Interdisciplinary Approach to Corporate Governance Structure

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1. Interdisciplinary Approach to Corporate Governance Structure

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ABSTRACT: The scientific publication analyses the interdisciplinary concept of corporate governance, thereby illuminating different aspects of this phenomenon. Three interconnected aspects are observed: corporate governance as a management category, its social context and its legal implications. Examining each component in isolation from the others serves to limit the corporation's functionality to its applied value in the social arena. An assessment of corporate governance as behavioural models, considering representation, efficiency, growth, financial structure and attitude toward stakeholders, enables the depersonalisation of organisational unity, a defining characteristic of any legal entity. Through an interdisciplinary approach, we demonstrate how corporate management functions to organise a corporation's activities by influencing the subjects of management in microeconomic processes and their interaction with one another, ultimately ensuring optimal socioeconomic viability of the corporation within the macroeconomic environment.

KEYWORDS: Corporation, corporate governance, board of directors, shareholders, legal entities, ownership, company management

1. INTRODUCTION

Law is a multifaceted socio-legal concept, primarily aimed at regulating critical social domains and ensuring their proper functionality. This objective is accomplished through legal frameworks that govern social relations, which are the most effective means of ensuring their harmonisation. The incorporation of the principle of complementarity into the field of legal science, as suggested by N. Bohr in 1927, enables a thorough comprehension of the legal regulation of social relations and its elements through analysis within mutually exclusive systems. The utilisation of this principle facilitates an objective and concise examination of the subject matter. Additionally, it allows for the avoidance of biased and ornamental language, ensuring the accuracy and neutrality of the analysis. Corporate governance is an element of legal regulations that

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govern social relations. This research focuses on the nature and meaning of corporate governance as a tool for maintaining private law corporations. An interdisciplinary examination of corporate governance reveals various aspects of this phenomenon. It is worth noting that there is insufficient scientific research on this topic. The existing research in this area has a narrow focus on economics or management, which limits its potential and obstructs a multi-perspective analysis. There is a complete absence of legal research in this field, emphasising the urgent need for investigation.

2. LITERATURE REVIEW

The initial proof of the establishment of the corporate governance structure and the following scientific examination links with the research conducted by Adolph Burleigh and Gardiner Means in 'The Modern Corporation and Private Property'. They regarded this classification as a crucial component of market restraint, reinforcing the demands of financiers and other financial market players to guarantee effective operating mechanisms for the corporation. Scholarly works on sectoral and geographical divisions have revealed the research of scientists in the field of corporate governance (*Guo et al., 2013, Khal, 2011*). As corporate governance extends beyond economics, our research analyses the legal aspects of it. The source materials come from legal scholars' scientific works (Kostruba, 2021) revealing the legal context of corporate governance. Our source materials include not only economic research but also sociology and law (Beslikoeva, 2005), emphasising the study's interdisciplinary nature.

3. METHODOLOGY AND MODEL SPECIFICATIONS

The research is founded on a framework of interdisciplinary connections, which carefully examines economic concepts from a legal standpoint. Comprehensive analysis of legal material also encompasses sociological inquiries. Using this approach, we were able to provide a multifaceted view of scientific categories, from various subject perspectives, thereby enhancing our understanding of the subject matter. The comparative research method was crucial in establishing common features and cultural differences within the studied issue. Relevant patterns could be identified as a result. In consideration of the economic and sociological context, statistical analysis was clearly necessary.

4. EMPIRICAL RESULTS

4.1. Corporate Governance – Management Category

Governance typically involves exerting influence over an object, system, or process to maintain its sustainable development or transition it to a new state in alignment with a predetermined goal. The concept of corporate governance has gained

significant attention on a global scale, particularly in the aftermath of economic crises in some countries. These crises highlighted the correlation between their severity and the current financial and economic state of the corporation (Vargas-Hernández and Teodoro Cruz, 2018, pp. 59–69). Investors in a corporation can ensure a return on their investment by considering certain mechanisms. Finally, they need to monitor the activities of the corporation. Secondly, they should evaluate how to safeguard their investment capital from potentially unfavorable management actions. Firstly, they need to determine how to obtain their share of the profits. Note that this term has nuanced meanings. The varying cultural, legal and historical differences around the globe pose a challenge in formulating a unified definition of corporate governance. One of these definitions is its interpretation as a management and control system. This description outlines the processes, policies, institutions and laws that a corporation employs to operate.

Corporate governance is generally established as a system of internal and external checks and balances that ensure social responsibility throughout all aspects of a corporation's business activities (Solomon, 2007). In essence, corporate governance primarily falls within the realm of management. An important definition of the term 'corporate governance' is that it denotes the system employed to manage and regulate a corporation. The distribution of rights and responsibilities among company members, including the board of directors, managers, shareholders and others with a vested interest in the company, is determined by the corporate governance structure (OECD, 2015). Corporate governance involves organising a corporation's activities by governance entities that impact microeconomic processes, interacting with each other to ensure the optimal socio-economic existence of the corporation in the macroeconomic environment. The optimal reflection of social, economic and legal aspects indicates that the corporation has achieved its goals and mission statement.

4.2. Sociological Context of Corporate Governance

Given that a corporation is an organised structure within society, corporate governance can be regarded as a form of social governance. Numerous sociological studies suggest that the core of corporate governance lies in the social interactions among several main interest groups, namely shareholders, directors and other stakeholders. It is widely held that the primary objective of corporate governance is to preserve a semblance of sociable responsibility among these interest groups.

The correlation between a legal entity and its founder is evident that corporate law in the 21st century deduces corporation activities based on its members' behavior. The independent legal status of an entity entails an organised framework with governing bodies. The formation of legal entities is tied to the active engagement of the corporation's shareholders, who seek to exercise their corporate rights in management. The activities of any legal entity are inexorably linked to the actions of the individuals who hide behind its corporate veil. This

activity is demonstrated not only by the incorporation and development of a corporation's organisational structure by its members (founders) but also by their membership in the respective governing body. The legal capacity of a legal entity, i.e. its ability to acquire civil rights and obligations, is established by a governing body that exerts organisational control over a corporation's activities. Despite the involvement of numerous individuals in its operations and governance, the governing entity is the individual whose actions have a direct impact on the organisation's planning, organisation, motivation and control processes.

4.3. Legal Aspects of Corporate Governance

The term 'corporate governance' refers specifically to the organisational integrity of a legal entity. This involves the internal arrangement of different parts in such a way that the corporation functions as a fully-integrated participant in civil relations.

Organisational integrity involves the process of establishing the pertinent bodies of a corporation, administering their interrelation by distributing responsibilities and devising and carrying out the agreed purpose of the applicable legal entity. Within the legal framework, corporate governance is deemed instrumental in realising the legal capacity of a corporation. In light of the above, it is important to emphasise that the integrity of an organisation, in some form, encompasses the structural and procedural attributes of corporate governance. The structural characteristics of corporate governance disclose the ownership structure (whether ownership is concentrated or dispersed) and the composition of the board (number of members, composition and representation). Procedural features of corporate governance pertain to the regulatory interplay between governance entities grounded in fitting governance arrangements (Guo *et al*., pp. 257–272), necessitating regulatory recognition.

The concept of a legal entity as a participant in social relations presupposes that it is personified in the actions of real individuals. The legal capacity of a corporation is actualised by the activities of specific individuals who are linked to the corporation by a certain type of legal bond. Because of the differentiated character of corporate governance and the multifaceted nature of legal capacity, the extent of corporate governance abilities cannot be centred on the activities of a single entity. Corporate governance activities have a dynamic aspect and a competency element, which depends on the differentiation of the corporate governance entity's powers. Essentially, managing a corporation involves multiple levels of collaboration among relevant bodies, each with distinct scopes of authority enabled in relation to one another. The relevant entity responsible for managing a corporation's activities within its corporate scope executes its legally divided capacity. In turn, the corporate structure's organisational integrity ensures the legal capacity's integrity of such a legal entity. Differential combinations of the organisational structures of a corporation and the competencies of its constituent elements (governing bodies) lead to suitable models for managing a legal entity.

These models of corporate governance are then given specific economic (for commercial corporations) or social (for non-profit corporations) orientations.

4.4. A Variety of Corporate Governance Models in the Context of Interdisciplinarity

Western European economic scholars have identified a strong correlation between a corporation's representation and its performance. Corporate governance systems are deemed to play an important role in economic activity since they offer mechanisms that affect the outcome of external investment attraction (Edwards and Nibler, 2000, pp. 237–267). Representatives of management science express a similar opinion, emphasising that such socio-economic conditions as the composition of the corporation's members (founders), mechanism of interaction, capital structure and information disclosure requirements extrapolate heterogeneous governance models (Beslikoeva, 2005, p. 80). It is imperative to maintain a logical flow of information and causal connections between statements, while avoiding biased or subjective evaluations. The aforementioned conditions influence the composition of a corporation's capital, its structure and the way its shareholders exercise control over its actions.

In centralised structures, ownership or control is vested in a limited group of individuals, families, managers, directors, holding companies, banks, or other non-financial corporations. As these individuals or groups hold or exercise a significant impact on corporate governance, this model is referred to as 'internal'. Small shareholdings in a corporation's capital do not increase the motivation to control and often prevent shareholders from participating in management. This type of dispersed capital structure is referred to as 'external'. It is commonly used in countries with common law systems (such as the United Kingdom, the United States and some European Community countries, including Cyprus, Belgium, Greece, Luxembourg, Malta, Spain, Lithuania, among others). Under these circumstances, two models of corporate governance can be identified from the perspective of sociological and management sciences. These models have been legally established and rely on the prevalent international economic approach and corresponding normative consolidation within the legal system.

4.4.1. Unitary Model of Corporate Governance

In the external corporate governance system that prevails in the United States and United Kingdom, the efficiency of corporate governance is influenced by exogenous economic factors such as macroeconomic markets. In the external corporate governance system that prevails in the United States and United Kingdom, the efficiency of corporate governance is influenced by exogenous economic factors such as macroeconomic markets. The level of a corporation's capitalisation in the stock market serves as an indicator of its governance efficiency. The corporation's shareholders have a comparatively low level of concentration in the share capital, while the turnover of such capital depends

heavily on the stock index and the current relevant financial asset's quotation. Positive dynamics in the respective financial asset's quotation are attributed to the economic efficiency and correctness of corporate governance, whereas poor governance results in a decrease in the asset's value. The stock market serves as a dependable and self-regulating means of evaluating the performance of a legal entity's governing bodies. This influences the development of a legal entity's governance model and its legal consolidation.

The corporate governance model follows a monotypic principle, whereby a single corporate governance body (either a sole director or a board) is established. Technical terms will be explained when they are first used. If a corporation does not act on a permanent basis, a body for managing its affairs shall be elected by the general meeting of members. The corporate governance body's chairman will be chosen by the board of the corporation if it is collegial.

The low concentration of shareholder capital, combined with dispersed shareholdings among a large number of shareholders and significant stock market volatility, unequivocally indicate a poorly functioning general meeting. Consequently, the executive body – the management board, board of directors, sole director, etc. – must assume responsibility for proper corporate governance and civil transaction operations. The financial market objectively assesses a corporation's performance as a factor of its 'economic reliability'.

4.4.2. Dual Model of Corporate Governance

In contrast to the external capital structure of a corporation, the internal structure of a corporation in Germany, Japan and France excludes external factors that could affect its activities. This type of corporation is characterised by a high level of share capital concentration with a low level of dependence on external factors that could impact its economic development. In this case, the executive body of a corporation lacks independence while making management decisions, which is dissimilar to a corporation with a unitary model of corporate governance. The general meeting's predominant role presents a challenge to the corporate governance model, introducing an extra layer that aims to balance the corporation's shareholders' interests and its executive body. The general meeting nominates a supervisory board to oversee the activities of a corporation's executive body continuously. In this scenario, the supervisory board, which represents the interests of both the company's shareholders and stakeholders, regulates its performance and governance. However, the model of corporate governance is based on a binary principle and comprises not only the supervisory board as the executive body, but also the executive body of the second level of corporate governance, either a sole director or a collegial board. This governance model outlines the process for forming the necessary bodies. The supervisory board is appointed by the general meeting, and subsequently appoints the management board (director) as the second tier of corporate governance.

4.5. Morphology of the Corporate Governance Model

Despite the diversity of corporate governance models, they share a common structural principle. It is based on a specific corporate institution with its unique temporality of existence, which consolidates the interests of the corporation's members (founders). Such an institution is the general meeting. As the consolidated will of the corporation's members (founders), the general meeting determines the fate of a corporation and areas of its activities, however, beyond the scope of the corporation's autonomous expression of will. Among other things, the general meeting sets out the appropriate corporate governance model and forms executive bodies.

It is noteworthy that the corporate governance body's social and legal purpose is to collaboratively develop and make appropriate decisions on aspects of the legal entity's activities, based on the majority's agreement. This way of organising a social group is a conventional expression of democratic ideals, whereby an individual's viewpoint holds no authoritative power. The principle of the minority being subject to the majority's stance constitutes a micro-level manifestation of social interaction. This approach has been adopted by non-profit organisations, which are characterised by the concentration of interests of certain individuals. Their opinions are considered when making collective decisions. In contrast, for an entrepreneurial organisation with a capital concentration principle, the value of a member's will is established by the number of shares they possess in the authorised capital. When deciding, the shareholders' meeting of a corporation considers the total number of shares holding the same nominal amount of authorised capital, which includes those with share certificates that evidence their corporate rights. The formation and exercise of the governing powers of the corporate executive body depend on the general meeting's will. Consequently, an executive governing body must be established. Its purpose is to guarantee that a company operates in line with its aims and objectives and executes resolutions made by the general members' meeting of the company. The executive body of a legal entity, whether sole or collective, ensures its operations in the civil sphere, oversees ongoing operations within the primary sectors specified by the general meeting.

The executive body operates continuously, unlike the general meeting. This enables them to represent the corporation in third-party relationships without requiring a power of attorney. Additionally, the will of the executive body is represented by an official, while the general meeting represents a collective expression of will on legal entity corporate governance issues. The constitution, composition and proficiency of the executive body is set by a non-compulsory determination made by the general meeting of a corporation, which may additionally delegate some of its abilities to it.

The fundamental element of the structure entails the establishment and operation of the executive entity responsible for the execution of corporate

governance resolutions. This level exists in various forms such as the supervisory board and management board. As a result, the general meeting has diversified competence in delegating special powers to individual governing bodies. The concept behind this division is twofold: firstly, to enhance management efficiency by establishing a permanent executive body that operates within the temporary framework of the general meeting, and secondly to eliminate two fundamental conflicts of interest in corporate governance. Established models of governance bodies vary, and the dual model of governance utilises a binary structure for corporate governance via interaction between two bodies. This algorithm serves as a defining characteristic. In such circumstances, the board of directors ensures equilibrium between the interests of all members of a company with regard to the actions of a collective *(board of management)* or individual *(director)* executive team, and takes on supervisory and executive management responsibilities. The unitary model of governance is defined by a uniform structure for forming the governing bodies of a legal entity, represented by either a collegial *(management board)* or sole *(director)* executive body fulfilling the corresponding functions of a corporation. The tool for guaranteeing interest equilibrium is the social self-regulation lever.

4.5.1. Binary Approach to The Structure Of The Governance Model

The development of the corporate governance model follows a binary approach to the structure of the executive body of a legal entity. This principle arises from the complexity of the operating structure of corporate governance. Unlike the monotypic approach, this binary nature guarantees the capacity of the corporation within two projections of its competence. Minority stakeholders in a corporation often face difficulties in influencing the executive body's decisions due to inadequate information and limited sources of power. The supervisory board acts as a means to safeguard the interests of all members, regardless of their level of representation within the corporation's executive structure. The purpose of this organisation is to manage and control the activities of the executive body, ensuring the interests of all members of a corporation are secure and not just those of a specific group.

The primary tier of governance is represented by the supervisory board, which functions as a body for formulating and executing vital decisions pertaining to the management of the corporate enterprise and its affairs. This includes ongoing supervision of the Management board (director), composed of non-executive and autonomous directors. *The second tier of corporate governance* entails a collegial body *(the Management Board)* led by its Chairman, comprising executive directors or a solo body *(the Director)* responsible for operational management of the company. The division within the executive body appears indispensable to resolving any inconsistencies that may arise in the relationship between the majority and minority members of the corporation According to Jensen, the board of directors is the optimal internal control mechanism to

oversee the conduct of senior management (Aluchna 2013; Fama and Jensen, 1983;).

In such cases, it is advisable to reconcile discrepancies between the interests of the minority and the majority and exercise authority over the achievement of these interests by the pertinent governing authority of the corporation. Moreover, it is imperative that the activities of the supervisory board include the participation of the representative body of employees and other interested parties. It is worth noting that this practice is mandated by the legislation of numerous countries, such as France, as previously mentioned. In fact, the representation of employees is considered to be a characteristic feature of the legal system in Continental Europe.

4.5.2. The Monotypic Principle of Formation of Corporate Governance Bodies

The Monotypic Principle of Formation of Corporate Governance Bodies is based on the functioning of the executive body of a corporation within a single level of governance.

The absence of consolidation in interest or capital, characteristic of the unitary model controlled by a monotypic principle, results in concentration within the relevant executive body, as previously demonstrated. The objective non-existence of any ownership conflict (or conflict of interest amongst corporation members) renders the establishment of a supervisory board to mitigate its risk and resolution unnecessary. However, the possible presence of a conflict of control *(a conflict of interest between the members of the corporation and its governing body)* highlights the importance of guaranteeing openness and responsibility of the corporate executive body, whether it is a collective management board or an individual director. The executive body of a corporation, known as the management board, holds the highest permanent governing responsibility for policy development, strategy formulation and implementation. In this context, the management board of a corporation concentrates organisational and administrative functions through regular and systematic operation, thereby realising the legal capacity of a legal entity.

5. CONCLUSION

The interdisciplinary nature of the research emphasises the significance of incorporating economic considerations in crafting the corporate governance framework. Such considerations encompass investment resource mobilisation efficiency and transparency in the company's operations, enabling it to attract financial resources actively and accomplish its objectives. The flexibility of models allows for maintaining a balance of interests among all corporate stakeholders, including gender, age and profession. The regulatory structure of corporate governance can comprehensively ensure the interests of a corporation and its members by enshrining them in relevant instruments across various levels

of regulation. The combination of these factors yields a comprehensive model for corporate governance that guarantees the interests of all parties. The analysis of the two models of corporate governance suggests that their structures are gradually converging. The unitary model is being supplemented with features of a multivariate model, indicating a dual model. Numerous countries have exhibited parallel trends in their legislation. Notably, China mandates corporations to establish three legal and obligatory corporate governance bodies. In the context of economic globalisation, unifying the corporate governance model is crucial as it enables the application of an optimal model that is clear to all involved parties.

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