Corporate Governance: Differences in Globalized world

Thepparat Phimolsathien[*]

Abstract

Corporate governance systems of different countries reflect differences in regulatory regimes, legal frameworks, and institutional setting, differences in stages of economic development, historical background, and social, political and cultural differences. No one could and should say which corporate governance is the best because there is no perfect or the best system. One system might be suitable in one country while the other might not. The differences in social structure including legal, financial framework do play important roles in differentiating corporate governance; however, in order to introduce new rules, it should be carefully introduced. In US, corporate governance is emphasis on the role of market, property rights; Japanese seems to emphasis in business network whilst Germany emphasis on social value. This article will illustrate the differences in company structure and point out that any attempt to harmonise the systems may not be the answer despite that fact of the country's difference in system and structure.

Keywords: Corporate Governance/ Harmonization of Corporate Governance/ Governance

Introduction

Business success is comprised of many factors such as cheap labour, raw material, technology innovation and etc. When the firm is in financial trouble, many people might look at the result of the cost of production or business atmosphere without considering how the business decision is made. This paper is about the Corporate Governance. Corporate Governance is about the relationship between the company management team and their shareholder/stakeholders (Charkam,1994, pp.3). It is about the system of check and balances of the power. A good corporate

[*] *Lecturer, Dr., Industrial Management at College of Administration and Management, King Mongkul's Institute of Technology (KMITL)*

governance system is exercised by the shareholders who give power to those best able to use it, and to remove it if they use it poorly or evilly. There might be many factors for the corporate success but we cannot deny that efficient corporate governance is one of major factors to help the company to survive and prospers.

There is much discussion of deficiencies of market system in delivering effective governance because business decision is affected by the relationships among participants in the governance system (Mayer, 1997, p.152). The good corporate governance is a system to ensure the effective management meets the interest of the parties. Controlling shareholders is the people who has the rights to influence the corporate behaviour, therefore, shareholders, which could variously be individual, family holding, banks, financial institutions, supplier company, and etc, has the rights to vote or choose their management to run their company at their best interest. The problem of principle-agent or in the other words the problem between management and shareholder when shareholder believe that their company is not properly run, corporate governance assisted by the company law is the subject to solve this problem. Corporate governance has a tremendous impact to the people in the company or even larger extent. Good corporate governance system is considered to be an important element for the company success then a combination of a success company that result from practicing good corporate governance will reflect the country economic conditions.

The implication of the companies' performance is important to consider from a macroeconomic point of view. The success or failure of the company has an impact not only to the employee of the company but it is also to the shareholders and community as well. For instance, in 2013 there were approximately 20,000 publicly held corporations in US trading in various markets, generating a market capitalisation of over $ 20 trillion. Stock market capitalisation of United States corporations represents approximately 115 percent of Gross Domestic Product". Assuming if these corporations go bankrupt without improper decision making process or without good check and balance, then it would hardly imagine the implication of it.

Each country has its own corporate governance system. Some country's corporate governance system may be similar and many may be totally different. These differences result from different culture, social and legal structures,

management style and etc. In the past, corporate governance system of one country had seem to be excellent while others had considered to be poor, but a decade after, the system that had been seemed to be excellent, has driven the country economic condition to the cliff and the "used to be a poor system " has unveiling the country to the heaven. As this paper pointed out earlier that the corporate governance is not the only key to drive the company success or failure but it is an importance element for each company to carefully adopt and learn about corporate governance in which it will increase company performance.

The effective corporate governance rely much on the role of the private sector but the public sector itself also have a responsibility in designing the rule and legal standard for the company practices to be more efficient, transparent, responsible, accountability, and fairness. There has been a discussion that the corporate governance system should be harmonised, however, anyone who wants to harmonise the system should be very careful to introduce any approach because any universal pattern without understanding the long development of each country legal, cultural and basic business practices because it might be impracticable to every countries. As previously mentioned, that each country that has its own economic and business practices which vary from ownership structures, business circumstances, competitive conditions, corporate life cycle and many other factors, therefore, some of the universal corporate governance that has rashly been introduced may seem to be excellent for some country to adopt while others might not. For instance, most academics believe that transparency may be the key word for the business success, however, initiating without careful approach especially when their internal regulation is not ready for all these changes could be a disaster. Moreover, if the harmonisation of corporate governance system did happen, then new laws must be carefully formulated, interpreted, and mastered by many academic, incorporation documents, corporate charters, and if it is based on older rules, it must be revised (Charny, 1991).

Because of the differences in corporate governance structure especially the shareholder and legal structure and cultural differences in different country has resulted of the differences of corporate governance system. Given the examples in this paper will show that any attempt to set a universal governance system does not seem to fit with every country. However, if harmonisation means the basic rule or principle

that the academic believe these basic rule or principles does provide some elements that can give the efficiency and effectiveness of the management in pursuing the interest of the company and shareholders/stakeholders, it should be carefully introduced as mentioned and any political pressure from any particular country or any organisation should be left out. Understanding the business culture and atmosphere of each country is a must before introducing any approach. This paper will give an aspect of corporate governance before distinguishing 3 different corporate governance systems in 4 different countries: Anglo-Saxon style (USA and UK), Japan, and Germany so it gives a better picture of differences in corporate systems in each country. Moreover, the example will illustrate that even under the same and different in governance system but because of different culture and business structure specially share ownership and the social value has form different in corporate governance system.

Aspects of Corporate Governance

As mentioned, the corporate governance can be defined as how the company are directed and controlled. The management should run the company in order to serve at the best interest of shareholder/ stakeholders. The problem arises when the management who has an information advantages misused their power against the shareholders' interest. This problem is called "principle-agent" problem. The agent could be defined as a management in which their action can determine the wealth of the principle, which is the shareholder, or stakeholders who would like the agent to act according to principle's interest. The question remains whether whose interest the corporation should be set as a first priority is different among different corporate governance system. In many countries such as Germany and Japan, shareholder interest might not be as important as other stakeholders' interest because of their mandated law or business culture. Moreover, the other principle-agent problem that arise with the other stakeholder can be seen such as when the management has an information advantage over creditor, the problem arises when the management uses the information advantage for the interest of management and shareholder but not

from the creditor point of view, the reason behind that can be understood from the risk of that decision.

Each corporate governance in different country has their own way of management even thought many corporate governance system may be similar in corporate law such as Japan adopted some of US Security Law but there are still many differences, specially corporate structure and social value, because as mentioned, of differences in social, economic, historical background.

There are two types that principle can cope with the agent when they don't behave according to the principle interest. The first one is called the control-oriented approach and second one is called the arm's length approach. The former one tends to fit with the company that owns by a large block shareholder and latter one is for a diverse shareholder company. For the latter one, when there is a problem, shareholder tends to sell their share as a way out (as a consequence, when the share price fall, the company can be easily targeted for a hostile take-over, but the former one the shareholder tends to exert their control through the replacement of management.

As a consequence of differences in shareholder structure, typically, there are two governance regimes, which can be distinguished as "Outsider" and "Insider"

Outsider Regime can be seen as (OECD)

1.) Dispersed equity ownership with large institutions and holding
2.) Recognised primacy of shareholder interests in the company law
3.) A strong emphasis on the protection of minority investors in securities law and regulation.
4.) Relatively strong requirement for Disclosure.
5.) The way to cope the principle-agent problem is through arm's length approach.

In the country that has an outsider regime; it tends to have a dispersed equity ownership especially individual ownership such as in the US. However this trend has been changed by an increasing share proportion held by institution investors such as insurance companies, pension funds, and mutual funds, etc such as in the UK. The way the company in outsider country raise their fund is different than in the insider country because they usually raise their fund through the fully develop capital market.

"Insider Model" country can be characterised by the share ownership that tends to be large and not as diverse as outsider model. Moreover, each company might hold each company share or so called Cross share holding; in which create a long-time and stable shareholder relationship. In this regime, the company usually raises their capital through the bank. Bank has a very important role to provide business information and sometime, the member of bank sits on the board to supervise the company decision such as in Germany.

For an outsider regime, since the ownership become so widely dispersed, which result in the separation of ownership and management, the selection of the board is left to the board itself without any shareholder's influence. Therefore, the dispersion of ownership has resulted to the shift of company management and control from the shareholder to the management team. Two best example countries that can be described these characters are United Kingdom and United States. While the Insider Regime, the ownership is concentrated; therefore, the major shareholder usually selects the board member. The management in Insider model is usually represented and selected by a large shareholder; the regime can usually be seen in many countries that do not usually raise their capital though financial markets such as Germany and Japan.

In an outsider regime where the capital market has been usually developed, if the shareholders do not happy with the performance of the company, the financial market seems to be their best place to enter or exit, therefore, if performance of company does not please investor, the threat of take-over from selling of share through the financial market. . The benefit of this kind of market mechanism is to discipline management to seek a maximum dividend as a company goal. This argument is strengthen and confirm when there has been an increasing number of institutional shareholder where they usually just seek a return as their main objective, because it would be more difficult for management to focus on other matters than making profit as a shareholder will. Another reasons including calculating the cost-benefit of conducting business for other stakeholder such as for community or employee is very difficult to calculate it. However, it would still be difficult to include this cost if there is no internationally acceptance for this calculation.

Therefore, this article sees an importance of share ownership as major factors in differentiating the corporate governance system, at least, board member representative, where most of the company policy is formulated; however, each country still has differences among them such as number of the board, the stakeholder representative, where member of the board are from. Moreover, legal structure and business culture and atmosphere can be the other determinants that differentiate the corporate system as well. The government Policy is also the other determinant of differentiating in governance system such as in goods and services sector. Because in many countries where State Owned Enterprises still plays a very important political reason but the international pressure of privatisation in order to keep up with the global competition, it does require government to enable the law. Without passing any corporate law, that provide an assurance of good corporate governance, it would be difficult for the country to develop a fully functioned corporate law, not only to the Government Owned Enterprise but also to the private company as a whole.

As mentioned, an outsider country where share has been dispersed, the share is usually be held by individuals who rely on their dividend or institutional investor who usually have an objective to maximise the return of their investment. Therefore, when the company is held by these people, the management tends to set the company goal by focusing on profit maximisation to serve the shareholder interest, while in many country such as in Germany and Japan, the company might not have the duty only to maximise the shareholder return but also to serve the other stakeholder interest such as employees, supplier, local country and etc. In many countries, the law provide a mandatory for a company to look after the other stakeholder interest additional from the normal legal by imposing in the company law such as in Germany when where half of the board must be represented by the labour union in company board that have more than 2000 employees.

Legal System

"Differences in legal system are reflected in corporate laws and institution enforcing these laws requirements, structure and composition of boards, and responsibilities of the general shareholders' meeting in limited liability companies;

these similarities conceal deep-rooted differences in legal frameworks" (Berglof, 1997, p. 104).

Understanding each country legal system is very important because it reflected the corporate laws and the business environment. The Anglo-Saxon legal system is different than many countries in Europe. Anglo-Saxon legal system can be described as a Common law system where the law is interpreted by the judges where many countries in Europe; the law is described as a civil law system where the law is made by scholars and legislators. The Anglo-Saxon legal system tends to focus more on the firm as a legal entity and relationship between the firm and its investor while many countries in Europe's legal system tends to give a greater attention on the physical entity such as buildings, equipment, workers and other stakeholders.

There are 4 countries that worth to mention because this will illustrate the differences in each country business atmosphere. Even though one country might adopt law from the other country but because of differences in business practices, therefore, it has left the governance system to be different. There are four countries which are Anglo-Saxon Style, German, and Japan will be mentioned in this paper.

Anglo-Saxon Corporate Governance System: The unitary board of directors is the statutory norm for American and UK corporations (Pinto, p. 261). In the United States, America runs by federal system[1] (Pinto & Vesentini, 1998, p.255). Federal law is enacted by the congress where state law is enacted by state legislation. Each state has its own law and legal system in which corporate laws in different state provide different rule and regulation. Nevertheless, most of the state statue does not significantly different among them. However, some state may provide a greater freedom for management to act than in other states in order to attract the incorporate tax and fee. Therefore, in the US, even though the corporate governance system is

[1] *Federal law in US is different than the State law in a sense that the federal provides less specific law but tends to emphasis on disclosure. There are couple federal security law that deal with corporate governance such as the security act of 1933, 1934 both of which deal primarily on the security offences, to the problem and for 1934 which deal with disclosure, anti fraud-manipulation rule. Federal security law deals primarily with disclosure while state law deals with how the company is managed and controlled. ; A.R. Pinto and G. Vesentini, the Legal Basis of Corporate Governance in Publicly Held Corporations: A comparative Approach(1998) ch.9 p.255*

similar among states but because of the corporate laws in different state provide different statute and regulation, and different in court interpretation, therefore, American corporate governance has created the differences in efficiency and effectiveness of corporate system.

In US, state law as mention, is very important because the state stature and precedent legal view represents how the company should conduct its activities. UK and US court usually pro the market mechanism than any other norms of market intervention, therefore, court usually gives her views that support any means to ensure the market mechanism are fully functioned. UK Corporation and US usually statue in one tier board system with committee for particular task assigned from the board such as compensation committee, auditor committee, and etc.

In US Disclosure, fiduciary duty, and federal security law mandates law. The Federal security law provides many disclosure rules including 1933 Act regulation the sale of securities to investors and requires that whenever securities are sold to the public a full disclosure document is filed with the SEC and made available for the interest of the shareholder to monitor. It can be seen that UK and US believe in market oriented and emphasis in market transparency because they believe that it is the key to increase the efficiency of the market. In UK, the Cadbury report (Committee on the Financial Aspects of Corporate Governance, 1992) also give an emphasis on market mechanism and it also hesitates to regulate the company as been written in the report that

> "The most significant statue is the companies Act 1985, which was a consolidation of a number of previous statues. Two particular features of the companies' act are important. The first is that an enormous amount of discretion is left to individual companies as to the detailed management of affairs "Minimise standard". They produced a Code of Practice, which rejected supervisory boards, and instead relied heavily on the appointment of non-executive directors to single tier boards as important contributors to decision making."

Under the US federal act, in order to rule out the Cartel, the federal act indicates that no one can purchase and held stock no more than 5% of the stock, therefore, this act has strengthen the diversification of shareholder which result of the separation of ownership and control. However, it does means that this kind of act will always be the case that could eliminate the cartel as it happens in Japan.

In the United Kingdom and US, market mechanism plays an important role to monitor the efficiency of the firm. The fully develop capital market has given a firm the threat of take-over and the security regulations such as disclosure requirements, auditing procedures does play an important role to discipline the firm. Capital market in both the UK and the US are exceptionally large and efficiency enough to attract capital. The importance and implication of the US and UK financial market is very important to understand because the public held corporate in UK and US usually raise their capital through financial market. The public markets also have advantages for corporation because the cost of selling equity and debt to the public is generally lower than private sates. The cost is generally lower because the trading markets provide investors with liquidity.

The capital markets both in US and UK is very mature and fully develops. The company can raise their capital for expansion by selling to the public through the capital market. For example in 2012, approximately $55 billion was raised in US public security offering. US and UK's economy are based on efficiency of market. People can buy and sell their share easily through the fully develop financial market and the way to raise their capital in order to venture the new technology is from the financial market as well, therefore, the importance of bank to raise the capital is not as importance as in Europe and in many Asian countries.

As mentioned, this article believes that because of the way corporation in UK and US raise their capital through financial market has created different pattern of corporate governance system through the result of the diversification of share ownership, this differences can be compared between US and Japan where both statue a one tier board system. The system and structure of corporation is so important because it can address the corporate governance problem and effectiveness in different system at different places, at the same time, it can be understood the differences among corporate governance as well. As mention, the US and UK has an

outsider model where share has been greatly diverse, therefore, the separation of ownership and control can be widely seen in publicly trade company in UK and US. As a result of the share diversification, practically, the board usually does the selection of the board member itself. It is different than in Germany or many countries that large shareholder/ stakeholder does the selection of the board member.

As mention that the Anglo-Saxon legal system tends to focus more on the firm as a legal entity and relationship and because the government can enact the law to protect other stakeholder's interest but the shareholders interest, which is the dividend, can only achieve only by the good management decision protected by company law to prevent the management to misusing their power. This is the difference between Anglo-Saxon and many other governance systems that other governance system, other stakeholders' interest is considered to be part of the management decision. For instance, Anglo-American corporate governance system usually doesn't concern much about to lay off their employee where in Germany, the employee representative is required by law to sit on the board therefore to lay off the employee would be difficult for the board to make such decision.

Germany Corporation Governance can be characterised as follows:

1. By law, Germany is statue by a two-tier board system, which include supervisory board and management board. The shareholder elects supervisory board while the management board is chosen and supervised by the supervisory board. The history of the two-tier board system could be seen from the mandatory supervisory board of 1870 and mandatory disclosure which were set for permanently giving up their charter requirement and former state control (Hopt, Klaus J., 1998). The supervisory board is historically established in order to strictly separate outside board to control the management for the shareholder interests and also to protect other stakeholders.

2. Share diversification in German Corporation is rather different than in UK and US Corporation. In 1996 (Klaus, Supra p.232), the domestic shares (nominal value) were held overwhelmingly by non-financial companies (37.3%), while private households and institutional investors had a much smaller part of the shares (private households including organisations: 15.7% banks and investment funds: 9.5 and 5.8

%; insurance companies: 5.6% public sector: 10.9%). 85.4% of the largest quoted companies had a single (major) shareholder owning more than 25% of the voting shares, and 57.3% had a majority shareholder. The typical publicly held corporation can be seen as one controlled by a large shareholder when minority has little say in the corporate decision, these was accounted for at least 90% of AG in Germany (Pinto & Vesentini, 2002, p.60). It usually belongs to the groups including the small family companies, corporations with single shareholders, subsidiary corporations. Only 10 percent of AG has a similar shareholder pattern like in the UK and US where there is no major shareholder that can influence the business decision (Pinto & Vesentini, Supra). In Germany, there is no statue indicates the limitation of the share that the individual or corporation can held like in UK and US. Therefore, shareholders in Germany can be seen not as diverse as in UK and US.

3. The role of the bank in Germany is considered to be in a close relationship with the industrial enterprise. The universal bank role for German bank and the bank proxy vote in the form of depository bank plays an important tool for the bank to keep their influence in the business industry. Historically speaking, because of the universal role of the bank as a capital and information provider, it might create the psychologically disincentive for the development of the capital market as well. In Germany, the stock corporation or so called (Aktiengesellschaft, AG) was traditionally a transformation of the saving the private households into permanently committed investment capital to secure the financing of capital intensive prosperity in the hands of private entrepreneurs. To be listed in the Germany stock market, the formation is complicated and costly (Pinto & Vesentini, Supra p.54). In Germany, Stock exchange market is not the only place where the public can buy or sell their share. The publics can buy/sell their securities to the bank and to the grey market. The grey market is the market for all investments that are not publicly traded at the organised market, such as the stock exchange and includes investment opportunities such as commodity further transactions and shares in large partnerships. The Grey market is considered to have less legal structure than the stock market. However, before 1989, the securities market has a more or less clear legal structure (Pinto & Vesentini, Supra p.54). In the past, raising capital through the financial market was not considered to be favourable because of little confidence in the securities market;

therefore, the bank plays a very important role as a lender and information provider. The similarity of bank role in both Germany and Japan has been recognized, even though the corporate system is different. It could be explained as a business culture. However, nowadays, the bank dominant and raising capital through the capital market has been constantly changed, nevertheless, lags of capital market development in the past decades have created the distortion of the efficiency of the stock market, as a consequence of the lack of the development of capital market, the role of market take-over is still far behind the US and UK. In the past decades, the attempt of hostile take-over in Germany was happened only few cases. It is necessary to consider this point as a very important point in term of market force and market efficiency because management board in US and UK do make their decision with discretion of market take-over but in Germany because of lack of market force the voting of the board, rationally, based on the interest of the certain group of shareholders. Considering from this economic point of view, it can be said that market force in Germany Corporation is not functionally efficient as in UK and US.

4. Stakeholder Interest: The constitution of the supervisory board is regulated specifically in the law that employment participation is necessary. For the company that employ more than 2000 employees, half of the supervisory board must consist of employee representatives otherwise at least one-third and one member of the management board must come from employee's representative. Therefore, the consistence of board does create the obligation of the board, not act only the shareholder interest but also employee interest. Therefore the decision of management board and supervisory board that reflect to the governance system is definitely different than in UK and US. In Germany, the board decision regarding the employee is definitely more concerned.

Japanese Corporate Governance: Japanese corporate governance is different from Germany and US even though the legal structure was modelled both from the US and Germany. Japanese commercial code was originally modelled on the German Commercial code of the late 19th century and later after World War II, it was adopted some of the law by American rule, specially, the Securities Act of 1933, and the Securities Exchange Act of 1934 .

The Japanese board structure is a one-tier board system like in the UK and US. Number of directors is higher compare with other countries. It was usually consist with former senior employees and retired senior government office. Comparing between US and Japan where there is no employee representative on the board but it can be understood that it is their business culture that Japanese companies consider running for the best interest of employee and when they faces with the financial distress, there first choice would not to lay off their worker which is totally different than in US and in UK that could be easier. This point could be explain from the business culture and logically explain that because of the board member consists of former employee, therefore, the board might understand the importance of employee feeling more than in the US and UK corporate culture where board are from managerial labour market.

There are five stock exchanges in Japan; of which the largest is the Tokyo Stock exchange (www.wikipedia.com). As of 2013, there were 3,000 publicly held business companies listed on the five stock exchanges in Japan and the Tokyo Stock Exchange had 2,292 listed stock companies. However, the way most Japanese corporate governance usually raises their capital through the bank and in return banks also hold shares of other companies for investment purposes. It is very important to consider from the point because Japanese capital market is considered to be one of the biggest capital market in the world. However, because of their business culture that the bank plays a dominant role in raising/ providing a capital to the company, this is similar to Germany where it has different in governance system.

In Japan, the main bank is primarily to provide debt financing, business advice; however, the bank plays a minor disciplinary role in Japanese corporate governance which is different than in Germany where bank sits and monitor the corporate decision. Even though there is a similarity between Germany and Japan that the corporation raise their capital through the bank but the difference still remains to be seen that in German, board structure because Japanese bank usually does not send their representative to sit on the company board unless such corporate face some financial trouble until then bank will interfere with corporate management. Today, the ownership structure of listed companies in the eight stock exchanges is roughly as

follows individuals own 24% of the total shares listed on the eight stock exchanges; financial institutions own 43% (bank owning 22%, life insurance companies 11%, and investment trusts 2%) and non-financial companies own 24% (Hideki, 1998). As mentioned, the corporate share ownership in Japan is very complex. The financial institution held most of the share. Others are usually held by stock holder by companies is commonly known as keiretsu[2] (Pinto & Vesentini, 1998). The Japanese corporate structure is quite special in term of long-term commitment because of stable and extensive shareholding from the suppliers, bank, financial institutes constitute a majority of the firms, does create the commitment as a shareholder but at the same time, shareholder becomes a stakeholder as well. Therefore, when there is a financial distress, the shareholder does not usually sell their share but they prefer to sit down and solve the problem, which is than in UK and US where the investor sells their share as a way out. Considering from this point of view, the stable shareholder has created the impossibility of a hostile takeover. Moreover, when the firm face the financial distress, the main bank and parent firm will intervene in corporate management in informal rescue operations rather than the market take-over and also under the Stock Exchange Law, the regulation of stock tender offers was restrictive (Hoshi, Supra, p.864). Worth to note that, under the act that adopted from the US (Securities Act of 1933, and the Securities Exchange Act of 1934 which provide disclosure and anti fraud rules) specific that no company shall hold the other company share more than 5% in order to protect the monopoly and cartel. However, even though, there is the anti monopoly and cartel but, in the past, it did not actually work as a result of Ketratsu.

It is also very interesting to understand the Government role in corporate governance system in Japan because it seems that the Japanese government do intervene business decision through the industrial policy, which is often implemented

[2] *Keiretsu is the case when a series of suppliers are organised under a prime manufacturer to form production keiretsu, or when a series of distributors are organised under a manufacturer to form distribution keiretsu. Customer-suppliers relationship observed that in Japanese production keiretsu is not limited to cross-shareholding, Japanese corporate governance gives suppliers and customers equity stakes in each other to reduce the agency problem and suppliers and customers are often members of stable shareholders which also prevent the hostile take-over. From Takeo Hoshi: Japanese Corporate Governance as a System pg. 864, A.R. Pinto and G. Vesentini, The Legal Basis of Corporate Governance in Publicly Held Corporations: A Comparative Approach(1998)*

through administrative guidance without specifically relying on formal laws(Hoshi, Supra, p.862). Moreover, as mentioned, that Japanese corporate board consist with the retired government office, this is itself show that the influence of the government over private firm to intervene in the management if necessary. As a consequence of these two, it indicates that the government has a very important role for corporate policy formulation in which totally different than in Anglo-Saxon where rely on market mechanism.

Additionally, the lack of managerial labour market in Japan is also the other differences among governance system. Japanese human resource management is characterised by ranking hierarchy. Their promotion will be considered from the satisfactory criteria, which will be monitored by their supervisor. Japanese workers expect to stay in the company until their retirement. Commitment in Japanese corporate system can be seen as a very important term because it fit with their corporate system in the term of Keiratsu.

Countries	Insider Model	Outsider Model	Shareholders structure	Tier Board System	Importance of stakeholders
US and UK		✸	Dispersed equity ownership	One Tier	No
Japan	✸		long-term commitment because of stable and extensive shareholding from the suppliers, bank, financial institutes	One Tier	Yes
Germany	✸		Large, long-time and stable shareholder relationship	Two Tier	Yes

Conclusion

Corporate Governance is how the companies are directed and controlled by management at shareholder or stakeholders will. It should be understood that good corporate governance could provide a good picture of a joint interest between the management and other stakeholder. Each state's corporate governance system has its own strengths and weaknesses. Therefore, it is very important to understand how the business practices and legal structure of each country before introducing any finish package to them because it can be misguided.

Nowadays, globalisation does not limit the company from adopting from one system over the other. For instance, Ford Motor Company has adopted extensive cross-ownership relationship through equity holdings, acquisitions, alliances and research consortia, practices common in the Japanese keiretsu. German firms, such as Daimler-Benz, Deutsche Telekom and Hoechst have altered their financial disclosure practices to gain access to American financial markets. The Japanese are reforming and permitting access to their financial markets, including the adoption of more transparent accounting methods and the use of stock options to motivate managerial employees (Rubach & Sebora, p.168). Under the one tier board system, it is very hard to imagine adopting Japanese corporate governance system in US atmosphere where in US the board is from the managerial market while in Japan, it consists of former employee. Moreover, the governance system, especially, keiratsu seems to be permitted by the Japanese government even though it is, theoretically, against the objective of the adoption of the US Securities Act of 1933, and the Securities Exchange Act of 1934, which provide disclosure, and anti fraud rules. Therefore, as a consequence of differences in legal system, business environment, and share ownership, it would be better not to harmonise the governance system. However, the legal system should be flexible enough for company to adopt the system that company believes to be their best. There is no perfect governance system because each has strengths and weaknesses. The company preference or the company own combination with strong fundamental principles of corporate governance, which must be very careful to introduce, should be desirable. It is difficult to say which governance system is the best in the business environment; the atmosphere from one place is

different from the others so any policy formulations need to be carefully introduced in this globalized world.

Bibliography

Berglof, E. (1997). *Reforming Corporate Governance: Redirecting the European Agenda.* **Economic Policy**, (Number 24)

Charkam, J. (1994). **Keeping Good Company**. Introduction.

Charny, David. (1991). *Competition among Jurisdictions in Formulating Corporate Law Rules: AN American Perspective on the "Race to the Bottom."* **The European Communities**. Harvard International Law Journal, 32 (2).

Grundei, J. & Talaulicar, T. (2002). *Company law and corporate governance of start-ups in Germany: Legal stipulations, managerial requirements, and modification strategies*. **Journal of Management and Governance**, 6(1), 1-27.

Hideki, K. (1998). Comparative Corporate Governance Country Report: Japan. Comparative Corporate Governance: The State of the Art and Emerging Research, Ed. Klaus J. Hopt, Hideki Kanda, Mark J. Roe, Eddy Wymeersch, and Stefan Prigge. Oxford: Clarendon Press.

Hopt, K. J. (1998). *The German Two-Tier Board: Experience, Theories, Reforms*. K.J Hopt et al. (eds), **Comparative Corporate Governance: The State of the Art and Emerging Research**. Oxford: Clarendon Press.

Hopt, K. & Leyens, P. (2004). *Board models in Europe–recent developments of internal corporate governance structures in Germany, the United Kingdom, France, and Italy*. **European Company and Financial Law Review**, 1(2), 135-168.

Hoshi, T, & Kashyap, A. (2004). Corporate financing and governance in Japan: *The road to the future*. MIT press.

Jungmann, C. (2006*). The Effectiveness of Corporate Governance in One-Tier and Two-Tier Board Systems–Evidence from the UK and Germany*. **European Company and Financial Law Review**, 3(4), 426-474.

Kanda, H. (1998). *Comparative corporate governance country report: Japan*.

Keasey, K., Thompson, S. & Wright, M. (eds.). (1997). **Corporate Governance: Economic, Management, and Financial Issues**. Introduction.

Mayer, C. (1997). *Corporate Governance, Competition, and Performance.* **J. of Law and Society**, 24(152).

Nestor, S. & Thompson, J. *Corporate Governance Patterns in OECD Economies: Is Convergence Under Way?,* at: http://www.oecd.org/daf/corporate-affairs/governance/in-Asia.htm.

Parkinson, J. (1998). **Corporate Power and Responsibility**. Oxford: Clarendon Press.

Pinto, A.R. & Vesentini, G. (1998). **The Legal Basis of Corporate Governance in Publicly Held Corporations: A Comparative Approach.**

Rezaee, Zabihollah. (2008). Corporate Governance and Ethics. June.

Rubach, M. J. & Sebora, T. C. (1998). *Comparative Corporate Governance: Competitive Implications of an Emerging Convergence.* **J. of World Business**, 33(167).

The Committee on the Financial Aspects of Corporate Governance (the "Cadbury Committee*"). Report and Code of Best Practice.* (1992).

OECD Principles of Corporate Governance (available at http://www.oecd.org/daf/ governance/prinicples.htm) www.wikipedia.com accessed on 7th April 2014.