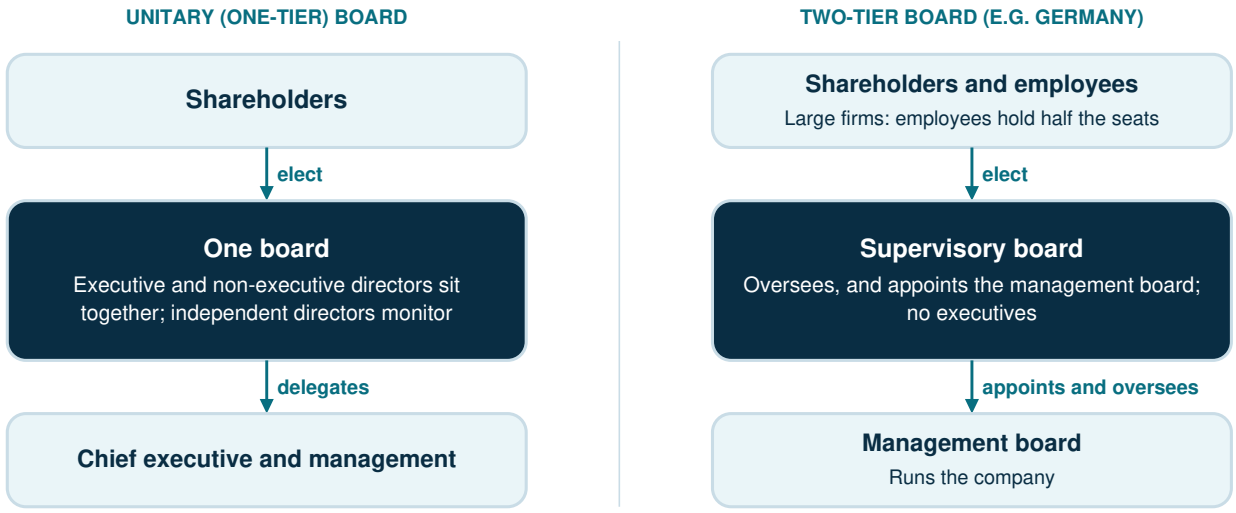
Two families of governance systems

MODULE 3 | PART C.1 | STUDENT COMPANION

	Market-based (outsider, shareholder)	Relationship-based (insider, stakeholder)
Where	United States, United Kingdom, Australia, New Zealand	Germany, France, Japan and much of Asia
Ownership	Widely spread among individuals and institutions	Concentrated: families, banks, related companies, the state
Who watches managers	Outsiders using public information	Insiders using close, private relationships
Main finance	Equity markets; banks lend at arm's length	Bank finance, often with high debt
Information	Strict public disclosure for everyone	Deeper, selective sharing among insiders
Takeovers	A real threat that disciplines managers	Rare, because of stable cross-holdings
Main governance risk	Dispersed owners struggle to control managers	Minority shareholders exposed to insiders

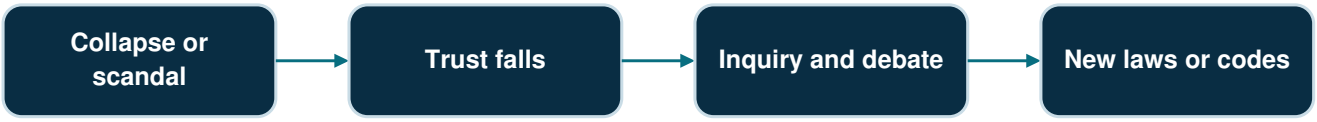
Unitary and two-tier boards



Country snapshots and reform

MODULE 3 | PART C.1 | ORIGINAL SUMMARIES

Country	What stands out
United States	Largest capital market; majority-independent boards required by the main exchanges; chair and chief executive often combined, usually with a lead independent director; committees since the 1980s.
United Kingdom	Market-based model with a principles-based code applied on a comply or explain basis.
Germany	Concentrated ownership; two-tier boards; employee representatives hold half the supervisory board seats in companies with more than 2,000 employees.
France	Cross and circular shareholdings; highly concentrated ownership; one person often both chair and chief executive; choice of one-tier or two-tier board.
Japan	Boards traditionally drawn from senior management; keiretsu groups linked by cross-shareholdings around a main bank; codes for investors (2014) and listed companies (2015).
India	Anglo-American legal base but strong family control; the key challenge is protecting minority shareholders from dominant ones, with stronger enforcement.



Australia, early 2000s

Ramsay Report on auditor independence (2001) | ASX Corporate Governance Council principles (2003) | CLERP 9 audit and disclosure reforms (2004)

Germany, Wirecard

June 2020: about EUR 1.9 billion of reported cash probably did not exist; insolvency followed. 2021: new law requiring audit firm rotation, expert audit committees and a stronger regulator.

Real cases: Wirecard AG insolvency (June 2020) and Germany's Financial Market Integrity Strengthening Act (2021); Olympus Corporation (2011). Study guide reference: Module 3, Part C, sections 3.7 and 3.8.

Practice questions

MODULE 3 | PART C.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - which family?

Mark each feature **M** (market-based) or **R** (relationship-based).

Feature	M or R	Feature	M or R
(a) Strict public disclosure for all investors		(f) Banks hold shares in the companies they lend to	
(b) Cross-shareholdings between companies		(g) Hostile takeovers discipline managers	
(c) Shareholder interests come first in company law		(h) Employees elect supervisory board members	
(d) Information shared privately among insiders		(i) Strong protection of minority shareholders	
(e) Widely spread share ownership		(j) Family-controlled conglomerates	

Question 2 - compare and evaluate

(a) Explain one key difference between a unitary board and a two-tier board. (b) Give one strength and one weakness of market-based systems, and one strength and one weakness of relationship-based systems.

Worked answers

MODULE 3 | PART C.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1

Market-based (M): (a) strict public disclosure, (c) shareholder interests first, (e) widely spread ownership, (g) takeovers discipline managers, (i) strong minority protection.

Relationship-based (R): (b) cross-shareholdings, (d) private information sharing, (f) banks as shareholders and lenders, (h) employee-elected supervisory board members, (j) family-controlled conglomerates.

Test to apply: who watches the managers? Outsiders using public information point to market-based; insiders using private relationships point to relationship-based.

Question 2

(a) In a unitary board, executive and non-executive directors sit on one board, with independent directors monitoring. In a two-tier board, a supervisory board with no executives oversees and appoints a separate management board that runs the company, so supervision and management are formally separated.

System	Strength	Weakness
Market-based	Deep, liquid markets and transparency; strong minority protection; takeover discipline	Short-term pressure; dispersed owners struggle to control powerful managers
Relationship-based	Patient, long-term capital; stability; employee and stakeholder voice	Less transparency; entrenched insiders; minority shareholders exposed

Other well-reasoned strengths and weaknesses are acceptable if they follow from the system's features.