

## The Era of Global Firms and Corporate Governance

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### Abstract

*Though this paper capitalizes on factual data, to some extent it is an "opinion" of the author and in a different format it was the key note address of the 10<sup>th</sup> MIBES. This paper substantiates its arguments on three levels: The emergence of the global firm, the need to control its operations through corporate governance practices and the requirement for educational reforms in order to manage efficiently these institutional players, which, of course, are not only the large global firms, but any firm, global, local or glocal<sup>1</sup>.*

*Main concerns of corporate governance are: Practical utility, operational validity, control and penalties, long-term application, in-depth understanding of environmental demands, appropriate preparation of this document (time and knowledge), consciousness of actions decided by the stakeholders involved.*

*The objective of a corporate governance document, in essence its constitution, is to sensitize its most important element, its employee, to the role he should play, given the objectives and the corporate orientation in all the environments it operates. To that extend the employee's technocratic background and also his self-actualization potential become of paramount importance in selecting, retaining and educating this individual. Obviously, the role of major business education efforts and accreditation concerns will milestone the societal quality of the years to come.*

**Keywords:** Global firm, corporate governance, compliance, business ethics, philosophy, self-actualization

### Corporate past and today's realities

The era of Pharaohs, and Kings, and of people of religious might, and of people of power is not over. Just observe the billions of people who dutifully will bend and kiss their "master's" hand. Observe also that the issues of "country-specific compliance", where historical practices from Africa to Europe, "ruling" other countries, advancing the well-being of the elitists, depressing its own citizens and "dogmatism", even today prevail.

Curtis W. Marean<sup>2</sup> at his article "How we conquered the Planet" provides as an answer: "Our species wielded the ultimate weapon: Cooperation". In addition, the article states: "With joining of projectile weapons to hyperprosocial behaviour, a spectacular new creature was born<sup>3</sup>!"

This new creature was the homo sapiens and his invention: Business undertakings<sup>4</sup>! Business, in one form or another, existed always and

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<sup>1</sup> Glocal is an often used term expressing a combination of two words: Global and local.

<sup>2</sup> See Curtis W. Marean (2015).

<sup>3</sup> Ibid., page 26.

<sup>4</sup> The reader is advised to revisit Edward O. Wilson, 2012, The Social Conquest of Earth.

is responsible for human achievements like the Pyramids, the Parthenon, the Panama Canal or Ford T. However, a couple of centuries ago something phenomenal happened: The enslaved rowers did not have to work hard! Energy and machines were a great substitute for their effort!

Especially after the industrial revolution the aforementioned implied "country-specific compliance" was gradually substituted by "industry-specific compliance" where practices like the following were determining the new era societal behaviours:

- "Closed doors" Board Meetings for major investment decisions,
- "Lobbyist" efforts resulting in specific laws and rulings,
- Marketing mal practices,
- Ill-perceived production practices resulting from risk factors to environmental issues,
- "Influencing" major investors in terms of corporate merging, corporate dissolving and banking issues,
- Etc!

Observe that in the era of "country-specific compliance", the obedience to the national order and the patriotic behaviours were guiding forces fully respected and to be sacrificed in the name of the "Empire of ..." whereas in the era of "industry-specific compliance" individuals were motivated by an equally powerful concept: The "branding" of a corporation or of a product. In order to be successful in the in the role of "industry-specific compliance", from Argentina to Zambia and from Amsterdam to Zurich businesses got their present preeminent institutional role and the responsibility for economic growth, enhance R&D, ethical behavior, research, social improvement, consumer orientation and even employee happiness by upgrading the factor human!

Moreover, and effectively only after WWII, we are addressing the global village and through that a new era, the era of the global corporation! Consider that the corporate governance of today's business does not care about "country-specific legal compliance" since it is able to by-pass the local laws and regulations.

In a very short period business, especially of the large global corporations, institutional presence required total reengineering of the past country-state orientation. For example, in the era of global corporation success is not measured by rules of democracy, but by the rules of meritocracy.

Moreover, the old rules of the traditional model of state dominance, and conflict, are world-wide replaced by a corporate-based model where the wealth creation and societal development is influenced by businesspeople and their lobbyists which are forming the regional and the global legal operating frameworks, the modus vivendi, ways of life, ways of containment, ways of being. In addition, and only since the eighties, globally things are changing, individually influenced by the spirit of freedom, seeking security, social appreciation, motivation to lead thinking out-of-the-box and towards the global village, studying philosophy and self-actualization perspectives. In essence, the implication is a need of educational reform in business,

phenomenon observed in most countries with the exception of offerings through AACSB<sup>5</sup>.

Before proceeding, observe that in 2014 the gross world product (GWP)<sup>6</sup> totaled approximately US\$107.5 trillion in terms of purchasing power parity (PPP), and around US\$78.28 trillion in nominal terms. Some related statistics are very relevant to the previous arguments<sup>7</sup>.

- The largest global company, Wal-Mart, had in 2014 sales that exceeded 485 billion dollars and more than two million employees!
- In order to count as one of the top 500 global corporations must have at least 23 billion US dollars sales!
- Dozens of countries have GNP less than that of the revenue of the 500<sup>th</sup> largest corporation<sup>8</sup>.
- The top 500 global corporations command in revenues the equivalent of about 40% of the global Gross National Product!
- The top 500 global corporations have only 65 million employees, but command more than 30 trillion US\$ revenues, more than 1.5 trillion US\$ profits and more than 120 trillion US\$ assets!
- The top 500 global corporations there are companies that have more than 40 billion dollar profits or others that have more than three trillion US\$ in assets!
- At the 500 largest global companies, in average each of their employees is responsible for at least 475,000 \$ annual revenue and 1,850,000 \$ assets!
- Case in point: Greece's GDP equates about the sales of Toyota!

The issues pointed above relate also to branding potential. Only a certain number of advertising messages results in massive behavioral change. But it is not only the large corporations. In the last thirty years, world-wide, the human enterprise is changing its focus: The employee becomes its center of attention! Welcome to the era of hyper-capitalism and the global corporation!

The world is changing rapidly. The global village, the global product, the global citizen is a reality! The essence of the global corporation does not apply only to the 500 top we previously saw. It applies to all globals, those that start local and become global; the intangibles ones; the internet ones; the born-globals; the centerless; the small ones; yes, today, all business is global.

However, we must examine also another dimension of the modern era company: The 100 fastest growing companies<sup>9</sup>. Remember that totally

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<sup>5</sup> AACSB is the Association to Advance Collegiate Schools of Business; see reference.

<sup>6</sup> Information is according to the CIA's *World Factbook*; figures are estimates.

<sup>7</sup> These statistics are from the *Fortune*, Global 500, data for 2014.

<sup>8</sup> Observe the difference in definitions between these terms.

<sup>9</sup> See Scott Decarlo, et al., paying attention on methodology: (a) must be traded in a major US stock exchange for at least three years, (b) must

unknown companies a few decades ago started from nothing in a family garage but they are now much respected industry leaders and other industry leaders of the past have totally disappeared. It is very interesting to observe that on the 2015 list 88 are from US, 5 from China, 3 from Israel and that from the top ten (10) four (4) relate to health care!

But another interesting thing relates to the changing the world concept. Doing well by doing good<sup>10</sup>! We are witnessing an era where societal improvement becomes a leading factor for corporate success. Examples: Vodafone (UK) in Kenya connects the unbanked masses to the global economy or Wal-Mart (US) pushes suppliers to eliminate waste. It is worth mentioning that from this list out of the top 50 companies 24 are US-based, 13 European-based, 13 based on the rest-of-the-world.

By some it is now believed that the future of capitalism-and the future of mankind-depends on companies that are making genuine efforts to change the world for the better<sup>11</sup>. Are we in front of a new age of social revolution?<sup>12</sup>

Brief, therefore, summary from the previous discussion: In our global village, where the institutional social player is business, where we need to observe the fastest growing companies and those who are doing well by doing good, the predominant issues is societal welfare and education quality.

We are seeking motivated and talented individuals to man these business operations, global or local or glocal and to assist them in their technocratic development which becomes a struggle between priorities, balance, exercise, travel, personal happiness, megayachts, private jets, Bentleys, self-actualization orientation and the delicate systemic balance between family values<sup>13</sup>, societal upgrading, educational quality and self-actualization perspectives of executive leaders.

We carry the responsibility to identify and to train them! Effectively, these men and women are going to be the new ruling elite.

### **Revisiting the corporate governance document**

In tandem with the above is a requirement of an in-depth global social understanding of business and its ethical behaviors.

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report in \$, (c) minimum stock capitalization US\$ 250 mil, *ibid.*, pages 52-53).

<sup>10</sup> See Erika Fry, *Change the World List*.

<sup>11</sup> See Alan Murray, *Doing Well by Doing Good*.

<sup>12</sup> Eric Hobsbawm, pioneered in 1962 by writing *The Age of Revolution 1789-1848*, the concept indirectly proposed: That the world is facing a new revolutionary era where companies, corporate governance and business ethics predominate.

<sup>13</sup> The case is taken from *Bloomberg Businessweek*, The New Money Issue, meet the rising class of global hustlers (Christopher Beam, Children of the Yuan Percent). The particular case refers to fuerdai, China's second generation rich kids, by some that "they know only to show off their wealth but do not know how to create wealth". For example, the son of China's richest man posted photos of his dog wearing two gold Apple Watches, one on each forepaw (*ibid.*, page 55).

Therefore, there is a need to develop corporate constitutions, kind of a governance document for any corporation?<sup>14</sup>

The creative, ethical, HR-based, marketing-based, IT enterprise will all be parts of the central core of the future business. As in the past, business organizations must be managed. Businesses are systems. To be functional, they must follow general contentions which work as frameworks of reference in developing the specific rules of corporate ethics, governance, and the respective operations manual.

Companies operate within these rules. These rules are developed by the senior managers, the "elders" of the corporation. There exists a revision process for the rules, but, until the next revision, manuals and processes should be treated as the "constitution" of the enterprise. No one is allowed to bend the rules. People must follow them; they cannot change course midway. The general contentions that apply to these rules can be classified in certain categories:

*Practical utility:* Real, practical, specific objectives must be met at the end. Overtheorizing is not an objective. The corporate mission is the final objective.

*Operational validity:* To validate results, the company must consistently measure the results of process implementation against desired yardsticks and through a valid methodology. It should be done in a transparent way. During the implementation process legal and ethics codes must be respected. Continuing feedback is expected.

*Control and penalties:* The rules should aim to identify and point to all wrongdoings and cases that do not meet the expected standards and to impose "penalties," if necessary. Feedback should be recorded to allow, in due time, further refinement of the rules. To be successful a well-developed accounting system is necessary.

*Long-term application:* Corporate governance rules are devised to exist for a long time. They are not developed to handle a specific crisis. They must be flexible and capable to conform to situational changes.

*In-depth understanding of environmental demands:* Companies operate in a variety of environments with different ethical and legal prescriptions. Corporate governance documents should develop appropriate guidelines for all situations. That's why it is necessary to be drafted by highly experienced and senior executives. These rules have to be broad in nature and adaptable to environmental and industry-wide changes. They should not define specific actions, for example, volunteer assistance to handicapped persons.

*Appropriate preparation:* These rules must come out of in-depth study of corporate past experiences. All types and levels of stakeholders should offer their insights and normative suggestions. To achieve in-depth understanding of their needs, operation, and performance, appropriate preparation is in order. Focus-group interviews and a comprehensive plan with exact timelines are necessary. Corporate experience in implementing related matters, such as ERP applications, sensitivity training, and so forth, will enhance the chances of success in devising a corporate governance document. Full support from the top management is a prerequisite.

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<sup>14</sup> This part capitalizes on the author's *Global Business and Corporate Governance: Environment, Structure and Challenges*.

*Consciousness of actions decided:* This category primarily applies to the individuals who will be in charge of developing the governance documents. They should be proponents of the values that this document implies. They should firmly believe in them. Their life should mirror the actions pointed by the final documents and all their personal influencers, including wives, families, mass media, and friends should see that these individuals adhere to these value systems.

### **The corporate employee and his educational background**

But what about the global company's most important element, its employee? Has he or she adjusted to the life style, demands, and social structures of the future? Is he or she going to be happy? Are there any deficiencies in the psychic nature of the modern man that might restrict his societal future role? What are the implications due to the existence of social, cultural, generational, and IT gaps among employees of a global corporation? What are the implications when this man (or woman), after faithfully and forcefully serving his company for years, is forced to leave, faces a psychological breach of contract, sees his or her company merging or downsizing and his or her job devalued? Will he or she survive?

It seems that within the "developed" world, often today's "business executive" "flows" within the predetermined molds of social acceptance<sup>15</sup>. The "new media society" and the technology imposed on him, to a great extent, predetermines his or her social behavior, how many hours he or she will spend at work, in front of the TV, in front of his or her computer, his or her intangible activities, recreation, enjoyment, studies, choices, self-development, social interactions, cooperation, and social offering.

This man rarely moves outside the accepted norms (the mold), or, reacts, demands change, participates to a revolution. He or she is a faceless "happy" representative of a "material" world that teaches him or her about reason of existence, objectives, and what fun and future is. Intangible sensors direct him toward group thinking.

He or she does not use his or her own senses in an era of virtual realities. He or she believes in them. There is very little room for self-actualization.

Each person is unique in talent, history, and temperament, and is called to develop these gifts for the benefit of self and others. He or she lives in an era where critical thinking is a must but difficult to be integrated in the techno-bureaucracies that surround him or her. Consider that the modern man will approach an era of culture/IT-based middle ages that will reduce the human potential of free thinking, of hope outside predetermined molds.

The global corporation and the social system will offer to this man the material means of happy survival, but is this enough? What about the individual's self-actualization potential? Business Ethics, the essence of corporate governance, starts with knowing your selves and answering existentialistic questions. The rest follows! Aim for self-understanding, empathy, positive attitude, simplicity, modesty, true feelings, knowledge, love, appreciation, smiles and creativity. Money and status does not always buy everything!

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<sup>15</sup> See Ohmae Kenici, (1990) and Chung, Chris Changwha, et al (2015).

So, let's summarize ... this paper aimed to discuss about:

(a) The emergence of the global village and business as its institutional player serving new societal functions, like the upgrading of the individual, the creation of value, the respect of the environment or the need to provide quality and constantly changing services;

(b) The mechanism that potentially assists in implementing the previous objective, in other words the organization's long-term vision of a "constitution", a corporate governance document addressing the perceptions of all its stakeholders in moments of tranquillity or of required change, for example in raiding, merging or crises;

(c) The individual who will man these companies, its overall thinking and modus vivendi. It is repeated, therefore, that beyond her or his superb technocratic knowledge, intensive learning towards answering philosophy, ethics, existentialistic questions and self-actualizations issues is required.

Therefore, a new epoch starts where business education blends with philosophy requiring from both the universities and its overseeing bodies a new vision towards renewed and life-long executive studies.

Observe that although this is a global effort it has to be culture-specific and respect the regional peculiarities and customs. Business accreditation organizations like AACSB, the Association to Advance Collegiate Schools of Business, soon to enter its 100<sup>th</sup> birthday, will be asked to contribute experience and manifest its responsibility for the societal future.

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