Mastering Global Corporate Governance*

Abstract

Corporate governance a hardly bandied term in yesteryears has captured centre stage of the business world. Numerous corporate fiascos and scams have created proclivity towards corporate governance among various stakeholders of the corporate sector, i.e. shareholders, employees, debenture holders, suppliers, customers, banks, government, academia, researchers, credit rating agencies etc.

Corporate governance is pervasive and is an integral element of a corporate house be it private or public limited, small or large. It is essential for the management of company to ensure that the rights of the stakeholders are protected and they get their due. Today stakeholders are aware of their rights and so ignoring them may result into a corporate cataclysm that may even lead to obliteration of a company from the industry.

Moreover, various laws and regulations applicable both domestically and internationally makes mandatory for corporate houses to acquiesce to best corporate governance practices.

This article makes an endeavour to reconnoitre various vital dimensions pertaining to corporate governance at a global level.

Keywords **: Industry 4.0 and Corporate Governance; System of Corporate Governance; Global Organisations Fostering Corporate Governance**

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Introduction

Corporate governance is the set of processes, customs, policies, laws, and institutions influencing the way a corporate house is directed, administered or controlled. Corporate governance also covers the relationships among the stakeholders involved and the goals for which the company is governed. In contemporary business organisations, the vital external stakeholders are- shareholders, debt holders, trade creditors, suppliers, customers and society. On the other hand, internal stakeholders are- board of directors, executives, and workforce.

Corporate governance is a phenomenon of allocating corporate resources in a manner that maximizes value for all the stakeholders, i.e. shareholders, investors, employees, customers, suppliers, and the society at large and holds those at the helms to account by assessing their decisions on transparency, inclusivity, equity and responsibility.

The World Bank defines governance as the exertion of political authority and the utilisation of institutional resources to manage society's issues and affairs. The term corporate governance came into vogue post Asian Economic Crisis in July 1997 and has since been mentioned about quite frequently in the business newspapers.

Meaning and Facets

The providers of finance to companies be it individuals, mutual / pension funds, banks, financial institutions or even governments seek assurances that their investments are safe and will produce desired outcomes. Effective corporate governance is about providing those assurances. According to Millstein (1998), the term corporate governance can be defined both narrowly as well as more broadly.

Millstein (1998), in the narrow version of her definition, describes corporate governance as the relationship between managers, directors and shareholders. This narrow definition encompasses also the relationship of the corporation to stakeholders and society. Whereas in the broader version of her definition, corporate governance encompasses the combination of laws, regulations, listing rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit and meet both legal obligations as well as the expectations of society generally. Furthermore she states that, no matter what the definition, basically corporate governance concerns the means by which a corporation assures investors that it has in place well performing management who ensure that corporate assets provided by investors are being put to appropriate and profitable use.

Industry 4.0 and Corporate Governance

From the viewpoint of corporate houses, Industry 4.0 or the fourth Industrial Revolution has ushered in opportunity and advantages, including competitiveness, finance, overall equipment effectiveness, innovative business approaches, resource efficiency, time, human capital, individualization, data and information. The mentioned opportunities and advantages are discussed briefly as under:

(i) ***Competitiveness***: The implementation of industrial revolution 4.0 has increased market dynamics and offer opportunity to engage in technology and market revolutionary position. Moreover, industry 4.0 can prove to be a messiah by providing strategic differentiation and competitive advantages. Thus, industry 4.0 is exerting a positive impact on expansion of business and securing market shares.

(ii) ***Finance***: Industry 4.0 is playing a pivotal role in providing steam to value creation and sales and simultaneously assisting in moving various costs southward, e.g., average unit, operating and personnel costs. To put simply, industry 4.0 does not only possess the potential of reducing the cost incurred for production of goods or services, it is also assisting in prodigious growth of earnings of the companies.

(iii) ***Overall equipment effectiveness***: The focal point of industry 4.0 is effective utilisation of equipment for attaining higher productivity, machine availability, and strengthening of production process. Further, equipment effectiveness can play a vital role in reducing scrap and failure rates, thereby reducing production delays and downtimes.

(iv) ***Data and Information***: Vertical and horizontal linkages assist in reducing media disruptions within information chains through the systems of industry 4.0. It assist in increasing transparency of process, machinery, stock or logistics data facilities traceability of commodity flows. Smart big data analysis permits short information flows and effective data exploitation. Therefore, it may be stated without an iota of doubt that industry 4.0 can play a crucial role in increasing knowledge sharing and collaborative working.

(v) ***Time***: Industry 4.0's shorter set-up and lead times as well as faster machine speed facilities can assist in providing more flexible response to customer demands. Simulation such as, engineering and R&D will assist substantially in decreasing time-to-market. Moreover, non-value adding processes or activities would also be reduced.

Therefore, it can be opined that the aforesaid crucial elements of Industry 4.0 (fourth industrial revolution) is in sync with the tenets of corporate governance. In today's era, it is imperative for every business organisation not only to meet stakeholders expectations rather sincere endeavours to be made to offer them more than they are entitled to or desire for, as without stakeholders a business cannot exist in vacuum. The crucial factors covered under Industry 4.0, i.e. Competitiveness, Finance, Overall equipment effectiveness, Data and Information and Time all culminates into corporate governance. For instance, if an organisation tends to operate within a given market only and does not aim for expansion and growth, then in years to come it may lose competitiveness and soon will be obliterated from the industry. Similarly, if there is lack of data integration in a company then there may be no transparency of process, leading to chaos and conflicts in the management. So Industry 4.0 paves the way for robust corporate governance.

System of Corporate Governance

There are two forms of system of Corporate Governance-

a) ***Insider-Dominated Systems***: An insider-dominated system of corporate governance is a system of corporate governance in which a country's publicly listed corporations are owned and controlled by a small number of major shareholders. Insider systems also referred to commonly as relationship-based systems in the literature, because of the close relationships prevalent between companies and their dominant shareholders. The insider system of corporate governance is characterized by highly concentrated holdings, concentrated voting powers and a multiplicity of intertwined inter-firm relationships and cross-corporate holdings. Bank-dominated relationships, pyramidal ownership structures, familial control, illiquid capital markets and a high degree of cross holdings are the most dominant features of the insider system. Example of prominent insider corporate governance systems are Germany and Japan.

b) ***Outsider-Dominated Systems***: Outsider-dominated systems imply systems of finance and corporate governance where most big firms are controlled by their managers but owned by outside shareholders, such as financial institutions or individual shareholders. The outsider system of corporate governance is marked by the existence of a widely diffused ownership structure, liquid stock markets and a low level of inter-corporate cross holdings. The outsider system is characterized by the existence of a ready market for corporate control and an instant supply of managerial labor.

This situation results in the separation of ownership and control, outlined by Berle and Means (1932); another term used to refer to this type of system is market-based (Zysman, 1983). They are also referred to frequently as AngloSaxon or Anglo-American systems, due to the influence of the UK and US stock markets on the others around the world. Although companies are, in the outsider system, controlled directly by their managers, they are also controlled indirectly by the outsiders. Shareholders have voting rights that provide them with some level of control. These outsiders tend to be predominantly financial institutions, but also smaller individual shareholders.

The facets of insider-dominated and outsider-dominated systems of corporate governance is presented in the exhibit below-

S.No.	Insider - dominated Corporate Governance Systems	Outsider - dominated Corporate Governance Systems
1	Firms owned predominantly by insider shareholders who also wield control over management	Large firms controlled by managers but owned predominantly by outside shareholders
2	System characterized by little separation of ownership and control such that agency problems are rare	System characterized by separation of ownership and control, thereby stimulating significant agency problems
3	Hostile takeover activity is rare	Frequent hostile takeovers acting as a disciplining mechanism on company management
4	Concentration of ownership in a small group of shareholders (founding family members, other companies through pyramidal structures, state ownership)	Dispersed ownership
5	Excessive control by a small group of “insider” shareholders	Moderate control by a large range of shareholders
6	Wealth transfer from minority shareholders to majority shareholders	No transfer of wealth from minority shareholders to majority shareholders
7	Weak investor protection in company law	Strong investor protection in company law

8	Potential for abuse of power by majority shareholders	Potential for shareholder democracy
9	Majority shareholders tend to have more 'voice' in their investee companies	Shareholding characterized more by 'exit' than by 'voice'

Source: *Corporate Governance from a Global Perspective (https://www.researchgate.net/publication/228247817_Corporate_Governance_from_a_Global_Perspective)*

Global Organisations Fostering Corporate Governance

The following international organizations are playing a pivotal role in fostering corporate governance across the globe-

1. Organization of Economic Cooperation and Development (OECD)
2. International Corporate Governance Network (ICGN)
3. The European Union
4. NFCG
5. IOD UK
6. Global Corporate Governance Forum
7. CSIA
8. IIRC
9. Commonwealth Association of Corporate Governance
10. The European Corporate Governance Institute
11. The Conference Board
12. Asian Corporate Governance Association

Brief description of the aforesaid organisations are as under:

1. ***Organization of Economic Cooperation and Development (OECD)***: Over time, the OECD has become a leading and respected organization for comparative analysis in a globalized world. It is now clearly the "go-to" multilateral forum and database for taxes, foreign aid, and anti-corruption. Going forward, the OECD could play a significant role in digital taxes, digital trade, artificial intelligence, and data privacy.

   In recent years, the OECD has played a noteworthy role in upgrading and updating standards and adopting an inclusive and multidisciplinary approach in its efforts to build a stronger and fairer world economy. The OECD has since strategically refocused its work in fewer but important policy areas including taxes, export credits, education, labour, and peace.

2. ***Global Corporate Governance Forum***: The Global Corporate Governance Forum is an OECD-World Bank initiative. Its mission is to assist countries in improving their

standards of governance for their corporations, by strengthening the spirit of enterprise and accountability, promoting fairness, transparency and responsibility.

The Global Corporate Governance Forum provides a convening value for the renowned players in governance across the world. Its theme of partnership between the public and private sector is established through a Private Sector Advisory Group, which consist of internationally recognized business leaders serving in an individual capacity, drawn from developing, developed and transition economies. Its role is to advise on the program, on its work and provide a link to the private sectors in each of the major regions and serve as champions for reform in building a coalition for change.

2. ***International Corporate Governance Network (ICGN)*** : The International Corporate Governance Network (ICGN)'s Policy Priorities 2019/20 that are integral to corporate governance are as under:

   (i) Promoting long-term investment perspectives and sustainable value creation.

   (ii) Making successful stewardship a reality.

   (iii) Building effective boards amidst the changing boundaries of governance.

   (iv) Protecting minority shareholder rights.

   (v) Seeking transparency through robust reporting, audit and metrics.

5. ***NFCG*** : National Foundation for Corporate Governance (NFCG) was set up in the year 2003 by the Ministry of Corporate Affairs (MCA), in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) to promote good Corporate Governance practices both at the level of individual corporates and Industry as a whole. In the year 2010, Institute of Cost Accountants of India (ICAI) and National Stock Exchange (NSE) and in 2013 Indian Institute of Corporate Affairs (IICA) were included in NFCG as Trustees.

   The objectives of NFCG are as under:

   a) To provide a platform to deliberate issues relating to good corporate governance as the key to sustainable wealth creation;

   b) To sensitize corporate leaders on the importance of good corporate governance, self-regulation and directorial responsibilities-statutory, social and environmental;

   c) To stimulate and to facilitate exchange of experiences and ideas between corporate leaders, policy makers, regulators, law enforcing agencies, non-government organizations and voluntary agencies with a view to developing a framework for corporate governance reforms in the context of liberalization and globalization;

   d) To provide research, training, practice, capacity building, standard setting, advocacy, rating, monitoring, recognition and related support in the field of corporate governance;

   e) To provide financial or any other assistance directly or indirectly for activities which seek to promote corporate governance including research and training;

f) To develop strategies that enhance value for all stakeholders and ensure long term benefits to the shareholders and the society at large;

g) To establish and deepen links with organizations in various parts of the world which promote corporate governance for exchange of ideas and for collaborative actions, projects and programmes;

h) To institute national awards and recognitions for excellence in corporate governance and develop a system of corporate governance rating;

i) To collaborate and to support, directly or indirectly, the initiative of any individual, group, organization or institution in promoting corporate governance;

j) To develop a code of best practices for corporate governance taking into consideration the international examples and to promote its voluntary adoption by the corporate bodies;

k) To prepare, print and publish any papers, periodicals or newspapers, books or leaflets either on its own or in collaboration with other persons/entities through print or other media and to contribute to any papers or periodicals to disseminate information and knowledge in the area of corporate governance;

l) To facilitate, promote, commend and collaborate on the proposals from individuals, associations and organizations for funding by national, international and multi-lateral organizations as also industry-associations, regulators and governments;

m) To provide advice, consultancy and technical and managerial support to the beneficiaries of the Trust's programmes through a network of advisors drawn from the industry and institutions of excellence; and other related objects.

6. ***IOD UK*** : The Institute of Directors (IoD) was founded in 1903 and within three years we were awarded a Royal Charter to support, represent and set standards for business leaders nationwide. It mainly focus on the following critical issues that have a strong relevance to corporate governance, i.e. Global Business, Inclusive Business, Sustainable Business, Good Governance tec. Moreover, through its events it sensitize its stakeholders on other vital areas also like, leadership skills, Covid 19 etc.

7. ***CSIA*** : A global voice of 'Governance Professionals'. The Corporate Secretaries International Association (CSIA) was established in Geneva in 2010 as an association constituted according to article 60 et seq, of the Swiss Civil Code and entered into the commercial register in Switzerland. CSIA was officially launched at the World Bank Headquarters in Paris on 23 March 2010 under the auspices of the IFC and OECD.

   During the early days of establishing CSIA, consideration was given to the importance of being located close to major and relevant global organisations such as the OECD, World Trade Organisation, IFC and other major institutions with a remit which included good governance practices, being centrally located between the "East" and the "West" and providing a stable, well accepted and predictable place of incorporation. As the organisation evolved and grew as an inclusive global organisation, CSIA recognized that the location of the organization should be able to facilitate the operations of a multinational membership in a legal and regulatory framework that is less complex and can alleviate language barriers while still allowing CSIA to comply with all relevant corporate and other laws in its home jurisdiction with its available resources.

Following much deliberation by the CSIA Council, the decision was taken to liquidate the Geneva Company and on 10 February 2017, The Corporate Secretaries International Association Limited was incorporated as a company limited by guarantee in Hong Kong.

In one of its significant publications on Beyond Covid-19: Taking the Long View (guidance document), which have thrown light on the ways in which the board can foster a long-term orientation, with a focus is on properly balancing short-term and long-term issues and an emphasis on framing short-term issues in the context of the company's long-term performance. Other noteworthy publications like, 'The Corporate Secretary-Roles, Regulations and Governance: A Global Comparative Survey' (a report), Climate Change and the Role of the Corporate Secretary (a survey report) etc. all aim to sensitize the corporate world regarding crucial facets of corporate governance that needs to be espoused for betterment of stakeholders.

8. ***IIRC*** : The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. IIRC's leadership has been fully engaged in all the major efforts to provide the impetus for a globally accepted comprehensive corporate reporting system – a new settlement for corporate reporting that will embed the principles of integrated thinking and reporting within mainstream governance and practice.

   IIRC has undertaken a major global consultation on revisions to the International Integrated Reporting Framework, which required to make a minimal number of changes to provide an increased focus on clarity, quality and simplicity. It has also been actively engaged in discussions with IOSCO, the IFRS Foundation and the EU as these organizations consider their own responses to the need for clear and comprehensive standards that respond to investor and societal needs while avoiding market fragmentation.

   Further, it has consistently made the case for a globally accepted comprehensive corporate reporting system and believe that the Integrated Reporting Framework has a significant role in the development of a conceptual framework that connects financial reporting and sustainability disclosure standards and reporting so that companies are able to provide a complete view of how they are creating enterprise value.

9. ***Commonwealth Association of Corporate Governance*** : It aims to promote good standards in corporate governance and business practice throughout the Commonwealth; facilitate development of appropriate institutions in order to advance, teach and disseminate such standards.

   Its key objectives are- to promote good standards in corporate governance and business practice throughout the Commonwealth; and to facilitate the development of appropriate institutions which will be able to advance, teach and disseminate such standards. As significant contribution to corporate governance, Commonwealth Association of Corporate Governance (CACG) guidelines have laid emphasis on boards of directors of all business enterprises – whether private, public, family owned or state-owned – other important aspects should be considered within this framework. For this reason, other issues of corporate governance are highlighted – namely, corporate governance and state enterprises in the Commonwealth, business ethics and corruption, the role of professions in the Commonwealth as well as a plethora of other evolving issues. As an initiative towards strengthening corporate governance, it has formulated the following principles-

Principle 1 – exercise leadership, enterprise, integrity and judgment in directing the corporation so as to achieve continuing prosperity for the corporation and to act in the best interest of the business enterprise in a manner based on transparency, accountability and responsibility;

Principle 2 – ensure that through a managed and effective process board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring independent judgment to bear on the decision-making process;

Principle 3 – determine the corporation's purpose and values, determine the strategy to achieve its purpose and to implement its values in order to ensure that it survives and thrives, and ensure that procedures and practices are in place that protect the corporation's assets and reputation;

Principle 4 – monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans;

Principle 5 – ensure that the corporation complies with all relevant laws, regulations and codes of best business practice;

Principle 6 – ensure that the corporation communicates with shareholders and other stakeholders effectively;

Principle 7 – serve the legitimate interests of the shareholders of the corporation and account to them fully;

Principle 8 – identify the corporation's internal and external stakeholders and agree a policy, or policies, determining how the corporation should relate to them;

Principle 9 – ensure that no one person or a block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the chief executive officer and Chairman, and by having a balance between executive and non-executive directors;

Principle 10 – regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times;

Principle 11 – regularly assess its performance and effectiveness as a whole, and that of the individual directors, including the chief executive officer;

Principle 12 – appoint the chief executive officer and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the corporation, ensure that there is adequate training in the corporation for management and employees, and a succession plan for senior management;

Principle 13 – ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain a meaningful competitor;

Principle 14 – identify key risk areas and key performance indicators of the business enterprise and monitor these factors;

Principle 15 – ensure annually that the corporation will continue as a going concern for its next fiscal year.

10. ***The European Corporate Governance Institute***: ECGI is an international scientific non-profit association providing a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues. The ECGI's primary role is to undertake, commission and disseminate research on corporate governance. The Institute provides a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues and thereby promoting best practice.

    ECGI focuses on vital areas of corporate governance, i.e. Bankruptcy & Insolvency, Capital Markets, Corporate Culture, Diversity, Family Firms, Labour & Finance etc.

11. ***The Conference Board*** : Established during a prolonged period of economic turmoil, The Conference Board began life as a grand idea, not an institution. Prior to its founding, three tragic events led to widespread public condemnation of business: Los Angeles Times' Plant Bomb (1910), Triangle Shirtwaist Fire (1911), and The Ludlow Massacre (1914). The business leaders most concerned about these events were Magnus Alexander, a prominent executive at General Electric and Frederick Fish, a Boston attorney who had been president of AT&T.

    The Conference Board convenes conferences and peer-learning groups, conducts economic and business management research, and publishes several widely tracked economic indicators. The fundamental agenda of the Conference Board is to assist business leaders in navigating through significant issues facing a business organisation as well as to help business leaders in serving the society at large.

    It publishes business cycle indicators (BCI) to offer ways for analyzing the expansions and contractions of the economic cycle. The Composite Index of Leading Indicators is one of three components of the BCI; the other two are the Composite Index of Coincident Indicators and the Composite Index of Lagging Indicators. Since the leading-indicators component attempts to judge the future state of the economy, it is by far the most widely followed.

12. ***Asian Corporate Governance Association*** : The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999 from a belief that sound and improving corporate governance is fundamental to the long-term development of Asian economies and capital markets.

    It undertakes extensive research in following areas of corporate governance- CG Watch, Thematic Research and Asia Regional Briefing.

    a) ***CG Watch*** : Every two years, ACGA publishes "CG Watch" in collaboration with CLSA, a founding sponsor of the Association. ACGA undertakes and has responsibility for the market ratings survey, now covering 12 markets in Asia-pacific. CG Watch focuses on varied topics of corporate governance like, quality of corporate governance in Asia-Pacific Markets.

b) ***Thematic Research*** : ACGA undertakes thematic research analysing contemporary corporate governance issues in key Asian markets in addition to regular research.

c) ***Asia Regional Briefing*** : Every two months, ACGA publishes the Asia Regional Briefing exclusively for members. Each issue comprises of analytical summaries of significant policies, enforcement, regulatory developments and company stories from 11 Asian markets as well as in-depth facets looking at contemporary corporate governance issues.

Conclusion

Sustainable approach to corporate governance holds the key in accomplishing competitive advantage and long-term success for any company. Sustainable governance demands that the board of directors takes into account economic, social and environmental expectations in an integrated way. This model requires for the balance of interests of all those who contribute to the current and future company's success, by means of sustainable value creation that satisfies both shareholders and other stakeholders in the long term.

To ensure protection of stakeholders rights it is important to embrace best corporate governance practices across the globe. An effective regulatory structure along with the zeal on the part of the corporate world to espouse best corporate governance practices can contribute substantially in the betterment of the stakeholders and holistic development of the companies.

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