

Is Reforming the Corporate Governance System Necessary?

by John John

Submission date: 22-Feb-2023 02:58AM (UTC-0500)

Submission ID: 2020321317

File name: Jurnal_Internasional.pdf (804.3K)

Word count: 3684

Character count: 21041

Is Reforming the Corporate Governance System Necessary?

JOHN E. H. J. FOEH¹, DIAH AYU PERMATASARI², JHONNI SINAGA³,
ADLER HAYMANS MANURUNG⁴

Faculty of Economic and Business,
University of Bhayangkara Jakarta Raya,

Jl. Harsono RM No.67, RT.7/RW.4, Ragunan, Pasar Minggu, South Jakarta City, Jakarta 12550,
INDONESIA

Abstract: - Due to lax corporate governance practices over the past few decades, fraud has both increased in severity and frequency. The goal of this research is to improve current governance systems to help businesses deal with issues in the global corporate environment. For a public company to succeed, it needs a solid corporate governance system. It is critical to establish appropriate transparency guidelines and procedures. Reforms are required to address existing issues and improve global corporate governance in the following ways: a. The audit committee must monitor and enforce financial and disciplinary matters; b. The board structure must be balanced; c. Continuous disclosure must be prioritized; d. CFOs and CEOs must be held explicitly accountable for their actions; e. The selective mechanism must be completed; and f. The auditor's role must be changed from that of a watchdog to that of a whistleblower.

Key-Words: - corporate governance, disclosure, transparency, audit committee, board of directors, auditor

Received: March 15, 2022. Revised: November 13, 2022. Accepted: December 7, 2022. Published: January 25, 2022.

1 Introduction

The corporate world now has converged core values, company ambition, strategic means, and manners, as well as stronger and more clearly defined relationships between employers and employees, meaningful communication between coworkers and colleagues, commitment to development and growth, etc. All of the essential components listed above, as well as a few others, must be present for a good corporate environment to function smoothly. Additionally, an effective methodology must be developed for the environment to get the most out of its operation. The objective must go beyond simply turning a profit, [1]. For the corporate world to have a greater influence on its economy, it must be socially conscious, morally upright, and legally appropriate. As a result, the need for and relevance of corporate governance are greater today than ever before. In the global corporate sphere, we need a good and actively conscience governing system, one that not only fixes the problems that have arisen as a result of poor governance but also lays out the path of honest dealings and sets an example for the future of the corporate world, [1].

A dependable corporate governance system is required for the success of public corporations. "Corporate Governance" can be defined as the rules, regulations, and guidelines that govern the various

units and their separate compartments that comprise an institution that forms decisions influencing and affecting the entire environment of the company, with each unit being authentic in its functionality, [2].

Corporate governance primarily consists of (a) contracts which are of either explicit or implicit types between the organizations and the stakeholders for the dispersal of 3R which is Responsibilities, Rights, and Rewards (b) Measures to reduce the conflicts of interests between different stakeholders. (c) Procedures for appropriate and suitable control and supervision which is essential for the system of check & balance. It is a much-talked-about topic in today's business and financial worlds and almost all of the world's major economies are attempting to define and implement sound corporate governance principles, [3].

2 Need for Corporate Governance

During the last few decades, the level and frequency of fraud increases rapidly and the failure of many governance policies started due to the same. Therefore, to protect and govern any organization properly, a good corporate governance policy is highly needed. Some other reasons for bringing the corporate governance are:

- a. To protect the shareholder's rights, corporate governance is required.
- b. To lower the influence of high-profile investors on the company's decisions, corporate governance is required.
- c. Corporate Governance is equally necessary for building Public Confidence and it is equally necessary for revitalizing the poise of investors.
- d. Help the company to attract a hefty amount of capital [3].

18
The key principles that form the basis of rules and regulations for the corporate are listed below:

- a. Accountability
It means a person is liable for all the decisions he or she takes for the interest or the benefit of the company. For example, A Chairman, CFO, or manager is accountable to the stakeholders or the shareholders of any company.
- b. Independence
Becoming independent is very much necessary everywhere. Top-level officeholders or the board of directors, CFO, CMD have to take independent decisions for the proper functioning of any company. If the decision of Senior officers gets impacted, then it would lead to the downfall of any company.
- c. Transparency
Disclosure of all the information except secret one is vital for proper development as this stakeholder of any organization knows about day-to-day activities, [4].

2.1 Corporate Governance in Eastern and Western Countries

Corporate governance systems and practices are not implemented in all countries in the same way. Distinct countries have created different structures and ways of governing their businesses based on the appropriateness of their social culture, market environment, government policy, capital and money market systems, and other considerations. Several countries have developed corporate governance principles and rules, each with its particular set of institutions and conditions. Stock exchanges, enterprises, and management issued these codes with the backing of the governments and global institutions. In most circumstances, the application of these government regulations is not a compulsion made by law, while rules connected to public

disclosure standards may have a persuasive impact, [5].

As methods of enhancing and upgrading corporate governance, certain European countries, such as Germany, Austria, and the Netherlands, mandate a dualistic board of directors. The Executive Board, which is nearly composed of non-executive directors who represent shareowners and working staff, oversees day-to-day operations. On the other hand, the Supervisory Board hires and fires executive board members, ascertains their pay, and establishes major commercial judgments.

The Securities and Exchange Board of India Committee on Corporate Governance defines it as "management's acknowledgement of shareholders' inalienable rights as genuine owners of the firm and of their own duty as trustees in the name of the shareholders." The "Anglo-American model" of the same places high value on shareholder interests. It is governed by a solitary Board of Directors, which is often controlled by non-executive directors who are elected by shareholders. In the United Kingdom, the CEO does not usually simultaneously serve as Chairman of the Board, although in the US, the dual job has long been the norm, despite serious concerns about the impact on corporate governance. Corporations are managed directly by state laws in the United States, [6]. The corporate system and structure of the United Kingdom and the United States are characterized by diffused ownership and ownership stake, with a substantial percentage of shares subscribed by the general public. The capital markets in developed countries are robust, with substantial shareholder engagement. Corporate enterprises must adhere to severe disclosure guidelines to safeguard investors. In these countries, the cornerstone of effective governance is the "code of best practices." The Japanese and German models, on the other hand, are somewhat distinct, even though Asian countries are not converging toward identical governance systems. The centrality of particular ideas is a point of agreement among reform proponents in each country, [7].

2.2 Recent Developments in Corporate Governance Norms

The Corporate Governance framework aims to safeguard the engrossment of the minor stakeholders' say in the organization. It makes the board accountable to corporates and the members. Its importance is increasingly recognized in the corporate world as it promotes transparency,

accountability, and trust to enhance investment, stability, and growth through value creation. It is also a leading pioneer in building affluence, job creation, and a supportable and maintainable commercial atmosphere, [8].

- a. Greater attention toward director independence
Independent directors act as coaches and mentors in the company rather than puppets suffering in the hands of the founders of the company. They enhance the competence of the board by ensuring objective decisions which are financially feasible for the company. They secure a right to question the board in all the decisions. They assist in enhancing trustworthiness and regimen degrees by working and helping in managing risk.
- b. Board Evaluations
Board Evaluations play a key role in ensuring a good understanding of directors' duties and protecting the rights and interests of the community and shareholders. It will certainly help the manager or the executive to abide by incorruptibility, so as to promote the interest of the stakeholders. It also examines the role of the board, and its responsibilities and assesses how the Board fulfils its obligations. The Higgs report of 2003, was one of the board evaluation reports which highlighted the sheer importance of position duty and effectual operation of independent directors in the U.K., [9].
- c. Information Technology Governance
The growth in the number of the companies has become enormous and so it's dependence on the online cloud platforms. Technology advancement has created both opportunity and risk. Most companies are engaged in data management using AI and cloud-based technology to safeguard the data. The evaluation of tenders has also become online.
- d. Shareholders activism
Shareholder activism consists of shareholders voting rights, discussions, communications, and behavioral influences. Acts as a very strong mechanism as the shareholders can influence the company by exercising their rights. They can exert their rights and powers on par with the owners of the company. Through this, they have the ability to act as a powerful catalyst by creating value for corporate growth. They can bring the desired rotation in the functioning of the companies and influence the management on the governance mechanism.

- e. Revival of activists and increased capital market activity: As pointed out in the global inclination, shareholder activists are expected to carry forward the revival in 2021 as the world commences to view the post-pandemic future.
- f. Further focus on Environmental, Social, and Governance: Apart from a global focus on responsible corporate governance, ecologically sustainable and civic issues seem to be the top priorities for investors, evolving from a local or national focus to a major worldwide phenomenon. In most cases, both the board and management are in the procedure of exchanging views on the best ways to explain, integrate, and monitor E & S issues that are important to the business and its profit maximization. In addition to this, the cultural and the ground socio-economic data and analysis play a very important role in overseeing the board.

2.3 What are the Current Problems with Corporate Governance?

Corporate governance is challenging, and it only gets more complicated as the world constantly changes at a faster pace. Many multinational corporations wield enormous power in business without adequate accountability or oversight from their boards of directors, [10]. The duties of directors, the construction and stability of the board, director remuneration and reward, the lucidity of budgetary detailing and outsider auditors, the Board's culpability for threat' and insider control, Shareholders' Rights and Responsibilities, and Collective Civic Authority and Business Morality are among the major issues discussed around the world, [11].

- a. Mistrust Environment
In recent years, deceit, deception, treachery, and embezzlement of public funds have taken place as a result of the corrupt undertakings of the executives and the board members. This has shackled the trust of the existing and potential capitalists in the credibility of sound practices of the companies.
- b. Transparency and Data Protection
What information has to be disclosed and what hasn't been provided under the code of transparency in corporate governance? And in today's cutthroat competitive world, it will be a hazard if the wrong information will be disclosed. Data Protection and Digitization privacy are central governance issues. The

board must ensure the protection of data from misuse.

- c. **Founder's Dominance in the Board**
There do not exist detached identities of businesses. Hence, the founders and the promoters of the company continuously influence the business decisions. These promoters influence the board and the management. This is because they own a significant portion of the company's share.
- d. **Removal of Independent Directors**
The Independent directors can be easily removed by the majority shareholders and the promoters under law. This happens when they didn't agree with the decisions of the promoter. To save their position they have to work according to the fancies of the promoters.
- e. **Selection Procedure**
The Law requires a healthy mix of executive, non-executive, and independent directors along with women directors. This provision is only complied with on paperwork as in the real world, the appointments are still by way of word of mouth or fellow board member recommendations. Thus, we can see the appointment of family members on the board.
- f. **Business Structure and Internal Conflicts**
Business structures that require huge layers of management also pose a significant challenge to corporate governance. It thus poses a certain hindrance to the company leaders to receive accurate information from lower levels and to command orders from them as the information may get distorted at any point of the chain.
- g. **Term of the Board Members**
The life-term members can pose many problems to businesses say fixed beliefs, power gaining, etc so the appointment of members for a long term should be avoided. And the short-term members will not be able to take extensive injunction because of their efficiency as they will be changed or removed from their posts.

3 Reforms are Required to Address The Current Problems

When organizations are small, inadequate governance may be overlooked, but when huge sums and a big number of people are involved, problems are more difficult to dismiss. Corporate Governance Reforms can be elaborated as an intentional interference in a country's corporate

governance. They are scrutinized and applied through the notification of a well-drafted and well-tabulated set of corporate governance standards or modification to countries' corporate and securities laws regarding the position and formation of all the stakeholders, including the division of privileges and competencies between management, shareholders, and other stakeholders; the role of media in information dispersion; and the protection of whistle-blowers and penalty enhancement of corporate fraud, [12].

Reforms are required to address existing issues and improve corporate governance globally in the following ways:

- a. Financial issues should be monitored, and financial discipline should be enforced by audit committees
The Audit Committee for Corporate Governance must (a) investigate any activity that falls within its terms of reference, (b) obtain data and details through workers, (c) seek valid lawful guidance, and (d) secure the presence of any new incomer with necessary proficiency.
- b. The board structure should be balanced
The designation and resignation of self-dependent directors are currently done by majority vote. As a result, independent directors are appointed at the request of the controlling shareholders and must operate by the majority's wishes. As a result, these directors are unable to communicate their ideas independently and honestly, limiting their effectiveness and defeating the objective of appointing independent directors.
- c. Priority is given to persistent disclosures
Currently, transactions are disclosed to stock exchanges periodically. The effectiveness of the disclosure is hampered by the fact that the information is available to investors much later than when the transactions were completed. Investors, the public, and regulators would be able to better scrutinize transactions if they were disclosed more frequently, increasing transparency and data protection, [13].
- d. CFOs and CEOs must be made explicitly accountable for their actions.
The owners of the corporation bear a fiduciary responsibility towards the minor shareowners and the corporation. There have been instances where controlling shareholders have used the firm for their gain at the expense of the company's and its shareholders' overall interests, [14]. Leading owners should be given defined fiduciary responsibilities and the possibility of

requiring a relationship agreement between the organization and the majority stakeholders stating their duties and responsibilities.

- e. Refinement of the Selective mechanism
The designation given and resignation taken of the self-dependent directors are currently done by majority vote. As a result, independent directors are appointed at the request of the controlling shareholders and must operate by the majority's wishes. These directors are then unable to communicate their ideas independently and honestly, limiting their effectiveness and defeating the objective of appointing independent directors, [15].
- f. The role of auditors needs to be changed from watchdog to that of whistle-blowers
Whistle-blower policy is becoming an important aspect of corporate governance. If organizations are successful in developing a strong whistleblowing framework, it will help discover any wrongdoing and deter employees from engaging in unethical behaviour, [16].
The current law exclusively protects whistle-blowers who disclose corruption, fraud, and irregularities in the government sector.

In addition, regulators and concerned Authorities must take logical and fair-minded actions to put in place an effective whistle-blower policy that protects whistle blowers' identities and prevents them from being victimized or harassed, [17]. Companies must also hold complainants liable if they file a fraudulent claim.

4 Conclusion

After years of research and policy advocacy, corporations appear to be taking things more seriously, with public company boards becoming more diverse, significant investors becoming more involved, and directors being more accountable than before.

The modern corporate model is founded on a system of honesty, trust, integrity, openness, responsibility, accountability, and confidence, and it assumes that shareholders entrust directors to use the company's assets for the company's long-term sustainability and shareholder value. The matter of revelation, lucidity, unit consideration, the role of directors, and the degree of answerability towards the shareholders, and the general public need to be revisited. Corporate governance is defined as the promotion and maintenance of integrity, transparency, and accountability at the highest levels

of management. It is not only a requirement for surviving in competitive fieldwork for long-term growth in the rising global market environment, but it also embodies the values of justice, responsibility, disclosures, and transparency to maximize value.

The degree or the extent of corporate governance should be lofty so that the company or the organization looks stronger in the eyes of shareholders or the stakeholders and also among the general public. But to ensure that degree we need to have proper sets of rules and their implications in a better manner. Although we have several strict rules still fraud and other scams are going on repeatedly in a much faster way. Therefore, preventing such acts, it is required to have good corporate governance and better transparency policies.

References

- [1] Shleifer, A. and Vishny, R. W., A Survey of Corporate Governance. *The Journal of the American Finance Association*, Vol. 52, No. 2, pp. 737-783, 1977. <https://doi.org/10.1111/j.1540-6261.1997.tb04820.x>
- [2] Bhagat, S. and Bolton, B., Corporate Governance and Firm Performance. *Journal of Corporate Finance*, Vol. 14, No. 3, pp. 257-273, 2008. <https://doi.org/10.1016/j.jcorpfin.2008.03.006>
- [3] Monks, R. A. and Minow, N., *Watching the Watchers: Corporate Governance for the 21st Century*, Wiley, 1996.
- [4] Sternberg, D. S., and Salerno, M. P. *Clery Gottlieb Mergers & Acquisitions and Corporate Governance Report*, June 2008. Clery Gottlieb. Retrieved May 10, 2022, from <https://www.clerygottlieb.com/-media/organize-archive/cgsh/files/publication-pdfs/cgmacgreport0608.pdf>
- [5] Davis, G. F., New Directions in Corporate Governance, *Annual Review of Sociology*, Vol. 31, pp. 143-162, 2005. <https://doi.org/10.1146/annurev.soc.31.041304.122249>
- [6] Claessens, S., Corporate Governance and Development, *The World Bank Research Observer*, Vol. 21, No. 1, pp. 91-122, 2006. <https://doi.org/10.1093/wbro/lkj004>
- [7] Chong, A., and Lopez-de-Silanes, F. (Eds.), *Investor Protection and Corporate Governance: Firm-level Evidence Across Latin America*. Stanford Economics and Finance/Stanford University Press, 2007.

- [8] Du Plessis, J. J., Harris, J. and Hargovan, A., *Principles of Contemporary Corporate Governance*. Cambridge University Press, 2018.
- [9] OECD, *Principles of Corporate Governance*, OECD Publishing, 2004.
- [10] Mallin, C. A., *Corporate Governance*, Oxford University Press, 2019.
- [11] Tricker, R. I., and Tricker, B., *Corporate Governance: Principles, Policies, and Practices*, Oxford University Press, 2015.
- [12] Baker, H. K. and Anderson, R. (Eds.), *Corporate Governance: A Synthesis of Theory, Research, and Practice*. Wiley, 2010.
- [13] Welge, M. K. and Eulerich, M., *Corporate Governance Management: Theorie und Praxis der guten Unternehmensführung*, Springer Fachmedien Wiesbaden, 2021.
- [14] Keasey, K., Thompson, S. and Wright, M. (Eds.), *Corporate Governance: Economic and Financial Issues*. OUP Oxford, 1997.
- [15] Coffee Jr., J. C. and Coffee, J. C., *Gatekeepers: The Professions and Corporate Governance*, OUP Oxford, 2006.
- [16] Roe, M. J., *Political Determinants of Corporate Governance*, Oxford University Press, 2002.
- [17] Roe, M. J., *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance*, Princeton University Press, 1996.

Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

-John E. H. J. FOEH, Diah Ayu Permatasari carried out the introduction and problem formulation of Section 1 and 2.

-Adler Haymans Manurung responsible for the problem solution of Section 3.

-Jhonni Sinaga has organized and executed the conclusion and revision.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

This research received no external funding.

Creative Commons Attribution License 4.0 (Attribution 4.0 International, CC BY 4.0)

This article is published under the terms of the Creative Commons Attribution License 4.0

https://creativecommons.org/licenses/by/4.0/deed.en_US

Is Reforming the Corporate Governance System Necessary?

ORIGINALITY REPORT

11%

SIMILARITY INDEX

9%

INTERNET SOURCES

2%

PUBLICATIONS

4%

STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Management Development Institute Of Singapore Student Paper	1%
2	deepblue.lib.umich.edu Internet Source	1%
3	www.ijeast.com Internet Source	1%
4	digitalcommons.odu.edu Internet Source	1%
5	iasscore.in Internet Source	1%
6	Submitted to Open University of Mauritius Student Paper	1%
7	ojie.um.edu.my Internet Source	1%
8	selfstudyhistory.com Internet Source	1%
9	Submitted to NALSAR University of Law Hyderabad	<1%

10 www.acc.com Internet Source <1 %

11 etheses.dur.ac.uk Internet Source <1 %

12 irep.ntu.ac.uk Internet Source <1 %

13 journalrepository.org Internet Source <1 %

14 www.kjim.org Internet Source <1 %

15 Chen - Yu Chang, Hui - Yu Chou, Ming - Teh Wang. "Characterizing the corporate governance of UK listed construction companies", Construction Management and Economics, 2006
Publication <1 %

16 myassignmenthelp.com Internet Source <1 %

17 open.uct.ac.za Internet Source <1 %

18 wrap.warwick.ac.uk Internet Source <1 %

19 www.ea.bg.ac.rs Internet Source <1 %

20 theses.gla.ac.uk Internet Source <1 %

21 Kim, E. Han, and Yao Lu. "Corporate governance reforms around the world and cross-border acquisitions", *Journal of Corporate Finance*, 2013. Publication <1 %

22 repository.smuc.edu.et Internet Source <1 %

23 pure.aber.ac.uk Internet Source <1 %

Exclude quotes On

Exclude matches < 1 words

Exclude bibliography On

Is Reforming the Corporate Governance System Necessary?

GRADEMARK REPORT

FINAL GRADE

/0

GENERAL COMMENTS

Instructor

PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6