"HAS THE CORPORATE GOVERNANCE CODE BEING SUCCESSFULLY APPLIED IN THE UK? SHOULD ITS PRINCIPLES BE MADE MANDATORY FOR COMPANIES TO FOLLOW?"

[Name of author]

[Name of Institution]

Abstract

The study has been conducted to identify whether the governance code is being successfully applied in the UK. The corporate governance of UK has been demonstrated to be highly effective in the previous studies. It has been noticed that the governance system has been updated continuously. The study has adopted qualitative secondary research design for this study. It has taken the data from the different articles and published documents and analysed through content analysis. The study findings has reflected that UK governance code is very much effective and flexible as well. It has been explained that the UK principles has provided effective codes for the management of the corporations.

Table of Contents

Chapter 01: Introduction

The introduction chapter consists of a summarized overview of the dissertation. The introduction chapter includes a brief explanation of the research topic and a concise overview of the previous studies. The essential element of the introduction chapter is the description of the purpose and intent behind the research, with the identification of how the research is contributing to the literature of the topic. The aims and objectives of the research are clearly and concisely stated. The introduction chapter presents the topic of the principles within the corporate governance codes and the effective applicability of those principles, through the format of condensed expression and the short summary.

1.1 Study Background

The Corporate Governance Codes were developed following the publication of the Cadbury Code (1992) that consists of guidelines for conduct in corporate governance. The Cadbury codes are the measures presented by the corporate governance committee of UK, as an intervention for corporate fraud, governance failure, and corporate scandals[1]. In 2010, the financial reporting council prepared the UK Corporate Governance Code, with the refined measures to follow. The codes are being adopted by the corporations and through principles of governance they have experienced the increment in transparency and accountability[2]. The studies conducted on Corporate Governance codes consist of the several approaches and strategies applied by companies, in compliance with the corporate governance codes. There are studies that identified the significance of the corporate governance measures in the functionality of the corporate system. Corporate governance codes have attracted the attention of scholars investigating the governance in the corporate sector[3]. There are studies, which highlight that although corporate governance codes have effective results, there is still a need for alternations for better governance in firms[4].

---

[1] Wymeersch E. The enforcement of corporate governance codes. Journal of Corporate Law Studies. 2006 Apr 1;6(1):113-38.

[2] Keasey K, Short H, Wright M. The development of corporate governance codes in the UK. Corporate Governance: Accountability, Enteprise and International Comparisons. 2005 May 5:21-45.

[3] Seidl D. Standard setting and following in corporate governance: An observation-theoretical study of the effectiveness of governance codes. Organization. 2007 Sep;14(5):705-27.

[4] Cuomo F, Mallin C, Zattoni A. Corporate governance codes: A review and research agenda. Corporate governance: an international review. 2016;24(3):222-41.

Moreover, there is a wide research gap in the exploration of code compliance and its effects on firm performance. It can be understood through the review of the limited literature on the corporate comply with the corporate governance principles and its positive influence in the firm performance, that the studies are divided between two stances. The study by Bravo-Urquizaand Moreno-Ureba (2021), indicated that compliance with the corporate governance codes results in better firm performance[5]. Other studies also identified that the corporate governance codes promote efficiency and better decision-making[6]. However, the studies that encompass the effectiveness of corporate governance codes and firm performance do not have a direct correlation but an indirect one. Subsequently, there is research that highlights that there is no significant correlation between the revenue margin and the governance board determinants[7].

It is implied that the combined code of corporate governance of UK is widely known as the international benchmark for the good governance practices of the organizations. The code has set out the desired standards of the good practices in link to the issues like board leadership and the purpose of organization. Unlisted companies are not bound to follow the codes, however, there are provisions that must be shown in the reports as it will cause the controls to be identified, however, it has caused the scandals to increase. In SOX approach, the foundation of the public company accounting oversight board to overlook the public companies audit subjected to the US securities laws and registrations. However, in the corporate governance code the FRC overlooks the financial reports and makes amendments accordingly in the guidelines.

1.2 Problem statement

While there is generally, an effective conclusion derived from the previous studies that the corporate governance codes is a constructive guidance code. The flexibility has caused some accountability challenges within the corporation. The flexibility of code allows the board to not comply with the principles of the corporate governance codes and to provide a reasonable explanation; however, the board might not comply with the codes and not even provide a

---

[5] Bravo-Urquiza F, Moreno-Ureba E. Does compliance with corporate governance codes help to mitigate financial distress?. Research in International Business and Finance. 2021 Jan 1;55:101344.

[6] Brandas C. Formal representation of corporate governance principles and codes. Procedia-Social and Behavioral Sciences. 2013 Feb 27;73:744-50

[7] Chen ET, Nowland J. The effectiveness of corporate governance codes: Long-term analysis from East Asia. Journal of International Commerce, Economics and Policy. 2011 Dec;2(02):229-50.

reasonable explanation. Therefore, there are corporate that exploit the flexibility of this approach, or it can be that the flexibility has an operational flaw. There are instances where the comply and explain approach is applied in the circumstances where the result would make no difference by complying with the codes[8].

The corporate governance code was developed in 2003, however, there were few companies that did not comply with regulations and it caused different acts to be introduced such as the Company Act of 2006. The company act states that all the companies are required to prepare a detailed report at the end of the year with different aspects to considered such as risk and management, remuneration packages of director and internal and external controls. This has led to the effective of the companies to increase. The Corporate Governance Codes of UK were developed that were followed by the publication of the Cadbury code of 1992 and it states the guidelines that are used in order to conduct Corporate Governance. The Corporate governance codes have been prepared through different laws and regulations such as the Sarbanes-Oxley Act and it has led to the development of several strategies and approaches to be identified and to be complied with. The Financial Services Act of 2010 was developed in accordance to the Statutory system which states that the financial reports will be prepared with transparency and will cause the ethical health of the company to evaluated. Corporate Governance is characterised by the conception of Shareholder value which is present in the Anglo-American corporate governance, however, it does not comply with the statutory system.

1.3 Statement of purpose

The main purpose of this study is to assess whether the "Corporate Governance Code" has an effective application in the context of the United Kingdom. While establishing the effective applicability of Corporate Governance Codes (CGC), this research also investigates that if there are any major parallels and contradictions between the implementation of CGC in the United Kingdom and International contexts. The research also determines the effectiveness of CGC principles if recognized as mandatory measures for corporations. The research is conducted to highlight the applicability of the "principles of Corporate Governance Codes" and to identify implementation of the principles when they are made mandatory for corporates to follow. The exploration of this research includes the implications of the comply-or-explain

[8] Hadjikyprianou G. The Principle of'Comply or Explain'Underpinning the UK Corporate Governance Regulation: Is There a Need for a Change?. Corporate Law: Corporate Governance Law Journal. 2015 Nov 27;7(81).

approach, this stresses the investigation of the implementation of this approach in the context of the UK as well as International. The implementation of Corporate Governance Codes is an essential factor that affects the risks operations, regulation of corruption, and firm performance[9]. This research provides the results that have several practical implications for the corporations to comply with the principles of Corporate Governance Codes. The theorists and business owners have different views on the flexibility of corporate governance codes. Some sided with the affirmation that the flexibility of complying or explain approach results in better firm performance, and some argued that the Sarbanes-Oxley Act has better functioning than the comply-or-explain approach[10]. This research has addressed the challenge within the comply-or-explain approach while drawing a contrast with the Sarbanes-Oxley Act.

1.4 Research significance

This research contributes to the effectiveness of codes, as there is a significant gap in the exploration of the effective applicability of the corporate governance codes. According to the study by Aguilera, Florackis and Kim (2016), there are researches conducted on the investigation of the corporate governance codes; however, there is very little literature on the enforcement of the measure under the guidelines provided by UK committee of corporate governance[11]. The firm compliance with the codes and the firm performance is also not thoroughly investigated. The focus of this research is to explore the applicability of the codes in the context of the United Kingdom. There is also a lack of research on drawing the parallels and contradictions between the UK and the international corporate governance structure[12].

There is also a gap in the research of the investigation of the flexibility of complying or explain the approach in corporate governance. There are some studies that identify the sharp disparities between that the flexibility in the comply-or-explain approach and the Sarbanes-Oxley Act of the USA[13]. There is an academic discourse on whether “the comply-or-explain

---

[9] Duh, M., ‘Corporate governance codes and their role in improving corporate governance practice’, Corporate governance and strategic decision-making 8, 2017, pp. 53-87.
[10] García-Sánchez, Isabel-María, Luis Rodríguez-Domínguez, and José-Valeriano Frías-Aceituno., ‘Board of directors and ethics codes in different corporate governance systems’, Journal of Business Ethics 131, no. 3, 2015, pp.681-698.
[11] Aguilera, R.V., Florackis, C. and Kim, H., ‘Advancing the corporate governance research agenda’. Corporate Governance: An International Review, 24(3), 2016, pp.172-180.
[12] Cicon JE, Ferris SP, Kammel AJ, Noronha G. European corporate governance: a thematic analysis of national codes of governance. European financial management. 2012 Sep;18(4):620-48.
[13] Sarkar, S., ‘The comply-or-explain approach for enforcing governance norms’, Available at SSRN 2638252, 2015.

approach" is more effective than the Sarbanes-Oxley Act[14]. This research contributes to the investigation and implications of the constructive applicability of comply or explain the approach and address the challenges faced by the corporate due to the employment of too flexible comply or explain the approach.

1.5 Research Objectives and Questions

The aim of this study is to assess the effective applicability of the "Corporate Governance Code in the United Kingdom". Thus, the attainment of the aim of this dissertation is possible through the identification of several research objectives and research questions.

Objective 1: To investigate the effectiveness of the application of Corporate Governance

1.1 Does the UK's Corporate Governance system is contradictory to the statutory system?

1.2 Are there any similarities or differences between Sarbanes-Oxley Act in the United States and Corporate Governance Codes in the United Kingdom?

Objective 2: To assess the flexibility of complying or explain the approach

1.3 Is the comply-or-explain approach unreasonably flexible in the application?

1.4 Are there any similarities and differences in the implementation of compliance or explain the approach between the international system and the UK system?

Objective 3: To provide recommendation to improve the effectiveness of Corporate Governance in the United Kingdom

1.5 Is Corporate Governance being successfully applied in the United Kingdom?

1.6 What steps should be taken to improve the effectiveness of Corporate Governance in the United Kingdom?

[14] Miller, Scott E., 'Impact of the Sarbanes Oxley Act on foreign companies in the United States: An analysis', International Journal of Management 28, no. 1, 2011, pp.71.

1.6 Methodology Overview

The methodology for this research is based on qualitative research methods. Qualitative data allowed the in-depth exploration of the principles of Corporate Governance Codes. It provides a thorough comprehension of the similarities and differences between the international and UK practices of corporate governance. This research also addressed the challenges aroused due to the flexibility of complying or explain the approach, through the analysis of the various researches on the comply-or-explain approach. The research consists of the investigation of previously published literature on the effective applicability of Corporate Governance Codes. The data is collected through the exploration of studies conducted on the United Kingdom's corporate systems and their comparison with the international corporate conduct system. The data collected through the relevant literature is analysed and interpreted by the employment of thematic analysis. Thematic analysis helps in gathering the themes and clusters through the identification of repetitive concepts, which is a significant contribution in the research of the effectiveness of Corporate Governance Codes. The interpretation through thematic analysis helped in determining whether the corporate governance codes can be effective if it is made mandatory for the corporates to follow.

1.7 Dissertation Layout

This dissertation comprises five chapters. Each chapter explored or explained the effectiveness of Corporate Governance Codes and the flexibility of complying and explain.

The first chapter is the introduction chapter that consists of a brief summary of the research. This chapter provides the study background and the purpose of the study. The chapter also included a concise overview of the research aims and objectives, with the research questions that will be elaborated on later in the chapter. This chapter states the significance and scope of research, as the scope of contribution is the essential determinant of the relevance and significance of the research.

The second chapter is the literature review. This chapter is after the introduction chapter and consists of the elaborated discussion on the previously conducted studies. The chapter includes a summary of the studies that are in relevance or related to the research. This chapter also critically evaluates the theoretical and conceptual framework of the previous studies and establishes whether the previously conducted studies support this research.

The chapter following the second one is the methodology chapter. This chapter comprises the explanation and identification of the various research measures. This chapter includes the detailed exploration of various research methods, research designs, research approaches, research philosophies, data collection methods, sampling techniques, data analysis techniques. Subsequently, the chapter identifies the methodology for the research with the determination of research aims and objectives.

The fourth chapter is the presentation of the results. This chapter states the findings and outcomes of the research and provides a comprehensive presentation of the results acquired by the research. The presentation of the results in this chapter is descriptive, the analysis of those results will be provided in the following chapter.

The fifth chapter is the discussion and conclusion. This chapter consists of the interpretation and analysis of the results obtained from the research. The results presented in the previous chapter, are thoroughly analyzed in this chapter. The discussion part follows the route determine through the research methods and interprets the data on the basis of identified methodology. This chapter provided the conclusion for the research, drawing the association between research objectives and results obtained.

1.8 Conclusion

The introduction chapter provided the basic details of the dissertation. It includes the summarized information of the sub-sections that comprise the introduction chapter. The chapter subsequent to the introduction chapter is the literature review chapter. The second chapter identifies the previously conducted studies on the subject. It critically analyses the literary text and provides a constructive critique of the notions and concepts, also determines the supporting evidence through the analysis of the literature. The already conducted studies are presented in a summarized format in the literature review chapter.

Chapter 2: Literature Review

2.1 Introduction

The chapter provides a review of the literature and the previous work conducted on the subject area. This chapter provides the background of the literature and theories for setting up the groundings for the study. The corporate governance practices of the UK as studied earlier are presented as it has been considered an important area of research and has the increasing interest of the researchers. The chapter firstly elaborates the background and understanding of the corporate governance board of the UK. It contains modifications and advancements being followed by the FRC (a corporate watchdog of the UK Government). It further highlights the effectiveness of the corporate governance board of the UK. The chapter also discusses the flexibility of the corporate governance board in the UK and the principles of the board of the corporate governance of the UK. Basically, new codes of corporate governance were enacted in 2018. Thus, these codes have also been discussed in detail in the section of this chapter. A comparison between the international and UK governance system is also provided in this chapter. It contains both similarities and dissimilarities between the UK's and international practices. This helps the researcher in creating the understanding of the corporate governance code applied in the UK.

2.2 Corporate Governance Board of the UK

Corporate governance is defined as the system of the rules, procedures and practices that directs and controls the activities of the organizations. Corporate governance is regarded as the way in which the organization are governed and controlled for the benefit of the stakeholders and investors[15]. The corporate governance board of the UK is being governed and controlled through certain codes. It is implied that the combined code of corporate governance of the UK is widely known as the international benchmark for the good governance practices of the organizations[16]. The UK had previously adopted the corporate governance code where the ownership of the equity of the organization is distributed between the different shareholders. Considering this system, the larger organizations are being controlled by the directors and managers but are predominantly owned by the outside shareholders[17]. These

---

[15] Al Okaily, Jihad, Rob Dixon, and Aly Salama. "Corporate governance quality and premature revenue recognition: evidence from the UK." International Journal of Managerial Finance (2019).
[16] Gorman, Louise, and Ann-Marie Ward. "The UK Corporate Governance Report (2010)." In *Encyclopedia of Sustainable Management*, p. 1. Springer Nature, 2020.
[17] Okike, Elewechi. "Corporate governance in the United Kingdom." *Corporate governance in commonwealth countries. UK, International Centre for Research in Accountability and Governance (CENTRAG)* (2019): 337-365.

codes were also necessary to be enacted. It is due to the fact that role of different stakeholders need to be clearly defined in an organization. As Max Weber[18] also suggests, there must clear chain of command within an organization. Although, his suggestions were focused on bureaucratic organizations, many of his studies are applied in corporate conglomerates. Certainly, these codes illustrate the flow of chain of command which are enacted by the state regulators. Similarly, the UK government has applied these codes to regulate the corporate affairs along with enhancing credibility of the firms in stock markets.

Since such governance codes create issues of agency conflict and increases cases of the scandals of organizations. UK introduced the combined code of corporate governance in 2003[19]. As per this code, at least half of the board is composed of the non-executive directors, and the non-executive directs must meet at least once a year for the discussion about the organization's performance. There must be a senior independent director who would be nominated and available for investors to show any concerns. Potential non-executive directors must satisfy themselves that they have the required skills, knowledge, and experience for carrying out those duties with the due diligence[20]. Presently, the corporate governance codes issued by the FRC in 2018 are applicable in the UK.

Meanwhile, the reporting expectations in terms of public reporting are expanded and made comprehensive by the regulators of the UK. Since the Corporate Governance Code of the UK comprises around 12 principles and they primarily deal with assets and services of the corporate firms while dealing with both the managers and owners. The corporate governance boards in the UK are made signatories to the regulatory codes. They require them to produce annual Stewardship Reports to depict the applicability of the governance codes throughout the previous year. Not only this but signatory criteria is solely based on the reporting expectations fulfilled by an organisation to become part of the code. Annually, the newer organisations must submit a final report before 31 March to be included in the list of the signatories by the FRC. While considering the strategic report requirements, the guidelines are based on the Companies Act 2006 of the UK. The viability of the narrative reporting is also directly dependent on the size of an organisation, such as medium, large or other quoted size. Recently, the content requirements have also been updated via enactment of the Companies (Miscellaneous

---

[18] Gerth, Hans Heinrich, and C. Wright Mills. *From Max Weber: essays in sociology*. Routledge, 2014.
[19] Arcot, Sridhar, Valentina Bruno, and Antoine Faure-Grimaud. "Corporate governance in the UK: Is the comply-or-explain approach working?." *International Review of Law and Economics* 30, no. 2 (2010): 193-201.
[20] Council, Financial Reporting, and Great Britain. "The UK corporate governance code." (2010).

Reporting) Regulations 2018 Act[21]. In another perspective, the FRC has also been keenly focused on board diversity reporting. For this purpose, the organisation published a report in September 2018 that assessed diversity reporting of 350 companies dealing with the management levels in their reports. The report also benchmarked the quality and content of the reports and integrated them into the diversity reporting criteria.

Futuristically, the FRC is also considering to modify its corporate reporting standards further. The extent of globalisation and changes in the modes of working are evolving the corporate standards and culture. The mechanisms involved in fraud are also changing owing to the digitalisation of business in the virtual sphere. Additionally, the phenomenon of remote working is also gaining importance worldwide. In connection to these assumptions, the FRC aims to integrate the recommendations of Sir John Kingman so that it can encourage brevity, comprehensibility and feasibility in the corporate reporting. Mr Kingman has also given an independent review of the FRC's operations and considerations. He asserts that the FRC is transitioning into a regulatory audit authority that can be named the new Audit Reporting and Governance Authority (AGRA).

2.3 Effectiveness of Corporate Governance Board in the UK

Corporate governance reforms have been made for redressing the balance of power structure of the organizations and shifting from the primacy of shareholders. After the reforms were made into the corporate governance of the UK, the convergence at the formal level had also emerged since UK board rules for monitoring the organization management. The board of UK has not only adopted the activities of monitoring formally but also has implemented for discharging it effectively in practices[21]. The reforms in corporate governance have been quite effective for engagement and protection of the stakeholders. The governance code has been reformed over the years for making it effective for protecting the rights of the shareholders and other investors. Those reforms have been obtained to be influential on the level of monitoring of the corporate board practices. It has further been identified that these governance practices have allowed for better protection and transparency in the management of the board activities[22]. It is obtained that the governance practices in UK have been quite effective in managing the corporate affairs and protecting shareholders rights.

---

[21] Roberts, John, Paul Sanderson, David Seidl, and Antonije Krivokapic. "The UK Corporate Governance Code Principle of 'Comply or Explain': Understanding Code Compliance as 'Subjection'." *Abacus* 56, no. 4 (2020): 602-626.
[22] Arcot, Sridhar, Valentina Bruno, and Antoine Faure-Grimaud. "Corporate governance in the UK: Is the comply-or-explain approach working?." *International Review of Law and Economics* 30, no. 2 (2010): 193-201.

The effectiveness of corporate governance should not be interchanged with the notion of compliance of board with the regulations and measures. The practice of compliance with the standard guidelines can be defined as the execution of constructive governance. The concept of constructive governance of the board is significantly different from the concept of effective corporate governance. The effective corporate governance does not only consist of compliance with the standard regulations, but also the overall performance of the organization. The effectiveness of corporate governance in the United Kingdom can be operationalized through the complex structural evaluations. There are several factors that are involved in the operationalization of corporate governance, which are also responsible for the effectiveness of the sector. These factors includes the organizational performance, balance between the business inputs and business outputs, constructive business environment, evaluation of decision-making alternatives, character integrity and compliance with the organizational norms, and different other factors. These factors are optimized, so that the evaluation of the subjective and objective factors of the corporate governance can be translated into the assessment of the effectiveness of the sector.

2.3.1 Evaluation of the effectiveness of corporate governance

The effectiveness of corporate governance follows the structural procedure of the assessment of the factors involved in the sector. The criteria that underpinned the evaluation procedure comprises of number of roles and responsibilities that are evaluated. One of the main region that is evaluated to measure the effectiveness of corporate governance in United Kingdom, is the reviews of board under the premises of policies and regulation. Another section for evaluation is the compliance with the audit, and the independent decision-making of the board. The presentation of strategic and constructive decision-making and participation levels are also evaluated. Furthermore, the boards' comprehension and adaptability of the possible risks and operation, and the corresponding decision-making that results in the constructive output for the organization. The objective sections of the evaluation of effectiveness of corporate governance is quite standard procedure for many organizations; however, the subjective and behavioral aspects of the evaluation of corporate governance differs within each organization. The organizations formulate their vision and values, and the formulation and evaluation of those visions and values affects the evaluation of the effectiveness of corporate governance with respect to the subjective assessment. Those subjective aspects of evaluation ranges from the characteristics and behavioral projection of the board, their participation in the promotion of control culture, interpersonal relationships within the organization, the nature and intensity of those relationships, the execution of power, and more.

2.3.2 CRAFTED Approach of Evaluation

The evaluation of the corporate governance can also be evaluated on the basis of the CRAFTED approach, which comprises of seven criterion regarding the evaluation presented by Argüden,. The CRAFTED approach emphasizes on factors of Consistency, Responsibility, Accountability, Fairness, Transparency, and Effectiveness that is required to be deployed within the premises of the organization.

2.4 Flexibility of the Corporate Governance Board in the UK

Corporate governance code of UK has been facing several issues previously with the new scandals coming out. These scandals have led to several reforms in the code of the corporate governance which is very much effective and influential. The code of the corporate governance of the UK has been found to be flexible. It is indicated by the study of Arcot, Bruno and Faure-Grimaud [23]that the flexibility of the corporate governance practices being offered to organization can opt between the compliance of the principles or explaining why they are contrasting to the mandatory systems. The benefits of the flexibility are found in the ability of encouraging organizations to adopt the code while the statutory regime might lead to the approach of box ticking that might fail to allow for deviation which is safe and sound from the rule and would not foster the trust of investors. This model provides the flexibility to the organizations and hence leads to the better mechanism of the control and governance system. Another study of Seidl, Sanderson and Roberts[24] has implied that comply or explain model in the corporate governance model of UK helps the organization in the flexible governance system. This has been identified to be effective when dealing with the control and monitoring of the organizations and hence it is indicated that corporate governance of the UK is flexible.

The comply-or-explain approach is the part of the corporate governance code by the United Kingdom. This approach is defined as the ideas that the organizations are required to comply with the regulations and codes that are standard for the organizations, or the corporates can choose to not comply with the codes and explain their reason. The notion that the explanation can be projected for the decline in the compliance with the codes, can be defined

[23] Arcot, Sridhar, Valentina Bruno, and Antoine Faure-Grimaud. "Corporate governance in the UK: Is the comply-or-explain approach working?." *International Review of Law and Economics* 30, no. 2 (2010): 193-201.
[24]Seidl, D., Sanderson, P. and Roberts, J., 2013. Applying the ‘comply-or-explain’principle: discursive legitimacy tactics with regard to codes of corporate governance. *Journal of management & governance*, *17*(3), pp.791-826.

as the flexibility of the corporate governance codes. The justification of the comply-or-explain approach is that the organizations differ based on the structure, business environment, size, capital, and investment, and many more. Therefore, the corporates could not be evaluated or addressed by using the predetermined medium. The organizations that are not following the traditional and established structure of an organization can deviate from the standard reporting and implementation of the codes.

While this approach allows the flexibility for the organizations that are not following the standard structure of reporting to the codes, this approach does not promote the disregard and omission of the practice of reporting to the codes. The approach includes two assessment criteria of the governance, the organizations can either comply with the provided standard codes, or they can provide the suitable and sufficient reason for not complying with the codes. The reasons must be adequate and constructive, and the non-compliance of organizations to the codes must have some alternative approaches. The corporates are required to provide their alternative approaches to the partial or complete non-compliance, which are reviewed by the committee. The organizations that do not comply with the standard codes are generally required to face the questions against its legitimacy. The market can point the critical reviews on the legitimacy and reliability of the company, which can negatively impact the profile of the organization. The studies also identify that the non-compliance with the codes can resulted in the reduction in the investment from shareholders. The investor can assess that the non-compliance of the organization could have serious drawbacks on the organization's output; therefore, the compliance with the codes of corporate governance also influences the decision-making of investor.

The Financial Reporting Council (FRC) also acknowledged that the premises of the appropriate reason, for not complying with the corporate governance measures, is somewhat vague. What constitutes and approved as the possible reason for the non-compliance, is not clearly defined by the council. Hence, the rate of the non-compliance with non-explanation is high, provided that the board struggles with including the appropriate reason. The most common reason for not complying with the corporate governance code is that the financial performance of the company is not favorable. The alternation in the structure or board can also be the reason behind not complying with the codes of corporate governance; however, in that case the alternative strategy or approach that was employed by the organization is required to be provided.

2.4.1 Flexibility Factor and Its impacts

The perceptions on the flexibility factor and its impacts varies within range of studies. It has been explained that the flexibility factor might result in the increment in the rate of non-compliance and non-explanation from the organizations. The codes are the standard measure that are defined through the regulations of corporate governance, and the compliance with the codes projects the integrity and transparency of the disclosure. The compliance with codes might be the easier or adequate way. However, some studies suggests that the flexibility has a positive impact on the promotion of diversity in the corporate structure and nature. Furthermore, the studies also provide the results that states that there is no significant relationship between the compliance and non-compliance with the corporate governance codes and the financial performance of the firm. The studies depict that the flexibility factor does not consists of major significance and influence on the financial performance of the firm. However, these studies does not taken into account the other spectrum of the organizational performance. The financial performance is not the only spectrum under which the performance of the organization can be assessed. Therefore, it can be assessed that the flexibility has a significant influence on the performance of an organization. As the organizational performance evaluation consists of the market value, the profile, cultural integration, and the prevalence of vision and aim of the organization.

2.5 Principles of the Corporate Governance Board in Companies of the UK

The UK corporate governance code has set principles for the board of directors that must be applied for promoting the purpose, values, and future success of the organizations. The code has set out the desired standards of the good practices in link to the issues like board leadership and the purpose of organization, responsibilities division, succession, composition and evaluation, internal control and risk and remuneration[25]. The main principles of the code include some sections which includes leadership, effectiveness, accountability, remuneration, and relations with shareholders. These principles are developed to ensure that the internal and external affairs of the organizations are being handled accurately and they are effective as well. These principles do not only provide the protection to the investors and shareholders but also assist and support managers' incentives and rights as well. These are identified to be crucial part of the organizations that must be provided with the framework of accountability. The effective leadership is ensured for maximizing long term success of the organizations. The

[25] IASPlus.com. UK corporate governance code. [online]. Available: https://www.iasplus.com/en-gb/standards/corporate-governance/uk-corporate-governance-code. (2021). Accessed: 7-8-2021.

responsibilities division is also ensured in the principle for helping the better management and decision making. The structure and compositions are described in the principle for ensuring the diversity. The fair disclosure and reporting is also ensured for the better transparency. The principles also include the executive director's remuneration for promoting the long-term success of the organizations. The relations with the shareholder are also described in the code for reducing the chances of the agency conflicts[26].

However, the corporate governance codes were recently updated in July 2018. The FRC published its corporate governance Codes applied in the UK. Meanwhile, they became effective on 1st January 2019. These codes altered the principles of board leaderships, division of responsibilities, composition and evaluation of boards and internal controls, along with the remuneration. The codes promoted a sustainability approach among the board of directors. They also focused on the maximisation of the shareholder value. In terms of leadership, sustainability has to be promoted by an entrepreneurial mind. Conversely, the company practices must also be aligned with the corporate culture to generate congruence. Later on, the principles of leadership also reiterated that the company must keep a view over its necessary resources in order to meet the objectives. The performance measurement must also be carried out in this regard. Emphatically, the code delegated the responsibilities of objective judgement and promotion of open culture to the board's Chairman. The composition of the board must be carried out in such a way that executives and non-executives sufficiently balance the policy and procedural decisions. It must also be ensured that no small or large group dominates that board or its subsequent functions. The principles also mentioned that a clear division of responsibility should be provided between leadership of the board and executive leadership of the company's businesses. On the other hand, it has also been required that the board of directors be provided adequate, relevant and timely information so that feasible decisions can be formulated and executed. At the same time, the non-executives have been tasked to offer specialist advice and strategic guidance to the management.

Similarly, the selection of directors must also be transparent and based on formal rules. The FRC UK also provided the annual evaluation criteria considering the boards. It entails that the annual evaluation must be based on the composition, diversity, and working relations of the members. Simultaneously, individual evaluation should be focused on the contribution of the directors to the organisation. The expertise of non-executive directors must also be based

[26] FRC. The UK corporate governance code. [online]. Available: https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf. (2021). Accessed: 7-8-2021.

on a comprehensive understanding of the concerned business and its relevance to the industry. Assertively, the code modifications also included a risk assessment clause on the part of the Board of Directors to mitigate the challenges in a timely manner. While considering the composition of the audit committee, it should have at least one member with relevant experience in financial matters in compatibility with the industry of a company. Intriguingly, the codes also added a criteria remuneration of the director based on his caliber, given that it must not be in excess. Besides, the purpose of remuneration must be focused on the promotion of long-term growth[27].

2.6 Difference between the International System and the UK system

In US the corporate governance is mainly determined by the legislation in the Sarbanes-Oxley act of 2002 (SOX) which is quite different from the UK approach to the corporate governance. Comply or explain framework of UK has also been identified to be differentiating significantly from the SOX approach. Although the regulations related to SOX use comply or explain technique in some of the situations like the code of ethics of the company or the presence of the financial expert in Audit committee[28].

In SOX approach, the foundation of the public company accounting oversight board to overlook the public companies audit subjected to the US securities laws and registrations with PCAOB of the organization's auditors subjected to the US securities laws. On the other hand, the financial reporting review panel would be given the powers under the company's act 2004 to need organizations their employees, officers, and auditors in providing information it required to carry out investigations into organization accounts that are believed to be defective[29]. SOX approach provisions for increasing the external auditor's independent which includes mandatory rotation of the audit partners, restrictions over the non-audit services that can be provided by the external auditors. The corporate governance of UK does not involve the mandatory rotation. The similarity in the two governance codes is that these two approaches support the increase of the audit committees and their effectiveness[30].

---

[27] FRC, The. 2021. "THE UK CORPORATE GOVERNANCE CODE". *Frc.Org.Uk*. https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF.

[28] Mintz, S.M., 2006. A comparison of corporate governance systems in the US, UK and Germany. *Corporate Ownership and Control*, *3*(4), pp.24-34.

[29] Bhagat, Sanjai, and Brian J. Bolton. "Sarbanes-Oxley, governance and performance." *Available at SSRN 1361815* (2009).

[30] Mintz, S.M., 2006. A comparison of corporate governance systems in the US, UK and Germany. *Corporate Ownership and Control*, *3*(4), pp.24-34.

Basically, USA, Hong Kong, Canada, and the UK inherited common law that founded the basis of the English-based legal system[31]. Emphatically, the common law is more evolving since the earlier judgements influence the interpretations and applications of the law in the form of precedents. The corporate code of governance of the UK is widely accepted around the world. It rose to prominence after the Cadbury Report and the Code of Best Practices in the UK in the post-1992 period[32]. Meanwhile, their importance was further aggrandized after the global financial crisis of 2008 that affected the UK's corporate firms less than the USA and Canada [3]. While comparing the international standards with the UK's corporate governance codes, the Anglo-Saxon countries (also the UK) tend to have a shareholder-based system that focuses on protecting stakeholders[33]. As per the estimations, the average share of the largest five shareholders in the UK firms vary in between 20-25% chunk of the share outstanding. Adversely, it creates a possibility for the small shareholders to exert their influence over the management of the corporate firm[34].

On the other hand, the influence of market forces usually affects the decisions of firms in the corporate sector. The case is identical for the UK. External governance largely influences corporate control in the form of acquisition threats. In turn, it also serves as a disciplinary tool for deviant managers[35]. The mandatory disclosures concerning the adaptation of codes in terms of their recommendations or the subsequent deviations are an integral part of the international corporate governance system. Meanwhile, the UK has listed the codes in the FRC rules. In comparison, several European Union countries have enacted these codes in the form of laws. Whereas countries such as Algeria, Lebanon and Yemen have ingrained these rules into the voluntary disclosures. The UK has also set governance standards of reports dealing with best practices and codes of corporate governance. As a result, these measures have profoundly ameliorated the instances of new announcements[36]. Whereas countries with involuntary

---

[31] Aguilera RV, Cuervo-Cazurra A. Codes of good governance. Corporate Governance: An International Review. 2009;17(3):376-387. DOI: 10.1111/j.1467-8683.2009.00737.x

[32] Aguilera RV, Cuervo-Cazurra A. Codes of good governance. Corporate Governance: An International Review. 2009;17(3):376-387. DOI: 10.1111/j.1467-8683.2009.00737.x

[33] Larcker D, Tayan B. Corporate Governance Matters. A Closer Look at Organizational Choices and Their Consequences. NJ: Pearson Education; 2011. p. 411

[34] Martynova M, Renneboog L. A Corporate Governance Index: Convergence and Diversity of National Corporate Governance Regulations [Discussion paper]. Tilburg: Tilburg University; 2010. Available from: http://ssrn.com/

[35] Filatotchev I, Jackson G, Nakajima C. Corporate governance and national institutions: A review and emerging research agenda. Asia Pacific Journal of Management. 2013;30(4):965-986. DOI: 10.1007/s10490-012-9293-9

[36] Sheridan L, Jones E, Marston C. Corporate governance codes in the supply of corporate information in the UK. Corporate Governance: An International Review. 2006;14(5):475- 491. DOI: 10.1111/j.1467-8683.2006.00520.x

disclosures do not have such mechanisms. They tend to have special sections that are designated for the disclosures[37].

2.7 Significance of Corporate Governance Board in the UK

As the global standard, UK corporate governance board is accepted worldwide. In corporate governance, UK is appropriately recognised as a world leader. It is an asset that describes internal investment, which is important for efficiency and expansion. Corporate governance guarantees that organisations are long-term oriented make sound decisions, and hold accountable for their activities[38]. The corporate sector is actively participating in the evolution of corporate governance, specifically in the new discussions regarding incentive and identity.

Furthermore, In UK, a Good corporate governance board assures that the board members meet regularly, maintain influence over the company, be precise about their roles and obligations, and establish a risk management strategy. For any successful business, corporate governance is a solid base. It refers to the measures, processes, and laws employed by an organisation to create legal decisions and govern its operations[39].

An efficient and reliable corporate governance board help to developing an ethical corporate society, which leads to enhanced efficiency and long-term business in the UK. Fundamentally, it exists to strengthen the transparency of all employees and groups within the organisation to avoid errors from happening in the first place[40]. Moreover, in the circumstance of the UK, excellent corporate governance ensures that the board members meet on a regular basis, maintain influence over the corporation, and are clear regarding their jobs and responsibility and establish risk management. The board of directors will assure that board procedures are observed and that all related policies and procedures are obeyed[41]. They should

---

[37] Nowland J. The effect of national governance codes on firm disclosure practices: Evidence from analyst earnings forecasts. Corporate Governance: An International Review. 2008;16(6):475-491. DOI: 10.1111/j.1467-8683.2008.00707.x
[38] Afrifa, Godfred Adjappong, and Venancio Tauringana. "Corporate governance and performance of UK listed small and medium enterprises." *Corporate Governance* (2015).
[39] Katmon, Nooraisah, and Omar Al Farooque. "Exploring the impact of internal corporate governance on the relation between disclosure quality and earnings management in the UK listed companies." *Journal of Business Ethics* 142, no. 2 (2017): 345-367.
[40] Elmagrhi, Mohamed H., Collins G. Ntim, Richard M. Crossley, John K. Malagila, Samuel Fosu, and Tien V. Vu. "Corporate governance and dividend pay-out policy in UK listed SMEs: The effects of corporate board characteristics." *International Journal of Accounting & Information Management* (2017).
[41] Akbar, Saeed, Buthiena Kharabsheh, Jannine Poletti-Hughes, and Syed Zulfiqar Ali Shah. "Board structure and corporate risk taking in the UK financial sector." *International Review of Financial Analysis* 50 (2017): 101-110.

also assurance that the company files all significant papers with Companies House. A corporate governance board can cover up a broad variety of duties.

Furthermore, the governing system might vary significantly from one company to the next. A strong corporate governance board, in illustration, can help the company manage risk and reduce the chances of fraud. Controversies and dishonesty, but at the other side, are far more particular when stakeholders and upper executives do not obey a precise governance structure[42].

Furthermore, the firm operations and the board of directors should gather regularly to discuss, manage business controls, and oversee management. Furthermore, a good corporate governance board system should precisely outline each corporation officer's obligations and encourage them to maintain to execute decisions based on these obligations. This type of collaboration, which aims to impact reform, demonstrates the importance of business taking on the attitude ingrained in the Uk through time[43]. The corporate governance Code, which is based on good practice, regular and detailed reporting, and strong shareholder enforcement, yields positive results. The corporate governance Code and the traditions of generally accepted accounting have successfully changed behaviour more quickly than regulation. Because in the UK, each company is unique, retaining the appropriate level of flexibility through the Code has fuelled a race to the top[44].

2.8 Theoretical framework

2.8.1 Agency Theory

The link among the principal, such as stockholders, and agents, such as senior firm executives, is described as agency theory. According to this view, the stockholders, who become the business's owners or founders, pay the agents to execute labour. The directors or executives, who are the stakeholders' agents, transfer the company's management to the

---

[42] Akbar, S., Poletti-Hughes, J., El-Faitouri, R. and Shah, S.Z.A., 2016. More on the relationship between corporate governance and firm performance in the UK: Evidence from the application of generalized method of moments estimation. *Research in International Business and Finance*, *38*, pp.417-429.

[43] Harvey Pamburai, H., Chamisa, E., Abdulla, C. and Smith, C., 2015. An analysis of corporate governance and company performance: a South African perspective. *South African Journal of Accounting Research*, *29*(2), pp.115-131.

[44] Naseem, M.A., Rehman, R.U., Ikram, A. and Malik, F., 2017. Impact of board characteristics on corporate social responsibility disclosure. *Journal of Applied Business Research (JABR)*, *33*(4), pp.801-810.

principals [45]. Employees or supervisors in companies may be self-interested, According to agency theory. Shareholders in the agency theory anticipate agents to act and implement choices in the principal's best interests. Furthermore, the agent's judgments may not always be in the better position of the principal[46]. The agent may be persuaded by self-interest, opportunism behavior, and a lack of alignment among the principal's and agent's goals. Even the ideas of risk vary in its application. Although these difficulties caused the agency theory to be used as a distinction of ownership and influence. The agents are governed by regulations devised by the principal, with both the goal of increasing shareholder wealth. As a result, this philosophy takes a more individualised approach[47]. Furthermore, agency theory can be used to investigate the connection between management and ownership[48]. Moreover, the agency model can be used to match management aims with those of the shareholders. Finally, the agency theory's employee type is more self-interested, individualised, and limited rationality, with benefits and penalties appearing to take precedence[49].

2.8.2 Stakeholder theory

Stakeholder theory is developed from a blend of sociology and organisational studies. Any company or individual that can influence or is influenced by the fulfilment of the organisation's aims is referred to as stakeholder[50]. According to stakeholder theorists, managers at organisations have such a network of ties to serve, which includes suppliers, workers, and business associates. But it was stated that this network unit is more significant than the agency theory's shareholder relation. Furthermore, stakeholder theory aims to tackle the range of stakeholders who deserve and require the company's attention[51].

45 Kiptoo, Isaac Kibet, Samuel Nduati Kariuki, and Kennedy Nyabuto Ocharo. "Corporate governance and financial performance of insurance firms in Kenya." Cogent Business & Management 8, no. 1 (2021): 1938350.

46 Kultys, Jan. "Controversies about agency theory as theoretical basis for corporate governance." *Oeconomia Copernicana* 7, no. 4 (2016): 613-634.

47 Yusof, Nor Zalina Mohamad. "Context matters: A critique of agency theory in corporate governance research in emerging countries." *International Journal of Economics and Financial Issues* 6, no. 7S (2016): 154-158.

48 Bendickson, Josh, Jeff Muldoon, Eric W. Liguori, and Phillip E. Davis. "Agency theory: background and epistemology." *Journal of Management History* (2016).

49 Vargas-Hernández, José G., and M. E. Teodoro Cruz. "Corporate governance and agency theory: Megacable case." *Corporate Governance and Sustainability Review* 1, no. 2 (2018): 59-69.

50 Freeman, R. Edward. "A stakeholder theory of the modern corporation." In *The corporation and its stakeholders*, pp. 125-138. University of Toronto Press, 2016.

51 Miles, Samantha. "Stakeholder theory classification: A theoretical and empirical evaluation of definitions." *Journal of Business Ethics* 142, no. 3 (2017): 437-459.

2.8.3 Resource Dependency theory

Stakeholder theory concentrates on interactions with various groups for individual advantages. In contrast, resource dependency theory emphasises the role of board members in ensuring that the firm has access to the information it requires. Resource dependency theory concentrates on the function of directors in delivering or protecting important resources to an organisation through their ties to the external world[52]. Furthermore, resource dependency theories place a premium on the employment of independent organisation members as a means of acquiring accessibility to vital resources for company performance [53].

Outside directors who are law firm associates offer legal assistance, whether in shareholder meetings or in personal communications with firm managers, which would generally be more expensive for the firm to get. The allocation of resources has been suggested to improve organisational structure, company efficiency, and sustainability[54]. Managers contribute resources to the firm, such as knowledge, expertise, and associations to key stakeholders like suppliers, purchasers, policymakers, and social organisations, and also some credibility[55].

2.7 Chapter Summary

The chapter has presented the literature background over the code of the corporate governance applied in the UK. It has been presented that UK governance has undergone several evolutions and changes in the systems of the governance. The emergence of the several issues and scandals in the UK corporations has led to the amendments in the governance to make it more effective and flexible. The effectiveness of the UK governance has been identified by the researchers in providing better control mechanisms. It has also been argued that the governance system of the UK is flexible providing comply or explain opportunity to the corporations. Finally, the comparison of the US and UK governance system is presented in this section.

---

[52] Abid, Ghulam, Binish Khan, Zeeshan Rafiq, and Alia Ahmed. "Theoretical perspectives of corporate governance." *Bulletin for Business and Economics* 3, no. 4 (2015): 166-175.

[53] Madhani, Pankaj M. "Diverse roles of corporate board: Review of various corporate governance theories." *The IUP Journal of Corporate Governance* 16, no. 2 (2017): 7-28.

[54] Adeabah, David, Agyapomaa Gyeke-Dako, and Charles Andoh. "Board gender diversity, corporate governance and bank efficiency in Ghana: a two stage data envelope analysis (DEA) approach." *Corporate Governance: The International Journal of Business in Society* (2019).

[55] Singh, Satwinder, Naeem Tabassum, Tamer K. Darwish, and Georgios Batsakis. "Corporate governance and Tobin's Q as a measure of organizational performance." *British Journal of Management* 29, no. 1 (2018): 171-190.

Chapter 3: Methodology

3.0 Introduction

The third chapter of the present research is research methodology. The chapter is comprised of nine sections. The first section consists of research philosophy that leads to the second section which is about research approach. Moreover, the third section of this chapter discusses about the research design, which is followed by inclusion and exclusion criteria in the subsequent section. The sixth section of this chapter outlines research strategy. Following section elaborates about data analysis methods adopted in this research and ethical considerations are devised along with some discussion on research limitations in the following section.

3.1 Research Philosophy

In the research[56], research theories constitute the cornerstone of any investigation. Philosophy is generally split into three general categories: positivism, interpretivism, and pragmatism. Positivism is a method of assessing evidence from a neutral attitude. In the study[57], positivists claim that fact is a unitary, homogeneous reality which can be revealed through analytical methods. Interpretive analysts, in contrary, build their conclusions on human's psychological judgments of their environs. Interpretivists believe that there is no fit approach to analyse the results[58]. Mixed method research is endorsed by pragmatism because it mixes both the quantitative as well as qualitative notions in the research[59].The research philosophy selected for the study is interpretivism which implies the human interest into the study. Another justification for the selection is that this philosophy is considered to be most adequate and suitable technique for the study being conducted as it involves the description of the codes and their comparison which is basically the critical analysis.

---

[56]Creswell, John W. "Steps in conducting a scholarly mixed methods study." (2013).
[57]Selvam, S. G. "Empirical research: A study guide." *Nairobi: Paulines Publications Africa* (2017).
[58]Aliyu, Aliyu Ahmad, Muhammad Umar Bello, Rozilah Kasim, and David Martin. "Positivist and non-positivist paradigm in social science research: Conflicting paradigms or perfect partners." *J. Mgmt. & Sustainability* 4 (2014): 79.
[59]Creswell, J. W. C. "JD (2018). Research Design: Qualitative, Quantitative, and Mixed Method.(AM Helen Salmon, Chelsea Neve, Megan O'Heffernan, David C. Felts, Ed.)(Fifth)."

3.2 Research Approach

The selection of research approach is grounded on the selection of research philosophy and the type of research. The two commonly applied research approaches are inductive and deductive research approaches. The study states that, inductive approach progresses from the practical to the theoretical, whereas deduction originates with the generic and culminates with the specific[60]. Inductive analysis, on the other hand, explores from the ground up, drawing on individual viewpoints to produce bigger themes and a concept that ties disparate subjects together according the research[61].The research approach selected in this study is inductive approach. The reason for selecting this approach is that the research is not based on the testing of hypothesis. This study is not empirical and does not intends to incorporate any statistical procedures for the purpose of data analysis. Mainly theoretical analysis techniques are applied which makes the study descriptive and thus justifies selection of inductive research approach.

3.3 Research Design

The approach of collecting data and information determined by the research design. The three major designs of the research are qualitative, quantitative and mixed. Quantitative analysis is designed to investigate concepts, identify realities, show causality, and foresee possibilities. It is a study approach that has been scientific and validated with experimental procedures then instead of thoughts, opinions, or principles, particularly subjective factors[62]. In the light of the research[63], qualitative analysis is a variety of humanistic endeavour which centres on how persons observe as well as generate information in order to detect their experienced thoughts. The research design selected for this study is qualitative design. The study has used the data in the form of texts and facts and figures for conducting this study. The main reason for choosing this design is that it involves the interpretation of the codes and their comparison in the light of findings of previous researchers.

---

[60]Woiceshyn, Jaana, and Urs Daellenbach. "Evaluating inductive vs deductive research in management studies: Implications for authors, editors, and reviewers." *Qualitative Research in Organizations and Management: An International Journal* (2018).

[61]Bonner, Carissa, Jane Tuckerman, Jessica Kaufman, Daniel Costa, David N. Durrheim, Lyndal Trevena, Susan Thomas, and Margie Danchin. "Comparing inductive and deductive methods to understand health service implementation problems: A case study of childhood vaccination barriers." (2021).

[62]Dannels, Sharon Anderson. "Research design." In *The reviewer's guide to quantitative methods in the social sciences*, pp. 402-416. Routledge, 2018.

[63]Mohajan, Haradhan Kumar. "Qualitative research methodology in social sciences and related subjects." *Journal of Economic Development, Environment and People* 7, no. 1 (2018): 23-48.

3.4 Data Collection Technique

Data collection methods are referred as the techniques which are used for collection of reliable and precise information that is used to generate results in any research. These methods are categorised as secondary and primary approaches[64].

Secondary research, is based on collection of information, data, and statistics that is previously existed, such as firm statements, financial information, and published papers[65]. The primary research approach is useful in social sciences research where collection of data from respondents including general population, consumer, experts and stakeholders is mandatory. This is the first hand data[66]. The data collection technique used in this study is secondary data. The secondary data is obtained through different sources such as research articles, published documents and websites. The reason for selecting this method is that this has allowed the access to the information which is more authentic and accurate related to the research topic.

3.5 Inclusion/Exclusion Criteria

The journal articles, published documents and websites are accessed for sourcing information based on some inclusion and exclusion criteria. The main inclusion criteria for the research is that it would consider the research articles published from the period of 2010 to 2020. The reason is that this would provide with the detailed information on the evolution of the codes. The articles which are older than 2010 are excluded. This is because this criteria, ensures collection of up-to-date data. Moreover, articles that have relevancy with the topic are extracted and irrelevant studies are excluded.

3.6 Search Strategy and Keywords

The search strategy involves the databases and keywords that are used to access the articles and other sources of data collection. The databases includes the Google scholar and Google search engine that would provide the access to different websites. The keywords used for searching purpose are “Corporate governance”, “corporate governance codes” and “Sarbanes-Oxley Act”.

3.7 Data Analysis Techniques

The selection and application of data analysis technique are depends on the type of research and nature of research. Mainly in qualitative, descriptive and non-empirical

[64]

[65]Lanka, Evelyn, Sanjay Lanka, Ali Rostron, and Pallavi Singh. "Why we need qualitative research in management studies." (2020).

[66]

researches, applicable analysis technique is content analysis and thematic analysis[67]. By evaluating and coding text information, content analysis is a research approach for making reproducible and accurate inferences[68]. The data analysis technique used in this study is content analysis. The content analysis includes the development of themes based on the data patterns and objectives of the study. The content analysis provides the critical analysis for addressing the objectives of research.

3.8 Ethical Considerations

As this research is secondary, therefore ethics related to secondary research are mandatory to be followed. These includes data fabrication, data falsification and data plagiarism[69]. These ethical considerations that the study has focused on for ensuring its credibility. The study provides with the authentic information and provides credit to the each sources from where the data is used. It does not declare any information provided as its own and gives proper credit to the authors. While, following the ethics of data fabrication and data falsification, it has been ensured that the researcher has not tempered any secondary information to generate desired results or findings. Moreover, it is also ensured that previous researchers are given credit by extensive in-text citation and referencing at the end. This also fulfils ethics of data plagiarism. 384

3.9 Limitations of Research

Any research's limits are probable flaws which are frequently beyond the control of the investigator and are strongly linked to the research strategy, statistical model restrictions, liquidity management, or other reasons[70]. There are some limitations as well that are linked with the study. The first limitation is that the study access to the sources are quite limited as there are some sources that are paid and cannot be accessible. Furthermore, it also has the limited time frame which limits the findings. It is also restricted to only one research design.

---

[67]Long-Sutehall, Tracy, Magi Sque, and Julia Addington-Hall. "Secondary analysis of qualitative data: a valuable method for exploring sensitive issues with an elusive population?." *Journal of Research in Nursing* 16, no. 4 (2011): 335-344.
[68]Stemler, Steven E. "Content analysis." *Emerging trends in the social and behavioral sciences: An Interdisciplinary, Searchable, and Linkable Resource* (2015): 1-14.
[69]Arifin, Siti Roshaidai Mohd. "Ethical considerations in qualitative study." *International Journal of Care Scholars* 1, no. 2 (2018): 30-33.
[70]Theofanidis, Dimitrios, and Antigoni Fountouki. "Limitations and delimitations in the research process." *Perioperative nursing* 7, no. 3 (2018): 155-163.

HAS THE CORPORATE GOVERNANCE CODE BEING SUCCESSFULLY APPLIED IN THE UK? SHOULD ITS PRINCIPLES BE MADE MANDATORY FOR COMPANIES TO FOLLOW?"

Chapter 4: Results and Findings

4.1 Introduction

This chapter is an application of devised research methodology, under which suitable secondary data has been collected and in this section analysis techniques are applied on the collected to devise research results and findings. This section of the study evaluates different studies and laws and compare them with the current laws of the UK which is helpful in developing results of this study. The Corporate Governance Codes of the UK were developed that were followed by the publication of the Cadbury code of 1992 and it describes the guidelines that are used in order to conduct Corporate Governance. These codes are being used in different businesses and companies to prevent fraud and governance failure. The studies conducted in respect to Corporate Governance have focused on several strategies and approaches that are used to comply with the codes of corporate governance and identify the similarities between the Sarbanes-Oxley Act in the USA and Corporate Governance codes of the UK.

4.2 Content Analysis

4.2.1 UK's Corporate Governance

The UK's corporate governance code has set out principles and guidelines that the board of directors in the company must apply and adhere to. The standards of good practices have been established and rules set out any contingencies that might arise during the reporting[71]. The unlisted companies are obliged to follow the Governance codes and the reporting is to be done based on the Company Act of 2006[72]. This would assist in the development of the internal and external controls. It is implied that the combined code of corporate governance of the UK is widely known as the international benchmark for the good governance practices of the organizations. The UK had previously adopted the corporate

---

[71] Elmagrhi, Mohamed H., Collins G. Ntim, Richard M. Crossley, John K. Malagila, Samuel Fosu, and Tien V. Vu. "Corporate governance and dividend pay-out policy in UK listed SMEs: The effects of corporate board characteristics." International Journal of Accounting & Information Management (2017).

[72] Pletz, Stefanie, and Joan Upson. "The normative evolution of corporate governance in the UK: an empirical analysis (1995-2014)." Corporate Governance: The International Journal of Business in Society (2019).

governance code where the ownership of the equity of the organization is distributed between the different shareholders[73]. However, this system is different from the statutory system as it is prepared by different laws and regulations and the listed companies are obliged to follow the codes and there are charges if the codes are not followed.

Changes in UK code of governance are made in 2018 and the codes state that board leadership and company purpose should be included in the report and the board of the company should promote long term sustainability[74]. Moreover, it should ensure that value for shareholders and customers is created and strategies of the company are being followed through the corporate culture. There are division of responsibilities in the code of corporate governance between the chairman and the executives and this would ensure that there is overall effectiveness in the company[75]. The balance of the board should be should be appropriate and the board should receive accurate and clear information for decision making purposes. This would assist in both audit risks and control and would help to identify the relevant risks and would assist in mitigating the risks in an effective manner. The board of the company should establish the nomination company that would lead the process of appointments and ensure that plans of the company are placed for the succession to both the board and the senior management[76]. The boards of the companies are balanced that involves both non-executive and executive members and non-executive members should challenge the decisions of the executive members and this has caused the chance of fraud and scandals to be avoided. In this regards the UK corporate governance specifies that that the annual report must provide all information regarding shareholders, resources and their allocation, and evaluating the stewardship of the directors. Therefore, annual report should be lengthy and extensive[77]. In this perspective the report of Corporate Governance Review 2019, signifies that length of annual reports of UK firms have increased to 180.7 pages as demonstrated in below figure 1 (Grantthornton, 2021).

---

[73] Becht, Marco, Julian R. Franks, and Hannes F. Wagner. "Corporate Governance Through Voice and Exit." European Corporate Governance Institute–Finance Working Paper 633 (2019).

[74] Al-Najjar, Basil. "Corporate governance and CEO pay: Evidence from UK Travel and Leisure listed firms." Tourism Management 60 (2017): 9-14.

[75] Al-Najjar, Basil. "Corporate governance and audit features: SMEs evidence." *Journal of Small Business and Enterprise Development* (2018).

[76] Akbar, Saeed, Buthiena Kharabsheh, Jannine Poletti-Hughes, and Syed Zulfiqar Ali Shah. "Board structure and corporate risk taking in the UK financial sector." *International Review of Financial Analysis* 50 (2017): 101-110.

[77]

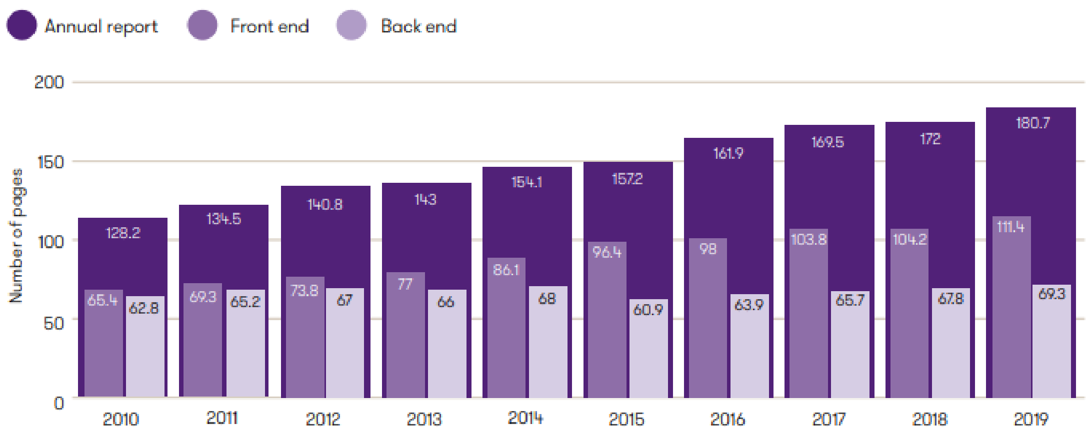

Figure 1. Length of Annual Report of UK firms. Source: (Grantthornton, 2021)

Above figure elaborates that, Annual reports have developed steadily for the historical decade, and 2019 observes another shrill rise. The normal publication now bounces to 181 pages, up nine. This year, corporations with smaller annual reports have added more pages in comparison to their peers with lengthier accounts page 10[78]. The codes should include the provisions to explain the actions of the companies and it would assist in resolutions to be identified. While considering the corporate governance code in terms of its applicability, the UK's Code guarantees that firms must report according to the laws and standards. In turn, it will reduce the risk of fraud and mistakes.

4.2.2 UK’s Corporate Governance System contradiction to the Statutory System

The Corporate Governance system of the UK has been developed from the statutory system and it has been developed for companies to carry out activities accordingly[79]. The development of Corporate Governance codes ensures that collapses and scandals are being prevented and the risks of fraud and scandals are mitigated in an efficient manner. Following the scandal of Enron and World.Com Scandals, the codes were developed which highlighted different aspects of the relationship between executives and the managers[80]. This further led Company’s Act of 2006 to develop which states that individuals of the company should act

[78] Sivaprasad, S. and Mathew, S., 2021. Corporate governance practices and the pandemic crisis: UK evidence. Corporate Governance: The International Journal of Business in Society.

[79] Pletz, Stefanie, and Joan Upson. "The normative evolution of corporate governance in the UK: an empirical analysis (1995-2014)." *Corporate Governance: The International Journal of Business in Society* (2019).

[80] Ndekugri, Alhassan, and Evans Twum-Danso. "Curbing Corporate Scandals for Global Business Success." *Journal of Finance, Accounting and Management* 10, no. 1 (2019): 1-8.

within their powers which would promote the success of the company[81]. Moreover, independent judgement should be established in companies and conflict of interests should be avoided and benefits from third parties should be rejected[82]. The Corporate Governance concerns the separation of functions between board of directors and the annual general meetings (AGM) of stakeholders. The evolution of Corporate Governance is characterised by the concept of Shareholder value which is present in the Anglo-American corporate governance and this indicates that the codes have been developed and does not contradict the statutory system[83].

4.2.3 Application of Corporate Governance Code of UK

The Corporate Governance code of the UK ensures that the reporting of companies is carried out in accordance to the laws and the frameworks and rules[84]. The corporate codes have established different responsibilities and ensures that independent directors of the company are distinguished from dependent directors and eliminates the threat of biasness and conflict of interest. The board of the company should establish the nomination in the company that would lead the process of appointments and ensure that plans of the company are placed for the succession to both the board and the senior management[85]. However, it has been observed that listed companies should consider it mandatory to follow the Corporate Governance codes and the unlisted companies may elect to follow the corporate governance codes. The corporate governance codes states that the companies should include the board leadership and company purpose in the annual reports[86]. In this perspective, the report of CGR 2019, signifies that the

[81] Al Mashhour, Omar Farouk, Ahmed MA Hamad, and Emad Mohammad Al. "The Scheme of Arrangement and Reconstruction as an Efficient Corporate Rescue Mechanism: A Study Under the UK's Companies Act 2006."

[82] Zachariadis, Markos, and Pinar Ozcan. "The API economy and digital transformation in financial services: The case of open banking." (2017).

[83] Salvioni, Daniela M., and Francesca Gennari. "CSR, Sustainable Value Creation and Shareholder Relations." *Salvioni, DM & Gennari, F.(2017). CSR, Sustainable Value Creation and Shareholder Relations, Symphonya. Emerging Issues in Management (symphonya. unimib. it)* 1 (2017): 36-49.

[84] Akbar, S., Kharabsheh, B., Poletti-Hughes, J. and Shah, S.Z.A., 2017. Board structure and corporate risk taking in the UK financial sector. *International Review of Financial Analysis*, *50*, pp.101-110.

[85] Price, Michael, Charles Harvey, Mairi Maclean, and David Campbell. "From Cadbury to Kay: discourse, intertextuality and the evolution of UK corporate governance." *Accounting, Auditing & Accountability Journal* (2018).

[86] Nwanji, Tony Ikechukwu, Kerry E. Howell, Sainey Faye, Dominic Zann Agba, Sunday O. Adewara, Adedoyin Ishola Lawal, Adegbola Olubukola Otekunrin, Frank Awonusi, and F. D. Eluyela. "Assessment of the effectiveness of ethical corporate governance in corporate decision-making: a grounded theory approach." *Archives of Business Research* 7, no. 1 (2019): 147-168.

description of the business model among companies has been increased in 2018 and 2019 as depicted in figure 2 below.

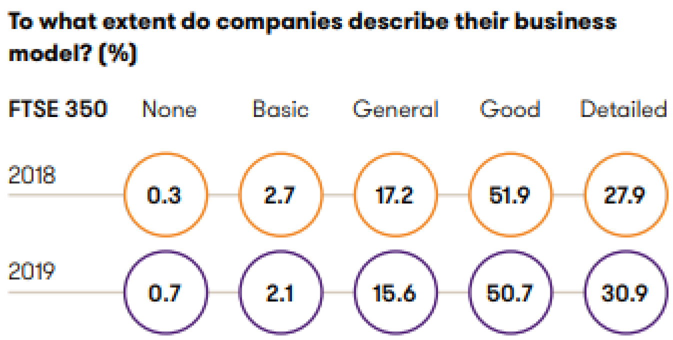

Figure 2. Source.

The figure clearly demonstrates that in FTSE 350 companies of the UK, 27.9 firms revealed their business model in detailed manner and the number is significantly enhanced to 30.9 in 2019. Similarly, there is a perceptible modification in the FTSE 250: nearly 5% of the corporations that gave good revelations last year now offer more detail, with richer descriptions of their competitive advantage and value chain[87].

The board of the company should promote the long-term sustainability and success of the company and there should be clear division of responsibilities. The report should involve the appropriate audit risks and controls that would ensure that the report presents a fair and balanced and understandable assessment of the company's position[88]. The remuneration of employees should be included in the annual reports as per the requirements of the code that would assist to design the support strategy. The codes further include provisions that requires companies to explain the actions they have taken that has affected the roles of the directors. In this perspective, in 2015, 81 organisations did not seemed to have assessed their principal threats and managing actions; this year, that number has been dropped to three (2018: 10). This might reveal the impact of the guidance of FRC on Risk Management, Internal Control and associated Financial and Business Reporting. Though, below figure depicts that the number of firms reporting risks has been increased in 2018 to 32.0 and 30.9 in 2019. **716**

[87] Bufarwa, I.M., Elamer, A.A., Ntim, C.G. and AlHares, A., 2020. Gender diversity, corporate governance and financial risk disclosure in the UK. International Journal of Law and Management.

[88] Reddy, Bobby V. "Thinking Outside the Box–Eliminating the Perniciousness of Box-Ticking in the New Corporate Governance Code." (2019): 692-726.

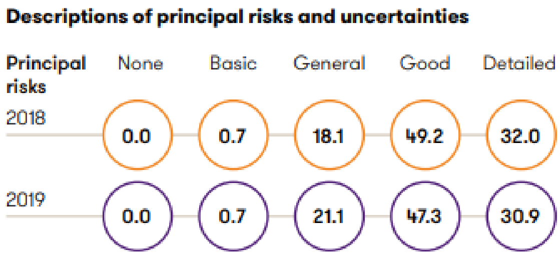

Figure 3. Source: Grantthornton

On the other hand, 64% of organisations mentioned the evaluation of developing risks. That said, revelation associates more to the techniques and procedures they have in place to classify such threats, instead of providing higher clarity as to the particular nature of risks and in what way they would alleviate and manage them. The new Code places much bigger stress on revelation of developing risk inspiring a shift to looking outside the horizon. This feeds into the continuing discussion as to the balance amid reflective and potential components in the annual reports. These findings are in line with the results specified by[89] where it is argued that corporate governance code allows to assure that the board members meet regularly, maintain influence over the company, be precise about their roles and obligations, and establish a risk management strategy. For any successful business, corporate governance is a solid base. It refers to the measures, processes, and laws employed by an organisation to create legal decisions and govern its operations.

4.2.4 Effectiveness of the Corporate Governance Codes

The corporate governance system of UK comprises of different laws and codes of practices and it is mandatory for listed companies to comply with codes[90]. The UK corporate governance codes are published and reviewed by the Financial Reporting Council (RPC) which is an independent regulator[91]. The board of the companies lead by example and behave accordingly as per the codes and it ensures the ethical health of the company is ensured. Moreover, as identified in the study, boards have ensured that appropriate procedures are being followed for monitoring the health of the company. The corporate governance codes have led

[89] Grantthornton.Co.Uk. 2021. https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2019/corporate-governance-review-2019.pdf.
[90] Nordberg, Donald. "Board ethos and institutional work: developing a corporate governance identity through developing the UK code." *Economics & Business Review* 3, no. 17 (2017): 73-96.
[91] Shrives, Philip J., and Niamh M. Brennan. "Explanations for corporate governance non-compliance: A rhetorical analysis." *Critical Perspectives on Accounting* 49 (2017): 31-56.

boards to appropriately empower executive management and the committees and has allowed the boards to set clear goals and objectives for the delegated authorities[92]. The boards of the companies are balanced that involves both non-executive and executive members and non-executive members should challenge the decisions of the executive members and this has caused the chance of fraud and scandals to be avoided.

Moreover, in terms of effectiveness, of the UK corporate governance code, it can also be said that a novel regulation needs the board to comprehend the perspectives of the companies' other primary stakeholders and illustrate in the annual report how their interest and the matters established in section 172 of the Companies Act 2006 have been considered in board discussions and formulation of decisions[93]. This supports proposed novel regulations which would necessitate organisations of a significant size to illustrate ways how their directors fulfil with their duties specified in the section 172[94].

In terms of effectiveness, it has also been found that new corporate governance regulations deals with substantial dissent of the shareholder. When higher than 20% of the votes are cast against the recommendations of the board for the resolution, the organisation must elucidate, when announcing voting consequences and results, what actions it intends to consult with the stakeholders with an aim to comprehend the causes behind the consequences and results[95]. Furthermore, the update must be published by the firms on the perceptions received from investors and shareholders and actions no later than six months subsequent to meeting with the shareholders. The board must then offer a concluding summary in the annual report, and if implementable, in the notes to accounts to be resolved in the next meeting with shareholders[96]. The currently launched public register upheld by the investment associations reports and records details of the notes against resolutions and associated updates on the measures the company is taking. This supports the proposed new regulations which will require

[92] Farooq, Muhammad Umar, Irfan Kazim, Muhammad Usman, and Ijaz Latif. "Corporate governance and audit fees: Evidence from a developing country." *Pakistan Journal of Commerce and Social Sciences (PJCSS)* 12, no. 1 (2018): 94-110.

[93] UK Corporate Governance Code". 2021. Icaew.Com. https://www.icaew.com/technical/corporate-governance/codes-and-reports/uk-corporate-governance-code.

[94] Ibid 93

[95] Bufarwa, I.M., Elamer, A.A., Ntim, C.G. and AlHares, A., 2020. Gender diversity, corporate governance and financial risk disclosure in the UK. International Journal of Law and Management.

[96] Sivaprasad, S. and Mathew, S., 2021. Corporate governance practices and the pandemic crisis: UK evidence. Corporate Governance: The International Journal of Business in Society.

companies of a significant size to explain how their directors comply with their duties under section 172[97].

Furthermore, it can be examined that the governance framework of UK signifies the flexibility of the implementation of the governance code that makes this principle more effective and efficient. It has been reflected that comply or explain model presented in this framework is very helpful for the organizations in managing the governance system. It has been recognized that the effectiveness of the control and monitoring system of the organization is in the flexibility of the application and implication of the governance system. Therefore, it is concluded that the UK governance is flexible[98]. It can be evaluated from the above statement that the governance system of the UK is very much effective in evaluating the audit system of any business organisation. The higher level of the internal and external control system in the organization indicates the higher effectiveness of the governance system. From this point, it can be evaluated that the corporate governance of UK has been quite transparent and effective in ensuring that firms in the UK are effectively disclosing their performance in the annual report. The corporate governance is also effective as it has set the benefit of both the managers and investors and also protects the rights of each individual reducing the agency costs. Therefore, in this light the governance system of UK has been evaluated to be effective.

4.3 Discussion of Objectives

4.3.1 to investigate the effectiveness of the application of Corporate Governance

Corporate governance reforms have been established for restricting the balance of power structure of the organisation. The board of the UK has adopted the activities of monitoring the organisation's management and is used for the practice of corporate governance in the company[99]. As identified in the previous section the codes and practices have caused the effectiveness to increase and companies lead by example and ensure that the ethical health of the company is ensured. The quality of disclosures has increased in recent years and the controls have caused the reports to be made according to the codes for instance the organisations are including information related to risk management practices, appointment of

[97] Ibid 96

[98]Sahay, Mridula, and Kuldeep Kumar. "Invigorate corporate board through Indian scriptures." *Corporate Ownership & Control* 12, no. 3 (2015): 73-83.

[99] Nakpodia, Franklin, and Emmanuel Adegbite. "Corporate governance and elites." In *Accounting Forum*, vol. 42, no. 1, pp. 17-31. No longer published by Elsevier, 2018.

shareholders, remuneration and CSR and sustainability policies. The risks management and the controls are challenged by the non-executive members and they are considered as important sources of assessment and assurance. The practices of the codes have caused the effectiveness in companies to increase along with corporate leadership.

The performance of the corporation is dependent on the effectives of the governance process. For the effective corporate governance framework, board of directors are required to perform their duties effectively and transparently[100]. In the simple way, it can be viewed that board performance indicates the board effectiveness in overlooking at the affairs of the organizations and the management performance in the decision making and control management. The board of directors are composed for maintaining effective board governance policies. It is indicted that good corporate governance must ensure that healthy relationship exist between stakeholders and corporation. They should also ensure fairness and transparency in the organization dealing with the entities. It can be well managed when the organization has the transparent system and transparency of the governance system as well[101]. Hence, the view of this study is validated that the corporate governance of UK is effective in maintaining good level of control system.

From the study conducted, it has been obtained that the corporate board governance in UK has improved over the years and the policymakers has undergone several changes in the system based on the issues found. There has been noticeable scandals observed in the past in the UK which has led to the foundation of the new governance system that can be more effective. It has been analysed that based on the studies conducted on the effectiveness of corporate governance, UK governance code has been identified to be effective in managing the organization's affairs. Therefore, the study has found UK corporate governance to be effective in managing organizations and its activities. The UK governance system has been quite effective when the manager's rights and the investor's rights are protected and secured. It is also influential in delivering the accurate financial reporting and developing better governance framework. The board of governance in UK has been demonstrated to be effective as the study

[100]Habbash, M., 2010. *The effectiveness of corporate governance and external audit on constraining earnings management practice in the UK* (Doctoral dissertation, Durham University).

[101]García-Sánchez, Isabel-María. "The effectiveness of corporate governance: Board structure and business technical efficiency in Spain." *Central European Journal of Operations Research* 18, no. 3 (2010): 311-339.

of Arguden[102] has demonstrated that the board of governance is effective in managing the disclosure quality and to also ensure that the board has appropriate and better level of the management of the organization affairs. Another study has shown that governance board is very much effective when the organization has the proper management and reduced agency conflicts. The corporate governance has been shown to have the reduced scandals and appropriate governance issues. Hence it is seen that UK governance board is very much effective.

4.3.2 to assess the flexibility of complying with the Corporate Governance of the UK

The results of the study indicates that the corporate governance of the UK is flexible as it is mandatory for listed companies, however, unlisted companies have the option to apply the codes in the company[103]. Various studies have also highlighted that unlisted companies are not bound to follow the codes, however, there are provisions that must be shown in the reports as it will cause the controls to be identified. It has been observed that the corporate governance code has been facing challenges in regards to its flexibility and it has caused scandals to be identified. The benefits of flexibility are considered to be found in several small organisations as it is not mandatory for them to comply with the rules of corporate governance. If the company is unable to comply with the standards and policies of corporate governance, thus, the statutory systems are to be used[104]. However, it would cause provisions to be ignored and can lead to different frauds and scandals in the company. The corporate governance codes of UK have been developed in relation to the statutory system and assists in the development of the companies.

It has been observed that the corporate governance code of the UK has been facing several challenges and there have been scandals that have caused the codes to be monitored and developed on yearly basis[105]. However, it has been observed that the corporate governance codes are flexible and it enables the companies to utilise the standards as per the requirements of the company. The benefits of the flexibility are considered to be found in the ability of

---

[102] Argüden, Y., 2010. Measuring the effectiveness of corporate governance. *The Business School of the World*.
[103] Al-Rahahleh, Ayat S. "Corporate governance quality, board gender diversity and corporate dividend policy: Evidence from Jordan." *Australasian Accounting, Business and Finance Journal* 11, no. 2 (2017): 86-104.
[104] Haxhi, Ilir, and Ruth V. Aguilera. "An institutional configurational approach to cross-national diversity in corporate governance." *Journal of Management Studies* 54, no. 3 (2017): 261-303.
[105] Sergeeva, Natalya. "Towards more flexible approach to governance to allow innovation: the case of UK infrastructure." *International Journal of Managing Projects in Business* (2019).

encouraging organizations to adopt spirit of code while the statutory regime might lead to the approach of box ticking that might fail to allow for the deviation which is safe and sound from the rule and would not foster the trust of investors[106]. It enables the investors to make decisions as per the standards of the company and guides the organisation to amend their standards as per the requirements of the board. The corporate governance of UK actively promotes its corporate governance codes to different companies to enable them to ensure good ethical practices are being followed by the company[107]. Moreover, the good practices ensure that the company is in link to issues like board leadership and the purpose of organization, responsibilities division, succession, composition and evaluation, internal control and risk and remuneration.

The flexibility and application of the code helps to handle the external and internal affairs of the company and ensures the long-term success of the company. The fair disclosure and reporting are also ensured for the better transparency[108]. The principles also include the executive director's remuneration for promoting the long-term success of the organizations. Therefore, there is a difference between the international system and the UK system and the comply or explain framework of UK has also been identified to be differentiating significantly from the SOX approach[109]. Corporate governance reforms have been made for redressing the balance of power structure of the organizations and shifting from the primacy of shareholders. The codes of corporate governance have been developed to guide the shareholders and ensure that their investment is protected through different laws and regulations[110]. It further ensures that the overall name of the company is promoted through the usage of different codes and policies. Those reforms have been obtained to be influential on the level of the monitoring of the corporate board practices. It has further been identified that these governance practices have allowed for better protection and transparency in the management of the board activities.

---

[106] Shrives, Philip J., and Niamh M. Brennan. "Explanations for corporate governance non-compliance: A rhetorical analysis." *Critical Perspectives on Accounting* 49 (2017): 31-56.

[107] Duh, Mojca. "Corporate governance codes and their role in improving corporate governance practice." *Corporate governance and strategic decision making* 8 (2017): 53-87.

[108] Council, Financial Reporting. "Proposed revisions to the UK corporate governance code." *London: FRC* (2017).

[109] Haxhi, Ilir, and Ruth V. Aguilera. "An institutional configurational approach to cross-national diversity in corporate governance." *Journal of Management Studies* 54, no. 3 (2017): 261-303.

[110] Jallai, Ave-Geidi, and Hans Gribnau. "Aggressive tax planning and corporate social irresponsibility: Managerial discretion in the light of corporate governance." *Tilburg Law School Research Paper* 05 (2018).

Chapter 5: Conclusion and recommendations

5.1 Introduction

The final section of this study summarises the findings while making the appropriate suggestions. Interestingly, the research achieved all of its goals. The analysis of the study helped to answering the research questions well and achieving research objectives effectively. The corporate governance codes are widely applied in the UK. The policy examination of various firms bears witness to this fact. In contrast, the corporate governance codes applied in the UK also vary from international codes. However, the findings suggest that the UK's corporate governance codes are widely considered as credible in the globalized corporations. It is due to the fact that the country's corporate markets have survived in the event of crisis such as the financial crisis of 2008. However, the country need to generate congruence in its corporate codes with the ones followed internationally. Thus, lawmakers and regulators must focus on evolving the codes while making their implementation. The statutory issues also need to be aligned by establishing the working relationship between managers and shareholders. Future scholars can address the difficulties using the surveys appropriate with industrial requirements.

5.2 Summary of findings

Corporate Governance primarily deals with the prevention of fraud and mitigation of risks. In the UK, corporate governance system has been derived from the statutory system. The big scandals, highlighted the need for sound corporate governance systems. Meanwhile, the UK developed and enacted its Company's Act of 2006. The act placed over certain activities and promoted the mutual understanding among stakeholders of the corporate firms. In comparison, the Financial Services Act of 2010 mandated for managers to utilise their expertise in the best interests of a company, independence of functions between the board of directors and the annual general meetings (AGM) can be considered an integral part of Corporate Governance.

While considering the corporate governance code in terms of its applicability, the UK's Code guarantees that firms must report according to the laws and standards. In turn, it will reduce the risk of fraud. Besides, the corporate laws provide distinct roles for independent and dependent directors, removing the risk of prejudice and conflict of interest. The company's board should form a nominating committee to oversee the appointment process and ensure that succession plans for the board and senior management are in place. However, public organisations should are required to follow the Corporate Governance standards, while unlisted companies may choose to do so. Corporate governance standards indicate that annual reports should cover board leadership and business objective. The company's board should support long-term sustainability and prosperity, with precise duties. The report should include adequate audit risks and controls to ensure a fair and balanced assessment of the company's condition. The compensation of workers should be included in the yearly reports to help create the support plan. The rules also compel corporations to explain activities that impact the duties of directors.

On the other hand, the effectiveness of such codes is also analysed. For instance, the UK corporate governance system includes regulations and practices that listed businesses must follow. Meanwhile, the Company Act of 2006 is also utilised for Corporate Governance. Specific regulations have been drawn from the EU Laws. The Financial Reporting Council (RPC), an independent authority, publishes and reviews UK corporate governance rules.

Moreover, the study boards have verified that suitable processes are followed for monitoring the company's financial as well as non-financial health. The corporate governance standards have enabled boards to empower senior management and committees and define explicit goals and objectives for delegated powers. Some non-executive members should question executive decisions, which has reduced the risk of fraud and scandals. Director’s compensation packages are transparent, connected with individual performance and matched with organisational performance. Non-executive members ensures that risk management and controls as essential sources of evaluation and assurance. This helps with internal and external audits, evaluating codes, and changing corporate rules. Moreover, boards are now accountable to shareholders, which fosters stewardship and helps the organisation succeed.

Apart from findings, the objectives were also aptly met by the results derived from the secondary sources. The primary objective focused on delineating the effectiveness of the Corporate Governance applications in the country. It was found that the corporate governance reforms have been directed towards the balance of power structures existing within the corporate organisations. In this regard, the UK’s governance board has utilised the monitoring activities that support organisational management. It has been crucial in ensuring employee and stakeholder protection. The corporate codes have been effective in that the instances of corruption and fraud have significantly reduced. Besides, ethical practices are widely encouraged in the conglomerates operating within the territories of the UK. In this regard, the role of governance boards has also evolved and they are more adhering to the compliance of corporate governance codes. In turn, diversity can be found among the board of directors of the UK's firms. Furthermore, the disclosures have also increased and the firms have also raised financial reporting standards. Consequently, the firms have placed more controls while developing their risk management departments. The second objective was also fulfilled as per the data derived from various studies and contemporary practices in place. The complying mechanisms are flexible in the UK, but their adherence is still considered as feasible. Various studies have found that certain unlisted are not complying with the codes. However, their separate disclosures concerning the applicability of compliance clauses are integrated into the financial reports. Although, various scandals have reiterated the strict imposition of compliance mechanisms.

5.3 Recommendations

As the economy rebounds from the covid-19 epidemic, corporations are under increasing scrutiny for their social and environmental credentials. The rising disclosures imply that the democratic principles, together with increased stakeholder involvement, will cease to regulate industry practices. Managers are under threat since the gap between legal obligations and societal norms have been widening. While keeping the above findings in view, the following recommendations can be considered:

- The Investment Association urges the board of directors concerning the examination of dividend sustainability along with risk prioritisation[111]. IAS rules require auditors to examine and dispute these claims. Therefore, these assumptions must be executed efficiently.

- The FRC must give due considerations to the concerns displayed by the corporate firms. The suggestions of the board of directors must be included in the feasibility studies. In turn, the FRC must try to integrate the viable advices to enhance the transparency and working of the corporate governance within the UK-based companies.
- The Listing Rules define a majority owner as someone who can control 30% or more of the right to vote. Concerned firms should engage in a relationship agreement. A dominant shareholder's influence must be limited in terms of obligatory measures to

[111] Hodge, C., Untangling corporate governance. *Governance Directions*, *69*(4), pp.222-224, 2017.

protect the board from undue influence. In such situations, the companies must additionally provide extra information, and non-controlling shareholders must approve some decisions[112].

- The boards must maintain contact with shareholders in a variety of ways. They can use the AGM techniques and casual consultations throughout the year. It will generate a mutual understanding. Besides, managers will also be able to gain an insight into the shareholder's perception[113].

5.4 Limitations and future implications

The researcher's primary goal was to ascertain whether the corporate governance codes are adhered to by companies in the UK. Besides, it was also aimed to determine whether such codes must be applied or not. In this regard, diverse views and cases were found. However, the research is confined to the secondary perspectives as the data is derived from certain researches. So the plethora of factors to justify the assertions may be smaller. Also, answers from other studies and the primary audience may not be based on natural behaviour. They may be personal rather than actual. Besides, the FRC studies are also changing. They are publishing different papers based on leadership and audits in the corporate sector of the UK. Thus, future researchers are advised to consider these papers before analysing the corporate governance codes in the UK. Moreover, the variations were found in the international practices and the UK's rules. Hence, it is also suggested that the researchers must develop a holistic view of the global corporate governance codes and then analyse the codes of the UK accordingly.. In the future, scholars can employ many qualitative methods and methodological frameworks suitable for the type of industry. They should also consider the company contexts to base their findings comprehensively.

---

112 Pargendler, M., State ownership and corporate governance. *Fordham L. Rev.*, *80*, p.2917, 2011.

113 Lafarre, A. and Van der Elst, C., Legal tech and blockchain for corporate governance and shareholders. In *Research handbook in data science and law*. Edward Elgar Publishing, 2018.

Bibliography

Journal Articles

"UK Corporate Governance Code". 2021. Icaew.Com. https://www.icaew.com/technical/corporate-governance/codes-and-reports/uk-corporate-governance-code.

Aguilera RV, Cuervo-Cazurra A. Codes of good governance. Corporate Governance: An International Review. 2009;17(3):376-387. DOI: 10.1111/j.1467-8683.2009.00737.x

Aguilera, R.V., Florackis, C. and Kim, H., 'Advancing the corporate governance research agenda'. Corporate Governance: An International Review, 24(3), 2016, pp.172-180.

Akbar, S., Kharabsheh, B., Poletti-Hughes, J. and Shah, S.Z.A., 2017. Board structure and corporate risk taking in the UK financial sector. International Review of Financial Analysis, 50, pp.101-110.

Al Mashhour, Omar Farouk, Ahmed MA Hamad, and Emad Mohammad Al. "The Scheme of Arrangement and Reconstruction as an Efficient Corporate Rescue Mechanism: A Study Under the UK's Companies Act 2006."

Al-Rahahleh, Ayat S. "Corporate governance quality, board gender diversity and corporate dividend policy: Evidence from Jordan." Australasian Accounting, Business and Finance Journal 11, no. 2 (2017): 86-104.

Arcot S, Bruno V, Faure-Grimaud A. Corporate governance in the UK: Is the comply-or-explain approach working?. International Review of Law and Economics. 2010 Jun 1;30(2):193-201.

Brandas C. Formal representation of corporate governance principles and codes. Procedia-Social and Behavioral Sciences. 2013 Feb 27;73:744-50

Bravo-Urquiza F, Moreno-Ureba E. Does compliance with corporate governance codes help to mitigate financial distress?. Research in International Business and Finance. 2021 Jan 1;55:101344.

Bufarwa, I.M., Elamer, A.A., Ntim, C.G. and AlHares, A., 2020. Gender diversity, corporate governance and financial risk disclosure in the UK. International Journal of Law and Management.

Cadbury, Adrian. Report of the Committee on the Financial Aspects of Corporate Governance. London: Gee, 1992

Chen ET, Nowland J. The effectiveness of corporate governance codes: Long-term analysis from East Asia. Journal of International Commerce, Economics and Policy. 2011 Dec;2(02):229-50.

Cicon JE, Ferris SP, Kammel AJ, Noronha G. European corporate governance: a thematic analysis of national codes of governance. European financial management. 2012 Sep;18(4):620-48.

Cuomo F, Mallin C, Zattoni A. Corporate governance codes: A review and research agenda. Corporate governance: an international review. 2016;24(3):222-41.

Cuomo F, Mallin C, Zattoni A. Corporate governance codes: A review and research agenda. Corporate Governance: An International Review. 2016;24(3):222-241. DOI: 10.1111/corg.12148

Duh, M., 'Corporate governance codes and their role in improving corporate governance practice', Corporate governance and strategic decision-making 8, 2017, pp. 53-87.

Farooq, Muhammad Umar, Irfan Kazim, Muhammad Usman, and Ijaz Latif. "Corporate governance and audit fees: Evidence from a developing country." Pakistan Journal of Commerce and Social Sciences (PJCSS) 12, no. 1 (2018): 94-110.

Filatotchev I, Jackson G, Nakajima C. Corporate governance and national institutions: A review and emerging research agenda. Asia Pacific Journal of Management. 2013;30(4):965-986. DOI: 10.1007/s10490-012-9293-9

FRC, The. 2021. "THE UK CORPORATE GOVERNANCE CODE". *Frc.Org.Uk*. https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF.

García-Sánchez, Isabel-María, Luis Rodríguez-Domínguez, and José-Valeriano Frías-Aceituno., 'Board of directors and ethics codes in different corporate governance systems', Journal of Business Ethics 131, no. 3, 2015, pp.681-698.

Gerth, Hans Heinrich, and C. Wright Mills. *From Max Weber: essays in sociology*. Routledge, 2014.

Grantthornton.Co.Uk. 2021. https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2019/corporate-governance-review-2019.pdf.

Hadjikyprianou G. The Principle of'Comply or Explain'Underpinning the UK Corporate Governance Regulation: Is There a Need for a Change?. Corporate Law: Corporate Governance Law Journal. 2015 Nov 27;7(81).

Haxhi, Ilir, and Ruth V. Aguilera. "An institutional configurational approach to cross-national diversity in corporate governance." Journal of Management Studies 54, no. 3 (2017): 261-303.

Hodge, C.,. Untangling corporate governance. *Governance Directions*, *69*(4), pp.222-224, 2017.

Inwinkl P, Josefsson S, Wallman M. The comply-or-explain principle: Stakeholders' views on how to improve the 'explain'approach. International Journal of Disclosure and Governance. 2015 Aug;12(3):210-29.

Izza, Michael. "'Why do auditors fail? What might work? What won't?': a practitioner view." *Accounting and Business Research* 49, no. 5 (2019): 562-564.

Keasey K, Short H, Wright M. The development of corporate governance codes in the UK. Corporate Governance: Accountability, Enteprise and International Comparisons. 2005 May 5:21-45.

Lafarre, A. and Van der Elst, C., Legal tech and blockchain for corporate governance and shareholders. In *Research handbook in data science and law*. Edward Elgar Publishing, 2018.

Larcker D, Tayan B. Corporate Governance Matters. A Closer Look at Organizational Choices and Their Consequences. NJ: Pearson Education; 2011. p. 411

Martynova M, Renneboog L. A Corporate Governance Index: Convergence and Diversity of National Corporate Governance Regulations [Discussion paper]. Tilburg: Tilburg University; 2010. Available from: http://ssrn.com/

Miller, Scott E., 'Impact of the Sarbanes Oxley Act on foreign companies in the United States: An analysis', International Journal of Management 28, no. 1, 2011, pp.71.

Nakpodia, Franklin, and Emmanuel Adegbite. "Corporate governance and elites." In Accounting Forum, vol. 42, no. 1, pp. 17-31. No longer published by Elsevier, 2018.

Ndekugri, Alhassan, and Evans Twum-Danso. "Curbing Corporate Scandals for Global Business Success." Journal of Finance, Accounting and Management 10, no. 1 (2019): 1-8.

Nordberg, Donald. "Board ethos and institutional work: developing a corporate governance identity through developing the UK code." Economics & Business Review 3, no. 17 (2017): 73-96.

Nowland J. The effect of national governance codes on firm disclosure practices: Evidence from analyst earnings forecasts. Corporate Governance: An International Review. 2008;16(6):475-491. DOI: 10.1111/j.1467-8683.2008.00707.x

Nwanji, Tony Ikechukwu, Kerry E. Howell, Sainey Faye, Dominic Zann Agba, Sunday O. Adewara, Adedoyin Ishola Lawal, Adegbola Olubukola Otekunrin, Frank Awonusi, and F. D. Eluyela. "Assessment of the effectiveness of ethical corporate governance in corporate decision-making: a grounded theory approach." Archives of Business Research 7, no. 1 (2019): 147-168.

Pargendler, M., State ownership and corporate governance. *Fordham L. Rev.*, *80*, p.2917, 2011.

Pletz, Stefanie, and Joan Upson. "The normative evolution of corporate governance in the UK: an empirical analysis (1995-2014)." Corporate Governance: The International Journal of Business in Society (2019).

Price, Michael, Charles Harvey, Mairi Maclean, and David Campbell. "From Cadbury to Kay: discourse, intertextuality and the evolution of UK corporate governance." Accounting, Auditing & Accountability Journal (2018).

Reddy, Bobby V. "Thinking Outside the Box–Eliminating the Perniciousness of Box-Ticking in the New Corporate Governance Code." (2019): 692-726.

Rose C. Firm performance and comply or explain disclosure in corporate governance. European Management Journal. 2016 Jun 1;34(3):202-22.

Sakawa, Hideaki, and Naoki Watanabel. "Institutional ownership and firm performance under stakeholder-oriented corporate governance." Sustainability 12, no. 3 (2020): 1021.

Salvioni, Daniela M., and Francesca Gennari. "CSR, Sustainable Value Creation and Shareholder Relations." Salvioni, DM & Gennari, F.(2017). CSR, Sustainable Value

Creation and Shareholder Relations, Symphonya. Emerging Issues in Management (symphonya. unimib. it) 1 (2017): 36-49.

Sarkar, S., ‘The comply-or-explain approach for enforcing governance norms’, Available at SSRN 2638252, 2015.

Seidl D. Standard setting and following in corporate governance: An observation-theoretical study of the effectiveness of governance codes. Organization. 2007 Sep;14(5):705-27.

Sheridan L, Jones E, Marston C. Corporate governance codes in the supply of corporate information in the UK. Corporate Governance: An International Review. 2006;14(5):475- 491. DOI: 10.1111/j.1467-8683.2006.00520.x

Shrives, Philip J., and Niamh M. Brennan. "Explanations for corporate governance non-compliance: A rhetorical analysis." Critical Perspectives on Accounting 49 (2017): 31-56.

Sivaprasad, S. and Mathew, S., 2021. Corporate governance practices and the pandemic crisis: UK evidence. Corporate Governance: The International Journal of Business in Society.

Tassopoulou, Ioli, and Emiliano Berti. "The Wates Principles: Corporate Governance in Large Private Companies." *Int'l. In-House Counsel J.* 12 (2019): 1.

Wymeersch E. The enforcement of corporate governance codes. Journal of Corporate Law Studies. 2006 Apr 1;6(1):113-38.

Zachariadis, Markos, and Pinar Ozcan. "The API economy and digital transformation in financial services: The case of open banking." (2017).