IMPACT OF FINANCIAL GLOBALISATION ON CORPORATE GOVERNANCE AMONG NON BANKING FINANCIAL INSTITUTIONS

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Article History: Received: 12.02.2023 **Revised:** 27.03.2023 **Accepted:** 12.05.2023

Abstract

Financial Globalization is the flow of Capital in the form of debt, equity, FDI etc between different countries. Financial globalization facilitates different countries to successfully operate their production and utilization of resources through diversification of risks. Financial Globalization impacts economic development of the country and also the investors and Corporates. Corporate Governance plays a major role in financial globalization as it provides more avenues to access capital and value creation for organizations. Designing the development of financial globalization paves the way for advancement in information and communication technologies. It brings in liberalization of financial and capital markets and creates competitive advantage on intermediary services.

Financial Globalization has balanced the risks in international capital markets in the form of risks associated with increased borrowing costs in emerging economies. By the impact of Financial Globalization, the risks are mitigated and contributed to financial stability of the enterprise.

Corporate Governance is the system of applications by which the companies listed under Banking regulations Act, 1949 and Non Banking Financial Sectors adopt to direct and control the mechanisms of the working system.

In Financial Globalization, Corporate Governance applicability plays a dominant role where in the Board of Directors is responsible to manage governance of the company and shareholders, stakeholders also put forward their opinion in appointing the auditors and directors of the company to have an appropriate governance structure in organization.

In consolidation Financial Globalization paves the way to develop the countries to adopt better working mechanism and proper consumption volatility. The essence of financial globalization brings in financial diversification to shift income and market risks to world markets and allowing developing countries to manage better in macroeconomic volatility.

Keywords: 1. Financial Globalization 2. Corporate Governance

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DOI: 10.31838/ecb/2023.12.s2.275

1. Introduction

Globalization can be defined as the intensification of interactions at a distance among people around the world, interacting across vast distances. The nineteenth century saw great inter continental flow of people, trade and capital with the rest of the world.

Use of the word Globalization began in 1960's and crossed through to twentieth century which is the indication of wide spread perception of finance. Corporate Governance, banking and non banking systems evolved as the leading edge of financial Globalization. The financial flow through banks channel between depositors and borrowers facilitated cross border financial transactions and decentralized types of financial activity.

Corporate Governance is the system of applications by which the Companies listed under Banking Regulations Act, 1949 and Non Banking Financial Sectors should adopt to direct and control the mechanisms of the working system. In Corporate Governance applicability, Board of Directors are responsible for governance of the company. Shareholders also play a prominent role in appointing the Auditors and Directors of the Company to have an appropriate governance structure in organization.

Governance: Governance means process of decision making to be implemented in working process. Governance includes transparency, accountability of information, effectiveness in adopting rules of law and discipline in adopting methods and concepts of system. Good governance brings in regulations of laws in financial institutions.

Corporate Governance in International Banking :

The adoption of Corporate Governance system in banking sectors strengthen the accountability, trust, credibility and transparency. Corporate Governance acts as a regulatory framework for a Company in International Banking and protects shareholders, employees, supervisors and customers from unknown risks, frauds by increase in economic growth of the company.

In India, Reserve Bank of India (RBI) is the prime source in regulating standards for banking system. It regulates issues relating to currency, foreign exchange reserves and stabilizes monetary system in India. RBI formulates and implements Corporate Governance based on three categories such as a) Disclosure and transparency b) off site surveillance and c) corrective measures.

International Banking is important to understand the globalization of finance, because this type of international financial activity has been the edge of the current wave of globalization and efforts to regulate international banking with regard to the Basel Capital Adequacy Accord. The Basel Committee on Banking Supervision has been the main international body responsible for standards for regulating international banking system.

Disclosure and transparency is an important element in Corporate Governance as the financial transactions will be disclosed for protecting the interests of shareholders, investors and to the outside parties.

In off site surveillance the RBI conducts offsite visits which was initiated in 1995 for domestic operations of the bank. Off site surveillance makes RBI to control the activities of the bank, generates control over financial deterioration and generates source for supervisory concerns.

RBI initiates corrective measures to prevent any anomalies by promoting Corporate Governance guidelines and lays benchmark for CRAR, NPA and ROI. Accordingly, the banks have to follow structured mandatory action plan to restore the financial health of the organization.

Corporate Governance for Financial Globalization among Non Banking Sectors.

Corporate Governance for Financial Globalization among Non Banking Financial Institutions is unique in its application. The activities in NBFI is less transparent and the operational activities monitoring becomes tedious to manage for shareholders and creditors. Development of Corporate Governance activities in Indian NBFI's is imperative. In India, the regulatory bodies like Reserve Bank of India(RBI) and Securities and Exchange Board of India (SEBI) prescribes certain guidelines and principles such as initial capital invested in NBFI's has to maintain minimum Net Owned Funds(NOF) as per the RBI guidelines.

Proposed Study

The present article is based on application of Corporate Governance standards for Financial Globalization among Banking and Non Banking sectors.

Review of Literature

1. In the article published in International Journal of Law and Management, Volume 59 Issue 6, Corporate Governance and Non Banking Financial Institutions profitability dated 13th November, 2017. The researcher Issac Ofoeda aims to investigate on the study of Corporate Governance standards in Bank, where the article focuses on applications of corporate policies and business ethics is quoted. By adequate disclosure of norms and policies, the organization can maintain sustenance in business.

2. In the article published in Business Research, 13,615-637(2020), Corporate Governance and banks productivity:

evidence from banking industry in Bangladesh dated 26th March 2020. Banking and Non Banking Financial Institutions as per their profitability. As per article there is a positive relationship existing among board size, audit committee size, meetings of the audit committee and profitability. The study uses Return on assets (ROA) as the measure of profitability.

3. In the article published in Banks productivity and its relationship with Corporate Governance.Md. Harun Ur Rashid, Shah Asadullah Mohd.Zubair, Md.Asad Iqbal Chaudhary & Azharul Islam.
   Banks productivity and its relationship with Corporate Governance, the authors Md. Harun Ur Rashid, Shah Asadullah Mohd.Zubair, Md.Asad Iqbal Chaudhary & Azharul Islam aims to investigate the banks productivity and its relationship with Corporate Governance. According to the article, it provides new insights of Corporate Governance influencing banks productivity.
4. In the article published in “Demutualization and Corporate Governance of Stock Exchanges”, Aggarwal, Reena, Journal of Applied Corporate Finance, 15(1), ”
   the authors Aggarwal and Reena, focus in the article regarding demutualization of shares of various investors and the methods to adopt for following investment. The article also focuses on awareness of investing policies with proper checking Corporate Governance in system.
5. In the article published in Financial Globalization and Democracy in Emerging markets, Armijo, Leslie Elliott, ed, Basingstoke, Macmillan, 1999. The authors focuses on financial globalization and democracy which includes monetary and fiscal policies. The authors Armijo and Leslie determines, affecting of GDP ratio and rise in FDI and improvement in democratic system by implementing rules and policies in organization and also try to develop business ethics as work culture can be developed.
6. In the article Gender issues published in Financial Liberalization and Financial sector reform, Baden and Salley Directorate General for development of the European commission, Bridge Report No.39, 1996. This article focuses on changes in Gender issues in Financial Liberalization and Financial sector reforms. The authors throws light on how gender issues impact financial globalization and liberalization. It is said that gender issues should be erased and to gain betterment in GDP ratio of the country as well as the organization, every sector should try to work together which brings competitive spirit among themselves.
7. In the article published in Settlement Risk in Foreign Exchange Transactions, Bank for International Settlements, committee on payments and settlement systems, BIS, 1996.
   The article says about the settlement of risks in foreign exchange transactions. According to Bank for International Settlements, Basel Accords should be maintained in order to mitigate the risks in organization.
8. In the article published in Women in Business- The Barriers start to fall, Barclays Bank, 2001.In this article, the author focuses on women being in business as the gender eradication is mandatory in order to sustain the business. Women plays an important role in every field of business globally.
9. In the article published in Capital Mobility and Currency Markets, Porter, Tony, International Journal, 51(4), 1996. Capital Mobility and currency markets predicts about investment methods. The currency markets focuses on sources of investment where an individual deposit in business and capital mobility is prior work to maintain consistency in business.

Research Gap

In the articles referred in the Literature review, it is identified that the gap is regarding the adoption of Corporate Governance in Financial Globalization among Non Banking Financial Institutions.

Statement of the Problem

The statement of the problem is to know the influence of Corporate Governance practices in Financial Globalization.

Need for the study

1. The need of the study is to adopt suitable Corporate Governance practices in Banking and Non Banking Financial Institutions influencing Financial Globalization.
2. The need of the study is to know how GDP ratio is influencing Financial Globalization in various countries.

Scope of the study

1. The scope is to encompass various developmental factors for Financial Globalization.
2. The scope is to adopt governance code by NBFI firms which stimulates operating performance of the Non Banking Systems.
3. The scope is limited to GDP ratio in India, US and European countries.

Objectives of the study

To Study the Influence of Financial Globalization on Corporate Governance among Non Banking Financial Institutions

3. Methodology of the Study

Research Design:-

The study is exploratory in nature. Three years published financial figures such as GDP, Invstment patterns are considered for analysis and certain statistical tools are applied.

Sampling Units:

The sampling units are considered as the tools used for study such as GDP ratios.

Data collection methods:

The data is collected through secondary source such as extraction from the reports, bulletins and magazines.

Variables:

In this article, there are two variables such as Dependent and Independent Variables. Dependent Variables are GDP ratios and Investment pattern. Independent Variables are Corporate Governance, Financial and Micro economic factors.

Tools used:

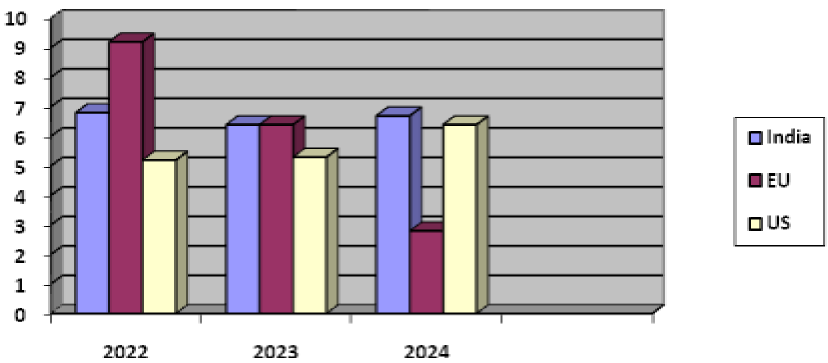
In this article, countries foreign assets and liabilities (% of GDP) are used for measuring Financial Globalization.

Data Analysis

The growth in India's Gross Domestic Product (GDP) is moderate to 6.4% in the year 2023 and is expected to rise by 6.7% in the year 2024. The present GDP is drawn from private consumption and private investment as per government policies. It is to improve transport infrastructure, NBFI's, logistics and business ecosystem.

The Gross Domestic Product as per the European Countries is figured as GDP is projected to expand by 0.8% in the Financial Year 2023 as there is a rise in economy where 0.9% and 1.5% rise is found in euro area. In the previous year, as per the European Economic Forecast the GDP ratio was 9.2%. In comparison to the FY 2022, there is downfall to 6.4% in the current FY 2023.

The survey estimates that GDP ratio in US in the FY 2023 is 5.3% and can swells to 6.4% in next FY 2024. This estimation can be due to rise in international trading, decrease in deficits. In comparison to the earlier FY 2022 the deficit is maintained at 5.2% of GDP.



Interpretation

Gross Domestic Product is an estimation of valuation of finished goods and services produced within the country and is estimation of size of countries economy. The rise in GDP indicates spending on new consumer goods, investment spending, government funding and improvement in exports and imports.

As per the study GDP fluctuates at different economic cycles focusing long term economic growth. Compared to three countries in this article, India gained a consistent GDP ratio in the year 2023 and 2022. There is a rise in GDP factor for European countries in the year 2022 and downfall is expected in the year 2024 and US shows a moderate rise in the year 2023 and projected to increase in the year 2024.

The study found that the rise in annual percentage growth of GDP among different countries estimates growth in the country's economy.

Summary

According to this article, the scholar found that there is a growth in the investment private sector organization. The investment pattern in cross border countries as regards capital expenditure in the FY 2023 has significantly increased. The rise in the financial globalization resulted in lower fiscal deficit of 5.9% of GDP, which help to rise in production and also spur demand. As per this estimation there is a recovery in NBFI sectors, tourism and other contract services.

It is opined that the investment pattern globally in the service sectors will grow strongly in the FY 2023 and FY2024 as the impact of COVID-19 wanes. The global investment in manufacturing sectors in the FY 2023 is expected to be moderate as per the global demand, but will likely to improve in the FY 2024. There is also a growth in agriculture productivity such as to set up digital services for new setups.

As per the survey GDP of economy, the softening of commodity prices and other overheads with strong revenues inflow boost the corporate performance. Considering early developments in the FY 2023, the macro economic stability is getting enriched.

4. Conclusion

As per the study Gross Domestic Product (GDP) is the valuation of consumer goods and services produced within the country and is estimation of inflation rates. The rise in GDP develops spending on financial sectors and investment spending, government funding and improvement in international business, FDI builds up Financial Globalization across the world.

The size of Indian economy has increased and as per the GDP determination, India has bagged 5th position in 2023 as per GDP Ranking List.

As per the IMF and World Bank the developments in Capital Adequacy Standards in Banking and Non Banking actors have paved the way to bring improvement in Financial Globalization. It is opined that these institutions play a leading role to control the effects of Globalization.

As per the view of the scholar in the emerging global financial investments, the regulatory regime must focus on improvement in the growth of quality of Global Finance to enhance wealth maximization in states and firms that entails economic development.

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