

A Study on Legal Implication and Governance Mechanism for Corporate Management in Chennai

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Abstract: *Corporate governance refers to mechanisms of interests' alignment through which corporations are controlled and directed by their shareholders, other stakeholders (employees, creditors, investors, customers, suppliers etc.), as well as the public as a whole. Without effective governance mechanisms, the principal-agent problem may arise, enabling the management ("agents") to engage in "opportunistic behavior". The objective of the study is to analyze the governance mechanisms that are being developed to address challenges in corporate management and to find whether corporate management has the responsibility to consider the social and environmental impact of their business activities. The research method followed is an empirical method. The data is collected through a questionnaire and the sample size is 200. The convenience sampling method is adopted in the study to collect the data. The samples were collected from friends, relations through google form in Chennai region. The independent variables are age, gender, occupation, education qualification and marital status. The dependent variables are governance mechanisms that are being developed to address challenges in corporate management, does corporate management have responsibility to consider the social and environmental impact of their business activities, does corporate management have the duty to provide accurate, timely and complete information to shareholders, regulatory authorities and other shareholders. The researcher used graphs to analyze the data collected. As companies continue to become increasingly aware of their impact on the environment and society, corporate governance is placing an ever increasing emphasis on sustainability and social responsibility*

Keywords: Mechanism, Corporate governance, Corporate management, Stakeholders, Shareholder

I. INTRODUCTION

Corporate governance refers to mechanisms of interests' alignment through which corporations are controlled and directed by their shareholders, other stakeholders (employees, creditors, investors, customers, suppliers etc.), as well as the public as a whole. Without effective governance mechanisms, the principal-agent problem may arise, enabling the management ("agents") to engage in "opportunistic behavior". Corporate management encompasses a wide range of responsibilities, including strategic planning, financial management, operations oversight, and stakeholder engagement. It involves decision-makers at various levels, from executives and board members to managers and employees, each with their specific roles and duties. In today's globalized business environment, companies are subject to an array of laws and regulations at the local, national, and international levels. These legal obligations cover a diverse spectrum, from corporate governance and tax compliance to labor laws and environmental regulations. Understanding and complying with these legal requirements is essential for avoiding legal pitfalls, safeguarding the company's reputation, and mitigating potential liabilities. Effective corporate governance is a fundamental prerequisite for successful corporate management. Governance mechanisms, which include the composition of boards of directors, shareholder rights,



disclosure practices, and internal control systems, are designed to ensure that companies are managed in the best interests of shareholders and stakeholders alike. These mechanisms foster transparency, accountability, and ethical conduct within organizations, bolstering their long-term viability. The Government of India, through the Ministry of Corporate Affairs (MCA), regularly updates and amends company laws, rules, and regulations to ensure transparency and accountability in corporate management. Initiatives like the Companies Act, 2013, and its subsequent amendments aim to improve corporate governance. Regulatory bodies like the Securities and Exchange Board of India (SEBI) issue guidelines and regulations on corporate governance practices for publicly listed companies. These guidelines promote transparency, accountability, and ethical conduct among corporate entities. The Companies Act, 2013, mandates that certain qualifying companies must spend a portion of their profits on CSR activities where this promotes corporate responsibility and governance. At the state and local levels, governments may have specific initiatives to promote corporate governance. These can include partnerships with industry associations, training programs for corporate executives, and support for corporate social responsibility initiatives. Shareholders activism, threat of hostile takeover and legal environment are the factors affecting corporate governance. Human capital concerns include increasing gender diversity, racial diversity, equity and inclusion across the company, from the board down. Not only is this key for social responsibility, but a corporate culture that embraces people from different locations, races, genders, backgrounds, experiences and mindsets also allows for more rounded thinking and decision making. There is a growing emphasis on integrating Environmental, Social and Governance (ESG) factors into corporate governance. Investors and stakeholders are increasingly concerned about a company's impact on the environment, society, and governance practices. Companies are expected to disclose their ESG efforts and demonstrate commitment to sustainability and responsible business practices. Diversity, Equity and Inclusion (DEI) has gained significant attention in corporate governance. Companies are focusing on diversifying their boards and leadership teams, implementing equitable hiring and promotion practices, and addressing issues related to discrimination and harassment in the workplace and with the increasing reliance on digital technologies, data privacy and cybersecurity have become critical concerns. Regulations like the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) have placed stringent requirements on how companies handle personal data. Corporate governance must include robust data protection measures and incident response plans. In an era marked by increasing scrutiny of corporate behavior and its impact on society and the environment, companies must prioritize responsible corporate management. This involves not only complying with legal requirements but also going beyond mere compliance to embrace ethical practices, sustainability, and social responsibility. By understanding the legal implications and embracing effective governance mechanisms, organizations can chart a course toward long-term success, ensuring that their actions align with the interests of shareholders, stakeholders, and society as a whole. Companies in different countries are operating in different cultural, legal, social and economic environments, thus leading to the development of different corporate governance systems. According to the 2022 governance efficiency ranking, South Korea has the best corporate governance compared to other countries and India ranked 68 in corporate governance. Japan is ranked 6th, Germany is ranked 8th, UK is ranked 17 and the US is 51. The aim of the research is to study legal implications and governance mechanisms for corporate management.

OBJECTIVES :

- To analyze the governance mechanism that are being developed to address challenges in corporate management
- To find whether corporate management has the responsibility to consider the social and environmental impact of their business activities
- To discuss whether corporate management must be knowledgeable about the laws and regulations that apply to their organizations industry and operations
- To find whether corporate management has duty to provide accurate, timely and complete information to shareholders, regulatory authorities and other shareholders



REVIEW OF LITERATURE :

Isabel-Maria García-Sánchez, Emma García-Meca (2018), The main objective of this paper is to examine the influence of managerial ability on investment efficiency. The results show that managerial ability is an economically relevant determinant of investment efficiency, resulting in lower levels of underinvestment and overinvestment. **Marc van Essen, Peter-jan Engelen, Michael Carney (2012)**, The paper proposes a contextualized agency perspective suggesting that firm- and country-level good governance prescriptions designed to assure managerial oversight may not hold in a financial crisis. This is because firms can benefit from broadening managerial discretion so as to facilitate the exercise of initiative and decisive leadership. **Barnali Choudhury, Martin Petrin (2018)**, The paper examines corporate governance mechanisms that are traditionally seen as devices for reducing agency costs between shareholders and managers in the context of private ordering. More recently, however, the UK and other governments have embraced regulations in the field of corporate governance as tools through which to impose public responsibilities on corporations. **Igor Filatotchev, Gregory Jackson, Chizu Nakajima (2012)**, The paper examined a critique of corporate governance research grounded in agency theory and propose that cross-national comparison of corporate governance should consider how the nature and extent of agency relationships differ across different institutional contexts. **Ibrahim El-Sayed Ebaid (2022)**, This study aims to examine the relationship between corporate governance mechanisms, namely, board independence, board size and gender diversity, and the extent of corporate social responsibility (CSR) disclosure for companies listed on the Saudi stock exchange. **Konstantinos Vasilakopoulos, Christos Tzovas, Apostolos Ballas (2018)**, This paper aims to investigate the impact that governance mechanisms have on European Union 'banks income smoothing behavior. The authors examine the impact that corporate governance mechanisms included in European Commissions' proposals regarding the improvement of corporate governance mechanisms (Green Paper) have upon European Union banks' accounting policy decisions regarding the level of loan loss provisions (LLPs). **Md. Kausar Alam, Mohammad Mizanur Rahman, Mahfuza Kamal Runy (2022)**, The purpose of this paper is to examine the influences of Shariah governance (SG) mechanisms on Islamic banks' performance and Shariah compliance quality in the context of Bangladesh. The data were collected from the regulators, Shariah supervisory boards, Shariah department executives and Shariah experts from the Central Bank (Bangladesh Bank) and Islamic banks in Bangladesh. The study discovers that the quality of the Board of Directors (BODs), Shariah Supervisory Board (SSB), management and Shariah executives have both positive and negative influences on the Shariah compliance quality, image, goodwill and performance of Islamic banks' in Bangladesh. **Nadia Zahoor, Yong Kyu Lew, Ahmad Arslan, Michael Christofi (2023)**, This paper investigates the role of international corporate social responsibility (CSR) for the post-entry performance of developing market international new ventures (INVs) in the presence of corporate governance mechanisms to overcome their agency and environmental problems. The results show that international CSR promotes the post-entry performance of developing market INVs. Author found that this association is moderated by corporate governance mechanisms of ownership, board independence and returnee board members. **Peter Muchlinski (2015)**, This paper focuses on the corporate responsibility to respect. It considers how to overcome obstacles, arising out of national and international law, to the development of a legally binding corporate duty to respect human rights. **Arne Keller, Fabrice Lumineau, Thomas Mellewigt, Africa Ariño (2021)**, This paper has discussed contracts and relational governance as the key mechanisms that help alliance partners address problems of cooperation and coordination. This study advances a dynamic perspective on alliance governance by examining the impact of disruption and subsequent adjustment on the value of alliance governance mechanisms. **Obsa Tenerife Erena, Mesfin Mala Kalko, Sara Adugna Debele (2021)**, This paper aims to examine the impact of corporate governance mechanisms on financial and non-financial aspects of firm performance in medium and large-scale manufacturing firms in Ethiopia. The cross-sectional survey and simple random sampling methods are adopted while the data collection is through a questionnaire that covers five corporate governance indicators. A significant positive relationship has been found between the independence of the board of directors and firm performance (especially with respect to differentiation, OP, CP and IP). **Rakesh K. Mishra, Sheeba Kapil (2016)**, This paper aims to review the empirical studies done for finding a relationship between corporate



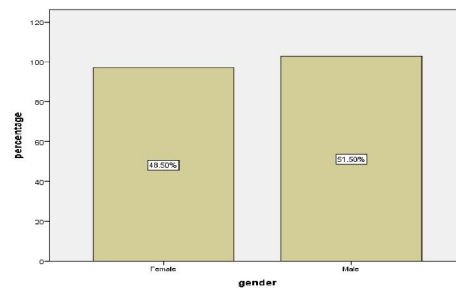
governance and firm performance. The review covers major theoretical and empirical papers on corporate governance and firm performance in developed economies. As a result of the study it has been observed that corporate governance is related to corporate performance practices that lead to better firm performance. **Qingyun Zhu, Mahtab Kouhizadeh, Joseph Sarkis (2021)**, This paper provides insights into the practice of blockchain and product deletion within a supply chain context. Theoretical and managerial implications are provided as we seek to link supply chain-related product deletion decision processes within blockchain technology supported information governance. **Basil Al-Najjar, Suzan Abed (2014)**, This paper aims to witness the importance of corporate governance mechanisms and investigates the relationship between the quality of disclosure of forward-looking information in the narrative sections of annual reports and the governance mechanisms for non-financial UK companies. Cross-sectional regression analysis is used to examine the impact of the corporate governance mechanisms on forward-looking information. The results show that board size and the independence of the audit committee are associated with the level of voluntary disclosure of forward-looking information.

METHODOLOGY :

The research method followed is an empirical method. The data is collected through a questionnaire and the sample size is 200. The convenience sampling method is adopted in the study to collect the data. The samples were collected from friends, relations through google form in Chennai region. The independent variables are age, gender, occupation, education qualification and marital status. The dependent variables are governance mechanisms that are being developed to address challenges in corporate management, does corporate management have responsibility to consider the social and environmental impact of their business activities, does corporate management have the duty to provide accurate, timely and complete information to shareholders, regulatory authorities and other shareholders. The researcher used graphs to analyze the data collected.

ANALYSIS :

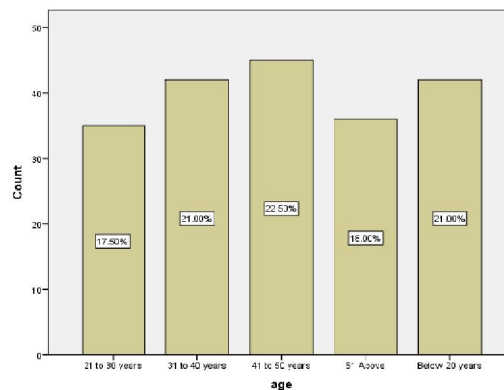
FIGURE 1



Legend : Figure 1 shows the gender distribution of the sample respondent.

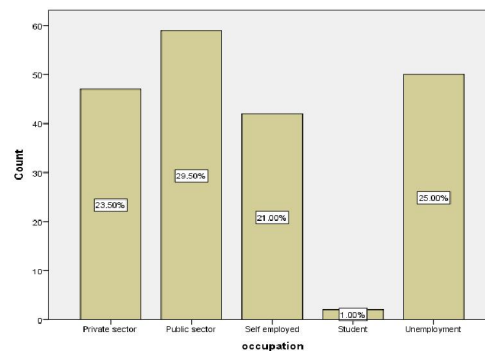


FIGURE 2



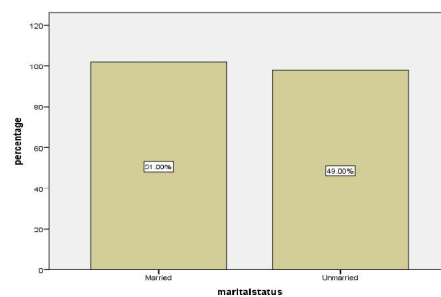
Legend : Figure 2 shows the age distribution of the sample population in india

FIGURE 3



Legend : Figure 3 shows the occupation of the general distribution of sample respondents.

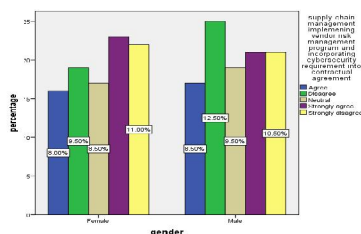
FIGURE 4



Legend : Figure 4 shows the martial status of the general distribution of sample respondents.

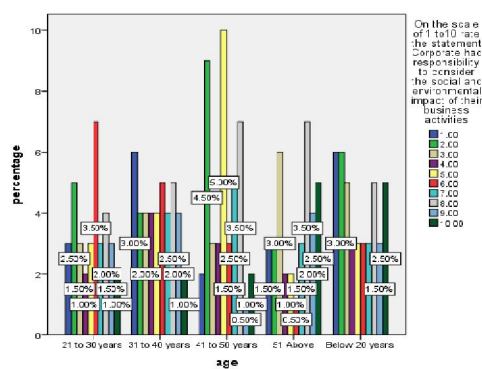


FIGURE 5



Legend : Figure 5 shows the gender distribution and their opinion on supply chain management implementing vendor risk management programs and incorporating cybersecurity requirements into contractual agreement.

FIGURE 6



Legend : Figure 6 shows the age distribution sample and their opinion on corporate Management had responsibility to consider the social and environmental impact of their business activities.

RESULTS :

From the **figure 1** we can see that both the male and female have almost responded equally in the above graph in that 48.50% of the respondents are female and 51.50% of the respondents are male. From the **figure 2** we can see that the independent variable which influence the graph is nearly 17.50% of the respondents are from 21 to 30 years, 21% of the respondent are from 31 to 40 years, 22.50% of the respondents are from 41 to 50 years, 18% of the respondents are from 51 above and at last 21% of the respondents are from below 20 years. From the **figure 3** we can see that the independent variable is occupation stated that 23.50% of the respondents are from private sector, 29.50% of the respondent are from public sector, 21% of the respondent are from self-employed, 1% of the respondent are from student side and 25% of the respondent from unemployed side. From the **figure 4** we can see that the independent variable that is taken for the above graph is marital status in which 51% of the respondents are married and 49% of the respondents are unmarried. From the **figure 5** we can see that 12.50% of the male respondents have disagreed with the statement and 9.50% of the female respondents have disagreed with the statement which says supply chain management implements the vendor management program and incorporates cyber security requirements into contractual agreement. From the **figure 6** we can see that 26.50% of the female respondents have said no to the statement and 22% of the respondents have said yes and 28.50% of the male respondents have said no and 23% of the respondents have said yes to the statement which is corporate management has duty to provide accurate timely and complete information to shareholders regulatory authority and other shareholders.



DISCUSSION :

From the **figure 1** we could see that most of the response is given by the male respondents where the response is about 51.50% because the potential implications of gender imbalance in responses for a study on corporate management, this situation can also serve as an opportunity to highlight issues related to gender diversity and inclusion in corporate governance. The study should be interpreted in the context of these gender-related dynamics, and efforts should be made to address any disparities and promote more inclusive corporate governance practices. From the **figure 2** we could see that most of the response is given by the respondent who is from 41 to 51 which is about 22.50% because responses from individuals in the 41 to 50 age group may reflect the perspectives and experiences of a specific generation. It's important to recognize that generational differences can influence attitudes and perceptions regarding corporate governance and legal implications. From the **figure 3** we could see that most of the respondents were from public sector people. This is because public sector employees often have a strong awareness of government regulations and compliance requirements. Their responses may emphasize the importance of adhering to legal frameworks and governance standards. Individuals in the public sector may prioritize principles of accountability and transparency in governance, reflecting the values and expectations of government entities. Responses from individuals in the public sector may offer valuable insights into governance mechanisms and legal implications specific to government and public organizations. This perspective can be particularly relevant for understanding governance in the public context. From the **figure 4** we could see that most of the response for the above graph is given by the married people which is about 51% this is because marital status typically has limited relevance to corporate governance and legal implications. The focus should primarily be on factors such as regulatory compliance, ethics, transparency, and accountability. From the **figure 5** we could see that most of the response are given by the male which is about 12.50% and they have also agreed to the statement supply chain management implementing vendor management program and incorporating cyber security requirement into contractual agreement this is because the predominance of male respondents who disagree with incorporating cybersecurity requirements into vendor contractual agreements in a supply chain management context should be seen as an opportunity to explore and address underlying concerns, attitudes, and knowledge gaps. This understanding can inform strategies to enhance cybersecurity practices and awareness within the field. From the **figure 6** we could see that most of the respondent are male which is about 28.50% for the above graph by saying no to the statement corporate management has duty to provide accurate timely and complete information to shareholders regulatory Authority and other shareholders because some respondents might perceive conflicts of interest within corporate management, where the interests of shareholders and regulatory authorities may not always align with the financial interests or strategic goals of the company. This perception could lead to a belief that management's primary duty is to protect the company's interests.

LIMITATIONS:

The major limitation of the study is the sample frame. The majority of respondents were connected through different social media platforms. So the online surveys didn't help in interactive collection of responses. There were audiences who were not aware about the usage of online sources to submit their responses. So a larger audience was not reached. The restrictive area of sample size is also another drawback. The physical factors are the most impactful and a major drawback to the research. The researcher had to face time restraints on college campuses. Survey question options may lead to clear data because certain answer options may be interpreted differently by the respondents.

II. CONCLUSION

Corporate governance refers to mechanisms of interests' alignment through which corporations are controlled and directed by their shareholders, other stakeholders (employees, creditors, investors, customers, suppliers etc.), as well as the public as a whole. Without effective governance mechanisms, the principal-agent problem may arise, enabling the management ("agents") to engage in "opportunistic behavior". Major objectives of the study are to analyze the governance mechanisms that are being developed to address challenges in corporate management and to find whether



corporate management had responsibility to consider the social and environmental impact of their business activities. Recognising that good governance is not just about compliance, clarify the board's role in strategy, monitor organizational performance, recognise that the governance of risk is a board responsibility and ensure the directors have the information they need are some of the steps for improving corporate governance. Establish a robust corporate governance framework that defines the roles and responsibilities of the board of directors, executives, and shareholders and ensure that the governance framework aligns with the company's mission, values, and long-term strategic goals. Implementing the legal and governance mechanisms will contribute to the overall stability, compliance, and ethical conduct of the corporate management. Effective corporate governance and compliance with legal obligations not only mitigate risks but also enhance a company's reputation and trust among stakeholders. It's important to seek legal counsel and engage in ongoing education and training to stay current with evolving regulations and best practices in corporate management.

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