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**Models of corporate governance:  
advantages and disadvantages of  
control**

This article describes the model of corporate governance: Anglo-American, Continental, Japanese, as well as family. The comparative characteristic of all models of corporate governance. Also, the article describes the main approaches developed in the world practice in corporate governance. The authors provide a clear example of the advantages and disadvantages of these models in the management of the corporation. It describes the need to borrow more effective instruments in Kazakhstan's corporate governance practices, which are successfully used abroad since Kazakhstan practice of corporate governance defined history of the domestic companies as a result of mass privatization and does not fit into any of the classical models. In our opinion, it is appropriate to use the most effective tools of international practices in corporate governance.

**Key words:** corporate governance, the Anglo-American model, the German model, the Japanese model, family model, cross-shareholdings.

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**Корпоративтік басқару моделі:  
басқару артықшылықтары  
мен кемшіліктері**

Бұл мақалада корпоративтік басқару моделдері сипатталады: англо-америкалық моделі, континентік моделі, жапон моделі, сондай-ақ моделі және отбасылық моделі. Корпоративтік басқаруының барлық модельдер салыстырмалы өткізілді. Сондай-ақ, мақала корпоративтік басқарудың әлемдік тәжірибеде әзірленген негізгі тәсілдерді сипаттайды. Корпоративтік басқару механизмдерді дамыту және жетілдіру – үлкен бизнес-құрылымдар үшін өмірлік қажетті процесстер. Авторлар корпорациясының басқаруында осы модельдердің артықшылықтары мен кемшіліктері нақты үлгісін көрсетті. Ол корпоративтік басқару Қазақстан тәжірибесінде неғұрлым тиімді құралдарын қарызға алу қажеттігін сипаттайды, олар шетелдерде табысты пайдаланылады, сондықтан, отандық компаниялардың корпоративтік басқару анықталған тарихы қазақстандық практикада жаппай жекешелендіру нәтижесінде ешбір классикалық модельдеріне жатпайды. Біздің ойымызша, бұл корпоративтік басқарудың халықаралық практикасын ең тиімді құралдарын пайдалану дұрыс болады.

**Түйін сөздер:** корпоративтік басқару, англо-америкалық моделі, неміс моделі, жапон моделі, отбасылық моделі, тоғыспалы акцияларды иелену.

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**Модели корпоративного  
управления: преимущества  
и недостатки управления**

В данной статье рассмотрены модели корпоративного управления: англо-американская, континентальная, японская, а так же семейная. Проведена сравнительная характеристика всех моделей корпоративного управления. Так же, в статье рассматриваются основные подходы, сложившиеся в мировой практике в сфере корпоративного управления. Авторы приводят наглядный пример преимуществ и недостатков данных моделей в управлении корпорацией. Описывается необходимость заимствования более эффективных инструментов в казахстанской практике корпоративного управления, которые успешно применяются за рубежом, поскольку, казахстанская практика корпоративного управления определена историей возникновения отечественных компаний в результате массовой приватизации и не укладывается ни в одну из классических моделей. На наш взгляд, целесообразно использовать наиболее эффективные инструменты из зарубежной практики в управлении корпорациями.

**Ключевые слова:** корпоративное управление, англо-американская модель, немецкая модель, японская модель, семейная модель, перекрестное владение акциями.

**MODELS OF  
CORPORATE  
GOVERNANCE:  
ADVANTAGES AND  
DISADVANTAGES OF  
CONTROL**

Currently in the world there are quite a few different models of corporate governance. Depending on the characteristics of each country creates its own specific model of corporate governance. However, all national corporate governance system based on four models of corporate governance: Anglo American, Continental, Japanese and family.

The first named model of corporate governance is typical for countries such as the US, Canada, UK, New Zealand and Australia. The owners of capital companies in these countries are the mostly institutional and private investors, which focus on short-term goals of income due to exchange rate differences. The supreme governing body of the corporation is the general meeting of shareholders. In connection with the scattered character shares a large collection of these are more than a formality [1].

The main body of this model of corporate governance is the Board of Directors, which manages all activities of the company, protects the interests of shareholders, ensures the quality of corporate governance and is responsible for it before the meeting of shareholders and controlling state bodies. The Board of Directors carries out the selection and appointment of the president, CEO, vice president, treasurer and other managers of the corporation as provided in the charter of the company. CEO (Chief Executive Officer – CEO), as a rule, has great powers and is accountable to the board and shareholders.

Thus, in the Anglo-American model of shareholder interests represented a large number of isolated from each other by small investors, are dependent on the management of the corporation. The actual management of the company is carried out by professional managers. The main problem in the application of this model is the problem of relations between company owners and hired managers. In this regard, the role of the stock market, which is called the model is the key instrument of control over the management of the corporation.

It should be noted that US banks in the Anglo-American model, play a minor role, since in 1933 a law was passed Glass-Steagall Act, which prohibits banking organizations have at their disposal more than 5% of the voting shares of other companies directly or indirectly (through affiliates) [2]. The reason for the adoption of this

law is the requirement of «transparency» in the stock market in order to prevent speculation and Privacy deposits in commercial banks. The law is also designed to eliminate conflicts of interest arising from the merger of commercial and investment banks.

Continental (German) model of management corporation is characteristic of such Western European countries as Germany, the Netherlands, Switzerland, Austria, Norway. In addition, the model is called operating in a number of French and Belgian companies. On its formation was influenced by a number of factors, both objective and subjective. Among them should be made, first of all, a high degree of concentration of the share capital, the dominant role of banks in corporate decision-making, and a relatively small dispersion of shares among private investors. For large companies the share of 5 largest shareholders account for more than 40% stake in each of these companies. In addition, the stock market has a much less liquid than the US and the UK. Therefore, the continental model is characterized by a higher level of ownership concentration and the presence of strategic investors with a blocking stake, of which play an important role the banking industry.

The control system in the company of the Continental model has a two-tier structure: the supervisory board and the board. The highest governing body is the Shareholders' Meeting. For the management of the company created by the Supervisory Board, which has oversight functions, and the board, which is endowed with full executive powers [3].

A characteristic feature of the continental system of corporate management is the determination (employee participation in company management). In particular, in Germany, according to the adopted law in 1976 in the companies with the number of employees more than 500 people., Workers choose their representatives to the Supervisory Board by 1/3 of all places. In companies, the number of employees more than 2 thousand. People. Half of all seats in the supervisory board granted the elected representatives of employees of the company. Another part of the Supervisory Board elected by the shareholders. Thus, through this body it implemented the basic principle of social interaction.

Almost all companies in Germany are part of a huge network of cross-shareholdings. Central to the system occupied by banks and insurance companies. Historically, banks in the IPO companies (IPO) acted as underwriters and often bought shares of companies in greater numbers than they actually accommodate. Therefore, the greater the amount of funds the company wanted to get in the

IPO, the more likely that the bank will become a major shareholder and is represented on the supervisory board. Since under the continental model of a significant portion of the capital of the corporation owned by entities associated with it, so this model is called insider.

The formation of the Japanese model was influenced by political and economic conditions of post-war Japan, its culture and traditions. Named first model historically formed under the influence of the continental model, then – as the Anglo-Saxon element of economic reforms in the country in the 1990s. [4]. The Japanese model focuses on how the rights and interests of shareholders and stakeholders. For this model, characterized by a high concentration of ownership in the hands of large and medium-sized shareholders, cross-shareholdings companies of the «keiretsu». The key role played by the banking organization, and they also define the activities of each industry group. Moreover, 70% of the shares is at the financial institutions and affiliated corporations, however, monitor the activity of the company is carried out through the mechanism of the main bank, which is not only its shareholders, but also the largest creditor. As a rule, keyretsu grouped around one or another big bank that provides financing of all group companies and virtually eliminates the possibility of raids by other market participants.

With recent changes in the legislation of the country the Japanese model has become increasingly exposed to the influence of the Anglo-Saxon model, cross-ownership has become obsolete as the effective development. As the country began to increase the presence of foreign institutional investors, Japanese companies have become more focused on the market, the shareholders, as well as in the Anglo-American model.

Today in Japan, there are two management companies: System auditors and the committee system. According to the first control system, the system of corporate auditors, the company has the following bodies: the general meeting of shareholders, board of directors, representative directors, executive directors, corporate auditors, the board of corporate auditors. According to a second system in the company are general meeting of shareholders, board of directors, which established the Audit Committee, Nomination Committee and Remuneration Committee, and CEO. The Board of Directors in Japanese companies play a formal role. The decision is made collectively, including the process of discussion and negotiation within the framework of the entire corporation.

In other words, the Japanese model of corporate governance can be described as a fully enclosed, mainly on banking supervision and funding. Establishing long-term partnerships in the banking and industrial groups in Japan, accompanied by the control of the parent bank, which reduces the problem of control over the activities of managers, which is inherent in the Anglo-American model.

«Family capitalism» and family business groups have proliferated in almost all countries of the world, particularly in Asia and Latin America, Canada, Sweden, Italy and France. A characteristic feature of this model is the implementation of the management of the company members of the same family. Capital is concentrated and distributed to family channels, and control of the business is wholly owned by the family (dynasty Wallenberg in Sweden, Italy, in Canada, Bronfman and others).

It should be noted that the family model is the antithesis of the Anglo-Saxon model. Control of the company in the family business group is carried out by means of a pyramidal (vertical) build the group release dual-class shares and cross-shareholdings. Typically, a family holding company controls a number of companies, which in turn control the following group of companies, etc. If necessary, they can attract investors, but they did not get a majority in any of the companies in the group.

Often combined with a vertical structure building business group applies a horizontal cross-shareholding structure. These monitoring tools are used family business groups for the redistribution of cash flows by means of transfer pricing, mutual insurance and cross-funding.

Family groups to maintain control over other companies often issue shares with unequal voting rights. To access to the Exchange's shares are placed with a smaller number of votes per share, and holds shares in a family company with a large number of votes. If all the shares have one vote each, the shares held by the family, get additional benefits (for example, the exclusive right in the selection of members of the Board of Directors). This tool allows you to monitor the activities of the company, without having a major stake. The issue of dual class shares are often combined with a pyramidal construction business group, which enhances the control system.

According to some researchers, family firms are outdated form of capital consolidation and are not an effective form of business. However, according to data from 45 to 75% of the GDP of industrialized countries falls on share of family firms [5]. Moreover, family businesses exist much longer in comparison with companies that have a large number of owners.

**Table 1** – Comparative analysis of corporate governance models

Models of corporate governance	Benefits	Disadvantages
The Anglo-American	The high level of mobilization of savings of the population through the stock market. Orientation investors in the areas of search, providing the highest level of income. The high degree of innovation companies. The main objective of business – increasing the company's capitalization. The high degree of information transparency.	The high cost of capital. Significant distortion of the real value of the assets the stock market. The lack of a clear separation of control and monitoring functions.
Continental	The lower cost of capital. Orientation investors in the long-term goals. The high level of stability of the company. A clear distinction between the functions of management and control. Employee participation in the management of the company.	A small part of the stock market as an instrument of external control. The high level of concentration of capital. Small attention to the rights of minority shareholders. The low level of information transparency. The complexity of the investment.
Japanese	The low cost of debt capital. Focusing on long-term goals. Orientation on a high level of competitiveness. The high degree of innovation companies. The high level of stability of the company.	The complexity of the investment. Insufficient attention to return on investment and the absolute dominance of bank financing. Poor transparency of the Company; little attention to the rights of minority shareholders.
Family	The ability to exercise strict control over the business. A significant reduction in the main risk owners. The ability to accumulate capital for major projects. The high level of stability of the company.	Preservation of the existing ownership structure. Insufficient attention to the rights of minority shareholders. Low degree of innovation companies. A low level of information transparency.
Note: This table is compiled by the authors of this article		

As the results of research, no model has obvious advantages over the other and can not be called universal. On the contrary, in the last decade it is characterized by the convergence of different systems of corporate governance for almost all the leading countries of the world.

Kazakhstan corporate governance practice also does not fit into any of the classical models. Its specificity is defined history of the domestic companies as a result of mass privatization and subsequent redistribution of property, which led to her high level of concentration and low separation of ownership from management. Another feature of the Kazakh joint-stock companies is the availability of specific «close» relationship between the companies managers and owners of large blocks of shares.

In modern conditions of Kazakhstan companies' future depends on national economic competitiveness in the global market and a source of high competitiveness is to follow the standards of corporate management.

In the face of global competition, many countries with a different unit of the corporate sector is quite actively borrow certain elements of the Anglo-Saxon model and incorporate them in national institutions. In our opinion, in the Kazakh practice, it is advisable to use the most effective instruments of foreign corporate governance practices. Moreover, it should provide an alternative to use another link model, or a two-tier corporate governance. In this context of great interest is the experience of France, which provided an opportunity for local companies to choose between one- and two-tier systems management. Freedom is provided and the possibility of differentiation or a combination of board chairman and chairman of the board of their choice. This approach allows companies to choose for themselves the most appropriate governance model. This flexibility allows you to, on the one hand, take into account the specifics of the company, on the other – to set certain limits dictated by the best practices of corporate governance. This should avoid trying to precisely reproduce any of these models. New tools must be used carefully, taking into account the specific features of Kazakhstan.

Various companies are guided by diverse motives and principles for the implementation of the corporate culture. Some seek to improve the system of corporate governance, as in the short-term plan to enter an IPO. Others believe that improving the management system will improve the efficiency of the company.

The success of the local companies depends on many factors, among which there is the right

strategy development and positioning in the market, competent leadership, qualified staff, access to capital. Each factors in varying degrees, can be improved by applying the principles and standards of governance. It should be noted that a significant contribution to corporate management in developing the company's activities is to facilitate access to investment capital.

If we consider a company with a developed system of corporate governance, then it should be the basic elements, such as independent directors, board committees, internal control and risk management, internal audit service. For successful corporate management is necessary to correctly build the interaction between all these elements is also necessary that the participants are part of this system, aware of their role in the development of the whole process and clearly understand their responsibilities.

However, it should be remembered that the introduction of the principles of corporate governance – it is a long process and it will take some time yet formed a culture of corporate behavior, and the companies will actually follow these principles and standards [6]. For the successful implementation of corporate governance principles appropriate to establish a specific infrastructure that could contribute to this process. It must be shown that any interested company will have a clear idea of how to carry out their activities to accept and follow the principles of corporate governance. Companies adhering to high standards of corporate governance tend to have greater access to capital when compared with corporations controlled properly, and exceed the latest in the long term.

The main advantages of corporate governance are: improving the functioning of the company; facilitating access to capital markets; the ability to raise capital on more favorable terms; improving the company's reputation.

Thus, the level of corporate governance plays an equally important role as the financial performance of the company. Thus, investors who invest in the company's business, are willing to buy their shares at a premium, even subject to the availability of an effective system of corporate governance. The better organized management, the higher the efficiency of the companies, as measured by return on assets, ie the ratio of net profit to total assets, and their market valuation, ie the ratio of the market and replacement value of assets [7]. The organization of effective corporate governance entails certain costs, including the cost of attracting professionals such as corporate secretaries and other professionals needed

for work in this area. Companies will have to pay compensation to the external legal advisers, auditors and consultants.

It should be noted that the identified violations of the principles of corporate governance. The most significant of these are the dilution of the share capital of the company (holding emissions to reduce the scope of the rights), transfer pricing and the withdrawal of assets (sale of products or the sale of assets at below market prices), violation of the rights of shareholders to participate in the general meeting, failure to comply with disclosure rules, deliberate bankruptcy with subsequent sale of the assets to insiders at low prices.

Within the emerging now in the Republic of Kazakhstan model of corporate governance is formally contains all necessary elements, but in real activity principle of the separation of ownership and control is recognized. Owners of companies are creating their own boards of directors often do not abide by the decision of the general meeting of shareholders. In most companies, the level of ownership concentration is so high that the owner controls all the processes in the company, including operational activities.

Cooperation of Kazakhstan and foreign companies, attracting foreign investment and the ability of domestic companies to adopt positive international experience – all of this is directly linked to successful corporate governance. In recent years, many companies are moving to international accounting standards, increasing their transparency,

especially in preparation for the placement of shares and bonds on the international capital markets. For small and medium Kazakhstani companies in corporate governance a top priority is to improve compliance with existing legislation. In order to promote corporate governance by Kazakhstan business community established the National Council on Corporate Governance, which should become the main platform for dialogue between business and government. The business community and the Federal Financial Markets Service have developed a Code of Corporate Conduct. Its provisions are taken into account in the development of corporate codes of many companies. Besides already established a regulatory framework for the activities of independent directors. Independent Directors Association Code of the Republic of Kazakhstan has developed an independent director.

A key condition for the development of corporate governance is to improve the effectiveness of state regulation of the economy. In this context, the most important task for Kazakhstan – the strengthening of the judicial system, a significant reduction of administrative barriers, improvement of the investment climate, the sequence of decisions, ensuring greater openness and transparency in the mechanism of their decision.

Corporate governance plays an important role in national economic development, which provides an increase in flows and reducing the cost of capital needed for their companies investing and financing activities.

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