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Original Paper

Research on Corporate Governance Strategies from the Perspective of Compliance Management

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Abstract

Against the continuous intensification of globalization and market competition nowadays, various risks and challenges enterprises face, such as market competition, changes in policies and regulations, and social responsibility, are constantly increasing. Therefore, establishing a sound compliance management mechanism has become one of the necessary conditions for enterprises to pursue sustainable development. Corporate governance, as the foundation of enterprise operation, is also a key link in compliance management. Therefore, from the perspective of compliance management, improving the corporate governance system has become an indispensable and important part of enterprises. The article first expounds on the significance of improving the corporate governance system from the perspective of compliance management. Secondly, it analyzes the problems in improving the corporate governance system in combination with practice. Finally, it proposes strategies for improving the corporate governance system based on the perspective of compliance management. Maintain strategic resolve in an uncertain environment and achieve sustainable development.

Keywords

Compliance Management, Corporate Governance, Governance Strategy

1. Introduction

With the increasingly fierce global market competition, enterprises have faced more risks and challenges in recent years. To address these challenges and risks, relevant departments have strengthened supervision and management over enterprises and gradually implemented compliance management systems. This requires enterprises to establish and improve corporate governance systems to regulate their operational behaviors, ensure compliance in business operations, and enhance their comprehensive competitiveness. Against this background, improving the corporate governance system becomes particularly important.

In enterprise reform and development, compliance management is a crucial link. From the perspective of compliance management, improving the corporate governance system can help enterprises better abide by laws and regulations, standardize business operations, enhance management efficiency, and achieve sustainable development. Specifically, improving the corporate governance system has the following significance in the reform and development of enterprises. First, ensure that enterprises operate legally and in compliance. Improving the corporate governance system can establish a sound compliance management system for enterprise laws and regulations, standardize business operations, ensure enterprises' legal and compliant operation, avoid risks of illegal and non-compliant activities, and enhance the credibility of enterprises. Second, enhance the governance efficiency of enterprises. Improving the corporate governance system can strengthen the internal management of enterprises, establish and improve decision-making mechanisms, risk management mechanisms, internal control mechanisms, etc., enhance the governance efficiency and management level of enterprises, and increase the competitiveness of enterprises. Third, improve the investment environment for enterprises. Improving the corporate governance system can enhance the transparency and predictability of an enterprise, increase investors' trust and investment willingness, improve the enterprise's investment environment, and attract more social capital to enter the enterprise. Fourth, promote mixed-ownership reform and listing of enterprises. Improving the corporate governance system can support the mixed-ownership reform and listing of enterprises. Enterprises need to meet certain corporate governance requirements during mixed-ownership reform and listing. Improving the corporate governance system can help enterprises better adapt to the market environment and investor demands and enhance their competitiveness and development potential.

2. The Concept

2.1 The Meaning of Compliance and Compliance Management

Compliance means adhering to the processes and procedures for handling risky situations. When problems or difficulties arise, compliance agencies can intervene early. Compliance also means applying common sense and having good judgment ability. Compliance is a top-down requirement for everyone in a company: the CEO, sales representatives, agents, and advisors must adhere to the same standards.

Compliance management, business management, and financial management are known as one of the three pillars of enterprise management. It is an important aspect of internal control and internal management and a key factor in risk management. As a unique risk management technique, it originated from some large multinational groups in Europe and America to cope with strict laws, regulations and market supervision environments and prevent internal control and compliance risks. In recent years, a series of incidents where internationally renowned multinational companies such as Lucent, Starcom, Johnson & Johnson, Pfizer, and GlaxoSmithKline have been punished for commercial bribery have not only dealt a heavy blow to their economies but also caused huge losses to their social reputations. From this, the negative impact of compliance risks on the continuous operation of a company is significant. Since the financial crisis, the global compliance governance environment has tightened. Developed countries such as the United Kingdom, the United States and Europe, the United Nations and the Organization for Economic Cooperation and Development (OECD) have intensified their crackdown on enterprises' compliance violations and corrupt and bribery behaviors. For instance, the United States has expanded the jurisdiction for filing cases, rewarded whistleblowers, intensified the investigation and crackdown on companies, individuals and foreign beneficiaries, and strengthened international cooperation and law enforcement against non-US companies listed in the United States. It is particularly noteworthy that the judicial practices against commercial bribery in countries such as the United Kingdom and the United States all emphasize that enterprises should establish and improve compliance management systems. Once problems arise in an enterprise's certain department or individual, the enterprise can only be exempted from liability by providing evidence that it has established a sound compliance management system. This is also one of the reasons why these foreign-funded enterprises pay great attention to establishing a mature and complete compliance system within the company.

2.2 The Corporate Governance Theory

Corporate governance refers to responsible enterprise management and control aimed at creating long-term value. The raising of corporate governance issues is the outcome of developing enterprise organizational forms to a certain stage. In the early stage of developing enterprise organizational forms, there will be no governance issues if the investors and managers are consistent and their interests are unified. However, a specialized professional manager class emerged with the expansion of enterprise scale and the extension of specialized division of labor. They were employed by investors and managed enterprises. There was a separation between investors and managers, especially the trend of shareholder dispersion in modern joint-stock enterprises. How to handle the relationship among shareholders, the board of directors and managers has become an important issue related to the performance of enterprises. Theoretically, the investor is the principal, and the operator is the agent. The two have a principal-agent relationship. The proposal of the corporate governance mechanism is better to solve the principal-agent relationship problem between the two. Economists Berley and Mines published the book "Modern Companies and Private Property Rights." They believed that: "Since the ownership and management rights of modern companies have been separated, situations where the behaviors of managers deviate from the interests of shareholders may occur."

Corporate governance is the institutional arrangement concerning the rights, responsibilities and interests of various company stakeholders, involving establishing and operating the three major mechanisms of decision-making, incentives and supervision, etc. The theoretical basis of corporate governance is the distribution of control rights and residual claim rights. There are three different governance theories: The first one is that capital employs labor, and the owner of physical capital has control rights and residual claim rights. The second is labor employment capital, where the owner of human capital holds control rights and residual claim rights. The third is the stakeholder sharing theory, where all stakeholders hold control rights and residual claim rights. A governance structure that prioritizes shareholders' interests, a governance structure with managers at its core, and a governance structure with the participation of all stakeholders has been formed. The efficiency of corporate governance lies in whether it can effectively resolve differences, pool strength, reduce the governance costs of all stakeholders, obtain corresponding returns in the value-added of the company, and achieve scientific decision-making.

An efficient corporate governance structure plays a crucial role in improving compliance risk management.

3. Problems Faced by Current Enterprises in the Process of Improving Their Corporate Governance Systems

3.1 The Internal Management Issues

In the process of optimizing the enterprise governance system, the inadequate implementation of the responsibilities of functional departments has become a prominent problem restricting the improvement of organizational efficiency. This phenomenon is mainly reflected in the following three key dimensions:

First, the boundaries of rights and responsibilities have become blurred. Modern enterprise governance often involves the collaborative operation of multiple departments, and there is a common phenomenon of the coexistence of overlapping responsibilities and vacuum zones in the division of functions. Especially in some state-controlled enterprises, although professional functional departments have been established, temporary working groups still need to be frequently formed to promote specific affairs. This institutional arrangement has led to the virtualization of the functions of permanent departments. The unclear interface of responsibilities among departments directly leads to the systematic depletion of management efficiency, creating a governance predicament where "three monks have no water to drink."

Secondly, the chronic problems of hierarchical management. Some enterprises, influenced by the inertia of the planned economy system, generally have structural drawbacks such as redundant organizational structures and complex management levels. Its decision-making mechanism often needs to go through a lengthy "document travel," and a regular decision must often cross five or six management levels. This bureaucratic decision-making process causes a huge waste of time. It makes enterprises miss the rapidly changing market opportunities and fall into a passive position in the fierce business competition.

Thirdly, there is a shortcoming in the decision-making level's capabilities. In technology-intensive enterprises, the decision-making team generally has the problem of a single professional structure. Managers who have transformed from technical experts often lack systematic business training and strategic thinking. When facing major decisions such as industrial transformation, investment, mergers, and acquisitions, they are prone to fall into the cognitive blind spot of "technology first." This single professional background leads to a lack of multi-dimensional value considerations in the decision-making process, making it difficult to form forward-looking and innovative strategic decisions and ultimately affecting the transformation and upgrading process of the enterprise.

3.2 The Internal and External Supervision and Market Competition Mechanisms Are not Perfect

In the modern enterprise governance system, the supervision and market competition mechanisms constitute an organic whole that complement each other. Only when the two work together can the healthy and orderly development of the enterprise be ensured. Since the establishment of the market economy system in China, the basic principle of "combining macro-control with market regulation" has always been adhered to in terms of the market competition mechanism. However, with enterprises' increasingly diversified organizational forms, the structural flaws existing in the current market competition mechanism are gradually emerging.

Take state-owned enterprises as an example. The imperfect market competition mechanism is highly likely to give rise to industry monopolies, leading specific enterprises or industries to form a dominant market position. In a market environment where competition is absent, enterprises often lose the source of motivation to optimize internal governance and subsequently give rise to power rent-seeking, low operational efficiency and various irregular behaviors. Enterprises have long relied on administrative resource advantages and enjoy inherent advantages in policy support. This institutional arrangement objectively weakens their sense of market competition.

The absence of competitive pressure will directly lead to the continuous decline of enterprises' operational efficiency. The specific manifestations are as follows: resource allocation deviates from the optimal state, utilization efficiency of production factors is low, production cost remains high, resource waste is widespread, and environmental protection awareness is weak. From an economic perspective, this market failure phenomenon will cause a net loss of social welfare.

At the level of supervision and restraint, the imperfection of the market competition mechanism will seriously weaken the effectiveness of external supervision. The market environment with insufficient competition makes it difficult for stakeholders to form an effective supervisory synergy, and the internal governance of enterprises is prone to breed illegal operations due to the lack of external checks and balances. Some enterprises have not yet established a scientific decision-making supervision system. Coupled with the weak compliance awareness of the management and the absence of professional ethics constraints, this eventually leads to frequent illegal and non-compliant behaviors and the continuous accumulation of moral risks in enterprises. This governance predicament not only undermines the value of enterprises but also disrupts the healthy ecosystem of the market economy.

3.3 The Flaws Existing in the Corporate Governance Structure

The corporate governance system is the core framework of the modern enterprise system. Its essence lies in establishing a scientific and reasonable power and responsibility distribution and checks and balances mechanism among the shareholders' meeting, the board of directors, the board of supervisors and the management. This system optimizes rights and obligations among enterprise stakeholders by establishing a sound internal governance mechanism and external supervision system.

Under the framework of standardized corporate governance, the shareholders' meeting, as the highest authority, exercises major business decision-making powers by the law, including but not limited to the formulation of business strategies, major investment and financing decisions, and the review of profit distribution plans and other core matters. The board of directors, as the executive body, is responsible for and reports its work to the shareholders' meeting, while the management specifically implements the various resolutions of the shareholders' meeting and the board of directors and is responsible for the organization and implementation of the company's daily business activities.

There is an inherent logical connection between corporate governance and internal control. Corporate governance is the highest-level internal control system. A sound corporate governance structure provides an institutional guarantee for the effective implementation of internal control. Conversely, there are flaws in the corporate governance mechanism. In that case, it will directly lead to the absence of supervision by the governance layer over the management, causing some management behaviors to deviate from effective monitoring. This, in turn, creates opportunities for the management to violate internal control requirements and implement opportunistic behaviors, ultimately making the internal control system ineffective.

Therefore, establishing a scientific and sound corporate governance mechanism is not only an inevitable requirement for constructing the modern enterprise system but also a fundamental condition for ensuring the effective operation of internal control. This requires that enterprises ensure clear rights and responsibilities, effective checks and balances, and adequate supervision in the design of their governance structure, thereby providing a solid institutional guarantee for the healthy and sustainable development of the enterprises.

3.4 The Loopholes Existing in the Authorization and Approval Control

The authorization and approval mechanism in the enterprise's internal control system is one of the core elements to ensure the standardized operation of the organization. A sound authorization and approval system requires a clear definition of the business processing authority, approval process and corresponding responsibility attribution of positions at all levels. In actual business operations, authorization approval control is mainly reflected in the business review stage, requiring relevant personnel to strictly follow the established approval authority and business processes, conduct professional evaluations on the authenticity, compliance, rationality and completeness of economic matters, and make prudent approval decisions based on this.

In the current practice of enterprise management, there is a widespread problem of non-standard authorization and approval management, mainly manifested as follows: there are loopholes in the design of the approval process, and the implementation process is rather arbitrary. Some positions have been granted approval by authorities beyond a reasonable scope. Illegal operations, such as cross-level approval, occur from time to time. These management loopholes may lead to major business decision-making mistakes and trigger serious financial and legal risks.

With the deepening of digital transformation in enterprises, authorization approval control also faces new challenges. Although the popularization of electronic approval processes has improved efficiency, it has also brought about new issues in authority management. Enterprises need to establish a dynamic adjustment mechanism, regularly assess the applicability of the authorization and approval system, and ensure that it keeps pace with business development. Meanwhile, professional training for approval personnel should be strengthened to enhance their risk identification ability and sense of responsibility and prevent approval risks from the source.

4. Strategies for Improving Corporate Governance Systems from the Perspective of Compliance Management

4.1 Establish a Standardized and Transparent Internal Management Compliance System for the Enterprise

The construction and optimization of an enterprise's internal control system is a strategic project that requires long-term investment. In today's complex and ever-changing business environment, enterprises must establish a dynamic adjustment mechanism to enable the internal control system to keep pace with The Times and adapt to the needs of organizational development and the requirements of management changes.

To ensure the effective operation of the internal control system, enterprises should establish and improve the assessment and evaluation mechanism. Through a systematic supervision and inspection procedure, including a combination of regular audits and random spot checks, the implementation effect of the internal control system is comprehensively evaluated. This kind of assessment should not only focus on the system's rationality but also emphasize the examination of its effectiveness in practice. For the problems and deficiencies identified during the assessment process, a closed-loop management mechanism should be established: First, a detailed assessment report should be formed and promptly fed back to the decision-making level; Secondly, formulate targeted rectification plans; Finally, the accountability system should be implemented to ensure that the problem is fundamentally resolved.

An excellent internal control system should have the function of self-improvement. Enterprises should take the results of internal control assessment as an important basis for management optimization and achieve a spiral increase in internal control efficiency through continuous improvement. This requires establishing a cross-departmental collaboration mechanism, integrating internal control requirements into every link of the business process, and ultimately forming an internal control culture with the participation of all staff.

4.2 Strengthen the Construction of Internal and External Supervision Mechanisms

Enterprises should establish a complete compliance management system, including formulating clear compliance policies, rules and regulations, and operational norms. In the regulations, the responsibilities and obligations of leading personnel should be clearly defined, and their behaviors should be regulated and supervised. In terms of internal supervision, enterprises can supervise the behavior of leaders by establishing mechanisms such as internal auditing, risk management and internal control. Internal auditing can comprehensively review an enterprise's operation, identify problems and suggest improvement suggestions. Risk management can help enterprises identify and assess potential risks and take corresponding measures for control and management. The internal control mechanism can ensure that the operation activities of an enterprise comply with the requirements of laws, regulations and internal rules and regulations. Regarding external supervision, enterprises can engage independent auditing institutions to conduct audits on their businesses, accept the supervision and inspection of regulatory authorities, publicly disclose their financial information and business operations, and be subject to the supervision of investors and shareholders. External supervision can effectively check and balance the behavior of enterprise leaders, preventing the abuse of power and corrupt practices. In addition, enterprises can establish incentive mechanisms and incorporate compliance management into the performance appraisal system for leaders. By establishing compliance management performance indicators, rewards and promotion opportunities are given to leaders with outstanding compliance performance to encourage them to abide by the rules and regulations and promote the effective implementation of compliance management. At the same time, corresponding accountability mechanisms should be established for acts that violate regulations and laws and regulations to hold the relevant responsible persons accountable and ensure that the violations are punished.

4.3 Improve and Establish an Effective Incentive Mechanism

In modern enterprise governance, the executive incentive mechanism is a key institutional arrangement for coordinating the interests of owners and managers. Through diversified means such as monetary compensation and equity incentives, enterprises aim to guide the management to continuously strive to maximize the long-term value of the company. The current mainstream incentive tools include basic salary, performance bonus, stock options and restricted stocks. Each type of tool has its characteristics and needs to be systematically combined and applied.

As the fixed income portion, the basic salary provides managers with a basic living guarantee, but its incentive effect is limited. Performance bonuses are linked to short-term performance. Although they can generate immediate incentives, they may induce short-sighted behavior among managers. Equity-based incentives bind managers' interests to shareholders' value in the long term and have the most sustainable incentive effect but are greatly affected by fluctuations in the capital market. The ideal compensation structure should achieve a balance between short-term incentives and long-term incentives. Generally, floating compensation is recommended to be no less than 40% of the total compensation. This proportion can be increased to more than 60% for core executives.

When designing the executive compensation system, enterprises need to focus on the following dimensions: Firstly, the compensation level should be matched with the industry characteristics, enterprise scale and development stage; Secondly, the intensity of incentives should be commensurate with management responsibilities and performance contributions. Secondly, the assessment indicators should consider financial and non-financial indicators and balance short-term performance with long-term value creation. When there are significant fluctuations in the operation of an enterprise, the compensation committee should promptly activate the dynamic adjustment mechanism and achieve incentive compatibility through compensation recovery clauses and resetting performance targets.

An effective restraint mechanism must accompany a perfect incentive mechanism. This includes establishing a scientific performance assessment system, setting reasonable exercise conditions, introducing a deferred salary payment system, etc. Meanwhile, salary information disclosure should be enhanced to enhance transparency, and supervision from shareholders and the market should be accepted to ensure that the incentive plan can not only attract and retain outstanding management talents but also effectively prevent moral hazard, ultimately achieving a win-win situation for shareholder value and management interests.

4.4 Strengthen the Responsibilities of the Supervisory Board

In the corporate governance structure, the supervisory board holds a dominant position. In order to ensure that the members of the supervisory board better perform their duties, supervise the business activities of the management committee and the management team, and participate in the decision-making of major issues, the following suggestions are hereby put forward: Members of the supervisory board must possess professional knowledge, ability and expert experience; In order to ensure the independence of exercising the supervisory power, former members of the management committee shall not be appointed as members of the supervisory board. Members of the supervisory board shall not hold positions on the management committee or similar positions in competitors' companies to avoid abuse of power. The powers of the supervisory board mainly include appointing and removing members, supervising the business execution of the management committee, reviewing and examining the company's account books, documents and assets, and convening shareholders' meetings, etc. Independent committees should be established within the supervisory board, such as those for financial auditing, business strategies, compliance and legal affairs, etc., to facilitate regular work reporting and ensure its more efficient operation and professional judgment and handling when complex issues arise. The independent auditing institutions currently hired by the company are internationally renowned accounting firms. However, many well-known auditing institutions still deceive shareholders and the public by concealing financial issues or engaging in fraud for the audited companies for their interests. Therefore, the functions of the Audit Committee of the Supervisory Board need to be continuously improved, and the requirements for its qualification review and independence should also be continuously strengthened. To ensure that auditing institutions and auditors can conduct audits independently, such institutions and personnel should be prohibited from providing services to companies that may affect their auditing independence, especially from providing consulting services to companies. This can prevent auditing institutions from forming overly close economic ties with the audited companies, thereby avoiding the impact on the independence of auditing institutions in their auditing work.

5. Conclusion

In the increasingly competitive business environment of globalization, corporate governance has developed into a key factor determining the success or failure of an enterprise. A sound corporate governance system requires a complete institutional design and a dynamic adjustment mechanism to adapt to the constantly changing market environment. This article will propose optimization strategies for corporate governance from the compliance perspective. Improving the corporate governance system is a continuous evolution process, which requires enterprises to maintain strategic determination while possessing the innovative ability to keep pace with The Times. Enterprises should seize the opportunities for reform, enhance their core competitiveness through the modernization of the governance system, and inject new impetus into high-quality economic development. In the future, with the continuous innovation of governance concepts and technologies, enterprise governance is bound to move towards a new more scientific and efficient stage.

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