

# **Flexibility of Corporate Law - A study of Common Law & Civil Law Countries**

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## **Abstract**

Large businesses are now structured as companies in several nations. Because of its main attributes—-independent personality, limited liability, and unlimited share trading—corporations have been vital to most developed market economies since the 19th century. Emerging markets have also been significantly and visibly impacted by them. We suggest that the legal framework's adaptability to a changing environment is what gives corporate governance its flexibility. To evaluate a country's capacity for transformation, we look at factors including the rate of statutory legal change, the durability of corporate law, and institutional change. According to our research, nations of origin exhibit greater levels of innovation than those that receive transplants.

## **Keywords**

Corporate, Corporate Governance, Corporate Law, Tradability, Financial market.

## **Introduction**

Recent research has employed corporate governance and corporation law to explain variations in financial market and firm performance. The aim of this study is to determine the factors that contribute to performance variations and, by altering these factors, address shortcomings in corporate governance and financial market development. Multinational organizations like the World Bank and the IMF support efforts to identify best practices in law and to create standards that can be adopted. This approach is substantiated by research demonstrating that the degree of minority shareholder protection in existing laws does, in fact, have a statistically significant effect on the evolution of financial markets as determined by common metrics like market capitalization, liquidity, and ownership.

This approach implies a causal link between legal origin, legal quality, and financial outcome. A brief examination of the history of corporate law in England, the mother country of the common law, reveals that only a few of the indicators that explain the high degree of minority shareholder protection in common law nations as determined by these studies were in place when the first corporate statutes were passed.

This discovery raises the question of whether the quality of law may be substituted by a set of static indicators and why some nations have evolved these protective mechanisms while others have not. In this work, we suggest an alternate method for evaluating the quality of corporate law.

We investigate this claim using data on the development of company law in 10 different jurisdictions. All of the main legal families are represented, including the French and German civil law and common law families. We include both origin countries—transplant countries—those that acquired their formal legal order from outside sources—and those that primarily built their formal legal systems internally or with little borrowing—for each family. The four countries of origin are the United States, France, Germany, and England. The six transplant countries are Spain, Chile, and Colombia, which are under French civil law; Japan, which is under German civil law; and Israel and Malaysia, which belong to the common law family.

First, our findings show that the rate of statutory legislative change in the countries of origin is substantially higher than that of transplants. Even while common law countries have evolved considerably more quickly than civil law countries among the four origin countries, the disparities between origins and transplants within each legal family are greater than the differences across legal families. Second, countries with highly needed rules exhibit less creativity than those with more helpful statute laws. Third, countries with more permissive corporate laws have witnessed more innovation in their legal institutions, including the creation of new enforcement agents such as regulators, compared to those with more mandatory laws.

Statutory corporation law provisions on matters pertaining to corporate finance serve as the basis for our evidence. In common work, we look into corporate law in a broader sense, covering the firm's governance structure as well as the laws pertaining to admission and existence. Nonetheless, the largest variation across jurisdictions and the fastest rate of innovation over time can be found in corporate finance law.

## **Legal Transformation and Propositions**

Our main argument is that a legal system's ability to innovate is more significant than the degree of protection it can provide to certain parties at any given time. One way to evaluate the quality of legal systems is to look at minimum protections. However, these safeguards might soon become outdated due to environmental changes or economic actors' ability to create new kinds of arbitrage and get around existing laws.

## **The markers of innovative capacity**

Our analysis covers ten nations, six of which are transplant countries and four are origin countries, representing the core legal families of French civil law, German civil law and common law. We add one to three transplant countries to each legal family after choosing the top nations for each family. The authors' expertise serves as the primary guide when choosing transplants. Even yet, we acknowledge the issues with not employing more impartial standards for sampling.

## **Review of Literature**

The research on any subject can never be completed without reviewing the existing literature on the subject. The literature on the subject helps in analyzing the future things more efficiently. On analyzing the present literature, it can be observed that various studies have been conducted on

the corporate law. The present researcher has referred whatever literature was available with him and some key works have been discussed here.

## **Research Objective**

The main objectives of the study are:

1. The capacity of legal systems & corporation role in various market economies.
2. To suggest a different method for evaluating corporation law's excellence.
3. To address shortcomings in corporation law and determine the factors that explain variations in performance.

## **Research Hypothesis**

In the past few years, there has been a phenomenal rise in the corporate scandals all cross the globe despite rules and regulations. Civil law countries do not have better developed financial markets than do Criminal law countries. However, the endeavor on the part of corporate laws is lacking.

## **Research Methodology**

To carry out present research work, the researcher has consulted various books, journals, magazines, newspapers and books on corporate accountability, corporate governance and corporate performance.

Data has been collected from secondary sources. Therefore, the present research is an endeavor to analyze the transformation in corporate law.

## **Result & Discussion**

While discussing the transformation of corporate laws, it is necessary to examine what we mean by corporate law and why it is considered important?

This observation begs the questions regarding a group of static indicators can be used as a stand-in for the quality of law and why some nations have evolved these protective mechanisms while others have not.

## **Conclusion**

According to our data, there are, in fact, notable variations in the inclinations of legal systems to change. On the one hand, we discover that the countries of origin and transplantation differ the most, while on the other side, all other systems are extremely enabling. On the other hand, there isn't much proof that the distinction between common law and civil law offers compelling justifications for variations in legal innovation. Given that common law nations are typically more enabling, the final finding is a little perplexing.

## **Recommendation**

Currently, the failure of system of corporate governance is a collective problem of the business world, meaning that too many boards are failing to perform their responsibilities, both collectively and individually.

However, the goal of corporate governance exists in increasing the business performances and market and share value by improving transparency and efficiency in business management.

## References

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