# NOBODY IS TOO BIG TO FAIL

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**Abstract**

Healthy economy of a country is very essential not only for the country itself, but also for the global development as well. In today's globalized world, economy of a country does matters at the global level. Market of digital economy or mobilized economy is not restricted to one country only. It is necessary that the economy of a country should be based on strong basis of corporate world. Therefore, the emphasis has been always levied upon the corporate governance of the company.

Fall down of economy during 2007 to 2011 was an example for the global economy that the corporate giants could never fail or fall has been proved as a niche. Although the global financial crisis did not affected much to India but it affected the least developed countries. The reason behind the financial crisis in US and India, was the emphasis of the companies on the long term plans rather than short and easily achievable goals and lack of good corporate governance. Although, there is no surety that the plan or strategy to face any economical or financial crisis will be successful. As the companies cannot predict certain future hurdles or crisis. While observing the after effects of the financial crisis, it was explicit that there was lack of governance in companies which faced major crisis. Financial crisis is a nightmare for any investor or company. There are many factors including corporate governance, market focus of a company, marketing design, etc. which can be consequential to market fall. Financial crisis of 2007-2011 was major consequence of failure of big market players. When a giant company fails to perform efficiently, it also affects the trust of investors as well as it also breaks the faith and confidence of other market players.

During the financial crisis, it is the duty of government to revive the market and economy by effective measures. It is difficult for any government to face this phase of crisis because along with the immediate consequences, there are also certain after effects of the economic crisis which takes long time to be rectified. Government also have to revive the small businesses as well the big market players.

In this paper, the research would analyse the reasons behind the financial crisis occurred during the year 2007 to 2011 along with a brief dissection of past crisis and the principles which has to be followed by the corporations in order to avoid major effects of the fall of economy. As government also plays a crucial role in reviving the economy, its role and measures taken by the government will also be analysed. Till now, there is no perfect solution for avoiding the financial crisis or to save the economy from the crisis as each country is having their

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own market tendencies along with global perspective. Feasible solutions, from the researcher's point of view, will also be given in the paper.

**Keywords:** Globalized world, corporate giants, financial crisis

## 1. Introduction

Today's world seems more remote or 'globalised' compared to old days, when the securities market of India was in its infant stage. Native Share and Stock Brokers' Association, which was established way-back in 1887, was a corner stone for the Indian securities market.[2] This association also put forth the concept of public interest as well as members' interest.[3] From the old days of frequent meetings of the Committee of Management, to cop up with the frequent changes in the economical as well as political incidences happened, which includes Civil War of 1861.[4] It is interesting to note that with the Report of the Bombay Stock Exchange Committee only, the name of Bombay Stock Exchange was first conceptualised. The situation of Securities market of India is much digitalized and more transparent and accountable at the current scenario compared to its initial stage. This fact can be analysed through the committee report[5] itself. The report[6] shows many management aspects of the securities market at the initial stage, which were prime concern of the stakeholders during the time when foreigners controlled Indian economy. Although, the main concern was the lacuna of proper framework for regulation of scrips. Keeping in mind this concern, one can imagine the situation when a country's economy, without proper framework, could lead to a disaster.

The main fundamental benefit of the securities market is to give everyone his or her share in the profit and to encourage a healthy market economy. This image of a healthy economy stands on three pillars: transparency, accountability and anonymity. The important question here is that whose responsibility is it to maintain these three pillars? The answer can be different from an investor's point of view, from a start-up's point of view, from a share broker's point of view and from a lender's point of view. The author will make an endeavour to find an appropriate answer to this question through study of financial crisis in United States and its parallel effects in India.

## 2. Financial Crisis as a threat

[2] Report of the Bombay Stock Exchange Committee, (1924), Available at: <https://www.sebi.gov.in/History/HistoryReport1924.pdf> Accessed on: 7/2/2018

[3] ibid

[4] ibid

[5] ibid

[6] ibid

The worst dream for any country could be is a financial crisis of which, effects could be long term and unavoidable. The UK and US economy is always having threat of bubble economy which can adversely affect the country at the worst level. The election of President Donald Trump has led to many economic and political changes in US.[7] The economists are having fear that the market would crash at any time, looking at the current perception of Mr. Donald Trump. However, the time will show that how far this prediction is true.

If we look at the fact or from the practical point of view, any country's economy is always having the hanging sword of market crash at any time. Looking to the Indian securities market, the threat of market crash was felt very close in the last year when the bubble of IPOs were running the market at insane numbers. Nevertheless, if we look at the current scenario, the stock market is at its highest peak in the history of securities market. The possible reason behind this increase is the flow of money from investment by some leading corporations and foreign institutions as well. Increasing number of investments also shows the increasing trust of public in the companies. It depends on the company that how far it can retain the trust of the public.

If we look at the past incidents, India was not much developed and its economy was strong enough to handle the inflow of foreign money and to regulate its own market. Therefore, India tried to be on the safe side by not keeping the eyes on the foreign money. However, technology and other aspects has made the world closer to each other. Changing political views of the countries also affects it economy, either positively or negatively. However, that does not mean that the history can never be repeated, with the help of proper framework only. This point can be elaborated more with a brief insight into the history of financial crisis at US and India.

Financial crisis does not affect only the economy of the country during a certain period, but it is having a long-term effect, which can be felt in the future transactions and market as well. The duration of that 'certain period' depends on the core strength of the market as a whole, at the national, state and the company it self's levels. Here, the meaning of core strength is depending upon cash and equities as well as short-term investments.

## 3. US and Indian Financial Crisis since 1929

US economy is always considered as one of the strongest economy of the country for facing the financial crisis. However, if we look into the history of financial crisis in US, it can be understood that the US economy has always learned from its experiences. The concept of 'Too big to fail' can be seen in the corporate giants. They consider themselves as above the effects of the financial crisis as they believe in their own market strategies and values. However, history has witnessed that the corporate giants can also, become a victim of the crisis, if it is not active or cautious about its own strategies.

India, as a developing country, is not having a strong economy to bear the costs of a big market crash. However, it is getting stronger by the liberal approach of the government to open the market for the foreign investors.

[7] 'Do You Think Donald Trump Is Ready for a Real Financial Crisis?', The New York Times, 6 February, 2018, Editorial Board

Nevertheless, in today's globalising world, it is explicit that the more the world becomes smaller, the more risk sharing will be there in the market as well. Effects of the financial crisis can be felt at each part of the world, at major or minor level.

It is impossible for any country to keep its market restricted to its domestic investors only. Moreover, as discussed above, the open market invites more chances of market crash. If we look at the market regulation from the legal framework perspective, it is impossible to control the market with changes at every fraction of moment. In addition, another point of the discussion is that whether always, improper legal framework or implementation of law has been the sole reason behind the financial crisis. For reliable answer of this question, one has to look into the history of the financial crisis.

**(1) US Financial Crisis:**

**i. The Great Depression of 1929:**

Throughout the 1920s, the U.S. economy expanded rapidly, and the nation's total wealth more than doubled between 1920 and 1929, a period dubbed "the Roaring Twenties."[8] The main reason behind the peak of the securities market was the huge amount of investment in the securities market. From the rich to middle class people were attracted towards the securities market. And those who were not conversant with the securities market had their faith in banks, who were offering high interest rates. From the period, when the great depression started, people were afraid that their money would never paid back by the banks. Moreover, banks had already utilised the money in the securities market. With the fall of the securities market, their money was also vanished. As a result, banks were unable to repay the money. This made the situations worse than expected.

*"The Great Depression lasted from 1929 to 1939, and was the worst economic downturn in the history of the industrialized world. It began after the stock market crash of October 1929, which sent Wall Street into a panic and wiped out millions of investors. Over the next several years, consumer spending and investment dropped, causing steep declines in industrial output and employment as failing companies laid off workers. By 1933, when the Great Depression reached its lowest point, some 15 million Americans were unemployed and nearly half the country's banks had failed."*[9]

The consequences of the market crash were too worse that people started losing faith in the economy of the country. There was a time when farmers left their fields unharvested and some people, in the other side of the city, were unable to get the necessary food supply.[10]

*"By its height in 1933, unemployment had risen from 3 percent to 25 percent of the nation's workforce. Wages for those who still had jobs fell 42 percent. Gross domestic product was cut in half, from $103 billion to $55 billion.*

[8] 'GREAT DEPRESSION', History.com Staff, 2009, History.com, Available at: http://www.history.com/topics/great-depression, Accessed on: 20th February, 2018

[9] ibid note 7

[10] ibid note 7

*That was partly because of deflation. Prices fell 10 percent each year. Panicked government leaders passed the Smoot-Hawley tariff to protect domestic industries and jobs. As a result, world trade plummeted 65 percent as measured in U.S. dollars. It fell 25 percent in the total number of units."*[11]

All these facts clearly depicts the picture of the US economy during the market crash. The damages caused by the market crash took 10 years to the US economy to streamlining the market and redeem public faith.

The major possible causes behind this market crash were the improper legal framework for regulation of the banks, lack of awareness among the people, and the lack of corporate governance among the banks.

### ii. 1970s Stagflation

This time, the US economy faced consequences of the lack of foresee of economists of the country.

*"...1970s: it began with a huge rise in oil prices, but then continued as central banks used excessively stimulative monetary policy to counteract the resulting recession, causing a runaway wage-price spiral."*[12]

This time, the US economy faced the crisis due to wrong belief in its economic situation. It is important to note here that the economic theory, which was developed and failed during this period, was hard learning experience for the US economy.

### iii. 1989 Savings and Loan Crisis

The US market was operating with the help of newly introduced digital mechanisms during that period of 1989. This digitalisation helped investors to invest and traders to trade in huge amount of securities. It was for the first time, that the market also witnessed its negative consequences. Big corporate entities were also shocked with the dropping market movement.

*"Monday October 19, 1987, is known as Black Monday. On that day, stockbrokers in New York, London, Hong Kong, Berlin, Tokyo and just about any other city with an exchange stared at the figures running across their displays with a growing sense of dread. A financial strut had buckled and the strain brought world markets tumbling down."*[13]

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[11] 'The Great Depression: What Happened, What Caused It, How It Ended', Kimberly Amadeo, 2017, the balance.com, Available at: https://www.thebalance.com/the-great-depression-of-1929-3306033, Accessed on 20th February 2018.

[12] 'Stagflation and the 1970s Oil Crisis', Transmissions, Banksters & Economy, History, 2012, transmissionsmedia.com, Available at: http://transmissionsmedia.com/stagflation-and-the-1970s-oil-crisis/, Accessed on 20th February 2018.

[13] 'What caused Black Monday, the stock market crash of 1987?', Investopedia, investopedia.com, 2018, Available at: https://www.investopedia.com/ask/answers/042115/what-caused-black-monday-stock-market-crash-1987.asp, Accessed on 20th February 2018.

This 'Black Monday' is remembered in the US market history for the reason that how one news can crash the market without any prediction, in the digital age.

### iv. 2008 Financial Crisis

This financial crisis is one of the most studied crashes of the history, as it affected not only the US economy, but other economies as well. Moreover, this time, corporate giants also could not sustained because of the lack of corporate governance. It was also best example of the global economy that we discussed in the earlier chapter. The issue of lack of corporate governance was not new to these giants and mid-cap companies but their belief of 'too big to fail' resulted into their worst dream of market crash.

> *"Each in its own way, economies abroad marched to the American drummer. By the end of the year, Germany, Japan, and China were locked in recession, as were many smaller countries. Many in Europe paid the price for having dabbled in American real estate securities. Japan and China largely avoided that pitfall, but their export-oriented manufacturers suffered as recessions in their major markets—the U.S. and Europe—cut deep into demand for their products. Less-developed countries likewise lost markets abroad, and their foreign investment, on which they had depended for growth capital, withered. With none of the biggest economies prospering, there was no obvious engine to pull the world out of its recession, and both government and private economists predicted a rough recovery."*[14]

Above-mentioned lines perfectly depicts the picture of the global financial crisis of 2008. The starting point of this crisis was bankruptcy of the Countrywide Financial Corp.[15] This Company was considered as the largest mortgage lender of US. The next consequential fall was of another corporate giant viz, Bear Sterns. The next shock for the market was the fall of share prices of Lehman Brothers and Merrill Lynch, two strongest investment banks of the Wall Street. Next on the markets' hit list was American International Group (AIG), the country's biggest insurer, which faced huge losses on credit default swaps.[16]

The situation of total disturbance in the market can be understood with the only fact that two major banks of the country declared themselves as bankrupt and subsequent continuous fall of major traders of the Wall Street.

> *"Five days later saw the end for the big independent investment banks. Goldman Sachs and Morgan Stanley were the only two left standing, and their big investors, worried that they might be the markets' next targets, began moving*

[14] ' The Financial Crisis of 2008', Joel Havemann, Encyclopaedia Britannica, Britannica.com, Available at: https://www.britannica.com/topic/Financial-Crisis-of-2008-The-1484264, Accessed on 20th February 2018.
[15] ibid
[16] ibid note 13

*their billions to safer havens. Rather than proclaim their innocence all the way to bankruptcy court, the two investment banks chose to transform themselves into ordinary bank holding companies. That put them under the respected regulatory umbrella of the Fed and gave them access to the Fed's various kinds of credit for the institutions that it regulates."*[17]

Effects of this financial crisis was felt more in the developed countries and developing countries, as their export-import businesses were majorly affected by the market crash. The point to focus here is that, the corporate giants were successful in making the profit from the targeted buyers but the lack of corporate governance, to overcome the situation of demand and stock, lead towards the market crash.

**(2) Indian Financial Crisis**

**i. 1992 Crisis (Harshad Mehta Scam)**

This year has been remembered in the history of Indian securities market as the dark period because many dreams and hopes of having the healthy market and economy as a whole, was turned out to be a scam and thousands of people, who started fulfilling their dreams and getting profit of the value they had never imagined. The market crash vanished millions of small investors and start-ups. It also took a long period for the economy to bear the first shock by the domestic investor.

This market crash also reinstated the fact that the lack of proper governance could lead to major disaster and it was a learning lesson for the small ventures. It was also a signal for need of a transparent and trust based market.

**4. Efforts by United Nations for effective Corporate Governance of the Companies:**

As discussed earlier, it is impossible for any country to stay away from the competitive economy and to accept the threat of financial crisis. Therefore, as a hope to the investors, traders, companies and the market as a whole, to maintain the standards of the securities market, an initiative has been started by the United Nations in the year 2004.

In the modern digital era, it is always preferred to have a balanced unitisation of the resources for the sake of its preservation for the future generation and optimum utilisation of other resources as well. This idea can be termed as 'Sustainability'. In the same way, the United Nations has started the initiative of the 'Sustainable Stok Exchange', with an aim to provide an effective platform for peer-to-peer dialogue among global exchanges. It

[17] ibid note 13

also explores the ways in which stock exchanges can work together. It also tries to provide corporate transparency and performance in respect to the environmental, social and corporate governance (ESG) issues.

It is interesting to note that, this initiative focuses on the major issues, which led to financial crisis, as discussed above, with the major focus on the overall development of the countries without affecting their own economy. However, the issue of its adherence is still there which can be resolved only by assessment of the experience of all the countries.

> *"The SSE initiative continues to invite exchanges globally to become a Partner Exchange of the SSE by making a voluntary public commitment to promote improved ESG disclosure and performance among listed companies. It works with all of its Partner Exchanges through dialogue, capacity building and research to continue the momentum and to promote sustainable and transparent capital markets worldwide."*[18]

There are many other initiatives such Climate Disclosure Standards Board (CDSB) and ESG Reporting, which can help the companies to achieve their goals of corporate governance.

## 5. Conclusion

Corporate governance is more than just a shield for a company to achieve success in market. In present globalising world of competitiveness and disclosure-based regime, it is important for a company to survive in the market as well as to earn and retain the trust of the investors with the aim of profit. Corporate governance could be considered as one of the corner stones of the company to stand and defend the effects of the financial crisis. Market crash just makes the picture clear that where the improvement is required and then the company has to take a lesson from that and to stand again, as a warrior.

[18] About the Sustainable Stock Exchanges (SSE) initiative, Sustainable Stock Exchanges initiative, Available at: http://www.sseinitiative.org/about/