

COORDINATES OF CORPORATE GOVERNANCE IN THE CONTEXT OF GLOBALIZATION

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Abstract

The concept of corporate governance has emerged in the last century, but its significance and objectives are part of the recent phenomenon in most countries. The concept continues to be constantly adapting to the requirements of a modern economy under significant impact of globalization as a phenomenon overall. The subject of corporate governance is more relevant than ever at European and world level because multiple international organizations show intense concern in the field and focus their efforts towards globalization governance rules.

Key-words: *Corporate governance, globalization, interested parties, stakeholders, shareholders, participative management.*

JEL Classification: *G34, G38, O16.*

1. Introduction

Now days, corporate governance and related practices are found more often among the interest areas of research, representing extremely challenging topics.

In the context of an extremely current issue, this paper brings to light a multilateral approach to the concept of corporate governance by reference to the globalization tendency of the governance norms.

In this approach, the paper starts with various conceptual approaches on governance culture bringing into question the current state of knowledge, continues with the principles of corporate governance in relation to the specific literature and culminates with the comparative analysis of the three models of corporate governance: the traditional (Anglo-Saxon or American), the German and the Japanese model, in order to identify in the end the convergences and divergences of these three models and try to answer to the research question: Will the globalization lead to the convergence of different systems to outline a model of corporate governance applicable worldwide?

This work is part of an extended research which will form part of the doctoral thesis called „The accounting and financial management of public higher education institutions”.

2. Conceptual Approaches on Corporate Governance

In essence, the concept of governance and the practices related to it assign a management process in which all parties work together to carry out their assumed missions.

Leading researchers of Romania define corporate governance as “a set of rules through which companies are managed and supervised by the Board of Directors, in order to protect the interests of all the parties.” [1]

Starting from the fact that corporate governance is a stimulation mechanism for economic and social development at a global level, the Organization for Economic Cooperation and Development (OECD abbreviated) became one of the promoters of this concept. OECD defines corporate governance as a multifaceted concept that engages: [2]

- a set of relationships between the head of a company, its Board, its shareholders and other stakeholders;
- the structure through which the company objectives are set, including the way to achieve them and to measure the performances;
- the proper incentive system for the Board and the management for tracking and achieving objectives that are in the companies and in the shareholders interest and to monitor the efficient use of resources.

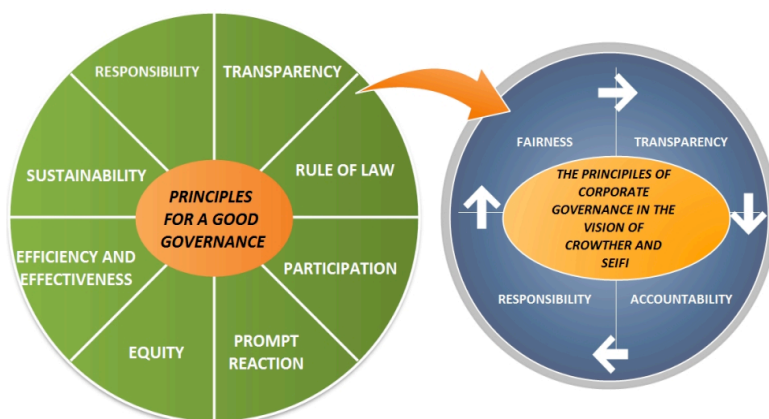
3. Corporate Governance Principles

A good corporate governance is built on precise rules, relevant management procedures and control policies, whose engagement is to bring added value to organizations and to guarantee them an effective funding. In the absence of such rules and policies and without a proper governance strategy, organizations are exposed to significant risks, especially financial risks, most often getting to confront with the effects associated to negative perceptions of the present and potential investors.

As Spătăcean and Ghiorgău assess "corporate governance principles represent the scaffolding on which the relationships between public entities and holders of financial or non-financial interests are built." [3]

In general, a good governance works by following the next eight principles [4]:

1. **Transparency** - which assumes the availability of information and free access to them for those who are affected by organizational decisions implemented. Transparency is particularly important for external users who do not have access to "behind the scenes details" as in the case of internal users. Transparency is therefore a form of accountability of the organization for the external effects caused by its actions, resulting an equitable dissemination of information to all stakeholders.
2. **The rule of law** - a principle which refers to the regulatory framework under the auspices on which the organization operates, essentially being that the rules are applied impartially and without exception.
3. **Participation** - it refers to the involvement in the organizational governance of all stakeholders either directly or through intermediaries or representatives, respecting the freedom of expression and association.
4. **Prompt reaction** - involves providing assistance to all stakeholders within a reasonable timeframe.
5. **Equity** - aimed at providing insurance to confirm that the opinions of all stakeholders are taken into account in decision-making, without discrimination.
6. **Efficiency and effectiveness** - efficiency requires minimizing costs of the actions, while effectiveness involves obtaining results that meet organizational needs as a result of making the best use of available resources.
7. **Sustainability** - refers to the effect of present actions on future options by the fact that the resources currently used may not be available in the future, which is why it is recommended as long as possible the use of renewable resources with a minimum effect on the environment.
8. **Responsibility** - implies admitting that the organization operates in a complex external environment to which is responsible, in the sense of reaching a broad consensus of all parties affected by organizational decisions and actions.



Picture no. 1 – Presentation of the principles for a good governance and the principles of corporate governance in the vision of Crowther and Seifi

Source: Own processing after Crowther D, Saifi S (2011)

Corporate Governance and International Business, Ventus Publishing ApS. p. 29.

As it can be observed in Picture no. 1, from these general principles were developed the principles of corporate governance which in the vision of Crowther and Seifi represent: transparency, accountability, responsibility and fairness. [5]

- **Transparency** - refers to disseminating information in terms of efficiency, equality of access and promptness.
- **Accountability** - refers to the organizational obligation to be accountable to stakeholders, particularly regulatory institutions, supervisors and the community that the organization serves.
- **Responsibility** – it is closely linked to the concepts of corporate social responsibility and business ethics.
- **Fairness** - refers to the fair presentation of information and fair treatment in relation to the actors who have interest in the company, respectively the shareholders and the stakeholders.

Shareholders are those who have a financial share in the company, more precise its owners. As such, their primary interest is a financial one. Instead, stakeholders include other categories of interested parties, excepting the owners, namely employees, state institutions, partners, credit institutions, the community. Shareholders are thus a broader category because their interests may be of another nature than purely financial, namely: economic, social, political.

In this investigative approach it is essential to mention the OECD Principles of Corporate Governance, adopted in 1999, which became a landmark of global benchmark for the corporate governance reform, with the purpose to assist governments in assessing and systematic improving of the institutional and regulatory corporate governance in their countries. Subsequently, the initially adopted principles were revised after extensive consultations with experts from several countries (both OECD countries and non-members) who participated in the roundtable on corporate governance, and consultations with a wide range of stakeholders (the business sector, investors, trade associations, trade unions, international standardization bodies), thus taking into account new trends. Therefore, the final set of principles issued by the OECD include: transparency and efficiency of markets, compliance with the rule of law, protect the rights of the owners, fair treatment of all shareholders, recognizing the interests of all stakeholders, transparency and information and assuming the accountability by the Board of Directors. [6]

Although the revised principles have gained the status of reference pillars because they combine extensive experience not only from OECD, but also from non-member countries, they are not binding and can be implemented by adapting to different economic and cultural circumstances.

4. Corporate governance models

Related to the economic, financial, political, social or cultural peculiarities of each state, the corporate governance systems have certain characteristics and key elements that distinguish them from one country to another.

Over time, various authors have attempted to classify systems of corporate governance, but their efforts to pinpoint the classification categories for these systems (with the peculiarities of a country) have been compared by other authors with the failed attempts of stepsisters of Cinderella to try on her shoe. [7]

We believe that one cannot simply select a model to apply it in a given country because the structure of corporate governance in each state develops in relation to the factors and conditions within this state, the process being a dynamic one. However, we believe that some classifications can be useful to researchers in their efforts, especially as a basis for further development of the theme treated.

In this case, corporate governance systems can be classified according to the criterion of "insider-outsider". [8] Insiders are employees of the corporation or people who have significant business and personal relationships with the management of the companies. In return, outsiders are individuals or institutions "outside" the corporation, which have no direct relationship or management relationship with it.

The insider type of corporate governance systems are characterized by a small number or a group of majority shareholders controlling listed companies. These systems are therefore based on the strong relations of the corporation with its shareholders, which can be both strength and weakness. The strength is based on the convergence of interest between managers (leaders) and shareholders, while weakness occurs due to possible abuses that may occur as a result of the concentration of power, therefore, minority shareholders may face an impediment in obtaining information related to corporate actions as a result of the lack of transparency of the system.

On the other hand, **the outsider type of corporate governance systems** are those in which corporations are owned by outsiders or external shareholders (individual shareholders or institutional investors), but are controlled by managers. This separation of ownership and control has led to the development of "the agent theory" according to which managers have control over other people's capital. The more the property is de-concentrated, the more it separates the ownership of the control and the issues are amplified.

In countries with advanced economies there are two models of corporate governance: **the shareholder model** in which the aim is maximizing shareholder value and **the stakeholder model** that aims to protect the interests of all parties involved in the life of the company (shareholders, managers, employees, trading partners). In the following, we will focus on corporate governance in well developed countries, analyzing three significant models: the traditional (Anglo-Saxon or Anglo-American), the German and the Japanese model.

The traditional model (Anglo-Saxon or American) is a shareholder-type model (with focus on shareholders) of governing corporations in the UK, USA, Australia, Canada, New Zealand and several other countries.

According to this model, developed in the context of market economy, the corporation has as objective to maximize the present value for the investors (shareholders), with focus on outsiders. Regarding this aspect, the United States and the United Kingdom are known to have the tendency to include more outsiders rather than insiders in corporate governance structures to prevent the abuses that can occur due to the concentration of power (for example, a Board of Directors firmly controlled by a person who serves as both chairman of the Board and as CEO, a Board of Directors composed exclusively of "insiders" seeking to maintain power for a longer period of time, without taking into account the interests of other actors). However, in these states we begin to meet more often the tendency to substantially influence the management of the companies. Thus, outsiders become insiders as institutional shareholders

get to hold majority shares in a corporation and exert a strong influence on the management, taking over the role of insider majority.

The model is based on a well developed regulatory framework which states rights and responsibilities, and relationships between the key players that make up the triangle of corporate governance, namely: managers, directors and shareholders.

Being an outsider type model, the traditional model is characterized by the fact that investors contribute with capital to maintain ownership in the corporation, but they generally avoid to assume legal liability for the companies measures, reason for which they transfer the management control through payment of leaders who act as their agents. The costs of this separation of ownership and control are called "agency costs". The problem, however in this case is the fact that the interests of shareholders and managers do not always correspond. To reconcile this conflict most often a Board of Directors is elected by the shareholders to keep an eye on the management on behalf and in their interest. Board of Directors, thus provides two functions: the management of work - carried out by insiders (executive management in which the supreme authority is the CEO) and the oversight and control - performed by outsiders (appointed non-executive directors in the British system).

Also, referring to the traditional model we should not forget that stock markets play an important role in establishing the listing and information requirements. The publishing requirements are high, but nowhere else so stringent and comprehensive as in the United States. These include: corporate financial data, a breakdown of the capital structure, substantial information regarding each candidate for Board, information on mergers and restructuring, proposed amendments to the articles of association, etc. The disclosure requirements in the UK and other countries following the Anglo-American model are similar, except that it requires less data in several categories.

In terms of corporate actions requiring shareholder approval, we mention that they are divided into two categories: routine actions and non - routine actions. Routine actions that require shareholder approval include the election of directors and the selection of auditors. Non-routine actions that also require the approval of shareholders relate to: mergers and acquisitions, restructuring and modification of association.

Between the American system and the British one there is still an important distinction. The United States shareholders are not entitled to vote on the dividend proposed by the Board of Directors, while the UK shareholders exercising voting on the proposed dividend.

Regarding the exercise of voting rights is important to note that the traditional model allows proxy voting without shareholders to attend at the General Assembly. All shareholders receive in advance via e-mail the agenda of the meeting, including information on all the proposals, the annual report of the corporation, and a voting card. Voting by proxy voting card involves completing and returning it to the corporation by e- mail. By doing so, the shareholders authorize the Board of Directors Chairman to consider votes as indicated on the voting cards. Also, shareholders may submit proposals concerning the business of the corporation for inclusion on the agenda of the General Meeting of Shareholders.

The German model of corporate governance is an original model that distinguishes from other models by the existence of very strong shareholders: the credit institutions. In this case, we are dealing with the significant influence of capital markets and stock exchanges, but a model with a focus on insiders - major stakeholders involved in the management and control of corporations.

Credit institutions participate actively in the recovery of distressed companies by increasing their capital holdings. The management of these portfolios must be made considering the responsibility the banks have towards their clients, namely assuring their economies safety. The collaboration between credit institutions and corporations has the effect of reducing information asymmetry, leading ultimately to facilitating the access to bank capital.

In this case, we are not dealing with a "one tier" corporate structure (on one level) as in the Anglo-American model, but with a structure of " two tier" (two levels) in which differs Board (the so-called Vorstand) with the attributes of leadership and corporate business management and Supervisory Board (the so called Aufsichtsrat) responsible for the supervision of management, selection, appointment and dismissal of leaders contracting audit services, the appointment of Board members.

Another particular feature of the German model of corporate governance is the principle of social co-determination which is explained by the presence of the employee representatives in the Supervisory Board, which gives them some power of control over the management, but also the right to take part in the decision-making process. Thus, we can easily see the central role that the system assigns to the human resource and the intense concern to meet the interests of employees by considering their opinion.

Therefore, the German model is a model of social consensus that encourages a co - manager mechanism, a participatory management and decision-making process with a strong democratic, helping to augment productivity and to reduce the various risks to which the corporations are subject to.

The Japanese model of corporate governance is characterized by the ownership of shares in the corporations by credit institutions and by companies. As in the case of the German model, we can notice in our research approach a model in which credit institutions are strongly related to corporations.

The Japanese economy is dominated by the so-called "keiretsu" - companies that are grouped under a lending credit institution that funds them, and which are working towards a mutual benefit. "At the basis of Keiretsu are usually

a bank and a foreign trade enterprise. Among other things, the banks, through their experts have a big influence in investment projects through the feasibility studies that they do and by providing soft loans when necessary. These financial institutions accept even the probability of smaller profits and dividends, given the long-term success of their investments. Even if Keiretsu pay lower dividends to shareholders, the tendency is to recapitalize profits by investing in advanced equipment, research, development and acquisition of new properties, which in time will reward the initial sacrifices." [9] In turn, foreign trade enterprises are responsible for the dissolution of a wide range of products by the use of a large network of connections with global coverage.

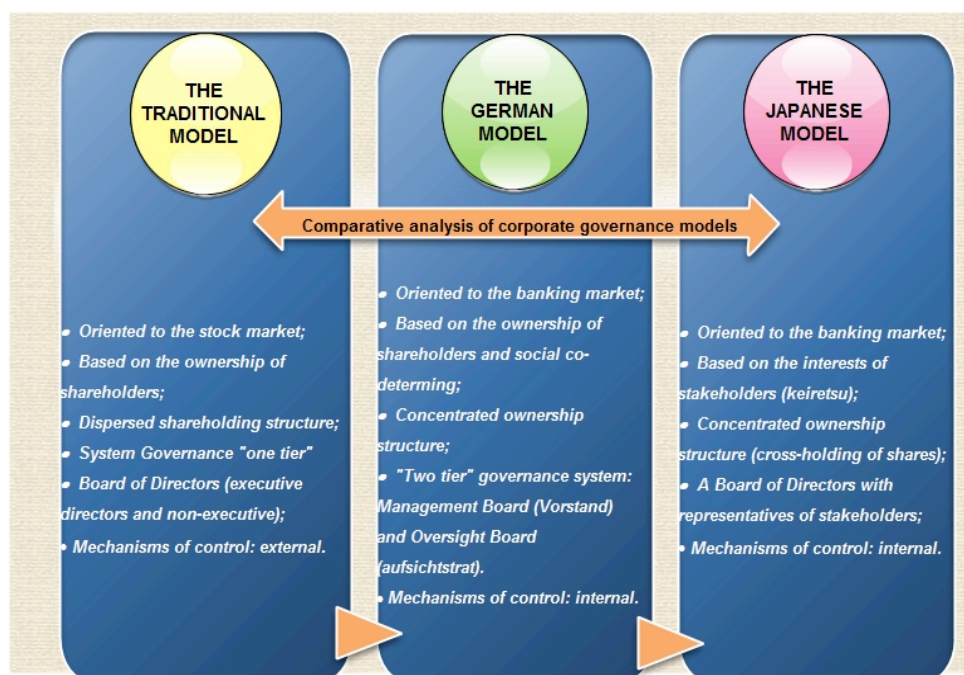
A key feature of keiretsu practice is the cross- holding of shares between the group companies, in order to prevent the acquisition of a controlling interest and the control of the group by foreign companies.

Keiretsu system is characterized by a strong unity through personal and business relationships that are extremely strong and durable. Firstly, the employees show a great commitment to the group and have the tendency to remain faithful throughout their working lives. Typically, in case of business setback, dismissals are avoided by directing employees to more prosperous areas of the system. Secondly, solid business relationships inevitably lead to true personal relationships based on mutual trust between the group and the trading partners. However, in time, the Japanese distribution system has been criticized, regarding the "Itten itchoai" system that restricts the relationships between retailers and wholesalers, with negative effects on competition.

However, in the context of globalization, the keiretsu trend of conserving the alliance groups decreased considerably, so that they have expressed openness to embark on business in partnership with various foreign companies showing exemplary flexibility in adapting to progress, and to overcome the difficulties that have tried them in 2011.

5. Results and Discussion

A comparative analysis of the three models of corporate governance, represented schematically in Picture no. 2 highlights a series of elements of convergence as well as many distinctive features of the systems investigated in our research approach.



Picture no. 2 - Comparative analysis of corporate governance models

Source: Own processing after Dobrotă C., Cocean R., Bogdan A., Bucur I., Bălăceanu C., Dobre E., Agachi P., Herbil M., *Guvernanta universitară (Îmbunătățirea Managementului Universitar)*, UEFISCDI, București, 2011, p. 22 [10]

We notice that the Anglo-American model centers on the capital market around which gravitates a large number of listed corporations. Instead, the role of the credit institutions is limited compared to the German and Japanese models which are centered on the banking market in terms of funding and relating to participation and to the exercise of control in the process of governance.

In addition, characteristic to the United States and Great Britain is the shareholder type of corporate governance, with a focus on maximizing profits to shareholders, while in Germany and Japan we meet the stakeholder type models, with focus on the interests of all the parties involved.

Regarding the ownership structures, in countries pioneer in corporate governance we meet a dispersed ownership, a diffuse ownership, which does not allow any notable control over the corporation, this latter task being entrusted to managers. On the other hand, in Germany and Japan the shareholder structure and hence the ownership and control are concentrated.

In the Anglo-American model the governance is ensured through the fundamental body, the Board of Directors (Board), composed of executives and non -executive directors (in the UK) or outside- directors (the United States). The German model governance is provided by the Vorstand (Board of Directors) - responsible for the management and leadership and the aufsichtsrat (Supervisory Board) - with control. In the Japanese model, the Board structure attaches great importance to the position of interested parties (stakeholders).

The models of German and Japanese corporate governance are based on internal control mechanisms justified by the existence of strong shareholders such as credit institutions, while the Anglo -American model is based on external control mechanisms under a significant influence of the capital markets.

In terms of mobility of the employees, in the Anglo -Saxon countries we encounter an extremely flexible labor market, which allows easy transfer from one job to another. In contrast, in Germany and in Japan we notice a conservative trend, with a rigid labor market which makes the mobility for the employees difficult, an aspect justified by the significant investment that employers directs toward staff training, thus acquiring skills in a particular job, and a special attachment toward the company.

From the analysis we can observe many similarities between the German and Japanese models, and especially between the British system of corporate governance and the American system, but also defining feature for each model.

6. Conclusion

In time, globalization has diminished the differences regarding the implementation of corporate governance in emerging economies compared to advanced economies. However, we are still far from talking about a holistic approach, taking into account the particularities of each country, and especially the differences between the two categories.

However at this stage we are asking a resonable question: "Will the globalization lead to the convergence of the different systems to outline a model of corporate governance applicable worldwide?"

We believe that although it is now possible to identify a number of common elements between the different models of corporate governance, there can be no further references of a foreseeable future to shape a corporate governance model perfectly balanced with uniform application worldwide, because the socio-economic and cultural differences between countries, and due to the uncertainty of the period we are going through.

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