

## Review of Models of the Corporate Governance and Factors Influencing the Quality of Corporate Governance

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### ABSTRACT

Corporate governance includes the relationships among the many stakeholders. The principal stakeholders in the corporate governance are the shareholders, the board of directors, employees, customers, creditors and suppliers. Corporate Governance refers to the mechanism which ensures that while a firm is achieving its goal of shareholders' wealth maximization, this achievement should not be at the cost of other stakeholders. This Paper is descriptive in nature. In this paper we discussed various models of corporate governance. Also, we analyzed various factors influencing the quality of corporate governance. We tried to highlights the various models of the corporate governance which adopts by various countries. This study assists the organizations to enhance their performance as they get aware of various models of corporate governance of the organizations. They also get aware of the various factors which affects the corporate governance.

**Keywords:** Corporate Governance, Models of Corporate Governance, Factors

### I. INTRODUCTION

Corporate Governance is a term which is related to the corporate bodies. Governance systems are used for the managing the corporate bodies. The mechanism of governance comprises of board of directors, shareholders, employees and other stakeholders. Corporate governance is process of monitoring the performance ,ensuring accountability of management to shareholders, protecting interest of all stakeholders.

According to the Cadbury committee “Corporate governance is the system by which companies are directed and controlled”. According to SEBI, Corporate Governance is “the way in which companies run themselves, in particular the way in which they are accountable to those who have a vested interest in their performance, especially their shareholders”.

The Birla Committee defined the virtues of Corporate governance as “a system of good corporate governance which promotes relationships of accountability

between the actors of sound financial reporting – the board, the management and the auditor. It holds the management accountable to the board and the board accountable to the shareholders”.

Corporate governance is a set of mechanisms, which ensures that potential providers of external capital receive a fair return on their investment because the ownership of firms is separate from their control (Shleifer and Vishny 1997). Good corporate governance contributes to the sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. Corporate governance has an important proposition for the growth prospects of an economy. Corporate governance mainly focuses on the impact of a corporate governance system on economic efficiency with a strong emphasis on shareholders’ welfare. Corporate governance is a relationship among stakeholders that use to determine and control the strategic direction and performance of organizations. It ensures that strategic decisions are made effectively and to establish the relationship between the firm’s owners and its top-level managers.

Zheka (2005) defined that corporate governance draws up the boundaries of rights and duties among all parties of the firm and lay down rules and system for decision making. He also stated that corporate governance provides structure which helps to make aim through which monitoring is carried out. Brickley & James (1987) discussed that Corporate governance is a mechanism which reduces the managers' interest conflicts by monitoring their performance and aligning the goal of management with the shareholders' goal. According to Friedman (1981) , “Corporate governance is to conduct the business in accordance with owners’ or shareholders’ desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society, embodied in law and local customs”. Dr. Vijay B Marisitty (2004) defined corporate governance as, “a mechanism that involves effective allocation of resources in order to maximize social welfare”.

## II. LITERATURE REVIEW

### Corporate Governance Models

There are a lot of different models of corporate governance around the world. These vary according to the range of capitalism in which they are rooted. They define varies system of corporate governance along with different dimensions.

The noteworthy dimensions are ownership structure, shareholding patterns, capital market outlines and banks and institutional intermediaries' financing styles, disclosure system, incentive schemes, legislative strength, workers participation. There are three type of corporate governance models such as **Anglo-American Model, German Model, Japanese Model and Indian – South Asian Model**. There is considerable variation all corporate governance models around the world.

### **2.1 Anglo-American Model:**

Anglo-American model is also known as '*Unitary Board Model*' or '*Anglo-Saxon Model*', because of its prevalence in the U.S.A., U.K., Canada, Australia and India. It has single board involving with both executive and non-executive directors. In this model the inside directors represent as executive directors and outside directors as the non-executive directors of the board. This type of model has structure in which board of directors are elected by the shareholders i.e. owners. Shareholders exercise their control through board of directors. Well defined information system helps the boards in supervision. Directors of the board acts as supervisors. Board of directors then employs the officers to run the firms and to execute all the policy decisions made by them.

The main three functions of the board members are such as representation, direction and oversight. The board members have to perform three roles such as strategy formulation, controlling and accountability to shareholders. As per this model, for managing day-to- day activities managers are appointed for supervision. The other main feature of this model is dispersed shareholding pattern. In Anglo American Model, the sound legislation and systematic regulatory compliance mechanism provides the shareholders' protection.

<Figure: 1 Anglo-American Model of Corporate Governance>

### **2.2. German Model of corporate Governance:**

This model is also known as '*Continental Europe Model*' or '*Two-tier Boar Model*'. This models is existing in the Germany, Holland, Switzerland, Netherlands and France . It has features of having two boards, one is supervisory board and the second is executive board. In this model shareholders do not dictate the governance of the company although they are owners of the

company. Half of the supervisory board members are elected by the shareholders. On the other hand remaining half members are elected by the labor unions. As per this model, employees are not only stakeholders but they also take part in governance and also responsible for the policy implementation. Management boards are appointed and monitored by the supervisory board. Reporting relationship between supervisor board and management board as well as management board handles day-to day operations of the company.

<Figure 2: German Model of Corporate Governance>

### 2.3. Japanese Model Of Corporate Governance:

In this model, financial institutions have the main role in the governance structure. Although shareholders own the firm but financial institutions have main role in the structure. As per this board of directors are appointed jointly by the shareholders and the bank. President is also appointed by the shareholders and the bank. There is hierarchical relationship of the board and the president. Generally, board approves the president's decision while president always consults. Executive management performs the management function. The shareholders appoint insider directors as executive directors and financial institution appoints their board member as outside directors of the board. This give importance to the employees participation in the firm performance.

<Figure: 3 Japanese Model of Corporate Governance >

### 2.4. Indian – South Asian Model:

Indian Corporates have been governed by the company's Act of 1956. Indian model is combination of two models such as Anglo- American and German models. In this model, company board is dominated by the family members or founders of the company. The shareholders have the right to elect the board members. The primary role of the board members is to formulate the policies . They also formulate the strategies for the management and monitor their performance. Various codes, regulations and policies are used by government, regulatory agencies and stock exchanges to keep check on the firm's performance.

<Figure: 4 Indian-South Asian Model of Corporate Governance>

<Table 1 Difference between the different models of corporate governance>

### III. FACTORS INFLUENCING QUALITY OF GOVERNANCE

Quality of good corporate governance depends on many factors such as ability of the board ,commitment level of the board members, board responsibilities ,Quality of reporting etc. .

- a) **Ability of the Board:** In this knowledge ,qualification, experience and skills of the board members affect the effectiveness of the board. This helps the members to effectively supervise the firm's performance.
- b) **Integrity of the Management:** Integrity affects the relationship of the management and other stakeholders. A low level of integrity leads low trust among stakeholders for the management. This results in benefit to some stakeholders on the cost of others.
- c) **Commitment Level of individual Board Members:** Commitment level of the board members affects the quality of the good governance. Their commitment to their assigned task as members of the board is of great relevance.
- d) **Quality of Corporate Reporting:** Quality of corporate reporting depends on the transparency and communication level with all shareholders. Reporting assists the shareholders in making decision and evaluating the management tasks.
- e) **Participation of Stakeholders in the Management:** Innovative ideas are generated by participation of stakeholders in management. This leads to optimum utilization of resources and improved administration structure.
- f) **Adequacy of the process:** If sufficient information is not provided to the board then board of directors cannot supervise the executive management and performance of the enterprise. So process should be as such which enhance the spirit of the management.
- g) **The Board Responsibilities:** Board members have following responsibilities towards firm such as Management Selection, Supervision and Upgrading, Protecting and Optimizing the Organizations' Assets, Overseeing Strategic Development & Planning and Maintenance of Member Relations.

## V. CONCLUSION

Different models of Corporate governance dominating the literature have been studied. Moreover, it outlines the basic models of corporate governance known as Anglo-American Model, German Model, Japanese Model and Indian – South Asian Model of corporate governance. Different countries are following the different models.

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Figure: 1 Anglo-American model of corporate governance

ANGLO-AMERICAN MODEL OF CORPORATE GOVERNANCE

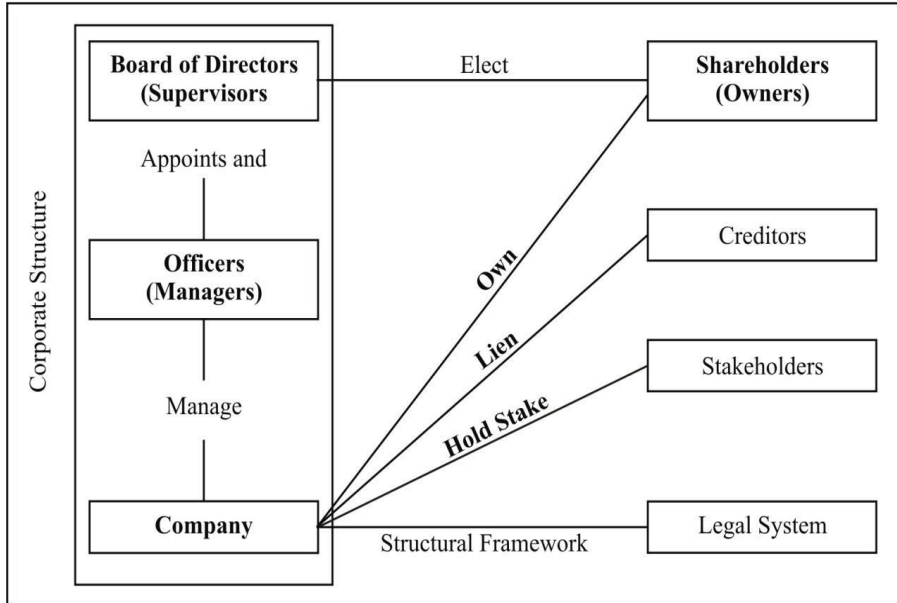
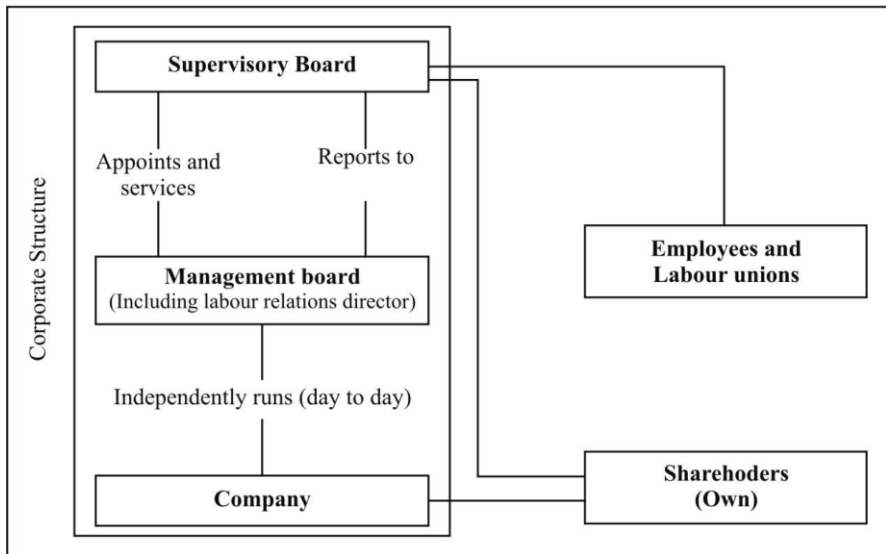
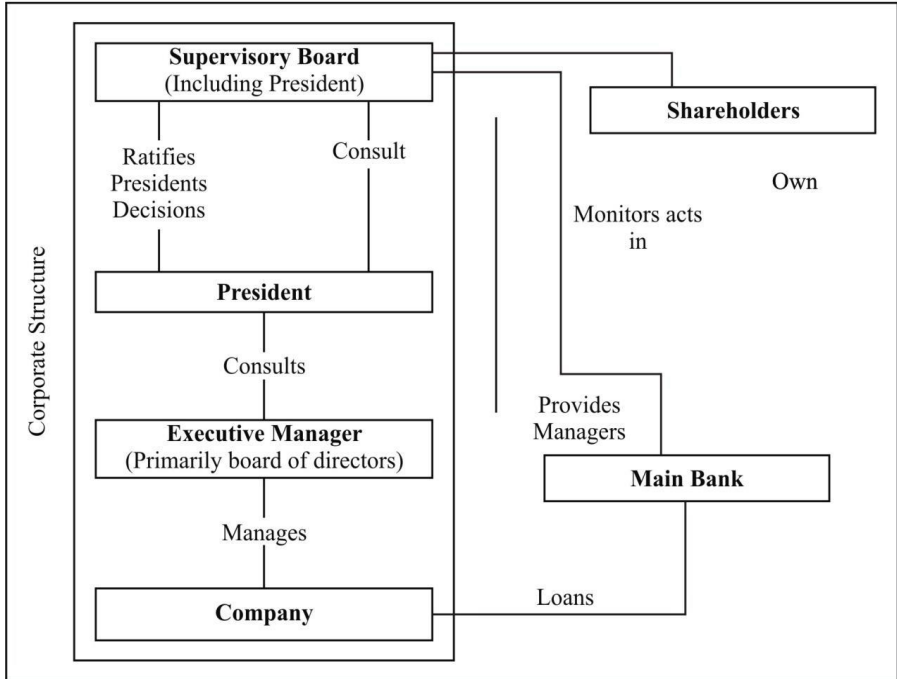


Figure 2: German Model of Corporate Governance

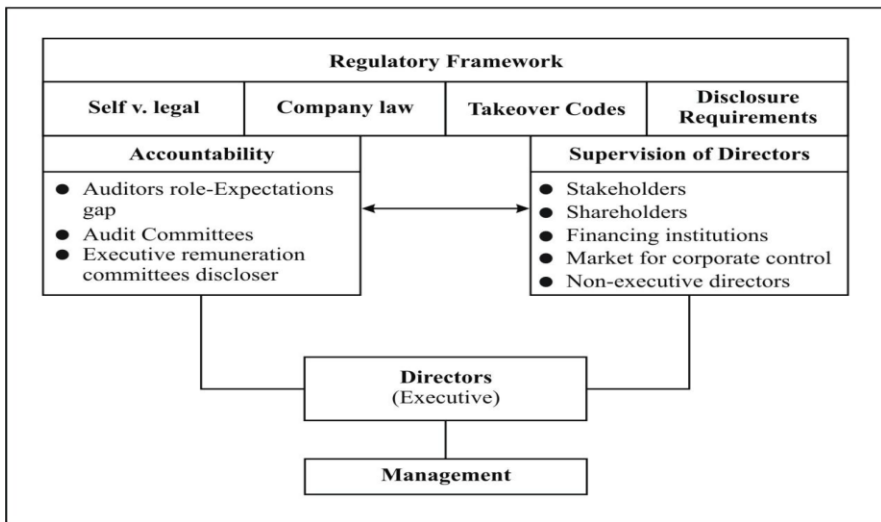
GERMAN MODEL OF CORPORATE GOVERNANCE



**Figure: 3 Japanese Model of Corporate Governance**  
**JAPANESE MODEL OF CORPORATE GOVERNANCE**



**Figure: 4 Indian-South Asian Model Of Corporate Governance**  
**CORPORATE GOVERNANCE, ACCOUNTABILITY AND ENTERPRISES-INDIAN MODEL FOR PSUs**



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**Table 1 Difference between the different models of corporate governance**

<b>Features</b>	<b>Anglo-American Model</b>	<b>German Model</b>	<b>Japanese Model</b>	<b>Indian – South Asian Model</b>
<b>Governance Focus</b>	Capital Market	Corporate Bodies	Business work	Maximum surplus
<b>Shareholding Pattern</b>	Diffused international investors, Individual and institutional shareholders	Banks, Promoters and families, Individual and institutional shareholders	Financial and non-financial Corporates	Directors, Corporates, Foreign investors, Lending institutes
<b>Measures of Success</b>	Return on financial capital	Return on human capital	Return on social capital	Return on financial capital
<b>Control of Corporates</b>	Separated from ownership	Linked with ownership	Linked with ownership	Linked with ownership
<b>Primary Capital Market</b>	Liquid	Less important because close with banks	Less important because close with banks	Less important because of institutional funding
<b>Secondary Capital Market</b>	Important	Not-Important	Not-Important	Not-Important
<b>Investor commitment</b>	Low	High	High	Low
<b>Board Composition</b>	Executive and Non-executive Directors	Two-tier Board	Executive and Non-executive Directors	Executive and Non-executive Directors
<b>Board independence over Management</b>	Little	High	Little	Little
<b>Executive Compensation</b>	High	Moderate	Low	Moderate
<b>Dividend</b>	High	Low	Low	Low but uncertain

**ABOUT AUTHOR**

Dr. Niyati Chaudhary working as assistant professor in PDM University as faculty of commerce and management studies. She did Ph.D. in corporate governance area. She did masters in commerce ([m.com](#)) and management (MBA). She qualified net and JRF in management as well as qualified net twice in commerce. Her area of specializations are finance, accounting and general management. She presented many papers in national and international conferences She has around 20 papers published in reputed, peer reviewed journals. Her area of interest is corporate governance, corporate finance, economies, foreign policy and Trade.

