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Impact of Globalization on Corporate Failures & Corporate Governance

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Abstract

"Where globalization means, as it so often does, the rich and powerful now have new means to further enrich and empower themselves at the cost of the poorer and weaker, we have a responsibility to protest in the name of the universal freedom"- Nelson Mandela

Globalization has been the quintessential element of business since liberalization of trade and privatization of commerce in 1991. It holds great weightage over the community, competition, technology, environment, lifestyle, commerce, trade and economy of the world. Any component which has such eminent power also has the responsibility to be sustainable to all of its stakeholders. It is necessary to note that Corporations are an indispensable part of the globalized community. Industrialization was the seed which blossomed into corporatization which fructified into globalization. Hence, there is the necessity to regulate the corporate way of trade and commerce with the communal life, this gives rise to Corporate Governance. This form of regulation ensures the humanitarian facet of the prosperity oriented corporate society and holds them accountable for any communal wrongs which affect population. Corporate governance is that which acts as a conscience and that which encourages corporations to care about the greater good. This paper focuses on how

globalization has impacted corporate governance and the challenges it faces, in the form of corporate failures. The author aims at suggesting ways to better the relationship between Corporate governance and Globalization, as both are inseparable sides to the same coin.

Key Words: Globalization, Corporate governance, Corporate failures, Corporate accountability, MNC

INTRODUCTION

The face of corporatized economy is seen in blatantly in the globalized environment, especially in its multiple faces like the environment, society, stakeholders' interests and communal dimensions. In addition to this, globalization is the indispensable detail of business due to the fact liberalization of trade and privatization of commerce. It holds exceptional bearing over the community, competition, technology, environment, lifestyle, commerce, trade and economic system of the world. Any element which has such eminent strength additionally has the obligation to be sustainable in the long run. Thus, the legislature of every nation urging to develop have been working tirelessly to protect their domestic markets, while establishing themselves internationally, alongside protecting the best interest of their people and products. Globalization has brought drastic change to the society. In most cases it has been pragmatic, while it has also proven to be problematic to many.

It is essential to observe that Corporations are an indispensable part of the globalized community. Industrialization became the seed which blossomed into corporatization which fructified into globalization. Hence, there's the need to modify the corporate manner of trade and commerce with the communal life, this offers upward thrust to Corporate Governance.

2. BACKGROUND

"International corporate governance and accountability research, whether from a political science, economics, finance, or accounting perspective, has thus far predominantly focused on the comparison of corporate governance schemes in different countries and on the investigation of institutional parameters that determine these schemes."¹⁴²² This structure of law guarantees the humanitarian side of the prosperity-orientated corporate society and holds them chargeable for any communal wrongs which have an effect on the population. Corporate governance is that which acts as a moral sense and that which inspires organizations to care about the greater good of its stakeholders, i.e., the producers, consumers, environment, flora and fauna.

3. METHODOLOGY

The basic aim behind sourcing the research for this paper has been to analyze the core of literature and jurisprudence that exist with regard to this subject matter. A very limited content has been written on the impact of globalization on corporate failures and corporate governance.

GLOBALIZATION

The systematic migration of human resource, goods and capital that marks the global changing in world economy, culture, technology, development, and governmental systems is called globalization. It depicts the growing interdependence of countries which bring about cross-border trade in goods and services, technology, and flows of investment, people and information.¹⁴²³ In addition to these effects, globalization also has religious, communal and environmental implications which have been closely watched and regularly

by the legislature, executive and judiciary. Every legislature has an undertaking to safeguard the best interest of the domestic market and the local population from drastic changes, which, on one hand act as opportunities, on the other hand act as menaces.

Globalization affects the economy, business, life, society and environment in different ways by increasing competition in the international and domestic market, technological research and development, knowledge transfer and brain drain, investment modules, regulation and deregulation of international standardization, integration of markets, intellectual capital mobility, financial crisis-contagion effect¹⁴²⁴ in case of global crisis, this also includes the phenomenal spread of viruses and pandemic diseases.¹⁴²⁵

GLOBAL GOVERNANCE

Examining the term global governance certainly does not imply that such a system exists per se, let alone within the Purview of its business. This is simply an acknowledgement that, in this normal globalized world, some kind of governance structure needs to be established to deal with multinational and global issues. Subsequently, the term "global governance" was a descriptive term that recognized the problem and referred to a specific system of cooperative work to solve it.

Therefore, global governance refers to the necessary political interactions to address problems affecting multiple countries and locations, but the implementation is not present. The improved need to solve problems around the world no longer requires the establishment of more powerful formal international institutions, but it may be necessary to build agreements on standards

¹⁴²² Lou, Y. (2005). How does globalization affect corporate governance and accountability? A perspective from MNEs. *Journal of International Management*, 11(1), 19–41.

¹⁴²³ Autor, David H., David Dorn, and Gordon H. Hanson. 2016. *The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade* [pdf]. *Annual Review of Economics* 8: 205–240.

¹⁴²⁴ Almadani, A. (2014). Globalization and Corporate Governance. *International Journal of Innovation, Management and Technology*. <https://doi.org/10.7763/ijimt.2014.v5.547>

¹⁴²⁵ Bhowmick, A. (2017, July 12). *Globalization and Corporate Governance*. iPleaders. Retrieved February 5, 2022, from <https://blog.ipleaders.in/globalization-and-corporate-governance/>

and practices to base them. One of the examples taken to establish these standards and currently implemented is the establishment and improvement of the mechanisms for global responsibility.

CORPORATE GOVERNANCE

Corporate governance protects companies against long-term deprivation. When groups have social responsibility, they calculate the cost of their risks and failures. First, companies must be obligated to shareholders and even all stakeholders. In short, businesses have obligations to all societies. Bankruptcy of a company has a serious impact on all the rising societies. A unique and big scandal with Enron had a huge impact on the market and financial system. Are you obliged to ensure adequate performance in addition to shareholders and company regulators of various stakeholders (eg workers, buyers, clients, providers, etc.)? In this way, corporate governance is not necessarily related to companies, but to all societies. Therefore, the changing view of a company's obligations shifts its focus from the actual annoyance that society likes to speak.

Shareholders are more skeptical about getting long-term profits and corporate profits. The key to this concept is the long-term representation of a sustainable business enterprise. Shareholders need to deliver long-term benefits in a sustainable system and prioritize short-term benefits. This is not related to the income of the company, but to the social and environmental overall performance of the authorities. Therefore, managers need to make strategic plans for business companies with respect to the expectations of all shareholders that are sustainable and can deliver long-term benefits.

Sustainability requires the preservation of the values of justice in the future: for example, if the current approach is considered only from the current perspective, but it will not allow the same model in the future, the idea of

sustainability will be rejected from this perspective.¹⁴²⁶ Thus, the expectations of investors or shareholders and the approach of all other stakeholders reinforce a responsible and ethical company more than any other society. Globalization has been impressed by corporate behaviour, but we can find many challenges, especially in developing countries.

4. RESULT

THE IMPACT OF GLOBALIZATION ON CORPORATE GOVERNANCE AND CORPORATE FAILURES

To be socially responsible, you need to be someone who can take responsibility for decisions and natural processes, rather than someone who truly follows the law. This issue is related to all these instructions regarding the behavior of companies and managers. On the polar side, one aspect involves the employer being a legal body with the rights and obligations to belong to that position, ie social obligations. In the case of Enron, executives were prioritized over all regulations, but now they are their way, despite the fact that they were considered irresponsible and unethical issues under employer control. And have not changed their behavior.

Globalization has been the gateway to welcome international investment and international capital flow. Such portfolio investments have a great impact on the economic systems as they have led to abandonment of liquidity in the markets and the respective economies of developing and developed countries. Globalization requires more stringent regulation of markets and economic organization. Owing to the problem of globalization, there are many new and complex economic instruments and methods that are fully transferred and sold in different countries. Each new system, tool or instrument needs better rules and regulations in its class to demonstrate its advantages. These principles

¹⁴²⁶ Dower N. (2004) "Global Economy, Justice and Sustainability" Ethical Theory and Moral Practice 7: pp. 399-415.

are also necessary to protect countries from a wide range of risks and crises. When the plight of one country deteriorates, it affects other countries through blood trafficking and transfusion, which we call the effects of infection.

On the other hand, in the process of globalization, the shares of well-known companies are traded on the international stock exchanges and the shareholders and shareholders of them are distributed in many different countries. Preventing noteworthy scandals and other corporate problems, examples we saw throughout the last phase of the economic crisis. International standards also regulate market and economic systems through international regulations and agreements such as IAS, ISAs, and others. These technologies allow for standardized and comparable reporting for companies, which is why the globalized world has more international rules, regulations and standards than ever before.

The development of international standards and principles will further facilitate the deregulation of all these markets. The economy needs an economic structure that effectively responds to the higher risks of the new economic organization. For these reasons, economic markets are free, deep and liquid, and our money markets are now luxurious enough to make this financial structure possible in global markets. The global stock market forecasts and pan-European stock market forecasts set a precedent for this change. These are many similar examples of the current state of market integration, as evidenced by increased competition in the economic system. The integration example also applies to corporate mergers and acquisitions.

Another problem of globalization is the movement of human capital through the transfer of knowledge and information. One of the reasons is that international and multinational companies have subsidiaries,

partners, and institutions in different states. They prefer to turn efficient and efficient international employees and from country to country and provide effective international business practices. This further change requires skilled, trained, efficient employees who can quickly adapt to different market conditions.

Financial crises are often defined by globalization as a measure of its impact. This is a true story, and in recent years there have been some crises in the financial world. Generally speaking, financial crises are caused by international capital/capital flows (portfolio investment), the lack of important rules and measures, complex financial instruments, the rapid development of financial markets, asymmetric linkages and data transmission.

Firms will need to be conscious of the need to create costs, not in simple monetary terms, but also in environmental and social terms. The challenge facing the business area is to reconcile these expectations. Firms are not going to want to change in the simplest way in which they are now; however, as part of their interaction with the environment.¹⁴²⁷

The challenge of governance in a globalized world lies in the political deliberations aimed at setting and redefining global standards of business conduct. While stakeholder management involves the idea of internalizing the needs, values and interests of members who are involved in, or perceived by, corporate decision-making, we note that the political CSR can be a campaign for companies in environmental and social challenges such as human rights, global warming or deforestation.¹⁴²⁸

5. CONCLUSION

¹⁴²⁷ Cramer, J. (2002), "From Financial to Sustainable Profit", *Corporate Social Responsibility and Environmental Management*, 9, pp. 99-106. Published online in Wiley.

¹⁴²⁸ Scherer, A. G., G. Palazzo (2008), "Globalization and corporate social Responsibility" *The Oxford Handbook of Corporate Social Responsibility* Eds.: A. Crane, A. McWilliams, D. Martin, J. Moon, D. Siegel Oxford University Press.



Globalization has a huge impact on society and business spirits and can manifest itself in various forms. Business therefore requires more normative and appropriate and socially responsible measures than before. This chapter illustrates the relationship between corporate governance and globalization. We have noted that the relationship between the growing number of business failures and post-globalization scandals and the need for good governance to address this problem. In conclusion, it is not always possible to control behavior or business activities using rules, principles and standards. In this case, another question arises. If not washed, great people will not see responsible and socially responsible activities, and if they do not act socially responsible, who will run this issue and profitable corporate lifestyles and markets. The problem is that the impact on corporate social responsibility is criminally unmanageable. This is the simplest social consensus for responsible and responsible behavior between managers and social and authoritative stakeholders.