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CORPORATE GOVERNANCE PRACTICES IN CONTINENTAL EUROPE AND ANGLO-SAXON COUNTRIES: A COMPARATIVE STUDY

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Abstract:

The advent of globalization in trade has marked the beginning of an era characterized by the application of adaptable trade regulations and the extensive use of production capacities on a global level. In the realm of corporate practice, both internal and external controls are essential as they shape the landscape of corporate governance. The aim of this theoretical research paper is to analyze corporate governance by investigating how laws and regulations enforce control over corporations on a comparative global level between Anglo-Saxon and Continental European countries in the context of corporate governance. This study provides fundamental insights through a comprehensive analysis of both corporate governance models, utilizing research focused on this area to highlight the complex differences rooted in contextual nuances and systemic variations. From leadership and employee engagement to legal frameworks, standards, and the dynamism of competition, the analysis illuminates the multiple relationships between corporate governance practices and contextual foundations. Further exploration in this study extends to considering the impact of organizational challenges, failures, and the formulation of Corporate Governance Codes (CGCs) as regulatory frameworks aimed at enhancing transparency and accountability. By examining legal differences and convergence trends among Anglo-Saxon countries and Continental European ones, within EU member states, along with the complex regulations adopted following the dissolution of the communist bloc in Eastern Europe, the research adds layers of complexity to the dynamics of contemporary corporate governance. This ongoing debate underscores the imperative

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for continuous scholarly research, highlighting the necessity of an evolving landscape of corporate practices and their complex implications.

***Keywords**: corporate governance; corporate governance codes (CGC); corporations; managers; shareholders*

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INTRODUCTION

Corporate governance, characterized by its complexity and multi-layered nature, partially lacks a defined historical trajectory, primarily due to the inherent breadth and complexity of its subject matter (Cheffins, 2012). The genesis of corporate governance can be traced from the earliest emergence of corporate forms, considering potential conflicts between investors and managers (Wells, 2010).

The history of corporate governance extends from the formation of pioneering corporate entities such as the East India Company, Hudson's Bay Company, and Levant Company during the 16th and 17th centuries, which laid the initial foundations for the evolution of governance mechanisms on a global level (Cheffins, 2012). This historical context provides a basis for a comprehensive examination, a chronologically framed journey focused specifically on corporate governance, its development, and contemporary practices in Continental Europe, compared to Anglo-Saxon countries and their current practices.

In the US, the concept gained traction in the 1970s with "Taming the Giant Corporation" (Ocasio & Joseph, 2005). This book established a shareholder-centric legal framework for corporate governance (Cheffins, 2012). Initially, the focus was on US corporations (Denis & McConnell, 2003). However, by the 1990s, corporate governance research became a global phenomenon (Denis & McConnell, 2003). This reflects the growing interconnectedness of economies.

The UK also emerged as a leader in this global shift. The term "corporate governance" was rarely used before the 1990s, but the 1991 Committee on the Financial Aspects of Corporate Governance marked a turning point (Cheffins, 2012). By the late 1990s, corporate governance had become a prominent topic, highlighting its growing importance (Financial Times, 1999).

1. Innovative Approaches to Corporate Governance: The Cadbury Report

The publication of the Cadbury Report in 1992 marked a pivotal moment in the history of corporate governance, gaining international recognition and establishing itself as a cornerstone in the field.

The Cadbury Committee was formed in response to a series of high-profile corporate failures and scandals in the United Kingdom causing the reputation of London to dramatically suffer (Cadbury, 2000). There was particular public outrage at the plundering of pension funds by Robert Maxwell, at the failure of auditors to expose the impending bankruptcy of the Bank of Credit and Commerce International, and at the apparently undeserved high pay raises received by senior business executives (Boyd, 1996). This event had raised significant concerns about the effectiveness of existing corporate governance structures, directors, and the need for greater transparency and accountability in financial reporting.

In response to these concerns, a private sector initiative comprising the Financial Reporting Council (FRC), the London Stock Exchange (LSE), and the accounting profession established a committee to review the financial aspects of corporate governance. The aim was to develop a code of best practice while avoiding an inflexible, one-size-fits-all approach (Shah and Napier, 2017).

To address the concerns about the financial reporting and accounting practices of publicly listed companies in the United Kingdom, Cadbury Committee published a Cadbury Report in December 1992. Undoubtedly, the Cadbury Report has provided a legitimate framework for corporate governance rhetoric, underpinning the evolution of governance practices (Shah and Napier, 2017).

The primary aim of the Cadbury Report was to enhance standards of corporate governance by setting out clear guidelines and recommendations for companies to follow. It introduced key principles such as the separation of the roles of CEO and chairman, the significance of non-executive directors, and the necessity for greater transparency and accountability in financial reporting.

The Cadbury Committee formulated its recommendations in a rigorously defined Corporate Governance Code (CGC) and facilitated its implementation by persuading the London Stock Exchange to include the Code as an adjunct to its previously established governance rules (Cheffins, 2012). As a result, companies on the market were required either to comply with the provisions of the Code or to provide an explanation for their non-compliance (Cheffins, 1997).

The Cadbury Code, recognized for its innovative approach, soon became a model for the formulation of Corporate Governance Codes (CGCs) in numerous countries around the world (Cheffins, 2000). The proactive engagement of the United Kingdom in corporate governance issues during this period laid the foundation for the internationalization of governance norms and practices.

1.1. Evolution of Standards: Greenbury, Hampel, Turnbull and Advancements in Corporate Governance

The momentum in the field of corporate governance persisted in the United Kingdom, particularly after key reports were published during that period. One of these reports was the review of executive pay published on 17th July 1995, conducted by the Greenbury Committee chaired by Sir Richard Greenbury (Greenbury, 1995). The Greenbury Report (1995) addressed executive pay, while the Hampel Report (1998) built on prior work and emphasized internal controls. The Turnbull Report (1999) provided practical guidance on internal control systems.

These reports significantly influenced global practices. Their impact extended beyond the UK, prompting reforms in Continental Europe and Japan due to high-profile corporate governance failures (Cheffins, 2012; Jones & Pollitt, 2001). European firms, facing increased competition and seeking capital, needed to prioritize shareholder interests and strengthen accountability – areas addressed by these reports.

The influence of all three reports reshaped the landscape of corporate governance both domestically and internationally, establishing novel standards and catalyzing ongoing advancements. This impact extended beyond the borders of the United Kingdom to Continental Europe and Japan, as highlighted in a 1993 Financial Times report (Jones and Pollitt, 2001), indicating the widespread adoption of UK governance practices and principles globally. This cross-border influence received further impetus in the mid-1990s when controversies arose surrounding corporate governance in prominent companies across Europe, including the German shipbuilder Bremer Vulkan, the German metallurgical and mining group Metallgesellschaft, the Spanish bank Banesto, and the French conglomerates Navigation Mixte and Suez (Cheffins, 2012). The Italian conglomerate Ferruzzi was also embroiled in such controversies, leading to a shared imperative for urgent reforms (Berglöf, 1997).

Proactive events within multinational corporations underscored the necessity for a comprehensive reassessment of corporate governance frameworks in European countries. This imperative for reforms stemmed not only from internal dynamics but also from external factors, notably the liberalization of capital markets (Cheffins, 2012). European firms, grappling with the challenges posed by escalating international competition, increasingly turned to capital markets for financing and restructuring purposes. This shift in financing strategies heightened the imperative for companies to prioritize shareholder interests and enhance accountability mechanisms, thus further emphasizing the critical role of corporate governance in navigating evolving market dynamics.

2. PERSPECTIVES OF CORPORATE GOVERNANCE: ANALYSIS OF THE CONTEMPORARY LANDSCAPE

Within economic and legal literature, corporate governance has emerged as a pivotal subject of scholarly inquiry, prompting detailed analyses and critical reflections. This examination explores the mechanisms and structures that govern relationships among stakeholders within corporate entities. Defining corporate governance involves analyzing the principles and practices that constitute successful organizational leadership, focusing on interactions among management, shareholders, employees, and other relevant parties. This approach identifies strategies for effective governance and achieving business objectives.

The continuous evolution of the corporate sector makes analyzing various definitions of corporate governance crucial. The Cadbury Report (1992) defines corporate governance as “the whole system of controls, both financial and otherwise, by which a company is directed and controlled” (Cadbury Report, para. 2.5, 1992). The OECD (1999) describes it as “a set of relationships between a company’s board, its shareholders, and other stakeholders,” noting its integration within the broader economic landscape, including macroeconomic policies, market dynamics, and regulatory frameworks. Effective corporate governance also involves business ethics and acknowledging environmental and societal interests, influencing a company’s reputation and long-term success (OECD, 1999).

Škare and Hasić (2015) highlight diverse perspectives on corporate governance, referencing MacMillan and Downing’s 1999 definition as a systemic approach for achieving high financial performance. This classical approach measures success through financial results. Conversely, Letza et al. (2004) view corporate governance as an institutional arrangement regulating relationships among economic actors, emphasizing stakeholder involvement and balance of interests.

Jones and Pollitt (2001) define corporate governance as "the system by which companies are directed and controlled," focusing on the board of directors' role. Cuervo (2002) describes it as a process of managerial oversight aimed at maximizing firm value while protecting minority shareholders' rights. Dorweiler and Yakhua (2007) further stress the importance of reconciling stakeholders' interests to optimize outcomes, advocating for a comprehensive approach to foster corporate prosperity.

Defining corporate governance is a complex endeavor requiring an understanding of its conceptual and practical dimensions. Scholars aim to capture its evolving nature, accounting for economic, social, and regulatory changes. This scholarly discourse enhances theoretical understanding and informs the development of governance practices promoting transparency, accountability, and sustainable performance.

Legal Frameworks and Internal Dynamics: The Influence of Legislation on Corporate Governance

Within the realm of corporate governance, scholars have identified disparate models that illuminate diverse approaches to organizational oversight. Notably, the Anglo-Saxon model, prevalent in countries like the United States and the United Kingdom, emphasizes market-driven mechanisms and shareholder primacy (Jensen and Meckling, 1976). In contrast, the continental European model, exemplified by countries such as Germany, France and Italy prioritizes stakeholder interests and features a more collaborative governance structure, often characterized by co-determination (Enriques and Volpin, 2007). These distinct models represent two key approaches to organizing corporate structures and managing shareholder interests shedding light on the intricate dynamics of governance practices and their impact on organizational performance and stakeholder relationships.

Through the lens of Dorweiler and Yakhua's research (2007), it is noted that the continental European system is characterized by ownership concentration of shares, with a particular emphasis on influential large shareholders. In contrast, the Anglo-Saxon model emphasizes market mechanisms as key factors in shaping corporate policies and practices. These disparities stem from cultural, legal, and institutional contexts in which these two models are formed, further emphasizing the complexity and significance of corporate governance.

In examining the legal framework of corporate governance, it is imperative to underscore its origins in legislation at various levels, encompassing both state and federal jurisdictions. Regarded as a key milestone in U.S. financial regulation, the Securities Act of 1933 marked a watershed moment, accompanied by the establishment of the Securities and Exchange Commission (SEC) tasked with its enforcement. Prior to the inception of the SEC, federal oversight of securities markets in the U.S. was largely non-existent (Avedian et al., 2015). The Securities Acts of 1933 and 1934 laid the foundational principles for crafting regulations that govern corporate conduct (Aldrighi, 2003). These laws serve as cornerstone statutes delineating the parameters governing the relationship between management and corporations, thereby establishing the framework for accountability and transparency in business operations. Support for the integration of these legal frameworks within corporations is imperative, given their profound impact on the internal dynamics of corporate governance. These frameworks not only shape corporate management strategies and decisions but also establish the structural basis for accountability and transparency within organizations (Dorweiler&Yakhou, 2007).

In the context of corporate governance in continental Europe, it is essential to highlight the significant reliance on the corporate laws of individual countries, which serve as a fundamental underpinning. Leermakers (2003) emphasizes that, despite the authority of the European Union (EU), the absence of specificity in corporate governance standards is striking. This lack of specificity underscores the diverse regulatory landscape across European countries, wherein each individual nation's legal framework plays a crucial role in shaping corporate governance practices. The result is greater variability in laws and regulations compared to the more standardized approach applied in the United States (Dorweiler and Yakhou, 2007). Such a decentralized approach allows each country to tailor its legislation and rules to the specific needs of the corporate sector within its borders. The diversity of legislative approaches reflects different legal, economic, and cultural contexts among European countries, creating a complex landscape of corporate governance in this continental European model.

Shareholders as Key Actors: Representation of Roles and Interests in Corporate Governance

Within the corporate framework, shareholders play a crucial role, influencing key decisions and governance dynamics (Škare&Hasić, 2005; Gunay, 2008). Their involvement shapes corporate strategies, performance benchmarks, and accountability mechanisms, highlighting their importance in steering organizational trajectories and ensuring stakeholder alignment.

Shareholders, bearing economic risks associated with ownership, are central to corporate governance. Maximizing share value is a priority, as advocated by Agrawal and Knoeber (2012). This viewpoint emphasizes shareholders' significant ownership role and their contribution to favorable corporate outcomes.

In Anglo-Saxon countries, diversified ownership structures make shareholders relatively weak in controlling managers, who wield significant influence (Škare&Hasić, 2005). This is known as the 'principal-agent problem,' where shareholders (principals) and managers (agents) have conflicting interests. Agency theory, introduced by Jensen and Meckling (1976), aims to mitigate these conflicts and improve stakeholder relationship management in corporate governance.

Plender (1998) notes changes in the conceptualization of shareholders in modern Anglo-Saxon corporations. With financial institutions as key shareholders, the traditional view of shareholders as primary risk bearers is re-examined. Gunay's (2008) research shows that strategic portfolio diversification by these institutions reduces risk concentration for individual shareholders, transforming their role.

In contrast, continental European countries typically have concentrated ownership structures, where one or more shareholders exert substantial control over the company (Becht et al., 2000; Franks & Mayer, 1995). This grants significant influence over decision-making processes, both in general shareholder meetings and at the board level. Directors often find themselves subject to the interests of dominant shareholders, minimizing the traditional agency problem between shareholders and directors. However, conflicts of interest can arise between controlling and non-controlling shareholders, known as the second-level agency problem (Davis, 2000; Armour et al., 2009; Škare&Hasić, 2005).

Davis (2000) and Armour et al. (2009) analyze how concentrated ownership can lead to dominant shareholders pursuing their own interests at the expense of minority shareholders. Škare and Hasić (2005) emphasize the importance of regulatory frameworks to protect minority shareholders and address these challenges.

In summary, the dispersed ownership structure in Anglo-Saxon countries and the concentrated ownership model in continental Europe create distinct dynamics between shareholders and directors. Each system requires tailored corporate governance approaches to address unique challenges and ensure equitable protection of shareholders' interests while promoting sustainable corporate practices.

Variations in Corporate Governance Models: Cultural Influences and Divergence of Approaches

From a cultural standpoint, distinct corporate governance paradigms emerge across nations, exemplified notably by the Anglo-Saxon and relational governance models.

These models encapsulate contrasting approaches to corporate governance, deeply entrenched within cultural norms and institutional frameworks unique to each context. The Anglo-Saxon model of corporate governance, as extensively analyzed by Shleifer &Vishny (1997), underscores the safeguarding of external investors' interests through a multi-faceted approach. This strategy integrates legal protections at the state level, internal mechanisms within firms - such as independent boards of directors and transparent disclosure practices - and relies on external mechanisms like the market for corporate control. Central to this model is a robust legal framework and regulatory environment aimed at safeguarding the rights of minority shareholders and facilitating the efficient operation of capital markets.

Conversely, the relational paradigm of corporate governance, as expounded by Li (2015), places greater emphasis on the control rights of internal stakeholders. This model encompasses features such as bank financing, rigorous supervision, controlling block shareholders, cross-shareholding, and less developed markets for corporate control. These characteristics prioritize the cohesion and stability of internal relationships within the firm, often at the expense of market-driven dynamics prevalent in the Anglo-Saxon model. Within the relational paradigm, key decisions are made through long-term relationships among key actors, such as banks, dominant shareholders, and management, often resulting in more stable but less transparent governance structures.

The apparent contrast between these two models illustrates the diversity of approaches to corporate governance rooted in cultural, legal, and institutional factors specific to each country. The Anglo-Saxon model, with its orientation towards protecting external investors and market efficiency (e.g. Shleifer &Vishny, 1997; Aldrighi, 2003), prevails in countries with robust legal systems and developed capital markets. In contrast, the relational model is more common in countries where traditional relationships and internal controls play a greater role in corporate governance (Li, 2015).

Shleifer and Vishny (1997) emphasize that the disparities between these models stem not solely from economic exigencies but also from deeply ingrained cultural and institutional norms that mold approaches to corporate governance. Li (2015) delves deeper into the influence of these norms on the development of ownership structures and corporate strategies. He elucidates that no single model reigns as universally superior; instead, the efficacy of each model hinges on the specific conditions in which it is applied. This contextual dependence underscores the importance of understanding and adapting corporate governance practices to fit the unique circumstances of each business environment.

This nuanced understanding of corporate governance is echoed by the consensus in professional discourse, as articulated by Škare and Hasić (2015). They discern the presence of two predominant systems of corporate governance: the unitary model, which prevails in Anglo-Saxon countries, characterized by widespread shareholder ownership across most firms; and the dual model, predominant in continental European countries, distinguished by a more concentrated ownership framework.

In the unitary model, prominent in nations like the United States and the United Kingdom, there is a focus on safeguarding the interests of minority shareholders through legal and market mechanisms. This model entails robust transparency standards, independent boards of directors, and dynamic markets for corporate control, all contributing to the effective operation of capital markets and the protection of investors' rights.

In contrast, the dual model, typical of countries like Germany, Austria, and numerous other continental European countries, relies on concentrated ownership, where a few major shareholders, often including banks and other financial institutions, exert significant control over the company. This model frequently incorporates a dual board structure, featuring a supervisory board overseeing the management board, thus achieving a balance between different interests within the company, as underscored by Škare and Hasić (2015).

Of particular significance is the flexibility provided by certain European countries, including Croatia, France, Italy, Slovenia, North Macedonia, Iceland, Lithuania, the Netherlands, and Portugal, in choosing between unitary and dual systems of corporate governance. This flexibility allows company founders the discretionary right to choose the model that best suits their specific needs and strategies. Such freedom of choice contributes to the diversification of corporate governance, enabling adaptation to different legal, cultural, and economic environments (Škare and Hasić, 2015).

This diversity of corporate governance models reflects how companies are structured and managed, and how they achieve their objectives. Understanding these models and their implications is crucial for developing effective corporate governance strategies that can address the challenges of the contemporary business environment.

3. COMPARATIVE PERSPECTIVES: DIFFERENCES BETWEEN THE ANGLO-SAXON AND CONTINENTAL EUROPEAN MODELS

The analysis of differences between the Anglo-Saxon and Continental European models of corporate governance represents a pivotal area of research that allows for a detailed examination of various approaches to the organization and management of companies. The Anglo-Saxon model is often characterized by dispersed ownership and emphasizes the protection of minority shareholders' interests through legal-regulatory mechanisms and market disciplines (e.g. Becht et al. 2000, Frank and Maye, 1995). On the other hand, the Continental European model often relies on concentrated ownership, highlighting the role of long-term relationships and traditional institutions in decision-making processes and corporate governance (e.g. Škare and Hasić, 2005).

These differences in ownership structure, corporate practices, and governance mechanisms often result in different approaches to corporate governance, decision-making, and relationships among corporate sector stakeholders. For example, in Anglo-Saxon models, emphasis is often placed on the independence of boards of directors and transparency of information as key mechanisms for protecting shareholders' interests, while in Continental European models, greater importance is placed on internal control mechanisms and long-term relationships among shareholders.

Furthermore, various cultural, legal, and institutional contexts play a significant role in shaping and sustaining these models of corporate governance. For instance, differences in the legal framework, ownership tradition, and political systems can significantly influence the structure and functioning of the corporate sector in different countries.

Therefore, a comparative analysis of the Anglo-Saxon and Continental European models of corporate governance provides valuable insights not only into the functioning of corporate governance itself but also into the broader societal, economic, and political contexts that shape corporate operations.

Leadership, mobility, and employee engagement

In the context of the previously analyzed governance paradigms, scientific studies indicate significant disparities in the characteristics of managers and their mobility between the Anglo-Saxon and Continental European models, as evidenced by research examining examples from the United States, United Kingdom, and France (Crifo et al., 2018). These studies delve into the nuances of managerial environments across these different corporate cultures and business entities.

Upon analyzing managerial profiles, it becomes apparent that executives in the US and UK often exhibit a tendency toward specialization in fields such as finance and marketing. This specialization frequently leads to manager rotation and increased mobility within Anglo-Saxon nations. Conversely, within the Continental European model, particularly in France, there is a prevalent inclination toward long-term tenures within the same company. This pattern reflects a corporate culture in which loyalty and dedication to the organization are highly esteemed (Crifo et al., 2018).

These findings are substantiated by empirical evidence highlighting transatlantic disparities in manager demographics. Notably, the US exhibits a pronounced inclination towards recruiting managerial talent from overseas, significantly influencing the managerial workforce composition (Ungureanu, 2012). Such dynamics underscore the imperative for flexible recruitment and leadership development strategies tailored to the distinct national and corporate landscapes.

The diversity in managerial origins underscores the dynamic and cosmopolitan nature of the US business environment. In contrast, France serves as a striking counterexample, with a majority of managers originating from domestic backgrounds and pursuing internal career progression within corporate hierarchies. This divergence in managerial recruitment and advancement approaches is further evident in a comparative analysis of management dynamics between France and Italy.

France prefers to nurture domestic managerial talent, thereby maintaining continuity and strengthening corporate culture (Crifo et al., 2018). In contrast, Italy adopts the opposite paradigm, where a significant number of managers are recruited from external sources (Ungureanu, 2012). This divergence in managerial recruitment practices reflects on their ability to address specific challenges and dynamics of business within a given national and corporate environment.

Dominant differences in corporate governance practices among EU members are often linked to the degree of employee involvement, which frequently stems from national legislative frameworks (e.g. Yakhou and Dorweiler, 2007; Weil et al., 2002). Legal frameworks in Austria, Denmark, Germany, Luxembourg, and Sweden stipulate that employees in companies of certain sizes have the right to elect a certain number of members to the supervisory board.

In Finland and France, the possibility of employee participation in corporate governance processes often depends on the provisions of the company's statutes (Crifo, 2018).

	Anglo-Saxon	Continental Europe
Oriented towards	stock market	banking market
Considers	shareholders' property right	shareholders' property right and company's relationships with its employees
Shareholding structure	dispersed	concentrated
Management	executive directors non-executive directors	Supervisor Board Board of Directors
Control system	external	internal
Accounting system	GAAP	IFRS

Figure 1: Key Characteristics of Corporate Governance Models in Anglo-Saxon and Continental European Contexts (Source: M. Ungureanu, 2012)

This implies that regulations regarding employee representation in supervisory boards or other governance bodies may be defined within the company's bylaws, rather than being directly regulated by law (Crifo, 2018). Additionally, France allows employees with a three percent (3%) shareholding to propose directors, with certain exceptions.

Citing the findings of Weil, Lounsbury, and Zajac (2002), it's noteworthy that in countries such as France and the Netherlands, while employee representatives may participate in board meetings, their involvement is often limited and typically lacks voting rights. In contrast, in all other EU member states (except for specific Dutch companies with independent board elections), shareholders possess the exclusive right to elect all members of the supervisory board. These distinctions in employee engagement within corporate governance frameworks reflect the intricate interplay of legislative structures and cultural norms across various European nations. This fundamental divergence underscores the variability in shareholder influence among EU member states.

As previously underscored by Davies (2000) and Škare and Hasić (2015), the Anglo-Saxon perspective places central importance on ownership rights and shareholder dominance, with the primary goal of organizations being profit maximization for shareholders. This paradigm operates under the assumption that other relevant stakeholders have autonomous protection mechanisms; for example, long-term creditors can safeguard their interests through certain contractual clauses. In Anglo-Saxon countries, employees often have the option to join unions, which primarily focus on protecting workers' rights. According to the Anglo-Saxon approach, shareholders are frequently regarded as subjects lacking specific protection, as they are compelled to invest capital in the company under relatively undefined conditions, bearing the main burden of organizational risk. This position renders them vulnerable to potential exploitation by the managerial cadre (Naciri, 2008). In contrast to the Continental European context, particularly the American model, the Anglo-Saxon strategy advocates another argument for shareholder orientation, facing the challenge of reconciling the diverse goals of various stakeholders.

Research on competitiveness dynamics

Studying corporate governance dynamics offers insights into the interplay between market competitiveness and management efficiency. Numerous studies contribute to the scholarly debate on corporate governance and regulatory frameworks. Knyazeva et al. (2013) highlight a synergistic relationship between market competitiveness and corporate governance, arguing that strong shareholder rights protection enhances firm performance, particularly in competitive industries. This synergy facilitates performance assessment and identifies underperforming managers, promoting efficient resource management and high performance standards to meet shareholder demands and remain competitive.

Regulatory bodies and industry stakeholders have responded to these findings by addressing deficiencies and enhancing transparency and accountability within corporations. This has led to the establishment of various regulatory frameworks and guidelines aimed at improving corporate governance standards and restoring investor confidence. High-profile scandals in the United States, United Kingdom, and Europe have intensified focus on corporate governance issues, emphasizing the need for robust structures to maintain competitiveness and market integrity.

In response to these challenges, the Corporate Governance Code (CGC) was established to enhance corporate management and control, fostering competitiveness. Eulerich et al. (2017) stress the impact of these incidents on shaping contemporary debates on corporate governance, reinforcing the link between effective governance, competitiveness, and long-term success.

To assess competitive capabilities across regions, Santos et al. (2013) conducted a study of 938 companies across European markets. They found regional differences, with the competitiveness coefficient in Anglo-Saxon countries (0.145) being lower than in Continental Europe (0.485). This highlights the importance of regional variations in competitiveness. Santos et al. also observed a stronger correlation between the competitive capabilities of the largest shareholder and firm value in Continental Europe, suggesting that influential shareholders may better consider the interests of other block shareholders, revealing the nuanced nature of corporate governance dynamics across regions.

Customized corporate frameworks: Navigating through jurisdictional specifics

In corporate governance, developing tailored frameworks is essential for efficient operations, considering the diverse legal landscapes across jurisdictions. Yakhou and Dorweiler (2007) highlight this necessity, emphasizing that adequate authorization is crucial for effective management. Their research shows how economic and cultural factors within individual countries profoundly influence the efficacy of corporate governance mechanisms.

Corporate governance's legal foundations derive from state and federal laws, notably the Securities Acts of 1933 and 1934, which establish rules and regulations governing corporate conduct (Aldrighi, 2003). Additionally, private governance mechanisms often complement legal frameworks, offering guidelines for regulating relationships between corporate executives and their entities (Yakhou&Dorweiler, 2007). This integrated approach recognizes the multifaceted nature of corporate governance, where legal and private mechanisms converge to foster effective management and accountability.

In continental Europe, corporate governance structures are established within national legislative frameworks. Despite the European Union's jurisdiction, there is a lack of uniformity in corporate governance standards across the region. This diversity results from individual countries' authority to establish legislation tailored to their specific contexts, leading to varying laws and regulations (Leermakers, 2003).

Eastern Europe has emerged as a leader in corporate governance, showcasing innovative approaches and reforms driven by economic and political transitions (Dragneve, 2001). This region's paradigm shift in corporate governance reflects a redefined perception for owners and managers, considering the historical legacy of communist rule. These factors underscore the complex nature of corporate stewardship in Eastern Europe, where historical context, theoretical foundations, and practical management requirements intersect.

Variations in the structures of works councils in European jurisdictions

In corporate governance, works councils are significant components, serving as institutional mechanisms for communication between employers and employees. Mohrenweiser (2022) explains that works councils are legally regulated, granting them a distinct legal status compared to other employee engagement models. This legal recognition provides legitimacy and power, allowing them to advocate effectively for workers' interests. Unlike traditional trade unions, works councils have the right to information dissemination and consultation, rather than participating in salary negotiations or organizing strikes. Countries like Austria, Germany, and the Netherlands have a long tradition of incorporating works councils into corporate governance (Mohrenweiser, 2022).

The EU Framework Directive of 2021, known as the ICE Directive, significantly expanded the institutionalization of works councils, extending their mandate across more EU member states (Mohrenweiser, 2022). This directive standardizes the legal treatment of works councils in Europe, enhancing their legitimacy and significance in corporate environments. It reflects the evolution towards greater worker involvement in decision-making processes, impacting workplace dynamics and employer-employee relations.

Yakhou and Dorweiler (2007), drawing on Dragneva and Simmons (2001), emphasize the crucial role of works councils in corporate decision-making. These councils address a wide range of issues, from general economic and social concerns to major restructurings or company closures. Legal frameworks in France, Germany, and the Netherlands support the functioning of works councils, highlighting their role in balancing different interest groups within corporations. These councils ensure worker participation in decision-making, underscoring their importance in corporate governance and corporate social responsibility.

In Germany, the Netherlands, and Belgium, works councils are integral to corporate governance, wielding significant decision-making power on social issues. They influence various aspects of working conditions, employee benefits, and work organization (Dragneva& Simmons, 2001). Their authority extends to labor law, workers' rights, and social issues, making them key actors within corporate frameworks and enhancing employee participation in organizational decisions.

The importance of works councils is further highlighted by the potential consequences of disregarding their participatory rights, particularly in France, where such neglect can result in criminal liability. This underscores the critical role of works councils in promoting transparency, accountability, and representation of employee interests (Yakhou&Dorweiler, 2007). Such sanctions emphasize their role in maintaining integrity and accountability within corporate structures, contributing to the overall effectiveness of corporate governance mechanisms.

The Role of Workers' Councils in Corporate Governance: EU Perspective

Works councils, originating in Germany and Austria in the early 20th century, have the longest history in Europe (Ifo Institute Report, 2015). Their primary goals include stabilizing core employment and monitoring the implementation of industry-wide agreements and work organization (Jackson et al., 2005). German legislation dates back to 1919/1920, while Austria's dates to 1919. Post-WWII, many Western-Continental European countries introduced similar legislation, such as Spain in 1947 and the Netherlands in 1950 (Streeck, 1995). Sweden relies solely on unions for workplace representation, and Eastern European nations like Estonia, Latvia, Lithuania, and the Slovak Republic established works councils in the early 2000s (Ifo Report, 2015).

There are subtle variations in corporate governance practices among EU members. For instance, in Germany, the selection of the “Labour Director” is controlled by the supervisory board, reflecting the nuanced interplay between worker representation and corporate governance (IMD General, 2002). In France, workers’ councils can nominate members to attend board meetings, highlighting their role in decision-making. Sweden mandates equality between full-fledged board members and substitutes, ensuring fair representation, while Norwegian regulations grant workers comprehensive roles, including the right to appoint ‘observers’ at board meetings.

In post-communist countries, the approach differs. Slovenian companies with over 500 employees have workers’ councils that propose the ‘Labour Director,’ who can be appointed by the board of directors or among executive directors. Similarly, privatized Polish companies with more than 500 employees allow workers to elect a board member in a two-step board structure.

The threshold number of employees required to set up a works council varies. In Austria, Germany, and Latvia, it is five employees, while other countries like the Czech Republic, Estonia, and Portugal have no threshold. In Norway and Belgium, the threshold is 100/101 employees. Most countries have thresholds between 20 and 51 employees, as recommended by the EU directive (Ifo Institute report, 2015).

In conclusion, works councils in the EU are crucial for facilitating communication between employers and employees. Their legal rights highlight their role in decision-making, promoting transparency and accountability. The diverse methodologies for defining employee roles reflect the dynamic landscape of corporate governance in Europe, emphasizing the need for flexibility and innovation in managerial strategies.

Harmonization of governance standards: A comparative analysis of corporate governance codes (CGCs)

The conceptual framework of corporate governance (CG), as outlined in the Cadbury Report of 1992 in the United Kingdom, represents the first comprehensive system that coordinates the direction and control of corporate affairs. Corporate Governance Codes (CGCs) emerge as a collective initiative aimed at integrating principles and norms to enhance transparency, accountability, and ethical behavior within corporate frameworks. Haxhi and Aguilera (2014) define CGCs as a compendium of best practices, distinguishing provisions related to the optimal role and composition of boards of directors, relations with shareholders and senior management, protocols for auditing and disclosure of information, as well as protocols for director compensation and dismissal. These codes offer recommended practices and standards aimed at addressing agency problems, aligning management interests with shareholder interests, and strengthening investor trust following cases of corporate misconduct (Cheffins, 2012).

Acceptance and implementation of CGCs permeate both the Anglo-Saxon and Continental European landscapes of corporate governance (Cheffins, 2012). Although tailored to suit the characteristic corporate systems of specific countries, these codes share a common goal: strengthening investor trust through effective corporate governance mechanisms. Differences in content among CGCs are often rooted in various corporate governance frameworks, especially unitary single-tier or dualistic two-tier systems, which prevail in Anglo-Saxon and Continental European jurisdictions (Zipfel et al., 2017). The United States, through the American Law Institute, and the European Union, through issued codes of business practices, actively contribute to the dissemination of CGCs (Salakjuz, 2003).

Since 1992, over 107 different codes have been issued in 35 countries, with 19 European countries adopting more than 55 codes (Maasen et al., 2004). Additionally, the United Nations (2006) has developed guidelines advocating for better governance practices, further contributing to the global discourse on corporate governance transparency.

Although noticeable legal differences exist among European Union member states, largely stemming from different legal traditions, the trajectory of corporate governance practices points to a discernible trend toward convergence (Weil, Gotshal&Manges LLP, 2002; Eulerich et al., 2017). Despite these differences, the adoption of proactive CGCs by countries like Germany contrasts starkly with Eastern European EU member states, where the tradition of code implementation is lacking and only beginning to form (Eulerich et al., 2017).

Research on the adoption of codes in the transitional economies of Eastern Europe highlights the complex interaction of legal and historical factors shaping the development of CGCs (Duh, 2016; Hermes et al., 2007). While countries such as Romania, Slovenia, and Hungary adopted CGCs in the early 2000s, the scope of these CGCs often did not align with European Commission recommendations (Duh, 2016). Furthermore, the CGC landscape transcends regional boundaries, with initiatives from institutions such as the American Law Institute, the European Union, and the United Nations contributing to a comprehensive discussion on best practices in corporate governance.

The debate on corporate governance structures (CGCs) represents a complex interaction of legal, historical, and institutional factors, requiring ongoing research to understand and optimize the dynamic aspects of corporate governance practices. It encompasses the analysis of regulatory frameworks, the historical evolution of corporate norms, and the role of various institutions in shaping governance policy. Additionally, it aims to explore variable factors, the impact of globalization, technological innovations, and economic changes on corporate structures and processes, thus creating a comprehensive approach that integrates multidisciplinary perspectives to enhance theory and practice in this field.

CONCLUSION

This study emphasizes the crucial role that legal frameworks, historical development, and institutional structures play in shaping different approaches to corporate governance (Eulerich et al., 2017; Crifo et al., 2018; Yakhou&Dorweiler, 2007; Weil et al., 2002). The Anglo-Saxon governance model, prevalent in the US and the UK, prioritizes shareholder rights and executive mobility for swift adaptation to market dynamics and technological advancements (Yakhou&Dorweiler, 2007). In contrast, the Continental European model emphasizes stability and long-term planning, with managers typically maintaining prolonged tenures to foster loyalty and inclusive decision-making (Weil et al., 2002).

These divergent approaches reflect distinct views on the roles of shareholders and employees. While the Anglo-Saxon model emphasizes private governance mechanisms, the Continental European model leans towards legal frameworks and employee involvement in management processes (Weil et al., 2002). The challenge for the Continental European model lies in standardization due to inconsistent legal regulations across states, hindering the harmonization of corporate practices (Leermakers, 2003). Moreover, varying levels of employee participation in corporate governance among European countries highlight the necessity for tailored approaches to suit individual corporate contexts (Weil et al., 2002).

Research suggests that the Anglo-Saxon governance model relies more on private governance mechanisms, while the Continental European model leans towards legal regulations and traditional structures (Santos et al., 2013). This implies that in the Continental European context, the competitiveness of companies is closely linked to the capabilities of dominant shareholders.

A thorough examination of these governance models highlights intricate relationships between governance structures, contextual factors, and company competitiveness. The Anglo-Saxon model, characterized by flexibility and executive expertise, facilitates rapid adaptation and competitiveness. Conversely, the Continental European model, prioritizing continuity, stability, and inclusivity, fosters long-term mandates and a culture of corporate loyalty. The heterogeneity of legal frameworks within the Continental European model creates challenges in harmonizing corporate practices, while varying levels of employee participation in corporate structures further emphasize the diversity of approaches within this model.

This analysis highlights the need to understand the specificities of each model and balance between private and legal governance mechanisms. Harmonizing corporate standards at the EU level requires a comprehensive understanding of different interests and perspectives within corporate structures to achieve optimal results and sustainable organizational development.

In analyzing both corporate governance models, Anglo-Saxon and Continental European, it is crucial to highlight that each of these models brings specific advantages and disadvantages, whose consideration is a key factor in evaluating their implementation and effectiveness. While the Anglo-Saxon model emphasizes high expertise and ownership rights, facilitating rapid adaptation to market changes and innovations, the lack of continuity can lead to a lack of long-term strategy and employee loyalty. In contrast, the Continental European model, which relies on an inclusive approach by involving employees in governance processes through legal frameworks and traditional structures, although striving for long-term stability, may slow down adaptation to changes and innovations.

Therefore, it is important to properly balance the strengths and weaknesses of both models, taking into account the specific needs and context of each company. Integrating elements from both models can lead to the eventual creation of hybrid approaches that combine flexibility and innovation with stability and long-term strategy.

Further research should focus on deepening the understanding of the long-term implications of these models on the sustainability of companies and their global impact in an increasingly interconnected economic environment. Through detailed analysis, managers and decision-makers can better understand the complexity of corporate governance by applying optimal strategies to enhance the efficiency and competitiveness of their companies in the dynamic global corporate market environment.

PRAKSE KORPORATIVNOG UPRAVLJANJA U KONTINENTALNOJ EVROPI I ANGLO-SAKSONSKIM ZEMALJAMA: KOMPARATIVNA STUDIJA

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Abstrakt:

Pojava globalizacije u trgovini označila je početak ere koju karakteriše primena prilagodljivih trgovinskih propisa i ekstenzivno korišćenje proizvodnih kapaciteta na globalnom nivou. U domenu korporativne prakse interne i eksterne kontrole su od suštinskog značaja jer oblikuju pejzaž korporativnog upravljanja. Cilj ovog istraživačko grada je analizirati korporativno upravljanje istražujući kako zakoni i propisi provode kontrolu nad korporacijama na komparativnom globalnom nivou između anglosaksonskih i zemalja kontinentalne Evrope u kontekstu korporativnog upravljanja. Ova studija pruža fundamentalne uvide kroz sveobuhvatnu analizu oba modela korporativnog upravljanja, koristeći istraživanja fokusirana na ovu oblast kako bi istakla kompleksne razlike ukorijenjene u kontekstualnim nijansama i sistemskim varijacijama. Od rukovodstva i angažmana zaposlenih do zakonskih okvira, standarda i dinamike kon kurencije, analiza osvetljava višestruke odnose između praksi korporativnog upravljanja i kontekstualnih osnova. Dalje istraživanje u ovoj studiji proširuje se na razmatranje uticaja organizacionih izazova, neuspjeha i formulacije Kodeksa korporativnog upravljanja (CGC) kao regulatornih okvira usmjerenih na povećanje transparentnosti i odgovornosti. Ispitujući pravne razlike i trendove konvergencije između anglosaksonskih i zemalja kontinentalne Evrope, unutar država članica EU, uz složene propise usvojene nakon raspada komunističkog bloka u istočnoj Evropi, istraživanje dodaje slojeve složenosti dinamici savremene korporativno upravljanje. Ova tekuća debata naglašava imperativ kontinuiranog naučnog istraživanja, ističući neophodnost evoluirajućeg pejzaža korporativnih praksi i njihovih kompleksnih implikacija.

Ključne riječi: *korporativno upravljanje; kodeksi korporativnog upravljanja (CGC); korporacije; menadžeri; akcionari;*

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