Global corporate governance standards: pros and cons

1. 0 Background and history

Increasing numbers of public companies and shareholders base lead to shareholders of the companies not involved in management and control their own company. Thus, they employed professional managers to running their business as a result some of the managers are not working on the behalf of shareholders and caused companies collapsed through financial statement fraud and money laundering. The case Watergate scandal due to break-in to Watergate building complex in the United States at 1970s had lead to arising of Corporate Governance. Besides, UK had experienced increasing numbers corruption by senior executives or director in late 1980s and early 1990 as well. Corporate such as Enron scandal in US caused by conflict in interest of Arthur Andersen which was as an auditor and consultant at the same times lead the Enron Corporations and one of the five biggest accountancy and audit firms in the world collapsed. Besides, Lehman Brothers and several UK and European Banking Groups were collapsed in recent year at September 2008 due to poor corporate governance. Thus, Corporate Governance is " the system by which companies is directed and controlled" (Cadbury Committee, 1992) in order to avoid fraud happened. It is the responsible of Board of Directors to governance their companies and work on the behalf on stakeholders in their companies. Due to control failure at several major corporations, USA and UK had introduced numbers of guidance reports and laws in individual country in order to have an effectiveness internal control, independent audit committees, and director's remuneration packages results in increase the reliability of financial statements. For instance, there was Foreign and Corrupt Practices Act of 1977 and Treadway Report published in

1987 at US while there was Cadbury, Rutteman, Hampel and Turnbull reports available at UK since 1992

2. 0 Advantages and disadvantages of global corporate governance standards

Since we are moving toward globalization of business and growth of global capital market, there are quite a numbers of advantages of implemented global corporate governance standards as a basis to replace national basis of corporate governance. Meanwhile, organizations all over the world are adopting same principles of corporate governance which it can reduce cost of organizations compare to national basic of corporate governance. It is expensive to cost organizations when they adopting additional set of rules imposed by local government. Stanwick (2008) claimed that " in direct response to the corporate scandals of Enron and WorldCom, the Unites States Congress passed the Sarbanes-Oxley Act (SOX) in 2002. When it passed in 2002, many corporations were vocally opposed to it and claimed that is was just an additional set of government regulations that would cost additional time and money which they could not afford in an increasingly competitive global marketplace". Additionally, it can ensure foreign investor no need to facing multi-codes when they are investing at overseas. For instance, Combined Code at UK based organizations and SOX at US based organizations would be removed. By the way, all organizations implemented global corporate governance able to stimulate performance of top-level management. Since institutes clear accountability and effective link between reward and performance, top-level management will on the behalf of stakeholders and adherence to the standards.

Moreover, investors investing their capitals in others countries would get better protected and would be more safety compares to every countries implementing different set of corporate governance standards. Roussey (1997, pg207) stated that “ once a business entity lists its shares outside of it national borders, it should be subject to a set of global corporate governance rules”. It can effectively decrease the chance of top level management using investor’s capital for self-interest as well as it required companies to disclose all relevant information while implemented global corporate governance standards. Thus, “ high quality financial reporting and credible accounting provides the transparency than enables investors to make informed evaluation of investment opportunities” (Sutton, 1997). Besides, it can attract more foreign investors to invest in the capital market since risk of investors invest in foreign country has reduced and capital markets has becomes more stability. Consequently, there is more and more investors invest in capital market results in organizations getting abundant funds to running their business as well as shareholders getting more dividends in return. Next, global in business move toward to use of global shares. As it enable investors to access home country capitals market and non home country capitals market by using same form of shares. “ In November 1999, for example, Daimler-Chrysler listed on the New York Stock exchange the same shares listed in its home market” (Roussey, 2000). Despite of this, it is needed to implement global corporate governance standard to effectively protect shareholders capital.

Furthermore, implemented global corporate governance standards can effectively counter financial statement fraud and money laundering by top management which led to corporate collapse. Otherwise it will back to the situation of severe misstatement of financial statement happened in 2002 such as Enron, Tyco, Global Crossing, and Worldcom. All of these are due to nation poor corporate governance exists at those companies and has introduced new corporate governance standards like Sarbanes-Oxley Act (SOX) in 2002 to replace previous standards. Under International Standard on Auditing (ISA), " auditor has to communicate audit matters with those charged with governance of an entity in all audit situations, and not just in audits of publicly traded entities" (Roussey, 2000). It claimed that auditor must informed and discussed with the people who accept the responsible for companies once they discovered organizations have poor corporate governance such as poor internal control system and misstatement of financial statement. Therefore, they can establish appropriate strategies to address those matters through the knowledge and experience of auditor. By the way, auditor and people who accept the governance responsibilities would be appointed by International Auditing Practices Committees to make sure they are independent enough. Thus, employees at top management level are work accordance with the standards of global corporate governance and move towards credibility of financial statement which prepared by them.

Nevertheless, it is possible for top management not to comply with the standards of global corporate governance after long periods of implementation it. As it is developed from convergence of corporate best practice and global legal system, top management likely to take legal loopholes once they familiar with the standards of corporate governance in order to satisfies their needs. Additionally, it just only and only one standard that all the organizations need to comply with. “ Political will is absolutely crucial to the developing of means and methods to integrate domestic corporate practices with the best standards followed internationally. Only then can integrity of a country’s economic system get reflected properly and foreign investment in domestic business increase” (Bhasa, 2004). Implementation of global corporate governance standards is hard to satisfy the needs of shareholders and stakeholders from all over the world because everyone has different demand.

However, diverse in cultural and organization structure lead to people accept the responsibilities of governance find it difficult to adapt since the organization members are in different value and belief results in they are using different kind of behavior to achieve organization objectives. For example, “ the problems of corporate governance arise when the rights of the stakeholders are violated. However, what may be considered stakeholder rights violation in one country might not necessarily be considered so in some other country. This diversity may be particularly because of the different legal structures and cultural settings adopted by different nations” (Bhasa, 2004). “ Cross-cultural psychological, sociological, and anthropological research shows that many cultures do not shares the same assumptions underlying leader behavior and style” (Den Hartog et al, 1999). Thus, global corporate governance standards must devise appropriately according to every countries culture dimension and condition. Otherwise it is so hard to monitor the provision of strategic direction performance by top-level of managers in different country are align with companies objectives. Besides, globalization of business lead sociopolitical dynamic and the relation between business, stakeholders, and government will change. According to International Capital Markets Group studied international corporate governance in 1994-1995 (ICMG, 1995), it concluded “ that it was not appropriate, given the need to respect diverse cultures and legal structures, to prescribe an international standard for corporate governance” (Roussey, 2000).

3. 0 How the situation might develop or be resolved with the next year or so

Based on the articles, there is a need to for global corporate governance standards for all corporations because it can add another extent of protect foreign as well as local shareholders and stakeholders. “ It encourage the internal securities commissions to consider development and implementation of a set of global corporate governance rules applicable, at a minimum, to business entities listing shares or obtaining financing in the public capital markets outside of their national borders” (Roussey, 2000). Additionally, it can enhance the transparency relationship between shareholders and companies since the resources in every organization are use appropriately as well as top-level managers are not abuse their responsibilities on their own interest. Other than that, global corporate governance provides everyone to rely on the organizations financial statement and take it as a reference when investing as well as reporting to shareholders during annual general meeting.