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INTRODUCTION

Corporate governance is the broad term describes the processes, customs, policies; laws and institutions that direct the organizations and corporations in the way they act administer and control their operations. It works to achieve the goal of the organization and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization. Fine corporate governance is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient financial markets. Good corporate governance is fundamental to the economies with extensive business background and also facilitates the success for entrepreneurship. During the last two decades the research area in finance is primarily focus on the area of corporate governance. The separation of ownership from control is the core of the agency problems facing by the firms (Berle & Means 1932; Jensen & Meckling 1976). This leads to many issues related to efficient control for the assets of corporations in the interest of all company's stakeholders. A great research has been done in the area of corporate governance by keeping the agency related problem. Core (1999) firms who have weaker governance to direct and manage company matter face greater agency problems. The agency problem allows manager to extract more private benefits and the firm ultimately performs worse. Firms therefore, needed for the improved corporate governance in order to survive for long term growth and survival. A good corporate governance can occur in the organization by putting the balance between the ownership and control and also among the interests of stakeholders of the firm. This approach might be helpful in developing the positive attitude among the manager and shareholders and reduces the agency problems in the firms. This paper presents the broad view of corporate governance from various perspectives and tries to link it with the agency

problems where required. It gives an overview that how corporate governance handles the deviation between the managers and shareholders' interests. The mechanism of effective corporate governance will help to determine the difference between ownership and control by giving the view of topic from different angles and tries to solve the agency problems in the organizations.

Problem under Study

In recent years the corporate scandals, some of which are still unfolding, involve high incidence of unacceptable activities of managers expropriating the resources of a firm at the ultimate cost of stakeholders. This does not only destroy the company as well as its stakeholders' wealth but also hurts the entire economy and reputation of a nation. The high profile corporate governance failure scams like Samsung electronics, the stock market scam, the UTI scam, which was severely criticized by the shareholders, called for a need to make corporate governance in Ukraine transparent as it greatly affects the development of the country.

Having seen this disastrous situation in corporate world, the idea of corporate governance is not only a necessity for good business but also to serve the diverse corporate interests and to bring quality in management. Hence, corporate governance has become a subject of debate, and that it has also become well-established as regulatory and academic shorthand.

Relevance of the Study

The Corporate governance is a wider concept that covers almost all working socio-economic facets of a business. After many corporate failures, Ukraine realized the relevance of it for business especially how it can be a tool to bring in socioeconomic discipline.

Corporate governance is of supreme to a company and is almost as important as its primary business plan. A company without a system of corporate governance is often regarded as a body without a soul or conscience. Good corporate governance inspires, strengthens and maintains investor's confidence by ensuring company's commitment to higher growth and profits. It is considered that the good corporate governance maximizes the shareholders wealth for the long run and has a bearing on the growth and stability of the companies and economy.

Good corporate governance helps to prevent corporate scandals, frauds, and potential civil and criminal liability of the organization. It is also a good business. A good corporate governance image enhances the reputation of the organization. Corporate governance is intended to increase the accountability of company and to avoid massive disasters before they occur. It can also prevent corporate scandals, fraud and the civil and criminal liability of the corporate and enhances a corporate image in the eyes of general public. It dictates the shared philosophy, practices and culture of an organization and its employees. In turn, it is accountable and responsible to all the stakeholders of the company.

Corporate governance practices regularly keep a company honest and out of trouble. If this shared philosophy breaks down, then corners will be cut, products will be defective and management will grow complacent and corrupt. The end result is a fall that will occur when gravity - in the form of audited financial reports, criminal investigations and federal probes - finally catches up, bankrupting the company overnight. Dishonest and unethical dealings can cause shareholders to flee out of fear, distrust and disgust.

Objectives of study

The following are the major objectives of this study:

1. To have thorough understanding of the concept of corporate governance.
2. To study the issues and opportunities of corporate governance practices.
3. To analyze the challenges of corporate governance faced by Samsung electronics.
4. To suggest recommendations based on the findings

Research Methodology

The article is theoretical and descriptive in nature. The work has been carried out on secondary data. Research articles, Journals, Magazines, Reports from Case Study Company, etc. are the major source for this article.

SECTION ONE

1.1 DEFINITION OF MULTINATIONAL CORPORATION

In the competition of comprehensive national strength of countries in the world, multinational enterprises can be said to be the vanguard of the international market. The number, scale and competitive strength of a country with multinational companies will greatly influence or even determine the comprehensive strength of the country. At the same time, the rise of transnational corporations has brought about the expansion of capital, broken the traditional international economic relations, and realized the globalization of production and market in a real sense.

In 1974, the United Nations adopted the name "transnational corporation" by a resolution of the council. The code of conduct on transnational corporations states: "a transnational corporation is a public, private or mixed-ownership enterprise entity formed between two or more countries, irrespective of its legal form and field of activity [4-7]; The enterprise operates under a decision-making system and realizes the coordinated policies and common strategies within the enterprise through one or more decision-making centers. The various entities in the enterprise are bound together by ownership or otherwise so that one or more of them can exercise effective influence over the activities of other entities, in particular by sharing knowledge, resources and responsibilities with other entities."

1.2 THE NATURE AND CHARACTERISTICS OF MULTINATIONAL CORPORATION

Transnational Corporation is the product of contemporary capital expansion and the organizational form of production activities under highly developed productive forces. With the constant expansion of foreign investment in capitalist countries, transnational corporations, as the carrier of international capital movement, provide an effective way for capitalists to grab higher profits. In the

accumulation of capital, multinational companies develop and grow continuously, thus creating a real international monopoly. As a result, transnational corporations have become an extremely important and independent part of the world economy that cannot be ignored. This phenomenon is unprecedented.

With the development of economic globalization, transnational corporations, as carriers of international capital flow, have shown the following distinctive characteristics in the new global competition environment.

Firstly, multinational corporations implement global strategic objectives and highly centralized unified management.

Secondly, multinational companies began to move closer to localization. As multinational companies face markets all over the world, they are inevitably affected by geographical dispersion and cultural diversity. When multinational companies are engaged in production and business activities in host countries, they are often confronted with cultural backgrounds quite different from their own. Different regional cultures will bring about differences in values and consumption patterns.

Thirdly, overseas M&A has become the main form of investment by multinational companies. Under the background of economic globalization, enterprises have entered the white-hot market competition, and the market share and enterprise scale determine the comprehensive competitiveness of enterprises.

1.3 INTRODUCTION TO CORPORATE GOVERNANCE

Corporate governance importance arises in modern corporations due to the separation of management and ownership control in the organizations. The interests of shareholders are conflicting with the interests of managers. The principal agent problem is reflected in the management and direction related problems due to the differential interests of firm's stakeholders. There is not a single definition of corporate governance rather it might be viewed from different angles. Berle and

Means (1932) and the even earlier Smith (1776). Zingales (1998) defines corporate governance as “allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed (p. 4)”. Garvey and Swan (1994) assert that “governance determines how the firm’s top decision makers (executives) actually administer such contracts (p. 139)”. Shleifer and Vishny (1997) define corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (p.737)”. OECD in 1999 defined corporate governance as "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.” Oman (2001) defined corporate governance as a term refers to the private and public institutions that include laws, regulations and the business practices which governs the relationship between the corporate managers and the stakeholders. The Ministry of Finance, Singapore (CORPORATE GOVERNANCEC 2001) defines corporate governance as “the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders. Good corporate governance therefore embodies both enterprise (performance) and accountability (conformance).” (Fin, 2004, pp 13-14). La Porta, Silanes and Shliefer (2000, 2002) view corporate governance as a set of

mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). The Organization for Economic Cooperation and Development provides another perspective by stating that “corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. By doing this, it also provides the structures through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

1.4 CORPORATE GOVERNANCE THEORY

The thought and theoretical origin of corporate governance can be traced back to the 18th century, but until the First World War, corporate governance has not attracted the attention of scholars or the public. Britain did not make adjustments to corporate law until the 19th century. In Germany in the 1850s, the traditional corporate governance structure was overturned for the first time. It was not until the 1920s that listed companies began to play an important role in the economy of developed countries in Europe and America that people paid attention to it.

A. Principal-agent theory

Principal-agent theory is the corporate governance theory under information economics. Jensen and Meckling(1976) define principal-agent relationship as "a contractual relationship. Under such contracts, the principal employs an agent to perform certain tasks on their behalf, including delegating certain decision-making rights to the agent". According to the principal-agent theory, when the ownership

and control rights of an enterprise are separated, there will be a conflict of interest between the principal and the agent of the enterprise, that is, the principal pursues the maximization of his own interests, while the agent pursues the least effort and the richest return.

B. Shareholders' interests are paramount

The theory of shareholders' interests above all else is the theory of putting shareholders' interests in the first place. Shareholders are the investors of the company, and the goal of the company's operation is to maximize shareholders' interests. Only by exercising the governance right in accordance with shareholders' interests can managers ensure the effectiveness of corporate governance.

C. Stakeholder theory

With the rapid development of the capital market, the increasingly changeable forms of enterprises, especially the highlighting of the importance of human capital, the stakeholder theory has entered the field of people's research [12-17]. According to stakeholder theory, individuals and groups that can affect the realization of organizational goals or are affected by the process of the realization of organizational goals can be regarded as stakeholders. The goal of stakeholder theory is to integrate companies most effectively and maximize corporate profits.

1.5 THE PARTICULARITY OF CORPORATE GOVERNANCE OF MULTINATIONAL ENTERPRISES

Due to its characteristics of operating business in many countries with the parent company as the core, multinational enterprises are different from other independent commercial companies, so they have many particularities in governance issues.

A. The particularity of parent-subsidary company governance

Because of its multi-level and multi-legal characteristics, the parent company of a multinational enterprise is different from the governance objectives of a single enterprise. Its governance goal is not limited to efficiency optimization and cost minimization, focused more on management target of extensionality, namely to establish a stable cooperation between parent-subsidary relationship, should not only give play to the role of the parent company's control and guide, and to reflect the independence of the subsidiary, implementation throughout the enterprise decision-making more scientific and efficiency optimization. Second, the traditional single enterprise is dominated by the vertical governance path, while the multi-dimensional governance path of multinational companies is characterized by the complex structure and the common collaborative governance between parent and subsidiary companies. Third, the interests between the parent and subsidiary companies need to be coordinated, but all of them must be subject to the maximization of the overall interests. Under such a premise, the board of directors of the subsidiary company seems to be responsible for the subsidiary company, but in fact it is responsible for the whole parent-subsidary company.

B. The control and restraint mechanism of the parent company

The parent company has absolute control over the subsidiaries, but there are conflicts of interests between them. As an independent part, the subsidiary company needs to exercise certain independent options. Proper settlement of this issue will help the parent company and the subsidiary company play the best role.

How to balance the relationship between parent company and subsidiary company depends on the control relationship between parent company and subsidiary company. First, indirect control. In other words, the parent company holds the majority of the board of directors of the subsidiary company and exercises the control. Second, direct control. The parent company's overall control over its subsidiaries. Third, hybrid. Between the above two types, flexible measures should be taken according to the actual situation of the host country and subsidiaries.

C. Governance structures go beyond national

For domestic companies, their governance system is based on the provisions of the domestic company law, while foreign corporate governance mainly has the Anglo-American model and the German model. However, transnational corporations have transcended the borders of a country at the geographical level, so the governance structure has transcended the national nature. But as an economic entity, multinational companies need to control. At present, the lack of international legal framework applicable to the governance of transnational corporations, and the domestic regulatory mechanism for transnational corporations is not rigorous, leading to a stagnation of the governance of transnational corporations.

1.6 LIMITATIONS OF CORPORATE GOVERNANCE IN MULTINATIONAL CORPORATIONS

A. The external environment

1) Economic market environment

In the process of MNE governance, the economic market condition of host country is the most important basic factor among all kinds of environmental factors faced by enterprises. In governance, multinational enterprises must study the economic conditions and trends of relevant countries in order to define the market size and development prospects. According to the economic development level of the host country, it can be divided into the following three categories:

1. Raw material export economy.
2. Industrial development economy.
3. Industrial economy.

According to different levels of economic development, different governance models should be formulated for the governance of transnational corporations, which is indeed a big challenge. GDP and distribution should also be taken into account. GDP only reflects a country's overall economic strength, and the distribution pattern of social wealth can better reflect a country's economic performance and prospects. Full understanding of the host country's economic status and development trends is the premise and basis for effective governance of multinational enterprises.

2) Socio-cultural environment

Social and cultural environment affects the governance and future expansion of multinational enterprises. Different countries have their own unique cultural environment, and operating in different countries requires enterprises to adapt to different cultures. First of all, cultural difference is the most important and crucial influencing factor in transnational corporate governance, which is mainly reflected in the cultural difference between host country and home country, as well as the difference between main culture and subculture of multinational companies. The culture of a particular region cultivates a group of people's unique way of thinking,

cognition and behavior rules. Naturally, when people with different cultural brands enter multinational companies, their values and ways of thinking will to a large extent influence the formulation of policies and implementation of tasks of multinational companies, and correspondingly bring challenges in terms of governance. Secondly, due to its special status, education level is not only the carrier of historical and cultural inheritance, but also the way of cultural exchanges among countries. From the micro level, it determines personal career and corporate governance mode. If the target country's education level is low, the parent company will bear more governance pressure and cannot rely too much on local talents.

B. The internal environment

1) The board of directors

The reasonable size of the board of directors should be determined on the basis of weighing governance costs and governance benefits. The small size of the board of directors has many advantages, such as low variable cost, small chance of free-riding among directors and fast communication among members. However, it also has obvious shortcomings, such as insufficient knowledge reserve when solving complex problems of the company, low risk control ability of the board of directors and easy decision-making mistakes. With the expansion of the size of the board of directors, common wisdom has established the company's governance on the basis of scientific governance mechanism and achieved better governance results. However, as the communication among directors becomes more difficult, the free-riding behavior among directors increases, the CEO gains power advantage and other challenges, the efficiency of the board will decrease. The board of directors should be a balanced senior management team composed of different knowledge background, work experience, industry background and different interest groups.

2) Independent director system

The frequent occurrence of scandals in modern companies requires special attention to the strengthening of the supervision function of the board of directors. Improving the independence of the board of directors is the key to play the supervision function, and increasing the proportion of independent directors is crucial. The independent director is between the shareholders and the management, which does not affect his independent judgment and does not work for the company. However, there are some defects in the independent director system. There is no supervision subject. Once the independent director resigns or does nothing to damage the company's performance due to violation of regulations, there is no corresponding punishment system. On the other hand, lack of independent director assessment system basis and assessment institutions. Secondly, the level of professionalism is low. Multinational companies tend to pursue the celebrity effect of independent directors too much and ignore their business knowledge and management background, which makes it difficult for them to make valuable professional judgment on the company's decisions and other decisions. On the contrary, it will bring obstacles to the company's personnel governance. Finally, the independent director and the internal director bear the same legal responsibility to the company. The asymmetry of information makes it difficult for independent directors to make correct business judgments, so they take a conservative attitude towards risks.

3) The board of supervisors

The essence of corporate governance is to safeguard the interests of stakeholders. Modern companies must set up boards of supervisors to separate executive functions from supervisory functions to prevent members from colluding to the detriment of the company. However, due to the large number of departments and complex interpersonal relationships of multinational companies, the supervisory board is difficult to implement the supervisory function in place. In the enterprise everyone

regards everything as the most precious as the code of conduct, resulting in the enthusiasm of the members of the board of supervisors is not high, and the supervisors do not actively exercise the legal supervision right to position in the important position of corporate governance, that "supervision" and "not supervision" is irrelevant. As time passes, the negligence of the board of supervisors will inevitably affect the effect of corporate governance. The board of supervisors should be independent of the board of directors, to ensure that the work is not affected and controlled by the board of directors, guarantee the objectivity of supervision and evaluation. However, at present, it is difficult to realize this in multinational companies. The board of directors has too much power, and the board of supervisors will turn a blind eye when they find problems, deal with problems in a superficial way, and consider the interests. It is difficult to enforce the law impartially, which makes the daily supervision become a mere formality.

1.7 CORPORATE GOVERNANCE EVALUATION

After the emergence of modern corporate system in the middle and late 19th century, corporate owners put forward corporate governance evaluation in order to strengthen ownership control. The separation of ownership and management rights in modern companies and the resulting principal-agent relationship is the fundamental reason for the emergence of corporate governance evaluation. Due to asymmetric information and free-riding psychology, corporate shareholders need to understand the implementation status of agents through a series of review mechanisms and judge their achievements in governance behavior, governance performance and other aspects, so corporate evaluation becomes the objective demand of investors. Regulatory authorities also need to understand the situation of their regulatory objects through corporate governance evaluation.

1.8 A VIEW FROM LITERATURE OF CORPORATE GOVERNANCE & AGENCY THEORY

McColgan (2001) gave a very broader view of agency theory and corporate governance. The major interest of his research was to cover the area that where the interests of managers diverge from those of the interests of shareholders. He kept in view the agency relationship and the agency cost which arises from these relationships. He extended the work of Jensen and Meckling (1976) who defined the agency relationship as a type of contract in which the principal keep the agent to carry out the services of the firm on his behalf. The agency problem arises due to the different interest and the conflict between the ownership and control as principal delegate some decision making authority to the agent. Jensen and

Meckling (1976) argued that this delegation authority reduces the value maximizing decisions taking by the manager in the firm. Himmelberg, Hubbard and Palia. (1999), argued Jensen and Meckling (1976) by saying that principal agent problem are not similar in all firms rather they are different in different firms, different industries and also in different cultures. Himmelberg et al. (1999) said that Jensen original theory “nexus of contract’ suggest the same. McColgan (2001) agreeing with the authors said that agency problem can be reduces by the help of effective corporate governance mechanism which can be important in reducing the agency cost and the ownership problems in the firms. The governance should be design according to the firm environment as one general mechanism can be more important for some firms and less important for other firms. Okeahalam and Akinboade (2003) reviewed the issues and challenges of corporate governance in Africa. They presented the reason for their review that many of the non financial corporations failed in the United States and in Asia due to the non efficient corporate governance. They said that Africa can learn a great from the experiences of these countries and may improve the governance for its corporate sector.

Okeahalam and Akinboade (2003) conducted the review by studying a contribution on the corporate governance in Africa and said that the modern concepts of separation of management from the ownership make the corporate governance an important issue for research. The interests of people who control the organizations are differing from those who invest in the company by external finance. Also the principal agent problem and the interest of shareholders can only be reduced through the effective corporate governance.

Okeahalam and Akinboade (2003) stated that the organization systems, practices, process and rules of governing institutions are concerned closely with the corporate governance so there is a need to find those relationships that regulate, create or determine the nature of relationship through those relationships.

Corporate governance implies that companies should balance between the interests of shareholders with stakeholders at all levels of organization. Okeahalam and Akinboade (2003) stated that Africa is highly influenced by mismanagement, corruption in business environment, therefore effective corporate governance can create the transparency and safeguard against these threats facing by the companies to promote the foreign investment by foreign traders and companies. The authors stated that research publication in the area of corporate governance is very low and suggested that the research should be promoted in both empirical and theoretical ways. Farinha (2003) conducted the theoretical and empirical literature review to find out the true nature and consequences of corporate governance. The main focus of his literature was to find out the reasons of conflict between manager and shareholders in organizations with respect to ownership mechanism.

He also tried to find out the link between the corporate governance and the value of the firm. Farinha (2003) argued that major problem in organization arises with the relationship of principal and agent relationships and a different approach of manager than the shareholders. The perspective of the manager remains with the limited cash-

flows thus managers focus lies with the short term perspective on investment whereas shareholders stuck with the quick return of cash flows. Risk preference is also a major source of conflict between the principal and the agent. Shareholders associated with the market risk and the risk of stock returns whereas managers always concerned with the company risk because their survival depends on the firm risk. The area of corporate governance is lacking with the external disciplining devices. The firms through the effective corporate governance can implement these devices which includes the composition of the board of directors, increase number of shareholders, maximize the inside ownership and by providing different financial policies and compensation packages. Filatotchev, Lien and Piesse (2004) studied the Corporate Governance and Performance in Publicly Listed, Family-controlled Firms in Taiwan. They analyzed the effects of the structure of ownership and board characteristics on performance in large, publicly traded firms which are controlled by family controlled firms. The authors argued that firms located in East Asia, operate with a distinctive culture and in different legal and institutional environments than west and Europe, These culture differences may have a strong impact on governance-performance relationships suggested by the study of agency and strategy research. The authors did not find a direct association between family ownership and managerial entrenchment and extraction of the private benefits of this control, which might be the negative cause to financial performance. The authors also identified the differences in corporate governance effects which are associated with different types of institutional shareholders. Filatotchev, Lien and Piesse (2004) suggested that foreign investors may attract to the Taiwan markets by the process of globalization which may lead to good corporate governance being imported by the domestic firms in Taiwan.

The results of their study also find that family control over the executive board is the major determinant to the performance. Becher and Campbell (2004) studied the

corporate governance of bank mergers and acquisitions. He was of a view that during these mergers and acquisitions the CEOs negotiate for their own interests whereas the outside directors of the company face the financial problems. The corporate governance of independent companies affected a lot. Becher and Campbell (2004) made empirical investigation to find out the effects of personal benefits and the merger premiums by taking a sample of 146 mergers of large US banks in 1990s. They targeted the two thousand directors and executives during these mergers and found that target's merger premium is inversely related to the number of target directors who are retained during these mergers. This also implies for the corporation size, incentives, payment methods and bidder returns. The study found that the interests of target director relatively lies with the size of the company rather than performance and they exercise their bargaining power with the acquirer which counters the interests of shareholders' interest in the merger. Novikova (2004) studied the impact of internal corporate governance system on firm's innovative activities and addressed the question that how much firms internal corporate governance system varieties with the type and efficiency of firm's innovative activities. Novikova (2004) listed out major participative actors for the firms which are the board, the shareholders, the managers and the other stakeholders for the companies. He defined the institutions as the rules and procedures use to make decisions on corporate affairs of the firm. Novikova (2004) designed his research on the definition of OECD which defines corporate governance in a narrow term as a relationship between a company and its shareholder whereas in broader term the relationship between the company and the society. Kowalewski, Stetsyuk and Talavera (2007) studied the corporate governance practices in determining the dividend policy in Poland. Jensen (1986) said that dividends can reduce the agency costs because of the distribution of free cash flows that can be spent on the unprofitable projects by the firm's management. Gompers, Ishii, and Metrick (2003)

in their research on agency cost also said that agency cost is the strengthen relationship between the shareholders rights and its associated with the corporate governance. Kowalewski et al. (2007) studied the view of many authors in their extensive literature on the topic and found that by empirical implications that corporate governance is an important determinant for explaining the dividend policies.

They also found that larger asset retain companies and highly profitable firms without good investment opportunities pay more dividends whereas the high risks and indebt firms pay low dividends. In Poland the companies with strong corporate governance practices and strong shareholder rights pays higher dividends and it mitigates the agency problems in the Poland. Another study conducted by Cueto (2007) to find out the role of ownership mechanism and corporate governance practices in emerging markets of Latin America. In context of weak shareholder protections the corporate governance mechanism affects the firm value, the liquidity of market and the organization of industries. Cueto (2007) proposed that the relationship between

the corporate governance mechanism and the firm's value and the effects of ownership structure and among the liquidity of the stock market must be explored.

1.9 TRANSNATIONAL CORPORATIONS

Transnational Corporations (TNCs) have been a driving force behind the dramatic transformations the global economy has experienced in the last three decades. They have contributed to the expansion of trade and investment flows and have also promoted the creation of new economic linkages between developed and developing/transition countries. Their role is essential to understand many recent trends like the evolution of outsourcing, the increase in South-South economic

relations and China's growth, and to evaluate future prospects for economic development.

China and, to a lesser extent, other Asian countries such as Vietnam are formidable competitors in the global economy, and the rest of the developing and transition world is struggling to keep up with them. China and some of its neighbours have also created indigenous TNCs and are steadily increasing foreign outflows to various parts of the world – a strategy mimicked by other developing/emerging economies like Russia, Mexico and Brazil.

1.10 GLOBALISATION AND THE NEW STRATEGIES OF TNCs

TNCs have grown steadily in size and numbers in the last few decades. Their number rose from 7,000 in 1970 to 37,000 in the early 1990s and more than 77,000 with more than 770,000 foreign affiliates by 2005 (Malhotra, 1997; UNCTAD, 2006: 10). Yet their importance goes beyond this data or any data on FDI. By outsourcing various phases of their production process to third parties, TNCs have promoted the creation of thousands of medium and large suppliers in developed, developing and transition countries. They are thus contributing to the expansion of global trade (what some have called 'trade in tasks') and to the creation of potential opportunities (and risks) for developing/transition countries in the global economy.

1.11 FROM OLD TO NEW TRANSNATIONALISATION

While transnational corporations were relatively important since the nineteenth century, their expansion accelerated after the Second World War. It is at that time that large manufacturing corporations, particularly from the United States, began expanding into various European markets. In 1975, for example, the United States was responsible for 44 per cent of all foreign direct outflows, while Western Europe received 41 per cent of global inflows (Dicken, 1998: 57). According to Weaver (2000: 111), 'by establishing production (or at least assembly) operations

within the EEC [Economic European Community] or a Latin American nation, US producers could expand sales without disrupting market arrangements within the United States, neutralize other competition, and exercise significant market power in local markets.’

European countries were growing rapidly and closeness to their consumers was important to compete successfully with new domestic firms. While FDI was initially concentrated in developed countries, TNCs soon moved to some developing countries as well. These corporations set up wholly owned subsidiaries that produced mainly for the domestic market (Evans, 1998). In their strategy, they received the support of many governments, especially in Latin America, that tried to promote industrialisation through highly interventionist and protectionist economic policies. Starting in the mid 1970s and accelerating during the 1980s, the volume and characteristics of FDI experienced dramatic changes. The model of stand-alone subsidiaries was slowly replaced by complex global production networks involving suppliers from all over the world. The aim of TNCs was no longer to secure markets alone, but also to reduce costs by moving labour-intensive production stages to other countries. At the same time, foreign investment accelerated in sectors that had previously been reserved for domestic firms, including telecommunications, banking and other services.

A combination of factors was behind the changing behaviour of TNCs in the new global era:

- ❖ The successful economic model of the post-Second World War, which delivered high profits and real wages simultaneously, broke down at the beginning of the 1970s (Glyn, 2006; Piore and Sabel, 1984). Growing labour strength together with a gradual deceleration of productivity reduced corporate profitability in most countries within the Organization for Economic

Cooperation and Development (OECD). In their search for higher profits, firms implemented new strategies to cut labour costs and weaken trade unions.

- ❖ Competition from Japan and other East Asian countries grew in different sectors of the economy. Initial competition in electronics and apparel soon extended to other economic activities, including the motor vehicles sector. New methods of production that made mass production obsolete and facilitated the creation of outsourcing arrangements were developed. Through the so called ‘flexible volume production’ or ‘lean production’, for example, large Japanese firms like Toyota outsourced the production of many components to independent suppliers (Zysman, 2004). In Europe – mainly in Northern Italy and Germany – small and medium firms with craft methods of production became successful competitors in luxury goods and other niche markets. Their system of ‘flexible specialisation’ allowed them to supply high quality goods with individual qualities since the late 1970s.
- ❖ Massive reductions in transaction costs (costs of transportation and communication) have accumulated since the mid-1960s. The combination of computers and the internet has caused a dramatic explosion of ways to communicate and has reduced communication costs dramatically. A 40-page document, for example, can be sent from Madagascar to Cote d’Ivoire by courier (taking five days) for \$75, by fax (30 minutes) for \$45 and by email (two minutes) for less than 20 cents. Maritime costs are currently one-third of their level in 1920 and air transport costs fell by more than 50 per cent in the period 1950–98 (Milberg, 1998). The cost of a three-minute telephone call from New York to London decreased from \$245 in 1930 and \$50 in 1960 to only 35 cents in 1999 (UNDP, 1999: 28).

1.12 THE FRAGMENTATION OF GLOBAL MANUFACTURING

As impressive as the numbers on FDI are, they underestimate the increasing importance of TNCs. As a result of the organisation of production in a global scale discussed above, different outsourcing arrangements between TNCs and independent suppliers have been developed. In principle, one could consider that relations between large companies and suppliers are arm's length operations that have more to do with foreign trade than with transnational production. Yet there is abundant evidence that this would be an inadequate assumption, as relations between leading firms and suppliers are similar to relations between subsidiaries and parent companies within the same firm. According to Milberg (2004: 16), the relation among firms in networks or quasi-hierarchies is closer to that of a single firm and its majority-owned affiliate. Information may be shared between lead and supplier firms that traditionally would be kept within the firm. Technical and communications support might be provided by the lead firm in order to smooth the delivery of supplies.

1.13 THE SOURCING STRATEGY: INDIGENOUS-OWNED FIRMS VERSUS FOREIGN-OWNED FIRMS

An average of 41.1 per cent of local sourcing seems high in comparison to the ratio commonly observed in developing countries. However, only a small share of the inputs comes from indigenous-owned firms since CMEMNCs have massively transferred their relational networks in Central Europe. Numerous foreign-owned subcontractors work for the prime producer in the electronics industry (Linden, 1998) and in the automotive industry (Radosevic and Rozeik, 2004). In these industries, foreign subcontractors have followed prime producers in their settlement in Central Europe, reducing automatically the need for MNCs to purchase from indigenous firms.

CME-multinational corporations have massively invested in high technology and medium-high technology industries like the electronics, the automotive and the chemical sectors (Rugraff, 2006). For these kinds of activities, intra-firm trade is very intense as well as the connection to regional/global suppliers, reducing the need of multinationals to contract with indigenous firms. Although there is no macro-data available which would allow us to discriminate between the sourcing from indigenous owned firms versus foreign-owned firms, several case studies suggest that the share of foreign-owned firms as suppliers of other foreign-owned firms is very high in the CECs. In the automotive industry, the Czech subsidiary Skoda of the Volkswagen Group bought 62.6 per cent of its inputs locally in 2006, but the share of indigenous suppliers was low (Rugraff, 2008: 13). The indigenous suppliers' position in the automotive complex remains weak and fragile in the CECs, in Hungary (Havas, 2004), in Poland (Enrietti, 2004) and in the Czech Republic (Rugraff, 2008).

1.14 LACK OF SPECIFIC CAPABILITIES OF THE INDIGENOUS FIRMS

The low level of expertise in technology, management, and innovation of the indigenous firms also explains that an overwhelming part of the relational networks concerns foreign-owned firms. Although the CECs have deeply reformed their economy, half a century of planned economy has durably disorganized the industrial organization. The competitiveness of the CECs on the world market is essentially due to the foreign investor's activity (UNCTAD, 2002). Indigenous firms still have defensive attitudes, trying to survive and having problems to find funds for their activities (EBRD, 2005). The restructuring of state-owned enterprises, meaning the creation of viable companies capable of competing in a market environment, has been much more difficult than expected. The reason why the restructuring by indigenous agents has been impeded is largely documented in the literature of

transition economics. Due to a lack of governance, a significant number of privatised firms have ultimately disappeared: in Hungary, for example, only 20 to 25 per cent of indigenous firms have survived since the beginning of the Transition (Sass, 2004: 64). The bulk of the firms bought by indigenous agents are still insufficiently competitive on the world market (Halpern and Örósi, 2000; Sabirianova et al., 2005).

The emergence of a group of indigenous firms endowed with specific assets would incite the CME-multinational corporations to engage in long term relationships. But at the present time, only a few indigenous firms have sufficient expertise to be strategic partners of the MNCs. One may expect that CME-multinational firms will progressively provide training, share information, and extend financial support to indigenous firms, even if in the short run they prefer relationships which do not have a lock-in effect. The deepening of the European specialization of the CECs in the electronics and automotive industries, but also the high level of the human resources reinforced by a progressive reorientation of the educational system in direction of knowledge and know-how valorised in modern market economies, should stimulate the ability of the CECs to create specific capabilities.

1.15 THE RISK FOR MULTINATIONAL CORPORATIONS OF ENGAGING IN LONG-TERM RELATIONS

Although the business environment has improved since the beginning of the 1990s, high costs of business regulation, a poor institutional framework, weak property rights and an unstable macroeconomic environment remain major obstacles to doing business in transition countries (EBRD, 2005). The lack of trust is a major obstacle to the development of relations with indigenous suppliers: trust is a commodity in relative short supply in transition countries (Raiser et al., 2003). In the LMEs, open and competitive networks have been built as a result of an efficient legal

system. Firms can rely on courts if one of the trading partners does not respect the clauses of the contract. In the CMEs, long-term relationships have facilitated the emergence of trustworthy relationships: disputes with trading partners are mainly settled with the assistance of a third party (trade associations, chamber of commerce, social partners) and if necessary through litigation. In the developed economies firms can rely on courts.

On the one hand, in the CECs the legal system is still under-efficient and the reliance on courts is limited (EBRD, 2005). On the other hand, the intermediaries' organisations, like trade associations, chambers of commerce, trade unions and employer's associations play a limited role in the social and economic regulation (European Commission, 2004). They have neither the power to influence the organisation of industry, nor the power to resolve the conflicts informally or legally. LME-multinational firms hesitate to engage relations with indigenous firms since the legal protection system of their rights is fragile. The absence in the CECs of institutions able to provide either a formal or an informal resolution of the conflicts, deter CME multinationals from engaging in a strategic cooperation with indigenous agents: MNCs could be locked in undesirable relationships.

1.16 MNC GOVERNANCE AND ACCOUNTABILITY

MNCs today have different rights and responsibilities in different nations—some in as many as 100 nations (Starbuck 2014)—making the determination of appropriate business conduct difficult, even for MNC boards aiming to effectively address their responsibilities to global stakeholders. Certain factors have created this condition: an increase in the board-level risks of corruption resulting from global governance scandals, the decreasing power of nation states (Beck 2000), and an increase in the role of self-regulatory and NGOs (Doh et al. 2010). With the recent insurgence of the G-20 reforms to anticorruption and bribery legislation, MNC

boards have new pressures for accountability, transparency, and reform in the global arena. Consider, for example, Brazil's (2010) Technical Standards for Independent Audit, which requires auditors to report non-compliance with anti-bribery laws to the board. Additionally, in 2011, Russia agreed to join the OECD Convention by adopting laws making foreign bribery illegal for the first time through hefty fines. China's new (2011) Criminal Law makes it illegal to give bribes for illegitimate commercial benefit. The 2011 UK Bribery Act (UKBA) has made it a corporate offense for giving facilitating payments. Adding further complexity is the 2012 amendment to the U.S. Securities and Exchange Act of 1934, also called the "control person liability," which raises the stakes for board members and officers of US companies in violation of the FCPA. Under this provision, a firm's executives and board directors could be held liable for global corruption carried out by a person they "control" even when they had no knowledge of that person's actions.

These global initiatives provide rich context for understanding new expectations of accountability and transparency for domestic corporate boards in the global arena. At the same time, these reforms make clear that board leadership is under greater scrutiny with regard to a manager's interpretation and implementation of foreign policies or programs.

Additional pressure on MNC corporate boards is coming from a decrease in the regulatory power of the nation state, making it more difficult for a country to regulate socially desirable corporate behavior in a globalized world where the social interrelations among distant locations are becoming the norm (Beck 2000). In this environment, some firms have changed their role from follower of country-specific rules to creators of them (Scherer et al. 2009). Granted, while there is debate about the validity of taking on this role (Jensen 2002; Sundaram and Inkpen 2004), the practical evidence suggests that MNCs have in fact become more powerful in either

influencing or determining the political, social, and economic conditions in their host countries (Chandler and Mazlish 2005).

But with this power has come much responsibility stemming from an increasing critique of corporate behavior globally by civil society actors who have been successful in convincing corporations to be more transparent about their activities (De Bakker and den Hond 2008), while also providing the necessary pressure to change those activities (Scherer et al. 2009) so that they fall within the range of acceptability defined by local institutional conditions (Gardberg and Fombrun 2006). The result of these efforts has been a plethora of soft accountability codes, principals, and initiatives that represent a new form of global governance that requires the cooperation of corporations and NGOs (Hess 2007; Lund-Thomsen and Lindgreen 2013).

In sum, these factors have begun to redefine the role of the corporation in global governance as well as challenge the traditional agency theory-driven model of corporate governance for MNCs.

1.17 EVOLVING THEORIES OF GOVERNANCE

Comparative corporate governance has been approached from many different viewpoints but has traditionally included two broad camps (Aguilera and Jackson 2010).

The prevailing Western, or Anglo-American, lens looks at corporate governance from an agency-theoretic viewpoint surrounding the advantages of the modern corporation dispersed ownership, strong shareholder rights, active markets for capital control, and flexible labor markets.

Therefore, corporate governance has been viewed almost exclusively in economic terms with agency and transaction cost assumptions that principle-owners of the firm and the top management-agents who run it have conflicting goals and suffer from

both information asymmetry and opportunism (Jensen and Meckling 1976; Williamson 1979).

Under this perspective, the singular board of directors must monitor the better-informed managers on behalf of the shareholders. Application of agency theory to the MNC headquarters-subsidary relationship has been the starting point for the majority of global governance research in this area. For example, Kim et al. (2005), explore the differentiated governance of foreign subsidiaries in transnational corporations, looking at the various governance mechanisms available to address issues of moral hazard and adverse selection across subsidiaries. On the other hand, concentrated blockholder ownership, weak shareholder rights, inactive markets for capital control, and rigid labor markets (LaPorta et al. 1998) characterize the Continental

European viewpoint. Board-level work in this area is notably sparse, in part because this approach arguably focuses on institutional structures that influence corporate governance systems (e.g., Hall and Soskice 2001).

However, recent research has begun to focus less on these pure-form models in favor of a more open systems approach (Aguilera et al. 2008) to global corporate governance systems, seeing them as embedded in different national and sectoral institutions and influenced differently by global pressures. For example, Lubatkin et al. (2007) suggest that the principal-agent model is both under socialized and a-cultural; therefore, a socialized framing of corporate governance is more appropriate. They argue that a firm's governance is in a continual state of adjustment as agents and principals engage in recursive cycles of individual and shared sense making in the attempt to develop more effective monitoring and incentive mechanisms. In their view, influences on perceptions, attitudes, and behaviors come from socialization experiences in the workplace and are embedded within the firm's national institutional context—its values, norms, and routines. Similarly, Fiss (2008)

suggests that governance is better understood normatively, as articulated systems of meaning that encompass the prevailing moral and political order. Accordingly, we take issue with the current preference for examining the relationship between managers and owners almost exclusively, given that the “world” of corporate governance is inhabited by a variety of groups with varying identities and interests (Fiss 2008).

Thus, the question of MNC governance becomes who the MNC board is responsible for versus whom it is responsible to, given that the latter comprises the bulk of governance research to date. The increasing potential for management to be held accountable for actions of those in the transnational organization means that board monitoring will be pushed into more normative arenas. As such individual MNC board members will have to decide upfront where they stand regarding morality and their roles in the international political system, and they will need to better appreciate the orientations of their international partners.

Board members will have to develop additional operating governance systems that go beyond managing agency costs to establish rules of behavior that set moral standards and create a positive ethical climate for multinational business practices. We expand on how this might be accomplished next.

1.17.1 MNCS AND GOVERNANCE

While research on MNCs and globalization exists, the majority of studies focus on the firm-level of analysis, not the board level. This is most likely because of the complex structural nature of MNC boards. Unlike domestic firms that have only one board and executive team, MNC boards operate in different countries, leading to corporate governance systems that are heterogeneous and subject to different institutional, legal, and regulatory systems (Luo 2005). Thus, the single board that meets occasionally may become an implausible way to govern a firm

that is spread across multiple national boundaries, cultures, languages, and technologies (Starbuck 2014). Furthermore, much of the research on MNCs involves trying to determine the optimal strategic posture (Bartlett and Ghoshal 1999), but little is offered in the way of specifics for corporate governance mechanisms within MNCs or the synergies between international business and business ethics theory (Doh et al. 2010).

1.17.2 MNC OPERATING GOVERNANCE SYSTEMS

MNC boards have the responsibility to comply with societal and legal standards in their home and host countries but doing so can prove challenging for many reasons. The normative responsibilities of board members in the international arena involve monitoring for issues that violate norms of doing business, as is the case with corruption, which has received considerable attention in the literature (e.g., Rose- Ackerman 2001). Yet, despite higher transaction costs attributable to corruption in foreign markets that undermine the very legitimacy of governments (Rose-Ackerman 2001), as well as threats to corporate reputation and integrity (Doh et al. 2010), MNC boards often find dealing with unethical behavior in foreign markets particularly difficult. MNCs face a variety of norms, laws, and standards regarding their practices. Hence, MNC boards must authorize and implement operating governance systems that provide rules of behavior across the organization. Drawing from Luo (2005), MNC operating governance systems consist of the corporate governance structure, internal processes, and activities that regulate the complex MNC environment including both first and second tier (home and subsidiary) multinational structures. These systems will vary considerably from MNC organization to organization because “governance or accountability means different things to different people” (Luo 2005, p. 2). Luo’s framework of MNC operating governance systems consists of three systems that are fundamental

to corporate governance effectiveness: market based, discipline-based, and culture-based governance, which we collapse into two categories of market-based and culture based governance.

MNC market-based governance includes mechanisms like ownership concentration, board composition, market discipline, board chairmanship, board size, management remuneration, interlocking directorates, and managerial promotion that are part of the institutional governance framework of (generally) the home country. Such activities help to monitor the relationship between executives and stakeholders under “stock market-based” governance where agency costs are reduced through appropriate incentives and controls. Discipline-based governance systems piggyback upon this with the establishment and execution of rules that ensure good governance with mechanisms like executive penalties, internal auditing, conduct codes, and compliance programs that result in “better-behaved agents” (Luo 2005, p. 15). Disciplined based governance therefore encompasses control systems that supplement the monitoring provided by market-based mechanisms. Hence, we combine these two systems into the general category of “market-based operating governance” because the latter is reliant on these forms of discipline to be effective. Additionally, Luo notes that such market/discipline mechanisms are necessary, but not sufficient in the full scheme of accountability for global directors and managers. While they motivate managers to be productive and efficient in global management from but doing so can prove challenging for many reasons. The normative responsibilities of board members in the international arena involve monitoring for issues that violate norms of doing business, as is the case with corruption, which has received considerable attention in the literature (e.g., Rose- Ackerman 2001). Yet, despite higher transaction costs attributable to corruption in foreign markets that undermine the very legitimacy of governments (Rose-Ackerman 2001), as well as threats to corporate reputation and

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SECTION TWO

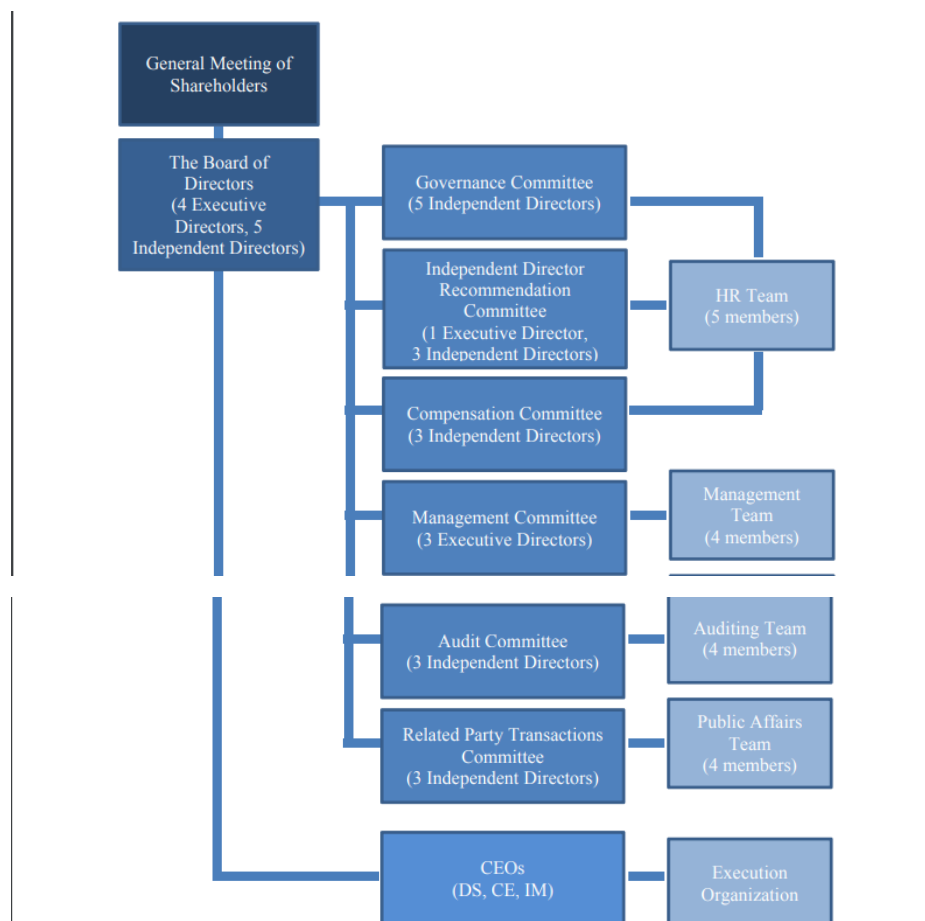
2.1 Governance principles and policies of Samsung Electronics

Samsung Electronics (the “Company”) operates with a philosophy that states “We will devote our human resources and technology to create superior products and services, thereby contributing to a better global society.” aiming to be a global leader that grows along with people and local communities. Our corporate governance is structured and managed in a transparent manner in accordance with due process. The members of the Board of Directors (the “Board”) are elected by resolution at a general meeting of shareholders and comprise four Executive Directors and five Independent Directors. Executive Directors are elected from candidates recommended by the Board. For Independent Directors, the Independent Director Recommendation Committee, which consists of a majority of Independent Directors, recommends candidates through a separate procedure to ensure more deliberate and objective consideration. Information regarding the candidates, as well as notice of meeting documents, are provided faithfully to shareholders before a

general meeting in the form of reference material so they may evaluate candidates before electing them into office. The Board is structured in a way that ensures independent decisions and judgments. In order to enhance independence, Independent Directors comprise the majority of the Board and hold meetings on an ad hoc basis that exclude the Company's management members to ensure candid and objective discussions. The Chairman is appointed from among the Directors by a resolution of the Board, in accordance with Article 29 of the Company's Articles of Incorporation and Article 5 of the Regulations of the Board of Directors. Meanwhile, we have strengthened our institutional system, allowing us to avoid conflicts of interest and prevent self-interests from influencing Board decisions. In accordance with Article 398 of the Commercial Act, transactions between a Director and the Company are limited, and in accordance with Article 9 of the Regulations of the Board of Directors, a Director is prohibited from exercising voting rights if he or she has a special interest in or even a possibility of a conflict of interest with the Company. In a rapidly changing business environment, expertise of the Directors is essential as the Board is constantly required to make strategic decisions. The Company's three mainstay businesses—the Device Solutions (DS), Consumer Electronics (CE), and IT & Mobile Communications (IM) divisions—are directed by leading professionals in the relevant field who also participate in the Board as Chief Executive Officers and practice responsible management. The Board needs diverse perspectives in order to make broad decisions. Independent Directors leverage their expertise and skills in myriad fields, including finance, healthcare and medicine, law, engineering, and public administration, in order to participate in the Board's informed and objective decision-making process.

2.2 Organization

A general meeting of shareholders is the Company's highest decision-making body. It decides on and approves important issues concerning the Company's management, including the election of Directors, amendments to the Articles of Incorporation, approval of financial statements, etc. The Board makes resolutions on matters provided for by the relevant laws and regulations or the Articles of Incorporation, on matters delegated by a general meeting of shareholders, and on important matters concerning basic policies and execution of the Company's business. To review more technical matters, the Board supervises and delegates authority to six committees, with related departments tasked in a supporting role. The three Chief Executives appointed by the Board represent the three mainstay business divisions and manage the overall operations of the units.



2.3 Our corporate governance

2.3.1 Ensuring responsible management through the participation of business representatives on the Board:

The rapidly changing IT industry requires prompt and strategic decision making to remain competitive. Under such an environment, the Company needs Directors who have a high-level of expertise and fully understand our businesses. Accordingly, the Board appoints the heads of the DS, CE, and IM divisions as Executive Directors to participate in the decision-making process. This enables the Board to employ a comprehensive and long-term perspective when making management decisions. With heads of the business divisions taking CEO positions, we are practicing responsible management. Meanwhile, our Independent Directors have abundant expertise in various fields, including finance, health care and medicine, law, engineering, and the public sector, and supervise the activities of both management and Executive Directors and offer objective advice.

2.3.2 Enhancing the Board's efficiency through the delegation of authorities

The Board makes resolutions on matters provided for by the relevant laws and regulations or the Articles of Incorporation, matters delegated by a general meeting of shareholders, as well as on important matters concerning basic policies and execution of the Company's business. While some matters require the review and resolution of the entire Board, others can be reviewed more efficiently by committees of the Board equipped with expertise in the relevant field. The Board has delegated specific responsibilities to six committees, in accordance with Article 28-2 of the Articles of Incorporation and Article 11-2 of the Regulations of the Board of Directors, in order to enhance its operational efficiency. Agendas approved by committees of the Board are immediately reported to all Directors, and if deemed

necessary, each Director may call for a meeting of the Board to put the resolutions approved by the committee forward for a vote at a meeting of the Board.

2.3.3 Improving supervision via committees composed of a majority of Independent Directors

As the Company's business continues to evolve, the Board is constantly faced with increasingly complex and varied managerial matters. In response, the Board has expanded its responsibilities and established new committees (such as the Related Party Transactions Committee, Compensation Committee, and Governance Committee) to delegate the new roles. These committees consist entirely of Independent Directors who can make independent and objective decisions and expand their responsibility to supervise management from a more diverse perspective. Indeed, the CSR Committee was established based on a proposal by an Independent Director and tasked with overseeing the Company's corporate social responsibilities. The Committee has operated research groups (eg, Corporate Ecosystem Development Research Group, Environmental Safety Research Group) led by Independent Directors to collaborate with outside experts to provide the Company with practical advice. The Committee in April 2017 was reorganized and expanded into the Governance Committee in order to include matters related to enhancing shareholder value. We will continue to pursue opportunities that enhance the efficiency of the Company and independence of the Board.

The Board and its Committees

Organization	Composition (Independent Directors/total Directors)	Chairman/Head (Executive/Independent)	Responsibility
Board of Directors	5/9	Oh-Hyun Kwon (Executive)	<ul style="list-style-type: none"> Make resolutions on matters provided for by the relevant laws and regulations or the Articles of Incorporation, matters delegated by a general meeting of shareholders, as well as on important matters concerning basic policies and execution of the Company's business. Supervise management.
Management Committee	0/3	Oh-Hyun Kwon (Executive)	<ul style="list-style-type: none"> Deliberate and decide on matters related to finance, general management, and on matters specifically delegated by the Board.
Audit Committee	3/3	In-Ho Lee (Independent)	<ul style="list-style-type: none"> Review and audit matters concerning management of the Company, including the Company's financial situation.
Independent Director Recommendation Committee	3/4	Han-Joong Kim (Independent)	<ul style="list-style-type: none"> Assess the independence, diversity, and ability of potential candidates for Independent Director positions. Recommend candidates to the Board.
Related Party Transactions Committee	3/3	In-Ho Lee (Independent)	<ul style="list-style-type: none"> Voluntarily comply with fair transaction regulations to enhance corporate transparency.
Compensation Committee	3/3	Kwang-Soo Song (Independent)	<ul style="list-style-type: none"> Ensure the objectivity and transparency of the decision-making process for Director compensation.
Governance Committee	5/5	Byeong-Gi Lee (Independent)	<ul style="list-style-type: none"> Established in April 2017 (expanding the role of the CSR committee). Promote the Company's corporate social responsibility and act to enhance shareholder value. CSR Risk Management Council (under the Governance Committee); supervises the internal management system to address CSR-related risks and discusses ways to resolve relevant issues.

Convocation of meetings The Company at least four weeks prior to a general meeting provides shareholders with the date, time, place, and list of agenda items for resolution so they can sufficiently review the matters before exercising voting rights. The following is a summary of recent shareholders meetings.

2.3.4 Summary of shareholder meetings within the last three years

	The 46 th AGM	The 47 th AGM	Extraordinary general meeting	The 48 th AGM
Date of the Board's resolution (convocation notice)	Feb 13, 2015 (Feb 13, 2015)	Feb 12, 2016 (Feb 12, 2016)	Sep 12, 2016 (Sep 29, 2016)	Feb 24, 2017 (Feb 24, 2017)
Date and time	Mar 13, 2015 9:00 a.m.	Mar 11, 2016 9:00 a.m.	Oct 27, 2016 10:00 a.m.	Mar 24, 2017 9:00 a.m.
Location	Multifunctional Hall, 5F Samsung Electronics Bldg	Multifunctional Hall, 5F Samsung Electronics Bldg	Multifunctional Hall, 5F Samsung Electronics Bldg	Multifunctional Hall, 5F Samsung Electronics Bldg
Duration	1h 50m	3h 23m	1h 15m	1h 40m
Attendance of members of the Board	9 (100%)	9 (100%)	9 (100%)	7 (Absent: Executive Director Jae-Yong Lee, Independent Director Jae-Wan Bahk)
Convocation notice in English	✓	✓	✓	✓

2.3.4 Shareholder return and dividends

In addition to efforts to strengthen our competitiveness, the Company has adopted a basic principle of proactive shareholder returns, and in 2015 announced a three-year shareholder return program covering 2015–2017. Under a special share buyback and cancellation program of KRW 11.4 trillion, the Company repurchased and cancelled shares over October 2015 to September 2016. In November 2016, we increased the scale of the existing shareholder return program significantly, boosting dividend payment by 30% compared to the level in the previous year. Also, we initiated quarterly dividend payments in the first quarter of 2017 to provide more evenly distributed dividends to our shareholders. The Company and management, by announcing our enhanced shareholder return policy, have demonstrated an even stronger commitment to improving shareholder value. Based on this policy, we paid out KRW 4 trillion in dividends in 2016, and are now carrying out a share repurchase and cancellation program worth KRW 9.3 trillion. As of the reporting date, we have

completed the second phase (approximately KRW 5 trillion) and are currently in the third phase (approximately KRW 2 trillion). Separately, we have decided to cancel treasury shares as a way of enhancing shareholder value. The Board in April 2017 resolved to cancel existing treasury shares, and as of May 2, we have cancelled 50% of the holdings, or 8,990,843 common shares and 1,614,847 preferred shares. The remaining treasury shares are subject to cancellation in 2018 following a resolution of the Board.

2.3.5 Board of Directors

1. Convocation of a general meeting of shareholders and matters to be submitted to the meetings
 - ❖ Convocation of a general meeting of shareholders - Approval of business reports and financial statements –
 - ❖ Amendment to the Articles of Incorporation
 - ❖ Reduction of capital
 - ❖ Dissolution, merger, and continuance of the Company
 - ❖ Transfer of the whole or an important part of the Company's business, or acquisition of the whole or an important part of other companies that has a material impact on the Company's business
 - ❖ Conclusion, alteration, or rescission of contracts regarding leasing the whole business, giving a mandate to manage such business or sharing with another party the entire profits and losses from the business or any similar contract
 - ❖ Ex post facto incorporation
 - ❖ Appointment or dismissal of Directors
 - ❖ Issuance of stock below par value
 - ❖ Exemption of Director's liabilities

- ❖ Dividends - Decision to offer stock options
- ❖ Remuneration of Directors
- ❖ Election of chairman of the general meeting of shareholders (in the case when the Board is required to appoint the chairman of the meeting)
- ❖ Appointment of a person to convoke the general meeting of shareholders (in the case when the Board is required to appoint the chairman of the meeting)
- ❖ Other matters to submit to the general meeting of shareholders

2. Matters related to management

- ❖ Establishment of basic principles of the Company's management
- ❖ Approval of management plans, quarterly reports, and semi-annual reports - Appointment or dismissal of compliance officers, and establishment, revision, or abolishment of compliance guidelines

3. Matters related to assets or financial affairs

- ❖ Transfer of legal reserve to capital
- ❖ Matters related to issuance of shares Issuance of new shares Issuance of convertible bonds and bonds with rights to subscribe for new shares
- ❖ Acquisition, disposition, or retirement of treasury stocks
- ❖ Approval of related party transactions, etc.
- ❖ Transactions made with related parties as defined in the Monopoly Regulation and Fair Trade Act or large-scale internal transactions for related parties as designated in Article 11-2 of the Act
- ❖ Transactions listed in Article 542-9 Section 3 of the Commercial Act with majority shareholders (including their related parties) or related parties (excluding transactions of which the total value has been approved by the Board, in accordance with Section 5 Clause 2 of the Article)

- ❖ Decision to offer stock options (excluding Directors)
- ❖ Investment in or disposal of equity in other subsidiaries with a value of 2.5% of the total equity
- ❖ Direct overseas investments with a value of over 2.5% of the total equity
- ❖ Asset revaluation
- ❖ Stock split or reverse split
- ❖ Material changes of accounting standards
- ❖ New debt guarantees or collateral issuances with a value of over 2.5% of the total equity
- ❖ Collateral: Only in the case of providing collateral for others
- ❖ Guarantee: Excludes performance guarantee (eg, bid, contract, defect, difference guarantee) and tax payment guarantee
- ❖ Loan contract with a value of over 5% of the total equity - Listing of its securities on overseas stock exchanges
- ❖ Important matters when setting up or withdrawing from a fund for stock buyback
- ❖ Allocation of shares issued in capital increase
- ❖ Provisional payment or loan with a value of over 0.5% of the total equity
- ❖ Donation, contribution, or sponsorship of over KRW 1 billion per year

4. Matters related to the Board, Board committees, councils, etc.

- ❖ Approval of Director holding a position in another company of a competitive and/or similar business field to the Company, and approval of transactions between a Director and the Company
- ❖ Appointment of the chairman of the Board
- ❖ Appointment of the CEO and decision to appoint of co-CEOs

- ❖ Appointment and removal of Directors to positions and responsibilities
- ❖ Establishment of committees and appointment or removal of committee members

5. Others

- ❖ Amendment and abolishment of the Regulations of the Board of Directors and the regulations of each committee
- ❖ Other matters provided for by relevant laws and regulations or the Articles of Incorporation, matters delegated by general meeting of shareholders, and matters deemed necessary by the CEO

2.3.6 Delegation of authority

The Board can establish committees under the Board and delegate certain responsibilities to the committees in accordance with Article 28-2 of the Articles of Incorporation and Article 11-2 of the Regulations of the Board of Directors, except as otherwise stipulated by relevant laws. Each agenda approved by the Board committees is notified to all Directors, and a Director may call for the convocation of a Board meeting to the Chairman of the Board to have the resolution approved by the Board if deemed necessary. However, agendas approved by the Audit Committee are excluded to ensure the Committee's independence. Matters resolved at Board meetings are executed by the Company's relevant departments led by the Company's CEO.

2.3.7 CEO succession plan

The Company's CEO must possess excellent management skills, backed by abundant experience and knowledge, and set a clear vision for the Company. Considering these qualities cannot be developed within a short period of time, we operate a system to nurture potential candidates and to expand their roles systematically based on a high-level evaluation process and training strategy. In

order to make provisions for unexpected events or changes in the business environment, we manage a pool of candidates from various backgrounds, and with the cooperation of other divisions (such as the HR team), we carry out personnel changes or new appointments when deemed necessary. From this pool, the Board nominates candidates who best meet the requirements in terms of expertise and leadership for the position of Executive Director to be presented and voted on at a general meeting of shareholders. The CEO is elected by resolution of the Board in accordance with Article 389 of the Commercial Act, Article 24 of the Articles of Incorporation, and Article 10 of the Regulations of the Board of Directors.

2.3.8 Risk management

A company's operation is continuously exposed to a variety of risks that can occur under a changing business environment, including uncertainties related to the business, finance, environmental safety, and labor. These risks are managed at a fundamental level and addressed by relevant departments in the Company, but issues of great importance need be supervised by the Board. The Company's CSR Committee (which expanded into the Governance Committee) recognizes risks related to corporate social responsibility as important matters to manage and pursues ways to better address such risks. As a result, the CSR Risk Management Council was created in July 2016 under the Committee. The Council supervises the internal management system to address CSR risks and discusses ways to resolve the issues. To ensure the integrity of the process, all five Independent Directors participate in the Council and meet with relevant organizations, such as the communication team, every quarter. Risks related to finance are managed by the Company's financial management team under the supervision of the Audit Committee. We do not operate

a separate Risk Management Council, which is a mandatory requirement for financial companies.

2.3.9 Composition and Appointment of Directors

The Board shall have at least three but no more than fourteen Directors, in accordance with Article 24 of the Articles of Incorporation. While having more than three Directors is in accordance with Article 383 of the Commercial Act, we believe that the maximum number should not exceed fourteen to ensure efficient decision-making at and management of meetings. As of 2017, the Board comprises nine Directors, of which five members are Independent Directors. This meets the requirement of Article 542-8 of the Commercial Act, which states that a company shall have at least three Independent Directors and that Independent Directors shall constitute a majority of the Board. The list of Directors as of the reporting date is as follows.

2.3.10 Governance Committee

The governance Committee was established in April 2017 as an expansion of the CSR committee. The Committee was created by a resolution of the Board, without legal mandates, to fulfill the Company's corporate social responsibility and to increase shareholder value. The Governance Committee has authorities in the following areas: -

- ❖ Matters related to corporate social responsibility
- ❖ Matters related to enhancing shareholder value
- ❖ Preliminary review on shareholder return policies
- ❖ Activities to improve shareholder rights and interest

- ❖ Other important management matters that can significantly impact shareholder value.
- ❖ Matters related to the establishment, composition, and operation of organizations under the Committee, including research groups, councils, etc.
- ❖ Other matters delegated by the Board

2.4 Fulfilling corporate social responsibility

The Company commits to its corporate social responsibility by actively addressing demands from both internal and external stakeholders, including shareholders, customers, and the local community. As a part of this effort, the Company has established a set of relevant policies such as the Child Labor Prohibition Policy (June 2014), Guidelines for Apprenticeship Training (April 2016), and Migrant Worker Guidelines (December 2016). Also, in April 2017, we converted the CSR Committee into the Governance Committee, adding the duty of enhancing shareholder value to its role of fulfilling corporate social responsibilities. In addition, the Company publishes Sustainability Reports every year in order to provide stakeholders with the results of economic, social, and environmental value creation in a more transparent manner. Our Sustainability Report is available on our website (<http://www.samsung.com/global/ir/reportsdisclosures/sustainability-reports/>).

Compensation system of employees

The Company first introduced the annual salary system in 1998 and started compensating employees based on the level of responsibility within a position. In 2010, we adopted a cumulative salary system and workers were paid based on individual performances. Also, we employ an incentive system (Target Achievement Incentive and Performance Incentive), under which compensation differs depending on the annual achievement of a business division (target achievement, profit

generated, etc.) In addition, in accordance with compensation regulations, the Company has simplified compensation types to ensure that the system is reasonable. Our basic salary system is, in accordance with compensation regulations, designed to pay workers according to their level, with compensation based on the value of the position, responsibilities, and capacity.

Directors of Samsung Electronics

Name	Title	Career	Date of appointment	Term expiration Date	Committee
Oh-Hyun Kwon	Vice Chairman & CEO	Vice Chairman & CEO of Samsung Electronics Head of DS division	Mar 16, 2012	Mar 15, 2018	Management Committee Independent Director Recommendation Committee
Boo-Keun Yoon	President & CEO	President & CEO of Samsung Electronics Head of CE division	Mar 15, 2013	Mar 14, 2019	Management Committee
Jong-Kyun Shin	President & CEO	President & CEO of Samsung Electronics Head of IM division	Mar 15, 2013	Mar 14, 2019	Management Committee
Jae-Yong Lee	Vice Chairman	Vice Chairman of Samsung Electronics	Oct 27, 2016	Oct 27, 2019	
In-Ho Lee	Independent Director	Former CEO of Shinhan Financial Group Former President of Shinhan Bank	Mar 19, 2010	Mar 18, 2019	Audit Committee Related Party Transactions Committee Compensation Committee Governance Committee
Han-Joong Kim	Independent Director	Chairman of CHA Strategy Committee Former President of Yonsei University	Mar 16, 2012	Mar 15, 2018	Audit Committee Related Party Transactions Committee Independent Director Recommendation Committee Governance Committee
Kwang-Soo Song	Independent Director	Advisor of Kim & Chang Law Office Former Prosecutor General of Supreme Prosecutors' Office	Mar 15, 2013	Mar 14, 2019	Audit Committee Related Party Transactions Committee Compensation Committee Governance Committee
Byeong-Gi Lee	Independent Director	Professor Emeritus of Seoul National University Former Professor of Electrical and Computer Engineering at Seoul National University	Mar 16, 2012	Mar 15, 2018	Independent Director Recommendation Committee Compensation Committee Governance Committee
Jae-Wan Bahk	Independent Director	Professor of Public Administration at Sungkyunkwan University Former Minister of Strategy and Finance	Mar 11, 2016	Mar 11, 2019	Independent Director Recommendation Committee Governance Committee

SECTION THREE

3.1 Steps to improving Corporate Governance in Samsung Electronics

1. Recognize that good governance is not just about compliance

Boards need to balance conformance (i.e. compliance with legislation, regulation and codes of practice) with performance aspects of the board's work (i.e. improving the performance of Samsung Electronics through strategy formulation and policy making). As a part of this process, a board needs to elaborate its position and understanding of the major functions it performs as opposed to those performed by management. These specifics will vary from board to board. Knowing the role of the board and who does what in relation to governance goes a long way towards maintaining a good relationship between the board and management.

2. Clarify the board's role in strategy

It is generally accepted today that the board has a significant role to play in the formulation and adoption of the organization's strategic direction. The extent of the board's contribution to strategy will range from approval at one end to development at the other. Each board must determine what role is appropriate for it to undertake and clarify this understanding with management.

3. Monitor Samsung Electronics' performance

Monitoring Samsung Electronics performance is an essential board function and ensuring legal compliance is a major aspect of the board's monitoring role. It ensures that corporate decision making is consistent with the strategy of the organization and with owners' expectations. This is best done by identifying the organization's key performance drivers and establishing appropriate measures for determining success. As a board, the directors should establish an agreed format for the reports they monitor to ensure that all matters that should be reported are in fact reported.

4. Understand that the board employs the CEO

In most cases, one of the major functions of the board is to appoint, review, work through, and replace (when necessary), the CEO. The board/CEO relationship is

crucial to effective corporate governance because it is the link between the board's role in determining the organization's strategic direction and management's role in achieving corporate objectives.

5. Recognize that the governance of risk is a board responsibility

Establishing a sound system of risk oversight and management and internal control is another fundamental role of the board. Effective risk management supports better decision making because it develops a deeper insight into the risk-reward trade-offs that all organizations face.

6. Ensure the directors have the information they need

Better information means better decisions. Regular board papers will provide directors with information that the CEO or management team has decided they need. But directors do not all have the same informational requirements, since they differ in their knowledge, skills, and experience. Briefings, presentations, site visits, individual director development programs, and so on can all provide directors with additional information. Above all, directors need to be able to find answers to the questions they have, so an access to independent professional advice policy is recommended.

7. Build and maintain an effective governance infrastructure

Since the board is ultimately responsible for all the actions and decisions of an organization, it will need to have in place specific policies to guide organizational behavior. To ensure that the line of responsibility between board and management is clearly delineated, it is particularly important for the board to develop policies in relation to delegations. Also, under this topic are processes and procedures. Poor internal processes and procedures can lead to inadequate access to information, poor communication and uninformed decision making, resulting in a high level of dissatisfaction among directors. Enhancements to board meeting processes, meeting

agendas, board papers and the board's committee structure can often make the difference between a mediocre board and a high performing board.

8. Appoint a competent chair

Research has shown that board structure and formal governance regulations are less important in preventing governance breaches and corporate wrongdoing than the culture and trust created by the chairperson. As the "leader" of the board, the chairperson should demonstrate strong and acknowledged leadership ability, the ability to establish a sound relationship with the CEO, and have the capacity to conduct meetings and lead group decision-making processes.

9. Build a skills-based board

What is important for a board is that it has a good understanding of what skills it has and those skills it requires. Where possible, a board should seek to ensure that its members represent an appropriate balance between directors with experience and knowledge of the organization and directors with specialist expertise or fresh perspective. Directors should also be considered on the additional qualities they possess, their "behavioral competencies", as these qualities will influence the relationships around the boardroom table, between the board and management, and between directors and key stakeholders.

10. Evaluate board and director performance and pursue opportunities for improvement

Boards must be aware of their own strengths and weaknesses, if they are to govern effectively. Board effectiveness can only be gauged if the board regularly assesses its own performance and that of individual directors. Improvements to come from a board and director evaluation can include areas as diverse as board processes, director skills, competencies and motivation, or even boardroom relationships. It is critical that any agreed actions that come out of an evaluation are implemented and monitored. Boards should consider addressing weaknesses uncovered in board

evaluations through director development programs and enhancing their governance processes.

3.2 Ways to overcome Weaknesses of Corporate Governance at Samsung Electronics

Samsung Electronics should focus on the strengths of their establishment so as to bring about achievement of stated goals and objectives. The following strength should be focused on:

1. Constant focus on R&D

Samsung Electronics is continuously strengthening its R&D activities and has today a global R&D network that consists of 24 R&D centres. According to Datamonitor (2009b) the R&D centres are allocated in more than ten different countries, spanning from the US, UK, Russia, India, Japan, Israel, China and Korea. The company devotes significant resources and attention to its R&D activities and invests at least 9 % of its revenue on the development of new technologies and products. In 2008, the company devoted around US\$5.5 billion in its R&D functions (Samsung Profile, 2009) and has nearly 42,000 people in the research activities across its 42 research facilities around the world. As a result of its commitment to innovation and its large investment in R&D, Samsung has become one of the most recognized companies in the electronics industry in terms of R&D capabilities. Samsung Electronics was ranked 26 among the most innovative companies in 2008 by Business Week and ranked sixth among Fortune Magazine's most admired companies of the electronics industry in 2008 (Samsung News, 2009).

2. Large scale of operations

Compared to many of its competitors, Samsung Electronics has a large scale of operations. For example, in terms of revenues and number of employees, Samsung

Electronics is much larger than competitors like LG Electronics and Philips Electronics. In comparison, Samsung had a revenues of approximately US\$112,803 million in 2008, while LG Electronics and Philips Electronics recorded revenues of approximately US\$58,850 million and US\$38,821 million, respectively (Datamonitor, 2009b: 20). In terms of employees, Samsung Electronics had a workforce of 164,600 people (Samsung profile, 2009), while LG Electronics and Philips Electronics had 84,445 and 126,459 employees, respectively (Datamonitor, 2009b: 20). Additional example of Samsung Electronics large scale operations is the new mobile phone plant that is under construction in Vietnam (Samsung, 2008). The plant is predicted to produce 1.5 million mobile phones every month to supply the markets in Southeast Asia, Middle East and African markets and eventually to Europe and Australian markets (Vietnam Briefing, 2009). The large size of its production offers the company the ability to achieve economies of scale in terms of procurement and production.

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month to supply the markets in Southeast Asia, Middle East and African markets and eventually to Europe and Australian markets (Vietnam Briefing, 2009). The large size of its production offers the company the ability to achieve economies of scale in terms of procurement and production.

4. Diversified business portfolio

Samsung Electronics operates a diversified business portfolio, which ranges from semiconductors, LCD panels, mobile phones, household devices, notebooks and many more. The business portfolio is divided into the segments of digital media, telecommunications, semiconductors and LCD (Samsung profile, 2009). The diversified business portfolio generates synergies in terms of improvement in market share across the different markets segments of the company. For example, the company can leverage its strength in one segment to other segments (ICMR, 2006). Furthermore, this also generates a diversified revenue source for the company, which limits the company's exposure to the risks associated with a particular segment. For example, the home appliance and telecommunicated division supported the memory division when they accumulated massive losses, and it was speculated that without this help the memory division could not have survived (Chang, 2008).

5. New products launched

Several new products have been introduced by Samsung Electronics over the last few years. Among the newly introduced products are a mono laser printer with network-ready connectivity and the world's first four gigabit DRAM chip, introduced in January 2009. The regular intervals of new product launches help the company to increase the customer loyalty and generate revenue growth.

CONCLUSION

In conclusion, corporate governance is a set of process, rules and regulations that give effect on the way business is run and operated. In a simple word, corporate governance is how managers run business in an efficient and effective manner. This paper discusses the importance and the essential issues in corporate governance. It

also deliberates on the important elements of good governance practices in developed and developing economies and the role of governance in improving economic efficiency.

Based on the theory of corporate governance, this paper studies the corporate governance performance of multinational enterprises using Samsung Electronics as a focal point.

First of all, this study analyzes the particularity of multinational corporations different from general corporate governance, including more hierarchical relations and agency relations.

Secondly, it analyzes the internal and external factors that affect the governance of transnational corporations.

Thirdly, the performance system of governance is analyzed from the perspective of governance evaluation. In short, due to its huge size and particularity of structure, multinational companies still have a lot of room to improve and improve governance, which is a long way to go.

Consistent with the general public expectation of fairness in business dealings, transparent financial reporting, management accountability and socially responsible corporate, good corporate governance will help in ensuring proper and effective system in place that facilitate efficient use of scarce resources to increase long term shareholders value.

Based on the theory of corporate governance, this paper studies the corporate governance performance of multinational enterprises. First of all, it analyzes the particularity of multinational corporations different from general corporate governance, including more hierarchical relations and agency relations. Secondly, it analyzes the internal and external factors that affect the governance of transnational corporations. Finally, the performance system of governance is analyzed from the perspective of governance evaluation. In short, due to its huge size and particularity

of structure, multinational companies still have a lot of room to improve and improve governance, which is a long way to go.

In this review which is a collection of volume of research on corporate governance the significance of effective corporate governance is being evident. The aim of the review done is to check the effectiveness of corporate governance and its effective mechanism in running and managing the business operations. The issue of ownership and control and the principal-agent problem and its effect on corporate governance is the main area of research in this review. The findings of the most studies show that effective corporate governance reduces the ownership and control problems and draws a clear line between the shareholder and the manager.

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