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Research Article

Corporate Governance And Ethics

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ABSTRACT

A review of the past reveals that models and theories of corporate governance are dynamic and subject to constant change. One explanation is that profit-making took precedence over social conscience, which is fundamentally lacking. Businesses worldwide are attempting to establish a culture of leadership within their company. Corporations grew stronger during the global surge of capitalism, forcing governments to give in to their manipulations and become subservient. Therefore, the purpose of this article is to survey the various theories of corporate governance by reviewing relevant literature. Agency theory laid the groundwork for subsequent theories in corporate governance, including stewardship and stakeholder theory, as well as resource dependency and transaction cost theories, as well as political and ethics-related frameworks like discourse and postmodernism ethics.Instead of focusing on the regulatory frameworks, along with theories, investigate the responsibility and implication of the variables such as the audit committee, board composition, and social relationships of the top management and the independent directors. Therefore, instead of basing corporate governance theory on a single theory, it is recommended to incorporate a mixture of theories that can describe an effective governance practices.

KEYWORDS : Corporate governance, ethics, theory

INTRODUCTION

The corporate world has grown into a formidable and all-pervasive force. They have expanded their size, influence, and capabilities to every corner of the world. Many parts of society and the economy have been shaped by their rule. Both the market value and the confidence of shareholders have taken a nosedive greatly impacted. More deterritorialization and less government control are side effects of globalization, which increases the necessity for accountability (Crane and Matten, 2007). That is why, in today's complicated and globalized business world, good corporate governance is crucial. Emphasizing the definition of corporate governance is crucial for comprehending the concept. Corporate governance can be described as a system of procedures and frameworks for managing and leading a company, even though no universally agreed-upon definition exists. According to Ching et al. (2006), it is a collection of regulations that control the interactions between shareholders, stakeholders, and management. Originating from the Greek word "kyberman"—meaning to steer, guide, or govern—the term "corporate governance" is clearly founded.
The Latin word "gubernare" and the French word "governer" both originate from the same Greek word. Also, it could refer to the steps involved in making a decision and then carrying it out. From this point on, various companies use the term "corporate governance" in very different ways (Abu-Tapanjeh, 2008). The face of corporate America has been frightened in recent years due to the abundance of corporate failures.

Any kind of business could be considered part of corporate governance, and the term could be used to describe both monetary and non-monetary pursuits. Although they do offer a definition of governance, the literatures on corporate governance fail to provide a precise one. Control, regulate, manage, govern, and governance are all terms that can be interpreted in different ways. Due to the lack of clarity, numerous interpretations have been put forth. If one wants to understand governance better, it might be helpful to think about the factors that impact or have an impact on a company. Every social scientist is generating there on concerned and scope which can lead to flawed proposed models of corporate governance due to numerous influential factors.

Therefore, this article provides a comprehensive overview of the primary theories that influence the corporate governance. All the theories along with the agency theories have integrated into the stakeholder theory, stewardship theory, transaction cause theory, resource dependency theory, ethics theories and political theories including feminist ethics, business ethics, virtue ethics, discourse theory, and postmodernism ethics.

Relevant Principles Of Corporate Governance

i) Agency Theory

Economics provided the foundation for encyclopedic theory, which was advanced by Jensen and Meckling (1976) and first proposed by Alchian and Demsetz (1972). According to one definition, "the relationship between the principals, such as shareholders and agents, such as the company executives and managers" is what accounts for agency theory. Theoretically, the company's owners or principals, who are also known as stockholders, employ the men to do the labor. The principals appoint directors or managers to act as agents for the shareholders in administering the company (Clarke, 2004). It is true that two things can affect how prominent agency theory is, according to Daily et al. (2003). The theory boils down a firm to its two primary actors—managers and shareholders—and is, first and foremost, conceptually and simplistically sound. As a second point, agency theory posits the possibility of self-interest on the part of both employees and supervisors.

In agency theory, the principle's interest should guide the agent's actions and decisions. Instead, it's possible that the agent won't act in the principals' best interests (Padilla, 2000). Adam Smith raised this issue in the 18th century; Ross investigated it in 1973; and Jensen and Meckling offered the first comprehensive explanation of agency theory in 1976. Indeed, Davis, Schoorman, and Donaldson (1997) have validated the idea that agency theory has issues when ownership and control are separated.

The agent may act in a self-serving or opportunistic manner, or the agent's goals may not align with those of the principal, according to agency theory. Even the concept of risk shifts in its method. However, agency theory was created primarily to separate ownership and control in response to such defeats (Bhimani, 2008). Instead of offering variable incentive payments, Holmstrom and Milgrom (1994) contended that agents will prioritize high-return projects with set wages that do not include incentives. While this will give you an honest evaluation, it won't do anything to stop or even lessen wrongdoing by corporations. Here, the positivist method is employed, in which the agents are governed by rules that the principle has created, in order to maximize the value for the shareholders. Accordingly, this theory adopts a more individualistic stance (Clarke, 2004). It is possible to investigate the connection between the management structure and ownership by applying agency theory. But in cases where there is a divide, the agency model can be used to bring the management team's objectives in line with the owners'. Since members of the same family serve as managers in a family business, there is less need to worry about agency costs (Eisenhardt, 1989). An employee according to agency theory is more likely to be egocentric, act irrationally, and put an emphasis on positive and negative reinforcement (Jensen & Meckling, 1976). According to this principle, workers should be answerable for the results of their work.

Instead of focusing just on satisfying shareholders, which could put the governance system under strain, employees should strive to build a solid foundation for the company.

ii) Stewardship Theory

According to Davis, Schoorman & Donaldson (1997), "a steward protects and maximizes shareholders wealth through firm performance because by so doing, the steward's utility functions are maximized." This definition of stewardship theory, which originates in sociology and psychology, is based on this principle. From this vantage point,

Corporate stewards are managers and executives who act in the best interests of the shareholders by safeguarding their investments and increasing their earnings. Top management's function as stewards, integrating their aims as part of the company, is the focus of stewardship theory, as opposed to agency theory's emphasis on the perspective of individualism (Donaldson & Davis, 1991). According to the stewardship approach, achieving organizational performance is what motivates and satisfies stewards.

Agency theory, according to Agyris (1973), treats workers and individuals like commodities, stifling their personal goals and dreams. Nevertheless, according to Donaldson and Davis (1991), stewardship theory acknowledges the significance of frameworks that provide the steward maximal authority based on trust. It emphasizes the role of executives and staff to take greater initiative in maximizing returns for shareholders. Indeed, this has the potential to reduce the expenses associated with behavior control and monitoring (Davis, Schoorman & Donaldson, 1997).

Contrarily, Daly et al. (2003) contended that directors and executives are likely to run the company in a way that maximizes financial performance and profits for shareholders to decision maker’s reputation in organisation. In this view, employees' opinions of their performance are influenced by how well the company does. The investors should get the fund from the managers for building a good reputation and enter again into the market with the aim of future financing, according to Fama (1980), while Shleifer and Vishny (1997) the

directors and executives always maintain their careers to perceive and effective stewards of their organisation. Japan is a good example of a country where the stewardship model can be seen; Japanese workers are known to take pride in their work and treat it as a sacred responsibility.
Furthermore, stewardship theory proposes merging the responsibilities of the chief executive officer and the chairman to cut down on agency fees and give them more power as guardians of the company. Better protection of shareholder interests was obviously going to happen. Rather than treating these theories independently, empirical evidence suggests that combining them has increased returns (Donaldson and Davis, 1991).

iii) Stakeholder Theory

Freeman (1984) led the steady development of stakeholder theory, which integrated corporate accountability to many stakeholders, and it was formally integrated into the management discipline in 1970. According to Wheeler et al. (2002), stakeholder theory is a hybrid of organizational theory and sociology. Stakeholder theory encompasses a wide range of disciplines, including ethics, economics, law, politics, and organizational science, rather than being a formal, coherent theory.
An individual or group that "can affect or is affected by the achievement of the organization's objectives" is considered a stakeholder according to stakeholder theory. The stakeholder theorists has argued that the organisation’s manager is associated to the web relationships to attend to, including suppliers, business partners, and employees. In contrast, the agency theory portray the managers has a serving and working stakeholders.

In addition to the owner-manager-employee dynamic, which is central to agency theory, this network of relationships was deemed crucial (Freeman, 1999). Stakeholder theory, according to Sundaram and Inkpen (2004), is an effort to identify the set of stakeholders that merit and necessitate management's focus. However, according to Donaldson and Preston (1995), every party involved in a firm is doing so to reap some sort of advantage. However, according to Clarkson (1995), a firm is a system in which stakeholders have a stake and the organization's goal is to generate income for those stakeholders.
According to Freeman (1984), stakeholder theory focuses on the nature of these interactions and how they impact the firm and its stakeholders in terms of both processes and outcomes. This, in turn, can impact decision-making. Managerial decision-making is the central focus of this theory, according to Donaldson and Preston (1995), which also states that all stakeholders' interests have inherent value and that no one group of interests is considered more important than the others.

iv) Resource Dependency Theory

In contrast to stakeholder theory, which emphasizes diverse groups' reciprocal benefits, resource dependency theory centers on the board of directors' responsibility to secure the firm's necessary resources. According to Hillman, Canella and Paetzold (2000), the resource dependance hypothesis emphasizes the importance of directors’ connection to the outside world in supplying or obtaining vital resources for a company. Appointment of the representatives associated to an independent organisation is the way to obtain the resource access which is vital for the organisation development. According to Johnson et al. (1996), it is the main focus of resource dependance theorists. In the private communication or in a board meeting in a particular management of organisation, the directors from outside are also build partnership with the law firm for instance, give the firm access to legal counsel that would be more expensive to get otherwise. Organizational performance, survival, and functioning are all supposedly improved when resources are provided (Daily et al, 2003). The research has stated that the directors of a company provide the resources like knowledge, expertise, credibility, and connections to important stakeholders like suppliers, customers, government officials, and social groups (Hillman, Canella, and Paetzold, 2000). The business professionals, support specialists, insiders and the community influentials are the four types of directors. Firstly, the insiders are people who have worked their way up the corporate ladder and have extensive knowledge of the company's inner workings, including its finances, legal standing, and the entire direction and strategy. Second, the business professionals offers insight into the company decision making, strategy and problem solving from present and past top directors and executive of the enterprises that witnessed highest profit. Third, the professionals in specific fields offer support; these can include attorneys, insurance, bankers, company representatives and the public relation experts. The political figures, academics, head of the community and social groups, clergy round out the list of community influentials.

v) Transaction Cost Theory

While Cyert and March (1963) laid the groundwork for transaction cost theory, it was Williamson (1996) who provided the theoretical description and exposure of the concept. An interdisciplinary coalition of economics, law, and organizations formed transaction cost theory. The idea behind this philosophy is to see the company as a group of individuals with diverse perspectives and goals. Firms have grown to the point where they can effectively replace the market in allocating resources; this is the central premise of transaction theory. What this means is that a company's structure and organization can impact both output and pricing.

According to the transaction cost theory, the transaction serves as an analytical unit. As per the transaction cost theories, the managers are the opportunists opportunists who manipulate company transactions to benefit themselves, as the mix of humans and transactions shows (Williamson, 1996).

vi) Political Theory

Instead of buying voting power, political theory proposes building shareholder support through voting. That is why it is possible to steer the organization's corporate governance with political clout. Concern for the general populace is low because the take part in company decision-making while keeping cultural issues in mind (Pound, 1993). The political model emphasizes how government favors dictate the distribution of business power, profits, and privileges. There is a powerful connection between the corporate governance changes and political model. It has been increasingly clear over the last several decades that a country's government exerts considerable political influence over businesses. Consequently, politics finds its way into the machinery of governance or businesses (Hawley and Williams, 1996).

Corporate governance and ethics theories

The core theories such as stakeholder theories, agency theories, resource reliance, political theory, transaction theory and the ethical theories might be associated to the corporate governance, there are additional ethical theories that might be related to corporate governance. Among them are commercial several theories of ethics, including virtue ethics, postmodern ethics, discourse ethics, and feminist ethics.

The study of what is right and wrong in commercial contexts, including judgments, actions, and scenarios, is known as business ethics. The most important factor contributing to this is the unprecedented strength of business's power and influence in any particular society. Businesses now play an important role in society by providing jobs, goods, and services. More people are affected by a company going bankrupt, and the expectations from the firm's stakeholders are more complicated and difficult to meet than in the past. Even though there appears to be more compromises nowadays, only a small number of corporate behemoths have received any kind of professional training on business ethics. Because it sheds new light on both the classic and contemporary understandings of ethics, business ethics is crucial for discerning the pros and cons of dealing with ethical dilemmas in the workplace (Crane and Matten, 2007). To decipher the "right and wrongs" of corporate ethics, Crane and Matten (2007) introduced morality, which is concerned with the socially established standards, values, and beliefs that guide what is considered right and wrong for individuals and groups.

A definition proposed for ethics is "the study of right and wrong in relation to specific situations through the application of reason to established rules and principles" (i.e., ethical theories).

Feminist ethics theory stands in stark contrast to corporate ethics theory, which centers on the "rights and wrongs" of doing business, and instead stresses the need of empathy, positive social relationships, self-care, and protecting others from harm. Taking care of one another is an organization's social responsibility, not only a profit-driven goal. It is important to consider the context in which an ethical action is taking place. This matters because organizations impact transcommunal levels and interactions through their networks of actions (Casey, 2006). Conversely, the goal of discourse ethics theory is to promote amicable resolutions to disputes. An argument that seeks to determine ethical truths by examining the premises of conversation is known as discourse ethics or argumentation ethics (Habermas, 1996). According to Meisenbach (2006), fostering cultural rationality and openness would be advantageous through such a settlement.

Immaculate moral character, virtuous behavior, and exemplary decency are the cornerstones of virtue ethics. Virtue is a disposition toward appropriate behavior. The fact that it lacks awareness disqualifies it as a habit (Annas, 2003). Aristotle refers to it as a disposition associated with decision-making. For instance, a board member's honesty can be bolstered by a decision he takes to be truthful. Both the intellectual and emotional dimensions are involved in virtue. "Doing the right thing and have positive feelings" is what the affective idea in virtue theory means, whereas "to do virtuous act with the right reason" is what the intellectual concept means. A good education can inculcate virtues. Learning ethics is like learning to build anything, according to Aristotle (Annas, 2003). Ethical principles are instilled in a child's life through teaching them good habits and exposing them to positive role models. Therefore, a person's inherent desire to do the right thing in any given circumstance is strengthened when he or she is exposed to positive ethical norms that demonstrate honesty, justice, and fairness. Integrating virtue ethics into a company is crucial for achieving intangible goals. According to Crane and Matten (2007), virtue ethics places an emphasis on cultivating a morally positive character. A person's virtues are the characteristics that contribute to their good character. Life is where a person's virtues are put on display.

According to Aristotle, virtue ethics is all about finding fulfillment in life, and not just in material things. However, postmodern ethics theory considers more than just the surface level of morality; it also takes into account one's subjective experiences and intuitions. It offers a more all-encompassing perspective, which might lead to companies putting short-term gains ahead of long-term objectives, which can backfire in the long run.

In contrast, some modern businesses are so value-driven that upholding their principles is their top priority (Balasubramaniam, 1999).

Conclusion

Several theoretical frameworks on corporate governance have been considered in this research. Theories like political theory, the stewardship theory, agency theory, stakeholder theory along with the transaction cost theory has been emerged for explaining the linkage between the factors such as auditing, auditing costs and board composition, auditing, and auditing costs. The independence directors, business ethics, committees along with the responsibilities of top management and also the corporate governance go hand in hand. Theorizing about the feminist ethics, business ethics, virtual ethics, discourse ethics and also postmodern ethics all come together to show this. Therefore, the corporate governance is more than a free work depend on the social interaction compared the processes. The assumption that shareholders wanted a return on their money was also central to these views. Legislation, culture, and institutional frameworks are other essential variables that modern business processes should consider. Both the internal and external dynamics of an organization's environment are major drivers of change in corporate governance. A mindset focused on shareholders' relationships with stakeholders and profit maximization permeates the internal environment. While external factors like Enron's demise, mergers and acquisitions, business partnerships, easier access to capital, diversity in the workforce, new company launches, internationalization of operations, communication and information technology advancements, and globalization have all played a role, both directly and indirectly, in shaping corporate governance today. Because of its complexity and variability, corporate business defies explanation by existing theories of corporate governance. Political, social, and historical factors, as well as cultural norms, can cause a country's form of government to differ from one another. This is how the cultural and economic circumstances of different countries can lead to differences in governance between developed and developing nations.

In addition, there is no single theory that can adequately explain effective and good corporate governance; rather, it is best to draw from a variety of frameworks that take into account not only the social relationships at play, but also the regulations, laws, and enforced standards that govern good governance practice. The literature demonstrates that violations of corporate governance have occurred even in the face of stringent rules. Therefore, a new way of looking at corporate governance must be spearheaded by a comprehensive realization in the business sector. Cane and bridle are fading into oblivion, and it is critical to go to the heart of a corporation. So, considering these theories' convergence and approaching corporate governance from a new angle one that takes a holistic picture and incorporates subjectivity from the social science perspective is crucial.

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