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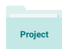

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CORPORATE GOVERNANCE AND MECHANISMS OF CONTROL IN GENERAL ELECTRIC

Bachelor's mini thesis

Valkeakoski, International Business

Spring semester, 2018

Arman Yelesh

HAMK
HÄMEEN AMMATTIKORKEAKOULU
HÄME UNIVERSITY OF APPLIED SCIENCES

ABSTRACT

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Supervisor(s) Iris Humala, Annaleena Kolehmainen, Melanie Kirwa

ABSTRACT

Corporate governance is a main tool in company management. System of management acting today has developed significantly during the last century. After a long time, a lot of changes reformed and improved traditional methods of control. In this research, important aspect as corporate governance and mechanisms of control were considered in General Electric company.

The reason of conducting this research is revealing factors, which influence to financial and operational performances in General Electric. Management in all companies goes through Agency theory and Fisher separation theorem. Those theories mentioned were used to determine interrelationships between subjects of management and help to understand connection with organizational structure and financial data.

As a research method, regression analysis was used. Understanding features of management allows find out weakest and strong sides of company by using variables which affecting to management performance. Outcomes of this research, obtained by using regression analysis, is intended to be used in creating new strategic plans, taking into account possible negative factors have been revealed.

Keywords corporate governance, management, General Electric, agency theory, regression analysis.

Pages 19 pages including appendices 3 pages

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1 INTRODUCTION

Nowadays, the role of management in each company plays crucial role in business. Achievement of results, planning and decision-making are responsibilities of management. Therefore, system of leading the company requires strict completion of tasks. This research considers corporate governance and mechanisms of controls in General Electric. Such a huge company is operating in different countries and different industries. However, creation of such an advantageous system is extremely difficult process.

The aim of this research is revealing and assessing effectiveness of corporate governance in General Electric. Historical data and regression analysis helps illustrate interrelations with different factors and describe which variables affect company performance.

The research question sounds as: How has corporate governance influenced financial and operational performance in General Electric? For understanding this subject, information about corporate governance, theories related with this topic were taken into account.

Approaches applying in this research considers principles of corporate management. The basis of conducting corporate policy uses principles of Organization for Economic Cooperation and Development, which is better known as OECD. Those principles approved in all countries, where the General Electric is operating. In addition, Agency theory and Fisher separation theorem positively affected for examining system of management in company through consideration of each executive agency.

This research aims at examining weak and strong sides of company, which requires individual approach. On the other hand, knowing weakest sides, company able to direct resources to resolve problems. Especially for this research quantitative database was prepared. This data includes financial statements, reports from company meetings. Data analyzed by using proficiency software from statistics and econometrics.

Current position of the company was determined by coefficients calculation. This calculation are carrying for elaborating right recommendations and revising mistakes in management process.

2 CORPORATE GOVERNANCE

2.1 Introduction to Corporate governance

Corporate governance one of the most important thing in leading company to success. Historically based events such as global economic crises in 1930, 1950, 1997 and 2008-2009, which were affected by development of different financial securities and derivatives markets negatively influenced to the world's wealth through fluctuations and high volatility on the market. One of the reason exactly was wrong management or corporate governance. Therefore, many companies bankrupted in this reason. (Schularick & Taylor 2012, 1032.)

The high profit of the company depends on company's management and system of controls. Through those two crucial components, company ensures wealth of shareholders. (Berle & Means 1991, 11) On the other hand, companies are maximizing its profits through management decisions, which lead to high or low financial performance.

Good financial performance allow companies to invest in social projects. Moreover, companies do not forget about stakeholders through Corporate Social Responsibility (CSR). All actions of companies have to affect to companies' wealth and welfare of stakeholders. CSR is policies and procedures undertaken by management for development strategy in purpose to enhance corporation and community welfare. (Tai & Chuang 2014, 117)

In accordance with OECD Principles of Corporate Governance, "The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation … and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance" (OECD 2015, 11).

Broadly speaking, decisions made by management in right direction, lead company to using opportunities. For instance, companies that have good corporate governance are able to borrow higher sums. However, corporate governance is the system of segregation of duties among company's managers, board, shareholders and other participants based on specified rules and procedures for implementing company objectives through mechanisms of control, which helps to prevent bankruptcy.

The Theory of Constraints describes concept of limitations of company. On the other words, company is able generate profit and it has to be limited. Still long-term value of shareholders is achieving by improving approaches in corporate management as a result company achieves its goal – maximizing profit. Corporate governance is considered as a tool for

reaching this goal through: high ethical standards of management behavior; professional integrity, honesty, transparency in business relations and saving credibility and company authority on the market. (Rahman 1998, 337)

Corporate governance aimed at publicly traded corporations due to the high responsibility in front of shareholders, government and legislation. In this reason, governments of different countries issued special legal acts and laws regulating relevance of creating the system of corporate governance in certain entity. Therefore, within the process of creating this system company has to prevent prerequisites for fraud may arise. It has to be taken into account that separation of ownership and control should exist in each listed company. Different people must complete their own duties, but in case the work is already done the same person should not check it. (Fama & Jensen 1983, 308)

2.2 International regulation

Nowadays practice of corporate governance is used as a best practice throughout the world. OECD is taking part in the process of enhancing all practices and procedures for implementing and developing institute of corporate governance. Most countries in the world tend to apply this approach in own countries based on the OECD principles as follow:

I. **Ensuring the basis for an effective corporate governance framework**. This principle is directed to build effective system of management in the company with respect to compliance with legislation. It has to eliminate all risks related with unfair activity. This principle conduces to fortification of transparent cooperation between companies. (OECD 2015, 15)

II. **The rights and equitable treatment of shareholders and key ownership functions**. All shareholders have equal opportunities in managing company, taking part in voting, electing auditors independently of class and size of holding number of shares. (OECD 2015, 20)

III. **Institutional investors, stock markets, and other intermediaries.** Investment decisions are under consideration of this principle. Moreover, companies are disclosing the processes of decision-making and voting procedures. Effective corporate governance allows setting connection between all market participants and other intermediaries. (OECD 2015, 31)

IV. **The role of stakeholders in corporate governance.** Stakeholders take part in effectiveness of corporate governance. Law and regulations protect all rights of stakeholders. However, company is interested in maintaining relationships between all participants directing efforts for increasing level of welfare of stakeholders. (OECD 2015, 36)

V. **Disclosure and transparency.** This principle considers obligations of company to disclose financial, non-financial and other information about company's activity in accordance with legislation and framework established. Whole information should be available for public, if this company is publicly traded. Interested users are getting equal access to use information for evaluation and risk assessment. (OECD 2015, 39)

VI. **The responsibilities of the board.** Board is the most important part of organization, which should work diligently. Board has to work in interest of the company rather than in self-interest. On the other hand, monitoring of results carried out by internal audit, which is accountable to board. Board is independent agency in company's activity. (OECD 2015, 47)

2.3 Organizational structures of companies

Each company chose the way to lead company to strategic goals. However, two types of running of company on the Appendix 1 have significant distinctions. In the 1-tier board or Unitary board governance and strategy realization process re going in different directions. In contrast in 2-tired board supervision and management are separated with clear duties. (Van den Berghe 2012, 21)

Unitary board consist of executive directors and non-executive. While 2-tired board consist of two individual board where Supervisory board includes non-executive directors and Executive board which is responsible for operating activity of company under direction of executive directors. 2-tired board has several limitations as follow: firstly, system is undirected and complicated; secondly, information is not provided directly to Supervisory board. (Van den Berghe 2012, 59) Mechanisms of control can be improved by separation functions of non-executives and executives. (Martynova & Renneboog, 2010)

2.4 Corporate governance in action

Corporate governance in action is a process in which board and management undertake decisions to increase company's value. In companies, management carried out by Chairman and Chief executive officer, better known as CEO. In accordance with (Lorsch 2005, 71), duties of Chairman and CEO should be, segregated and held by different people to avoid influence on the board.

CEO is responsible for realization of company's strategy. CEO is accountable to shareholders, therefore process of selecting entrusted to shareholders. However, shareholders attach importance in their choice. CEO is able to be risky, risk neutral or risk averse. Consequently, it can be lead to changes in investment policy of the corporation. (Lipton 1992, 63)

Chairman of the board is responsible for effectiveness of board and also for making decision-making on the board meetings. In addition, research has shown that decisions made by Chairman are important in leading board of directors. This decision affects to achievement of goals and requirements of shareholders. (Solomon 2007, 79)

Monitoring of company business goes through executive (inside) and non-executive (outside or independent) directors. This separation positively affects to complement of managerial task from independent side. None-executive directors are controlling efficiency of management performance. They are part-time based employees, in this reason they are able observe trends on the market and revise weak sides of company. It allows company taking part and being competitive as well. In spite of executive directors operate with daily business processes non-executive brunch guarantees permanent monitoring of activity. (Ozkan 2007, 9)

2.5 Audit committee and internal audit

Audit committee is the independent tool to carry out the system of internal mechanism of control in the company. This committee is accountable to board of directors and consists of non-executive directors. Independence gives opportunity to control business processes inside the organization and suggest new solution for increasing efficiency outcomes. In accordance with the good practice, audit committee should include at least three non-executive member and one of them has to be with financial experience.

An audit committee is the main element between management and external auditors. Within conducting external audit procedures, audit committee is intermediary in resolving conflict situations. Also, audit committee is responsible for monitoring financial reports and setting yearly based audit plan, in purpose to check performing of financial statement on correspondence with established criteria. (Klein 2002, 378)

Risk oriented approach ensures completing objectives of internal audit to present financial reports based on credibility and objectivity. It should be taken into account that audit committee: firstly, helps executive directors to complete their duties in respect of financial statement reporting; secondly, increase the role of external auditors and its independence. In this case audit committee immediately acts as a channel of communication.

2.6 External audit

As was mentioned above, external audit works in cooperation with internal audit. The main function of external audit is providing independent opinion about company’s financial reports and its preparation in

conformity with law and reporting framework. Moreover, external and internal audit reduces the audit risk of providing inappropriate opinion and complete function of external and internal mechanisms of control respectively. (Goodwin-Stewart & Kent 2005, 400)

In the most countries, large business is obligated to be audited for approving its correctness of prepared reports in compliance with legislation and established framework. External audit is a monitoring system that builds transparent business; also eliminate conditions for fraud and manipulation with financial statement. After conducting audit procedures external auditors express opinion with positive or negative assurance. Financial report has to be free from material misstatement. This opinion increases confidence in reliance of statement prepared from interested user's side. (Habbash 2010, 3)

3 THEORIES APPLIED

3.1 Agency and stewardship theory

Agency theory is one of the most famous theories in modern management, especially in corporate governance. This concept can be interpreted from different points of view. Every organization faces with problem when interacting parties have different goals. Agency theory is over this problem and considers relationships between principal who delegates work, and agent who is responsible for this work (Appendix 2).

Two types of problems exist in this relationships. The first one observed when principal and agent have conflict of interest, and principle has difficult to control an agent. The second one is different commitment to risk; therefore, principle and an agent may react differently in the same problem. (Eisenhardt 1989, 58)

From the positivist side, agency theory works when principal and agent have conflict of interest. To decrease this power corporate governance is used. Ownership have to be taken into account, because in case when principal is owner of company shares. Conflict of interest arises when agent does not make efforts. If principal knows information about agent behavior, agent likely to be under control. However, negotiation between principal and agent might be based on outcome and behavior. Outcome based approach more privileges than second approach, because agent is acting in interest to complete and show certain results. While behavior based approach represented as payment per hour, which decreases effectiveness of agent's work. (Eisenhardt 1989, 62)

Furthermore, relationship between main players has to be long-term. Short-term cooperation eliminates opportunities to increase value of

company. Hence, principal should know how to direct agent in right way. In this case, information plays important role in the company. It even has a worth and it even can be purchased. To put it in another way information systems can be widely used through members of board of directors to provide information to shareholders, in purpose of controlling and getting accountable information from agents. (Eisenhardt 1989, 64)

Board are taking part in this theory are paid by options and stocks. Agency theory works, when agent work in interest to increase value of company. If an agent has stocks in company mentioned, he will operate for achieving high price of stock to exercise his option. (Eisenhardt 1989, 71)

3.2 Fisher separation theorem

This theorem considers companies and shareholders separately. Irving Fisher notes it as different systems, which have similar goal to maximize own utility. On the other hand, companies and shareholders are managing financial resources chose two different types of decisions. To increase their satisfaction by being paid dividends or reinvesting money in new projects. Everything depends on the risk preferences of management and stockholders. (Hovenkamp 2009, 382)

The main idea of Fisher separation theorem is maximizing all returns from business and providing opportunities to shareholders to spend profit with their preferences. In this reason, competition on the market affects to company decisions. That is to say separation between ownership and control is relevant. (Hovenkamp 2009, 386) From operational side company undertakes actions based on cost and benefits point of view. Managers decide how to allocate resources for producing, also they decide how to purchase raw materials for use. Middle of this decision is moving to equilibrium. (Hovenkamp 2009, 390)

In accordance with Fisher theorem companies' stocks are traded on the exchange market. Not always, those markets are efficient. Hence, investors take all risks in order to get return, but uncertainty and systematic risk have to be taken into account. Theorem shows that company should designate production plan in order to increase future discounted cash flows. Moreover, decisions to produce and financial investment decisions are solved independently. (Lensink 2001, 9)

Likewise Fisher's Separation theorem divide company's investment decisions and manager's risk aversion by two independent elements. Strong relationship between manager's compensation package and manager's investment decision can be observed. However, it's only appropriate to publicly traded companies with efficient market and all risks appearing here. Nevertheless, managers can be remunerated by options and this may affect to their diligent work. But it has huge distinguish from

hedging strategies in risk management, which is not related with manager's options.

4 RESEARCH

4.1 Research object and methodology

General Electric is a global company, which operates in fields as Power, Renewable Energy, Oil & Gas, Aviation, Healthcare, Transportation and Energy Collection & Lighting. This variety of business allows company to keep risk under control. Diversification of the company increases sustainability and accelerated development. For carrying out control, company monitors operational and financial results through corporate structure (Appendix 3).

4.2 Research calculations

For this research special data sample was created by using data from company sources and United States of America Security Exchange commission Appendix 4. This sample includes variables, in particular, financial coefficients as Debt to equity and stock return, operational coefficients as Return on equity, Return on assets. Stock return is the key performance, which is calculated by formula as follow:

$$\text{Stock return} = \frac{\text{Stock price(n-1)}}{\text{Stock price(n)}} - 1, \text{ n=period of time} \tag{1}$$

This performance shows percentage of increasing or decreasing price of the share comparing current value to value of previous period. (Berk & Demarzo 2013, 343)

$$\text{Debt to Equity} = \frac{\text{Long-term debt}}{\text{Equity}} \tag{2}$$

Debt to Equity on of the most essential coefficient in the company, because company must maintain proportion of debt in certain level. Deviation from settled percent affects to Weighted Average Cost of Capital. (Berk & Demarzo 2013, 42)

Return on equity also is important coefficient which demonstrates how much dollars return from one contributed equity dollar, and it is calculating by formula below (Berk & Demarzo 2013, 42):

$$\text{ROE} = \frac{\text{Net income}}{\text{Book value of equity}} \tag{3}$$

In purpose to know return from assets invested, Return on assets is widely used. (Berk & Demarzo 2013, 43)

$$ROA = \frac{\text{Net income}}{\text{Total assets}} \quad (4)$$

In accordance with this formula, we are able to know how much money was returned from one dollar of assets contributed.

4.3 Regression analysis

For conducting regression analysis special database was prepared. This data includes variables such as: CEO's salary, bonuses, options paid, age and also number of board members. Financial performance coefficients were calculated and included in spreadsheet. Financial and operational coefficients as a Stock return, Debt to Equity, Return on Equity, Return on Assets were chosen as dependent variable in regression model.

Regression equation helps to determine factors affecting to the certain dependent variable. In addition, computer modeling applied in the research reveals level of impact of group of variable to one dependent variable. In this research sample was consisting of 26 observations and 12 variables. For making regression model, logarithm variables were generated to demonstrate elasticity of reaction.

However, in order to determine how corporate governance have influenced financial and operational performance, variables as CEO's salary, bonuses, stock options were chosen. Number of nominees in board demonstrates how many people are operating in company. They are responsible for decision-making and all consequences after getting outcomes in positive or negative form. On the other hand, number of independent directors in company was also counted. Proportion of directors structure affects to rational decision-making in board.

Firstly, stock return was considered as dependent variable in regression model. As independent variables salaries, bonuses, stock options, age of CEO, number of member in the board and quantity of independent directors were putted into the equation. As we can see on the Appendix 5, beta coefficients determined as follow:

stock return = 0,38 - 0,37*salarylog - 0,01*bonuslog – 0,02*optionslog + 1,58*agelog – 1,26*boardlog + 0,004*independentlog + e

Beta coefficients are staying before variable demonstrate percentage of impact on stock return. Results have been received from this regression can be interpreted as follow:

If amount of salary, bonuses, stock options and number of board members will be increased by 1%, then share return will decrease by 0,37%; 0,01%; 0,02% and 1,26% percent respectively. However, increasing age and adding number of independent directors positively affect to share price and share return, if those performances will be increase 1%, share return will also increase by 1,58% and 0,004% respectively. The constant growth of General Electric's shares is 0,38%.

Secondly, financial performance as Debt to Equity also was considered as main coefficient, which gives opportunity for management to borrow or lend money for different project. On the other words, variables as were used before were applied in this regression model (Appendix 6).

debttoequity = 3,35 + 0,30*salarylog - 0,01*bonuslog + 0,002*optionslog - 0,84*agelog – 0,79*boardlog + 0,05*independentlog + e

Constant level of long-term debt in the company is 3,35% in conditions of null beta coefficient for each variable. Increasing salary, stock options and numbers of independent directors by 1%, negatively affects to Debt to Equity coefficient. It increases this coefficient by 0,30%; 0,002% and 0,05% respectively. That is why increased salary is obligation of the company, options of stock reinforced with risk in case of exercising option in case of positive share return additional obligation can appear. In addition, increasing number of independent directors considers that independent directors are able to attract debts for funding, so dependent variable is increasing. But each increasing in debt, increases risk of bankruptcy. Aging of CEO positively influence to decreasing of debt, because of risk aversion. As a board members extension increases credibility for the board and guarantee for returning the debts.

Thirdly, if Corporate governance and management are assessed in this research, factors which affects to their salary should be taken into account. In this regression model variables such as Return on Assets, Return on Equity, Debt to Equity and sum of assets were included as independent variables (Appendix 7).

salarylog = 0,71 + 0,02*stock + 21,62*roa – 33,81*roe – 0,75*debttoequity + 1,21*assets + e

This equation demonstrates as that increasing stock return by 1% increases salary by 0,02%. While increasing ROA by 1% increase salary by 21,62%. However, if ROE increases by 1% salary is decreased by 33,81%. Because in case of high ROE shareholders require own dividends for being paid. If D/E coefficient increases by 1%, salary decreases by 0,75% in accordance with arising risk undertaken by company. Amount of assets positively affects for management salary, it is accompanied by increasing in assets, for instance in cash. Therefore, increasing in assets increases salary, because of having funding to pay management for work, which have been done.

5 RECOMMENDATIONS

In accordance with results obtained, company in order to increase return of company has to increase number of independent directors in board and appoint new CEO for realization of new strategic plan. Moreover, different people must hold Chairman and CEO positions, in order to reduce the power of prominent leaders. Other than that, decreasing in amount of salary, bonuses and stock option can positively affect to stock return.

Regression model which were mentioned above, can be used as a tool for maintaining certain proportion of debt. Debt is the main instrument in project investing. In this reason company must know how allocate resources by using variable in regression equation. And knowing about which variables influence more, target proportion might be settled. Through those variables company provides mechanism of control.

However, one important thing as CEO's salary which is tool for assessment company results. Moreover, remuneration committee should know which factors are affecting to salary. How was considered in regression management has to find proportion of key performances, and CEO has to know in which direction conduct own plan with regards of balance in compliance acceptable level of ROE, ROA and D/E.

Consequent researches can develop this theme in direction of revealing additional factors which can affect to diligent work in different companies.

6 CONCLUSION

Modern challenges affect to company from different unexpected sides. However, in this research influence of corporate governance to financial and operational performance has been revealed. Only right management system can overcome this problem. Through this research Corporate Governance subject became more understandable for interested users.

Moreover, Corporate governance works in cooperation with theories, which are realized in operation activity of the company. Managers are operating with Board of directors, board operates with managers, but not always they are able to find compromise in solving problems. Therefore between this participants is settled special balance, where they are satisfy their interests in accordance with theories used in this research.

The common thing in Corporate Governance is earning high profit from their business. Only companies, which are controlling and managing company in right direction can receive high income. Only income can satisfy wishes of shareholders, management and also stakeholders.

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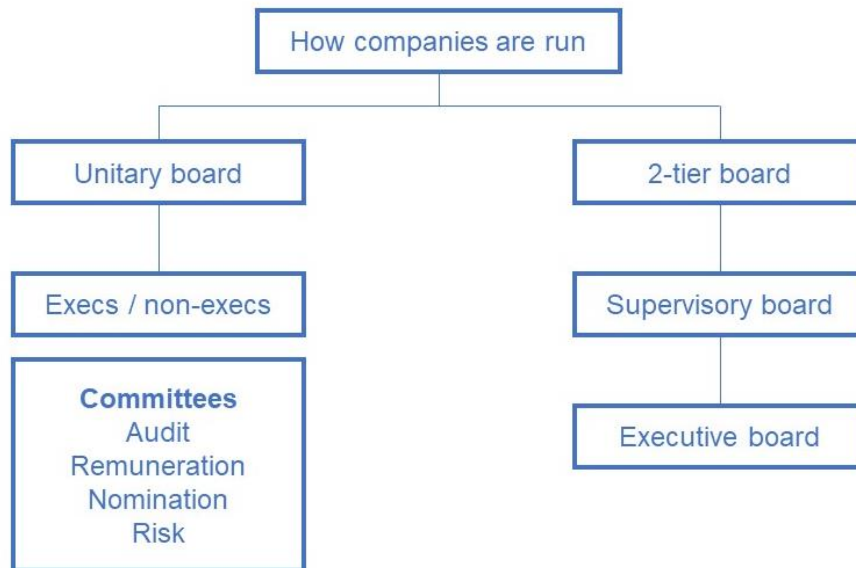
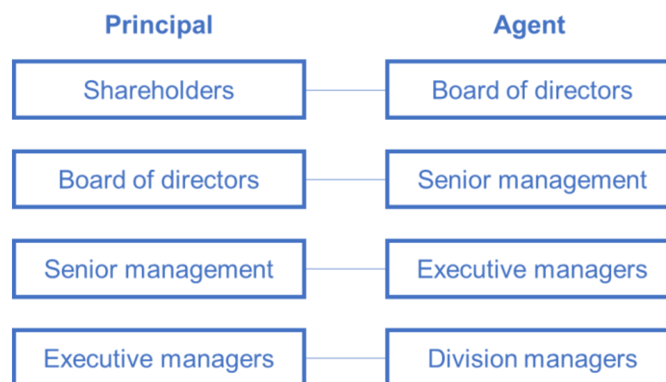
Appendix 1

TYPES OF ORGANIZATIONAL STRUCTURE



Appendix 2

AGENCY THEORY



Appendix 3

CORPORATE STRUCTURE OF GENERAL ELECTRIC

Appendix 4

DATABASE

Year	stock	salary	bonus	options	age	roa	roe	d/e	assets	board	independent
1991	0,7152	1468,75	1685,00	1,00	56	0,017	0,007	0,048	251,506	15	5
1992	0,5741	1600,00	1900,00	1,00	57	0,025	0,008	0,064	185,871	15	5
1993	0,7434	1750,00	2200,00	1,00	58	0,029	0,011	0,087	228,035	15	5
1994	0,4174	1850,00	2500,00	1,00	59	0,027	0,012	0,083	272,402	15	5
1995	0,4675	2000,00	3250,00	1,00	60	0,027	0,014	0,078	304,012	15	5
1996	0,6788	2300,00	4000,00	1,00	61	0,026	0,016	0,100	355,935	14	4
1997	0,6143	2500,00	5500,00	1,00	62	0,026	0,018	0,120	405,200	14	4
1998	0,4506	2800,00	7200,00	1,00	63	0,029	0,021	0,138	437,006	15	5
1999	0,4141	3325,00	10000,00	1,00	64	0,028	0,023	0,134	495,023	16	6
2000	0,3708	4000,00	12700,00	1,00	65	0,025	0,021	0,210	575,244	16	6
2001	-0,1530	2750,00	3500,00	1,00	45	0,023	0,022	0,254	647,483	19	7
2002	-0,2743	3000,00	3900,00	1,00	46	0,023	0,026	0,311	750,252	16	9
2003	-0,0610	3000,00	4325,00	1,00	47	0,025	0,025	0,317	673,210	17	11
2004	0,2077	3000,00	5300,00	1,00	48	0,030	0,031	0,390	697,273	15	11
2005	0,0902	3225,00	1,00	1,00	49	0,028	0,033	0,477	795,683	16	11
2006	0,1435	3300,00	5000,00	574,32	50	0,022	0,026	0,493	797,769	15	11
2007	-0,1204	3300,00	5800,00	214,66	51	0,014	0,016	0,479	780,309	16	12
2008	-0,5631	3300,00	1,00	1,00	52	0,016	0,017	0,418	745,426	16	13
2009	0,9526	3300,00	1,00	1,00	53	0,020	0,020	0,347	718,003	15	12
2010	-0,3422	3300,00	4000,00	7400,00	54	0,020	0,019	0,336	684,999	16	14
2011	0,1501	3300,00	4000,00	1,00	55	0,020	0,019	0,316	656,560	16	14
2012	0,1552	3300,00	4500,00	1,00	56	0,020	0,019	0,325	690,415	16	14
2013	0,2255	3466,67	5000,00	1,00	57	0,020	0,019	0,309	662,202	16	15
2014	0,1079	3750,00	5400,00	2565,00	58	0,023	0,022	0,265	653,931	17	15
2015	0,0738	3800,00	5400,00	2964,00	59	-0,012	-0,009	0,206	493,071	17	16
2016	0,1734	3800,00	4320,00	2142,00	60	0,024	0,013	0,150	365,183	18	17

Appendix 5

REGRESSION MODEL: STOCK RETURN IS DEPENDENT VARIABLE

Source	SS	df	MS			
				Number of obs	=	26
				F(6, 19)	=	4.61
Model	1.9726204	6	.328770067	Prob > F	=	0.0047
Residual	1.35483859	19	.071307294	R-squared	=	0.5928
				Adj R-squared	=	0.4643
Total	3.32745899	25	.13309836	Root MSE	=	.26703

stock	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
salarylog	-.3710742	.3040079	-1.22	0.237	-1.00737	.2652217
bonuslog	-.0073949	.0223944	-0.33	0.745	-.054267	.0394772
optionslog	-.0170633	.0225551	-0.76	0.459	-.0642716	.030145
agelog	1.587412	.634704	2.50	0.022	.258961	2.915863
boardlog	-1.263127	1.005372	-1.26	0.224	-3.367395	.8411418
independentlog	.0041128	.2205052	0.02	0.985	-.45741	.4656356
_cons	.3790139	4.027034	0.09	0.926	-8.049666	8.807694

Appendix 6

REGRESSION MODEL: DEBT TO EQUITY IS DEPENDENT VARIABLE

Source	SS	df	MS			
Model	.437684087	6	.072947348	Number of obs	=	26
Residual	.049211133	19	.00259006	F(6, 19)	=	28.16
				Prob > F	=	0.0000
				R-squared	=	0.8989
				Adj R-squared	=	0.8670
Total	.486895221	25	.019475809	Root MSE	=	.05089

debttoequity	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
salarylog	.2977781	.0579392	5.14	0.000	.1765099	.4190463
bonuslog	-.0053195	.004268	-1.25	0.228	-.0142526	.0036136
optionslog	.0023993	.0042987	0.56	0.583	-.0065979	.0113965
agelog	-.8419112	.1209648	-6.96	0.000	-1.095093	-.5887288
boardlog	-.7899946	.1916085	-4.12	0.001	-1.191036	-.3889534
independentlog	.054352	.0420249	1.29	0.211	-.0336071	.1423112
_cons	3.355221	.7674909	4.37	0.000	1.748844	4.961598

Appendix 7

REGRESSION MODEL: SALARY IS DEPENDENT VARIABLE

Source	SS	df	MS			
Model	1.53446645	5	.30689329	Number of obs	=	26
Residual	.444333216	20	.022216661	F(5, 20)	=	13.81
				Prob > F	=	0.0000
				R-squared	=	0.7755
				Adj R-squared	=	0.7193
Total	1.97879967	25	.079151987	Root MSE	=	.14905

salarylog	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
stock	.027491	.1102292	0.25	0.806	-.2024431	.257425
roa	21.61948	15.41342	1.40	0.176	-10.53235	53.7713
roe	-33.8146	18.66714	-1.81	0.085	-72.75357	5.124366
debttoequity	-.7516605	.4996429	-1.50	0.148	-1.793897	.2905764
assetslog	1.213403	.2846428	4.26	0.000	.6196484	1.807157
_cons	.7051698	1.748473	0.40	0.691	-2.942081	4.35242

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