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A Review of Corporate Governance Literature

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Abstract. A company's procedures, structure, and techniques for managing and directing its operations and affairs are collectively referred to as corporate governance. By holding managers accountable and improving the company's performance, corporate governance also increases long-term shareholder value. By defining the interests of shareholders and management independently, it also removes ownership and control conflicts. In order to determine the efficacy of corporate governance mechanisms in businesses and organizations, this study examines a large body of literature on corporate governance practices. The reduction of the principal-agent dilemma as a result of the firms' efficient corporate governance mechanisms is another emphasis of the article.

Keywords: Agency theory, ownership, shareholders, management, and corporate governance.

Introduction

The wide phrase "corporate governance" refers to the procedures, norms, regulations, policies, and institutions that guide organizations and businesses in how they behave, manage, and oversee their activities.It strives to accomplish the organization's objective and oversees the interactions between the board of directors and shareholders, among other stakeholders.Additionally, it addresses individual responsibility via a system that lessens the organization's principal-agent dilemma. In order to provide the compelling investment environment that competitive businesses need to maintain a strong position in the financial markets, good corporate governance is a crucial benchmark. Effective corporate governance is essential to economies with a strong commercial foundation and helps entrepreneurs succeed. Over the last twenty years, corporate governance has been the main focus of financial study. The fundamental agency issue that businesses face is the separation of ownership and control (Berle & Means 1932; Jensen & Meckling 1976). This raises a number of concerns about effective management of corporate assets in the best interests of all stakeholders. By focusing on the agency-related issue, excellent research has been conducted in the field of corporate governance. According to Core (1999), agency issues are more prevalent in companies with worse governance for managing and directing business affairs. In the end, the company performs poorly since the agency issue enables the management to take greater personal gains. Therefore, firms need better corporate governance to ensure their long-term existence and development. By balancing ownership and control as well as the interests of the company's stakeholders, an organization may achieve strong corporate governance. This strategy lessens agency issues in businesses and may be useful in fostering a good attitude among managers and shareholders.This essay offers a general overview of corporate governance from a number of angles and, where necessary, attempts to connect it to agency issues. It provides a summary of how corporate governance addresses the conflict between the interests of managers and shareholders. By presenting the subject from several perspectives and attempting to address agency issues inside the companies, the mechanism of successful corporate governance will aid in distinguishing between ownership and control.

Literature Review of Corporate Governance

Because ownership control and management are kept apart in contemporary firms, corporate governance is crucial. The interests of management and stockholders are at odds. Due to the disparate interests of the firm's stakeholders, the principle agent dilemma is mirrored in management and direction-related issues. Corporate governance may be defined in a variety of ways. Smith (1776) and Berle and Means (1932). "Allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labor market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed" is how Zingales (1998) defines corporate governance (p. 4). According to Garvey and Swan (1994), "governance determines how the firm's top decision makers (executives) actually administer such contracts" (p. 139). Corporate governance, according to Shleifer and Vishny (1997), is "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p.737). Corporate governance was described by the OECD in 1999 as "the system by which business corporations are directed and controlled." The corporate governance structure outlines the rules and processes for making decisions on corporate matters as well as the allocation of rights and obligations among various corporate actors, including the board, management, shareholders, and other stakeholders. By doing this, it also offers the framework for establishing the company's goals, as well as the methods for achieving them and keeping track of success. According to Oman (2001), the word "corporate governance" refers to both public and private organizations, including laws, rules, and business practices that control how company management interact with stakeholders.Corporate governance is "the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, while taking into account the interests of other stakeholders," according to the Ministry of Finance, Singapore (CORPORATE GOVERNANCEC 2001). Therefore, enterprise (performance) and accountability (conformance) are both embodied in good corporate governance. Fin (2004), pp. 13–14. Corporate governance is seen by La Porta, Silanes, and Shliefer (2000, 2002) as a collection of safeguards for external investors (shareholders) against internal investors (managers). Another viewpoint is offered by the Organization for Economic Cooperation and Development, which defines corporate governance as "the system by which business corporations are directed and controlled." The corporate governance structure outlines the rules and process for making decisions on corporate matters as well as the allocation of rights and obligations among various corporate actors, including the Board, management, shareholders, and other stakeholders. By doing this, it also offers the frameworks for establishing the company's goals as well as the methods for achieving them and tracking results.

A View from Literature of Corporate Governance & Agency Theory

McColgan (2001) provided an extremely comprehensive perspective on corporate governance and agency theory. His study focused mostly on the areas where managers' incentives differ from shareholders' interests. He considered the agency connection and the associated agency costs. He expanded on the work of Jensen and Meckling (1976), who described an agency relationship as a kind of agreement whereby the principal retains the agent to perform the firm's activities on his behalf. The tension between ownership and control and the divergent interests that result from the principle giving the agent some decision-making power give birth to the agency dilemma. According to Jensen and Meckling (1976), this delegating power lessens the manager's ability to make choices that maximize value for the company. Palia, Hubbard, and Himmelberg. (1999) countered Jenson and Meckling's (1976) assertion that main agent problems vary among enterprises, sectors, and cultures. According to Himmelberg et al. (1999), Jenson's initial "nexus of contract" hypothesis suggests the same. In agreement with the authors, McColgan (2001) said that an efficient corporate governance system may assist lower agency costs and ownership issues in businesses. One broad mechanism may be more significant for certain organizations and less significant for others, therefore governance should be designed with the company environment in mind. The problems and difficulties of corporate governance in Africa were examined by Okeahalam and Akinboade (2003). They said that ineffective corporate governance was the cause for the failure of several non-financial companies in the US and Asia. They said that Africa could strengthen corporate sector governance and learn a lot from these nations' experiences. Okeahalam and Akinboade (2003) carried out the review by examining a contribution on corporate governance in Africa. They concluded that corporate governance is a crucial topic for research because of the contemporary ideas of separating ownership from management. Those in charge of the organizations have different interests than those who use outside funding to invest in the business. Effective corporate governance is also the only way to lessen the principle agent issue and the interest of shareholders. According to Okeahalam and Akinboade (2003), corporate governance is closely related to the organization systems, practices, processes, and rules of governing institutions; therefore, it is necessary to identify the relationships that govern, establish, or determine the nature of relationships through those relationships. Companies should balance the interests of stakeholders at all organizational levels with those of shareholders, according to corporate governance. According to Okeahalam and Akinboade (2003), mismanagement and corruption in the business environment have a significant impact on Africa. As a result, effective corporate governance can foster transparency and protect businesses from these risks, encouraging foreign investment from traders and businesses. The authors claimed that there are relatively few research publications in the field of corporate governance and recommended that both theoretical and empirical approaches be used to advance the field. To determine the actual nature and effects of corporate governance, Farinha (2003) reviewed the theoretical and empirical literature. His literature's primary goal was to identify the causes of ownership mechanism conflicts between managers and shareholders in businesses. Additionally, he looked for a connection between the firm's worth and corporate governance. According to Farinha (2003), a significant issue in a business is the principal-agent relationship and the manager's distinct viewpoint from that of the shareholders. While shareholders are fixated on the rapid return of cash flows, managers continue to concentrate on the short-term view of investment due to the restricted cash flows. Another significant cause of disagreement between the principal and the agent is risk preference. While managers are always worried about business risk since their livelihood relies on it, shareholders are linked to market risk and stock return risk. When it comes to external discipline mechanisms, corporate governance is insufficient. These strategies, which include changing the makeup of the board of directors, increasing the number of shareholders, maximizing internal ownership, and offering various financial policies and compensation packages, may be implemented by businesses via good corporate governance. Filatotchev, Lien, and Piesse (2004) investigated corporate governance and performance in Taiwanese family-controlled, publicly traded companies. They examined how ownership structure and board composition affected the performance of big, publicly listed companies under family control. The writers contended that businesses in East Asia function in different institutional and legal contexts than those in the West and Europe, as well as with a unique culture. The study of agency and strategy research suggests that these cultural variations may have a significant influence on governance-performance linkages. Family ownership and management entrenchment and the extraction of the private advantages of this control, which might be the cause of poor financial performance, were not found to be directly related by the writers. The authors also noted how various kinds of institutional shareholders had varying influence on corporate governance. According to Filatotchev, Lien, and Piesse (2004), the globalization process may draw international investors to Taiwan's marketplaces, which might result in Taiwanese local companies importing sound corporate governance. The study's findings also indicate that the primary factor influencing performance is family influence over the executive board. The corporate governance of bank mergers and acquisitions was examined by Becher and Campbell (2004). He believed that while the company's outside directors deal with the financial issues, CEOs bargain for their personal interests throughout these mergers and acquisitions. There had a significant impact on independent enterprises' corporate governance.Becher and Campbell (2004) used a sample of 146 mergers of major US banks in the 1990s to conduct an empirical analysis to determine the impact of personal perks and merger premiums. Target's merger premium is negatively correlated with the number of target directors retained throughout these mergers, they discovered, focusing on the 2,000 directors and executives involved. This also applies to the size of the company, incentives, modes of payment, and bidder refunds. According to the research, the target director's interests are more closely aligned with the company's size than its performance, and they use their negotiating position with the acquirer to undermine the shareholders' interest in the merger. The influence of an organization's internal corporate governance system on its creative activities was examined by Novikova (2004), who also addressed the subject of how much an organization's internal corporate governance system varies with the kind and effectiveness of its innovative activities. The board, owners, management, and other stakeholders are the main participants in the company, according to Novikova (2004). He described the institutions as the guidelines and practices used to decide on the company's business matters. According to Novikova's (2004) study, corporate governance is defined by the OECD as the connection between a firm and its shareholders in a limited sense and the relationship between the company and society in a wider sense. In order to determine Poland's dividend policy, Kowalewski, Stetsyuk, and Talavera (2007) investigated corporate governance standards. According to Jensen (1986), dividends may lower agency costs because they distribute free cash flows that the company's management can utilize for unproductive initiatives. In their study on agency costs, Gompers, Ishii, and Metrick (2003) also said that agency costs enhance the bond between the rights of shareholders and corporate governance. Kowalewski et al. (2007) examined the opinions of several writers in their substantial body of work on the subject and concluded that corporate governance plays a significant role in explaining dividend policy based on empirical implications. Additionally, they discovered that although high-risk and indebted corporations pay low dividends, bigger asset-retaining companies and highly successful enterprises without attractive investment possibilities pay higher dividends. Companies in Poland that uphold solid corporate governance and shareholder rights produce larger dividends and lessen the country's agency issues. Cueto (2007) carried out another research to determine the function of ownership mechanisms and corporate governance practices in Latin American developing economies. The corporate governance mechanism has an impact on market liquidity, industry organization, and company value when shareholder safeguards are inadequate. Cueto (2007) suggested that it is necessary to investigate the link between the corporate governance system and the firm's value as well as the impacts of ownership structure and stock market liquidity.

Conclusion

The need of competent corporate governance is made clear in this review, which is a compilation of several studies on the subject. The review's goal is to determine how well corporate governance works and how well it manages company operations. The primary focus of this review's study is on ownership and control, the principal-agent dilemma, and how it affects corporate governance. The majority of research indicates that good corporate governance creates a distinct boundary between the management and the shareholder and lessens ownership and control issues. Lastly, this review offers academics and academic practitioners in the field of corporate governance a broad overview of the principal-agent dilemma and ownership and control based on the discussion of all the papers.

Limitations of the Study

Due to time constraints, the review carried out in this study has several limitations. Owing to the shorter time frame, the research is limited to studies that take into account the perspectives of other nations. Every nation is situated in a distinct geographic area, and the cultural characteristics of various countries may have an impact on corporate governance and commercial practices. Due to time constraints, the empirical component of the research was never fully developed. The practical side of corporate governance should get more emphasis, and its applications in actual business settings should be thoroughly examined.

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