

CONFLICT OF INTEREST IN BOARD OF MANAGEMENT

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INTRODUCTION

- Any form of disagreement, friction, argument or discord because of lack of consensus over a belief or an action among one or more members of the group or among different groups is called Conflict. Conflict can therefore be said to arise at two levels:
 - ▣ **Intra-group conflict-** This kind of conflict refers to conflict between members of the same group, or
 - ▣ **Inter-group conflict -** This kind of conflict refers to conflict between members of two or more groups.

CONFLICT BETWEEN SHAREHOLDERS AND MANAGEMENT



AGENCY THEORY AND CONFLICT OF INTEREST

- Agency theory relates to principal agent relationship. Principal appoints an agent under a contract to carry out activities on their behalf. The agent is supposed to fulfil the duties defined by the principal in the letter and spirit. In business organisations, the shareholders or owners of companies are different from the managers who are supposed to achieve business objectives formed by the owners.
- Since there is separation of ownership and control between directors and shareholders, there exists conflict of interests.

Cost of Agency Relationship

- To ensure that agents perform their duties as required by the shareholders, firms incur agency costs which are the cost incurred by principals to monitor agency behaviour as there is lack of trust in the agents.

Auditor and Agency Relationship

- The main component of corporate governance is audit as it provides review of the financial position of the company independently.
- When performing an audit, auditors act as agents to principals (shareholders) and they work on trust.
- Auditors, like directors, might have their own motives and interests which they want to consider.
- The independence of auditor reflects audit quality of the company and is expected by shareholders, but the auditors have to work closely with board of directors.
- Since there is such a close relationship, it has made shareholders question the actual and perceived independence of auditors, and thus, tougher standards and controls have been introduced for their protection.

CONTRACT THEORY AND CONFLICT OF INTEREST

- Contract theory relates to legal agreements between business and individuals. Contract theory is based on the principles of economic and financial behaviour as every party has different incentives with regards to performing or not performing particular actions.
- Contract theory not only study the legal binding contracts but also understands informal agreements that motivates people with conflicting interest to take mutually beneficial actions.

CORPORATE GOVERNANCE

- For large public companies, corporate governance plays an important role, where gap between the ownership from management is more as compared to small private companies. Public companies raise capital through stock markets.
- The market value of the company's shares will get affected if there is any suspicion regarding the integrity or aim of the individuals who are responsible to a public company.



- Openness
- Probity
- Responsibility
- Accountability
- Reputation
- Judgement
- Integrity

CONFLICT MANAGEMENT STRATEGIES

Accommodating

Avoiding

Collaborating

Compromising

Competing

Thank You



Thank You