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Failure of corporate governance – intention or negligence

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Abstract: *We consider corporate governance to be a key element when we talk about the success of a company but in the same time if this system fails due to different reasons, the financial, social, political consequences can be very serious. In order to understand the importance of this system we tried to explain and define the notion of corporate governance being inspired by the studies already made in this field. In the second part of the paper we pointed out the benefits that a company enjoys when good corporate governance practices are embraced. In the third part we highlighted the principles and the models of corporate governance. In the fourth part of the paper we focused out attention on some resounding financial scandals from all over the world and then analyzed the causes that led to failures. Least but not last we took a close look to the failure or corporate governance and the reasons that this happens. The conclusions express our point of view regarding failure and we agree that in most of the cases, no matter the system of corporate governance, the country in which the company activates or the stakeholders involved in the business, human nature, the power of money and control are too hard to overcome.*

Keywords: *corporate governance, control, benefits, ethics, failure.*

1. INTRODUCTION

More and more each day, the corporations are looking to achieve performance, need no adapt to changes in economic life all around the world. This situation requires good communication and coordination of processes within the company but also a solid relationship based on trust between the involved stakeholders. This is where corporate governance comes along, dealing with the interaction of business's management and its board of directors, its shareholders and lenders and its other stakeholders such as employees, customers, suppliers, and the community of which it is a part. It is all about balancing individual and societal goals, as well as economic and social goals [5].

Before starting to discuss about corporate governance we need to distinguish between management and governance. Management involves the activities of directing a part of the business and on the other hand governance means studying the conditions within which others can manage effectively. Put otherwise, the governance is equal to owners controlling the use of their assets through the CEO (Chief Executive Officer) and CEO using the owner's assets to create value. In our paper we intend to study the concept of corporate governance and the reasons leading to its failure. Also we want to find out if the lack of success in a company is related to negligence or bad intention of some stakeholders.

2. CORPORATE GOVERNANCE – THEORETICAL FRAMEWORK

In order to discuss about corporate governance we will establish from the start who are the ones creating and governing the corporation. The role of the stakeholders is major when dealing with corporate governance, because they have the power to lead the company to the heights of success or the contrary, to "help" it fail. Of course, when talking about stakeholders with a major role into corporate governance,

we agree that those are actually placed in the top part of the organizational structure of a company. William Pounds, former dean of MIT Sloan School of Management, in one of his lectures about corporate governance, approached an interesting way of explaining the way employees, management, executives, CEO and owners interact with each other (Figure 1).

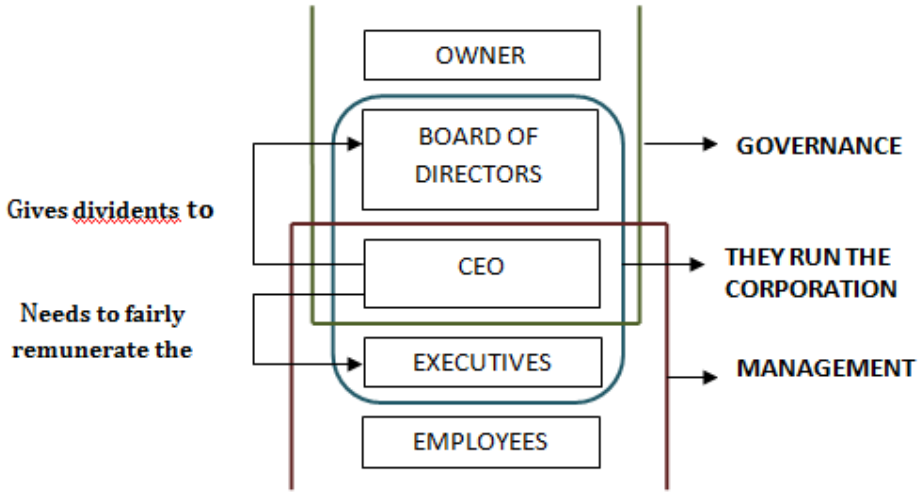

Figure 1. Company structure
Source: Pounds, W. – William Pounds on Corporate Governance (speaker presentation), Carnegie Mellon Tepper School of Business

As we can see from figure no. 1, the CEO, after being elected by the board of directors, is taking a great responsibility in the company, having to properly remunerate the executives and to give a fair level of dividends to board of directors. So CEO is actually the one that maintains equilibrium in the structure trying to please everyone for the welfare of the organization.

Although corporate governance is usually linked to management, we will prove throughout the research, that there is a strong bond between corporate governance and ethics and/or social responsibility of the business. Corporate governance encourages a trustworthy, moral, as well as ethical environment. From this point of view governance takes into account the transparency of the internal and external audit, the sincerity of the managers regarding the company's financial results and financial statements, the manager actions towards the small stakeholders and many more.

Corporate governance is a term becoming more familiar today. In the past, businesses were managed and controlled by the owners but as companies have evolved and their needs increased, this was no longer possible, the owner being forced to slowly hand the power to managers. So, if corporate governance in the '50s was only a utopia, in recent history has become reality and it is a mainstream concern. In the following figure we can see the changes that take place in time within a company, that William Pounds believes, is like a tectonic plate in constant motion and evolution.

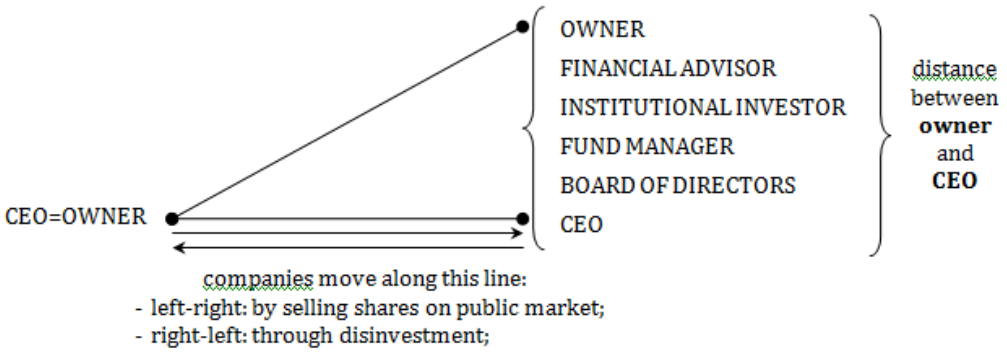

Figure 2. Evolution of companies
Source: Pounds, W. – William Pounds on Corporate Governance (speaker presentation), Carnegie Mellon Tepper School of Business

However this model can be applied only in USA as other countries have different ways of sharing the control of the business. As we can see, all businesses start from the left side of the scheme (even General Motors or IBM did), where the CEO is actually the owner, but suffer changes along the way and the control is given to other participants, that have different interests in the business. Corporate governance is trying to reconcile, in the most efficient way possible, the desires and expectations of all stakeholders, in the company's long-term welfare.

The importance of corporate governance was noticed back in the 90' when a series of resounding failures of large private companies took place, seriously affecting the confidence of investors in the power of managers to effectively run the business. As a consequence of this situation, in 1992, Adrian Cadbury, head of the Committee on the Financial Aspects of Corporate Governance in the United Kingdom, has issued The Cadbury Report in which he expressed his concerns regarding the corporate governance. Also in this report, Sir Adrian Cadbury defined corporate governance as being „system by which companies are directed and controlled" [4]. This means it is seen as a set of mechanisms through which firms operate when ownership is separated from management.

Along the time the governance of the corporation has known many definitions. One of them, advanced by economists Andrei Shleifer and Robert Vishny in their scientific paper review [21], states that "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". This definition can be expanded to define corporate governance as being concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between various corporate stakeholders.

Organization for Economic Co-operation and Development (OECD) considers that corporate governance has the role to specify the distribution of rights and of responsibilities between different categories of people involved in the company like: board of directors, executives, shareholders and others, establishing rules and procedures for making decisions on the activity of a certain company. OECD also mentions that corporate governance is at the same time, both a set of relations between management, board of directors, shareholders and other interested groups and the structure through which company sets the objectives and the necessary means to reach those, but also the system of incentives offered to the board of directors and management in order to increase the objectives in the interests of shareholders and society [14].

But still why is corporate governance such a used term in our days and why corporations are paying so much attention to it? The answers for the first part of this question come from many levels but it basically has to do with the way economy changed in the last twenty

years. First of all the private, market based investment is now much more important for most economies than it used to be [6]. Let's take per example the case of Romania were at the beginning of 90' the state owned most of the important sectors of economy and once the communist regime fell, privatization took a major role introducing the importance of corporate governance. In this process firms have gone to public markets to seek capital, and mutual societies and partnerships have converted themselves into listed corporations. Second, due to technological progress, liberalization and opening up of financial markets and other structural reforms, the allocation of capital among competing purposes has become more complex, as has monitoring of the use of capital. This makes good governance more important, but also more difficult. In the third place the mobilization of capital, given the increasing size of firms and the growing role of financial intermediaries. The owners are selling their shares on the public market and giving away their control but also sharing the risk of business with other investors and this has raised the need for good corporate governance arrangements.

To respond to the second part of the question we need to focus our attention on the benefits that corporate governance brings along. Enterprises that choose to adopt and adhere to the corporate governance principles, that will be analyzed in chapter three, could enjoy a multitude of benefits such as the availability and lower cost of capital, the ability to attract top talent and business partners, greater competitiveness, better financial performance and more transparency, and a more favorable impact on employment and the environment [1]. Compliance with corporate governance rules can benefit the owners and managers of companies and increase transparency and disclosure by [23]:

- improving access to capital and financial markets;
- help to survive in an increasingly competitive environment through mergers, acquisitions, partnerships, and risk reduction through asset diversification;
- provide an exit policy and ensure a smooth inter-generational transfer of wealth and divestment of family assets, as well as reducing the chance for conflicts of interest to arise;
- a better system of internal control, thus leading to greater accountability and better profit margins;
- a possible future growth, diversification, or a sale, including the ability to attract equity investors – nationally and from abroad – as well as reduce the cost of loans/credit for corporations.

Many businesses seeking new funds often find themselves obliged to undertake serious corporate governance reforms at a high cost and upon the demand of outsiders, often in a time of crisis. When the foundations are already in place investors and potential partners will have more confidence in investing in or expanding the company's operations. At the same time the shareholders have to win from good corporate governance practices as it can provide the proper incentives for the board and management to pursue objectives that are in the interest of the company and shareholders, as well as facilitate effective monitoring:

- provide shareholders with greater security on their investment;
- corporate governance ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets.

A study made in 2000 and published by McKinsey & Co in their Investor Opinion Survey [12] reveals that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed but with a comparable financial record. Premiums averaged 12-14% in North America and Western Europe; 20-25% in Asia and Latin America; and over 30% in Eastern Europe and Africa.

3. MODELS AND PRINCIPLES OF CORPORATE GOVERNANCE

Taking into consideration the many differences between countries all over the globe, corporate governance makes no exception, being influenced by culture, history and politics. Still

we can identify a widely accepted classification of corporate governance models, these are the market-based system exemplified by the British and American systems and the bank based system from Japan and Germany. The two are also known as "insider/outsider" model, studied by Helen Short in 1998 [20].

Outsider model or shareholders model is to be found in America or United Kingdom, basically because their stock exchanges are powerful, influencing the markets all over the world. This system is characterized by effective distancing of ownership and control, the owners of firm tend to have a transitory interest in the firm. In this kind of companies there is a strong CEO that frequently can also be the chairman of the board of directors and there is a highly dispersed group of shareholders who generally find selling shares an easier way to express their dissatisfaction with inefficient management rather than creating a change. Good performance and high share price are essential to keep future cost of capital low. Banks have practically no control over management. In this kind of system the primacy of shareholder rights are over those of other stakeholders involved within the organization. To understand the structure of this model figure 2 from previous chapter can be analyzed.

Insider model or stakeholders' model functions quite different. The owners of firms tend to have an enduring interest in the company and the relationships between management and shareholders are close and stable. This system helps the convergence of interests in company but can also raise some major issues such as little or no transparence and abuse of power (especially in family run businesses). For instance in Germany share ownership is less diffuse and banks play a much more important role as providers of finance and monitors of day-to-day activity. The company has a very close relationship with its also called *Hausbank*, a universal bank that owns shares in the company and usually has board representation. The bank supervises every major step a company takes [6].

We know that good corporate governance can remove mistrust between different stakeholders, reduce costs of capital and improve performance but at the same time its failure can have disastrous effects on the company, market and also national economy. This is how came the need of a general framework to define a good corporate governance, no matter the system a country applies. Crowe Horwath LLP has created a very interesting framework for corporate governance.

At the moment governance is different in every country, depending on culture and many other factors, but there is a global trend for standardization. Ten core principles have been listed by OECD in an attempt to outline the principles in a manner consistent with global best practice.

This principles cover five basic subjects: protection of shareholders rights, equitable treatment of shareholders, recognition and protection of the exercise, of the rights of stakeholders as established by law, timely and accurate disclosure and transparency, a framework of corporate governance ensuring strategic guidance of the company and effective monitoring of its management by the board of directors [15]. The preamble to the OECD Principles acknowledges that there is no single model of good corporate governance, and the Principles avoid prescriptive rules of a concrete character for many aspects of relations between firms and lenders, investors. In the same time if this principles are avoided, failure is to come. Arthur Levitt, former chairman of the US Securities & Exchange Commission, says "If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country suffer the consequences"[16]. In addition to these principles each country has the ability to set their own rules of corporate governance by issuing official documents and adapt them whenever needed.

Figure 3. Corporate Governance framework
Source: Crowe Horwath LLP, "Manage risk and achieve compliance with stronger Corporate Governance"

4. CASES OF CORPORATIVE GOVERNANCE FAILURE IN COMPANIES

Reported to the current business environment, in which when we are pronouncing word success, the first ideas that come to mind, although sometimes unintentionally, are those relating to force, most of all, financial strength, even if it is achieved at the cost of breaking the rules. Derivatives of these rules, words such as "standards", "principles" or "control" creates disorder, worries, superficial or deep, those who were committed to "transact" holding or acquiring the image of dizzying profits because such an objective requires often ignoring or even violating their game, with any risk, regardless of consequences, making it extremely difficult governance of an entity on any scale, from medium to enterprise giants. Thus, seemingly inexplicably, star companies can not made payments, in a capitalist world where management errors in terms of decision, administrator's indifference and complicity of auditors have created "cocktails" with devastating effects, difficult or sometimes impossible to annihilate. To support the statements made above are considered necessary to illustrate a few resounding cases in field of corporate governance and their interpretation in terms of the factors that influence corporate governance, mechanisms and tools that establish its principles.

Lehman Brothers

The collapse of Lehman Brothers [10] seen by a lot of people, a corporate governance failure, not a failure of financial markets, in September 2008, was the biggest bankruptcy in the corporative history of the USA, and the event that conduced to the largest and worst financial crises of the last decades. It become true as a consequence of a fatal errors like combination of intricate accounting rules, complex derivatives, greed, excessive leverage and the complacency of rating agencies. Although it happened at a distance of seven years, it can be discovered amazing similarities between Enron and Lehman, the misbehaviour of top management. Lehman's equivalent of the Enron's pre-pay transactions is the Repo 105, a fascinating term that is going to become the new example of how to fool analysts and investors. Originally, repos serve a very desirable objective of making money (they would be otherwise inactive) by circulating, lending and investing it. Repo 105 transactions doubled between late 2006 and May 2008, were known inside the company, exceeded the

firm's self-imposed limits and typically happened at the end of each quarter, when financial information had to be released.

Trough these transactions, Lehman Brothers managed to reduce leverage on the right-hand side of the balance sheet and, at the same time, reduce assets on the left-hand side. They used repos reportedly for financing reasons, but accounted for them as asset disposals. These Repo proceeds amounted to about $50 billion by September 2008 – which is more than the amount of General Motors outstanding bonds when it went bankrupt in 2009.

And the most resonant similarity with Enron is appearance of the name of a large audit firm, Ernst & Young, "they didn't approve the Accounting Policy", it rather "became comfortable with the Policy for purpose of auditing financial statements". Two of the Lehman's financial directors were in the past engaged in a collaboration with Ernst & Young. And in the last year of complete financial reporting, Lehman Brothers was the 8th largest customer for E&Y, and the fee paid by LB was about $185 millions.

Worrying is that we are not trying to learn from history and not to repeat the same mistakes, and those from Lehman Brothers walked the same steps of collapse as Enron did. They were not taken down by ill-intentioned short sellers and market manipulators, the company was bankrupt well before September 2008.

Barings Bank

Although it is the failure of other bank, famous, called the "Queen's bank", Baring's **story** [25] differs from that of Lehman Brothers, namely the fact that here is a story of a double-dealer, that alone caused the bankruptcy of a supposed solid bank. This case is truly spectacular, because for a significant period of time, he managed to conceal his fraudulent concealment of a significant loss. On 26th February 1995, the bank Barings Plc, one of the oldest banks of the United Kingdom was declared bankrupt. Nick Leeson, one of the bank's trader in Singapore had lost $1.4 billions on derivatives trading while the bank reported capital was only about $600 millions. This hit came principally from a hit on a long position in the Nikkei 225 futures of notional value around $7billions on the Osaka and Singapore Exchange. Officially Nick Leeson was arbitraging the Nikkei 225 futures contracts on the different exchanges, the Singapore International Monetary Exchange (SIMEX) and the Osaka Stock Exchange (OSE), buying the same futures at a low price in one exchange and selling simultaneously at a higher price on the other exchange. For Barings London, Nick Leeson was presumably doing a trading strategy with little or no exposure to risk as he was allegedly hedged. Due to the rapid expansion of Barings Settlements, he quickly found himself in charge of both the front and back office. He would be trading on the futures market and at the same time, be in charge of booking and reporting the various trades. This meant in particular that Nick Leeson would be the only one to check and to know if the records matched the actual sales. Usually, a different person is doing the back office accounting, to detect any dodgy deals. The margin calls were enormous and Barings Tokyo London had to transfer urgently a massive $835 million to Barings Singapore in January and February to cover the margin calls on Simex. These calls made finally Barings bankrupt as its reported capital was only of $ 635millions. Barings shareholders lost $1billion. Eventually Barings was sold to ABN-Amro for a symbolic £1.

Satyam

Satyam is another case of a resounding failure in corporate governance, this time in India [18]**.** It is a failure that occurred with the fourth largest software company from the country. This is not the first time that companies promoted by family groups defraud the investors. But Satyam has a different face because the Chairman himself admitted the fraud and wrote to the Board of Directors and the Capital Market Regulator about the manipulations, which have made all regulatory frameworks a mockery. Accounting manipulations to which they appeal, consisted of understatement of liabilities and inflated cash balance. Satyam reported a net profit of Rs. 649 cores whereas the real profit was only Rs.61 cores. Although financial statements were prepared in accordance with Indian GAAP, IFRS and U.S. GAP, in 2008, the year that we reference, have been audited by the PWC only those drawn in concordance with Indian GAP. Another important fact to note is that in the Board of Satyam were present two teachers from two major schools of business, Mr. Rammohan Rao was from the Hyderabad

Indian Business School, which is the leading business school in India, Mr. Krishna Paleppu was from the famous Harvard Business School, that with all their skill and competence, allowed the commit of such errors. The company's corporate governance statement for 2007 shows that an audit committee was functioning overseeing the financial reporting and disclosure process as also the ensuring the sufficiency, correctness and credibility of the financial statements. But more seriously, like in Enron and Lehman Brothers cases, PWC has slowed to hide the fraud, not all the audit tests that were required in those cases were applied, or had been partially applied. Satyam episode pulled down the stock market indices heavily. Satyam lost over 70 per cent in the market. The fate of over 50,000 employees of Satyam is in doldrums. The investors who had great faith in Satyam lost heavily in this game. The clients have already expressed their reactions by blacklisting the company and Ramalinga Raju's was resigned from the Board.

The table below is a summary of the most resonant cases of failure of corporate governance in recent years, in addition to the causes that led to these failures, another interesting thing to note is that most cases have occurred in the USA .

Table 1. Resonant cases of Corporative Governance failure

No.	*Company Name*	*Country*	*Observable Causes of Failure*
1	**Enron**	**USA**	**Inflated earnings**
2	**WorldCom**	**USA**	**Expenses booked as capital expenditure**
3	**Tyco**	**USA**	**Looting by CEO, improper share deals**
4	**Global Crossing**	**USA**	**Inflated corporate profits to defraud investors**
5	**Royal Ahold**	**Netherlands**	**Earnings overstated**
6	**Parmalat**	**Italy**	**False transaction recorded**
7	**Wal-Mart**	**USA**	**Weaknesses in internal controls have led to government investigations and class action lawsuits by employees.**
8	**Xerox**	**USA**	**Accelerated revenue recognition**

Source: *Reason for Corporate Governance failures*, by Shruti Mehta & Rachana Srivastvaare

5. APPROACHES AND DISCUSSIONS ON THE CASES OF CORPORATIVE GOVERNANCE FAILURE

A presentation of only a few cases shows an important number of similarities in the companies actions, or negligence allowed by the persons responsible for management, which inevitably led to failure, which brings together a complex financial failures, image failures or ethical failures for the company, as individual cases, but certainly for the sector in which it operates. Behind those scandals are a number of common factors, including:

- Management incompetence
- Non-observance of the procedures stipulated in internal regulations
- Insufficient attention paid to risk management
- Inconsistent distribution of duties and responsibilities
- Inefficiency of internal audit
- Ignorance showed to the signals provided by external audit
- Influencing the external auditors to express an audit opinion inconsistent with reality.

Trying to carry out a more detailed analysis could be said that the boundaries within which all this factors could be grouped, is ***organizational culture,*** motivational element that differentiates the business entities, the principles and values which they lead. Analysis of the influence of culture on corporate governance has led to the identification of three groups of individuals, distributed as for Anglo-Saxon countries, with major U.S. and

United Kingdom exponents, continental European countries, like Netherlands and Italy, and the third group represented by Asian countries, having as an exponent mainly Japan. In the U.S. and UK a significant number of large national companies are listed on stock exchanges, financial markets shows a high degree of liquidity, and ownership and control rights are frequently exchanged. In Japan and Germany, instead, major banks, insurance companies and Government held the prevalent system of management, and many companies have reference shareholders and private law, which has the effect of limiting in the number of hostile takeovers. [13].

Starting from the notion of corporate governance, following and analyzing the two types of governance, given the strong poles of this sphere, the U.S. and Great Britain, as well as Japan, have defined some mechanisms through which big companies follow the basic principles. Although, most likely in developing these mechanisms, those who have kept it in mind conceived the signals received from the practice, and the classification they tried to do was based on those habits that would be the basis of strong economy, we kept the probability that after folding the resounding failure analysis on the cases presented above, classification according to the importance of these principles could become a little surprise.

Introducing the first factor **"Discipline of the capital market"**, is not accidental, taking into consideration the fact that most failures occurred precisely in areas where capital markets have an important influence. But there may appear the question: *"This refers to the order on financial markets or the rules imposed by them?"*. For a delimitation of these two spheres, should be provide the role played by minority shareholders. They can refuse new equity subscriptions, or even to sell the shares they hold, which may lead to deteriorating market share price. A low stock price will turn the company into an attractive takeover target. Although the direct connection between the failures and the discipline imposed is not directly observable, we could make an analogy with an octopus that spreads its tentacles for protection, and to conquer at the same time.

This accounting fireworks in most cases, *temporary transfer of money out of balance sheet* also called **practice Repo 105 (Lehman Brothers)** [10], *costs masking and the production of higher income than in reality* **(Adelphia Communications)** [16], *reporting operating expenses as capital costs* **(WorldCom, Enron)** [24], are only the hidden or masked peaks of the relationships between key players, investors, managers and representatives of the entities, audit and consultation offices, which manifest temptation to play a dual role. Thus, developed banks keep an important number of shares that allows them to exercise significant control sometimes even global. As owners of capital, they automatically are receiving rights to have persons appointed by them in the management bodies of companies, which can block the will of strategic decisions or to share them in the interest concerned by the banks, remembering here about the system called "Insider" [2]. Therefore, some other involuntary conscious management board members are simple pawns, taking upon themselves the responsibility, but making games of others.

To present a more credible situations in the past two decades in particular, so before the notion of corporate governance to be used widely, the entities have used the services of audit, internal and external alike, but mainly to second one, following through this, consolidation, repositioning, image growing and brands consecration, just in terms of ideas that these opinions expressed independently by competent and integral specialists, are independent, uninfluenced and equidistant from the partners. Cases of Enron or Lehman Brothers seem to be in opposition to the principles stated above, while statutory audit would have to represent a mechanism aimed at ensuring the enforcement and strengthening corporate governance principles, the purpose was opposition expectations. Intent and knowingly accepting the results of accounting manipulation, masking, or participation in fraud committed by the entities, submission of audit reports inconsistent with the real facts, have triggered disappearance or image compromising of the major players in the consultancy market.

All these weak links, the imposition by lenders of certain people in management boards to influence decisions, appearance on key management positions of persons employed in the past at the largest audit companies, the deformation of reality by presenting false audit reports, can lead to two ways of explaining the phenomenon, incompetent persons involved in the process of government, or their involvement in the betrayal of ethical principles, in our opinion is the thread that

binds together all other ingredients, ethical principles once regarded should strengthen, to weld components for achieving positive results.

What exactly is the role of codes of ethical conducts, does not the non-observance contributing to their failure, triggers all the failures in corporate governance? Ethics in business is not just the current international conventions and statements, it must be represented in the first by reasonable actions and decisions, but more importantly the professional desire to achieve these actions. We presented above cases in which companies set standards of conduct and agree to comply, but suffer failures caused by corrupt temptations that show. Of course, adherence to ethical standards will not always guarantee that societies will keep every time right thinking, but here the reverse may be available, there are companies that have experience in neglecting ethical principles, but now they have implemented sound systems of governance. The most important thing in a corporatist system, without which it would be impossible to implement and maintain ethical principles, is the leadership position. Only the leadership must establish through its actions moral skills that will govern the activity. [22]

Presented in the Table 2, we find the most common scenarios that companies face when it comes to implementing corporate governance principles based on ethical actions.

Table 2. Corporate Governance and Ethics

		CORPORATIVE GOVERNANCE FRAMEWORK	
		Weak	***Strong***
ETHICAL	***Weak***	I **Goal** – Focus on overcoming systemic corruption	II **Goal** – Focus on building an ethical organization
	Strong	III **Goal** – Focus on improving corporate governance framework	IV **Goal** – Focus on compliance, disseminating best practice experience

Source: *The moral compass of Companies: Business ethics and Corporative Governance as Anticorruption Tools*, John D. Sullivan

Of course the ideal situation is depicted in **quadrant IV**, but even if found in any of the other three cases, companies can take steps to reach the ideal position. Ethics, principles that govern companies from outside, and the solutions given by external supervisors, directs the development of corporate governance so that this does not serve only entity in particular but also for society as a unit. After determining the involvement of principles underlying corporate governance in triggering cases of failure of large companies have tried to establish a hierarchy of "guilt" of those, presented in Figure 4.

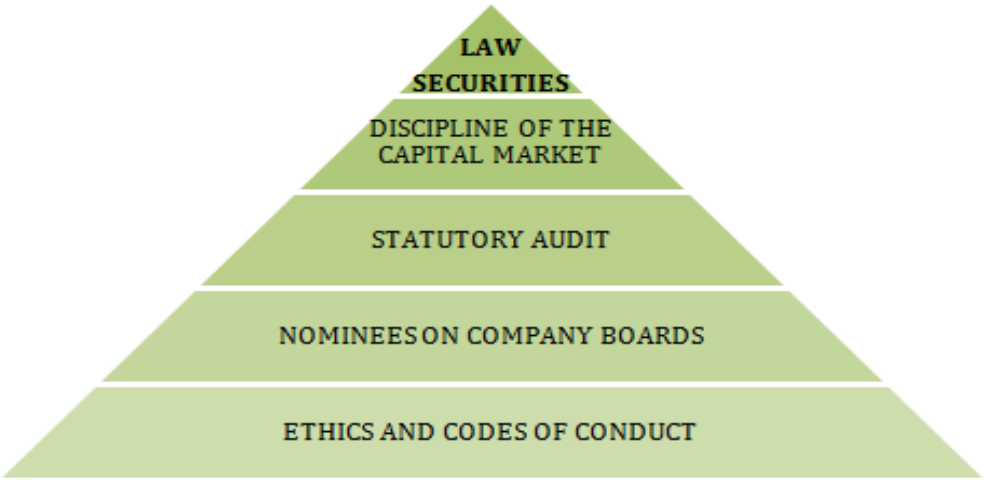

Figure 4. Classification of corporate governance principles
Source: Own processing (adapted after *"Reason for Corporate Governance failures"*, by Shruti Mehta & Rachana Srivastvaare)

As you can see, in our opinion, the most important principle which was broken, starting from the bottom of the pyramid, was complying with the rules of ethical conduct. We have to become concerned that very few times *ethics is seen as the pillar structure* for a healthy management system, though, especially ethics is one that most often lead to corporate behavior - both the management and the subordinates, regardless of country, sector of the economy or business size. Placing on the second level the *board's nominations* has as a foundation the structure of governance types and mechanisms to make used by shareholders to influence managers' decisions and thus to marginalize their decision-making power. Statutory audit, discipline imposed by capital markets or laws governing the system of corporate governance are factors that influence the process outside the company, but that may be as toxic as the fraudulent use of the first two principles. The most conclusive proof is the support given by consulting firms in masking errors or stimulates the production of their conscious.

6. CONCLUSIONS

A transparent and timely communication between those who are involved in decision making process must be the first tool that can prevent cases of failure. The link between information and fraud prevention must go beyond the particular mode of corporate governance chosen, organizational structure and control mechanisms applied. People are more important than processes, so one of the main goals is to encourage the diffusion of advanced practices, which lead not only to defend the interests of investors but also to ensure social stability, improving the quality of human capital and promoting authentic values [11]. Financial crises detached from economic crises about we heard last years can head us on two ways, namely, accounting fraud can be attributed to excessive control or lack of control, external standards provided by the company or by internal regulations [2]. Highlight the close links between fraud and corporate governance is relevant again. These items mentioned are really important, in idea that the regulations remain ineffective if there is not a tandem with organizational culture, supported by strong ethical principles, to point out the priorities, transparency of accounting information and efficiency of exercised control [3]. Removing conflicts of interest is the safest way to ensure the correct functioning of control systems.

As possible ways to avoid future cases of collapse may be the following: [13]

- Separation of powers of the Chairman and CEO. Each has to activate on its own pathway, otherwise we could reach a situation of excessive concentration of power and control

capabilities of the supervisory board to be diluted.

- Integrity and missing of conflict of interest between managers, that should not target capital gains from the position they occupy, rather than wage remuneration they deserve.
- The existence of a strict flow of information so that decision-makers, have to receive timely and adequate information to perform their duties.
- Drawing concrete tasks and functions, especially in management teams, where decisions require a sustained effort and a great responsibility.

Finally we have to ask a question, that have to be answered by everyone interested in this field of activity, "What is the value of corporate governance principles declared by the companies?". Although here have been treated just a few of the many cases of corporative governance failure, we attend to believe that we managed to emphasize the main ideas, which are the interpretation and point of view of the authors, and as a solution to eliminate or at least to reduce the differences between the three main types of corporate governance, we would see a set of standards and requirements that include features of all types of governance factors, namely an attempt to globalize the management techniques.

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