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The Models of Corporate Governance

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Abstract*: The approaches to defining the concept of "corporate governance" by various authors have been considered, analyzed, and systemized in the present article. The world experience and corporate governance models used in various countries have been regarded, and the characteristics of these models have been analyzed. The main peculiarities and causes of the emergence of models in an economic system have been determined. It has been revealed that the English-American system is characterized by the dispersal of investors, i.e., there are many independent investors, both private and institutional. Due to the inconsiderable use of stock exchanges and external investments, the German system has provided commercial banks with the dominant share of the companies' governance. The system is distinguished by a high concentration of equity. The Russian model is a hybrid transitional variant that had arisen because of "wild capitalism" at the dawn of the transition from the planned to the market economy.

Keywords*: corporate governance, American model, German model, Russian model.

I. INTRODUCTION

The current situation in the economy requires differentiating forms of governing various facilities used for economic activities. One of the most efficient forms of managing business entities is corporate governance. The problem of corporate governance is addressed by many researchers, both in Russia and around the world. After all, it can solve many problems managers face at the current stage of the economic development.

First of all, these are the creation of efficient mechanisms for governing the company's property, and the compliance with the interests of all parties involved in allocating financial flows of the company. The issues on separating the functions of owning and governing companies, and restoring relations between various economic organizations are urgent. In addition, successful corporate governance allows solving the problems on ensuring the investment attractiveness of the company for investment funds, as well as promoting the efficient and systematic integration of the company into the global financial community, which is a necessity due to the globalization of the entire world economy [1].

A lot of aspects related to the corporate governance had caused the situation that many of their key issues were studied differently. In addition, there are various approaches to studying and interpreting "the corporate governance" itself, and most of the issues were studied superficially. All these points make the study of this theme even more urgent. First of all, the authors will consider well-known approaches to interpreting the term "corporate governance", and the common features will be defined. In order to carry out a comparative analysis of corporate governance models, it will be necessary to reveal the essence of each of them, systematize these approaches, and determine the stages of the national model development.

There are many issues related to improving the corporate governance. Thus, Omar A. Esqueda and Thomas O'Connor [2] believe that the decision on including securities in the stock exchange list (a list of securities allowed for the exchange trading) and monitoring the compliance of securities with the conditions and requirements established by the exchange are the best indicators of the corporate governance quality. Previously, the authors considered the benefits of having a CEO and independent directors in the board of directors of a company [3]. Souhir Neifar and Anis Jarboui have the same opinion [4]. Julian Atanassov and Aaron J. Mandell [5] determined that the companies with the weak corporate governance paid more cash dividends than the ones with more efficient governance. This creates the principle of operation for the benefit of the company rather than for the benefit of shareholders. There is a thought about the balance between moderate payments to shareholders and the increase in the value of the company and the market value of shares. Ozge Uygur [6] believes that the success of the corporation depends on the professional abilities of the CEO, and the governance transparency depends on this. The more professional the CEO is, the more transparent the governance is, and vice versa, less competent CEOs hide their mistakes behind nontransparency. Ilhan Ciftci et al. [7] use the example of Turkish companies and define the concentrated ownership as a success factor for a company. Especially, this principle applies to family companies. They also determine that the foreign capital improves the corporate governance. Mauricio Jara et al. [8] believe that the control carried out by several large unrelated shareholders is becoming an important mechanism of governing the company.

The standards can be carefully developed in one country, but their use in another country/company can be poor. Thus, any good governance idea can fail when implemented.

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These above results of the authors whose works were studied suggest that there is no single universal solution in the area of corporate governance of companies. Depending on this, there is a need to form own model of the corporate governance.

II. PROPOSED METHODOLOGY

A. General description

Any theoretical scientific study is based on the scientific method. In its turn, it is based on forming a unified idea about the object under study, its properties and regularities. There are several methods to study managerial regularities. In this work, the main methods will include the inductive and comparative ones. When studying the essence and interpreting the term "corporate governance", it will be necessary to study the opinions of other authors on this issue, to understand the depth of their studies and work out the own position, i.e., to move from a single to a common one. When studying the corporate governance models used in various countries of the world, it will be necessary to use the comparative method, highlight the most important homogeneous characteristics, and reveal trends and regularities of the development. Schemes of each governance models under study will be compiled for the comparison clarity, and the general summary table will be made. Based on the comparative method, it is possible to analyze the processes and conditions that have caused particular features of a certain corporate governance model. The sources for the analysis consisted of articles from periodicals, including works by Russian authors.

B. Algorithm

In recent years the term "corporate governance" has being actively used in various areas of our lives. It is used in the news and by the government, businessmen and other persons. However, according to most researchers, the corporate governance must be studied deeper, but this is not happening due to the lack of a unified opinion and a unified approach to the scientific interpretation of this concept.

In the references and official documents, there are dozens of different approaches to defining the corporate governance. The Federal Service for Financial Markets of the Russian Federation offers several variants to define this concept. According to the service specialists, the corporate governance is a system of reporting to shareholders by the individuals who are directly involved in governing the company. In addition, the corporate governance can be considered as a way of governing the company, ensuring the equality and fairness when allocating the results of the company, both to shareholders and other interested parties (creditors). The corporate governance is also interpreted as a set of measures to control the governance by shareholders, as well as a system for relations between owners and managers of companies [9].

The essence of the corporate governance is expressed by these definitions, both jointly and individually. Thus, the essence of the concept is expressed in separating the governing management and the owners of the company in the cases when the owners cannot independently monitor the implementation of management decisions.

The problem on to the lack of a universal term is related not only to the Russian realities. Neither American economists, the founders of corporate governance, nor scientists from other countries were able to develop a unified opinion on this issue. Let us consider the most urgent and modern versions of the term that include additional copyright aspects in addition to the basic principle.

The term is often used by the Russian Institute of Directors that considers the corporate governance as a system of relations among owners, groups of shareholders, and the company management aimed at ensuring the members' interests and the efficiency of activities, compliance with social goals and public interests. The concept is urgent due to the attention to the social responsibility of companies. Today the corporate transparency and social responsibility are a separate area of many researchers' activity [10]. The transparency of governance and decision-making is believed to improve the company's competitiveness and investment activity. Today, it is necessary to improve the disclosure of information on corporate governance, and to change the standards for its formation and spread.

Other authors note the systematic nature of the corporate governance, and define it as a governance system that includes a combination of the modern governance system and the automated governance system aimed at coordinating the interests of shareholders and management through the reliable and objective functioning of the company's management. Some researchers note the normative approach to the definition and interpret the corporate governance as a system of relations, both property and organizational, regulated by legal norms and used to realize and protect investors' interests.

Another definition of the corporate governance is a targeted continuous regulating effect on the behavior of individuals participating in the activities of the company within corporate interests or related to labor relations. These actions are taken through the managerial relations between the subject and the object of the corporate governance organized between these people.

In addition to the above concepts, there are many various theories and approaches to defining the corporate governance. In general, the corporate governance can be interpreted as a process, a unified governance and monitoring system, a system of relations formed when developing the company's strategy, governing managerial decisions and the mechanism for exercising power. All above definitions are based on the relations between shareholders of the company, management, the board of directors, and other individuals [11].

It is important to note the role of the board of directors in the corporate governance. The overall enterprise governance system is a combination of the corporate governance and business governance. The board of directors fulfills functions in all areas of the governance system. Key issues are known to be resolved by the shareholders' meetings. At all other times between meetings, managerial decisions are taken by the board of directors. Thus, it protects the interests of shareholders in conflict situations with other agents [12].

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More recently, other interested groups have been included in the number of participants of corporate relations who have active impact on the management. First of all, these are creditors who expect to get a part of the company's profits in accordance with the previously concluded agreements. In addition, these are the staff and partners who are interested in the sustainable position of the company, job preservation, and business development. The last group includes the authorities, both regional and local. They are interested in developing the business to increase tax revenues and create new jobs [13].

Based on the interpretation of the concept "corporate governance", it is possible to distinguish its main principles. First of all, it is necessary to balance the interests of all shareholders, regardless of their categories. Besides, the activities of the governance system and the board of directors should be fully controlled by shareholders. There must be a clear distinction between the company management bodies, i.e., between shareholders, executive bodies, and the board of directors. All decisions made and executed must be absolutely transparent to all participants of the corporate governance. In their turn, the supervisory authorities must be completely independent [1].

The organizational structure of the corporate governance can be assessed by using integrated indicators offered by the researchers [14]. The final version of the organizational structure can be assessed, and the comparative analysis can be carried out before and after the changes.

III. RESULT ANALYSIS

A. World corporate governance models

Let us start with the American model because the American economists initiated the corporate culture and have the largest experience in this area. The main agents in the American model are management, shareholders, and the board of directors. This type of governance is peculiar by the fact that the company ownership and governance are completely separate. It means that investors invest their own funds and become business owners, but at the same time they bear no responsibility for its actions. All powers on decision-making and governance belong to the management that obtains agent fees [15].

There is often a difference of opinions between shareholders and management, and they try to solve this by legislative means. First of all, shareholders are obliged to select the board of directors that will have impact on the management as a proxy of the company's owners. In addition, the board of directors usually includes two types of employees. The first type includes employees of the company or an individual who has property interests or relations with the company management. The second type includes independent directors who have sufficient competence and professionalism for such work. Such individuals are involved by shareholders in order to avoid direct contacts of the board of directors with the management.

Initially, the American system established the rule that both the CEO of the company and the head of the board of directors was one and the same individual. In practice, this caused local abuses because all the company's power was concentrated in the hands of a single person. This causes the further deterioration of the situation, the desire of the management and the board of directors to retain the power, without paying attention to the interests of the company's owners.

However, over time, the situation has changed, and today such combination of positions is less common. First of all, this helps to avoid abuse. Secondly, it improves the performance of the company because the functions of these positions are very different. The professional and personal qualities of two specialists holding these positions at once allow achieving advantages.

The model was formed under the conditions of the already developed securities market. Therefore, the population and institutional investors invest in companies. In the American governance model, banks play an insignificant role due to the legislative prohibition on the disposal of more than five percent of the companies' shares by credit organizations. Such measure is necessary to ensure the transparency of operations and to prevent speculations.

Below is the scheme representing the model of the English-American corporate governance system (Fig. 1).

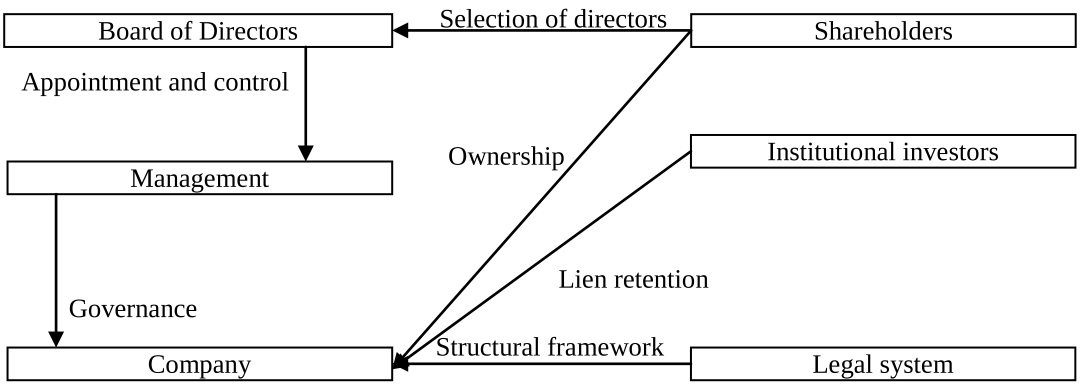

Fig. 1: English-American model of corporate governance

Let us move on to the next model of the corporate governance. The so-called continental or German corporate governance model is characteristic of the Western Europe. This model has historically been characterized by the concentration of capital. Shareholders are directly involved in governing the company. In addition, the management reports not only to the owners, but also to the labor unions.

Unlike other models, commercial banks play an important role in the continental model. They are directly involved in governing companies, and bank representatives are full members of the board of directors. At the same time, the board of directors is divided into two parts. The first refers to the board, and includes the administrative staff. Representatives from labor unions and shareholders are members of the supervisory board. Both these parts are completely independent. Their size and inclusion of the company employees in the list of inspectors are fixed by the law [16].

Historically, large German companies chose bank loans rather than issuing securities as a source of financing. For this reason, the German securities market, as well as the ownership of companies by private investors is very small. Today, more than half of the shares of German holdings belong to foreign investors, about a third – to the banking sector, and about 10% – to private investors. Let us schematically represent the German corporate governance model (Fig. 2).

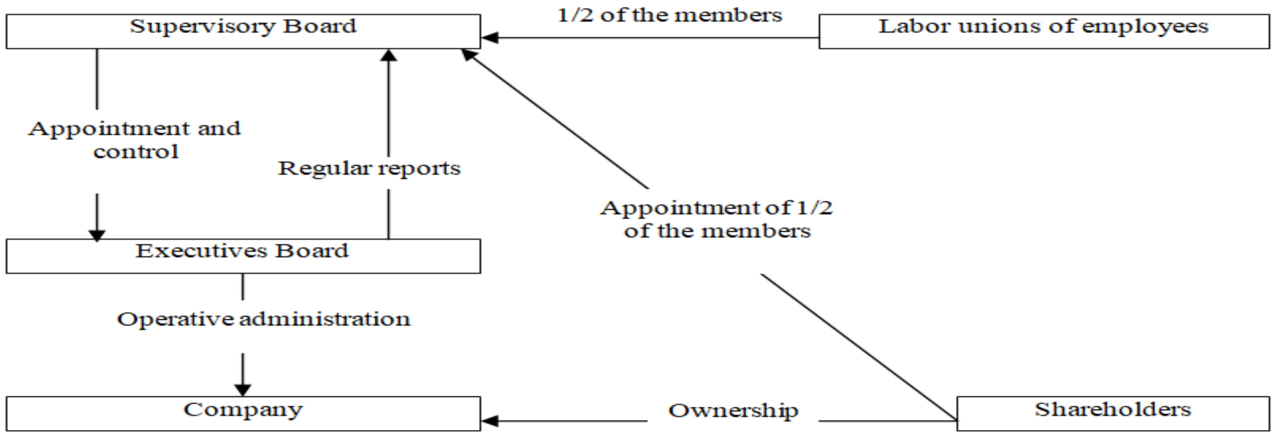

Fig. 2: German Model of Corporate Governance

The Japanese corporate governance model is seriously exposed to the national culture. Most Japanese largest companies are holdings formed on the basis of a large bank. In this case, the credit institution provides all companies with stable financing, which in its turn protects against the merger by competitors. The model is based on the maintenance of long-term relations between companies of the group and the bank, and the tactics of protection against external influences.

The model aims at meeting the needs of credit organizations. Thus, all control is inside the holding because companies do not undergo external threats. Shareholders are actively involved in managing the company for greater incentives and maintaining the balance of interests between employees and partners.

Today, public administration in Japan seeks to ensure the flexibility of financing companies, to ensure an adequate level of assistance between the holding and the credit institution. The Japanese model provides owners with control over the governance of the company.

The board of directors of Japanese companies, in fact, has no independent members. Despite several key players in the governance model in the form of the main bank, the management, state and affiliated companies, this sometimes causes scandals and undermines the confidence in this type of corporate governance.

Another unique element of the Japanese model is its corporate governance expressed in the active development of the corporate culture, as well as in the system of lifelong recruitment. According to the statistics, more than half of the employees of Japanese holdings work there throughout their lives [17]. Below is the scheme of the Japanese model (Fig. 3).

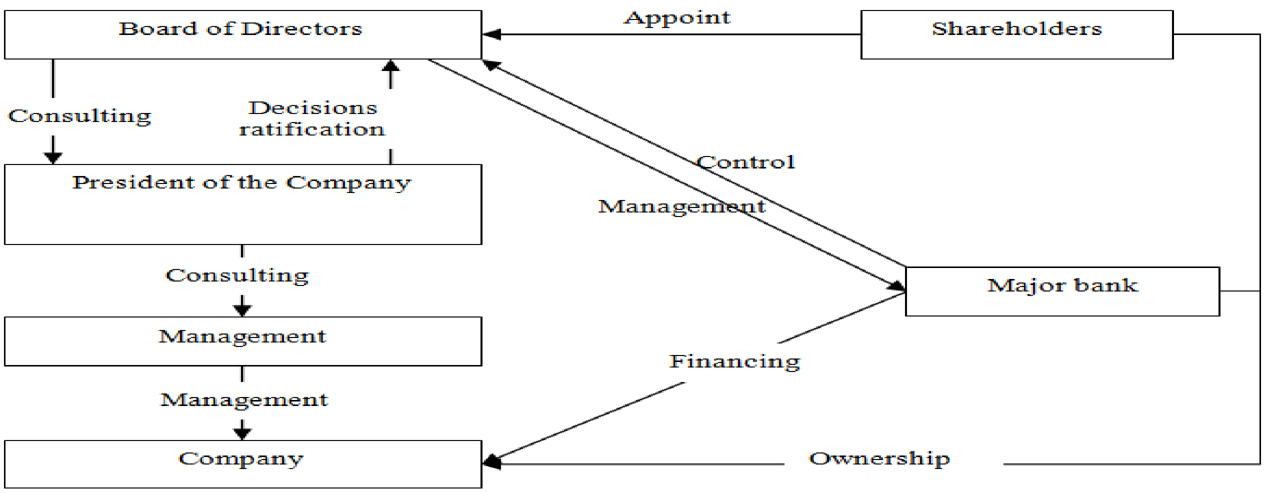

Fig. 3: Japanese Model of Corporate Governance

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B. The Russian model of corporate governance

The Russian model of corporate governance, due to its recent formation, belongs to the mixed types. As a rule, such types are typical for countries with mixed economies. The formation of the model began after the transition to the market system and mass privatization in the 1990s. It is important to note the spontaneity of its formation. The basic processes began at the beginning of the 21st century.

The Russian system is based on the American model. This choice was substantiated by the greatest development and the democratic nature of institutions. The re-allocation of funds of companies' owners through stock markets was supposed. However, due to various factors, from cultural peculiarities to the political and economic system, it was transformed and took a lot of features from the German model [18].

The Russian model is mixed, and tries to combine the opposite approaches. Despite this, the model can be considered independent because today in the Russian Federation there are no conditions for the full use of any other models in their pure form.

The most important features of the Russian model are several factors. First of all, this is a large share of speculative operations and the continuation of the struggle for the seizure of property without real investments in the company. Secondly, this is a serious influence of the dominant owners, who use their relations in governance and management and try to remove the remaining shareholders out of the business. As a result, the investment attractiveness of Russian companies is being reduced. Due to this, companies have to rely only on their own funds to invest in new projects. This fact, as well as the privatization create large oligarchic groups that fight for the power over large companies, which does not bolster confidence in sustainability and development.

Most large corporations unite with the state, which causes a conflict of interests and administrative pressure on business structures. In addition, the stock market and institutional investors are not developed under the Russian conditions. Only large owners dominate on the market, and the opinion of small shareholders is not taken into account. In corporations, the basic rule of separating the property and management rights is often violated. Often the owner deprives the management of the powers and independently resolves all issues, or on the contrary, the management usurps the powers.

As a result of the ongoing processes, the managerial capitalism is formed in the country. In other words, there is a merger of powers and company management. Most often this means the desire for quick profit, without taking into account the interests of either the state or workers. According to the Russian law, there are four variants for managing a corporation. Below is the diagram of the Russian model of corporate governance (Fig. 4).

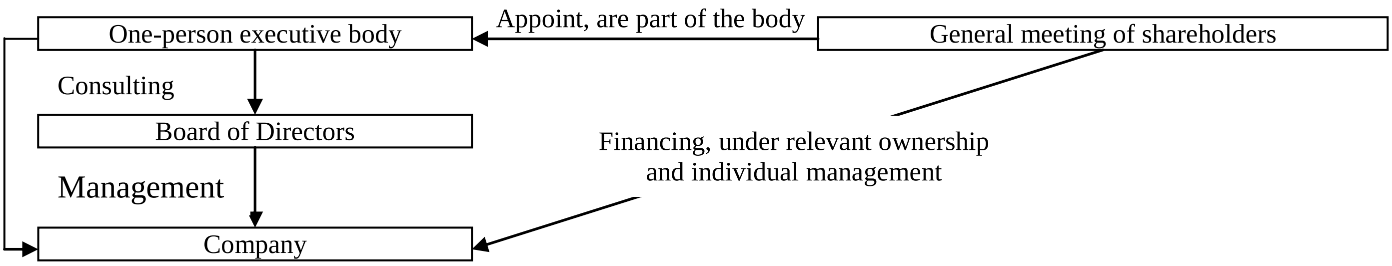

Fig. 4: The Russian model of corporate governance

The main disadvantages of the modern Russian model of the corporate governance include several points. First of all, the concentration of ownership by insiders who make decisions in their personal interests. Managers often make decisions without the board of directors. Many companies perform financial transactions in a nontransparent manner, which makes it impossible to assess its condition. Companies often do not have long-term strategies, and are financed only by internal sources.

Below is the comparative table of the corporate governance models (Table 1).

Table 1: Comparison of corporate governance models

Characteristic	English-American model	German model	Japanese model	Russian model
Main peculiarity	Considerable number of independent shareholders. The capital is raised through the capital market.	Based on the bank financing, credit organizations possess the controlling stake. Few large shareholders.	Bank financing is preferred. They are the main shareholders. High concentration of ownership.	Mixed system. Transfer from the American to Japanese model (occurrence of financial and industrial groups). The ownership is concentrated with managers.
Main members	Stock exchanges, government, management, directors, institutional shareholders	Banks, employees, corporations	Key bank, financial holding, government	Managers, shareholders
Capital market development	High liquidity, prevalence of private capital. Investors are interested in short-term investments	Focus on long-term investments, liquid market	Focus on long-term investments, liquid market	Low liquidity, short-term investments are preferred.

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Board of Directors	Joint, strive for increasing the share of independent directors	Consists of two parts, the Board fulfills the main functions. The Supervisory Board carries out control.	Internal members, no independent directors	Insiders, striving for increasing their share in the company
Members' interrelations	Formal, the ability to vote distantly	Formal, the need to be personally present at the meeting	Non-formal	Confrontation
Financing	Capital markets	Banks	Banks	Own funds
Bankruptcy threat	Medium	Weak	Weak	High

IV. DISCUSSION

According to analyzing the main corporate governance models, it is possible to make conclusions on each of them. The English-American system is characterized by the dispersal of investors, i.e., a lot of independent investors, both private and institutional. They focus mainly on short-term goals for earning profits. The system has developed due to the active development of the US stock market and the free access of private investors to it. In addition, the law prohibits banks to own large shares of companies in order to avoid speculative operations.

Due to the inconsiderable use of stock exchanges and external investments, the German system has given the dominant share in the companies to be managed by commercial banks. The system is distinguished by a high concentration of the capital stock and a small amount of securities owned by private investors. A unique feature of this model is the participation of employees in managing the company.

The Russian model is a hybrid transitional variant that was caused by the "wild capitalism" at the dawn of the transition from the planned to the market economy.

The initial vector of development according to the American system was replaced by turning to the Japanese model. Today the corporate market is peculiar by a large number of majority shareholders. Initially they appeared due to the distrust to the economic system, and after the privatization they turned into a means of capturing the insider information, the sole ownership, and governance of the entire corporation.

V. CONCLUSION

The globalization, which covers all large markets and organizations, will change corporate governance models. However, today the classic models that have been considered are the quintessence of the ways to manage companies in various regions of the world. The peculiarities of the models are substantiated by the economic, historical, and social development of the country. When forming unique systems based on those used in other countries, it is necessary to take into account all peculiarities of the cultural and economic development, legislation, and the history of the region.

All tasks set for this work have been completed. The main difficulty in analyzing this theme is the concept of the corporate governance that has not been unified. It includes rather many terms and determinations of various systems of business entities and their status.

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