MODELS AND PRACTICES OF CORPORATE GOVERNANCE WORLDWIDE*

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Abstract: *In the current context of globalization, we can no longer talk about increasing organizational value ignoring the interests of shareholders, employees, business partners, etc. Such interests may come into conflict, leading to internal conflicts, with negative influence on the entity's performance. To avoid such discrepancies, a responsible behavior from managers is increasingly necessary, which means, in fact, adopting a corporate governance model.*

The aim of this article is to make a comparative study between the main corporate governance models used globally by analyzing strengths and weaknesses for each one, in the sense to determine which one is the best model and if it can be adapted to different economic systems, in order to be applied on a scale as large. We used a bibliographic method for our research is the one. Literature does not provide concrete answers to this problem, most authors treating each one the governance model specific to their home country.

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INTRODUCTION

Corporate governance is defined as the management and control system of an organization, in accordance with the principles and best practices in this field. At the entity level, it seeks the way to structure the distribution of power and responsibilities among shareholders, directors and the management. Today, the concept is used to describe the action of governing, the manner of managing, administering, in the states, world organisms, but also businesses. Mainly, it seeks how the power of various factors of decision and control can be balanced and the tools for both shareholders and other stakeholders in the capital of an entity can be implemented.

Corporate governance provides rules and appropriate control mechanisms through which, on the one hand shareholders can supervise the decisions of managers, and on the other hand partners can be monitored and motivated. Such a system, within a modern business environment, should initiate and support research and development activities, contribute to social stability by building human but also cultural capital. It easily detaches the conclusion that modelling corporate

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governance should be integrated in strategies concerning sustainable development, through continuous involvement in restructuring the main branches of the economy or social sector reform.

If in the traditional governance model, the company was run by the owner family, economic, managerial and technological have determined the need of a leadership realized by professional managers. In this way new relationships and economic processes between business owners and executives have occurred. Their modelling and exercise makes the subject of corporate governance, but its basic objectives have remained unchanged. There are three main models of leadership on which the corporate governance theory is based: the Anglo-Saxon, the Continental and the Japanese model.

1. THE ANGLO-SAXON MODEL – BASED ON ENTERPRENEURSHIP AND PRIVATE PROPERTY

Anglo-Saxon model is characterized by the dominance in the company of independent persons and individual shareholders. The manager is responsible to the Board of Directors and shareholders, the latter being especially interested in profitable activities and received dividends. It ensures the mobility of investments and their placement from the inefficient to the developed areas, but it however feels a lack of strategic development.

In the U.S., financial markets activities dominate the allocation of ownership and control rights into organizations. Legislation always appeared hostile to concentration, especially in the banking industry, but in the recent years there have been notice new regulations development, more forced by the new economic trends: the increasing influence of boards, investors are increasingly demanding and cautious and managers give more importance to key business issues. Enterprises are required to disclose more information compared to those Japanese or German. On financial markets (NASDAQ) smaller companies are also present, even if some are still in growth and development. Corporate governance was encouraged by the work of various associations which have introduced a motion to support the shareholders, such as National Association of Investors Corporation (founded in 1951) which advises on investments on the stock exchange and National Council of Individual Investors, which protects interests of the shareholders in front of regulatory authorities. Mainly are considering the transparency and access to information, strengthening the relationship between regulators and shareholders, and promoting business ethics.

The governance model takes place in organizations at three levels: shareholders-directors-managers, since managers authority derives from the administrators. Legislation limits the rights of shareholders to intervene on the current activities of the entity, for example they can only decide the elected members of the Board. However, they can influence changes in the managers' attitude and manner of leading; they may decide to liquidate holdings or refuse to increase its capital contribution of the entity, thus stopping the funding. Financial support of shareholders is the most important weapon they have in front of managers.

The Securities and Exchange Commission (SEC) has reduced its strict rules on collective activities of shareholders, proposing various regulations to encourage investment relationship that allows managers and owners to discuss possible advantages and disadvantages of business strategy. Institutional investors play an ever important in Anglo-Saxon systems. They already dominate the UK, holding even two thirds of the equity of companies. So, investment relationship – a feature of UK governance system – is gaining more ground in the United States in relations between company management and institutional investors. There were critics which have claimed that these phenomena occurred due to repeated failures of internal and external control mechanisms.

The Anglo-Saxon countries are characterized by the emergence of financial markets and strong banking restrictions, especially regarding the holding of shares in companies outside the banking sector. Great Britain can be perceived as a special presence in Europe, having recognized the importance of the financial market in London, where many national companies are listed. The banking system does not have a central role in governance structures, banks being considered merely "credit providers". In the economic entities, capital structure is dispersed and shareholder power is stable compared with that of managers. The Governance model (similar to the American) is dominated by the influence of external capital markets, through merger and acquisitions, but also through the control exercised over securities trading. Regulatory institutions act to protect investors by implementing specific policies and practices of corporate governance system. Such a system requires an independent Board, responsible for monitoring and control of management, to improve its organizational performance and recovery.

In the UK, but also in other Anglo-Saxon countries, where market economy has significantly developed through sustained economic growth, there is a high degree of dispersion of capital and shareholder structure. Population can directly intervene to the economic development through holding shares, making of its own availabilities investment on capital market.

2. THE CONTINENTAL-EUROPEAN MODEL – CHARACTERIZED BY MAJOR SHAREHOLDERS' INTERESTS

The Continental European model is characterized by a high concentration of capital. Shareholders have common interests with the organization and participate in its management and control. Managers are responsible to a wider group of stakeholders, besides shareholders, such as unions, business partners, etc.

It can be said that in Italy, the idea of corporation dates back to ancient Rome, from time of Emperor Trajan. At that time they had institutions „collegia artificum" similar to the contemporary, which were legal entities for various types of trade. The members of „collegia artificum" enjoyed tax benefits and other reliefs. They were inspired by the example of Greek society and the goal was to assist entrepreneurs.

Italian corporatism saw two levels: the Catholic and fascist. Catholic-inspired corporatism appeared in 1891 and has grown to early-twentieth century. Representative is the name of Giuseppe Toniolo, economist and sociologist, who has always promoted solidarity, rejecting individualism and liberal doctrines. Fascist corporatism developed during the years 1920-1940, and its general principles were set out in the Charter of Labour in 1927 and were institutionalized with the advent of new corporations, bringing together different categories of entrepreneurs and workers. 1939 was the crucial step by establishing Chamber fascia. Its abolition coincided with the removal procedure.

The 1980s brought into attention a new concept, later debated by the Italian literature: neocorporatism. Currently, market and companies management regulation is prevalent public in a less receptive environment and exposed to adverse conditions. Socio-economic reality generated some different structures of distribution and control management, each specific to the reference market and with special characteristics. Ownership and control of listed companies are significantly concentrated, shareholders having the opportunity of intervention in the management process.

In the German system of governance, the enterprise is seen as the combination of various interest groups aimed to coordinate the national interest objectives. From a historical point of view, German banks have played an important role in corporate decisions. Only one of four companies in Germany is entitled to public transactions, thus most companies seek financial assistance from banks. A great importance is given to the protection of creditors, even to the point where a bank might dominate a firm. Unlike the U.S., German banks may hold only actions of their own clients. This ensures the depositary voting rights to control the decisions and votes in a company. In Germany, the corporate governance system is a dual one, aiming at the same time a national policy to provide employees access to information and participation in various activities of the enterprise and industrial democracy.

Within companies we can find an executive board and a supervisory council. The first effectively manages the company, but under the direction of the second, most decisions are, necessarily, confirmed by it. Such a governance structure is a mechanism for management monitoring and control.

3. THE JAPANESE MODEL – SPECIFIC TO A ORIENTED CONTROL GOVERNANCE SYSTEM

The Japanese model brings, as a new, the holding concept, which designates industrial groups consisting of companies with common interests and similar strategies. The managers' responsibility manifests itself in relations with shareholders and keiretsu (a network of loyal suppliers and customers). Keiretsu represents a complex pattern of cooperation and also competition relationships, characterized by the adoption of defensive tactics in hostile takeovers, reducing the degree of opportunism of parties involved and keeping long term business relationships. Most Japanese companies are affiliated with this group of trading partners.

The characteristic pattern of governance is dominated by two types of legal relationships: one of co-determination between shareholders and unions, customers, suppliers, creditors, government and another ratio between administrators and those stakeholders, including managers. The necessity of the model results from the fact that the activity of a company should not be upset by the relations between all these people, relationships that generate risks. Management decisions pursue improving the income and power of an enterprise, in particular by specific corporate governance practices, although sometimes the shareholders control on the management can be hampered. Therefore, the Japanese model (similar to the German one) is based on internal control; it does not focus on the influence of strong capital markets, but on the existence of those strategic shareholders such as banks. As in Germany, major shareholders are actively involved in the management process, to stimulate economic efficiency and to penalize its absence. It is also aims to harmonize the interests of social partners and employees of the entity.

The Japanese governance system facilitates the monitoring and flexible financing of enterprises, effective communication between them and the banks, as the main source of financing consists in bank loans. It should be noted that the owners are other companies or even banks, control the management strategies; ownership is always oriented to the control, justifying the limited issue of shares. Most packages are held by fix shareholders who can also be of major creditors, suppliers, customers, in order to maintain long term relationships of trust and not only to obtain gain.

In Japan, the corporate policies are influenced by the active intervention of the government, since officials are stakeholders in many companies. The Central Bank and Ministry of Finance are monitoring the supervision and control within the company, in its relations with its strategic partners. Government structures have created an informal negotiation system to implement certain policies and corporate strategies (gyosei shido). In the 1980s, the governmental influence manifested itself indirectly through appointments to the board of directors and managers of some functionaries out of system (amakudari). They were retired at the age of 55 and belonged to various private companies to lead and participate effectively in developing strategies, driven by government policies.

Corporate governance oriented to control is easily achieved in Japan due to a concentrated shareholder structures, unlike the United States. Many voices say that Japan has to go the longest road to improve standards of governance, a significant gap being now, as in the past, corporate transparency. The existing situation is seen as a consequence of the market dominated by companies founded and ran by families. Banks and other institutional investors have usually a minor role in terms of corporate governance discipline. Their main responsibility is to provide debt financing, the existence of equity and bank directors should occupy top management positions. If an entity is profitable, the banks shall be limited to monitor and protect the interests of foreign investors.

At present, Japan's system is focused on transactional networks and not enough on individuals. Relations between keiretsu and stable banking system is generally based on strong management and sometimes even isolated. There are two favourable factors: the first refers to passivity of shareholders and second is the predominance of internal directors.

4. CONVERGENCES AND DIVERGENCES OF DIFFERENT SYSTEMS WORLDWIDE USED

The study on models of corporate governance in various countries provides the image of the main specific features of Anglo-Saxon, Continental European, and Asian. Viewed in parallel, the features of those three models have important similarities and differences, as shown in the following table (Table 1).

Table 1 – The main features of corporate governance models

	Anglo-Saxon	Continental Europe	Japanese
Oriented towards	stock market	banking market	banking market
Considers	shareholders' property right	shareholders' property right and company's relationships with its employees	stakeholders' interests (keiretsu)
Shareholding structure	dispersed	concentrated	concentrated (cross possession of shares)
Management	executive directors non-executive directors	Supervisor Board Board of Directors	Board of Directors Revision commission
Control system	external	internal	internal
Accounting system	GAAP	IFRS	GAAP and IFRS

Managers in the U.S. and Britain are mainly specialized in finance and marketing, and their mobility is much higher in contrast to France and Japan, where they tend to remain in the company a long time. In the United States most managers are from outside the country compared to France, Italy and Japan, where the situation is completely opposite.

The U.S. have been opened to foreign influences, considering this a way to a successful diversification of business concepts and strategies. A good example is of those companies which are more numerous, led by foreigners. For example, McDonald's led by the Australian Charles Bell and Coca Cola with the Irishman Neville Isdell. In countries like France, Italy, Japan, where companies are characterized by governmental influences or familial control, management teams will be more reserved in the global strategies, most preferring to maintain local control. The United States enhances the quality of accounting in achieving economic transactions, unlike Japan, where capital providers such as keiretsu and banks have information sources that are not public, the quality of accounting information presented and the relevance for their investment decisions can be questioned. Following the success of the U.S. market, countries like Germany and Japan, with a governance model by characterized intervention, have oriented their system closer to the Anglo-Saxon one. In contrast, the Japanese model brings more and more in its centre the importance of human capital and focuses on the banking system.

The quality of accounting is important in the United States, both statistically and economically, where a high degree of quality is associated with reduced sensitivity of the cash flow invested a relationship that in Japan does not exist. In the U.S., the institutional investors are not allowed to own more than one company or work with other institutional owners to influence managers. They can resist some kind of pressure, but are aware that those investors cannot be ignored, considering the voting power, but also that on their actions depend the current and future business situation.

Corporate governance addresses the concerns about capital providers: risk assessment associated capital, capital allocation estimate for maximum efficiency, monitoring and managing funds on a continuing basis. The comparisons of systems in the United States, Germany and Japan reveals two different answers to these issues: direct disclosure of management actions and a long-term development of relations between owners and other participants in the entity. While each answer is different and sufficient for the needs of an economy, association could provide specific competitive advantages for the market global company.

A review of the three main models of corporate governance shows that there are at least two dimensions that may provide a basis for comparison between them: the first considers the system (for example, the claims are priority) and the second relates to the evaluation governance effectiveness (how well supported priority requests are). Maximizing the owners' assets is interpreted differently in each system, because they, as well as the holders of claims are different from one country to another.

The American system emphasizes the role of free market, based on it to exercise a control over the companies' owners. Japanese model focuses on business network acting in an interdependent way and on the own interests of all involved parties, especially through mutual control. In the German system, the company is considered an entity that produces richness, so that the market is closely monitoring its economic activity, the yield being the engine of national wealth. Interests of employees and creditors are a control factor and stimulation in obtaining gain.

Each model has emerged from the need to increase economic efficiency, measures in this respect and including measures to streamline the system of governance being significantly different.

In the U.S. corporate success is primarily measured by financial return on invested capital. The Japanese system focuses on capital efficiency and the German one concentrates on human capital performance. The fact that these systems have endured economic and social transformations, demonstrates that despite all the differences and specific weaknesses, each has enough strengths to support the existence and influence a nation's own economy. Table 2 shows, in parallel, the main strengths and weaknesses of the three discussed models.

Table 2 – Strengths and weaknesses of governance models

	Anglo-Saxon	Continental European	Japanese
Strengths	continuous discipline	multiple risk carriers	decreased optimism
	transparency	mutual benefit	direct influence of owners
Weaknesses	failure	slow reaction	resistance to change

The table below (Table 3) shows how the influence of the participants in enterprise activity varies according to claims recognition in the legislation of each country.

Table 3 – The degree of influence of the participants according to the legal system

Legal system	U.S.A.	Germany	Japan
Importance of the participants	**individuals**	**business network**	**banks**
	institutions	banks	business network
	business network	Government	employees
	employees	institutions	Government
	Government	individuals	individuals
	banks	employees	institutions
Issues covered by governance	capital market	transactions	corporations network
Evaluating the governance efficiency	financial performance	return on social capital	return on human capital

The Japanese system is difficult to understand for outsiders. From a historical perspective, it is based on legal recognition at national level, a mixture of public and private property, in which to each citizen is accepted the right to a fair share of all those things strictly necessary for the welfare. Power of property and rights of debts are equally divided between participants only theoretically.

Although corporations in Japan resemble the structure of those of the United States, here the interest of shareholders overrides. Their status is clearly different in the two models, those in Japan who have only one quarter of action simply does not matter, particularly because of a weak capital markets and with no influence.

Models of governance in Germany and Japan are characterized by the strong presence of interested parties (stakeholders), especially banks, which increases the efficiency of corporate governance and provides competitive advantages of the two countries. In opposition, the populist policy of the United States inhibits the influence of such stakeholders, leading to inefficiency and increased agency costs. German and Japanese systems focus on expanding public-private partnership that leads to possible competitive advantage by reducing costs of risk capital.

CONCLUSIONS

Each model was developed based precisely on cultural, historical and technological features, and they show the way and means in which the models appeared under the influence of national economic and social specific conditions. It turned out that no model of governance is perfect and even better, their existence over time showing that each one is effective in its own way, and corporate governance structure specific to a country is difficult to transfer to another country.

Western societies have promoted corporate governance as a democratic culture, based on dynamism and willingness to impose on the market, which created the conditions of globalization. Essential objectives are to obtain profit, support creativity, research and innovation, solutions to globalization requirements. The new economy and knowledge based society place in the centre of corporate governance that form of capital which has become increasingly important – human capital.

In some European countries (Belgium, Spain, Portugal, Italy etc.), but also at the international organizations level (OECD), the objective of developing mechanisms of governance is improving the information provided on the capital market and improve company performance, competitiveness and/or access to capital. For countries with tradition in the field and liquid capital markets (UK, France, Germany, etc.), the main objective of these mechanisms relates to the Board of Directors' work, meaning improve its quality and the quality of provided information about corporate governance.

Good governance is still difficult to measure, organizations carrying out such assessments need more representative criteria so that entities must notify their management processes in an efficient manner. The implemented model essentially depends on the firm's theory of voluntary or mandatory approach, but also on the boundaries between markets, entrepreneurs and civil society. The literature cannot provide yet a general method which to base on a comparative study, because the measurement techniques of social responsibility performance are not rigorously founded.

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