COMPARING CORPORATE GOVERNANCE IN THE US AND THE UK

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Introduction

Corporate governance is a set of rules, policies, and procedures that govern how businesses are run (Liu et al., 2019). Corporate governance ensures that stakeholder rights and duties are established and distributed throughout the firm (Ngo, 2018). As a result, more reliable cash flows and corporate integrity are achieved. For example, corporate governance defines shareholder rights and equal treatment, other stakeholders' interests, the board's responsibilities, the board's integrity, and conflict of interest. In the course of promoting corporate accountability and economic success, conflicts may occur (Kharel, 2019). In that regard, this study compares the major features of corporate governance systems in the US and the UK on the basis of systemic concerns and the corporate governance model

Summary of Similarities and Differences

When it comes to interests, the Anglo-American paradigm shines. The model also defines the capitalist conditions in which they emerge. Nonetheless, the regulation is governed by corporate law, which recognizes corporations as legal entities granted by statute. The Corporations Act contains the legislation governing the formation of corporations (Ayub, Yusoff and Azra, 2020). Additionally, the Act governs the activities of transparent and responsible corporate governance of publicly traded corporations through statutory rules. The laws regulate securities markets, antitrust, labour, and the environment (Gorwa, 2019).

Codes and recommendations developed under the auspices of the Organization for Economic Co-operation and Development (OECD) frequently serve as guidance for nations when developing their local codes and standards (Hickman and Petrin, 2021). The globally recognized benchmark includes over 50 disclosure items organized into five categories: auditing, transparent financial systems and information disclosure, responsible corporations and compliant institutions, board management structures and processes, and owning the architecture and controlling the rights (Nicolò, Zanellato and Tiron-Tudor, 2020).

Stakeholders are major figures in company governance. They include the board of directors, the community, management, suppliers, shareholders, government agencies, suppliers, and auditors, as defined by the business's interests (Rustam and Narsa, 2021). The mechanisms and controls refer to the internal and external monitoring measures used to mitigate the inefficiencies caused by moral hazards and adverse selection. Mechanisms and controls establish checks and balances to prevent malpractice. The systemic issues concern the demand for and delivery of accounting data and cost monitoring (Singh *et al.*, 2021).

Explanation of the Similarities and Differences

The decision to conduct a comparative study on corporate governance characteristics in the United States and the United Kingdom is based on the convergence of their practices, which have elevated them to the forefront of global corporate governance (Ahunwan, 2021). The impetus for evaluating the two countries' corporate governance is spurred by crises such as the Great Recession of 2008, which impacted both countries badly (Arpino and Obydenkova, 2020). For example, the corporate governance system in the United States has constantly been evolving; it is defined by a lack of engagement in implementing its ideals. Even though it was originally defined by a wave of CEO dismissals in the 1990s, there have been accusations of impunity inside high-profile corporate scandals such as Evron and MCI Inc. (Barzuza, Curtis and Webber, 2019). This practice jeopardizes effective corporate governance. However, there has been considerable interest in the Securities and Exchange Commission's (SEC), Internal Revenue

Service's (IRS), and Federal Reserve's (FR) roles in creating rules for the corporate sector in the United States (Soener and Nau, 2019).

The United Kingdom has been under ongoing scrutiny, evidenced by the 2010 publications describing the Bribery Act (Sanseverino, 2021). The Cadbury Report of 1990 and the OECD reports of 1999, 2004 and 2015 have been instrumental in establishing the criteria. Additionally, catastrophes like the communication blunders made by the then CEO of BP Oils during the Deepwater Horizon have amplified corporate governance disconnects (Monks, 2022). The events are exacerbated further by the 2018 insolvency of Carillion, the UK's second-largest construction and outsourcing company, jeopardizing the jobs of 43,000 employees.

Discussion of the Similarities

The principles, which are constantly reviewed, are based on the Cadbury and OECD reports in the United Kingdom. The reports lay forth the benchmarks by which firms are judged. In the United States, the federal states enacted legislation based on the Cadbury and OECD studies as part of the Sarbanes-Oxley Act (Soener and Nau, 2019). The principles define the shareholders' rights and equal treatment by respecting their rights and motivating them to attend general meetings. Other players' interests should be recognized; such as their legal, contractual, social, and market-driven roles (Nicolò, Zanellato and Tiron-Tudor, 2020).

Additionally, the principles describe the board's responsibilities equally in all countries, such as sufficiency in necessary skills and awareness of the reviews and difficulties associated with administrative performance. Additionally, while selecting managers and board members, an emphasis is placed on honesty and ethical behaviour. Additionally, within the principles, disclosure and transparency should be used to clarify the responsibilities of all stakeholders to increase accountability.

The two countries follow the Anglo-American model of corporate governance, which places a high priority on the interests of shareholders. An unelected board of directors, which non-elected stockholders typically dominate, is required under this kind of corporate governance (Areneke, Yusuf and Kimani, 2019). Non-executive directors outnumber executive directors in this situation, and they frequently hold key positions on committees such as the audit and remuneration committees, among others. However, in the United Kingdom, the CEO is not the chairman of the board of directors; however, this is a tradition in the United States, where the CEO serves in both capacities, although this is on the decline. Corporations in the United States are governed by state statutes such as the Business Corporation Act and the Delaware General Corporation Law (Areneke, Yusuf and Kimani, 2019). However, corporate securities trading is managed by federal legislation in the country. A consequence of this is that shareholders, even if they alter the corporate bylaws, cannot amend the business charter.

Corporations are created as legal entities under the Companies Act. Following the high-profile scandals of 2001-2002 and the benefits of the post 2008 financial crisis, interest in regulatory frameworks governing corporate governance on transparency and accountability has grown. In the United States, the scandals involving Enron and MIC Inc. emerged (Kyere and Ausloos, 2021). This culminated in the passage of the Sarbanes-Oxley Act in 2002 to enhance corporate governance in the country (Leon *et al.*, 2018). The activity was accomplished by establishing the Public Company Accounting Oversight Board (PCAOB), which was established to standardize the auditing profession. Additionally, the US established the Foreign Corrupt Practices Act (FCPA), which criminalized bribery of government officials and is being enforced by the US Department of Justice and the Securities and Exchange Commission. The UK established the United Kingdom Company law in 2006 as part of the Companies Act to regulate businesses. Additionally, the UK approved the Bribery Act in 2010, which criminalized bribery of government officials or private persons (Leon *et al.,* 2018).

Discussion of the Differences

As previously stated, the codes and standards provide a variety of benchmarks. Corporate governance principles provide recommendations geared to the unique corporate governance difficulties state-owned enterprises face (Hussain, 2021). The New York Stock Exchange has a requirement that listed firms have a majority of independent directors to improve the quality of board oversight and minimize conflict of interest problems. In the absence of management, board meetings are held to empower non-management directors in their service delivery. However, the London Stock Exchange does not define this properly. The processes and controls are divided into internal and external corporate governance controls (Kyere and Ausloos, 2021). In the US, firms' boards of directors are heavily influenced by the CEO, who frequently doubles as the board's chair. This complicates the institution's ability to terminate the CEO. This is not the case in the UK since successive best practices and guidelines strongly advise against such (Lin, 2011).

Conclusion

According to the report, the US has a shareholder-driven corporate governance system, whereas the UK has a stakeholder-driven corporate governance system. The rules of the United States encourage market expansion while protecting shareholder control and striving to defend the CEO as a representative of company growth and development. The UK, on the other hand, wishes to encourage the creation of strong institutions by including all stakeholders to establish an environment in which values dictate business sustainability. In a nutshell, the UK system is less expensive, even if the US system is likely to attract more investors due to its stringent auditing procedures.

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