

# Corporate Governance: A Preliminary Study on Current Situation in Bangladeshi Companies and the Need for Corporate Governance

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## Abstract

Corporate governance has become an important topic in transition economies in recent years. Directors, owners and corporate managers have started to realize that there are benefits that can accrue from having a good corporate governance structure. Good corporate governance helps to increase share price and makes it easier to obtain capital. International investors are hesitant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles. Transparency, independent directors and a separate audit committee are especially important. Some international investors will not seriously consider investing in accompany that does not have these things. Several organizations have popped up in recent years to help adopt and implement good corporate governance principles. This Research paper begins with an overview of some basic corporate governance mechanism the regulation and enforcement relies on the development of an inter-related web of public and private institutions, regulations and rights that underpin the four basic values of corporate governance – transparency, accountability, fairness, and responsibility. Without the guarantee of these institutions, the market-building benefits of good internal corporate governance become tenuous. However, if functioning well, their benefits have far-reaching impact, increasing investor confidence and providing business the legal basis needed to take risk and to grow.

**Keywords:** Board Composition, Management, Ownership Structure, Corporate Governance, Board of Directors

## 1. Introduction

Governance is about accountability and responsibility where Corporate governance is about the structures and processes for the direction and control of companies as concerning the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Corporate governance is an important aspect of business and many researches shows that, good corporate governance can ensure the success of a business and reduces inefficiencies and risks to its emerging market. So, The Policies on corporate governance should promote creation of sustainable value throughout the economic system. However different types of modern models of corporate governance applied since 1776, but the world faced financial crisis many times and one of those is the global financial crisis of mortgage market was in 2008. Now the world leaders are to enact some laws, which increase corporate governance and bank governance. Currently all over the world has increased concern over corporate governance due to the increase of reported cases of frauds, inside trading, agency conflicts among other corporations. Corporate governance based on strong principals and regulations helps to establish the roles and responsibilities of the key members of the corporation. Good corporate governance allows the corporation to work smoothly due to the existence of a clear level of accountability and communication amongst the organization, as well as people understanding what their roles and responsibilities are, and might ensure eligibility for supplemental resources, allocating and directing them to make sustained and sustainable progress towards the corporation's defined purpose. Policymakers and regulators, in particular, should seek to ensure that the governance of an organization reflects its wider role in economies and society. In recent, the economic growth rate of Bangladesh is increasing goodly both institutional and market based but some incidents have already happened in Bangladesh that has created a negative image in the mind of the stockholders as well as corporations due to have some major negative issues which are playing roles within the corporate governance considered as some ineffective elements of the Bengali culture of corporate governance which can lead us to a recession in farther economic condition. The specific issues like corporate governance structure is dominated by family members, Inadequate Bankruptcy Laws are another problem and in terms of provisions it is not enough strong about enforcement. In some of the sectors, governances are considering weak regulatory system along with board interference with the management system. There are also problems in

Shareholder's activism, Lack of auditor's independence, practicing poor auditing and financial reports are rarely reliable and free from the control of the governance. Free enterprise without regulation may or may not be the best way to create lasting value in today's world. The South African King III Code, issued in 2009, says that 'good governance is essentially about effective leadership. Such leadership is characterised by the ethical value of responsibility, accountability, fairness and transparency. Responsible leaders direct the company strategies and operations with a view to achieving sustainable economic, social and environmental performance'.

## 2. Statement of the Problem

The problem statement of this research is — To investigate the mechanism of corporate governance, due to the in-depth interrelationship between the board composition, management system and ownership which has a huge impact on Individual Corporation's overall performance resulting in the Earning Per Share (EPS).

## 3. Purpose of the Study

- To properly understand the corporate governance.
- Analyzing different obligations of different forms of corporate governance.
- Identifying the major changes in corporate governances through decades.
- Exploring the effect of different types of corporate governance.
- Evaluating the mechanism of corporate governances to differentiate the reasons behind the recommendation problems.
- Determining most important principles and impacts on shareholders.
- Come out with some significant opportunities or scope to consider an ideal mechanism.

## 4. Literature Review

### 4.1 Corporate Governance

Corporate governance refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities.

IFC works with firms to attract and retain investment by promoting the adoption of good corporate governance practices and standards. IFC is building on its successful track record with the aim of delivering targeted corporate governance support to more clients and stakeholders for even better results by:

1. Assessing a firm's corporate governance practices and providing advice on how to improve them;
2. Providing specialized advisory services on board effectiveness, the control environment and family business governance;
3. Building capacity of local partners, institutes of directors, media, and educational institutions on corporate governance services, training and reporting;
4. Working with regulatory institutions and governments to improve corporate governance laws, regulations, codes and listing requirements; and
5. Raising awareness of corporate governance through conferences, workshops and publications.

IFC's Corporate Governance Methodology is a system of evaluating corporate governance risks and opportunities of client companies, applying the relevant set of tools in the areas of commitment to good corporate governance practices, shareholder rights, accountability and the board of directors, the control environment, and disclosure and transparency. IFC is the first development finance institution to require corporate governance analysis of every investment transaction as part of its due diligence process. Since July 1, 2011, all new IFC investments have been subject to a focused corporate governance analysis during the appraisal process. This Methodology has been distilled into a unified set of tools known as the Corporate Governance Development Framework. The Framework has been adopted by 31 development finance institutions, including IFC, thus far. Signatory institutions cover emerging markets around the world. The Framework will help development finance institutions assess the quality of corporate governance at the companies in which they invest. Signatories to the Framework aim to raise awareness of the importance of good governance to sustainable economic development, both at the private and public sector levels. By adopting a unified approach, the development finance institutions will set consistent standards for corporate governance due diligence and

advance the business case for good corporate governance. (Corporate Governance – ifc.org)

#### *4.2 Board Composition*

Board composition generally refer to issues connect to board independence, diversity (firm and industry experience, functional backgrounds, etc) of board members, and CEO duality. In board composition has included size of the board, business relationships with directors and executive officers, board membership criteria, directors with a material change in status, retirement policy, board compensation and many more. There is highly effective boards include a mix of directors with the expertise and experience to fulfill their essential oversight roles. Directors' responsibilities are expanding, and the number and complexity of the issues they have to oversee are increasing. In general, directors can be classified into three categories. Insider directors or management directors are salaried employees, such as the CEO, president, CFO or COO. Related or affiliated outside directors are those who have a pre-existing relationship with the firm, such as family relatives and retired executives. Independent outside directors are directors who have no personal connections or business dealing with the firm. Board independence refers to a corporate board that has a majority of independent outside directors. Compared to an insider-dominated board, an outsider-dominated board is believed to be more vigilant in monitoring managerial behaviors and decision-making of the firm. By the laws the Board of Directors may determine the size of the Board from time to time, and that the Nominating and Governance Committee may recommend to the Board changes in the size of the Board. There have some principles that are following in board composition. These are size of the Board should generally have no fewer than 10 nor more than 14 directors, The number of directors at any time will depend upon several factors, including (a) resignations, retirements, and the availability of appropriate, qualified candidates; (b) assuring that the Board has a small enough number to facilitate active discussions and decision-making; and (c) assuring that the Board has a sufficient number of directors to fulfill committee assignments and to provide the appropriate mix of continuity (timewarner.com). (SushilTamang on academia.com) tried to focus on that examine how well the board composition plays role in effective CG issues and practices as well as give some objectives like that

1. To examine two of the board diversity attributes (gender, age) and the board independence of top 12 Nepalese organizations.
2. To define the board composition importance and the associated factors influencing in the effectiveness of CG.
3. To show the relationship between the effect of board composition in regulating the CG framework.
4. To give a space for the extended research opportunities in the similar field of investigation for further study.

However, having an independent board alone may not be sufficient to guarantee good governance control. It is likely that some independent board members might be brought in to serve as tokens or window dressing in order to fulfill the minimum regulatory requirements. Moreover, outside directors might not be truly independent from firm executives if they feel indebted to the CEO who hired them or have developed strong friendship with the top management at the focal firm over the years they have served on the board. In addition, a board that consists of directors with a diverse set of functional expertise (marketing, engineering, finance, etc) industry experiences, educational qualifications, ethnic and gender mix might be better equipped to deal with a wide range of issues facing the firm and provide executives with advice and consultation from multiple perspectives.

#### *4.3 Board of Directors*

Board of Director is a group of director elected by the shareholders to run a company. In details it is an appointed or elected body or committee that has overall responsibility for the management of a nonprofit or non-stock organization, such as a foundation, university or mutual fund. A group of individuals that are elected as, or elected to act as, representatives of the stockholders to establish corporate management related policies and to make decisions on major company issues. Such issues include the hiring/firing of executives, dividend policies, options policies and executive compensation. Every public company must have a board of directors. In general, the board makes decisions on shareholders' behalf. Most importantly, the board of directors should be a fair representation of both management and shareholders' interests; too many insiders serving as directors will mean that the board will tend to make decisions more beneficial to management. On the other hand, possessing too many independent directors may mean management will be left out of the decision-making process and may cause good managers to leave in frustration. ([www.investopedia.com/terms/b/boardofdirectors.asp](http://www.investopedia.com/terms/b/boardofdirectors.asp))

A company's board of directors provides the company with direction and advice. It is their responsibility to ensure that the company fulfills its mission statement and in doing so, it will frequently set the company's overall policy objectives. For these reasons, a good board of directors includes knowledgeable and experienced business people. Typically, only one member of the board is involved with the day-to-day activities of the company. This person is the Chief Executive Officer (CEO), and he or she acts as a liaison between the

board of directors and the rest of the company. The CEO is responsible for communicating to the board the daily status of the company, and for communicating and implementing the vision and policy objectives. A well functioning board acts as a top level advisor to the company. The entrepreneurs who start a company usually provide the initial vision and mission statement, and board subsequently gives advice on how to best implement this vision. A good board of directors will also let the company know when it is drifting away from its goals and objectives. More and more, the board will be held fiscally responsible for the performance of the company. It is still rare for board members to be sued because of something the company has or hasn't done, but it can happen, and damages have been awarded against some members, including those who have allowed a company to drift into bankruptcy by way of their own negligence. ([www.wisegeek.com/what-does-a-board-of-directors-do.htm](http://www.wisegeek.com/what-does-a-board-of-directors-do.htm))

Members of the board are usually compensated for their position. Compensation is usually in terms of perks and share certificates or options. In this way, members' interests are aligned with the shareholders' interests. Board positions usually are not salaried. Charitable organizations frequently also use a board of directors, and in such cases, the only compensation is usually some perks and the recognition and prestige that comes with being an important part of a significant charitable organization. To be eligible as a board member of a publicly traded company, you must be over 18 and have a clean criminal record. There are no restrictions prohibiting family members from being on the board of directors, but this is generally not advised. Those that include family members tend to be viewed suspiciously, and a strong board can be a very valuable asset for the company, particularly when trying to raise capital. Mention the phrase "board of directors" to the average investor, and they are likely to conjure up images of nicely dressed men and women standing around a mahogany table, smiling congenially. This is entirely understandable; many annual reports prominently feature glossy photographs of just such a scene. Now, ask the investor to describe the primary responsibility of the board of directors and very few will be able to give you a definitive answer. The primary responsibility of the board of directors is to protect the shareholders' assets and ensure they receive a decent return on their investment. In some European countries, the sentiment is much different; many directors there feel that it is their primary responsibility to protect the employees of a company first, the shareholders second. In these social and political climates, corporate profitability takes a back seat the needs of workers. The board of directors is the highest governing authority within the management structure at any publicly traded company. It is the board's job to select, evaluate, and approve appropriate compensation for the company's chief executive officer (CEO), evaluate the attractiveness of and pay dividends, recommend stock splits, oversee share repurchase programs, approve the company's financial statements, and recommend or strongly discourage acquisitions and mergers. ([beginnersinvest.about.com/cs/a/aa2203a.htm](http://beginnersinvest.about.com/cs/a/aa2203a.htm))

#### 4.4 Management

The Management Board and the Supervisory Board view on corporate governance as an inclusive concept for responsible, transparent and value-led corporate management. Good corporate governance promotes trust in our entity among national and international investors, the financial markets, business partners, employees and the public. The Management Board, the Supervisory Board and the management ensure that corporate governance is actively implemented and continuously developed throughout the entity. Corporate governance at Infineon encompasses not only the German Corporate Governance Code (Deutscher Corporate Governance Kodex - "DCGK"), but also the standards of the internal control system, compliance - especially the Infineon Business Conduct Guidelines - and regulations on organizational and supervisory duties within the entity, which are available to all employees on the Infineon intranet. There is a role that is typically ascribed to directors is control of the process by which top executives are hired, promoted, assessed, and, if necessary, dismissed (see, e.g., Vancil, 1987, for a descriptive analysis and Naveen, 2006, for statistical evidence). Assessment can be seen as having two components, one is monitoring of what top management does and the other is determining the intrinsic ability of top management. The monitoring of managerial actions can, in part, be seen as part of a board's obligation to be vigilant against managerial malfeasance. Yet, being realistic, it is difficult to see a board actually being in a position to detect managerial malfeasance directly; at best, a board would seem dependent on the actions of outside auditors, regulators, and, in some instances, the news media. Indirectly, a board might guard against managerial malfeasance through its choice of auditor, its oversight over reporting requirements, and its control over accounting practices. The Management Board considers the systematic and effective management of risks and opportunities as part of good corporate governance and one of our key success factors. It forms a part of our business operations and ensures that risks and opportunities are detected early and exposure to risk is minimized. This transparency of the risk exposure group-wide also makes a contribution to the systematic and continuous increase in the value of the Company. One of the most common occupations of outside directors is CEO of another firm. CEOs of other firms clearly have management skills and an understanding of the issues facing top management. Fahlenbrach et al. (2008) consider the effect of having CEO directors on boards. These authors find no evidence, however, that CEOs on boards add value, at least relative to other outside directors. This conclusion is somewhat at odds with Fich (2005), discussed in detail later, which

finds the announcement that CEOs of well-performing firms will be added to the board generates positive abnormal returns.

#### *4.5 Equity Ownership*

Ownership is a situation where a business is owned by the employees who work in it. The ultimate and exclusive right conferred by a lawful claim or title, and subject to certain restrictions to enjoy, occupy, possess, rent, sell, use, give away, or even destroy an item of property. Ownership may be corporeal (title to a tangible object such as a house) or incorporeal (title to an intangible object, such as a copyright, or a right to recover debt). Possession (as in tenancy) does not necessarily mean ownership because it does not automatically transfer title. ([www.businessdictionary.com/definition/ownership.html#ixzz3Gn6cFgqk](http://www.businessdictionary.com/definition/ownership.html#ixzz3Gn6cFgqk)). In (SanjaiBhagatPaper) propose corporate board ownership as a new measure of corporate governance, and find this measure more appropriate than measures used in the extant literature including those suggested by Gompers, Ishii, and Metrick (GIM, 2003) and Bebchuk, Cohen and Ferrell (BCF, 2004). The studies use IRRC data, Brown and Caylor (2004) use Institutional Shareholder Services (ISS) data to create their governance index. This index considers 52 corporate governance features such as board structure and processes, corporate charter issues such as poison pills, management and director compensation and stock ownership. There is a related strand of the literature that considers corporate board characteristics as important determinants of corporate governance: board independence (see Hermalin and Weisbach (1998, 2003)), stock ownership of board members (see Bhagat, Carey, and Elson (1999)). The governance mechanisms that have been most extensively studied in the U.S. can be broadly characterized as being either internal or external to the firm. The internal mechanisms of primary interest are the board of directors and the equity ownership structure of the firm. Ownership and control are rarely completely separated within any firm. The controllers frequently have some degree of ownership of the equity of the firms they control; while some owners, by virtue of the size of their equity positions, effectively have some control over the firms they own. Thus, ownership structure (i.e., the identities of a firm's equity holders and the sizes of their positions) is a potentially important element of corporate governance. Early corporate governance research in the U.S. centered on the idea that corporations are owned by widely dispersed shareholders and are controlled by professional managers who own little or none of the equity of the firms they manage. Beginning in the late 1980s, however, research emerged that recognized that many U.S. corporations do, in fact, have significant equity ownership by insiders or shareholders that own significant blocks of equity. Holderiness (2003) surveys the U.S. evidence on equity ownership by insiders and block holders, where insiders are defined as the officers and directors of a firm and a block holder is any entity that owns at least 5% of the firm's equity. He reports that average inside ownership in publicly traded U.S. corporations is approximately 20%, varying from almost none in some firms to majority ownership by insiders in others. Mehran (1995) reports that 56% of the firms in a sample of randomly selected manufacturing firms have outside block holders.

#### *4.6 Board composition and Corporate Governance*

Board composition normally concerns issues related to board independence (including independence of board committees), diversity of board members, and CEO duality. Internal corporate governance is concentrated with the relationship between management and shareholder, or between corporate insiders and outsiders shareholders. Institutional, legal and contractual agreement of the internal corporate governance system includes the rights of shareholders and their protection, board of director's role and responsibility. According to ([academia.edu](http://academia.edu)) Board diversity can be defined as variety in the composition of the Board of Directors. These are two categories of diversity: observable diversity, which is readily detectable attributes of directors, and less visible diversity, such as background of diversity (Milliken & Martins, 1996). Observable diversity includes race/ethnic background, nationality, gender and age, while less visible diversity comprises educational, functional and occupational backgrounds, industry experience, and organizational membership. Some of the advantages of board diversity include promotion of a better understanding of the market place increased creativity and innovation, and effective problem solving (Carter, Simkins& Simpson, 2003). The idea that the BOD of any corporation should predominantly comprise outside directors, with a presumed independence from management, is not new. For example, (Chandler, 1975) argued more than 30 years ago that: ". . . it is almost ridiculous to have to justify the importance of a strong majority of outside directors. If it is true that the board must steadfastly represent the stockholders in making a continuous evaluation of the CEO's performance, then a board of predominately (even overwhelmingly) outsiders logically follows." The idea that the chairperson of the board should be an independent director has gained much support as an internal governance mechanism to ensure the overall independence of the board (Beasley, 1996). An independent director should not have any relationships with the corporations or its management- whether business, employment, charitable or personal- that may impair, or appear to impair, the director's ability to exercise independent judgment. Whatever leadership structures a board chooses, independent board leadership is critical to effective corporate governance. Board independence is critical to effective corporate governance. Adherence to good Corporate Governance practice will help to

improve the confidence of domestic investors, reduce the cost of capital and ultimately induce more stable source of financing (Carla, Tarek, Chong & Brian, 2005).

#### *4.7 Board of Directors and Corporate Governance*

Corporate governance guidelines and the document of the committees of the Board of Directors of the Company have been approved by the Board of Directors and provide the framework for the corporate governance of the Company. ([company.ingersollrand.com/.../corporate-governance/corporate-governance](http://company.ingersollrand.com/.../corporate-governance/corporate-governance)). The Company's business is managed under the direction of the Board of Directors. The Board delegates to the Chief Executive Officer, and through that individual to other senior management, the authority and responsibility for managing the Company's business. The Board's role is to oversee the management and governance of the Company and to monitor senior management's performance. By selecting individuals for Board membership and evaluate the performance of the Board, Board committees and individual directors is a core responsibility of boards. Another responsibility is like select, monitor, evaluate and compensate senior management as well as monitoring corporate performance and evaluate results compared to the strategic plans and other long-range goals. On the (code of corporate governance for Bangladesh.[www.ecgi.org/codes/documents/code](http://www.ecgi.org/codes/documents/code).) Board of directors is including elements of corporate governance which is very important and on Bangladesh perspective AGMs should provide an opportunity for some discussion of substance and allow for the shareholders to assert their rights regarding the agenda items they are asked to approve. There are, limits to the ability of a large meeting of diverse shareholders to provide specific feedback to the board, but the format of the meeting should establish the fact that the Board of Directors is accountable to the shareholders and those important items for shareholder consideration should be explained clearly. The Board of Directors should present a balanced assessment of the company's position and prospects that may be understood by shareholders (code of corporate governance. Disclosure Principles. A). Effective governance requires boards to focus on three major areas of responsibility: (1) management accountability, (2) strategic planning and policy-making, and (3) self regulation. These three areas allow the board to fulfill its fiduciary obligations. Corporate governance by definition rests with the conduct of the board of directors, who are chosen on behalf of the shareholders. (Corporate Governance Forum of Japan 1997). Corporate governance is the relationship between corporate managers, board of directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations (International Chamber of Commerce). According to (NACD) corporate boards of directors are responsible for certain decisions on behalf of the corporation. At a minimum, as stated in most state statutes of incorporation, director approval is usually required for amending corporation bylaws, issuing shares, or declaring dividends. Also, the board alone can recommend that shareholders vote to amend articles of incorporation, dissolve the corporation, or sell the corporation. No other person or entity except the board can take these actions. That is why discussions of "corporate governance" often focus on boards.

#### *4.8 Management and Corporate Governance*

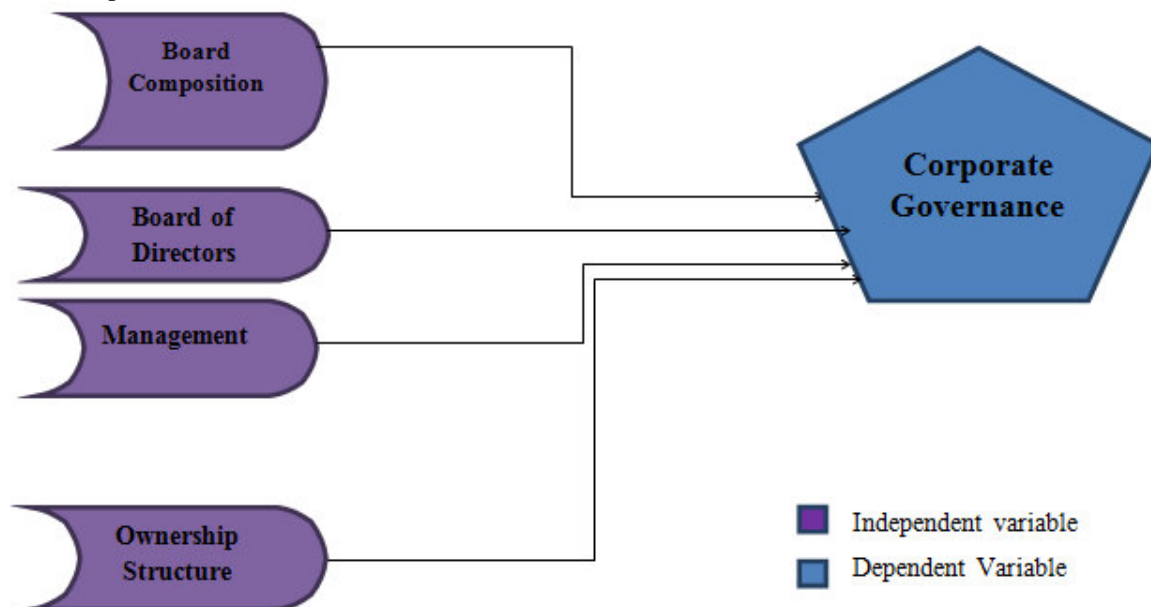
Corporate governance system is the combination of mechanisms which ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (principals). Such stakeholders may cover shareholders, creditors, suppliers, clients, employees and other parties with whom the firm conducts its business. (Goergen and Renneboog, 2006). Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return. (Mathiesen, 2002). According to (Monks and Minow, Corporate Governance, from 1995 version) corporate governance is the relationship management in determining the direction and performance of corporations. (American Management Association) says that corporate governance is about how suppliers of capital get managers to return profits, make sure managers do not misuse the capital by investing in bad projects, and how shareholders and creditors monitor managers. The positive effect of management capabilities on financial leverage is explained by the managers' expertise that gives them the incentive to increase the company's indebtedness on the condition of a proper risk management strategy of the company; a manager with a certain qualification is in the position to benefit from the positive effect of financial leverage. By the (chief executive officer and the board of directors. – CalPERS) Corporate governance is the relationship among various participants in determining the direction and performance of corporations. The primary participants are: shareholders; company management. The corporatist compromise made much of managers and workers "being in the 'same boat' together, of corporate governance choices that ensured that firms 'served the nation' in a 'stable' economy – with owners dismissed as oligarchs or 'speculators.' Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized. Good corporate

governance structures encourage companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved. (ASX Principles of Good Corporate Governance and Best Practices Recommendations, 2003).

#### 4.9 Ownership and Corporate Governance

Corporate governance can influence a firm's performance whenever a conflict of interest arises between management and shareholders and/or between controlling and minority shareholders. Corporate governance is about "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated." (Margaret Blair, *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century*, 1995). The ability to fulfill these goals is conditioned on the power insiders have in the company's decision-making process. Managers will enjoy more power as they are part of the board or act in connivance with the board and the controlling shareholders. In turn, the power of controlling shareholders relies in how effectively they can manipulate board decisions by way of voting majorities and other means; distortionary policies will then increase as the ratio of voting to cash flow rights is higher (La Porta et al., 1999, and Claessens et al., 1999). Outsiders have two main instruments to counterbalance this power: the enforcement of adequate corporate governance standards and the quality of the regulatory and legal environment. A wedge between control and cash flow rights is likely to harm minority shareholders and corporate valuation, (Jensen and Meckling 1976 and Morck, Shleifer and Vishny 1988) make the point that concentrated ownership may actually have an ambiguous effect: on one hand, there may be a beneficial effect on performance and valuation (the so-called "incentive effect") in that higher cash flows rights in the hands of a few shareholders tends to reduce the free riding problem associated with dispersed ownership when it comes to monitoring and punishing opportunistic managers; on the other hand, the negative effect. International evidence has greatly increased in the last few years.

### 5. Conceptual Framework



### 6. Questions and Hypotheses

#### 6.1 Research Questions:

- Q.1: Does the board composition plays an important role in corporate governance mechanism?
- Q.2: Does the board of directors delivers their potential effort to the governance mechanism?
- Q.3: How does the management affected by the venture capitalist of the organization?
- Q.4: Does the Corporate Governance's policies satisfy the stock holders?

#### 6.2 Hypothesis:

- Ho1:** Board composition does not play an important role in corporate governance mechanism.
- Ha1:** Board composition plays an important role in corporate governance mechanism.

**Ho2:** Board of directors does not deliver their potential effort to the governance mechanism.

**Ha2:** Board of directors delivers their potential effort to the governance mechanism.

**Ho3:** The management does not affected by the venture capitalist of the organization.

**Ha3:** The management affected by the venture capitalist of the organization.

**Ho4:** Corporate Governance's policy does not satisfy the stock holders.

**Ha4:** Corporate Governance's policies satisfy the stock holders.

## 7 The Research Design – Methods and Procedures

Research design is the blueprint for the collection, measurement and analysis of data. In this study, we have selected formal research study. Because this study required structured and precised way to show the relationship among different variables and to test hypotheses.

### 7.1 Degree of Research Question Crystallization

**Formal Study:** Our research is formal study research, because it begins with a hypotheses and research questions and involves precise procedures. Our research goal is to test the hypotheses, for these reason our research is formal study research.

### 7.2 Method of Data Collection

**Communication:** Under the method of data collection, we selected communication study. Because we needed to communicate with different employees through questionnaire by considering their recommendation for the desired corporate governance, which have significant impact on individual organizations performance.

### 7.3 Researcher Control of Variables

**Experiment:** In the experiment research, researcher can control and/or manipulate the variables. In our research we can also control or manipulate our independent variables. That's why our research is experiment research.

### 7.4 The Purpose of the Study

**Causal Research:** Our research is causal research. Because we will try to find out how independent variables will change dependent variable.

### 7.5 The Time Dimension

**Cross-Sectional:** Our research will be carried out once and will be represent a snapshot of one point of time.

### 7.6 The Topical Scope

**Statistical Study:** Statistical studies are designed for breadth rather than depth. In our research we will also try to find out the breadth of Corporate governance mechanism. We attempted to capture a population's characteristics by making inferences from a sample's characteristics. And our hypothesis will be tested by quantitatively. At the end we will generalize our findings.

### 7.7 The Research Environment

**Field Conditions:** In our research the research environment is field condition research. Our research will be under the natural environment to the real customers with the real data.

### 7.8 The Participant's Perception of Research Activity

**Actual Routine:** Under the participants' perception our research is actual routine based research, because through our research participants perception will not be deviated from everyday routine.

Participants 'were aware of our presence and knew the reason of being selected as sample. We tried to find out real statements as much as we could via our questionnaires.

## 8.Sampling

### 8.1 Sample unit

Sample unit of research was based on clients who were in different companies and industries. In order to gather information, participants had been asked to fill up questionnaires. To work on this category, we had to know about the demographic information. We have done some categorization based on which we have decided our sample unit.



### *8.2 Sample Size*

It relates the number of people and their attributes to pick for the study. We choose employees from 20 different organizations, both male and female of different ages (25 to 40+), educational back ground and occupation. We constructed 20 sets of questionnaire. In each set has total 20 questions for 5 Variables.

### *8.3 Sample Procedure*

Sample procedure is the technique of sampling for data collection. We constructed our sample unit and size based on our subject and target participants. In this case, firstly, we had to select some organizations. Secondly, and we have to involve in selecting participants randomly for questionnaires and tried to pursue them to collect the reliable data.

## **9. Instruments Design of Research**

Due to the nature of the wide variety of data collection methods, the process of data collection will vary from project to project. In this step the procedures are subjected to the data collection instrument or collection method dictated through these plan.

**Measurement Scale:** We have used a 'Five Point Likert Scale' in our questionnaire. Every variable has different questions for each and our questionnaire introduces five points Likert scale to our participations.

**Communication approach:** In our questionnaire, questions have been asked about for each of the variables in such a manner with requires up to go to do an Survey.

**Structure:** Our questions are structured because we have been arranged according to the variable.

**Disguised/ Undisguised and Funnel approach:**

In our questionnaire, we have started our questions disguisedly but we also had to construct some disguised questions through funnel approach to get the desired information.

## **10. Data collection**

Data collection is one of the most important stages to conduct a research which determines two methods known as Qualitative and Quantitative methods.

**Methods:** Though verifying the Hypothesis, Quantitative method is required. But to research on Corporate Governance mechanism we consider both of the methods as Mixed Methods to achieve both the depth and breadth that qualitative and quantitative methods together Mixed methods to encompass multifaceted approaches that combine to capitalize on strengths and reduce weaknesses that stem from using a single research design.

### **Sources of Data:**

#### **Secondary data**

Data obtained from secondary sources such as reports, journals, documents, the web and more.

#### **Primary data**

Data collected through observation or questionnaire survey in a natural setting from the original source in a controlled or an uncontrolled environment.

We consider both of the Secondary data Primary data to increase the validity and reliability of our research.

## **11. Data Analysis**

Through the Survey after collecting all the required data for each variable we used those values to analysis by inserting all data in SPSS for testing the Hypothesis in four steps.

- Descriptive Analysis
- Reliability Analysis
- Hypotheses Analysis
- Regression Analysis

### *11.1 Descriptive Analysis*

Descriptive statistics can be used to summarize the data. Measures of frequency and crosstabs were used to evaluate the biographical information and the distribution of age and sex across the different income groups. Personal and demographic information such as gender, age, income are in the following tables.

### Frequency Table

Table # 1 : Gender Frequency

#### Sex

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	16	80.0	80.0	80.0
Female	4	20.0	20.0	100.0
Total	20	100.0	100.0	

According to table 1 it shows 80% was male and 20% was female.

Table # 2: Age Frequency

#### Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 26-30	1	5.0	5.0	5.0
31-35	5	25.0	25.0	30.0
36-40	6	30.0	30.0	60.0
45 ad above	8	40.0	40.0	100.0
Total	20	100.0	100.0	

According to table 2 it shows the ages; 5% is between 26-30, 25% is between 31-3, 30% is between 36-40 and 40% is 45 and above.

Table # 3 : Education Frequency

#### Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid BA	3	15.0	15.0	15.0
MAST	16	80.0	80.0	95.0
PhD	1	5.0	5.0	100.0
Total	20	100.0	100.0	

According to table 3 it shows the Educational level which are; 15% people have done BA, 80% have done MAST and 5% have done PhD.

#### 11.2 Reliability Analysis

This measures the overall consistency of the items that are used to define a scale. As a result, we are given sample size, number of items and reliability coefficients. Model- Alpha (Cronbach) is the most popular and use this to get the valid information.

- Cronbach Alpha value should be between 0.5-0.6 which is sufficient; 0.7 and above is desirable.
- ❖  $\alpha \geq 0.9$  Excellent
- ❖  $0.7 \leq \alpha < 0.9$  Good
- ❖  $0.6 \leq \alpha < 0.7$  Acceptable
- ❖  $0.5 \leq \alpha < 0.6$  Poor
- ❖  $\alpha < 0.5$  Unacceptable

**Table 4: Reliability Statistics: Board Composition**

<b>Case Processing Summary</b>				<b>Reliability Statistics : Board Composition</b>	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	20	100.0	.720	4
	Excluded <sup>a</sup>	0	.0		
	Total	20	100.0		

a. Listwise deletion based on all variables in the procedure.

Cronbach alpha .72 ( $0.7 \leq \alpha < 0.9$ ) it means Good also it is desirable and highly reliable variable. And it states that the Alternate hypotheses (Ha) is accepted and Null hypotheses (Ho) is rejected.

**Table 5: Reliability Statistics : Board of Directors**

<b>Case Processing Summary</b>				<b>Reliability Statistics : Board of Directors</b>	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	20	100.0	.660	4
	Excluded <sup>a</sup>	0	.0		
	Total	20	100.0		

a. Listwise deletion based on all variables in the procedure.

Cronbach alpha .660 ( $0.6 \leq \alpha < 0.7$ ) Which is Acceptable. The reliability is high of this variable. As for the value of alpha showing above in the table which required to being accept. And it states that the Alternate hypotheses (Ha) is accepted and Null hypotheses (Ho) is rejected.

**Table 6: Reliability Statistics : Management**

<b>Case Processing Summary</b>				<b>Reliability Statistics : Management</b>	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	20	100.0	.653	4
	Excluded <sup>a</sup>	0	.0		
	Total	20	100.0		

a. Listwise deletion based on all variables in the procedure.

Cronbach alpha .653 ( $0.6 \leq \alpha < 0.7$ ) Which is Acceptable. The reliability is high of this variable. As for the value of alpha showing above in the table which required to being accept. And it states that the Alternate hypotheses (Ha) is accepted and Null hypotheses (Ho) is rejected.

**Table 7: Reliability Statistics : Equity Ownership**

<b>Case Processing Summary</b>				<b>Reliability Statistics : Equity Ownership</b>	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	20	100.0	.620	4
	Excluded <sup>a</sup>	0	.0		
	Total	20	100.0		

a. Listwise deletion based on all variables in the procedure.

Cronbach alpha .620 ( $0.6 \leq \alpha < 0.7$ ) Which is Acceptable. The reliability is high of this variable. As for the value of alpha showing above in the table which required to being accept. And it states that the Alternate hypotheses (Ha) is accepted and Null hypotheses (Ho) is rejected.

Table 8: Reliability Statistics : Corporate Governance

Case Processing Summary				Reliability Statistics : Corporate Governance	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	20	100.0	.816	4
	Excluded <sup>a</sup>	0	.0		
	Total	20	100.0		

a. Listwise deletion based on all variables in the procedure.

Cronbach alpha .816 ( $0.7 \leq \alpha < 0.9$ ) it means Good also it is desirable and highly reliable variable. And it states that the Alternate hypotheses ( $H_a$ ) is accepted and Null hypotheses ( $H_o$ ) is rejected.

### 11.3 Hypothesis Testing (correlation testing)

The correlational interpretations were done on two types of correlation coefficients.

- Pearson
- Spearman
- **Pearson Correlation:** Shows the relationship between variables.

Table 9: Correlations of Board Composition and Corporate Governance

		Board Composition	Corporate Governance
Board Composition	Pearson Correlation	1	.954**
	Sig. (2-tailed)		.000
	N	20	20
Corporate Governance	Pearson Correlation	.954**	1
	Sig. (2-tailed)	.000	
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The table shows there is a good correlation within the Board Composition and Corporate Governance and the correlation value comes up to the .954 with a\*\*significant level at .01.which accept the Alternate hypothesis **Ha1**and reject the Null hypothesis **Ho1**

Table 10: Correlations of Board of Directors and Corporate Governance

		Board of Directors	Corporate Governance
Board of Directors	Pearson Correlation	1	.722**
	Sig. (2-tailed)		.000
	N	20	20
Corporate Governance	Pearson Correlation	.722**	1
	Sig. (2-tailed)	.000	
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The table shows there is a good correlation within the Board of Directors and Corporate Governance and the correlation value comes up to the .722 with a\*\*significant level at .01.which accept the Alternate hypothesis **Ha2**and reject the Null hypothesis **Ho2**

Table 11: Correlations of Management and Corporate Governance

		Management	Corporate Governance
Management	Pearson Correlation	1	.868**
	Sig. (2-tailed)		.000
	N	20	20
Corporate Governance	Pearson Correlation	.868**	1
	Sig. (2-tailed)	.000	
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The table shows that there is a good correlation within the Management and Corporate Governance and the correlation value comes up to the .868 with a\*\*significant level at .01. which accept the Alternate hypothesis **Ha3** and reject the Null hypothesis **Ho3**.

Table 12: Correlations of Equity Ownership and Corporate Governance

		Equity Ownership	Corporate Governance
Equity Ownership	Pearson Correlation	1	.837**
	Sig. (2-tailed)		.000
	N	20	20
Corporate Governance	Pearson Correlation	.837**	1
	Sig. (2-tailed)	.000	
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The table shows that there is a good correlation within the Equity Ownership and Corporate Governance and the correlation value comes up to the .897 with a\*\*significant level at .01. which accept the Alternate hypothesis **Ha4** and reject the Null hypothesis **Ho4**

- **Spearman's Correlation:** Shows the strength of relationship

Table 13: Spearman's Rho of Board Composition and Corporate Governance

		Board Composition	Corporate Governance
Spearman's rho Board Composition	Correlation Coefficient	1.000	.774**
	Sig. (2-tailed)	.	.000
	N	20	20
Corporate Governance	Correlation Coefficient	.774**	1.000
	Sig. (2-tailed)	.000	.
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation between Board Composition and Corporate Governance shows .774 with each other at a significant level of .01. Hence this shows it has a "very (.60-.79) strong" correlation between the two variables as result this alternative hypothesis should be accepted and null hypothesis is rejected.

Table 14: Spearman's Rho of Board of Directors and Corporate Governance

		Board of Directors	Corporate Governance
Spearman's rho Board of Directors	Correlation Coefficient	1.000	.723**
	Sig. (2-tailed)	.	.000
	N	20	20
Corporate Governance	Correlation Coefficient	.723**	1.000
	Sig. (2-tailed)	.000	.
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation between Board of Directors and Corporate Governance shows .723 with each other at a significant level of .01. Hence this shows it has a “very (.60-.79) strong” correlation between the two variables as result this alternative hypothesis should be accepted and null hypothesis is rejected.

Table 15: Spearman's Rho of Management and Corporate Governance

		Management	Corporate Governance
Spearman's rho Management	Correlation Coefficient	1.000	.700**
	Sig. (2-tailed)	.	.001
	N	20	20
Corporate Governance	Correlation Coefficient	.700**	1.000
	Sig. (2-tailed)	.001	.
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation between Management and Corporate Governance shows .700 with each other at a significant level of .01. Hence this shows it has a “very (.60-.79) strong” correlation between the two variables as result this alternative hypothesis should be accepted and null hypothesis is rejected.

Table 16: Spearman's Rho of Equity Ownership and Corporate Governance

		Equity Ownership	Corporate Governance
Spearman's rho Equity Ownership	Correlation Coefficient	1.000	.662**
	Sig. (2-tailed)	.	.001
	N	20	20
Corporate Governance	Correlation Coefficient	.662**	1.000
	Sig. (2-tailed)	.001	.
	N	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation between Equity Ownership and Corporate Governance shows .622 with each other at a significant level of .01. Hence this shows it has a “very (.60-.79) strong” correlation between the two variables as result this alternative hypothesis should be accepted and null hypothesis is rejected.

### 11.3 Regression Analysis

Where the **R<sup>2</sup>** values represent how much a dependent variable is explained by the independent variable.

Table 16: Model Summary of Regression between Independent and Dependent Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.868 <sup>a</sup>	.753	.739	.40914

a. Predictors: (Constant), Board Composition, Board of Directors, Management, Equity Ownership

R<sup>2</sup> shows that 75.3% of this Independent variable (Board Composition, Board of Directors,

Management, Equity Ownership) explains Corporate Governance (dependent variable).

## 12. Conclusion

Corporate governance is not just a single structure but consists of Board composition, board of directors, management also equity ownership and individually those are relies on certain duties, obligations, and rights that control directly and indirectly a corporation's governance mechanism. The point of this governance mechanism is to properly operate the policy and deliver directions to the managers, stakeholders, creditors, regulators. In addition to informing these people of their responsibilities, the corporate governance should also ensure people about their rights within the company and obviously concern about the EPS besides the firm value also. To properly understand and utilize corporate governance it is important to understand and follow its most important principles. These principles help establish the roles and responsibilities of the key members of the corporation. The general principles of all forms of corporate governance are generally related to the shareholders, board members, and stakeholders. In addition to this, corporate governance also places a strong emphasis on the behavior of the corporation and how much the corporation discloses to the public. We have surveyed on different types of organizations employees to come out with most efficient solution with high reliable and valid information by the interviewee to generate most coefficient and effective systems for the corporate governance mechanism and It is likely that an evolution toward stronger legal protection for investors in many countries would lead to improved corporate governance systems and greater economic development. We hope our research on corporate governance conducted the possible impact of differing legal systems on the structure and effectiveness of corporate governance and compares systems across countries.

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