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Theoretical framework and Key Players of Corporate Governance

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Abstract
Necessity of corporate governance lies in the fact that it maintains the environment of mutual trust and confidence amongst all the stakeholders. The present paper aims to study theoretical framework of corporate governance. In theoretical context, several theories argue in the context of corporate governance framework. These theories are: agency theory, transaction cost economics, stewardship theory, resource dependency theory, stakeholder theory and managerial hegemony theory.
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Introduction

Corporate governance matter because it boosts companies' performance and helps in developing capital markets. Moreover, a sound corporate governance system reduces risk, adds worth to investments and builds reputation for investors. Agreed the strong relation between good corporate governance and sustainable economic development, adopting better corporate governance practices has become a significant constituent for the development of the corporate sector**.**

Theoretical Frameworks for Corporate Governance

In theoretical context, several theories argue in the context of corporate governance framework. These theories are: agency theory, transaction cost economics, stewardship theory, resource dependency theory, stakeholder theory and managerial hegemony theory.

Agency Theory

Agency theory is based on the premises that there is an agency relationship wherein the principal allot the work to the agent and involves risk sharing and conflict of interest between the two. It is implied by the belief that the agent will be driven by self-interest rather than a desire to maximize the profits for the principal. The board, as an agent, is expected to resolve such conflict of interest and minimize the agency costs. Some see the board's role of control as also encompassing a role in strategy.

From this perspective, the prime task of the board is to monitor and control management. This recommends that a majority of directors on companies' board should be independent of management, their primary role is about ensuring managerial compliance by monitoring, and if necessary, controlling the actions of management to make sure that it works in the shareholders' best interests. Pertaining to agency theory the central problem of corporate governance is how the principals ensure that executives perform in the shareholders' wellbeing rather than their own. From an agency theory viewpoint, independent non-executive members should dominate a supervisory board so that management could be monitored more effectively.

In addition, different people should also occupy the post CEO and board chair in sequence to separate operational from control responsibilities.

In short, agency theory is a perspective that discusses about principal-agent relationship. According to agency theory, the principal appoints an agent to perform work on his behalf. However, this way a problem occurs because the interests of the principal and of the agent are not necessarily allied.

Transaction Cost Economics

Transaction Cost Economics (TCE) shares with agency theory, the assumptions of restricted rationality and self-interest, which are said to be profound in human character. One of the key differences between the theories is their basis, i.e. agency theory is concerned with the agency problem, while TCE is concerned with the broader question of efficiency in transaction costs. TCE argues that the purpose of economic organizations, including the governance system, is to cut down the transaction costs ultimately as well as minimizing the impact of informational asymmetries where parties have made firm-specific investments. The theory took attention to the costs of the company, to be more specific, to the most efficient ways of obtaining and allocating resources. According to this theory, board's work is to ensure the protection of investments by those who make firm-specific investments that cannot be duly protected by other means.

Resource Dependency Theory

Following the development of resource dependence theory and stewardship theory, the understanding of board roles and responsibilities has been shifting. The RDT recognized the Board as a mechanism for representing important external organizations which are mutually dependent with the company. One of the strategies is to hire representatives of key suppliers, competitors or customers on the board.

From this point of view, the board is seen as the means of dipping uncertainty by making authoritative relations between associations throughout, such as interlocking directorates. The primary functions of the board are to maintain healthy and harmonious relations with key external stakeholders with the aim of ensuring the flow of resources into and from the firm, and to help the organization respond to external changes. In this way, the role of the board is enormously a boundary-straddling role. Thus, the board members are chosen for the essential outside links and information they can bring to the organization, and to attempt to co-opt outside impacts.

Stewardship Theory

Stewardship theory, on the contrary, to the notion of agency theory that the agent being driven by self-interest, argues that managers are motivated by an aspiration to achieve and gain inherent satisfaction by performing challenging tasks. Supporters of this theory emphasize that managers need power and desire appreciation from associates and supervisors. In this manner, their inspiration augments over monetary contemplations. The role of the board of directors in matters of strategy is seen as contributing to this managerial viewpoint.

From the perspective of stewardship theory, a supervisory board should be dominated by inside members in line to make effective decisions as insiders know better about the firm, than the outside directors do. This perspective also argues that the positions of CEO and Board Chairman should be in one hand (CEO duality), rather than to be separated into two positions (CEO non-duality), because this facilitates a clear and strong leadership.

The major difference between an agency theory and stewardship theory is in the nature of motivation. Agency theory puts more focus on extrinsic motivation, whereas stewardship theory emphasized on intrinsic recompenses that are not effectively measured, for example, development, achievement and obligation. Stewardship theory also has its confines. As the instances of scandal exhibit that corporations must have some defense from the intermittent occurrences of fraudulent and self-serving managers. Hence, stewardship theory cannot clarify, but does pretend to explain all governance relationships and conduct.

Stakeholder Theory

Stakeholder theory starts with the assumption that values are essentially and explicitly a part of doing business. The theory underlines that managers should eloquent the shared sense of the value they create, and should focus more on what brings its core stakeholders together. It likewise drives managers to be apparent with reference to how they need to collaborate with all stakeholders, specifically what sorts of relations they need and need to make with their stakeholders to deliver on their purpose.

From stakeholder theory perspective, corporations shall be governed in the wellbeing of its stakeholders, classified as investors, employees, customers and communities. In addition, the directors of the corporation shall have a duty to employ balanced judgment to explain and direct the conduct of the corporation as per the Stakeholder Enabling Principle. By integrating different stakeholders on companies' boards, it is anticipated that corporations will be more likely to inclined to broader social interests than the narrow interests of one group. This prompts an arbitrator's role for boards to negotiate and resolve the possibly contradictory interests of different stakeholder groups, so as to determine the objectives of the corporation and to set policy and plans.

However, it has been noted that stakeholder theory is amongst the most controversial theories of governance and pundits have challenged the theory on a several basis, including whether it actually be worthy of the title 'theory'. Further, the debate for the predominance of missions over the interests of stakeholders appears persuasive, although, the mission is not necessarily fixed over time.

Managerial Hegemony Theory

From a managerial hegemony theory perspective, the board ends up as little more than a 'rubber stamp' of management's decisions. Its role is basically figurative to give legitimacy to managerial decisions. Hegemony refers to the concept of predominant power. Where managerial authority operates, the board's judgments and monitoring about the performance of the corporation are completely dependent on what the CEO decides to disclose. The theory suggests that boards will make few attempts to influence authoritative execution, unless some type of emergency happens. Nonetheless, it may well be that managerial dominion has a limited life as directors get to be progressively modern in their comprehension and execution of their responsibilities.

The present theoretical corporate governance frameworks do not contribute much, as a sound theoretical framework of corporate governance is still lacking. Which would of aid to manage the immense picture and provide a coalesce theory to guide the boards in taking strategic decisions.

Key Players in Corporate Governance Framework

Corporate governance includes some regulatory parties like board of directors, management, shareholders, and auditors with other stakeholders like suppliers, employees, creditors, customers and the community at large.

In the corporations, shareholders delegate rights to make decisions to the management, expecting them to act in the shareholder's best interests and can influence corporation's behavior by exercising their rights as owners. Management is principally accountable to the board and responsible for the company's effective implementation of the strategy and direction as provided by the board. Management is responsible for the day-to-day operations of the company. The segregation of ownership and control lead to a loss of effectual control by shareholders over the company.

The shareholders' job in governance is to appoint the directors and the auditors and to make sure that there is a right governance structure. The board's role in the governance process includes determining the company's strategic aims and plans, providing the direction to execute them, monitoring the management of the business and reporting to shareholders on their stewardship. Moreover, the actions of the board are accountable to laws, regulations and the shareholders. Whereas, the auditors' part is to provide the shareholders with an independent, external and objective examination of the director's financial statements, which delineate the foundation of that reporting system.

The key functions of the board of directors are to provide strategic guidance and effective monitoring to management, to ensure protection of minority interests and rights, equitable treatment of all stakeholders and superior transparency and timely disclosure. In CG framework, directors are responsible to verify whether executive officers are performing their duties appropriately or not and whether contributing to increased corporate value.

With reference to the stakeholders, corporate governance as well concerned with finding ways to cheer up various stakeholders in the corporation to embark on efficient and optimal levels of investment in human and physical capital based on firm-specific requirements. The competitive spirit and final success of a corporation is the result of joint efforts of the team that personifies contributions from a range of various resource providers consisting investors, creditors, employees and vendors. Companies should acknowledge that the contributions of stakeholders constitute a worthy resource for creating competitive and profitable firms.

The recent progress in this context is the outlook that different stakeholders should also contribute in governance on their parts. Moreover, they should get involved in making major strategic and profit sharing decisions jointly with owners and should supervise managerial decisions.

Conclusion

At the end it can be concluded that theoretical framework of corporate governance was emerged from the theories like agency theory, transaction cost economics, stewardship theory, resource dependency theory, stakeholder theory and managerial hegemony theory. These theories have different viewpoints but the principal agent relationship was the soul of all the theories. All of these theories are accepting that the main problem is clash of interest between different parties. Besides that all of these theories have given a meaningful literature to understand corporate governance.

Key players of corporate governance are some regulatory parties like board of directors, management, shareholders, and auditors with other stakeholders like suppliers, employees, creditors, customers and the community at large.

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