2. Literature Review

2.1 Conceptualising Corporate Governance

A particular organisation needs to be monitored and given a proper mechanism on which to function, therefore to meet these criteria the notion of corporate governance was established in order to usher organisation into a certain direction and in a controlled manner (Tricker and Tricker, 2015). Many previous research studies, such as those authored by Arora and Sharma, (2016); Azeez (2015); Bhagat and Bolton (2019), demarcate that a firm's performance is an effect of internal corporate governance as strategies which have been made by corporate governance bodies ensure that the firm is operating under moral and ethical codes. Moreover, corporate governance mainly focused on two of the aspects that are market based as well as relationship based. Ciftci et al., (2019) explained that the first aspect of corporate governance is that it deals with rights and profits of shareholders of organisation. Furthermore, Cifti et al., (2019) also described the other aspect in which the researchers enlightened that relationship based aspect focused on the profitability of the stakeholders of the firm.

Moreover, it has been researched that good corporate governance mechanisms ensure accountability of the firm as well as for its profitability, thus increasing the performance and financial position of the institute (Jia, Huang and Zhang, 2019). Political Governance is a very controversial area of the organisation as it is the root cause of organisation's direction. Furthermore, the organisation makes decisions according to the structured framework and because of the good accountability of firm if they achieve a certain level then it would position the organisation at development level as well as it would help in the progression of the organisation (Alsadi, Suleiman and Adam, 2019).

2.2 Attributes of Corporate Governance

According to Ahmad (2016) strong corporate governance is associated with major progressive effects on company's significance, increasing efficiency and revenues, lessening systematic hazards and easier access to resources. Further the aforementioned researcher stated that strong corporate governance mechanisms help a company in gaining capital both from individual and formal investors.

2.2.1 Discipline

Adam, Bin, and Moh (2019) proposed in their research paper that one of the most significant parts of corporate governance is the discipline among the firm. Moreover, it has been observed that organisations that keenly focus on the notion of discipline within their organisation reflect good governance, which directly leads to positivity in the environment and the progress of the firm. In this era every firm is focused on its profitability and to strengthen its roots, hence it is obligatory function of the corporate governance as it gripped and controlled over firm progress. Adam, Bin, and Moh (2019) additionally proposed the key thing that provides the direction and maintain the stability of the firm's performance is being monitored and controlled through implementing discipline procedures provided by the good governance of firm thus, discipline has positive connection with accountability, performance and profitability of an organisation.

2.2.2 Transparency

Albu and Flyverbom (2019) assessed the concept of another significant attribute of corporate governance which is the transparency of an organisation in which he explained the

importance of transparency as it provides a clear insight of the firm that what the firm is all about, how it is working in the market, what benefits it provides and how it will be beneficial for the society. The relevant information has to be crystal clear for the good understanding of that particular organisation as well as it reflects a good impact within the market. Another key assessment was added by Jacoby et al., (2019), where the researchers denoted that internal corporate governance is responsible for the transparency regarding information provided to the members of the organisation e.g., stakeholders and owners, however for the external bodies like stakeholders which directly influences the image of the firm in the eyes of both internal and external bodies of the firm they are associated as this is their right to know what is going on with the accountability, performance, cost and productivity of organisation which have to be surely clear in order to deliver a better appearance of the organisation.

2.2.3 Accountability

Accountability is a significant fundamental in strong corporate governance which aids in smooth functioning of an organisation. As observed by Mosunuva (2014) constant dialogue between board of directors and stakeholders about the present situation, how problems are being handled or solved is important. It has been advocated that strong corporate governance can be attained by holding directors answerable for their conduct and choices; this means that board of director's accountability plays a vital role in saving organisation from potential loss. The tricky part is how to reinforce accountability of board of directors in an organisation. According to AR Keay (2015) accountability is an elementary ideology of durable corporate governance that needs to be repeatedly enforced. Ostrower (2014) in his study suggested that board of directors should be lawfully bound in a contract to fulfil elementary ethics of accountability.

2.2.4 Responsibility

Many organisations currently have understood that if they want to prosper, they must fulfil their responsibility not only toward their corporate activities but also towards the growth of the whole society. H Musa (2015) observed that publicly responsible businesses have become the most influential tool in both corporation and public policy globally. If a company wants to grow at a fast pace it should involve all its employees in socially responsible business, which includes providing amazing products which satisfy the quality standards, employee benefits, fair behavior of all participants, supervision in the organisation, ethics of corporate governance, obligation to the environment and cooperation with local group of people etc. Parameswari and Yugandhar (2015) suggested that human resource management should ensure that all employees fulfil their ethical responsibilities and no breaching of rules is done.

2.2.5 Independence

If a firm wants to grow in the right direction and wants to achieve certain productive goals then their corporate governance should be free from influence and pressures of firm’s outside and internal bodies like stakeholders, shareholders, owners and others. Neville et al., (2019) proposed a research on the effectiveness of governing body in which he observed that if the governing body remains free to achieve its own goals which would definitely be in the interest of the firm but this should be accomplished only when the governance would work independent of all the upper external and internal bodies pressures thus this will increase effectiveness and performance of organisation.

2.3 Corporate Governance Theories

2.3.1 Agency Theory

This theory establishes a coherent relationship between the shareholders, directors and the all the stakeholders that stand to be impacted the firm's decisions. The shareholders of the company hand over the managerial work and duties related to business development to the hired agents, known as directors and managers (Ballwieser et al., 2012). It is expected of the agents that they make decisions which are in the best interest of shareholders and act upon them. There is of course always a risk of agents succumbing to self-interests, greed, opportunistic behaviours and work in favour of their own goals. This is a big drawback of agency theory. The work of Mallin (2004) provided a means of mitigating this problem where they utilised the board of directors to be extremely crucial as an overseeing body to reduce the possible issues that might arise as a result of principal-agent relationship. Agency theory is usually attributed to two factors. Corporations are dispersed in to two bodies, shareholders whose interests drive the business forward and the managers who act according to them. Humans are selfish beings driven by own interests and will not willingly volunteer to give up their own interests for others.

2.3.2 Stewardship Theory

This theory introduces the inclusion of a steward who protects the wealth of shareholders and maximises it through consistent performance. According to Smallman (2004) stewards are the company executives and managers who are satisfied and find motivation in the achievement of organisational success as a whole. The position of employees/executives is stressed upon to be more autonomous in order to maximize the returns of shareholders. This allows for the efficacies

of a steward to be capitalised on too as the triumph of organisation will make them have a clear mission.

2.3.3 Stakeholder Theory

This theory fused the accountability of management to a bigger array of stakeholders. Managers have an organisational network to work for. This array includes the workers, and partners in business. This ensures that corporate entities strike a balance in the benefits of various stakeholders such that each body receives some degree of profit (Abrams, 1951).

2.3.4 Resource Dependency Theory

This theory emphasises on the necessity of “board of directors” in making resources easily accessible which are needed by the organisation. In this way directors join the organisation with outside resources by making essential resources needed to thrive, accessible (Pfeffer and Salanick 1978).

2.3.5 Social Contract Theory

According to Gary, Owen and Adams (1996) society is like a series of agreements between its dwellers and the society being dwelled. This theory is like a school of thought which regards social responsibility like a duty bound by some contract which the firm should owe to society. This is developed as a means of making managers take ethical decisions regardless of them being macro social or micro social contracts.

2.3.6 Political Theory

This theory brings about a democratic approach and introduces voting support from shareholders rather than buying it. The interest of public is set aside while the government partakes in making effective decisions while also regarding cultural challenges (Pound, 1983).

2.4 Issue of Accountability in Corporate Governance of Northern Rock

The biggest and fundamental issue with accountability is the overwhelming influence shareholders have. Theoretically the best course of action would be to give more power to non-owner stakeholders like letting employees vote equally with shareholders though such radical reforms are very outlandish in practical life. According to Ribstein (2005) general disagreements within each stakeholder group will most likely reduce influence to nothing. Additionally, concerns regarding the application of accountability of stakeholders arise mainly due to the incompetence of the courts. They fail to make decisive distinctions between verdicts that may and may not be in the interests of the corporation or shareholders in spite of it being usually clear if business judgments lie in favor of the manager's own interest or it completely disregarding the corporate interests (Ribstein, 2005).

Meese (2004) pointed out the ability of a stakeholder to extract wealth from shareholders would grow exponentially. This would worsen the problem of shareholder opportunism to stakeholders by transforming it into stakeholder opportunism to shareholders. Even if by chance stakeholders' benefits compensate the losses of shareholders, the company may still suffer due to the lack of an efficient form of new governance. This is because manager's responsibilities of multiple electorates or specific electorate with internal objectives, may give rise to the cost of agency.

A risk of courts favouring the shareholder wealth always exists since no standards of stakeholder accountability are defined. The poor accountability of managers and directors alike in the financial disaster of Northern Rock Bank points towards a lack of accountability and further highlights the consequences of giving unhinged control to specific constituencies.

2.4.1 Autonomous Actions of the Directors

One of the key reasons for Northern Rock's downfall was the corporate greed which the higher ups succumbed to. The director in particular barely had any regard for risk assessment of investments made. The misled quite a few small investors to buy their shares when the bank was going through financially tough times. The lack of competent accountability and unchecked power of the director had led the Bank towards bankruptcy. In a governance report made by Union Bank of Switzerland, poor risk analysis methodologies were highlighted as the prime reason of Northern Rock's monumental failure.

2.4.2 Powerless Shareholder

It is of course worth asking whether the agents and shareholders are to be blamed for even a small part of this whole fiasco (Watson, 2008). Clarke (2007) explained this behavior as a consequence of agency theory's separation of ownership and control in modern corporations. The total pool of shares was ridiculously diluted amongst several smaller shareholders. Even the largest shareholder's shares were merely a fraction of the total shares. In this way none of the shareholders had any direct control or any reasonable authority at all over the management. 80% of all 180,000 shareholders of Northern Rock were small time investors who either did not have much influence or much information regarding the overseeing of the board's performance.