

Corporate governance in three economies germany, japan and the united states



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1. Strategy, Governance Concepts and Business Terminology:

1. Corporate governance
2. meeting of shareholders
3. Long-term financing
4. Bond and equity market
5. Board of directors
6. Legal structure
7. Outstanding share
8. Supervisory board
9. Pension funds
10. Management board
11. Crossholding
12. Limited liability companies
13. shareownership
14. Direct and Indirect households
15. Inside and Outside directors

2. Strategy, Governance and Business Insights, and Lessons from the Case:

The basic structure of corporate governance is that stakeholders select representatives, and representatives select management to control the daily operation. But because of the differences of cultural and historical happenstance, the corporate governance structure varies across countries. In Germany, company types include sole proprietorships, partnerships, cooperatives, and limited liability companies. The two kinds of limited liability companies are GmbH and AG.

GmbH is a partnership with limited liability and does not issue shares, while AC issues shares. GmbHs usually have small company size but gain larger total sales. For large GmbHs and all AGs, Two-tier boards (management board and supervisory board) are used. Supervisory board is appointed by general meeting of the shareholders. For all GmbHs and AG with less than 2000 employees, the supervisory board includes 2/3 shareholders and 1/3 employees. But for AG with more than 2000 employees, the ratio is 1: 1. Banks provide most of the long-term financing and take on equity stakes in order to monitor the firm.

Crossholding is common and causes two firms to each have a representative of other firm on the supervisory board. Banks and other business firms are major players in German corporate governance. In Japan, company types include commercial partnerships, limited partnerships, and limited companies. The limited liability firms are the basic. The board of director is appointed by meeting of the shareholders, and most board members are insiders. This leads to the lack of separation between the board and management. Bank funding and mutual crossholding of corporate shares are basic capital resources.

So banks and business corporations are important shareholders and play major roles in Japanese corporate governance. In the United States, company types include partnership and corporate entities, especially limited liability. Shareholders select board of directors, and board of directors select CEO. The makeup of board of directors changes from employees to outside directors. The shareownership includes direct and indirect household holdings, and individuals are increasingly important. The US firms prefer bond and equity markets and banks hold essentially no shares.

The roles of banks and other corporations weaken in the US. Different types of company have different styles of corporate governance. So do their boards. It might just have one person to monitor the whole company or several people in the board. Especially in large corporations, the number of board member is greater. We cannot say which one is better. It depends on the situation of company. Also it depends on policies, history and culture of different country.

3. Decisions for the Primary Decision Maker: Due to difference of culture and history, the corporate governance styles vary across countries. In German, limited liability companies (GmbHs and AGs) are most important. Two-Tier Boards are used. Three decisions should be made. First, the management board should be strengthened. Second, the supervisory board should be strengthened. Last, the improvement of the banks' role should be made. In Japan, insiders work as the most part of the board of directors and they are not separated from the board of directors and the top managers due to the development of industrialization. Three decisions should be made. First, the independence of board should be improved. Second, decrease the influences of crossholdings.

Last, establish smooth relationship among various stakeholders (improving internal organization). In United States, the majority part in board of directors is constituted by outsiders. The shareholders elect the board of directors and the board of directors elects managers. Three decisions should be made. First, improve the monitoring system of company management. Second, strengthen the roles of internal auditors. Third, make stable cooperation between employees and management. In the global view, leaders should first keep eyes on overcoming the agency problems and aligning managers' interests with stockholders.

Other factors that should be noticed are corporate takeover, internal controls, monitoring financial reports and so on. Leaders should balance the interests of stakeholders. They should also alter their corporate governance strategy according to the environment changes.

4. Recommendations: In Germany, to strengthen the management board, the company should first clarify the duties of management board. Then, a supervisory system should be carried out to detect the frauds of the management team. The company should also make performance-oriented pay of the managers by granting stock options easier. It may either buy back shares on the market.

Or it may increase its share capital and create new stock on the condition that the stock options will mature and be exercised. To strengthen the supervisory board, the company should meet once a quarter and that it must meet once each half year, or, if the stock corporation is listed on a stock exchange, twice each half year. It can help to improve efficiency of the supervisory board. Then, substantial changes also should be made regarding the role of the supervisory board in auditing. A copy of the auditor's report must be delivered to each member of the supervisory board or its corresponding committee.

The supervisory board of a parent company must not only scrutinize its own annual accounts, but also the consolidated accounts of the group. Finally, the auditor must attend the meeting of the supervisory board or its corresponding committee in which the annual accounts are discussed. To improving the role of banks, the company should marginally limit the position of banks. The company should require the related banks to submit proposals on how to exercise the voting rights of customers and that they must devise such proposals in accordance with the hypothetical interests of an average customer.

Moreover, the banks should take organizational measures ensuring that their own interests will not influence such proposals. In Japan, to improve the independence of the board, the company increases the outsider directors, and forms committees of independent directors to take charge of clearly defined matters, such as self-dealing transactions, investigations or pricing of management buy-out deals. Then, the company should provide trainings for board members and executives about the regulations and decisions of the company. To weaken the influences of crossholding, the company should increase the funding resources.

The company can cooperate with institutional investors, which helps to improve short-term financing. The company can also use bond and equity markets, which helps to get long-term financing. To improve internal organization, the company could organize some meetings of various stakeholders. Opinions can be gathered and the company can make a coordination of their interests and needs. In the United States, to improve the monitor system, the company should take actions to solve the agency problem and pay more attention to boost the insider and outsider monitoring.

Two actions can be taken: one is tying the wealth of the executive to the wealth of shareholders, by giving the executives stock, restricted stock, stock options, or combinations of these as a significant component of their compensation. Another one is addressing the weaknesses in the monitoring by the board and to set up additional monitoring mechanisms for monitoring the behavior of managers. To strengthen internal audit, the company should keep the independence of the internal auditors. It can prepare appreciative questions for each business process.

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It can also identify and invite the process owner, internal customer and internal supplier to an audit interview. To make stable cooperation between employees and management, the company can use humanistic management. That means, the company needs to pay more attention on employees' needs, and combine their desires with the company goal. Ideas box and paid leave are good examples. All in all, different measures should be taken according to each country's own features. One general method is to reset their governance system timely and refresh

the information. In addition, each firm is required to create a probable management mode which can develop the comparative advantages. Even if one corporation is more advanced of all aspects, the costs could be saved as long as they develop relative efficiencies.

5. Impacts of Recommendations: For Germany, the two-tire boards will be improved. So do board and management structures. This leads to the increase of management efficiency and improvement of management quality. For Japan, both the organizational structure and each section will be improved.

This leads to more reasonable firm structure and operation, and the decrease of the cost of capital. For the United States, monitor system will be improved and employees will be inspired. This leads to the harmonious development of corporate and higher work efficiency, which will benefit in the long-run. In total, these actions taken to improve corporate governance will help the firm to increase sales and get higher market valuation. They will also help to attract and retain shareholder, and improve investor confidence.

Moreover, the actions will lead to substantially better operational and market results.