Biopharmaceutical enterprises comparative research base on market-oriented and bank-oriented corporate governance models

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ABSTRACT

Due to different economic systems, historical traditions, market environment, legal concepts and other conditions, the patterns of biopharmaceutical enterprises corporate governance varies. This paper aims to prompt developed countries to draw on their strengths to encourage developing countries towards the introduction of governance and management practices in biopharmaceutical enterprises better serving socioeconomic development, following the examples of market-oriented company governance seen in U.K. and U.S. companies as well as the bank-oriented models of Japanese and German companies.

Keywords: Biopharmaceutical Enterprises; Market-oriented; Bank-oriented

INTRODUCTION

The purpose of biopharmaceutical enterprises corporate governance is to ensure the sustainable development of enterprises, to facilitate scientific decision-making and unify efficiency with equity in governance. In the process of governance, we need to take social and environmental concerns into consideration, as well as the organizational relationship of the board of directors with administrative staff, investors, and institutional investors [1]. Due to different economic systems, historical traditions, market environment, legal concepts and other conditions, the patterns of national corporate governance varies. The requirements of variant corporate governance and economic development strategies are not the same in terms of state laws, finance, tax, banking, etc. Other facets like cultures, traditions, social ideology, and legal system require the formation of corporate governance models to fit the level of the country’s economy and future development models [2].

EXPERIMENTAL SECTION


The Cadbury reports of 1992 explicate corporate governance from financial aspects, and framed internal control within it. The report considers that financial risks are due to fraud or incompetence, and this kind of risks is inevitable, but the internal control system helps minimize them. As the relationship of internal control with financial reporting quality and corporate governance is a precondition for enterprises, the report demanded that biopharmaceutical enterprises improve their internal control mechanism and suggested that a statement be issued by Board of Directors on the effectiveness of the internal control and that the external auditors and the audit committee should audit it before publication. The Cadbury report is convinced that the internal control is an essential part of the efficient management of biopharmaceutical enterprises, and it explicitly requires companies to establish an audit committee and implement the independent director system. This has created a precedent for the history of the British corporate governance. Hampel report of 1992 agrees with Cadbury on that, and the guidance also encouraged
directors to review and report on all aspects of internal control so as to protect and safeguard biopharmaceutical enterprises assets and maintain a sound system of financial management, inclusive of business risk assessment and the prevention of fraud and incompetence. In the code of best practice, the combined code proposed comprehensive and principled provisions for internal control: The board should establish a sound internal control to protect shareholders’ investment and the company's assets; the board should at least annually review the organization's internal control activities and it should be informative to assist shareholders’ understanding of features of the biopharmaceutical enterprises financial control, operational control, compliance control, and risk management processes. In the Turnbull report of 1999, the responsibility for the company's system of internal control rests with the board of directors who should set appropriate internal control policies to ensure the internal control system is functioning effectively, managing risk as well. The review process should be defined clearly by the board and should encompass both the scope and frequency of the reports plus an annual assessment process. Turnbull report provides detailed guidance on how to establish a sound system of internal control [3].

From Cadbury report of 1992 to Turnbull report of 1999, British theory and practical circles gradually perfected internal control system and the requirements of reporting on the effectiveness of internal control system is increasingly weakened. Cadbury report recommended that directors should report on the effectiveness of their system of internal control, and that the auditors should report on their statement. The requirements on effectiveness demand their internal control system to constitute absolute safeguard to possible mistakes or frauds, and yet these are not easy problems to resolve, thus the board of directors and auditors are responsible for any misconceptions or misstatements done unintentionally. In Hampel report, Directors are also encouraged, but not required, to state their opinion on the effectiveness of their internal control system, and to propose clearly in the report of the Board of Directors in terms of internal control responsibilities.

The fact that auditors do not have to inform the public of their reviewed reports has brought more effective channels of communication to the board and the auditors. Turnbull report provided that the Board should assess the effectiveness of the internal control, summarize the assessment procedures, and disclose solutions and processes to major problems of internal control in the annual report, namely, it’s a disclosure of ongoing monitoring programs of identification, assessment and management of significant risks. Thus, except for biopharmaceutical enterprises internal control reporting and disclosure, requirements of the United Kingdom for reporting on the effectiveness of internal control is progressively weakened.

The United States has a developed system of market structure as well as a legal system that ensures normal operations of the market economy system. Professional manager’s move frequently, but developed manager markets can accurately reflect human capital information [4]. American corporate system has mainly experienced three stages: private-shareholder-oriented, manager-oriented, and corporate-shareholder-oriented. The largest institutional shareholders in the United States are institutional investors. With the increase of the amount of their stock volume and shareholding ratio, the stability of institutional shareholders increases accordingly, and they are gradually converted from short-term investors to long-term investors. In order to protect their own interests, institutional shareholders can actively participate in decision-making on major issues through frequent stock trading, supervising and inspecting biopharmaceutical enterprises managers, and this forces them to engage in daily management according to the requirements of corporate shareholders [5].

The structure of U.S. corporate governance is composed of the shareholders general assembly, the board of directors and senior managers. The shareholders general assembly is the biopharmaceutical enterprises highest authority, by which the Board of Directors is elected. Since the U.S. corporate governance system doesn’t include the Board of supervisors, in order to ensure the independence of the Board of Directors, U.S. laws provide that there are must be a certain proportion of outside directors authorized by General meeting of shareholders to take charge of the biopharmaceutical enterprises strategic decisions of major projects and the removal of top managers [6]. The boards of directors include the Strategy Committee, Remuneration Committee, Pension Committee, and Welfare Committee. Listed biopharmaceutical enterprises must establish the following committee composed of outside directors, that is, Audit committee, Nomination Committee and Remuneration Committee. U.S laws give shareholders the right to elect directors, and the Board has the right to select a General Manager and is responsible for monitoring and evaluating him. While the general manager is authorized to design corporate strategy, appoint management, direct employees to implement strategies, and ultimately achieve the biopharmaceutical enterprises performance. Since the U.S. institutional investors and small investors accounted for the majority of shares in the company, the company’s equity dispersed and easily circulated. Shareholders’ oversight of the Board of Directors and managers rely primarily on developing capital markets and manager markets, and by buying stocks and using short mechanism to restrict and supervise managers. U.S. corporate governance holds the approach of shareholder primacy theory, as shown in Figure 1.
Basic characteristics of the U.K. and U.S. corporate governance mechanisms reflected in the shareholders general assembly, Board of Directors and Chief Executive Officer. The shareholders general assembly is a biopharmaceutical enterprises highest authority, shareholders of U.K. and U.S. companies have been disguised as a principal-agent relationship. Shareholders of U.K. and U.S. companies are very much dispersed, namely a significant proportion of shareholders are those holding a small number of shares. Due to the high cost of the governance management, it is impossible for shareholders' representative assembly to be the biopharmaceutical enterprises permanent establishment, or to frequently hold meetings to make relevant decisions of matters relating to the company’s development. The shareholders’ general assembly delegates’ decision-making power to some of major shareholders, and the relationship between the shareholders general assembly and the Board of Directors is, in fact, an association of principal-agent. Shareholders delegate day-to-day decision-making power of the biopharmaceutical enterprises to the Board of Directors, and the Board is committed to ensuring the corporate health and satisfactory profits to the benefit of both of them [7].

U.K. and U.S. biopharmaceutical enterprises boards affiliate branches to undertake policy-making, and board composition varies according to different types of biopharmaceutical enterprises, U.K. and U.S. Corporation Law clearly defines the total number of directors, their respective powers and functions and other aspects are. In order to make better policies, the board of directors of U.K. and U.S. company sets up different committees like Executive Committee, Nomination Committee, Remuneration Committee and Audit Committee to exercise decision-making and supervising. These Committees are generally led by the chairman of the board to exercise most of the decisions. There are two types of Directors in U.K and U.S. biopharmaceutical enterprises—internal and external. Internal directors are composed of current and past staff and biopharmaceutical enterprises acquaintances. While the external directors are those who have close business contacts the company and managers and staff from other biopharmaceutical enterprises. External directors generally do not serve in biopharmaceutical enterprises, but they occupy most of the seats on corporate boards, while internal Directors usually have positions in the company and are core members of the biopharmaceutical enterprises management. At this stage, the proportion of external directors of U.K. and U.S. companies is in an upward trend which enhances supervision and control over operators to some extent. The chief executive officer (CEO) is the highest person in charge of the company's executive body, who is responsible for the company's day-to-day operations and the implementation of the company's development strategy. Usually, a biopharmaceutical enterprises CEO is also the chairman of the board, but this dual identity makes the Board lost their due independence, which means that the Board is difficult to exercise its oversight function.

U.K. and U.S. model of corporate governance, which features in shareholder sovereignty plus competitive capital market, belongs to external governance model or market control model. Under the Decision Usefulness theories, the equity is highly scattered, and the relationship between general shareholders with the enterprises worsen, which makes dispersed shareholders unable to exert effective influence on biopharmaceutical enterprises decision-making. Due to the high mobility of the staff of the Board, the control over operators is weakened and direct governance has too many external effects and is also subject to legal restrictions. Judging from the outside the enterprise, due to the fact that capital markets have grown more and more sophisticated, fierce competition drives the product market, manager market, merger market and the external market. And external resource providers rely on the capital markets. If a biopharmaceutical enterprise runs and manages poorly, the investors will sell their stocks, and the companies will face the risk of being emerged and senior managers will be dismissed. This stresses managers and operators [8].

![Diagram](image-url)
RESULTS AND DISCUSSION

Represented bank-oriented governance model by Japanese biopharmaceutical enterprises: Japan was a feudal state ruled by the Shogunate, because of special reasons, manager market and capital market lacked activeness and liquidity. The main feature of Shareholding structure is that special corporate uses indirect financing under cross-holding and the main bank system enlarges scale of production relying on bank loan. Financial institutions hold over 40% of the total stock, so the representatives are sent to the shareholders’ general assembly and the board of directors for supervising the biopharmaceutical enterprises financial and operation. Therefore, Japanese companies formed a situation of mutual control through cross-holding. However, each corporate does not pay too much attention to dividend, but aims to long-term interests, transactions and farm-out relationship. The corporations should ensure security of investment and long-term development for to lengthen holding behavior, but not to get affected by fluctuations of stock market quotation and easily sell the shares. Because of that, it weakens binding of Japan capital markets. Major shareholders will take Enterprise performance itself more serious than the short-term pricing fluctuations.

The structure of Japan corporate governance consists of shareholders’ general assembly and board of directors and supervisors. Shareholders’ general assembly is formally the supreme decision-making body; but in facts, it's the board of directors that plays a role in decision-making with decision-making function and supervise function, which formed by business experts. While, the members of board directors, the internal managers and representatives of banks have high proportion, whom are supervised by the managing directors and above. The supervisors are mainly engaged in account monitoring and business monitoring, which has comprehensive monitoring rights and independence. Consequently, it constitutes collegiate system.

The shareholders and employees choose from the biopharmaceutical enterprises members of the board, from which finally produces the board of the directors responsible for daily routine management and the board of supervisors for supervision. The directors and managers normally work together so that policy making and implementation are combined. There are many administrative ranks with different executive powers of the board of directors, such as chairman, proprietor and vice-proprietor, senior managing director and managing director as well as general directors. Most members of the senior management board must start from the bottom of the biopharmaceutical enterprises, get promoted step by step in accordance with their performances under supervision. In Japan, the proprietor holds posts both Chairman and CEO, whose responsibility is to design strategy and formulate corporate systems, while the duty of the rest of board of directors and administrators is to implement strategies achieving corporate goals. Biopharmaceutical enterprises emphasize matters relating to pays and benefits more than shareholder's, what's more, they generally adopt lifetime employment; thus it will produce high loyalty of employees to the companies and prompt effective inspiration. As a result, stakeholders and employees forms decision of governance structure as shown in figure 2.

\[\text{Figure 2. Stakeholders and employees forms decision of governance structure}\]

Represented bank-oriented governance model by German biopharmaceutical enterprises: Ownership concentration and cross-shareholding between corporate are main features of German corporate governance structure in which banks are key stakeholders involved and play an important role in decision-making, furthermore, German main bank system and labor codetermination system are also one of main features. The scale of capital market is small, so the companies mainly depend on the financial support; what's more, the Government also holds certain proportion of bank shares. Germany stock market is relatively less developed because of German banking restrictions, which leads
to that creditors become the most frequent users of accounting information, and there's a possibility that the major shareholders perhaps will control the board of the directors or to be governor directly. Therefore, it's difficult for outside investors to get information of the board of directors and management. The rather conservative and less independence accounting information is generally publicized based on the requirements of tax regulations and the interests of the shareholders as well as considered the synthetic interest structure of the codetermination system and union representatives. The conservatism principle of corporate governance capacities business profits legally underestimated and concealed; the principle of prudence is an introduced complement of asymmetric principle to commercial law and tax law; asymmetric principle allow or must to conform impairment or loss of non-sales, but to operate with the principles of low prices for assets and liabilities in specific practice. German banks are attached great importance to the debt paying ability, and debase default risks by adopted reserve liabilities, confidential provident fund, etc.

As it provided in company law, tax law and commercial law, the competitive order in social market economy needs the power of order policy to preserve the freedom. Germany has a sound legal environment, good credit and quality of socio-economic condition of the assets; tax law is considered to be the major economic lever, which emphasizes financial and non-financial features. It also stresses to protect private household and the weak as well as open and fair competition in the market [9]. Revealing or disclosing of financial reporting information aims to protect competitiveness of small and medium enterprises with the principle of distinction and tiered disclosure. There are four ways usually used, such as to control disclosure of key information projects through the financial statement structure and classification; to use different disclosure requirements regulate the amount of the notes; to use the financial statements to audit the credibility of accounting information; to use time and different ways of financial reports effect the spread accounting information.

The bank-oriented governance models of Japanese and German in common: The shareholding of both Japan and Germany companies is relatively concentrated and lacks of liquidity; in order to achieve the goal of taking part in corporate governance, the biopharmaceutical enterprises control the major shareholder and supervise operator's actions. By holding the large amount of shares or giving loans to biopharmaceutical enterprises, it enables biopharmaceutical enterprises and agents to be conducted actual control, or the decisions of the companies and the agents are under control of corporate body with shares, which is known as organization of internal control model of corporate governance structure. The goal of stakeholder model is believed that it's no longer to maximize shareholder wealth, but the targeted stakeholder's.

Generally speaking, German shareholders are corporate organizations, such as biopharmaceutical enterprises, entrepreneurial families, banks, and etc; ownership enjoys higher relative-concentration. The ones mainly control with Japanese companies that are financial institutions and industrial companies of the legal persons with the shareholding ratio of 72%. The form of the share-holding is cross-shareholding or circular ownership, put into effect to the agent businesses and management by the major shareholders who seek long-term development and interests to the biopharmaceutical enterprises. When there is a short-term falling price of the share, there will be a risk of immediate demission faced by the agents. Internal governance mechanisms in Germany exercise the functions of the board of directors in the form of board of supervisors. It exercises the functions of managers in the name of board of directors, which features employees’ participation in decision making, and the participation in board of directors and Staff Committee via voting for the representatives of them. The position of vice president of board of directors is assumed by the staff representative and it realizes the joint decision-making right of staff and biopharmaceutical enterprises by participation. The decision making system of staff participation is guaranteed by law. In Japanese biopharmaceutical enterprises, the selection of manager, as well as re-election and position performance all needs the supports and acknowledgements of the staff. The permanent commitment of employees inside the Japanese biopharmaceutical enterprises and the existence of Staff Committee offer healthy foundation to employees’ exercises of supervision and governance. The board of directors in Japan-Germany biopharmaceutical enterprises mainly consists of internal directors. Managers play dominant roles in the company, and they are superintended by the board of supervisors that is specially set up and major shareholders. Japan-Germany bank plays an important role in supervising the behaviors of the corporation operators.

In the Japan-Germany biopharmaceutical enterprises governance model, agents prefer to attach importance to long-term programming and development of the corporation for their relative status, so that the aids and supports from the financial institution that are offered to the corporations which are in suffered with financial crisis will be implemented to avoid large social cost caused by the bankrupt of the corporation. The strategic objectives of Japan-Germany biopharmaceutical enterprises are exploiting product market of high quality, hiring employees of highly skilled, and establishing organizational relations of stability. In Germany Corporation, taking a role in the board of supervisors is highly honored. Meanwhile, in the Japanese corporation, managers’ salaries are lower than that in UK and USA. The success in effective motivating to managers with relative lower salaries should attribute to the close
attention of the corporation to the career motivation towards the managers. This type of motivation mechanism of comprehension and sociality tends to produce long-term incentive effect to managers.

The accountability perspective in Japan and Germany deems that corporation supervision objectives are to truthfully report the management and usage of the fiduciary resources of the trustee to resource owners. Financial statements mainly reflect the historical objective information of the corporation and emphasize the reliability of the information. Accountability perspective is aimed at traditional roles of financial accounting, puts emphases on the reflection of managers’ contractual fulfillment through financial accounting. Effectively reflect the fulfillment condition of the fiduciary responsibility and the performance of the historical operation. The information features are mainly objectivity and historic significance. There are more emphases on information authenticity and reliability about resource agents’ assessments towards the fulfillments of the fiduciary responsibility, and the corporation governance objectives of accountability perspective.

Japan-Germany biopharmaceutical enterprises governance model has relatively centralized sources, and its main capital comes from one or several majority shareholders. Being different from the UK and USA model in which investors pursue short-term stock price disparity, the majority shareholders hold most shares of the Japan-Germany biopharmaceutical enterprises, thus the corporation pursues long-term operation profits and in a quite long period its equity will not transfer. Due to the weak liquidity of the equity, external market mechanism cannot play an important role in corporation governance; managers market is not active; the corporation adopts the model that is mainly supported by internal governance, stresses corporation internal supervision, set up boards of directors and supervisors which have mutual check and restraint above the organization. Majority shareholders are able to adopt effective measures to decide the employment of the managers at all times according to the acquaintance of the managers’ performances. Majority shareholders, managers, and external stakeholders are allowed to know the financial status, operating results, and cash flow from the annual report, or get information from routine meeting of directors and internal managers at all times, which makes external stakeholders tend to neglect the decision-making demands and publicity of accounting information. Corporation supervision objectives are aimed at reporting the management condition of fiduciary resources to the resource providers, which makes Germany accounting regulation system tends to be on relative lower level of public disclosure and to offer less public accounting information, and to adopt the policy that stresses interests relationship adjustments instead of decision making and to support contract enforcement.

CONCLUSION

Though influenced by factors such as economics, politics, history, and cultures, corporation governance models in countries differ, with the development and globalization of world capital market corporation governance models in the world are also converging. These models are all dominated by shareholders’ interests, oriented towards profits, and develop to stress stakeholders’ interests. Corporation governance models in UK, USA, Japan, and Germany, all develop on the base of the backgrounds of history, culture, and technology, and are all the results of pursuit for maximizing economic efficiency of the corporation. Different corporation governance models in various counties have significant differences, and each model has its own merits and shortcomings.

USA corporation governance model puts emphasis on the decentralization of equity and the liquidity of stocks. It makes the control power of the corporation separated from the private shareholders. Any stockholder is not able to own the control power towards the corporation that is invested, which leads the separation of ownership and control power of the corporation. The separation of ownership and control power promotes the emerging of specialized managers and investors and corporation operating efficiency. Most shareholders realize the restraint of the corporation and selection of agents through "vote-by-foot" in the stock market. The shortcoming of this model is that it compels managers to pay close attention to stock market and short-term interests, and sacrifice long-term efficiency. It is not able to avoid the encroachment towards corporation human resource and other stakeholders in the hostile takeover.

Within the Japan-Germany corporation governance model, investors’ stocks are in poor liquidity. Shareholders usually choose one reliable intermediary organization to exercise their control power towards the corporation. Financial institutions that mainly consist of banks and corporate bodies with cross-ownership holdings directly implement the internal supervision towards corporations through holding most shares of the corporation, and set up long-term and close relationship with the corporation through holding long-term shares. This model also has obvious shortcomings: the administrative level that consists of managers with cross-ownership and mutual-restraint will be more likely to resist the transformation of corporation governance model in order to maintain vested interests. It is also not beneficial to corporations to response to the changes of the market condition in time, and causes low efficiency of the corporation.
With the development of multinational corporation and deepening of economic globalization, the historical corporation governance models in UK, USA, Japan, and Germany are gradually involving to be obscure and of convergence. Developed countries learn from each other's strong points to make up their deficiencies, while developing countries introduce and absorb various excellent corporation governance models. It leads to the situation that global corporation governance models are converging. The popular practice that is establishing long-term strategic investment partnership between corporations in Japan and Germany is adopted by more US corporations. Japan is changing its relatively closed internal governance model, gradually relieving the constraint of financial market, and transferring the corporations’ excessive reliance on banking system to partial reliance on stock market.

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REFERENCES