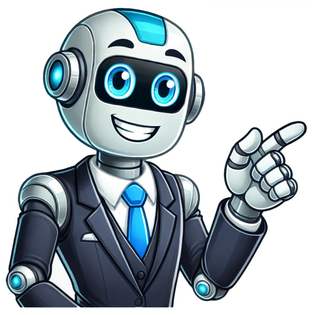
I'm not a bot



Build an integration, use our API, or reap the rewards of our affiliate and referral programs. Explore the benefits of the Accounting Partner Program for accounting professionals. Look no further for your next growth opportunity!Become a PartnerInvestopedia defines Corporate governance as a system of relationships, defined by structures and processes. It is a set of rules, practices, and processes used to direct and control a company. It involves balancing the interests of a companys stakeholders such as management, shareholders, suppliers, customers, financiers, government, and the community. The objective of corporate governance is to get the nearest alignment of the interests of individuals, businesses, and society (Cadbury, 2003). Good corporate governance involves a framework that is put in place to get the most value for the shareholders legally, ethically, and sustainably(Murthy, 2006). According to the Organization of Economic Cooperation and Development (OECD), it also provides the backbone through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".Corporate governance serves to safeguard and boost the interests of shareholders by setting the strategic direction of a company and appointing and monitoring capable management to achieve this. It is an essential ingredient for the success of a business. When this key governance mechanism is missing it can lead to the ineffective or total failure of a business (Walker Review,2009).Related:The Advantages of Ethical Behaviour in BusinessWhen does corporate governance fail?Panfilii Popa in the journal paper Failure of Corporate Governance Intention or Negligence proffered that some of the governance issues faced by companies that inevitably lead to corporate governance failures are:Ineffective governance mechanisms, for example, lack of board committeesNon-independent board and audit committee membersIntentional misleading of the Board by management to protect themselves after evading and bypassing internal controlsUnderqualified board membersIgnorance by regulators, auditors, analysts of the financial results, and red flags.Management whoexhibit ineptitudeDereliction of the procedures stipulated in internal regulationsInsufficient attention paid to risk managementInconsistent distribution of duties and responsibilitiesThe inefficiency of internal auditInfluencing the external auditors to express an audit opinion inconsistent with reality.Poor ethical leadershiplack of integrityfraudCorruptionRelated:Ethics and Human Resource ManagementWhat are the effects of corporate governance failure?Loss of Shareholder Confidence and TrustWhen a company deviates from its corporate governance strategy it sends a signal to its shareholders that it cannot be trusted. This erodes any confidence that the shareholders had in the business and leads them to feel cheated or misled. If shareholders believe bad business decisions are in the company's immediate future, they may jump ship to avoid any potential loss.Difficulty Raising CapitalA lack of adherence to a companys corporate governance strategies can also scare away investors. For investors, one of the most important aspects when making an investment decision is the level of implementation of corporate governance principles (public disclosure of information, protection of shareholder rights, and equal treatment of shareholders) and profitability, which ensures return on their investment.Related:Span of control: Everything you need to knowNo-Risk ManagementNot conforming to its corporate governance strategies may lead to a lack of risk management within a business. This increases the possibility of the company making bad investments and decisions.Increased Government OversightA company with a reputation for lack of adherence to corporate governance strategies may incur increased government oversight from departments looking to verify that the company is operating within the bounds of the law. This puts the business in the spotlight if anything was to ever go wrong.Related:Knowledge, Skills and Abilities: Everything you need to knowThese issues may, however, be overcome by:Increasing DiversityIn 2008, the board composition of Fortune 100 companies was approximately 71 percent white men and 29 percent women and minorities. Women make up only 16 percent of the directors of Fortune 500 companies. Diversity in the boardroom is known to improve company performance.Appointing Competent Board MembersAdequate time must be devoted to identifying board members who have the skills and industry knowledge to assist the board.There needs to be an understanding of what skills it has and those skills it requires. A prospective board member should also be evaluated on his or her interpersonal skills as this relates to overall board performance.Related:The ADKAR model of change: The ultimate guide to leading organisational changeEvaluating Board PerformanceBoards must be willing to examine their strengths and weaknesses.Self-Evaluation should be done routinely as well as performance reviews for individual directors.The evaluation process should be used to identify weaknesses in board performance and adopt reforms needed to improve board performance.The evaluation should be broad, cut across all issues and personnel, and include senior management interactions with board members.Prioritizing Risk ManagementEvery board should establish an effective system for risk oversight and management.This effective risk management leads to better decision-making and accurate cost-benefit or risk-reward decisions which is always in the best interest of the company (Michael Volkov, 2014).Related:4 Pillars of Corporate GovernanceExternal AuditCompanies should invest in external auditing as internal auditing may be biased and issues may be swept under the carpet. They should also accept excuses and bias the results of the external audit. They should work to address the issues raised rather than ignore them.Put simply just conforming to the corporate governance strategies already in place will be best for the company.ConclusionBad corporate governance could cripple even the best businesses. A systemic failure of corporate governance means the failure of the whole set of regulatory, market, stakeholder, and internal governance.Businesses need to ensure they remain disciplined, transparent, independent, accountable for their actions, responsible, and fair. In the absence of effective governance, companies will no doubt feel the consequences either financially, legally, or incur reputational harm.Good corporate governance plays a key role in enhancing the integrity and efficiency of companies, as well as the financial markets in which the company operates. Poor corporate governance weakens a company's potential and can open the way for financial difficulties and fraud.In brevity, it takes a good and strong board of directors to ensure that good corporate governance practices are followed. For further reading, you can check the quick wins for every new board of directors.How can financial brands set themselves apart through visual storytelling? Our experts explainhow.Learn MoreThe Motorsport Images Collections captures events from 1895 to todays most recentcoverage.Discover The CollectionCurated, compelling, and worth your time. Explore our latest gallery of EditorsPicks.Browse Editors' FavoritesHow can financial brands set themselves apart through visual storytelling? Our experts explainhow.Learn MoreThe Motorsport Images Collections captures events from 1895 to todays most recentcoverage.Discover The CollectionCurated, compelling, and worth your time. Explore our latest gallery of EditorsPicks.Browse Editors' FavoritesHow can financial brands set themselves apart through visual storytelling? Our experts explainhow.Learn MoreThe Motorsport Images Collections captures events from 1895 to todays most recentcoverage.Discover The CollectionCurated, compelling, and worth your time. Explore our latest gallery of EditorsPicks.Browse Editors' Favorites Dalam dunia perjudian online, Slot Thailand telah menjadi pilihan favorit para pemain yang mencari pengalaman bermain seru dengan peluang kemenangan tinggi. Terutama dengan adanya slot gacor thailand, yang dikenal karena sering memberikan kemenangan besar. Dengan variasi taruhan mulai dari slot bet kecil seperti 100, 200, hingga 2000, semua pemain, baik pemula maupun profesional, dapat menikmati permainan tanpa khawatir kehabisan budget. Keunggulan Slot Server Thailand Memilih slot server thailand yang tepat sangat penting untuk memastikan pengalaman bermain yang optimal. Beberapa keunggulan utama dari situs slot thailand yang terpercaya meliputi: Server Stabil: Kecepatan akses yang tinggi dan minim gangguan memastikan pengalaman bermain yang lancar. Pilihan Game Variatif: Beragam pilihan permainan slot dengan tema menarik dan RTP (Return to Player) tinggi. Peluang Kemenangan Tinggi: Slot dengan RTP di atas 95% memberikan peluang menang lebih besar. Keamanan Terjamin: Sistem keamanan canggih yang melindungi data dan transaksi pemain. Slot Thailand Gacor dengan Bet Kecil: Pilihan Tepat untuk Semua Kalangan Salah satu daya tarik utama dari slot thailand gacor adalah peluang untuk bermain dengan slot bet kecil, yang memungkinkan pemain dengan berbagai anggaran untuk mencoba peruntungan mereka. Beberapa pilihan taruhan yang tersedia antara lain: Slot Bet 100: Cocok untuk pemula yang ingin mencoba peruntungan dengan risiko rendah. Slot Bet 200: Taruhan rendah dengan potensi kemenangan yang cukup menarik. Slot Bet 300: Pilihan tengah yang sering menjadi favorit banyak pemain. Slot Bet 500: Ideal bagi pemain yang ingin meningkatkan peluang menang. Slot Bet 1000 dan 2000: Pilihan untuk pemain berani mengambil risiko dan mengejar jackpot besar. Tips Menang Bermain Slot Thailand Gacor Untuk meraih kemenangan maksimal saat bermain slot server thailand, kamu bisa menerapkan beberapa strategi berikut: Pilih Slot dengan RTP Tinggi: Pilihlah game dengan RTP di atas 96% untuk peluang menang yang lebih besar. Gunakan Strategi Bet Kecil: Mulai dengan taruhan rendah seperti slot bet 100 atau slot bet 200 untuk memperpanjang waktu bermain dan mengurangi risiko. Manfaatkan Bonus dan Promosi: Banyak situs slot thailand menawarkan bonus menarik seperti free spins atau cashback. Gunakan ini untuk meningkatkan peluang kemenangan. Bermain di Jam Gacor: Beberapa pemain percaya bahwa ada waktu tertentu di mana mesin slot lebih seringmemberikan kemenangan, seperti di pagi atau malam hari. Kelola Anggaran dengan Bijak: Tentukan batas anggaran sebelum bermain dan pastikan tidak terbawa emosi agar tetap bermain secara bertanggung jawab. Rekomendasi Situs Slot Thailand Terbaik Untuk meraih kemenangan besar di slot thailand gacor, penting untuk memilih situs slot thailand yang terpercaya. Pastikan situs yang kamu pilih memiliki lisensi resmi, menawarkan keamanan terjamin, serta menyediakan layanan pelanggan 24/7. Banyak situs juga menawarkan bonus menarik yang dapat dimanfaatkan untuk memaksimalkan peluang menang. Raih Kemenangan Besar dengan Slot Thailand Gacor Dengan slot thailand yang menawarkan berbagai pilihan taruhan, dari slot bet kecil hingga slot bet besar, serta peluang kemenangan yang lebih tinggi, permainan ini menjadi pilihan tepat untuk semua kalangan. Pastikan memilih slot server thailand yang terpercaya dan terapkan tips bermain yang tepat untuk meningkatkan peluang meraih jackpot. Jadi, tunggu apa lagi? Kunjungi situs slot thailand terpercaya sekarang dan mulai mainkan slot gacor untuk kemenangan besar! Selamat bermain dan semoga berhasil! Dalam dunia perjudian online, Slot Thailand telah menjadi pilihan favorit para pemain yang mencari pengalaman bermain seru dengan peluang kemenangan tinggi. Terutama dengan adanya slot gacor thailand, yang dikenal karena sering memberikan kemenangan besar. Dengan variasi taruhan mulai dari slot bet kecil seperti 100, 200, hingga 2000, semua pemain, baik pemula maupun profesional, dapat menikmati permainan tanpa khawatir kehabisan budget. Keunggulan Slot Server Thailand Memilih slot server thailand yang tepat sangat penting untuk memastikan pengalaman bermain yang optimal. Beberapa keunggulan utama dari situs slot thailand yang terpercaya meliputi: Server Stabil: Kecepatan akses yang tinggi dan minim gangguan memastikan pengalaman bermain yang lancar. 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Slot Bet 1000 dan 2000: Pilihan untuk pemain berani mengambil risiko dan mengejar jackpot besar. Tips Menang Bermain Slot Thailand Gacor Untuk meraih kemenangan maksimal saat bermain slot server thailand, kamu bisa menerapkan beberapa strategi berikut: Pilih Slot dengan RTP Tinggi: Pilihlah game dengan RTP di atas 96% untuk peluang menang yang lebih besar. Gunakan Strategi Bet Kecil: Mulai dengan taruhan rendah seperti slot bet 100 atau slot bet 200 untuk memperpanjang waktu bermain dan mengurangi risiko. Manfaatkan Bonus dan Promosi: Banyak situs slot thailand menawarkan bonus menarik seperti free spins atau cashback. Gunakan ini untuk meningkatkan peluang kemenangan. Bermain di Jam Gacor: Beberapa pemain percaya bahwa ada waktu tertentu di mana mesin slot lebih seringmemberikan kemenangan, seperti di pagi atau malam hari. Kelola Anggaran dengan Bijak: Tentukan batas anggaran sebelum bermain dan pastikan tidak terbawa emosi agar tetap bermain secara bertanggung jawab. 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Share copy and redistribute the material in any medium or format for any purpose, even commercially. Adapt remix, transform, and build upon the material for any purpose, even commercially. The licensor cannot revoke these freedoms as long as you follow the license terms. Attribution You must give appropriate credit , provide a link to the license, and indicate if changes were made . You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use. ShareAlike If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original. No additional restrictions You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits. You do not have to comply with the license for elements of the material in the public domain or where your use is permitted by an applicable exception or limitation . No warranties are given. The license may not give you all of the permissions necessary for your intended use. For example, other rights such as publicity, privacy, or moral rights may limit how you use the material. Mechanisms, processes and relations by which corporations are controlled and operatedThis article's lead section may be too short to adequately summarize the key points. Please consider expanding the lead to provide an accessible overview of all important aspects of the article. (June 2023)Corporate governance refers to the mechanisms, processes, practices, and relations by which corporations are controlled and operated by their boards of directors, managers, shareholders, and stakeholders.Part of a series onGovernanceModelsAlgorithmicCollaborativeElectronicGoodMultistakeholderOpen-sourcePrivatePublic opinionBy levelLocalGlobalBy fieldClimateClinicalCorporateCulturalDataEcclesiasticalEnvironmentalHigher educationInformationNetworkOceanPolitical partySecurity sectorSelfSimulationSoilTechnologyTransnationalMeasuresWorld Governance IndexSustainable Governance IndicatorsBertelsmann Transformation IndexPolicy uncertaintyRelated topicsChief governance officerGovernance, risk management and complianceEnvironmental, social, and governanceMarket governance mechanismvteBusiness administrationManagement of a businessAccountingManagement accountingFinancial accountingAuditBusiness entity (list)Corporate groupCorporation soleCompanyConglomerateHolding companyCooperativeCorporationJoint-stock companyLimited liability companyPartnershipPrivately held companySole proprietorshipState-owned enterpriseCorporate governanceAnnual general meetingBoard of directorsSupervisory boardAdvisory boardAudit committeeCorporate lawCommercial lawConstitutional documentsContractCorporate crimeCorporate liabilityInsolvency lawInternational trade lawMergers and acquisitionsCorporate titleChairmanChief business officer/Chief brand officerChief executive officer/Chief operating officerChief financial officerChief human resources officerChief information officer/Chief marketing officerChief product officer/Chief technology officerEconomicsCommodityPublic economicsLabour economicsDevelopment economicsInternational economicsMixed economyPlanned economyEconometricsEnvironmental economicsOpen economyMarket economyKnowledge economyMicroeconomicsMacroeconomicsEconomic developmentEconomic statisticsFinanceFinancial statementInsuranceFactoringCash conversion cycleInsider dealingCapital budgetingCommercial bankDerivativeFinancial statement analysisFinancial riskPublic financeCorporate financeManagerial financeInternational financeLiquidationStock marketFinancial marketTaxFinancial institutionCapital managementVenture capitalTypes of managementAssetBrandBusiness intelligenceBusiness developmentCapacityCapabilityChangeinnovationCommercialMarketingCommunicationsConfigurationConflictContentCustomer relationshipDistributedEarned valueElectronic businessEnterprise resource planningmanagement information systemFinancialHuman resourcedevelopmentIncidentKnowledgeLegalMaterialsNetworkadministratorOfficeOperationsservicesPerformancePowerProcessProduct life-cycleProductProjectPropertyQualityRecordsResourceRiskcrisisSalesSecurityServiceStrategicSupply chainSystemsadministratorTalentTechnologyOrganizationArchitectureBehaviorCommunicationCultureConflictDevelopmentEngineeringHierarchyPatternsSpaceStructureTradeBusiness analysisBusiness ethicsBusiness planBusiness judgment ruleConsumer behaviourBusiness operationsInternational businessBusiness modelInternational tradeTrade routeBusiness processBusiness statistics Business and economics portalvte"Corporate governance" may be defined, described or delineated in diverse ways, depending on the writer's purpose. Writers focused on a disciplinary interest or context (such as accounting, finance, law, or management) often adopt narrow definitions that appear purpose-specific. Writers concerned with regulatory policy in relation to corporate governance practices often use broader structural descriptions. A broad (meta) definition that encompasses many adopted definitions is "Corporate governance describes the processes, structures, and mechanisms that influence the control and direction of corporations."[1]This meta definition accommodates both the narrow definitions used in specific contexts and the broader descriptions that are often presented as authoritative. The latter include the structural definition from the Cadbury Report, which identifies corporate governance as "the system by which companies are directed and controlled" (Cadbury 1992, p.15); and the relational-structural view adopted by the Organisation for Economic Cooperation and Development (OECD) of "Corporate governance involves a set of relationships between a company's management, board, shareholders and stakeholders. Corporate governance also provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined" (OECD 2023, p.6).[2]Examples of narrower definitions in particular contexts include:"a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers."[3]"the set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm."[4]The firm itself is modelled as a governance structure acting through the mechanisms of contract.[5][6][7][8] Here corporate governance may include its relation to corporate finance.[9][10][11]Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1999, 2004, 2015 and 2023), and the SarbanesOxley Act of 2002 (US, 2002). The Cadbury and Organisation for Economic Co-operation and Development (OECD) reports present general principles around which businesses are expected to operate to assure proper governance. The SarbanesOxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.Rights and equitable treatment of shareholders:[12][13][14] Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.Interests of other stakeholders:[15] Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policymakers.Role and responsibilities of the board:[16][17] The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.Integrity and ethical behavior:[18][19] Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.Disclosure and transparency:[20][21] Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.Some concerns regarding governance follows from the potential for conflicts of interests that are a consequence of the non-alignment of preferences between: shareholders and upper management (principalagent problems); and among shareholders (principalprincipal problems),[22] although also other stakeholder relations are affected and coordinated through corporate governance.In large firms where there is a separation of ownership and management, the principalagent problem[23] can arise between upper-management (the "agent") and the shareholder(s) (the "principals"). The shareholders and upper management may have different interests. The shareholders typically desire returns on their investments through profits and dividends, while upper management may also be influenced by other motives, such as management remuneration or wealth interests, working conditions and perquisites, or relationships with other parties within (e.g., management-worker relations) or outside the corporation, to the extent that these are not necessary for profits. Those pertaining to self-interest are usually emphasized in relation to principal-agent problems. The effectiveness of corporate governance practices from a shareholder perspective might be judged by how well those practices align and coordinate the interests of the upper management with those of the shareholders. However, corporations sometimes undertake initiatives, such as climate activism and voluntary emission reduction, that seems to contradict the idea that rational self-interest drives shareholders' governance goals.[24]:3An example of a possible conflict between shareholders and upper management materializes through stock repurchases (treasury stock). Executives may have incentive to divert cash surpluses to buying treasury stock to support or increase the share price. However, that reduces the financial resources available to maintain or enhance profitable operations. As a result, executives can sacrifice long-term profits for short-term personal gain. Shareholders may have different perspectives in this regard, depending on their own time preferences, but it can also be viewed as a conflict with broader corporate interests (including preferences of other stakeholders and the long-term health of the corporation).The principalagent problem can be intensified when upper management acts on behalf of multiple shareholderswhich is often the case in large firms (see Multiple principal problem).[22] Specifically, when upper management acts on behalf of multiple shareholders, the multiple shareholders face a collective action problem in corporate governance, as individual shareholders may lobby upper management or otherwise have incentives to act in their individual interests rather than in the collective interest of all shareholders.[25] As a result, there may be free-riding in steering and monitoring of upper management,[26] or conversely, high costs may arise from duplicate steering and monitoring of upper management.[27] Conflict may break out between principals,[28] and this all leads to increased autonomy for upper management.[22]Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which affect the way a company is controlledand this is the challenge of corporate governance.[29][30] To solve the problem of governing upper management under multiple shareholders, corporate governance scholars have figured out that the straightforward solution of appointing one or more shareholders for governance is likely to lead to problems because of the information asymmetry it creates.[31][32][33] Shareholders' meetings are necessary to arrange governance under multiple shareholders, and it has been proposed that this is the solution to the problem of multiple principals due to median voter theorem: shareholders' meetings lead power to be devolved to an actor that approximately holds the median interest of all shareholders, thus causing governance to best represent the aggregated interest of all shareholders.[22]An important theme of governance is the nature and extent of corporate accountability. A related discussion at the macro level focuses on the effect of a corporate governance system on economic efficiency, with a strong emphasis on shareholders' welfare.[8] This has resulted in a literature focused on economic analysis.[34][35][36] A comparative assessment of corporate governance principles and practices across countries was published by Aguilera and Jackson in 2011.[37]Different models of corporate governance differ according to the variety of capitalism in which they are embedded. The Anglo-American "model" tends to emphasize the interests of shareholders. The coordinated or multistakeholder model associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-oriented and network-oriented models of corporate governance.[38]Main article: AktiengesellschaftSome continental European countries, including Germany, Austria, and the Netherlands, require a two-tiered board of directors as a means of improving corporate governance.[39] In the two-tiered board, the executive board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors who represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions.[40]Germany, in particular, is known for its practice of co-determination, founded on the German Codetermination Act of 1976, in which workers are granted seats on the board as stakeholders, separate from the seats accruing to shareholder equity.The so-called "Anglo-American model" of corporate governance emphasizes the interests of shareholders. It relies on a single-tiered board of directors that is normally dominated by non-executive directors elected by shareholders. Because of this, it is also known as "the unitary system".[41][42] Within this system, many boards include some executives from the company (who are ex officio members of the board). Non-executive directors are expected to outnumber executive directors and hold key posts, including audit and compensation committees. In the United Kingdom, the CEO generally does not also serve as chairman of the board, whereas in the US having the dual role has been the norm, despite major misgivings regarding the effect on corporate governance.[43] The number of US firms combining both roles is declining, however.[44]In the United States, corporations are directly governed by state laws, while the exchange (offering and trading) of securities in corporations (including shares) is governed by federal legislation. Many US states have adopted the Model Business Corporation Act, but the dominant state law for publicly traded corporations is Delaware General Corporation Law, which continues to be the place of incorporation for the majority of publicly traded corporations.[45] Individual rules for corporations are based upon the corporate charter and, less authoritatively, the corporate bylaws.[45]Shareholders cannot initiate changes in the corporate charter although they can initiate changes to the corporate bylaws.[45]It is sometimes colloquially stated that in the US and the UK that "the shareholders own the company." This is, however, a misconception as argued by Eccles and Youmans (2015) and Kay (2015).[46] The American system has long been based on a belief in the potential of shareholder democracy to efficiently allocate capital.The Japanese model of corporate governance has traditionally held a broad view that firms should account for the interests of a range of stakeholders. For instance, managers do not have a fiduciary responsibility to shareholders. This framework is rooted in the belief that a balance among stakeholder interests can lead to a superior allocation of resources for society. The Japanese model includes several key principles:[47]Security the rights and equal treatment of shareholdersAppropriate cooperation with stakeholders (other than shareholders)Ensuring appropriate information disclosure and transparencyResponsibility of the boardDialogue with shareholdersAn article published by the Australian Institute of Company Directors called "Do Boards Need to become more Entrepreneurial?" considered the need for founder centrism behaviour at board level to appropriately manage disruption.[48]This article is part of a series onCorporate lawBy jurisdictionAnguillaAustraliaBVICanadaCayman IslandsIndiaSouth AfricaUKUnited StatesVietnamEuropean UnionFranceGermanyGeneral corporate formsCompanyConglomerateCooperativeCorporationHolding companyJoint-stockPartnershipGeneralLimitedLimited liabilityPrivate limitedShell corporationShelf corporationSole proprietorshipCorporate forms by jurisdictionEuropean UnionSocietas(SE)Societas cooperativa (SCE)Societas privata (SPE)Societas unius personae (SUP)Economic interest grouping (EEIG)UK / Ireland / CommonwealthCharitable incorporated organisation(England and Wales) (CIO)Scottish charitable incorporated organisation (SCIO)Community interest company (CIC)Industrial and provident society(IPS)Limited company(Ltd.)by guaranteeby sharesproprietarypublicUnlimited companyUnited StatesBenefit corporationC corporationLimited liability company (LLC)Low-profit LLCSeries LLCLimited liability limited partnership (LLLP)S corporationDelaware corporation/ statutory trustMassachusetts business trustNevada corporationOthersAktiebolag(AB)Aktiengesellschaft (AG)Ansvarlig selskap (ANS)Aktieselskab (A/S)Aksjeselskap (AS)Gesellschaft mit beschrnkter Haftung (GmbH)Kabushikigaisha (K.K.)Naamloze vennootschap (N.V.)Osakeyhti (Oy)S.A.Socit responsabilit limite (SARL)more...DoctrinesBusiness judgment ruleCorporate governanceDe facto and estoppel corporationsInternal affairs doctrineLimited liabilityTag-along rightDrag-along rightPiercing the corporate veilRochdale PrinciplesUltra viresRelated areasBeneficial ownershipCivil procedureContractCorporate registersRegistered agentCompany portalLaw portalvteSee also: Corporate lawCorporations are created as legal persons by the laws and regulations of a particular jurisdiction. These may vary in many respects between countries, but a corporation's legal person status is fundamental to all jurisdictions and is conferred by statute. This allows the entity to hold property in its own right without reference to any real person. It also results in the perpetual existence that characterizes the modern corporation. The statutory granting of corporate existence may arise from general purpose legislation (which is the general case) or from a statute to create a specific corporation. Now, the formation of business corporations in most jurisdictions requires government legislation that facilitates incorporation. This legislation is often in the form of Companies Act or Corporations Act, or similar. Country-specific regulatory devices are summarized below.It is generally perceived that regulatory attention on the corporate governance practices of publicly listed corporations, particularly in relation to transparency and accountability, increased in many jurisdictions following the high-profile corporate scandals in 20012002, many of which involved accounting fraud; and then again after the 2008 financial crisis. For example, in the U.S., these included scandals surrounding Enron and MCI Inc. (formerly WorldCom). Their demise led to the enactment of the SarbanesOxley Act in 2002, a U.S. federal law intended to improve corporate governance in the United States. Comparable failures in Australia (HIH, One.Tel) are linked to with the eventual passage of the CLERP 9 reforms there (2004), that similarly aimed to improve corporate governance.[49] Similar corporate failures in other countries stimulated increased regulatory interest (e.g., Parmalat in Italy). Also seeIn addition to legislation the facilitates incorporation, many jurisdictions have some major regulatory devices that impact on corporate governance. This includes statutory laws concerned with the functioning of stock or securities markets (also see Security (finance), consumer and competition (antitrust) laws, labour or employment laws, and environmental protection laws, which may also entail disclosure requirements. In addition to the statutory laws of the relevant jurisdiction, corporations are subject to common law in some countries.In most jurisdictions, corporations also have some form of a corporate constitution that provides individual rules that govern the corporation and authorize or constrain its decision-makers. This constitution is identified by a variety of terms; in English-speaking jurisdictions, it is sometimes known as the corporate charter or articles of association (which also be accompanied by a memorandum of association).This section needs expansion. You can help by adding to it. (March 2022)Incorporation in Australia originated under state legislation but has been under federal legislation since 2001. Also see Australian corporate law.Other significant legislation includes:Incorporation in Canada can be done either under either federal or provincial legislation. See Canadian corporate law.Dutch corporate law is embedded in the ondernemingsrecht and, specifically for limited liability companies, in the vennootschapsrecht.In addition The Netherlands has adopted a Corporate Governance Code in 2016, which has been updated twice since.In the latest version (2022),[50] the Executive Board of the company is held responsible for the continuity of the company and its sustainable long-term value creation.The executive board considers the impact of corporate actions on People and Planet and takes the effects on corporate stakeholders into account.[51] In the Dutch two-tier system, the Supervisory Board monitors and supervises the executive board in this respect.Polish Corporate Law is regulated in Code of Commercial Companies.[52] The code regulates most of the aspects of corporate governance, incl. rules of incorporation and liquidation, it defines rights, obligations and rules of operations of corporate bodies (Management Board, Supervisory Board, Shareholders Meeting).[53] The UK has a single jurisdiction for incorporation. Also see United Kingdom company lawOther significant legislation includes:The UK passed the Bribery Act in 2010. This law made it illegal to bribe either government or private citizens or make facilitating payments (i.e., payment to a government official to perform their routine duties more quickly). It also required corporations to establish controls to prevent bribery.Incorporation in the US is under state level legislation, but there important federal acts. in particular, see Securities Act of 1933, Securities Exchange Act of 1934, and Uniform Securities Act.The SarbanesOxley Act of 2002 (SOX) was enacted in the wake of a series of high-profile corporate scandals, which cost investors billions of dollars.[54] It established a series of requirements that affect corporate governance in the US and influenced similar laws in many other countries. SOX contained many other elements, but provided for several changes that are important to corporate governance practices:The Public Company Accounting Oversight Board (PCAOB) be established to regulate the auditing profession, which had been self-regulated prior to the law. Auditors are responsible for reviewing the financial statements of corporations and issuing an opinion as to their reliability.The chief executive officer (CEO) and chief financial officer (CFO) attest to the financial statements. Prior to the law, CEOs had claimed in court they hadn't reviewed the information as part of their defense.Board audit committees have members that are independent and disclose whether or not at least one is a financial expert, or reasons why no such expert is on the audit committee.External audit firms cannot provide certain types of consulting services and must rotate their lead partner every 5 years. Further, an audit firm cannot audit a company if those in specified senior management roles worked for the auditor in the past year. Prior to the law, there was the real or perceived conflict of interest between providing an independent opinion on the accuracy and reliability of financial statements when the same firm was also providing lucrative consulting services.[55]The U.S. passed the Foreign Corrupt Practices Act (FCPA) in 1977, with subsequent modifications. This law made it illegal to bribe government officials and required corporations to maintain adequate accounting controls. It is enforced by the U.S. Department of Justice and the Securities and Exchange Commission (SEC). Substantial civil and criminal penalties have been levied on corporations and executives convicted of bribery.[56]Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect.One of the most influential guidelines on corporate governance are the G20/OECD Principles of Corporate Governance, first published as the OECD Principles in 1999, revised in 2004, in 2015 when endorsed by the G20, and in 2023.[57] The Principles are often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations and more than 20 national corporate governance codes formed the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) to produce their Guidance on Good Practices in Corporate Governance Disclosure.[58] This internationally agreed[59] benchmark consists of more than fifty distinct disclosure items across five broad categories:[60]AuditingBoard and management structure and processCorporate responsibility and compliance in organizationFinancial transparency and information disclosureOwnership structure and exercise of control rightsThe OECD Guidelines on Corporate Governance of State-Owned Enterprises[61] complement the G20/OECD Principles of Corporate Governance,[62] providing guidance tailored to the corporate governance challenges of state-owned enterprises.Companies listed on the New York Stock Exchange (NYSE) and other stock exchanges are required to meet certain governance standards. For example, the NYSE Listed Company Manual requires, among many other elements:Independent directors: "Listed companies must have a majority of independent directors... Effective boards of directors exercise independent judgment in carrying out their responsibilities. Requiring a majority of independent directors will increase the quality of board oversight and lessen the possibility of damaging conflicts of interest." (Section 303A.01) An independent director is not part of management and has no "material financial relationship" with the company.Board meetings that exclude management: "To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management." (Section 303A.03)Boards organize their members into committees with specific responsibilities per defined charters. "Listed companies must have a nominating/corporate governance committee composed entirely of independent directors." This committee is responsible for nominating new members for the board of directors. Compensation and Audit Committees are also specified, with the latter subject to a variety of listing standards as well as outside regulations.The investor-led organisation International Corporate Governance Network (ICGN) was set up by individuals centred around the ten largest pension funds in the world in 1995. The aim is to promote global corporate governance standards. The network is led by investors that manage US$77 trillion, and members are located in fifty different countries. ICGN has developed a suite of global guidelines ranging from shareholder rights to business ethics.[63]The World Business Council for Sustainable Development (WBCSD) has done work on corporate governance, particularly on accounting and reporting.[64] In 2009, the International Finance Corporation and the UN Global Compact released a report, "Corporate Governance: the Foundation for Corporate Citizenship and Sustainable Business",[65] linking the environmental, social and governance responsibilities of a company to its financial performance and long-term sustainability.Most codes are largely voluntary. An issue raised in the U.S. since the 2005 Disney decision[66] is the degree to which companies manage their governance responsibilities; in other words, do they merely try to supersede the legal threshold, or should they create governance guidelines that ascend to the level of best practice. For example, the guidelines issued by associations of directors, corporate managers and individual companies tend to be wholly voluntary, but such documents may have a wider effect by prompting other companies to adopt similar practices.[citation needed]In 2021, the first ever international standard, ISO 37000, was published as guidance for good governance.[67] The guidance places emphasis on purpose which is at the heart of all organizations, i.e. a meaningful reason to exist. Values inform both the purpose and the way the purpose is achieved.[68]Robert E. Wright argued in Corporation Nation (2014) that the governance of early U.S. corporations, of which over 20,000 existed by the Civil War of 18611865, was superior to that of corporations in the late 19th and early 20th centuries because early corporations governed themselves like "republics", replete with numerous "checks and balances" against fraud and against usurpation of power by managers or by large shareholders.[69] (The term "robber baron" became particularly associated with US corporate figures in the Gilded Agethe late 19th century.)In the immediate aftermath of the Wall Street crash of 1929 legal scholars such as Adolf Augustus Berle, Edwin Dodd, and Gardiner C. Means pondered on the changing role of the modern corporation in society.[70] From the Chicago school of economics, Ronald Coase[71] introduced the notion of transaction costs into the understanding of why firms are founded and how they continue to behave.[72]US economic expansion through the emergence of multinational corporations after World WarII (19391945) saw the establishment of the managerial class. Several Harvard Business School management professors studied and wrote about the new class: Myles Mace (entrepreneurship), Alfred D. Chandler, Jr. (business history), Jay Lorsch (organizational behavior) and Elizabeth MacIver (organizational behavior). According to Lorsch and MacIver "many large corporations have dominant control over business affairs without sufficient accountability or monitoring by their board of directors".[citation needed]In the 1980s, Eugene Fama and Michael Jensen[73] established the principalagent problem as a way of understanding cor

reporting elements. The potential exercise of this choice to improve apparent performance increases the information risk for users. Financial reporting fraud, including non-disclosure and deliberate falsification of values also contributes to users' information risk. To reduce this risk and to enhance the perceived integrity of financial reports, corporation financial reports must be audited by an independent external auditor who issues a report that accompanies the financial statements.One area of concern is whether the auditing firm acts as both the independent auditor and management consultant to the firm they are auditing. This may result in a conflict of interest which places the integrity of financial reports in doubt due to client pressure to appease management. The power of the corporate client to initiate and terminate management consulting services and, more fundamentally, to select and dismiss accounting firms contradicts the concept of an independent auditor. Changes enacted in the United States in the form of the SarbanesOxley Act (following numerous corporate scandals, culminating with the Enron scandal) prohibit accounting firms from providing both auditing and management consulting services. Similar provisions are in place under clause 49 of Standard Listing Agreement in India.See also: Horizontal integration and Vertical integrationA basic comprehension of corporate positioning on the market can be found by looking at which market area or areas a corporation acts in, and which stages of the respective value chain for that market area or areas it encompasses.[100][101]A corporation may from time to time decide to alter or change its market positioning through M&A activity for example however it may loose some or all of its market efficiency in the process due to commercial operations depending to a large extent on its ability to account for a specific positioning on the market.[102]Demand for information: In order to influence the directors, the shareholders must combine with others to form a voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.[103]Monitoring costs: A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder. The traditional answer to this problem is the efficient-market hypothesis (in finance, the efficient market hypothesis (EMH) asserts that financial markets are efficient), which suggests that the small shareholder will free ride on the judgments of larger professional investors.[103]Supply of accounting information: Financial accounts form a crucial link in enabling providers of finance to monitor directors. Imperfections in the financial reporting process will cause imperfections in the effectiveness of corporate governance. This should, ideally, be corrected by the working of the external auditing process.[103]Well-designed corporate governance policies also support the sustainability and resilience of corporations and in turn, may contribute to the sustainability and resilience of the broader economy. Investors have increasingly expanded their focus on companies' financial performance to include the financial risks and opportunities posed by broader economic, environmental and societal challenges, and companies' resilience to and management of those risks. In some jurisdictions, policy makers also focus on how companies' operations may contribute to addressing such challenges. A sound framework for corporate governance with respect to sustainability matters can help companies recognise and respond to the interests of shareholders and different stakeholders, as well as contribute to their own long-term success. Such a framework should include the disclosure of material sustainability-related information that is reliable, consistent and comparable, including related to climate change. In some cases, jurisdictions may interpret concepts of sustainability-related disclosure and materiality in terms of applicable standards articulating information that a reasonable shareholder needs in order to make investment or voting decisions.Main article: Say on payIncreasing attention and regulation (as under the Swiss referendum "against corporate rip-offs" of 2013) has been brought to executive pay levels since the 2008 financial crisis. Research on the relationship between firm performance and executive compensation does not identify consistent and significant relationships between executives' remuneration and firm performance. Not all firms experience the same levels of agency conflict, and external and internal monitoring devices may be more effective for some than for others.[76][104] Some researchers have found that the largest CEO performance incentives came from ownership of the firm's shares, while other researchers found that the relationship between share ownership and firm performance was dependent on the level of ownership. The results suggest that increases in ownership above 20% cause management to become more entrenched, and less interested in the welfare of their shareholders.[104]Some argue that firm performance is positively associated with share option plans and that these plans direct managers' energies and extend their decision horizons toward the long-term, rather than the short-term, performance of the company. However, that point of view came under substantial criticism circa in the wake of various security scandals including mutual fund timing episodes and, in particular, the backdating of option grants as documented by University of Iowa academic Erik Lie[105] and reported by James Blander and Charles Forelle of the Wall Street Journal.[104][106]Even before the negative influence on public opinion caused by the 2006 backdating scandal, use of options faced various criticisms. A particularly forceful and long running argument concerned the interaction of executive options with corporate stock repurchase programs. Numerous authorities (including U.S. Federal Reserve Board economist Weisbenner) determined options may be employed in concert with stock buybacks in a manner contrary to shareholder interests. These authors argued that, in part, corporate stock buybacks for U.S. Standard & Poor's 500 companies surged to a $500 billion annual rate in late 2006 because of the effect of options.[107]A combination of accounting changes and governance issues led options to become a less popular means of remuneration as 2006 progressed, and various alternative implementations of buybacks surfaced to challenge the dominance of "open market" cash buybacks as the preferred means of implementing a share repurchase plan.Shareholders elect a board of directors, who in turn hire a chief executive officer (CEO) to lead management. The primary responsibility of the board relates to the selection and retention of the CEO. However, in many U.S. corporations the CEO and chairman of the board roles are held by the same person. This creates an inherent conflict of interest between management and the board.Critics of combined roles argue the two roles that should be separated to avoid the conflict of interest and more easily enable a poorly performing CEO to be replaced. Warren Buffett wrote in 2014: "In my service on the boards of nineteen public companies, however, I've seen how hard it is to replace a mediocre CEO if that person is also Chairman. (The deed usually gets done, but almost always very late.)"[108]Advocates argue that empirical studies do not indicate that separation of the roles improves stock market performance and that it should be up to shareholders to determine what corporate governance model is appropriate for the firm.[109]In 2004, 73.4% of U.S. companies had combined roles; this fell to 57.2% by May 2012. Many U.S. companies with combined roles have appointed a "Lead Director" to improve independence of the board from management. German and UK companies have generally split the roles in nearly 100% of listed companies. Empirical evidence does not indicate one model is superior to the other in terms of performance. However, one study indicated that poorly performing firms tend to remove separate CEOs more frequently than when the CEO/Chair roles are combined.[110]Certain groups of shareholders may become disinterested in the corporate governance process, potentially creating a power vacuum in corporate power. Insiders, other shareholders, and stakeholders may take advantage of these situations to exercise greater influence and extract rents from the corporation. Shareholder apathy may result from the increasing popularity of passive investing, diversification, and investment vehicles such as mutual funds and ETFs.Agency cost Economic conceptBasel II Banking regulation frameworkCo-determination right of workers to vote for representatives on a board of directors in corporate lawPages displaying wikidata descriptions as a fallbackWorker representation on corporate boards of directors right of workers to vote for representatives on a board of directors in corporate lawPages displaying wikidata descriptions as a fallbackCorporate finance Corporate governanceCorporate Law Economic Reform Program Act 2004 Act of the Parliament of Australia, currently registered as C2004A01334Pages displaying wikidata descriptions as a fallbackCorporate social entrepreneurship Non-specific organisational entrepreneurCorporate transparency Aspect of open corporate governanceCreative accounting Euphemism referring to unethical accounting practicesEarnings management Misleading accounting practiceEnvironmental, social and corporate governance Business frameworkPages displaying short descriptions of redirect targetsFund governance Financial checks and balances systemGolden parachute Agreement providing compensation if someone is firedInternational Organization of Supreme Audit Institutions Worldwide affiliation of governmental entitiesKing Report on Corporate Governance 1994, 2002, 2009 and 2016 South African reportsLegal origins theory Claims that civil law and common law shape lawmakingMarket socialism Economic system based on social ownership of the means of production in a market economyOutrage constraintPrivate benefits of controlRisk management Identification, evaluation and control of risksSocial ownership Ownership of the means of production by societySociocracy System of governance using consent-based decision-makingStakeholder theory Management and ethical theory that considers multiple constituencies^ Shailer, Greg. 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