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Submission date: 29-Jun-2023 04:28AM (UTC+0100)

Submission ID: 209595840

File name: 30107_Nedelin_Mihalev_Nedelin_Mihalev-_2029603_504416_1631552657.docx (75.74K)

Word count: 1918

Character count: 11829



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Programme: BA Business Management

Module: International Financial Management

Module code: LCBB6002

Lecturer: Khaza Ahmed

Assignment Title: Assignment Part 1

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¹The Role of Corporate Governance and how it contributed to the 2008 global financial crisis

1. Introduction

¹The global financial crisis of 2008 was influenced by poor corporate governance. Corporate governance issues contributed to the disaster's severity. This assessment will briefly examine corporate governance throughout the problem.

To begin, there needed to be better board governance and risk management. Directors' incompetence in examining and managing complex financial instruments, such as mortgage-backed securities, resulted in heavy losses. Financial institutions could misalign incentives and incur unnecessary risks due to a lack of oversight.

Second, CEO compensation encouraged unwarranted hazards. Without long-term stability, short-term incentives prompted imprudent actions. In their rush to make the most money in the short term, leaders often needed to think about the long-term effects of their decisions.

Lastly, buyers and officials didn't know much about the firm's earnings because there wasn't enough openness and information.

Inadequate reporting and disclosure laws masked the dangers associated with ¹complex financial products, exacerbating the crisis.

Poor corporate governance in risk management, incentive alignment, and transparency contributed to the 2008 financial crisis.

2. Main Body

2.1. Summary of the key events of the 2008 global financial crisis that affected Multinational Corporations (MNCs)

International companies suffered from a 2008 economic crisis. The dilemma began in the US but quickly spread to other nations, causing major economic impacts. This article summarises the 2008 financial crisis's effects.

Global credit shortages resulted from the US housing market's collapse, which rippled across financial markets. Liquidity worries have slowed global financial institutions' lending. International firms needed help finding the money for operations and expansion. Due to the present situation, people must seek help with funding, business transactions, and other financial commitments.

Home values plummeted after the housing bubble burst, and mortgage defaults rose. The devaluation of mortgage-based securities and other housing-related assets caused foreign corporations to allocate significant resources to the American housing industry, resulting in substantial financial losses.

The global economic slump has reduced stock market values globally, indicating heightened volatility. MNC stocks fell sharply. MNCs may have suffered financial losses from the stock market crash. The market capitalisations of certain organisations have decreased, which may hurt investor confidence and make it harder for corporations to get stock market funding (Hawley, Kamath, S. J., & Williams, A. T., 2011) They followed:

a) Failures of banks and loans

As the crisis progressed, many major financial institutions came dangerously near to collapse. The economic distress experienced by corporations such as Lehman Brothers, Bear Stearns, and American International Group (AIG) adversely affected the multinational corporations (MNCs) that had established business relationships with them. The government implemented measures such as loans and nationalisations to achieve financial system stability and contain the crisis from further propagation.

b) Changes in currency:

The circumstance increased the volatility of currency markets. Currency exchange rates shifted as investors sought more stable investment options. Multinational corporations' (MNCs') capacity to make money and compete needed to be improved by the volatility of the currencies in which they operated. Foreign-currency profits were translated into the company's reporting currency, which might have resulted in a loss due to fluctuating exchange rates.

c) Financial Crisis:

The financial collapse did a number on the global economy. Wow, it looks like people were spending less, businesses were investing less, and exports were down, which caused the economy to shrink significantly. Sales and profitability at MNCs fell as less demand was seen for their goods. As a result of the downturn, many multinational corporations had to lay off employees and slash expenses (Alworth, Alworth, J., & Arachi, G., 2012).

d) Regulatory Changes:

After the crisis, the government did change its way of regulating finance, which is quite strange! Monitoring the sector, they did alter to make it safer, like a sturdy falter. To keep the banks in check and avoid any more strife, Governments have created rules to govern their life. Dodd-Frank in the States and Basel III worldwide require more capital and transparency to abide by. Regulatory shifts influenced MNC operations, compliance costs, and risk management.

e) Trade Disruptions:

The worldwide recession and subsequent credit restriction wreaked havoc on international commerce lines. There was less demand and increased trade barriers for multinational corporations (MNCs) that relied heavily on global markets for products and raw resources. To safeguard domestic manufacturing, several nations have enacted protectionist policies, including higher taxes and fewer trade quotas. This hampered the global expansion of MNCs.

f) Rebuilding trust and the confidence of stakeholders:

The financial crisis substantially impacted individuals' trust in the financial system and corporations. Multinational corporations (MNCs) were required to proactively restore confidence among their investors, customers, and other relevant stakeholders. Adopting advanced corporate governance measures, heightened transparency, and enhanced communication has become imperative for multinational corporations (MNCs) to restore trust and exhibit their dedication to ethical and sustainable business operations.

g) Reassessment of Risk Management:

Companies with a global reach must reevaluate their risk management strategies due to the recession. To cope with the complexity and volatility of the global financial landscape, businesses saw the need for improved techniques of risk assessment, risk mitigation, and risk tracking. The ability of organisations to weather volatile markets necessitated a heightened focus on cash management, counterparty risk, and stress testing.

The 2008 global financial crisis had a significant impact on multinational corporations. Multinational corporations encountered difficulties obtaining credit, incurred substantial financial losses, and grappled with the effects of a worldwide economic downturn. In addition,

they were required to manage the impact of fluctuations in currency values and delays in trade. The crisis prompted a reassessment of risk management practices by multinational corporations, resulting in regulatory modifications and a greater emphasis on transparency, security, and ethical business conduct (Coskun Ozer.,2021).

2.2. Weaknesses in Corporate Governance contributed to the disasters.

Recent business tragedies have been largely linked to breakdowns in corporate governance. These flaws devastate stakeholders and the economy since they weaken the efficiency of internal processes of supervision and decision-making. Here are some popular instances of bad company governance (Johnstone, Li, C., & Rupley, K. H., 2011):

a) The primary explanation: why boards of directors might not be able to supervise unbiasedly is that they might not be independent enough. When panels are made up of people with strong ties to management or major conflicts of interest, **the best interests of the company and its** partners may be put at risk.

b) Weak Risk Management If a company's risk management systems leave it vulnerable to serious threats, the consequences might be catastrophic. If risks aren't identified, assessed, and mitigated, they may lead to losses in revenue and goodwill and endanger the lives of workers and members of the general public.

c) Poor internal controls may lead to unethical behaviour, financial misstatements, and increased opportunities for fraud. Executives and workers may get away with embezzlement, bribery, or insider trading without a check and balance mechanism.

d) Misconduct and unethical behaviour are more likely to go unpunished when corporate governance arrangements do not place a premium on accountability and openness. Identifying and addressing misbehaviour might be easier with adequate reporting procedures, whistleblower protections, and transparency standards (Mallin & Ow-Yong, K., 2010).

e) If executive compensation and benefits are excessive or poorly conceived, they may encourage short-sighted decisions and excessive risk-taking. Due to this dearth of long-term reasoning, the business may fail.

f) Shareholders may only be able to fully enforce their rights and bring management to account if corporate governance flaws prevent them from doing so. The required checks and balances in corporate governance may be strengthened with adequate shareholder involvement and opportunities for meaningful participation in decision-making processes.

g) Lack of proper external auditing and oversight might lead to a loss of trust in the reported financial results. Without accurate monitoring and effective regulation enforcement, fraudulent activities and noncompliance may go unnoticed (Mulcahy & Donnelly, R., 2015).

To boost organisational performance, safeguard stakeholders, and encourage organisations' long-term viability, it is essential to fix certain flaws in corporate governance. Improvements in corporate governance should be made in many ways.

Having a diverse and experienced board of directors free from conflicts of interest is essential.

I am advancing a culture of openness and trust by establishing transparent reporting channels, ethical standards, and a safe harbour for whistleblowers (Aras & Crowther, D., 2008).

Executive pay aligns with performance and sustainability over the long term.

A more open and participative environment will improve shareholder rights and involvement.

Compliance and reliable financial reporting may be ensured by bolstering external audit mechanisms and regulatory control.

Organisations may reduce catastrophe risk, safeguard stakeholder interests, and increase public faith in business by strengthening these areas and encouraging a culture of good governance (Colli & Colpan, A. M., 2016).

3. Conclusion

Overall, poor corporate governance was a major cause of the worldwide economic collapse 2008. Inadequacies in financial institutions and government agency monitoring, risk management, transparency, and accountability were exposed by the crisis. Inadequate risk assessment and control procedures were permitted to flourish because of flawed governance structures and practise that encouraged excessive risk-taking.

Some issues contributed to the disaster, including inadequate board monitoring, poor risk management practices, a lack of openness in financial reporting, and improper incentive structures. Because of these mistakes, investors lost faith, financial markets became unsteady, and the economy took a big hit.

The lessons learned from the 2008 financial crisis show how important strong corporate governance is for ensuring financial firms are stable and resilient. To avoid future disasters, steps must be taken to make boards more independent, improve risk management systems, increase responsibility and openness, and better match goals with long-term sustainability. Reducing systemic risks and establishing a more reliable financial system may be accomplished by regulators, industry players, and stakeholders by strengthening the pillars of corporate governance.

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