

# COMPARATIVE ANALYSIS OF DEVELOPMENT PATHS WITHIN THE FRAMEWORK OF THE TWO-TIER CORPORATE GOVERNANCE MODEL IN GERMANY, ITALY, AND CHINA

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## Abstract

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This article aims to reveal the three trajectories of establishing the two-tier model and select Germany, Italy, and China to discuss the ontology of the two-tier model, its integration with other local models, and its development variants. This article compares the similarities and differences of the two-tier model in the organizational structures of three countries to show that there is institutional inertia or path dependence in the design of legal systems and rules on corporate governance. In the two-tier model, the management agency performs the corporate business, the supervisory agency supervises the corporate operations, and the relationship between the management agency and the supervisory agency is subtle and complex. Germany is the original user of the two-tier model. Italy introduced the two-tier model as an optional model in addition to the traditional model. China is learning from the world's experience and establishing its own two-tier corporate structure based on its own conditions. As Buck and Shahrin (2005) mentioned, cultural traditions, historical development paths and models, the overall development level and maturity of the market economy, social legal awareness, and the improvement of the rule of law influence the corporate governance structure that the country chooses to adopt.

**Keywords:** Germany, Italy, China, Two-Tier Model, Corporate Governance

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## 1. INTRODUCTION

As we all know, the two-tier board system was first adopted in German enterprises, and scholars define the two-tier model as a governance structure that better realizes the separation of ownership and control. In the two-tier model, the management board and the supervisory board must be based on a stable flow of information, and the management

board must work closely with the supervisory board to formulate business strategies. Moreover, under the two-tier board management system, open discussions among board members are also the key to realizing business functions, because they must exchange information frequently (Bezemer, Peij, de Kruijs, & Maassen, 2014). Italy has introduced a two-tier model as an alternative to the traditional Italian corporate governance model, and it is

thought to have played an important role for the supervisory board. It has the new control function and the power to perform the duties entrusted to the board of directors or the shareholders meeting in the traditional Italian model (Bellavite Pellegrini, Pellegrini, & Sironi, 2010).

However, in view of the fact that there were still a large number of Italian enterprises that were more willing to choose to apply the traditional model than the alternative model. Therefore, there were comments that the alternative model failed in Italy. Even some ironic critics believe that the two-tier model is the only way for enterprises to grant additional seats on both boards. Because of the new Italian law on listed enterprises, at least one director appointed by a minority exists in the traditional and one-tier model. If the enterprise chooses the two-tier model, it does not have to deal with the minority who can only appoint one member of the supervisory board (Zattoni, 2019). Furthermore, unlike the traditional model where auditors can be removed only for fair reasons and the approval of the court, the two-tier model allows shareholders to remove the supervisory board members without justified reasons (Kostyuk, Mozghovyi, & Govorun, 2018). In this case, it makes the supervisory board highly dependent on the wishes of shareholders. It is worth noting that on a particular issue, admirers and opponents of the two-tier model in Italy have yet to take a clear stand: the so-called “high management”. What’s more, in Italy, it also added a key clause stating that the charter may allow the supervisory board to review strategic operations and industrial/financial plans deemed by the board of directors, and the latter continues to assume full responsibility for this, and such regulations make the supervisory board a potential hybrid because it borrows directorships (Ghezzi & Malberti, 2008). Although formally, China is also a two-tier model, compared with the two-tier models in Germany and Italy, the two-tier model in China can be considered a variation of the two-tier model. To some extent, the establishment of China’s two-tier corporate organizational structure is to establish a clear division of powers and duties among the decision-making, execution, and supervision within the enterprise, and to regulate the relationship between owners, operators, and employees, so as to form a mechanism that combines incentives and constraints. In this way, the interests of asset owners are protected and operators are given full autonomy (Cui, 1999).

In the one-tier model, the responsibilities of the board of directors can be divided into three categories: 1) control, 2) strategy, and 3) service. In the two-tier model, strategies and services are executed by the management board, while control is executed by the supervisory board (Du Plessis, Großfeld, Saenger, & Sandrock, 2017). In this case, different agencies represent the exercise of ownership, management, and supervision, with power division and balanced allocation, and appropriately highlights the structure of management and monitoring rights, which is conducive to exerting the independent role of each power and forming an effective mutual restraint

mechanism (Douma, 1997). The two-tier board structure provides a natural balance, which can play a vital role in effective decision-making results (Du Plessis, 1996). It is said that the structure of the two-tier model can naturally reduce some deviations, and these deviations have proved to be problematic in the one-tier. For example, the management board is appointed by the supervisory board, which can reduce the direct manipulation of shareholders on the management board to some extent, because the supervisory board is not only composed of shareholders (Gurol & Lagasio, 2021). In addition, the two-tier model prevents the CEO from concurrently serving as the chairman of the board of supervisors and also helps prevent rent-seeking behavior of executives. At the same time, the participation of employees and non-executive directors in the supervisory board balances risk aversion and ensures that those involved in the decision-making process represent the best interests of employees (Veldman, 2019). In other words, for employees, the two-tier board structure generally allows them to have greater influence when appointing the members of the supervisory board that best represent their interests.

This article outlines the two-tier corporate government model in Germany, Italy, and China, and compares and analyzes their similarities and differences. This is not only conducive to in-depth analysis and comprehensive understanding of the two-tier model but also shows the feasibility of adjusting the two-tier model according to different national situations. The core of this article is the different choices of three two-tier models in the organizational structure of the two boards, the objects of independence, the attitude of employee supervisors, and the establishment of board committees. Subsequently, Sections 2 provides the overview of the two-tier model formed in Germany, Italy, and China. Section 3 discusses the differences of the three two-tier models from the relationship and responsibilities of two boards, the position of independent or non-executive directors, the existence and role of employee supervisors, and the establishment and status of board committees. Section 4 concludes the author’s point of view.

## 2. THE FORMATION OF THE TWO-TIER MODEL IN GERMANY, ITALY, AND CHINA

The legal solutions adopted by different countries are similar or different, and the historical evolution of the legal system and the social reality at that time are important factors that cannot be ignored. Because it could reveal the reason for the inevitability behind the system, and this original is precisely the important reason for choosing this system instead of the other system. This reason may be a helpless or accidental factor, but by tracing the source to discover the original context of the current system and discover the origin of things, it is convenient to sort out the mainline of the system. In the two-tier corporate governance model, the shareholders’ meeting, the management agency, and the supervisory agency are necessary

corporate institutions. Among them, the shareholders' meeting is undoubtedly the highest authority of the enterprise; the management agency (the management board in Germany and Italy, the board of directors in China) is the executive body of the enterprise's business; the supervisory agency (the supervisory board in Germany and Italy, the board of supervisors in China) is the main body of monitoring the operation of the enterprise.

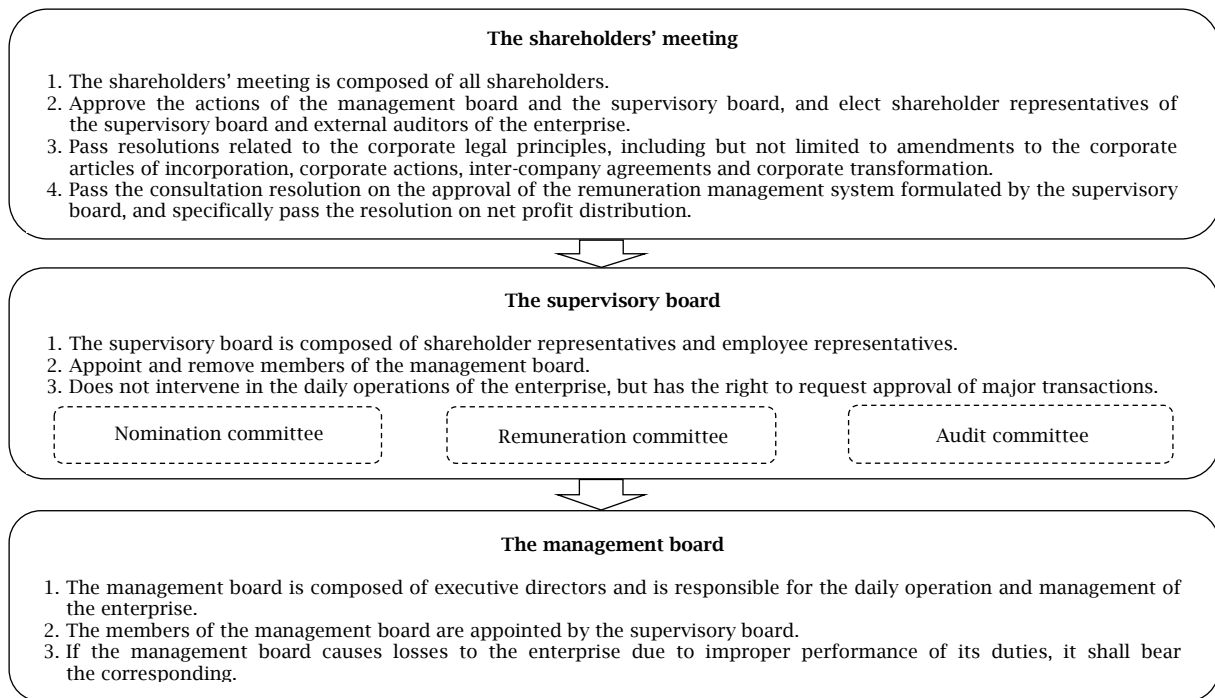
## 2.1. Germany

The formation of the German corporate governance model can be traced back to the 19th century. From the German corporate legal system in 1870, it is required that in addition to the shareholders' meeting, enterprises should also establish two institutions: management board and supervisory board. At that time, the purpose of creating two boards was to strengthen shareholders' control over managers. On the one hand, shareholders can exercise their basic investment rights through the shareholders' meeting; on the other hand, shareholder representatives can effectively perform supervision and control functions through the supervisory board composed of them. In fact, German financial institutions are the main shareholders of most enterprises, and their representatives are usually members of the supervisory board, and banks have been at the core of German corporate governance since at least the Bismarck era. However, this trend became more obvious after World War II, because banks became the main providers of corporate funds in the early days of German industrial reconstruction after the war. Banks provided loans, subscribed for venture capital, helped to issue stocks, subscribed for bonds, and provided liquidity, which quickly established the bank's central position in the German financial system. At the same time, the German co-determination system for employees is important in German corporate law by giving employees a certain seat on the supervisory board to participate in the corporate business decision-making. In terms of the legal framework, the German Limited Liability Company Law, the Joint-Stock Company Law, the Mining, Iron and Steel Industry Codetermination Act in 1951, the Co-Determination Law in 1976, and the One-Third Participation Act in 2004 constitute the basic framework of the employee co-determination system. The co-determination is a product deeply rooted in the German political and cultural structure, and it is supported by the smooth

operation of Germany's powerful trade unions and employee joint decision-making system (Hopt, 1997). It can be seen that the German two-tier model is a German-specific system formed due to historical path dependence.

In 1965, according to the German Stock Corporation, it is required for all German stock corporations to have two boards: management board (administrative body) and supervisory board (supervision body), and the supervisory board has higher status and greater authority than the management board (Tricker, 2019). The management board usually consists of executive directors, and the supervisory board determines the number of members of the management board, the required qualifications, and the appointment of suitable candidates for each position in accordance with laws and regulations. The supervisory board consists entirely of non-executive directors and is composed of shareholder and employee representatives. Among them, shareholder representatives are elected by the shareholders' meetings, and employee representatives are elected by employees' meetings or employee unions. In this case, shareholder representatives and employee representatives have equal rights and must act in the best interests of the enterprise (Buck & Shahrin, 2005). The entry of employees into the supervisory board is the most famous principle of co-determination in German corporate governance. This is considered to be a regulation created in the corporate law to ease labor relations and implement democratic management, and the purpose is to mobilize the enthusiasm of employees by absorbing employees to participate in the management of the enterprise (Jackson, Höpner, & Kurdelbusch, 2004). The supervisory board can set up professional sub-committees to increase efficiency and provide advice on complex issues (Du Plessis, 2004). German listed enterprises are usually required to have at least an audit committee and a nomination committee. However, for small enterprises that do not have a sufficient number of independent supervisory board members, there is no need to establish sub-committees on the supervisory board. In Germany, the planned revision of the composition of the main committee is usually disclosed after the first meeting of the supervisory board. Germany's policy on the committee system is not significantly different from other continental European countries, except that Germany has made exceptions for the supervisory board that does not have a remuneration committee (Cromme, 2005).

Figure 1. German two-tier model



## 2.2. Italy

With the entry into force of Decree No.6 on January 17, 2003, and the reform of the norms of stock enterprises and cooperatives, the Italian corporate governance legal system has undergone significant changes. Currently, Italian enterprises can choose their own governance model among traditional and alternative models (one-tier model and two-tier model). In the Italian two-tier model, the management board members are appointed and revoked by the supervisory board, and their remuneration is also determined by the supervisory board unless the corporate articles of association vest the power to the shareholders' meeting. The management board can delegate its power to an individual or the executive committee of the management board composed of multiple people. Compared with the management board, the supervisory board is given the authority of "high management" and has the power to conduct internal control and audit supervision (Portale, 2015). In addition, the supervisory board can exercise powers to approve corporate financial statements. However, the articles of association can stipulate that in the case of unapproved financial statements, or if at least one-third of the management board members or the supervisory board requests, the authority to approve the financial statements can be attributed to the shareholders' meeting (Montalenti, 2007). The supervisory board members usually have to meet special requirements for professionalism and independence (Weigmann, 2007). They shall not be the management board members at the same time, and cannot have an employment relationship or a continuous paid consulting relationship with the enterprise or entities controlled by the enterprise. Moreover, the enterprise must select at least one person from the roster of auditors established by the Ministry of

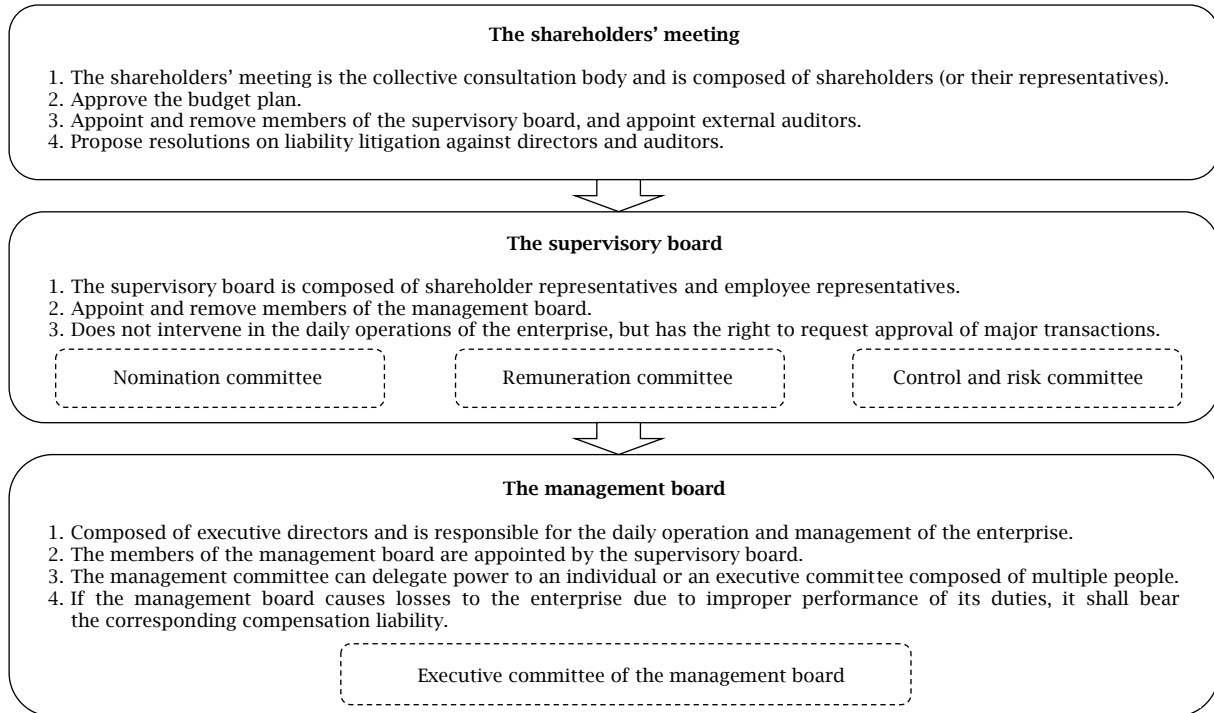
Justice as a member of the supervisory board. If necessary, the supervisory board can establish internal committees with preliminary proposals and negotiation functions in terms of nomination, remuneration, and risk control, such as the remuneration, nomination committee, and control and risk committee, and these functions can be assigned to different committees or the combined committees in different ways, as long as the enterprise can ensure full disclosure of the tasks and activities of each assigned function and the appropriate composition of each committee.

In Italy, in 2009 there were 153 limited enterprises implementing the two-tier system as a governance model (Soana & Stefanelli, 2009). Among these 153 enterprises, only 5% are limited liability enterprises listed on the stock market, while 50% are banking enterprises (Deutsche Bank, Bank of Sao Paulo, Bank of Sao Paulo, UBI Banca, and Poco Popolare). More recently, some other large enterprises have joined the two-tier model, such as Ferrero, starting from September 1, 2017. In view of this, the Italian two-tier system seems to be particularly favored in the financial sector, especially in the banking sector (Magli & Nobolo, 2020). Most legal commentators believe that the balance between mandatory rules and authorizing rules in the Italian legal system has shifted to the latter. Italy provides alternative corporate governance models in its legislation to reconcile the legislative differences between listed enterprises and non-listed enterprises and to ensure that enterprises freely choose the most suitable corporate governance system for their own management, administration, and corporate control. For Italy, the use of the two-tier model is to play the unique role of the supervisory board and increase the control and decision-making functions of the supervisory board, which was originally assigned to the board of directors or the shareholders' meeting in the traditional Italian

corporate governance model (Provasi & Riva, 2015). For example, the articles of association may require that the supervisory board approve certain strategic management decisions, and in the traditional mode, only the administrative body has the capacity to manage the enterprise (Ghezzi & Malberti, 2008). To some extent, by enhancing the authority of the supervisory board, the improper performance of

its duties by the management agency can be suppressed, and those in favor of the two-tier system pointed out that it established a perfect division of authority between the two boards, gave different types of directors and shareholders more representation, and improved coordination among stakeholder groups (Velte, 2019).

Figure 2. Italian two-tier model



### 2.3. China

In China, the development of the modern corporate system has only a history of nearly 40 years. The de-governmentalization of Chinese enterprises requires the check-and-balance of power within and among the various agencies of the enterprise. Therefore, China tends to choose the corporate governance model that best reflects the checks-and-balance of power. The essence of corporate governance is to deal with agency problems arising from the separation of ownership and management. The problems to be solved by the governance structure of Chinese enterprises are more complex than those of capitalist countries. Similar places are manifested in two aspects: on the one hand, it is necessary to give managers full freedom to manage the enterprise well, and shareholders should not intervene too much; on the other hand, it is necessary to ensure that managers are based on the interests of shareholders, that is, managers should be effectively supervised and restrained. In addition, the situation facing China also includes excessive government intervention in enterprises led by state-owned enterprises. In state-owned enterprises, it is necessary for the state to supervise and control the enterprise as a major shareholder, but the special status of the state and its agents makes such supervision and control inevitably administrative, leading to excessive intervention in the enterprise. This is also fundamental for

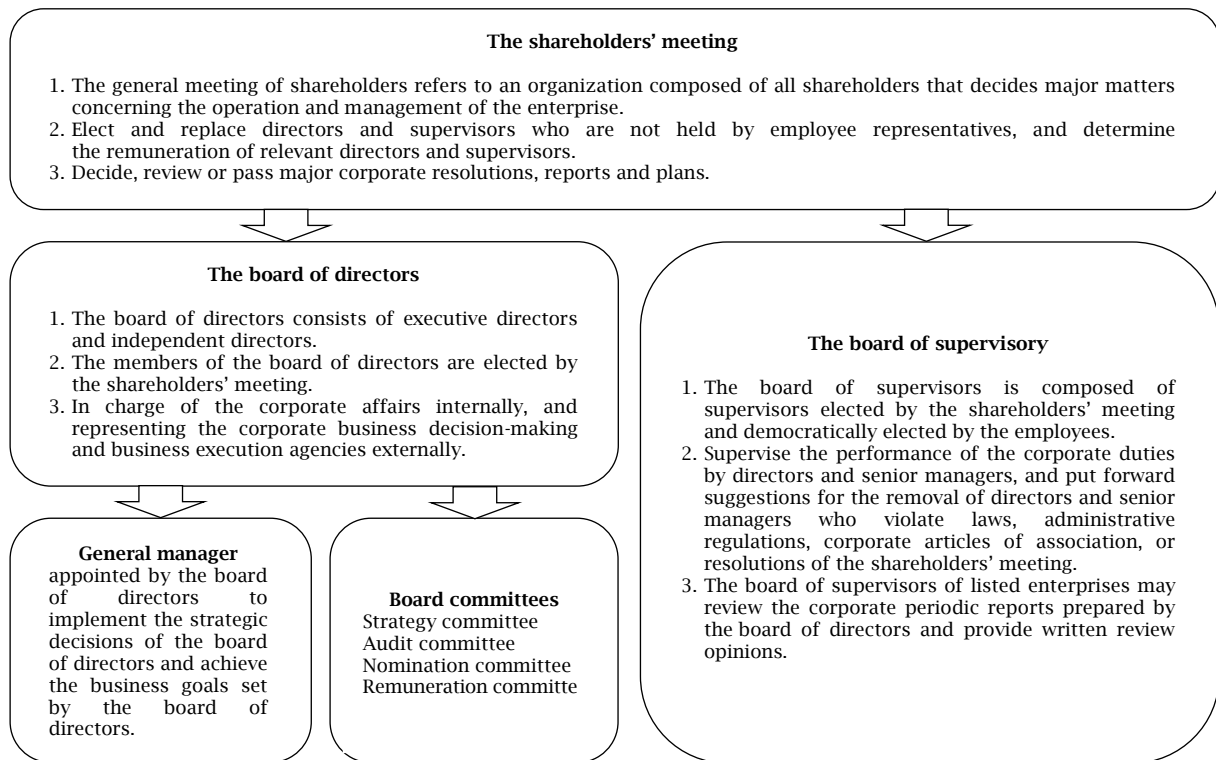
establishing an effective corporate governance system in China (Zheng, 1998). Currently, China's two-tier model adopts both the independent director system of the US model and the supervisory board system of the German model. First of all, the existence of independent directors enables non-executive directors to supervise executive directors with the board of directors. Next, the existence of the board of supervisors enables the board of directors and the board of supervisors to form a balance of power under the shareholders' meeting. Last but not least, the presence of employee representatives on the board of supervisors strengthens the influence and enthusiasm of employees on the enterprise.

Corporate management in China includes three aspects: 1) decision-making organizations, 2) executive organizations, and 3) supervisory organizations. And the corporate organizational structure consists of four parts: the shareholders' meeting, the board of directors, the board of supervisors, and the manager. The shareholders' meeting is the highest authority, which is composed of all shareholders, makes decisions on major matters of the enterprise, has the rights to select and dismiss directors, and has broad decision-making power over the corporate management (Zhang, Zhang, & Chen, 2017). The board of directors is the business executive organ of the shareholders' meeting, is responsible for the command and management of the corporate business operations,

and is responsible for the shareholders' meeting, which means that the board of directors is the corporate decision-making body on corporate daily activities, but it must implement the decisions made by the shareholders' meeting on major matters (Chen, 2018). The board of supervisors is composed of supervisors elected by the shareholders' meeting and supervisors elected by the employees of the enterprise and plays a supervisory role in the corporate finances and the actions of the board of directors and the manager (Zhao, 2017). As for the manager, it is the executive body of the board of directors, and is appointed and dismissed by the board of directors. Functionally, the manager is the true executor of the corporate daily activities and is responsible to the board of directors (Lu, 2016). In addition, China has introduced the independent director system in the US model. The independent

director system is to elect independent directors in the board of directors to form an organizational system with balanced power and internal supervisory function, especially for listed enterprises. Currently, the establishment of special committees composed of independent directors in the board of directors plays an important role in improving the quality of the work of the board. In practice, the board of directors of listed enterprises may, in accordance with the relevant resolutions of the shareholders' meeting, establish special committees such as strategy, audit, nomination, remuneration, and assessment. These professional committees are all specialized working institutions under the board of directors, which provide advice or suggestions for relevant decisions of the board of directors, and are responsible and report to the board of directors (Xie, 2005).

Figure 3. Chinese two-tier model



**3. THE COMPARISON OF THE TWO-TIER MODEL IN GERMANY, ITALY, AND CHINA**

Through the above analysis, we can know that the two-tier corporate governance model has been established in Germany, Italy, and China. However, the three two-tier models are not exactly the same, and each has its own emphasis on internal structure and organizational structure. In this regard, the author will compare and analyze the two-tier corporate governance model of Germany, Italy, and China from the following aspects.

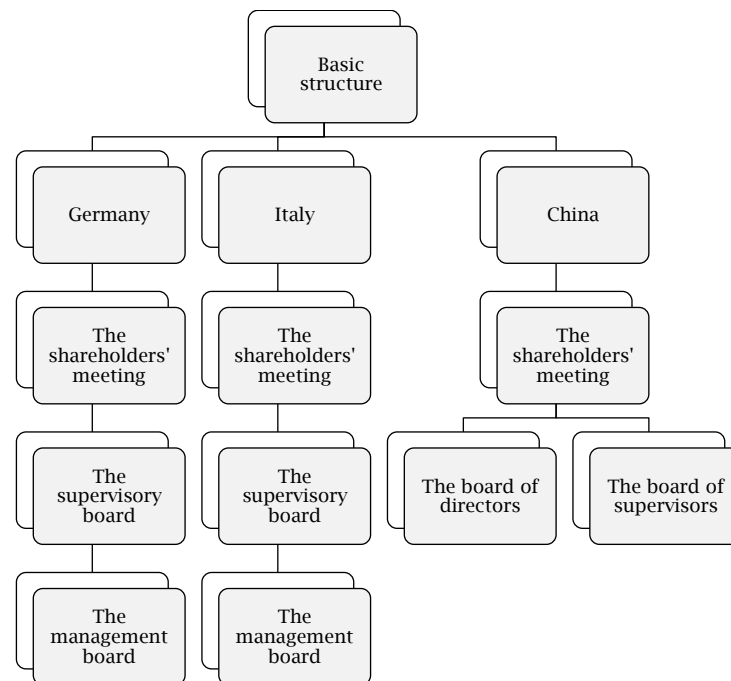
**3.1. The relationship and responsibilities of the two boards**

From an overall point of view, the characteristics of the two-tier model are the separation of the management system and the control system, and the separation of administrative functions and supervision functions in the corporate organizational structure (Licht, 2014). Germany implements a separate organizational structure of the management board and the supervisory board, and the structure of the two-tier model in Italy is the same as that of Germany. In this structure, the management board is the administrative agency, and the management board can delegate power to a single management board member or an executive committee composed of multiple management

board members. The supervisory board is an administrative control body, and the members of the management board are selected by the supervisory board, but the members of the supervisory board are selected by the shareholders' meeting. In addition, the supervisory board also has higher decision-making power than the management board. In other words, in the two-tier model in Germany and Italy, the supervisory board is given "high management" authority, which overrides the management board (Richter, 2005). However, on this issue, China's two-tier organizational structure is clearly different. In China, the shareholder meeting is the highest authority of the enterprise, and it has the power to elect and replace the directors of the board of directors or supervisors of the board of supervisors who are not represented by employees. The board of directors or executive

directors who do not have a board of directors is the management organization of the enterprise and is responsible for the shareholders' meeting. The board of supervisors or the supervisor of the enterprise without the board of supervisors is the supervisory agency of the enterprise, which is responsible for the shareholders' meeting and supervises the performance of duties by the directors and senior managers of the enterprise. In other words, in the corporate structure of China, the board of directors and the board of supervisors are in a parallel relationship and are jointly responsible for the shareholders' meeting. The members of the board of directors are selected by the shareholders' meeting, and the board of supervisors has only supervisory powers and no decision-making powers.

Figure 4. The basic structure of boards



### 3.2. The position of independent or non-executive directors

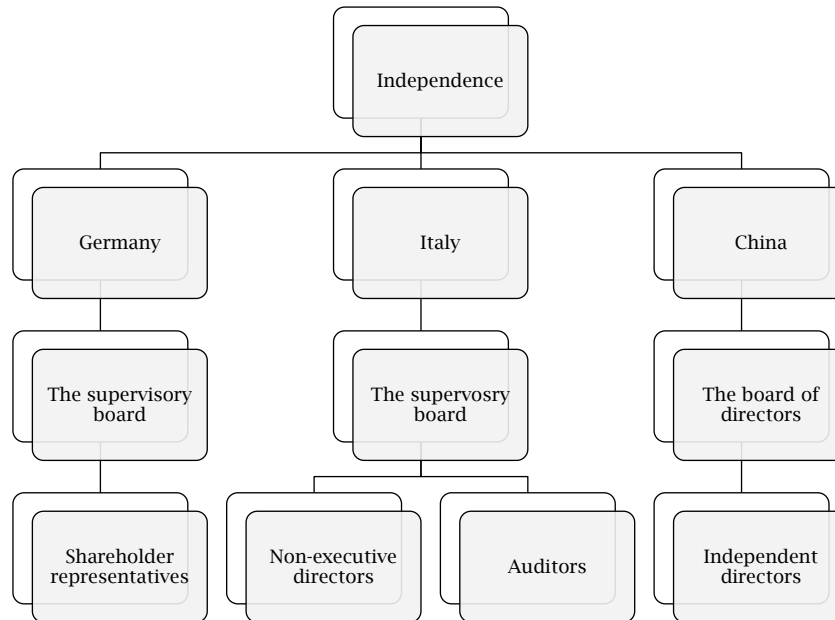
In Germany, it has been recommended that the shareholder representative of the listed corporate supervisory board should include as many independent members as it considers appropriate, taking into account the structure of the shareholder. When the supervisory board member is independent of the enterprise, the management board, and any controlling shareholders, they are considered independent supervisors. It is worth noting that there is no independence requirement for the management board, and it is composed of executive directors. Moreover, unless the appointment is elected based on the proposal of shareholders holding more than 10% of voting rights of the enterprise, the management board member cannot be the supervisory board member after two years when the appointment is completed. Similar to Germany, in the Italian two-tier model,

the supervisory board members usually have to meet special requirements for professionalism and independence. The members of the supervisory board shall not be members of the management board at the same time, and cannot have an employment relationship or a continuous paid consulting relationship with the enterprise or entities controlled by the enterprise. Moreover, enterprises must select at least one independent auditor from the auditors' roster established by the Ministry of Justice as a member of the supervisory board. However, in this respect, there are differences in China. In China, independent directors of listed enterprises refer to directors who do not hold any position other than directors in listed enterprises and do not have a relationship with the listed enterprise and its major shareholders that may prevent them from making independent and objective judgments. In other words, Chinese independent directors are members of the board of directors (administrative body), which is equivalent to the management board of Germany and Italy.

Independent directors have the same rights as other directors on the board of directors, and they may even be given the right to veto major transactions. This is different from German and Italian emphasis on the independence of supervisory agencies and their members. China sets up independent directors

in the administrative body, which is similar to the one-tier board system in the US, that is, the board of directors (management body) is composed of executive directors and non-executive directors (Fang, 2008).

Figure 5. The requirement for independence



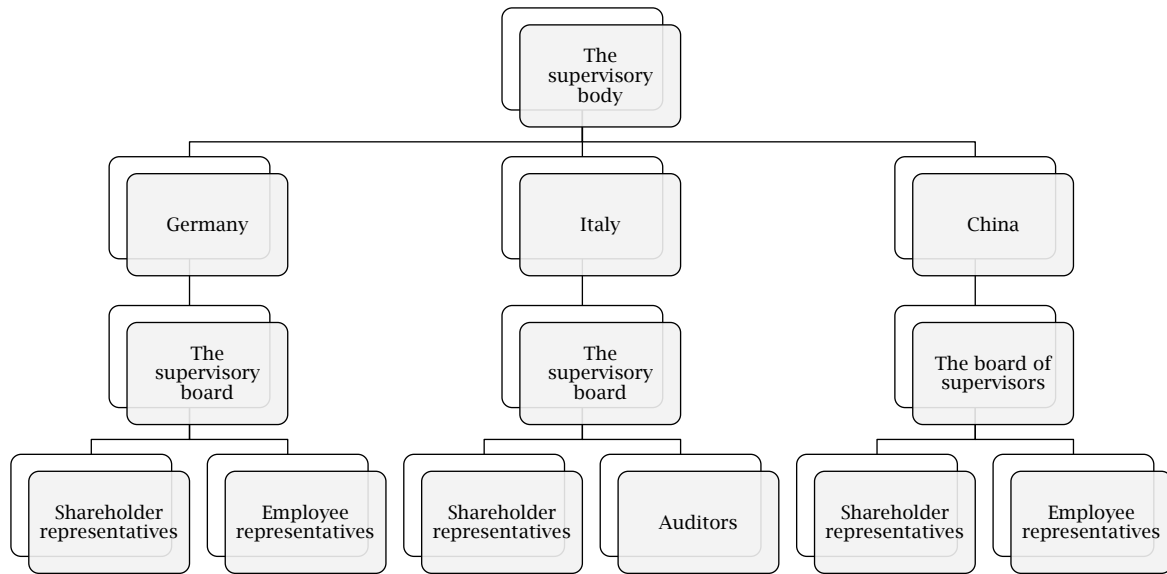
### 3.3. The existence and role of employee supervisors

The co-determination principle refers to the employee's rights to participate in corporate management and enjoy the rights to make joint decisions on the maintenance of all employees' interests. The German co-determination is divided into two levels: one is at the factory or grassroots level, which is mainly realized through the corporate committee, and includes the two rights of "co-determination" (*Mitbestimmung*) and "co-operation" (*Mitwirkung*); the other is at the head office or parent corporate level, which is mainly achieved through the supervisory board, and this form of employee representative entering the corporate organizational structure is also known as "co-determination". However, here mainly discusses the second co-determination, that is, the employee could influence the corporate policy to a certain extent by becoming the supervisory board member (Jensen & Meckling, 1979). In China, the members of the board of supervisors are composed of supervisors elected by the shareholders' meeting and democratically elected by the employees. It is that the Chinese Company Law draws on this successful experience and measure from abroad and clearly stipulates in the law to

protect the interests of employees and respect the rights of employees. From this perspective, the requirement for employee representatives in the Chinese board of supervisors is the same as that in the German supervisory board. However, the supervisory board in the Italian two-tier model does not emphasize the existence of employee representatives but instead places greater expectations on the role of auditors. For example, it is stipulated that enterprises must select at least one auditor as a member of the supervisory board from the roster of auditors established by the Ministry of Justice. Moreover, if the supervisory board is to perform accounting control functions, its members must all be composed of persons registered in the auditors' roster established by the Ministry of Justice. This is because, in Italy, the supervisory board in the two-tier model as a control agency is essentially equivalent to the board of statutory auditors in the traditional model. In practice, the two-tier model also increases the control agency's authority to select and appoint members of the regulatory agency and to review important transactions, which is more conducive for the control agency to exercise its supervision and control authority (Stradella, 2010).



Figure 6. The need for employee representatives

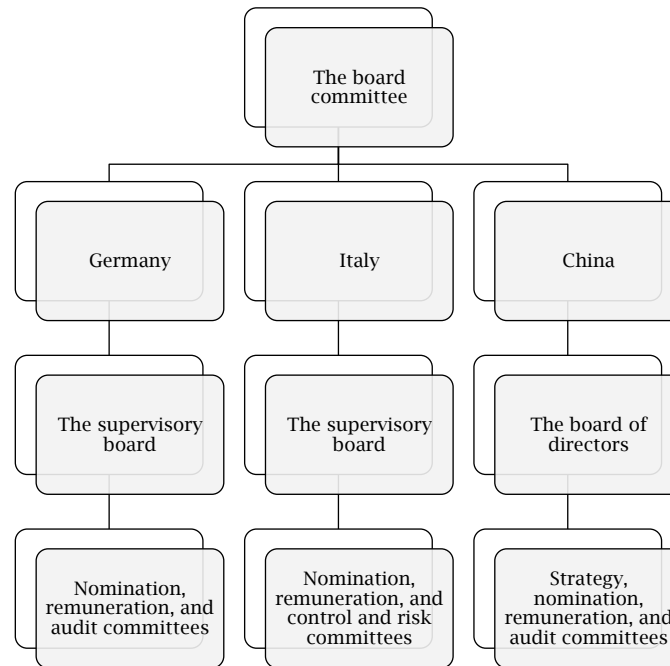


### 3.4. The establishment and status of board committees

The establishment of board committees is the pioneering work of the one-tier board model in the US. However, with the convergence and integration of global corporate governance models, the two-tier model has gradually realized the importance of board committees. However, it is worth noting that in the two-tier model, board committees are more of an auxiliary role. In Germany, the enterprise can set up special committees for auditing, nomination, and remuneration, etc. under the supervisory board as needed. In this case, the role of the special committee is to provide assistance to the supervisory board in performing its duties. However, China has different practices in this regard. The special committee is established in the board of directors (administrative body), and their proposals shall be submitted to the board of directors for deliberation and decision. In other words, special committees are responsible to the board of directors and perform their duties in accordance with the articles of association and the authorization of the board of directors. Moreover, each special committee can hire intermediaries to provide professional advice, and the enterprise bears the expenses. As for the Italian special committee, the author believes that the discussion on it is more about the Italian one-tier model. For example, the Italian Corporate Governance Code mentions that the board of directors shall determine the corporate governance system and the organizational structure of the group under its leadership, and evaluate

the adequacy of the organizational, administrative, and accounting structures of the enterprise and its strategic subsidiaries, with particular reference to the corporate internal control and risk management systems. To this end, the board of directors must establish corporate operating rules and procedures to ensure effective information exchange with directors, and also needs to ensure adequate division of functions. Therefore, it is possible to set up internal committees with nomination, remuneration, and risk control with preliminary proposals and negotiation functions, such as the remuneration committee, nomination committee, and control and risk committee. Moreover, in Italy, these functions can be allocated to different internal committees of the board of directors, or the combined committees in different ways, as long as the enterprise can ensure full disclosure of the tasks and activities of each assigned function and the appropriate composition of each committee. In other words, the establishment of these board committees is not mandatory, and as long as independent directors account for half of the entire board of directors and the board of directors convenes appropriate meetings for the performance of such functions, these functions can be performed by the board of directors under the coordination of the chairman (D'Onza, Greco, & Ferramosca, 2014). However, in practice, in the Italian two-tier model, enterprises can set up board committees with advisory and opinion functions within the supervisory board as needed like the one-tier model, which is also no different from the establishment of the German board committees in the supervisory board.

Figure 7. The setting of board committees



#### 4. CONCLUSION

The corporate governance structure is the modernization and legalization of the corporate organization. From a legal perspective, the corporate governance structure is an institutional system for the distribution and the check-and-balance of power between the relevant corporate organizations as stipulated by the law and the corporate articles of association to safeguard the shareholders, corporate creditors, and the public interests of the society and ensure the normal and effective operation of the enterprise. But in this process, different priorities may lead to internal adjustments within the same corporate governance model.

The two-tier model in Germany and Italy emphasizes the control of the supervisory board over the management board, while the board of directors and the board of supervisors in China have a parallel structure. Because Germany and Italy intend to highlight the supervisory role of the supervisory board to prevent the management board from abusing its authority, while China pays more attention to the decentralization and check-and-balance of corporate internal institutions and prevent the complication of corporate governance system caused by the intersection of power.

The discussion of independent directors and non-executive directors in the two-tier model of Germany and Italy is aimed at the supervisory board, while independent directors in China are set up in the management body (board of directors) of the enterprise. In fact, this is related to the status and responsibilities of the administrative body and supervisory body. Because in the two-tier model in Germany and Italy, the supervisory board has a superior position and can exercise decision-making power on important matters and supervise the management board. However, in China, the bodies that exercise decision-making power are

the shareholders' meeting and the board of directors. The board of supervisors has only a supervisory role, and it is in parallel with the board of directors. In this case, the introduction of independent professional directors is of little significance.

German and Chinese corporate supervisory agencies emphasize the role of employees, while Italy emphasizes the participation of auditors. This is because Germany and China believe that by introducing employee representatives into the corporate supervisory body, it is possible to reduce conflicts of interest between the enterprise and employees and increase the enthusiasm of employees. As for Italy, it can be seen from the traditional corporate governance model that the status and role of auditors have always been respected. The main obstacle for employees to join the board is employers and their associations, because they are strongly hostile to any form of legislative "invasion" in this field, and they do want to adopt the form of direct and financial participation (Leonardi & Gottardi, 2019). Therefore, it is also logical to emphasize the role of the auditor in the supervisory board rather than the German-style employee co-determination.

In Germany, board committees are set up under the corporate supervisory agency (supervisory board). Similarly, in Italy, although the role of board committees is more prominent in the one-tier model, subordinate board committees can be established in the supervisory board of the two-tier model as needed. This is because, in Germany and Italy, higher expectations are placed on the role of the supervisory board. The supervisory board needs to control and evaluate the management board, and the purpose of establishing the board committee is to provide consulting and advisory services. In addition, in Italy, the role design of the supervisory board absorbs the characteristics of the statutory audit board in the traditional Italian corporate governance model. Therefore,

the supervisory board will also prefer the participation of auditors, rather than having to establish board committees as advisory bodies. The difference is that in China, the board committee is the working body of the board of directors. The reason is that in China, the establishment of the board committee is to improve the professional level and work efficiency of the corporate administrative organization. The board of directors is the business executive body of the enterprise, and the board committee is required to provide professional advice and skills. The Chinese-style board of supervisors, which is merely a supervisory agency, does not participate in the daily decision-making of enterprises. Even if it encounters professional problems, the board of supervisors can apply for external intermediary agencies without the need to set up advisory committees under it.

Corporate governance actually makes the contract about the distribution of ownership, the core problem of which is to realize the correspondence between the residual claim right and the control right by choosing the appropriate contract to arrange, so as to ensure the efficiency of

enterprise decision-making (Yang & Zhou, 1998). Due to the differences in social traditions, policy and legal systems, political systems, and economic systems among countries in the world, diversified financing systems, capital structures, and market elements have evolved to form different corporate governance models. From the perspective of this article, we can know that even if different countries adopt similar corporate governance models, it is impossible to implement exactly the same model due to the path dependence of the corporate system and national conditions. In addition, in the context of economic globalization and financial integration, each country has the basic positioning of the corporate governance objective model. Corporate governance runs through the development of the enterprise, and it needs continuous development and adjustment in order to adapt to the requirements of different times and societies. Therefore, corporate governance cannot be immutable and self-contained, and it is a constantly changing and dynamic process, with obsolescence and innovation alternating.

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