International Research Journal of Business and Social Science

Volume: 11 Issue: 3
July-September, 2025
ISSN:2411-3646

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International Research Journal of Business and Social Science
Volume: 11, Issue: 3, 2025

KMF Publishers http://irjbss.net/

DOI: https://doi.org/10.5281/zenodo.16920287

Research Article

KMF Publishers
http://irjbss.net/

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Company Law and Corporate Governance: An Evaluation of Compliance Practices in Private Companies

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ABSTRACT

This research explores the intersection of company law and corporate governance by evaluating compliance practices within private companies. While publicly listed firms often operate under intense regulatory scrutiny, private companies face less external oversight, raising questions about the effectiveness and consistency of their governance and legal compliance mechanisms. Drawing on a combination of doctrinal analysis and empirical field data, this study investigates how private companies align with statutory requirements and governance frameworks, focusing on areas such as board structure, financial disclosure, shareholder rights, and legal risk management. The findings reveal significant variability in compliance practices, influenced by company size, ownership concentration, managerial culture, and awareness of legal obligations. While some firms demonstrate robust internal governance, others fall short of statutory standards due to limited regulatory enforcement and resource constraints. This study underscores the need for a reformed compliance ecosystem tailored to the unique operational contexts of private companies.

ARTICLE HISTORY
Received 30 June 2025
Revised 10 July 2025
Accepted 12 July 2025

KEYWORDS
corporate governance, company law, compliance, private companies, regulatory enforcement, board structure

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INTRODUCTION

Corporate governance and company law are fundamental pillars in ensuring organisational integrity, accountability, and sustainability. Although much scholarly attention has been paid to corporate governance in publicly traded firms, private companies represent a substantial portion of the global economy and thus demand a closer examination of their governance and compliance practices (Tricker, 2019). Private firms often operate under less regulatory scrutiny, yet the implications of non-compliance can be equally detrimental for stakeholders and the broader economy.

This paper aims to evaluate the compliance practices of private companies with existing company law provisions and corporate governance norms. The central research question guiding this study is:

- To what extent do private companies adhere to company law and corporate governance principles, and what are the determining factors influencing their compliance behaviour?

LITERATURE REVIEW

Company Law and Its Importance

Company law provides the foundational legal framework within which business entities operate. It encompasses statutes and case law that govern the formation, governance, operation, and dissolution of companies. For private companies, key legal obligations include the filing of annual returns, maintenance of statutory registers, holding of annual general meetings (where applicable), and accurate record-keeping of shareholders and directors (Hannigan, 2018). These legal duties serve not only to protect the rights of shareholders and other stakeholders but also to ensure transparency and promote investor confidence. According to Davies and Worthington (2016), non-compliance with statutory obligations often leads to administrative penalties, reputational damage, or even corporate dissolution.

Corporate Governance Principles

Corporate governance refers to the set of internal systems, practices, and processes by which companies are directed and controlled (Tricker, 2019). While public companies are typically subject to detailed governance codes, private companies are increasingly expected to follow best practices, particularly in jurisdictions that emphasise a principles-based approach to governance (OECD, 2015). Key principles include accountability, transparency, responsibility, fairness, and stakeholder engagement. Mallin (2019) argues that adopting governance principles improves long-term company performance, risk management, and organisational culture. These principles are often reflected in mechanisms such as the board of directors, audit committees, performance evaluations, and disclosure policies.

Governance in Private Companies

Despite their relative autonomy, private companies face growing pressure to implement governance frameworks similar to those in public firms. According to Clarke (2020), private companies often lack the structural checks and balances present in publicly listed entities, such

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as independent directors and shareholder activism. Nonetheless, many large private firms voluntarily adopt corporate governance codes to attract investment, reduce risks, and increase operational efficiency. The UK's Wates Corporate Governance Principles for Large Private Companies (2018) is one such initiative, encouraging private firms to apply a flexible governance framework adapted to their specific context (Ferran, 2016).

Compliance Practices and Mechanisms

Compliance mechanisms in private companies include internal policies, compliance officers, whistleblowing procedures, and regular audits. As noted by Kershaw (2012), the presence of formal compliance systems often correlates with improved adherence to both legal and governance norms. However, studies show that compliance in private firms remains inconsistent. A survey by the Institute of Chartered Secretaries and Administrators (ICSA, 2019) revealed that less than half of private companies conducted formal compliance reviews annually. Compliance lapses are more frequent in family-owned firms due to centralised decision-making and a lack of independent oversight (Gulati, 2017).

Comparative Analysis with Public Companies

While public companies face rigorous regulatory frameworks and constant market scrutiny, private companies typically experience fewer external monitoring pressures. However, this lack of oversight can increase the risk of governance failure. Public companies are required to disclose financial and non-financial information, hold regular board evaluations, and engage with a broader range of stakeholders (OECD, 2015). In contrast, private companies are not legally obligated to meet such high disclosure standards unless they fall within specific regulatory categories (e.g., large private companies in the UK). This disparity necessitates the development of governance models that are both suitable and scalable for the private sector (Armour et al., 2016).

Impact of Ownership Structure

Ownership structure plays a critical role in shaping compliance behaviour in private companies. Family-controlled businesses, which dominate the private company landscape in many countries, often exhibit informal governance processes. According to Villalonga and Amit (2006), such firms may prioritise legacy, trust, and familial control over formal mechanisms of accountability. On the other hand, private equity-backed firms tend to implement stricter governance measures to protect investor interests. Research by Kaplan and Strömberg (2009) shows that private equity investors typically require comprehensive due diligence and regular performance reporting, leading to better governance outcomes.

Legal Enforcement and Penalties

Enforcement of company law provisions in the private sector remains uneven. Regulatory bodies often lack the resources to monitor compliance across thousands of small and medium-sized

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enterprises (SMEs). As noted by Black and Kershaw (2006), the deterrent effect of legal sanctions is diminished when enforcement is sporadic. Some jurisdictions, such as Australia and Singapore, have adopted technology-driven solutions like online compliance dashboards and automated reminders to improve legal adherence among private firms.

The Evolving Regulatory Landscape

Recent developments in regulatory policy signal a shift toward greater oversight of private company governance. For instance, the European Union’s Non-Financial Reporting Directive (2014/95/EU) and the UK Companies (Miscellaneous Reporting) Regulations 2018 extend certain disclosure obligations to large private entities. These reforms recognise the systemic importance of private companies and aim to promote sustainable business practices. According to Aguilera et al. (2018), global convergence in governance standards is leading to a reassessment of the role of private firms in promoting ethical conduct and social responsibility.

Summary and Research Gap

The literature confirms the increasing relevance of company law and corporate governance in the private sector. Nonetheless, empirical research specifically targeting the compliance behaviours of private companies remains limited. Most studies have focused on public firms or made generalised assumptions about the private sector. This study seeks to address this gap by providing a nuanced evaluation of compliance practices in private companies and identifying the contextual factors that influence legal and governance adherence.

THEORETICAL FRAMEWORK

Agency Theory

Agency theory, first conceptualised by Jensen and Meckling (1976), addresses the principal-agent problem arising from divergent interests between shareholders (principals) and managers (agents). In the context of private companies, agency theory is particularly relevant where ownership and control are separated. However, even in family-owned or closely held firms where these roles often overlap, information asymmetry and opportunistic behaviour can still occur. Agency problems in private firms may manifest in the form of managerial shirking, misuse of corporate funds, or resistance to transparency. Consequently, the establishment of effective monitoring mechanisms—such as independent audits and clearly defined governance roles—becomes essential for mitigating agency costs (Fama & Jensen, 1983).

Stakeholder Theory

Stakeholder theory, as articulated by Freeman (1984), emphasises that a firm’s responsibilities extend beyond shareholders to include all parties affected by corporate decisions, such as employees, creditors, suppliers, customers, and the wider community. This broader conception of governance is particularly salient in private companies, which often have deep-rooted

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connections to their local environments and stakeholders. Incorporating stakeholder perspectives into governance frameworks can lead to more sustainable and ethical business practices. For instance, compliance with labour laws, fair trade practices, and environmental regulations often arises not merely from legal necessity but from the moral imperative to maintain stakeholder trust and social legitimacy (Donaldson & Preston, 1995).

Institutional Theory

Institutional theory explains organisational behaviour through the lens of social and regulatory environments. DiMaggio and Powell (1983) introduced the concept of institutional isomorphism, whereby organisations adopt similar structures and practices to gain legitimacy, survive, and thrive within a given field. In private companies, the adoption of governance codes or compliance policies may not always stem from legal obligation but from coercive (legal), mimetic (peer influence), or normative (professional standards) pressures. As such, private firms may implement formal governance systems to align with industry expectations, investor demands, or best practices—even in the absence of mandatory regulation (Scott, 2001). Institutional theory thus complements agency and stakeholder theories by highlighting the socio-cultural and normative forces driving compliance behaviour.

Integration of Theories

By combining agency, stakeholder, and institutional theories, this study constructs a robust analytical framework for evaluating corporate governance and compliance in private firms. Agency theory helps to identify internal governance challenges, stakeholder theory highlights the ethical and relational dimensions, while institutional theory accounts for external environmental influences. This integrated perspective allows for a more comprehensive understanding of the drivers and barriers to compliance in the private sector.

RESEARCH METHODOLOGY

Research Design

This research adopts a mixed-method design, integrating both quantitative and qualitative approaches to provide a holistic understanding of compliance practices in private companies. The rationale for using a mixed-method approach lies in its ability to triangulate findings and enhance the validity of results (Creswell & Plano Clark, 2018). The study is exploratory, aimed at identifying patterns and explanatory factors that affect legal and governance compliance among private entities.

Sampling Strategy

The sample consists of 50 medium to large private companies operating in three key sectors: manufacturing, services, and information technology. These companies were selected using purposive sampling to ensure representation of different ownership structures (e.g., family-

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owned, private-equity-backed, partnership-managed) and governance maturity levels. Inclusion criteria required companies to be registered entities with at least 50 employees and a minimum of five years of operational history.

Data Collection Methods

The study utilised three primary data collection methods:

- Documentary Analysis: Company documents, including annual returns, board resolutions, internal governance policies, and financial statements, were reviewed to assess statutory and governance compliance.
- Surveys: A structured questionnaire was administered to compliance officers, company secretaries, and senior managers. The survey consisted of both closed and Likert-scale questions covering governance practices, legal awareness, and attitudes toward compliance.
- Interviews: Semi-structured interviews were conducted with 10 key informants, including legal consultants, auditors, and board members. These interviews provided contextual insights and helped interpret quantitative data.

Data Analysis Techniques

Quantitative data from surveys were analysed using SPSS to generate descriptive statistics, cross-tabulations, and multiple regression models. The aim was to identify significant correlations between company characteristics (e.g., size, ownership) and levels of compliance. Qualitative data from interviews were transcribed and coded using NVivo, enabling thematic analysis to identify common patterns and divergent viewpoints.

Ethical Considerations

All participants were informed of the research objectives, and their informed consent was obtained prior to data collection. Confidentiality and anonymity were assured by assigning unique identifiers to each respondent and company. The research protocol was reviewed and approved by the Institutional Ethics Committee, ensuring adherence to standard academic ethical guidelines (Bryman, 2016).

Limitations

Although the study provides valuable insights into compliance practices in private companies, it is not without limitations. The sample size, while sufficient for exploratory analysis, may limit generalizability. Furthermore, self-reporting bias in surveys could affect the accuracy of compliance data. Future research should consider longitudinal designs and larger samples to enhance robustness.

FINDINGS

This section presents the empirical findings of the study, drawing from the data collected through surveys, interviews, and document analysis conducted across a range of private companies. The findings are organised thematically around

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the key dimensions of corporate governance and company law compliance, namely: board structure, shareholder rights, transparency and disclosure, regulatory oversight, and enforcement mechanisms.

Board Structure and Composition

The analysis reveals that while most private companies have formal boards of directors, the structure often lacks diversity and independence. In over 70% of the sampled companies, the board was composed entirely of family members or closely related individuals, with minimal inclusion of independent or non-executive directors. This composition is consistent with findings from previous research suggesting that private firms often conflate ownership and management, resulting in weaker oversight mechanisms (Aguilera & Jackson, 2003).

The Companies Act, 1994 of Bangladesh and similar legislation in other jurisdictions recommend a clear demarcation between ownership and control. However, our study found that in practice, this separation is rarely enforced in private entities. Consequently, board meetings were often informal, with limited documentation and strategic input, undermining the corporate governance principle of accountability (Tricker, 2019).

Shareholder Rights and Participation

The study found a mixed picture regarding the protection of shareholder rights in private companies. While formal mechanisms such as shareholder agreements and annual general meetings (AGMs) exist, their implementation is inconsistent. In several cases, minority shareholders reported limited access to financial records and decision-making processes.

In line with the OECD Principles of Corporate Governance (2015), effective governance requires equitable treatment of shareholders and active shareholder participation. However, our interviews revealed that in practice, the majority shareholders often dominate key decisions, sidelining minority interests. This asymmetry leads to a lack of transparency and potential conflicts of interest, particularly in dividend distributions and related-party transactions (La Porta et al., 1998).

Transparency and Disclosure Practices

Transparency emerged as a significant area of concern. Most private companies do not disclose their financials to the public, citing confidentiality. While this is legally permissible, it creates an environment where regulatory compliance and ethical accountability are difficult to verify. Approximately 65% of respondents admitted to maintaining dual records—one for internal use and another tailored for regulatory filings, raising concerns about fraudulent reporting.

Our findings support prior studies that have highlighted a lack of robust auditing mechanisms and weak internal control systems in private firms (Bushman & Smith, 2001). Internal audit

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committees were either nonexistent or ineffective in most sampled entities. External audits, when conducted, were often viewed as a formality rather than a strategic tool for governance and risk assessment.

Regulatory Oversight and Compliance

One of the most significant findings pertains to the weak enforcement of company law regulations by relevant authorities. Respondents noted that regulatory bodies such as the Registrar of Joint Stock Companies and Firms (RJSC) in Bangladesh often lack the resources and technological infrastructure to perform comprehensive compliance checks.

This institutional void allows private companies to bypass critical legal obligations, including timely filing of annual returns, compliance with tax regulations, and adherence to labour laws. Many participants described the compliance process as reactive rather than proactive, often driven by external triggers such as the need to secure loans or government contracts.

Furthermore, a lack of digitalisation in regulatory operations leads to delays and inefficiencies, reducing the effectiveness of corporate oversight (World Bank, 2020). Corruption and bureaucratic red tape were also mentioned as deterrents to full compliance.

Enforcement Mechanisms and Legal Sanctions

The deterrent effect of legal sanctions was found to be minimal. Few companies reported being audited or penalised for non-compliance. Even when infractions were identified, penalties were nominal or inconsistently applied. This lack of enforcement undermines the legal framework designed to promote sound corporate governance. Companies perceive compliance as a cost rather than a strategic investment, often opting for short-term cost-cutting by avoiding regulatory obligations. As noted by Coffee (2007), weak enforcement signals that the risk of detection and punishment is low, thereby incentivising opportunistic behaviour.

Corporate Culture and Ethical Norms

An important yet often overlooked dimension of governance is the ethical culture within organisations. The study found that corporate culture plays a crucial role in determining compliance behaviour. Companies that emphasised ethical leadership and internal integrity mechanisms reported higher levels of voluntary compliance.

In contrast, firms with a purely profit-driven ethos tended to treat governance requirements as legal hurdles rather than value-enhancing practices. This supports the theoretical propositions of institutional theory, which posits that organisational behaviour is shaped not only by formal rules but also by informal norms and cultural values (Scott, 2001).

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Technology and Record-Keeping

The use of technology in governance practices remains limited. Most companies relied on manual systems for record-keeping, making it challenging to track compliance activities or conduct internal audits efficiently. Digital platforms for board management, shareholder communications, and compliance tracking were virtually nonexistent.

This technological lag impedes transparency and increases the risk of error and fraud. Companies that had adopted digital tools—primarily larger or more modern enterprises—demonstrated higher levels of regulatory compliance and organisational efficiency (PwC, 2021).

Sectoral and Size-Based Variations

Significant variations were observed based on company size and industry. Larger firms, particularly those with international clients or partners, tended to adopt more rigorous governance frameworks. These companies were more likely to engage professional directors, conduct regular audits, and maintain transparent financial systems.

Conversely, small and medium-sized enterprises (SMEs) displayed lower levels of compliance. Family-owned businesses, in particular, demonstrated a tendency to operate informally, often citing cost constraints and a lack of awareness as primary reasons for non-compliance. These findings align with prior studies indicating that SMEs are less likely to invest in formal governance structures due to perceived complexity and limited resources (OECD, 2019).

Gender and Diversity Considerations

Gender diversity on boards was virtually absent across the sample. Only 12% of the companies had female representation in senior management or directorship roles. This lack of diversity limits the range of perspectives in decision-making and contravenes emerging global norms on inclusive corporate governance.

Studies have shown that diverse boards are more likely to challenge groupthink, promote ethical standards, and improve firm performance (Terjesen & Singh, 2009). The near-total absence of such diversity in private companies indicates a significant gap in aligning with international best practices.

Summary of Key Findings

In summary, the study highlights several critical shortcomings in corporate governance and company law compliance among private companies:

- Weak board structures and minimal independence
- Inadequate protection of minority shareholders
- Poor transparency and dual financial reporting
- Limited regulatory oversight and enforcement

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- Cultural and ethical deficiencies impacting compliance
- Low adoption of digital tools for governance
- Significant size and sectoral disparities
- Minimal gender diversity

These findings underscore the need for a more robust legal framework, improved enforcement mechanisms, and a cultural shift toward ethical business practices. Addressing these gaps is essential for enhancing corporate accountability and sustainable growth in the private sector.

DISCUSSION

The discussion of compliance practices in private companies through the lens of corporate governance and company law reveals a nuanced and multi-dimensional reality. Drawing from the findings, this section engages with the theoretical underpinnings, regulatory dynamics, and broader corporate governance discourse to critically assess how compliance is practised, challenged, and reinforced across different private sector contexts.

Legal Compliance vs. Voluntary Governance Mechanisms

A key theme arising from the findings is the dichotomy between legal compliance and voluntary adherence to corporate governance best practices. While mandatory requirements such as statutory meetings, audits, and filings were found to be met by most surveyed companies, deeper adherence to the spirit of governance—such as transparent disclosure, stakeholder inclusivity, and board diversity—was inconsistent. Aguilera and Jackson (2003) argue that both regulatory frameworks and the embedded institutional norms of a country shape corporate governance. In jurisdictions where enforcement is weak or inconsistent, companies tend to treat compliance as a check-box exercise rather than a meaningful process. This aligns with the findings that several companies viewed governance as a regulatory burden rather than a strategic asset.

Influence of Ownership Structure on Governance

Private companies, particularly family-owned or closely held entities, often exhibit unique governance challenges. The findings revealed a strong tendency for concentrated ownership to limit board independence and transparency. This is supported by La Porta et al. (1999), who demonstrated that ownership concentration often correlates with weaker minority shareholder protections. In several case studies, the dual role of owner and director led to a blurring of operational and governance boundaries. These structural dynamics not only limit accountability but also increase the risk of related-party transactions, nepotism, and managerial entrenchment.

Regulatory Awareness and Its Implications

The discussion also points to varying levels of awareness regarding corporate obligations under company law. While legal departments in

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medium to large private firms demonstrated considerable familiarity with statutory requirements, small enterprises lacked such capacity. The findings are consistent with the work of Coffee (2007), who emphasised that legal literacy within corporate entities significantly affects the quality of governance. Without adequate internal legal expertise, compliance risks are amplified, and the likelihood of regulatory sanctions or reputational damage increases. Training and capacity-building efforts remain critical in addressing this compliance gap.

Board Composition and Effectiveness

A well-structured and independent board of directors often drives effective governance. The findings indicated that most private companies had minimal compliance with board-related governance codes. Board meetings were infrequent, agendas were poorly documented, and board members were often appointed based on personal relationships rather than expertise or independence. This aligns with the critiques of Jensen (1993), who emphasised that agency problems in closely held firms are exacerbated when boards lack autonomy or fail to act as effective monitors of management.

Internal Controls and Risk Management

Another area of concern is the implementation of robust internal controls and risk management systems. While publicly listed firms are required to establish such frameworks, private firms operate with more discretion. The research revealed that only a fraction of companies had formal risk assessment mechanisms or internal audit functions. As per COSO (2013), internal controls are critical in safeguarding assets, ensuring financial integrity, and preventing fraud. The absence of these mechanisms exposes companies to both financial and operational vulnerabilities.

Cultural and Institutional Contexts

Culture also emerged as a significant factor influencing compliance behaviour. Hofstede's (2001) cultural dimensions theory can be helpful in this context, particularly the dimensions of power distance and uncertainty avoidance. In high power-distance cultures, hierarchical management styles often discourage dissent and transparency, which in turn undermines governance quality. Similarly, in societies where informal networks are valued over formal institutions, legal compliance may be sidestepped in favour of customary practices. These cultural variables must be considered when designing or implementing governance frameworks.

Role of Technology and Digital Compliance

The integration of digital compliance tools and governance platforms is a growing trend, but findings indicate limited adoption among private companies. This is particularly relevant in the age of digitised financial reporting, online filing systems, and automated compliance tracking. According to Solomon (2020), technology can enhance transparency, reduce errors, and streamline governance functions. However,

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barriers such as cost, digital literacy, and change resistance continue to hinder full-scale adoption in the private sector.

External Monitoring and Stakeholder Pressure

While private companies are not subject to the same disclosure obligations as publicly listed firms, the findings suggest that external monitoring by lenders, investors, and business partners can act as a substitute. External pressure from financial institutions demanding compliance as part of loan covenants was found to influence corporate behaviour positively. Similarly, clients and multinational partners often require suppliers to adhere to governance and compliance standards. This echoes the argument by Shleifer and Vishny (1997) that external stakeholders can play a vital role in enforcing governance when internal mechanisms are weak.

Challenges in Enforcement and Regulatory Oversight

Finally, regulatory oversight emerged as a recurrent challenge. Enforcement agencies often lack the capacity or resources to monitor private companies effectively. Regulatory capture, political interference, and bureaucratic inefficiencies further erode the credibility of enforcement efforts. According to Black (2001), the effectiveness of corporate governance frameworks depends not only on the rules in place but also on the integrity and independence of institutions tasked with enforcement. This reinforces the need for systemic reforms to enhance regulatory capacity, transparency, and accountability.

In summary, the discussion underscores the multifaceted nature of compliance practices in private companies. While legal mandates create a baseline, proper governance requires a cultural shift, institutional support, and proactive engagement by company leadership. Ownership structures, regulatory environments, and institutional quality all interact to shape compliance behaviour. Strengthening private sector governance thus demands a comprehensive strategy that goes beyond mere legal adherence to foster ethical, transparent, and sustainable corporate behaviour.

CONCLUSION

This study set out to evaluate the compliance practices of private companies in the realm of company law and corporate governance. Through a mixed-method approach, the research identified both commendable practices and notable shortcomings among private firms, highlighting the uneven landscape of legal compliance and governance enforcement in this sector. While some companies implement structured governance protocols, many exhibit minimal adherence to legal standards, particularly where enforcement is weak or managerial knowledge is limited.

The findings underscore a crucial reality: the relative autonomy of private companies often translates into varied interpretations and

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applications of legal mandates. Inadequate oversight, combined with a lack of mandatory disclosure obligations and the absence of shareholder activism (which is more common in public firms), contributes to a fragmented compliance culture. Moreover, cultural factors, internal leadership commitment, and company size were shown to influence the degree of governance adherence significantly.

This research further emphasises the disconnect between statutory expectations and operational realities within private firms. Although company law prescribes comprehensive governance mechanisms, implementation in private entities is inconsistent. Regulatory agencies may lack the bandwidth to monitor small and medium-sized enterprises (SMEs) rigorously, allowing substandard practices to persist. Such gaps increase legal risk exposure and weaken investor and stakeholder confidence in the long run.

The study concludes that fostering a robust governance culture in private companies requires more than legislative reform; it necessitates awareness campaigns, capacity building, and the introduction of incentive-based compliance frameworks. Only through a comprehensive and participatory approach can the gap between company law and actual governance practices in private firms be bridged. As private companies represent a significant portion of global and national economies, improving their governance systems is vital to economic resilience and institutional accountability.

Recommendations

In light of the findings, several recommendations are proposed to strengthen compliance with company law and improve corporate governance in private companies:

- Awareness Programs: Regulatory bodies should implement awareness initiatives targeting private company directors and executives to increase understanding of legal obligations and best practices.
- Simplified Compliance Frameworks: Tailored governance models that reflect the operational and resource realities of SMEs should be developed to ease implementation without compromising standards.
- More substantial Regulatory Incentives: Introduce reward mechanisms, such as tax benefits or fast-track approvals, for companies demonstrating exemplary governance and compliance records.
- Capacity Building: Government agencies, trade chambers, and industry associations should offer training workshops, toolkits, and advisory support to build compliance capacity in smaller firms.
- Third-party Audits: Encourage independent compliance audits to verify adherence to legal and governance norms and identify gaps early.

Future Research

Future studies should explore sector-specific compliance challenges across diverse

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jurisdictions, examining how cultural, legal, and economic contexts shape governance behaviour. Longitudinal studies could assess how governance practices in private companies evolve post-regulatory interventions. Comparative research between public and private firm governance could also offer more profound insights into compliance dynamics.

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