used in tapping into the knowledge of the financial statements in the agent-principal and corporate governance (Reddy 2014).

The main area of interest that the research will focus on will be to find out how agent-principal and corporate governance played a role in the financial crisis. To understand the study, a questionnaire sheet will be designed and then distributed to the officials of the corporate governance and the agent-principal about the role they played in bringing about the financial crisis (Florackis, 2014). The questionnaire spreadsheets will be of the essence as it will show how UK financial institutions were run, the shortcomings that were experienced and the fishy activities that were experienced during the occurrence of the crisis.

Synthesis and Analysis

According to the information provided in the literature review above, it is evitable that financial crisis began at the bust of the USA housing bubble that came up as a result of irresponsible profit maximization by groups that were involved in the mortgage lending chain. As much as there is evidence to show and support that they took a part in contributing to the saga, they

could not be held liable since they hid information from the government and <https://assignbuster.com/how-corporate-governance-is-implemented-in-the-uk/>

their counterparts (Gieve, 2012). It became hard for the groups to be able to determine the financial position of their counterparts. There were some principal-agent relationships that are linked to the financial crisis (Haas 2014).

Additionally, from the analysis of the literature review, it can be seen that the corporate governance participated in the financial crisis. There is evidence from financial institutions worldwide showing that corporate governance participated in the financial crisis. Their role in the financial crisis entailed the use of a unique dataset which had 306 financial organizations from all over 31 countries (Chevapatrakul, 2014). They were all appearing at the center of the financial crisis. Furthermore, there was this belief that had spread worldwide that the financial crisis was partially caused by the pressure for short term results that was being received from outside board members as well other investigators. In analyzing the literature review, it becomes clear that organizations that had independent boards, as well as institutional ownership, had more cases of loss during the crisis compared to other organizations that had the dependent board of directors. Also, the used CEO compensation contracts that had a strong emphasis on the annual bonuses suffered more losses during the crisis and also took more risks before the risk happened (Kuppuswamy 2015).

This analysis from the literature review shows that both the corporate governance and the agent-principal had a role to play in the financial crisis that was experienced. They used the British banking system and other financial information to carry out their operations. They did their activities while hiding information from their counterparts to succeed. What resulted is <https://assignbuster.com/how-corporate-governance-is-implemented-in-the-uk/>

that there was a financial crisis that paralyzed not only the UK economy but the entire world. The effects of the financial crisis were spread all over the world. These two institutions violated most of the rules for their benefit (Joyce, 2014).