

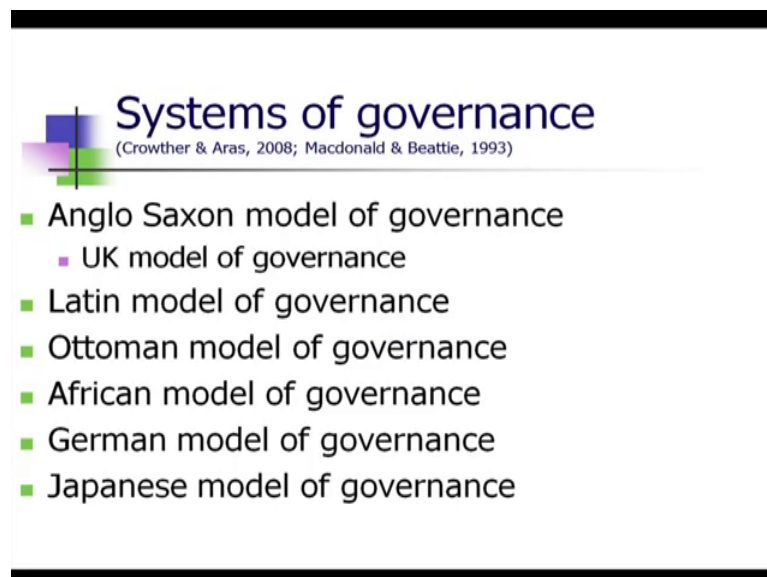
**Corporate Social Responsibility**  
**Prof. Aradhna Malik**  
**Vinod Gupta School of Management**  
**Indian Institute of Technology, Kharagpur**

**Lecture - 36**  
**Models and Systems of Corporate Governance**

Welcome back to the MOOC course on Corporate Social Responsibility. My name is Aradhna Malik and I am helping you with this course. And today in this lecture we are going to talk about the models and systems of corporate governance. We have been discussing corporate governance in detail we have discussed various things regarding corporate governance. Today we are going to talk about the models and systems of corporate governance how is corporate governance happening in different parts of the world through different philosophies etcetera. So, let us see what we have for you here.

Models and systems of corporate governance.

(Refer Slide Time: 00:55)

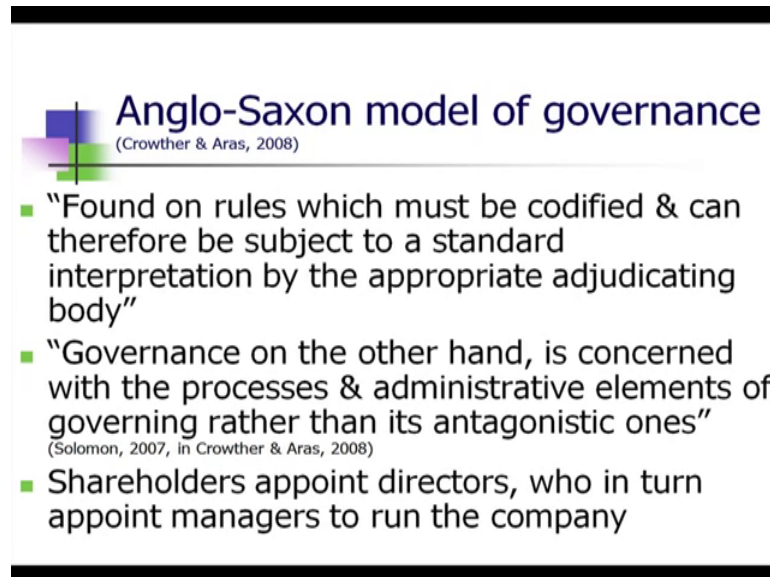


Some system of governance that are being followed in different parts of the world that have been found to be useful are the Anglo Saxon model of governance which has then formed the basis for the UK model of governance, then we have the Latin model of governance, we have the Ottoman model of governance, the African model of governance, German model of governance and the Japanese model of governance. So, you can see that almost the entire world except for of course, Australia has been covered

we will cover Australia in one of the following lecture as to you know how things are happening there.

So, it is I am I have tried my best to give you as wide and as diverse and overview of how corporate governance is happening in different parts of world.

(Refer Slide Time: 01:42)



**Anglo-Saxon model of governance**  
(Crowther & Aras, 2008)

- "Found on rules which must be codified & can therefore be subject to a standard interpretation by the appropriate adjudicating body"
- "Governance on the other hand, is concerned with the processes & administrative elements of governing rather than its antagonistic ones"  
(Solomon, 2007, in Crowther & Aras, 2008)
- Shareholders appoint directors, who in turn appoint managers to run the company

So, what is the Anglo Saxon model of governance? It is found on the rules which must be codified and can therefore, be subject to a standard interpretation by the appropriate adjudicating body. So, there is a clear strict structure in which according to which they did you know the rules are made and a sorry rules are made in then according to those rules are strict structure is made and everybody understand those rule and they are interpreted in the same way by the people who are going to implement those rules. Governance on the other hand is concerned with the processes and administrative elements of governing rather than and rather than is antagonistic ones.

So, governance is concerned with the processes. So, its governance is found on rules, governance is related to the processes and administrative elements of governing. So, it does not concern the antagonistic elements for the processes and the elements of administration. Shareholders according to this model share holders appoint directors who in turn appoint managers to run the company. So, according to this model people who own the company who own the shares in the company then appoint directors then they

find people who can you know they appoint their representatives. So, and then they appoint manager to run the company.

(Refer Slide Time: 03:19)

A presentation slide titled "UK governance model" with a citation "(Macdonald & Beattie, 1993)". The slide features a decorative graphic of overlapping colored squares (blue, green, purple) on the left. The main content is a bulleted list of five points describing the UK governance model.

**UK governance model** (Macdonald & Beattie, 1993)

- "The company is a legal entity quite separate from its owners
- The power to govern the company is derived from ownership
- The company exists in perpetuity since its shares may be transferred
- The board oversees the running of the company & reports regularly to the members on the stewardship of their investment, &
- Independent auditors, appointed by the members, report on whether the financial statements show a true & fair view."

Now, the UK governance model proposes that the company is a legal entity which is separate from its owners. So, it is a legal entity it is the governed by the law it is, it is governed by the law and policies of the land. The power to governed the company is derive from the ownership as to you know how much control you have over the company is a function of how much of the quantum of stakes you own in the company or the measurable investment that you have in the company.

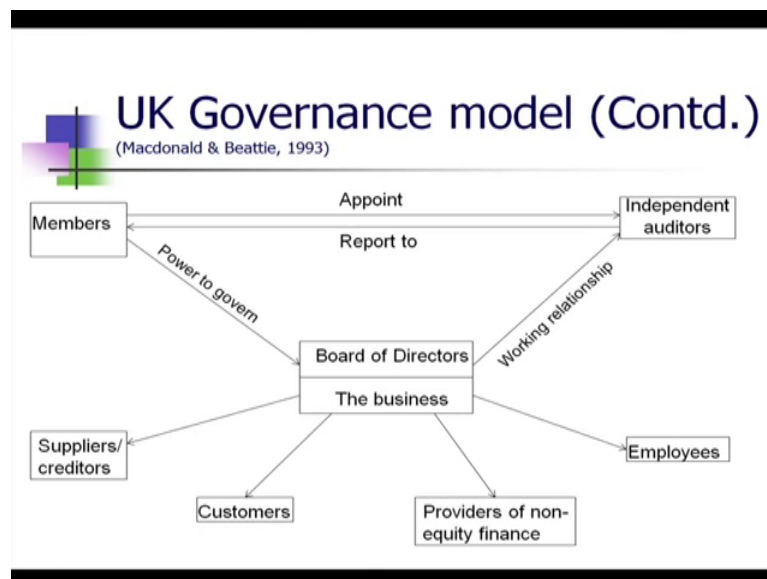
So, how much what part of the company do you own in terms of shares and assets is what gives you is directly proportional to the power you have over the way the company runs. The company exists in perpetuity since its shares may be transferred. So, it is not as if the company is you know the I mean the ideal goal is to is need not the share are not persons specific the shares can be sold and the they can be transferred and so the ownership may not be limited or may not be restricted to a person, but the ownership it is decided by the people who have by the number of shares.

So, it is not the other way around the board oversees the running of the company and reports regularly to the members on the stewardship of their investment. So, the board is just a care taker. The board is just looking after the interest of the people who have invested in the company and the boards oversees they look after they supervise how the

company is run they make sure and they manage the running of the company there would policy is an procedure in place to appoint manager to run the company and they oversee how or they supervise how the managers are doing their work. And then they report regularly to the members on how they have taken care of the investment of the people who have invested in the company.

Independent auditors appointed by the members report on whether the financial statement show a true and fair view. So, auditors what is the job of an auditor a job the job of an auditor is to find out whether the reporting is accurate or not you know whether there are any gaps in the way thing are done. So, they just report, they go through the paper work and find out and confirm the accuracy of reporting and that in turn is you know that represents the accountability of an organization. So, independent auditors are appointed they are not from within the company they are from outside and they are no connected to the company they are paid for going through the records and finding out if everything is in order or if anything has been missed or miss represented.

(Refer Slide Time: 06:19)

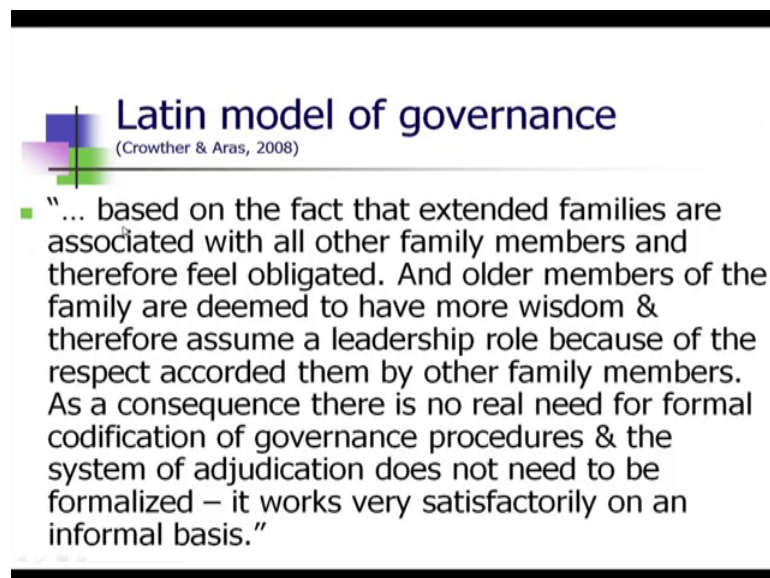


So, this is the model, members appoint independent auditors, the auditors report to the members. The people who own the company the members have the power to govern. The board of directors the board of directors has a working relationship with the independent auditors. Now the business, the business is connected to suppliers and creditor, customers, providers of non equity finance and employees. So, the board of director

oversees the business which in turn has these stakeholders. So, this is the UK governance model which is an offshoot of the Anglo Saxon model.

So, the members and independent auditor are here they have a working relationship with the board of directors, members have the power to govern the board of directors, independent auditors report to the member board of directors are connected to the independent auditors they facilitate their work. They help them find out if everything is an order and then the member appoint the auditors and board of directors oversees the business and reports the working of this business to the members. This is the UK governance model.

(Refer Slide Time: 07:44)



**Latin model of governance**  
(Crowther & Aras, 2008)

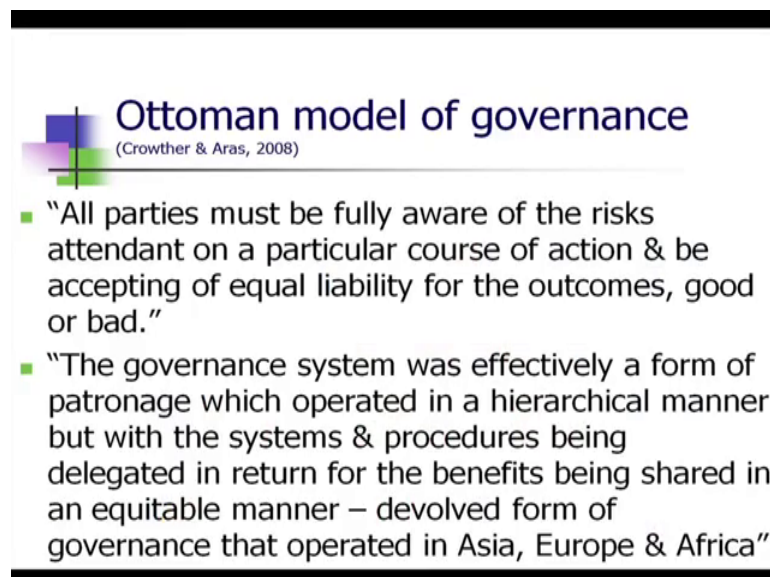
- "... based on the fact that extended families are associated with all other family members and therefore feel obligated. And older members of the family are deemed to have more wisdom & therefore assume a leadership role because of the respect accorded them by other family members. As a consequence there is no real need for formal codification of governance procedures & the system of adjudication does not need to be formalized – it works very satisfactorily on an informal basis."

The next one is the Latin govern model of governance. It is based on the fact that extended families are associated with all other family members and therefore, feel obligated. And older members of the family are deemed to have more wisdom and therefore, assume a leadership role because of the respect accorded to them by the other family members. As a consequence there is no real need for formal codification of governance process there is no need to put the governance process in writing and the system of adjudication does not need to be formulized, it works very satisfactorily on an informal basis.

So, the Latin model of governance is really about the extended family networks is about families it is about the extended network that is that, it is about you know a governing

the business as one would look after the family. So, that is the Latin model of governance where you assume that your family is it is like family and the older members of the family are automatically they become leaders and so it is like looking after your extended family and they do not feel the needs to put formal measure, formal codes of running the business. In place you know whose reporting to whom whose reporting to whom is a function of the status that you have in the family and also of the age or how long you been a part of the family. So, the senior you are your age and your connection and number of children you have in the business will probably govern how much control you have in the business or on the business sorry. So, that is the Latin model of governance.

(Refer Slide Time: 09:35)



**Ottoman model of governance**  
(Crowther & Aras, 2008)

- "All parties must be fully aware of the risks attendant on a particular course of action & be accepting of equal liability for the outcomes, good or bad."
- "The governance system was effectively a form of patronage which operated in a hierarchical manner but with the systems & procedures being delegated in return for the benefits being shared in an equitable manner – devolved form of governance that operated in Asia, Europe & Africa"

Next is the ottoman model of governance, according to which all parties must be fully aware of the risks attendant on a particular course of action and be accepting of equal liability for the outcomes good or bad. So, this governance system was effectively a form of patronage with operated in a hierarchical manner, but with systems and procedure being delegated in return for the benefits being shared in an equitable manner.

So, it is a devolved form of governance that operated in Asia, Europe and Africa. This is the system which is like you know if the benefits your position in the organization or in that hierarchy depends on the benefits that are coming to or the all parties are equally concerned about the risk and they are equally aware of the risks that are going to you

know that are coming with the particular course of action. So, they share the risk and they share the reward.

So, the hierarchy is not very clearly defined and the system and procedure are clearly defined, but the hierarchy is not very clearly defined and the both the risks and benefits are shared equitably by the people who are running the business.

(Refer Slide Time: 10:59)



**African model of governance**  
(Crowther & Aras, 2008)

- Governance through networks, kinship, tribal membership and shared belonging to various networks.
- "... network of weak ties (Granovetter, 1973, in Crowther & Aras, 2008) which are based upon social interaction around a commonality of interests & upon shared memberships rather than based upon friendship."

The next model of governance is the African model of governance which is again very similar to the Latin model of governance.

Here the governance takes place through networks kinship tribal membership and shared belonging to various networks. So, it is not only about the family, it is not only about you know how many children you have or who is looking after the business, it is who your connected to and the connections and the salients of those connections will in turn determine where you are in the governance structure. This is based on a network of weak ties which are based upon social interaction around a commonality of interests and upon shared membership rather than based on friendship.

So, depending on how much interest you are you have in the organization and depending on how common you are interest are it will be decided automatically implicitly whether you are a part of the core governing body of the organization or whether you are out sided and thereby you will know whether you know what kinds of risks and benefits



are coming to you and how and how much control you have over the running of the organization. So, it is not about family it is similar to the Latin model, but it includes other network ties also. So, it is like a network of weak ties that are based primarily on the interest you have in the organization.

(Refer Slide Time: 12:33)



**German governance model**  
(Macdonald & Beattie, 1993)

- "The supervisory board has no executive power over direction or executive action, but it exercises its authority by the right to appoint, approve or remove the Management Board.
- Accountability role is fulfilled by a representative membership of the Supervisory Board elected by shareholders & employees.
- Supervisory board cannot take part in the active management of the company,
- The management board must report to the supervisory board at regular intervals on matters of policy, profitability, the course of business, turnover, the state of the company's affairs, & any transaction of significant importance for the company."

The next one is the German model of governance. According to the German model the supervisory board has no executive power over direction or executive action, but it exercises its authority by the right to appoint approve or remove the management board. So, the supervisory, the board of directors will not be a they do not have a say in what the managers do, but they have the right to appoint approve or reject the manager who are looking after to the organization, the accountability role is fulfilled by a representative membership of the supervisory board elected by shareholder and employees.

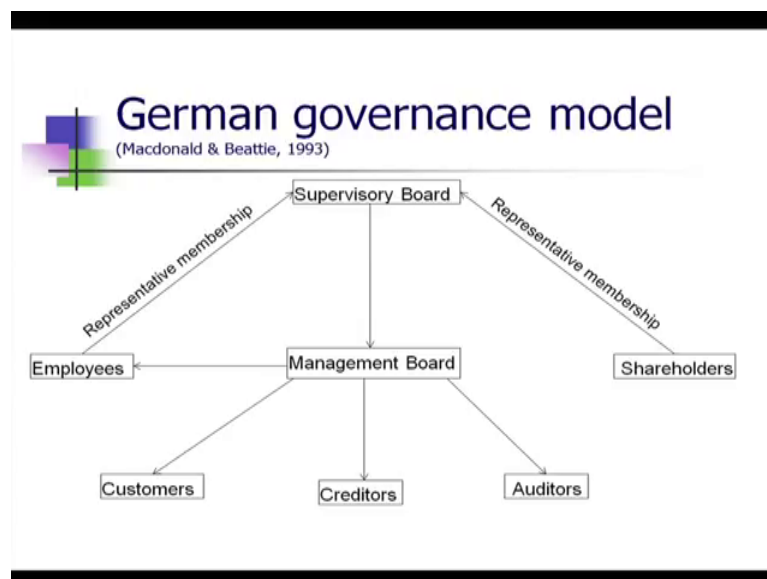
So, the people who are connected to the organization then put one of their people they elected representative and or several representatives and those become a member, those become a member of the supervisory board that looks after the appointing approval or removal of the of members of the management board. Supervisory board cannot take part in active management of the company they can only find people to do this work for them.

The management board must report to the supervisory board at regular intervals on matters of policy, profitability, the course of business turnover the state of the company's



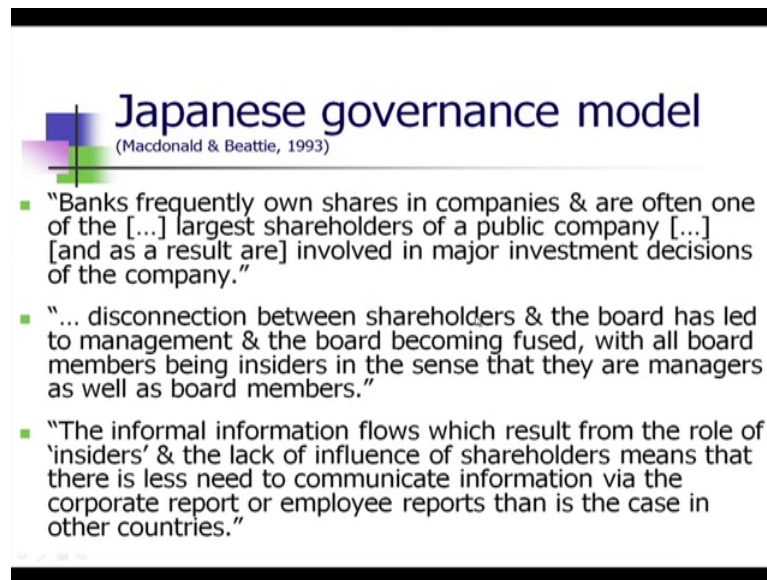
affairs and any transaction of significant importance for the company. So, the management board the responsibility of the board the management board is to do their work as well as efficiently as possible and report on what they have done to the supervisory board. So, supervisory board is truly a supervisory board they just oversee the operations and the management board reports to them on matters of policy, profitability, the course of business, the turnover how much money there making this state of affairs and any other transaction of importance to the organization.

(Refer Slide Time: 14:41)



And this is what the German governance model looks like. So, you have the supervisory board here, there is a representative membership from the shareholders, there is a representative membership from the employees, the supervisory board supervises the management board and they intern look after interest of employees customers creditors and they are in touch with the auditors. So, the management board is what really does all the work they just report to the supervisory board, but the supervisory board control the existence of the management board alright.

(Refer Slide Time: 15:22)



**Japanese governance model**  
(Macdonald & Beattie, 1993)

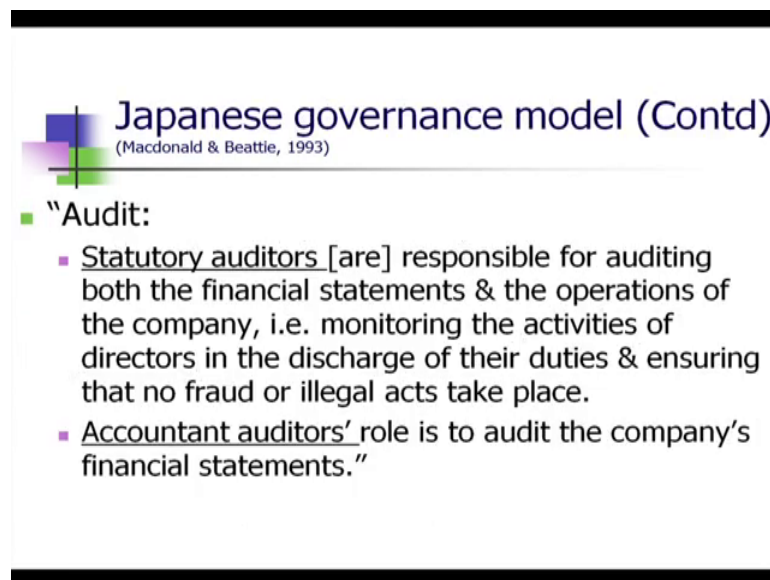
- "Banks frequently own shares in companies & are often one of the [...] largest shareholders of a public company [...] [and as a result are] involved in major investment decisions of the company."
- "... disconnection between shareholders & the board has led to management & the board becoming fused, with all board members being insiders in the sense that they are managers as well as board members."
- "The informal information flows which result from the role of 'insiders' & the lack of influence of shareholders means that there is less need to communicate information via the corporate report or employee reports than is the case in other countries."

Japanese governance model, according to this model the banks you know banks frequently use to own shares and companies and are often one of the largest shareholders of a public company and as a result were involved in major investment decisions of the company. So, the banks was the bank was the financiers and they in turn had a say in how the company did its business that is not the case with other governance models, but in Japan since the banks were giving the money to the organizations you know in terms of loans are whatever and. So, they were the ones who had the say who had to say in how the organization was doing its business. The disconnection between shareholders and the board the disconnection between shareholders and the board has led to management and the board becoming fused with all board members being insiders in the sense that they are managers as well as board members.

So, in the Japanese governance model the shareholders were the one who were running the business. So, they actually elected the board and from among them or they had a say in how the management did its business. So, their roles become fused. So, they were managers as well as board members. Excuse me, the informal information flows which result from the role of insiders and the lack of influence of shareholders means that there is less need to communicate information via the corporate report or employee reports than is the case in other countries.

So, there is a lot of informal information flowing why, because the people who have a invested in the company are also the once running the company. So, there is a lot of networking, there is a lot of information that is flowing informally with the result the need for formal reporting has really not been there.

(Refer Slide Time: 17:31)



The slide features a title 'Japanese governance model (Contd)' in a dark blue font, with a subtitle '(Macdonald & Beattie, 1993)' in a smaller font below it. To the left of the title is a decorative graphic consisting of overlapping colored squares (blue, purple, green) and a black crosshair. Below the title, there is a list of audit types under the heading 'Audit:'. The list includes two items: 'Statutory auditors [are] responsible for auditing both the financial statements & the operations of the company, i.e. monitoring the activities of directors in the discharge of their duties & ensuring that no fraud or illegal acts take place.' and 'Accountant auditors' role is to audit the company's financial statements.'

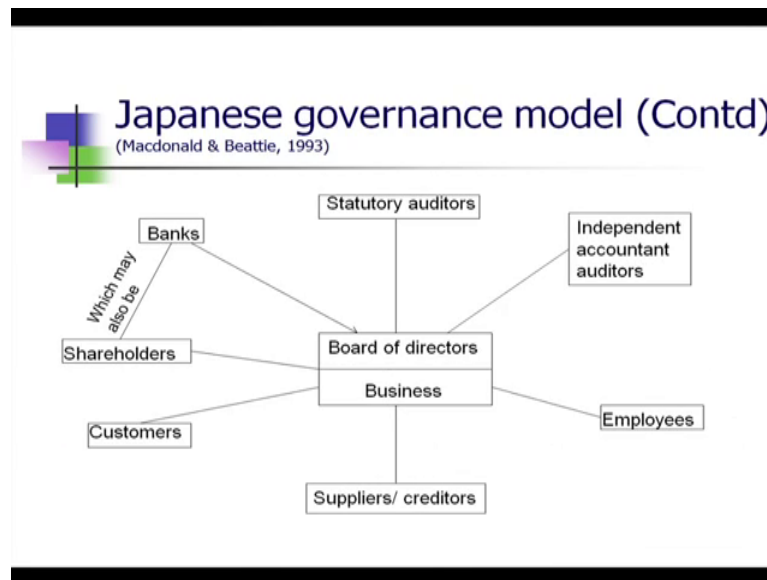
**Japanese governance model (Contd)**  
(Macdonald & Beattie, 1993)

- **Audit:**
  - Statutory auditors [are] responsible for auditing both the financial statements & the operations of the company, i.e. monitoring the activities of directors in the discharge of their duties & ensuring that no fraud or illegal acts take place.
  - Accountant auditors' role is to audit the company's financial statements."

So, this is what and the audit part, you know the audit consisted of two types of audit one is statutory audit. Statutory auditors are responsible for auditing both the financial statements and the operations of the company that is monitoring the activities of the directors in the discharge of their duties and ensuring that no fraud or illegal acts takes place.

Accountant auditors role is to audit the company's financial statements only. So, statutory auditors look after everything you know they make sure that the paper work is accurate, they make sure that the activities are in line with the law of the land, they make sure that everybody is doing their work the way they should be doing it. And no fraud or illegal activities take place. Now accountant auditors role account what do a accountant auditors do they go specifically in to the financial statements of the organization and they find out as everything is an order and this is how the, this is what the model looks like.

(Refer Slide Time: 18:34)



Now, the board of directors here banks could be among the board of directors, representative of the bank maybe represented or may find a place in the board of directors. They could be independent accountant auditors who could find a place in the board of directors but they are constantly in touch am sorry the auditor may or may not be they may not be in the board of directors, but they are responsible to the board of directors. The statutory auditors are also responsible to the board of directors. So, these are constantly in touch. Banks find a place here in the board of directors, the shareholders find the place in the board of directors and in the business, banks may also be shareholders because they are investing money. So, these lines are confused you know sorry they are fused banks and shareholders in board of directors would find some common members. Then the board of directors oversees the business so employees suppliers and creditors and customers, but then there is a lot of informal information flowing here over here.

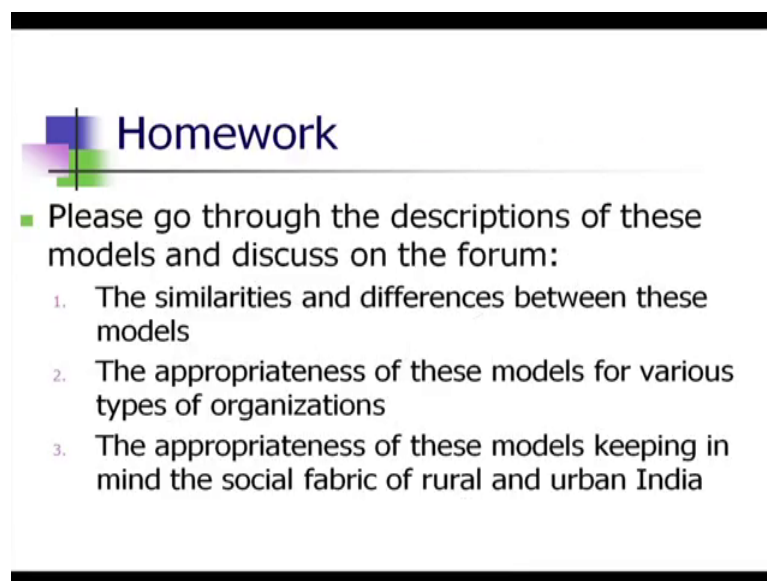
So, the need for a formal reporting system, for a formal code you know regarding the governance of the organization was not really found to be necessary. Now out of all these models the one that is still in place the one that is still you know finding a place in most organizations that are in insisting an accountability is this one, the UK governance model. And this is something that you will find in many many places. This is something that you will find people following in many places where there are clear divisions of the roles of various stake holders in the organizations and there are clearly listed codes, there

are clearly defined codes which are interpreted in the exact same manner or as similarly as possible by different people connected to the organization.

And this is something that is really finding a place in many other places, but then that does not mean that the other models are not in place they are also in place they are just in place in different pockets. And there is a you know that these as you can see these models may have come out of the different cultural difference in the way the organizational you know in the cultural differences in the way organization are run which is again of function of the social culture that these organization are based in.

So, different country, different culture, different ways of thinking in turn influence the way the organization govern there business, they run their business and that in turn has a bearing on the way the world views them on accountability, on the confidence there different kinds of people have in them. Now this may not the true for the, or this may not apply equally across all cultural and that is why I have a piece of home work for you.

(Refer Slide Time: 22:09)



**Homework**

- Please go through the descriptions of these models and discuss on the forum:
  1. The similarities and differences between these models
  2. The appropriateness of these models for various types of organizations
  3. The appropriateness of these models keeping in mind the social fabric of rural and urban India

I have notice that in the past when I given some homework to people some student are really taking the homework seriously. So, some of these lecture where recorded before the course began and now I have seen a little bit of the course running and it is very heartening to see that some of you are taking the home work very seriously, so seeing that I am giving you some more homework.

Now the your homework is that after you listen to these lecture and you understand what is been talked about here I would request you to go through the descriptions of these models, go online find out more about these models and then discuss on the forum these following. The similarities and differences between these models - find out how similar or how different these models are from each other, find out which cultures they are applicable to the appropriateness of these models for various types of organization in various social cultures also. So, I am adding that part here, I will add that on the slide also.

Find out how appropriate these models are for various types of a organizations for various cultures. The appropriateness of these model keeping in mind the social fabric of rural and urban India, which of these models would find a place in Indian organizations and why. You know why would a particular model be preferred in Indian organization and especially you know which of these models would be preferred in these the organizations in India that are based in rural areas and which of these models would find you know would be applicable to organization in India that are based in urban areas and which of these organizations would find a place in India that are multinational you know. So, all of that find out how culture and corporate governance go hand in hand and that is your home work for this you know after listening to this particular lecture.

So, that is all we have time for in this lecture and please do the homework, please go through it, it is going to be very interesting for you. If possible find examples you know it is not necessary that the German model of governance would be applicable only in Germany or would be adopted by organization only in Germany. Maybe it is being adopted in other places also and that is where your interest in this topic would come in handy. So, if you listen to this and you find something please go out and explore and then maybe add it to the forum.

Also please look at your own organization and see which model have they adopted have they model adopted any model at all, if yes, which of these models have they adopted and why have they adopted it have they founded useful or not. So, that is what I would really like you to do on the forum and that is all we have time for this lecture. We will continue with some more discussion on corporate governance in the next class.

Thank you very much for listening.