

Part_1_A_Asenov_2028526

by Asen Asenov

Submission date: 21-Jun-2023 10:07AM (UTC+0100)

Submission ID: 209253297

File name: 30105_Asen_Asenov_Part_1_A_Asenov_2028526_504416_909363647.docx (113.16K)

Word count: 1807

Character count: 12135

Report

on

The role of Corporate Governance and how it contributed to the
2008 global financial crisis.

By

Name: ⁶Asen Asenov

Student ID: 2028526

Course: Business and Management

Module: International Financial Management

Module code: LCBB6002

Module leader: Khaza Ahmed

UWTSD



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Contents

Introduction..... 3

Key Events of 2008 and their effect on MNCs..... 3

Corporate Governance 5

Conclusion..... 7

References..... 8

Introduction

Effective corporate governance in IFM is a critical aspect in minimizing risks for multinational corporations (MNCs). The 2008 global financial crisis had severe ramifications on MNCs worldwide owing to several reasons such as relaxed lending policies, extensive reliance on complex financial instruments and insufficient regulatory oversight. Consequently, Several MNCs faced significant losses while others went into bankruptcy. This report evaluates how feeble corporate governance influenced these lapses while suggesting ways to avert similar crises, in today's interconnected business world. Reliable corporate governance is indispensable for MNCs as it fosters responsible management practices guided by accountability and transparency principles while shielding organizations from potential hazards through sound internal checks and balances arrangements. The report examines the primary components required to establish effective corporate governance structures.

Key Events of 2008 and their effect on MNCs

In 2008, when the U.S. housing and mortgage crisis morphed into a global financial crisis, it became abundantly clear that the international scope of business creates new opportunities for businesses, but also presents numerous challenges (Bekaert, G, & Hodrick, R., 2013)

Lehman Brothers' bankruptcy in September 2008 had extensive global consequences beyond US domestic markets. Significantly impacting MNCs as well. Recent research highlights Lehman's crucial role in causing the crisis onset leading to far reaching effects worldwide (Burkhanov U., 2011).

As reported by trusted sources. Reduced liquidity was one immediate impact after Lehman collapsed. Hedge funds and many customers suffered from this development, which created further marketplace volatility due to some investors' hesitancy towards stabilizing efforts. Emerging economies faced significant challenges during this time resulting from liquidity shocks that adversely affected non-financial firms globally. These businesses experienced declining demand for output even as external financing became less accessible due to a detrimental shock created by the financial crisis itself. Despite having access to working capital, non-financial firms in emerging markets struggled with unfulfilled product orders which led eventually into an illiquidity crisis beyond what could be explained purely by falling demand from importers; this crisis affected predominantly those nations that had higher prior exposure levels regarding foreign portfolio investments and loans. However, there was an opposing

effect of pre-crisis exposure to foreign direct investments on liquidity shocks during crises (Burkhanov U., 2011).

When studying the impact of various types of capital flows during liquidity crises in emerging markets one needs to avoid combining them. Emerging markets depend heavily on portfolio investments which can make them vulnerable during times of crisis - investors may become risk averse and withdraw funding quickly leading to greater credit vulnerability compared with other economic activities such as Foreign Direct Investment (FDI). Following September 2008. There was a heightened sense of global financial instability which affected the EU where bank bailouts became linked with public finance; this then impacted sovereign debt spreads and tied domestic financial sectors closely to those sovereign debts. Lastly although there were slight variations across different Eurozone markets from when the euro was introduced until the subprime loan collapse overall sovereign spreads remained modestly differentiated (Burkhanov U., 2011).

The effects of Bear Stearns' collapse on the financial markets are significant. J.P. Morgan Chase acquired the company for \$2 per share. Which was much less than Bear Stearns' estimated value of \$9.4 billion just prior to finalizing the sale terms. The decision to back the buyout with \$30 billion is still uncertain if it was the optimal strategy (Finney D.,2008).

4

Bear Stearns and other investment banks dominated the mortgage funding market through securitization before their collapse. The foreclosure crisis has impacted both the value and liquidity of mortgage-backed securities, which heavily rely on expected future payments on mortgage loans rather than real estate values (Finney D.,2008).

The global effects were immediately evident after the Federal Reserve decided to support Bear Stearns and other Wall Street investment banks on March 17 causing dollar values to plummet against foreign currencies. This decline sparked fears of global market instability recorded to Finney D. (2008).

When commercial and investment banks lose creditor confidence, they become effectively bankrupt even if nonbanking businesses can continue to operate during bankruptcy. Increasing long term financing for banks and financial institutions may help prevent future collapses like that of Bear Stearns. Although short-term financing options from Federal Reserve are affordable for banks; however, they are currently experiencing liquidity problems coupled with declining securities values used as collateral for those loans leading credit issues at hand affecting banks shareholders immensely. Since lending is primary revenue-generating activities; progress cannot be sustained because of minimal funding causing profits lower than

usual while impacting asset value clarity position market caps gradually decreasing overall market efficiency both domestically as well internationally which may lead MNCs facing multiple challenges with respect to obtaining funding especially since bank asset and equity positions also experience drastic declines on top few other challenging macro-economic factors such as high volatility & uncertainty (Finney D., 2008).

Corporate Governance

Enhancing the management of a corporation requires paying close attention to corporate governance practices. In particular, this strategy emphasizes ethical behavior towards society as well as weighing social responsibility when making decisions concerning organizational plans. Furthermore, it encourages maintaining structures and procedures aimed at achieving an entity's objectives transparently while ensuring fairness between stakeholders. In line with such considerations, the importance of good personal stewardship emerges, especially in responsible environmental reporting. This approach underscores its positive public benefits. Corporate governance therefore requires taking into account how an organization can influence its broader community (Mohamad S., Sori Z., 2011).

Corporate governance can pose challenges from two distinct yet interrelated perspectives that cover both vertical and horizontal components. In dispersed ownership arrangements, senior management structures play a crucial role in ensuring stakeholder loyalty while representing their needs regarding management objectives affecting these stakeholders' welfare within corporations. On the other side, prevention against attempts towards value transfers from those holding dominant or controlling positions to those with more significant representations such as dominant stockholders has become an issue (Urban J., 2019).

The risks inherent in both aspects signify potential private profit loss through "rent" extraction by one group at the expense of others when enhancing corporate governance efforts. While various factors contribute to different scenarios involved including various means utilized by stakeholders involved, our report tackles facilitating effective approaches geared towards aligning shareholder-manager interest for effective routines (Urban J., 2019).

Core concerns pivotal for any company's stable functioning entail asset diversion and managerial incompetence representing whether managers successfully divert business wealth into their personal hands surreptitiously via low selling prices or overpay themselves explicitly through high salaries offered overtly respectively Other scenarios may relate to inappropriate behaviors avoiding selection errors related with current situations requiring modifications influencing job suitability considerations. Corporate institutions utilize different

strategies depending on whether they want market or non-market-based solutions when aligning shareholder interests with those of senior management staff members. Market-based modes focus on creating competitive environments within product, capital, labor and managerial markets, while non-market approaches rely heavily upon incentives and external guidance for effective management practices. The significance of these organizational mechanisms towards improving performance hinges upon their ability to punish low performing companies while rewarding high performing ones. The capacity restricts poor management activities by the company from sales operations profitably; without such growth through inadequate fund-raising options occur too, the workforce may depart seeking better opportunities. When executives behave improperly, a negative impact occurs thus stigmatizing the company's position (Urban J., 2019).

The problem facing most institutions regarding corporate governance comprises vertical and horizontal dimensions - more particularly if the enterprises' ownership disperses. Poor management may then require mechanisms that help its senior managers remain loyal to shareholders and competent enough to implement the management objectives. Alternatively, if there is disconnect overpower amongst dominant and dispersed shareholders, attempts should be made to prevent value transfer from dispersed to dominant or controlling shareholders. This becomes a massive issue for both businesses or countries like Czech Republic that lack proactive measures that curb opportunities for self-dealing by dominant stockholders who become rent seekers (controlling agents) under both aspects of corporate governance problems. Even so, the specific means available for them to extract revenue varies based on factors such as institutional structure levels etc. Achieving alignment between shareholder and managerial goals is a central concern in corporate governance practices across industries globally (Urban J., 2019).

Asset diversion (whereby funds intended for company operations get diverted to managerial personal accounts via unjust means), and incompetent managerial staff selection processes both represent risks that can undermine any company's strategies & success rates from within itself. Businesses may adopt various remedial steps such as incentive frameworks or third-party oversight ventures, but emphasis lies on improving competitive markets overall- whether they be products traded, B2B or attracting qualified talent. Additionally, it rewards companies who demonstrate performance while punishing those who don't. The role of non-market governance tools in corporate governance is significant yet undervalued by economists. Although markets remain crucial to the functioning of the system their limitations become evident in instances where there is less competition or over extended periods (Urban J., 2019).

Conclusion

The report draws attention to non-market governance mechanisms - regulations & corporate social responsibility - as essential elements vital for making corporations prioritize stakeholder interests over profits' sole pursuit. By mitigating detrimental externalities associated with market trends & incentivizing long-term viability prospects, such tools present tangible benefits that typical economic markets fail to achieve conclusively while addressing issues such as environmental decline or income disparities regularly. Non-market governance frameworks allow policymakers & business leaders to hold corporations accountable, making swift decisive actions against malpractices a reality while keeping the potential for similar cases low. It is imperative that policymakers and business leaders recognize the benefits of these tools and integrate them into their decision-making processes to establish an economic system that guarantees global equity & sustainability - two fundamental pillars of growth.

References

1. Bekaert, G. & Hodrick, R (2013), International Financial Management: Pearson New International Edition, Pearson Education, Limited, Harlow. Available from: ProQuest Ebook Central, (Accessed: 9th of June 2023)
2. (Burkhanov U., 2011), *The Big Failure: Lehman Brothers' Effects on Global Markets*, Available in: https://www.researchgate.net/publication/270622761_The_Big_Failure_Lehman_Brothers'_Effects_On_Global_Markets (Accessed: 9th of June 2023)
3. Finney D. (2008), *How the Bear Stearns Collapse Affects the Financial Markets*, Available in: <https://deliverypdf.ssrn.com/delivery.php?ID=36600709400002610400110609508101902200105908801105307012310610812509006607106807102900303005102202600605307106600207510802409611102605602102708701901011609400007605100003006411000511402400610206610311401511707109008409808611706407311310112080020031&EXT=pdf&INDEX=TRUE> (Accessed: 10th of June 2023)
4. Mohamad S., Sori Z. (2011), *An Overview of Corporate Governance: Some Essentials*, Available in: https://www.researchgate.net/publication/228134164_An_Overview_of_Corporate_Governance_Some_Essentials (Accessed: 11th of June 2023)
5. Urban J. (2019), Corporate Governance Mechanisms: *Their Strengths, Weaknesses and Complementarity*, Available in: https://www.shs-conferences.org/articles/shsconf/pdf/2019/02/shsconf_ies2018_01028.pdf (Accessed: 10th of June 2023)

ORIGINALITY REPORT

8%

SIMILARITY INDEX

4%

INTERNET SOURCES

0%

PUBLICATIONS

8%

STUDENT PAPERS

PRIMARY SOURCES

1

Submitted to Anglia Ruskin University

Student Paper

1%

2

Submitted to De Montfort University

Student Paper

1%

3

Submitted to University of New South Wales

Student Paper

1%

4

Submitted to University of Warwick

Student Paper

1%

5

Submitted to University of Wollongong

Student Paper

1%

6

Submitted to University of Wales, Lampeter

Student Paper

1%

7

Submitted to University of Western Australia

Student Paper

1%

Exclude quotes Off

Exclude matches Off

Exclude bibliography Off