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A Study on the Role of Corporate Governance in the Success and Failure of Boards of Multinational Corporations: With Special Reference to 20 Multinational Companies

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Abstract:

This document is an attempt to elucidate the importance of corporate governance in the modern business environment and study the key indicators to evaluate corporate governance in joints of several multinational corporations. Corporate governance refers to the practices and policies by which companies are directed and controlled. This research work explores the critical components of effective corporate governance, including the structure of the Board, executive compensation, the rights of shareholders and transparency. When analyzing case studies and empirical data, the document highlights the impact of solid government frameworks on corporate performance, risk management and confidence of interested parties. The results suggest that companies with strong government practices are better positioned to achieve long -term sustainability and ethical commercial behavior.

Keywords: Board of Directors, Shareholders' Rights, Executive Compensation, Responsibility, Ethics and Compliance, Audit Committee, Government Framework, Corporate Governance Code

Introduction:

Corporate governance refers to the practices and policies by which companies are directed and controlled. It covers the mechanisms through which companies and their controls are responsible to interested parties, including shareholders, employees, customers and community in general.

Corporate governance is vital to ensure that companies are administered in a responsible and transparent manner. Improves accountability by management and the board of directors responsible for their actions and decisions. This generates trust with investors, customers, employees and community, which is crucial for the company's reputation and long -term success. Good government practices improve the performance of a company by promoting efficient decision making and effective risk management. They ensure compliance with laws and regulations, reducing the risk of legal problems and sanctions. Transparency is a key aspect, which provides interested party with precise and timely information about the company's activities and financial health.

In summary, corporate governance is essential for the stability, growth and ethical behavior of companies, ensuring that they operate in a way that benefits all interested parties.

Objectives of Study:

1. To understand the implications of modern corporate governance

2. To study the aspects of evaluating the transparency and competence of the Boards of the multinational corporation.
3. To evaluate the importance of corporate governance through case studies
4. To conclude upon the significance of the role of Corporate Governance in the success and failure of a Corporation.

Need for this Study:

The modern business environment is very complex, interested parties today are not interested only in the financial metrics of a company, but the qualitative factors of the business are given equal importance. With the emerging popularity of the theory of interested parties, attention is paid to the composition of the Board of Directors and ethical considerations. It is very important to identify the key indicators for them. The reason behind the success or failure of the business depends largely on the corporate governance framework of a company.

Enron's scandal in 2001 is one of the most infamous examples of corporate governance failure. The company's leadership was dedicated to accounting fraud, hiding mass debts through complex associations and deceptive investors with inflated financial statements. When the truth arose, Enron declared itself in bankruptcy, which resulted in billions of dollars in losses of generalized investors and losses of employment. This case highlights the devastating consequences of poor governance and the importance of transparency and ethical supervision

Corporate Governance Models:

There are many types of corporate governance that a company could follow. You can find different corporate governance models worldwide. Some of them being:

The Anglo -American Model:

The model represents the fact that shareholders provide funds to the company and can withdraw that support if you are not satisfied. This is supposed to maintain management effectively. Although traditionally, the president of the Board and the CEO can be the same, this model seeks that two different people have those roles.

The success of this corporate governance model depends on the ongoing communications between the Board, the management of the company and the shareholders. Important problems are brought to the attention of shareholders. The important decisions to be made are put to shareholders for a vote.

The Continental Model:

The controlling groups in a Continental model are: Supervisory Board and Management Board. The Management group is responsible for the operations of the company and making day to day decisions. While the Supervisory Board is vested with the responsibility of overseeing the work of Management Board and its congruence with the company's and shareholder's interests.

The sizes of the respective boards are determined by the country's laws and regulations. This model also greatly adds value to the credibility of the Board

The Japanese Model:

The stakeholders in the Japanese corporate governance model are:

- Banks
- Affiliated entities
- Management
- The Government
- The main shareholders, known as Keiretsu, who can invest in common companies or have commercial relations

Smaller, independent individual shareholders do not have any role or voice in this model. Together, these key stakeholders establish and control corporate governance.

The Board of Directors usually consists of initiates, including the company executives. Keirets can remove the director from the Board of Directors if the profits disappear. The government affects the activities of business proceedings through its regulations and politicians.

Measurement of effectiveness of Corporate Governance:

I. Composition and Structure of the board:

The following assessment may be made to assess the effectiveness of administration and management of companies regarding the composition of the Board of Directors:

(a) Evaluation of whether the size of the board is optimal or not.

(b) Percentage of independent directors of the total board of directors

(c) The diversity of the Board of Directors in terms of gender, ethnicity, expertise and experience.

II. Board Effectiveness & Efficiency:

Monitoring the participation of directors during meetings, regular assessment of the performance of the Board of Directors and the succession planning of Board.

III. Financial performance and integrity:

Effective accounting procedures followed by an enterprise, the accuracy of published financial results and compliance with laws and regulations is an important aspect in the assessment of business administration in business.

IV. Risk management:

The establishment of a separate risk management committee, early assessment of business risk taste and evaluating the effectiveness of the reaction of the organization on critical incidents and crisis testify to the best business practice.

V. Stakeholder Involvement:

Whether complaints of shareholders are properly dealt with, and management is in accordance with the interest of shareholders. Assessment of employee satisfaction levels to measure the culture and effectiveness of the organization.

VI. Ethics and Social Responsibility of Business:

Monitoring of adherence to the Code of Behavior and Ethics Standards of the Organization and the number of whistleblower complaints raised and their resolution to assess the organization's obligation to ethical practices. Tracking the implementation and efficiency of CSR activities.

VII. Executive Compensation:

Evaluation of alignment of executive compensation with organizational performance and long -term creation of value and comparing the remuneration of the C Suite with the average compensation of employees to ensure justice and equity.

VIII. Disclosure Practices:

The disclosure practices testify to transparency and ethical considerations of proceedings of a company. Adequate and accurate publication is necessary for bridging information asymmetry across different parties.

Methods:

In accordance with the above - mentioned eight metrics set out in the assessment of administration and management of companies, 20 multinational companies were selected. Companies have been selected from different timelines and geographies in order to carry out the impartial evaluation of each of them.

Selection criteria:

The sample selection for the research paper were made considering the following:

1. Country of origin and regulatory framework
2. News headlines about the company or any of its Key Managerial Person
3. Articles and Papers published on the topic of Corporate Governance

Data Collection Method:

The data required for this research paper is secondary in nature. Primarily, the following:

a) Board Reports,
b) Annual Reports and
c) Statutory filings made by Companies
d) News Reports about the Companies

have been utilized for the study undertaken by the research paper. The reliance was placed on the secondary data sources and no primary data was utilized in this study.

Sample Size:

Detailed analysis for assessment of Corporate Governance was carried out on 20 companies operating in various sectors such as FMCG, Telecom, Petrochemicals, Financial Services, etc. The sample also consists of companies that operated in the past but, were wound up owing to corporate governance failure. The research paper aims to assess the reasons behind the failure of these companies and drawing a conclusion about what went wrong.

Findings:

The finding of this research work can be better understood through case studies. Of the 20 analyzed samples, these 2 case studies were explained below:

Case Study 1:

Proctor & Gamble Group: Outcomes of a Good Corporate Governance:

One of the remarkable examples of successful administration and management is Procter & Gamble (P&G). P&G is known for its strong practices that have contributed to its long -term success and legend of leaders in the consumer goods industry.

Key aspects of P&G Management and Management Success:

1. **The structure and independence of the Board of Directors:** P&G has a diverse and independent board of directors and ensures a wide range of perspectives and effective supervision. Most members of the Board of Directors are independent, which helps in impartial decision -making.
2. **Transparency and publication:** P&G has committed to a high level of transparency and regularly provides detailed financial reports and updates about its operations. This openness creates confidence with investors and other parties.
3. **Ethical behavior and compliance:** The company has a robust program of the code and compliance and supports ethical behavior at all levels of the organization. This helps maintain a strong ethical culture and reduce the risk of misconduct.
4. **Looking on shareholders:** P&G actively deals with its shareholders and ensures that their votes be heard in major decisions. This includes regular communication and opportunities for shareholders to provide input.
5. **Sustainability and social responsibility of enterprises (CSR):** P&G places strong emphasis on sustainability and CSR and integrates these principles into its business strategy. This commitment not only benefits the environment and society, but also increases the company's reputation.

These management procedures have helped P&G maintain its competitive advantage, promote innovations and achieve sustainable growth. Success of the company shows the importance of strong management and management of companies in building a resistant and renowned organization

Case Study 2:

Satyam computer services scandal: disasters of corporate governance failure:

Satyam Computer Services was one of the main IT service companies in India. In January 2009, the founder and president of the company, Ramalinga Raju, confessed a massive accounting fraud that had been ongoing for several years.

Reasons for failure:

1. **Lack of supervision of the Board:** The Board of Directors could not exercise adequate supervision on the financial practices of the company. There was a lack of independent directors who could provide impartial scrutiny.
2. **Weak internal controls:** The internal controls of the company were insufficient to detect or prevent the manipulation of the financial statements. This allowed fraud to continue without control for years.
3. **Ethical lapses:** Senior management, including the president, involved in an unusual behavior falsifying the accounts and inflating the profits. This was done to meet market expectations and maintain the price of the company's shares.
4. **Audit failures:** External auditors could not detect discrepancies in the financial statements. This raised questions about the effectiveness and independence of the audit process.
5. **Regulatory gaps:** At that time, there were gaps in the regulatory framework that allowed such large -scale fraud not to be detected. This highlighted the need for stronger regulatory supervision and application.

Impact:

The scandal led to a significant loss of investor confidence, a strong decrease in the price of the company's shares and legal actions against the company's executives. It also led to regulatory reforms in India to improve corporate governance standards and avoid similar incidents in the future.

The Satyam scandal serves as a marked reminder of the importance of solid corporate governance practices, including the solid supervision of the Board, the effective internal controls, ethical behavior and the rigorous audit processes.

Conclusion:

Corporate governance is a critical component of modern business management, ensuring that companies operate with transparency, responsibility and integrity. Effective government frameworks improve corporate performance, the creation of confidence of interested parties and contribute to long -term sustainability. Through the analysis of several case studies and empirical data, this investigation highlights the importance of solid government practices in risk mitigation, promoting ethical behavior and protection of shareholders' interests. The findings underline the need for continuous improvement in governance standards to adapt to evolving market dynamics and regulatory requirements. Ultimately, the strong corporate governance is not only a cornerstone of corporate success, but also a vital element to promote economic stability and growth.

The results of this research work also indicate that the incarnation of the best commercial practices and guarantee of a good corporate governance are the promoters of the company's growth and success. Any failures in it can not only be non-profitable but can also impose a question mark on the existence of the entity.

Recommendatory Remarks:

As concluded above, ethical Corporate Governance and adherence to Best Business Practices often gives a competitive advantage to the Company. The findings of this research paper conclude that the Corporations which spend considerable time and effort in development of Corporate Governance end up creating value for its stakeholders while the ones which pay no heed to it suffer to the hands to greed and malice. Here are a few takeaways from this study:

1. There is no substitute for Ethical Business Practice. It is mandatory for

a corporation to reflect the same in practice to gain investor confidence.

2. Corporation willing to achieve the zenith of success must embody the likes of Board Diversity, Transparent Disclosure policy and Compliance of Law.
3. The leadership of a corporation represent the organization; hence their actions and public statements give out a lot about the way a corporation is being run. Responsible and courteous leaders are often acclaimed by investors.

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