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Accounting & Finance Theories & Issues

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Abstract: Corporate governance is one of the significant elements in the current global economic activities. This paper has presented the definition of corporate governance, corporate citizenship, and the board of directors.it introduced shareholder model and stakeholder model countries,UK, US and Japan, the differences and similarities of models have been displayed.

Keywords: Corporate governance; Board of Directors; Corporate Citizenship; The board of directors; Shareholder model; Stakeholder model

1. Introduction

Corporate governance is one of the significant elements in the current global economic activities. In recent years, some of the countries have experienced economic recessions, and financial scandals. Nations across the world continuously strengthened their own corporate governance codes. three countries would be chosen to analyze in the report, including the United Kingdom, United States, and Japan. Through analysis and comparison, information users could understand the differences and similarities of corporate governance among these four countries more easily. The background and relative information about the system of corporate governance will be introduced.

1.1 Definition of Corporate Governance

Accorporate governance (CG) does not have a clear definition, it relies on the country where it is accepted. Corporate governance in the UK means the system by which companies are directed and controlled (Financial Reporting Council, 2014). The procedure of monitoring and controlling is able to make the firm's management align with the interest of shareholders. The nature and objective of corporate governance is balancing the benefits of an enterprise's many stakeholders, such as directors, shareholders, managers, suppliers, customers, investors, financiers and government. Besides, the purpose of CG is to promote efficiency, entrepreneur's cautious management can bring the long-term success of the business.

1.2 Definition of Board of Directors

The board of directors, who is responsible for decision-making to solve the conflict of interest, is an important part of the governance structure of large companies' operations. The board of directors is the key in governance for shareholders to control managers and ensure the firm operates in their interest (Baysinger and Butler, 1985). Boards are often consisting of internal and independent members. Independent directors are quite experienced or controlling other large enterprises who do not share the relationship with the insiders (Solomon, 2011).

1.3 Definition of Corporate Citizenship

Corporate governance contains the corporate social relationship (CSR) between enterprises and shareholders, which is established according to the law, ethical and economic commitments. CG is related to balancing the relationship between the economic and social aims of the individual or group targets. The main objective of shareholders is planning to upturn living standards and quality for the communities which are based on maintains business profitability.

2. Corporate Governance in UK, US and Japen

Corporate governance has been growing fast lately and has obtained an increasing number of profiles in the past few decades. There are four countries will be chosen to analyze, involving the United Kingdom, United States and Japen, which have salient diversity and characteristics in corporate governance system. The general corporate governance code, principles and other details about the country will be showed.

2.1 Corporate Governance in United Kingdom

2.1.1 UK's Corporate Governance Code

UK's corporate governance system fits the outsider model, it represents that most companies in UK are controlled by their managers but possessed by outside shareholders, such as a financial institution or an individual shareholder. The main principle of the UK CG code is leadership, effectiveness, accountability remuneration and relations with shareholders, which is a conductor to a set number of essential elements of effective board practice. The code is based on the potential principles of all good governance: accountability, transparency, probity, focuses on sustainable development and future success of the enterprise in the future (Financial Reporting Council, 2014). Therefore, the board, the chairman, non-executive directors and corporate citizens should follow the CG code when they are working.

2.1.2 The Board of Directors of UK

Members of directors represent shareholders to make decisions in the business that are voted by other shareholders or appointed by other board members directly. The board is responsible for determining the strategic aims of the development, improving leadership work efficiency, supervising the management of the business and reporting to shareholders on their stewardship.

2.2 Corporate Governance in United States

2.2.1 The Background of US's Corporate Governance

The US, such an economically prosperous nation, is generally considered the paradigmatic case of the outsider model or market-based method to CG. Once US meet economic problems, other countries across the world could have introspection in their response and check their own corporate governance system (Solomon, 2011). Ownership of the company is dispersed, and the members of the board are fewer; a board should be five to fifteen members without unusual situation (not too small to maintain the needed specialized theory as well as not too large to operate efficiently). The remuneration of executive is connected with the board of directors, and the supervisor of the company internally and externally has certified the flow of data from managers to capital makers.

2.2.2 The Board of Directors of US

In order to promote the process of board, committees would be used by outsiders or independent members, who own a high proportion in US companies. All the members of the board would be elected annually to ensure it is not staggered. Boards should verify their own performance regularly and assessment should contain qualifications of any director who receives "against" votes from a quantity of shareholders or for whom a great number of shareholders reserved ballots. Independent boards occupy at least two-thirds of board members and all members should be up the standard of auditing, compensation and nominating standards. (Corporate Governance Policies, 2013).

2.3 Corporate Governance in Japan

2.3.1 Japan's Corporate Governance Code

Since the early 1990s, corporate governance in Japan has been in the procedure of transition, which has gained remarkable achievements over the recent decades. In Japan, the 'corporate governance' presents a framework for transparent, fair, well-scheduled and decisive decision-making by the corporate centered on the needs and opinions of shareholders, staffs, customers and communities. The CG code finds essential principles for effective CG of listed firms in Japan. The appropriate implementation of the CG code is to look forward to promoting the development of business, investors and the Japanese economy as a corporate entity to realize sustainable economic growth and increase enterprise in the future. There are five important sections of Japan's corporate governance code, including securing the rights and the equitable treatment of shareholders, proper cooperation with stakeholders other than shareholders, ensuring adequate data disclosure and transparency, responsibilities of the board and communicate with shareholders (JPX, 2015).

2.3.2 The post-war system of Corporate Governance

Following the World War II, the post-war system of corporate governance, which aims at balancing a series of complex stakeholders such as employees, workforce, customers and suppliers has been unraveled. Under the pressure of a quantity of international investors, local Japanese companies adopted more 'Anglo-American' financial system of the US and UK, which is one of the reasons for the post-war system unraveled. In general, the CG system in Japan fell into the 'insider-dominated' mode. There are three main features of the post-war financial system that cannot be neglected (Ahmadjian and Okumura, 2006).

The first one is bank-dominated financial system. The majority of firms in Japan are funded by bank loans so that banks become members of the board. Meanwhile, banks not only own the company but also are responsible for monitoring the company operation. Company and bank managers mutually influence each other but the ownership and control of a company have a little separation. (Solomon, 2011) Permanent employment and standard of the community cannot be ignored. Employees in large enterprises should guarantee a job until their retirement. Moreover, officers and employees have a close relationship and it should be emphasized that the company is a community. The final point is the boards of directors and decision-making. There is an unusual series of decision-making practices and board structure. The number of the boards members tends to be larger; some of the board members have operating responsibilities and extremely few outside board directors who is far from independent pay attention to officers from bank or partner firm, league good relationship or improve the relationship with a troubled company (Ahmadjian and Okumura, 2006).

3. The Comparison between UK, US and Japen

3.1 Similarity

As mentioned above, UK and US are both shareholders (outsider) model and characterized as a 'market-based' system of corporate governance. Under the Anglo-American CG system, the common point of UK and US, include the supreme shareholders as beneficial owners of fiduciary duties, the value of stock financing, dispersed shareholder's equity among uncommitted shareholders and enlivens the market. UK and USA both do not have focused on individual shareholders, cross-shareholdings and dominant family owned companies in considerable quantity. Moreover, UK and US like Japanese CG system, the equity market, as a whole, controlled by the institutional investors, has grown rapidly over the past decades (Aguilera, et al, 2006).

3.2 Differences

The major difference between US and Japan is that the majority of the board members in the Japanese firm are also company executives. Clearly, this kind of structure would cause that the executives cannot monitor effectively. The trend of Japanese board is that the numbers of board continuously reduce, but that of the outside board members increase. The CEO of the company is often dominant in selecting board members in the US (McCarty and Toda, 2005).

4. Conclusion

this paper has presented the definition of corporate governance, corporate citizenship, and the board of directors. it has introduced shareholder model and stakeholder model countries. UK, US and Japan, the differences and similarities also have been displayed.

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