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CORPORATE GOVERNANCE AND RISK- TAKING ACTIVITY OF BUSINESS

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ABSTRACT: *This research describes how company law and corporate governance allow the company to participate in a risk-taking activity that can benefit society, but the activity should be done in a way that managers and directors remain accountable.*

KEY WORDS: corporate governance, company law, risk taking activity

INTRODUCTION

In a business context, corporate governance refers to the systems of rules, practices, and processes according to which companies are governed. The model of corporate governance depends on the nature of the company which is based on the distribution of rights and responsibilities to all the employees who are part of an organization[1]. Corporate governance is the system according to which companies are directed and controlled. The main responsibility of the board includes setting the strategic aim of the company, providing efficient and sufficient leadership and employees, providing them resources to accomplish the task, and to supervise the management of the business[2].

Company law is based on the formation and regulations of companies and corporations that are based on legal terms and conditions by an individual who owns the company. The company law is also implemented on those members who manage and direct the activities of employees known as directors[3]. When the income of the company is unmatchable to the debt the company becomes insolvent or can be said that it puts on administration and wound up eventually[4].

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Companies Duties

According to the characteristics of corporate governance, the board of directors is responsible for releasing all the relevant information to the stakeholders. They must make sure to prove all necessary financial and operational data to the customers and corporate governance[5]. They should not maintain any secrecy in the business or hide any important information. The managers and board of directors are accountable for the actions of the stakeholders and the entire society. The majority of the legal laws and regulations of corporate governance is based on ethics, moral principles, and values. The board of directors must make sure to avoid unfair practices, cheating, or exploitation[6].

Considering the above-mentioned characteristics of corporate governance, the risk of taking a policy of business should follow the rules and regulations stated by the corporate governance of a country. It will ensure that the products and services of the company are of quality and there is no harm in purchasing the products. It ensures the stakeholders about transparency and legal practice of the company[7]. For introducing any product in the market that can be beneficial for the society organisations has to make sure their risk-taking policies are not breaking any rules and regulation while it is the core responsibility of managers and board of directors to enhance their employee's knowledge related to corporate governance and how they are bound to follow it[8].

Codes of good governance are considered to be the rules of best practices of the board of directors and other mechanisms of governance. The codes are designed to address the deficiency in the legal system and corporate governance system. The main purpose of slides of good governance is to make sure that the managers and directors in the company maintain transparency and accountability related to any risk-taking activity that can benefit society[9]. The codes of good governance were majorly issued by directors associations, investors association while the government has no role in developing practices related to national governance. It is a popular and known claim that the primary trigger of good governance are institutional investors although they have only pressured the stock-exchange commissions and private association for improving the practice of governance in the country[10].

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In most of the legal system, for example, civil law, there is no specific legal basis for the codes of good governance; however, they are also not legally binding. The enforcement of the legal system is all dependent on the directors of the company and the external forces of the market[11]. Only in a few legal systems such as religious and customary legal systems the laws are considered to be explicit legal consequences to the code or its provisions.

Considering the companies from the private sector they have enough stamina to adjust their businesses and activities according to corporate governance and code of recommendation[12]. Through previous studies, it is suggested that by the announcement of compliances that the market reacts positively. The codes based on corporate governance are influenced by the activities and decisions that the directors and managers take to run the business and how it can benefit society[13]. The ratio of risk-taking activity is higher in the corporate that is operating in a better-governed environment. The companies following governance laws have more options for diversification. According to the principles of corporate governance, all shareholders are obliged to receive equal and fair treatment. It involves making sure that all shareholders are conscious of their rights and how they should exercise them[14]. The company following good corporate governance has more reputation in the market and it will minimise the cost of energy in business.

If a company wants to market its new products or services to the customers it should make sure that the company is following ethical and legal laws as stated in corporate governance and ethics. The ingredients should not be of lower quality while the company should not make fake claims related to the product as it can change the decision of the customers, which is considered an illegal activity[15]. The managers and directors should make sure they are governing the employees and from where they are getting the resources to produce the product. They should be accountable for mentioning the sources of all ingredients and their origin, however, it is also essential to make sure that the company is following ethics, for example, it is not using child or slave labour for producing a product to benefit society[16].

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Corporate governance is not only related to the company or business laws but it also protects the rights of customers governing the decisions and controls of the organisation. Considering the risk-taking activity of the company the investor seeks to have a greater voice in the strategic decision-making process of the company. They have the right to point to the corporate social responsibility of the company and if they adhere to all rules and regulations according to the corporate law[17].

Board of Directors Duties

For the directors and managers, it is important to consider the development of risk taking policy following corporate governance. The risk-taking activity in any company should be according to the corporate strategy work of the board. It should involve and specify the degree and types of risks involved in the activity that the company is willing to accept to accomplish their goals[18]. The management must manage the risk and know its adverse effects if the plan is not successful. The risk policy of the company reflects the aggregate risk aversion of the decision-makers that are managers and directors of the company. The managerial decisions and attitudes of decision-makers should be according to the corporate governance if they are willing to take a certain risk. The company will be bound to follow all rules and regulations that may or may not be codified in the formal policy of the company related to risk management. In recent years risk appetite and risk tolerance are newly added terms in the risk management of a company[19]. Corporate governance uses these terms frequently to address risk management in the corporation. The meaning and context of these two terms are still evolving but corporate governance has stated risk tolerance and risk aversion that is limited to an individual company for risk-taking activities and should follow them to remain to adhere to corporate governance of Britain.

The managers and directors are responsible for choosing the governance system of the firm and to maximise their welfare. When a company invests in corporate governance it reduces the ability of shareholders to gain private benefits from the company. The majority of investors are willing to pay higher prices for the companies that follow a high standard of corporate governance[20]. A company having good corporate governance will enable the company to have more confidence in the market to introduce their product even after taking a risk. It will provoke investors to have more incentives for investment and gain more profit. Investing more in a company that takes risk where managers and directors are accountable for the actions will prove in corporate growth and can provide an opportunity to improve the performance of the company and make the country's economy better[21]. This is the reason why companies are more determined to follow company Law and good corporate governance especially when the economic conditions of the country are adverse in nature.

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Limited liability is a form of legal arrangement for an entity in which a business loss is not larger than the amount paid in a limited corporation or partnership (LLC). In other words, private investments of customers and shareholders are not in risk if the business loses[22]. The fundamental principle behind this is that a company's ethical actions and results vary from its members or associates. The primary focus of the strategy is to provide investors with minimal protection for them. Thus without taking into account its income and personal property just the sums paid for its shares and the values of the investment are at risk. If a limited liability company splits its ownership into shares which have been paid in full by its members at once, it is not responsible for any of the company's debts. Registration was established in 1844 and limited liability doctrines were followed in 1855[23]. The House of Lords then incorporated the two principles of a corporation and its limited liability in Solomon v. Solomon & Company[24] and consolidated these provisions into English Law. In that case, it is clearly claimed by the Supreme Court that a corporation is a separate legal body from its owners.

The characteristics of corporate governance in a country are aimed to increase the efficiency of any business under legal rules and regulations. Based on efficiency forces the business plans their strategic decision related to risk taking an activity that is in the welfare of the government and the society[25]. The directors and managers make sure that they do not harm the business or any of the government policies and train their employees accordingly. For example, for any eatery based in the UK, they need to make sure that good quality ingredients are being used in the restaurant and managers have strict rules and regulations related to hygiene level. According to Article 14, the food shall not be placed on the market if it is unsafe for consumption. The food is considered unsafe if it is injurious for health or unfit for human consumption[26]. Corporate governance increases the protection of customers and businesses by encouraging the managers and directors to maintain transparency in their business and activities related to the business.

CONCLUSION

Any business needs to act within the law as the penalties for breaching any law can cause serious damage to the business. Compliance with laws and corporate governance is not the choice of doing business but it is important to maintain reputation. The board of directors and managers along with employees should be comfortable that the company is following robust legal rules and regulations that are effective in preventing misconduct and encourage the stakeholders to report any potential

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issue related to compliance. A company is responsible for creating a meaningful environment for the company that enhances its environment and provides health, safety, and sustainability in business operations. The business should conduct risk-taking activities in such a way that they maintain social and environmental sustainability while businesses should understand which issues are considered to be most important for the business and company.

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