RECENT CHANGES IN CORPORATE GOVERNANCE AND ITS IMPACT ON CORPORATE AMERICA

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ABSTRACT

Recent changes to corporate governance have affected the areas of environmental awareness, corporate strategy, managerial accountability, compensation, board structure and shareholder rights. Reasons for these changes to corporate governance include new rules from the U.S. Securities & Exchange Commission, changes in society, and increased shareholder activism. This paper explains how recent changes in corporate governance have led to Corporate America putting more focus on corporate social responsibility activities, firms seeking to diversify their boards of directors, and shareholders using their interests to shape how firms operate. Subsequently, this paper will examine what future changes to corporate governance may come and then conclude with a summary of the impact on Corporate America.

Keywords: *Corporate Governance, Corporate Social Responsibility, Diversity of Board of Directors*

1. INTRODUCTION

Corporations are influenced by or subject to industry standards, state and federal laws, and ethical rules, and they are governed by directors and managers of a firm. The stakeholder theory of corporate governance says that directors and managers must consider the interests of a corporation's stakeholders while they govern. Those stakeholders can include customers, the government, investors/shareholders, and society at large, and all of them can influence how a corporation is governed. The result of these influences shape Corporate America's processes, behaviors, and reputation, among other areas.

Corporate scandals, including ones at WorldCom and Enron, brought about the 2002 Sarbanes-Oxley Act, which in turn brought changes to corporate governance for publicly traded companies. Those changes focused on areas such as disclosure, audits and internal control.

Corporate governance is defined as a system of practices, rules, and policies, by which a firm will be governed, typically by the firm's managers and its board of directors. It entails areas of environmental awareness, corporate strategy, managerial accountability, compensation, board structure, and shareholder rights. This paper will examine how recent changes to corporate governance affect those areas.

Some changes in corporate governance have resulted from rules that the U.S. Securities & Exchange Commission (SEC) have added throughout the years. Audit committees became more prevalent after the SEC advised the New York Stock Exchange in 1976 to force listed corporations to have audit committees comprised of an independent board of directors. Executive compensation is now voted on by shareholders at least once every three years because of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In addition, the fallout from the financial crisis has led to additional rules on disclosure to enhance the transparency of a firm, also from the Dodd-Frank Act.

Other recent changes in corporate governance come from changes in the boards of directors. For firms to match their business strategies to the diverse stakeholders they serve, they must place importance on diversity at the top levels, according to Vairavan and Zhang (2020). Those two also assert that firms with diverse boards will be able to improve the decision quality surrounding the corporation's research and development investment, process information on a greater scale, and generate unique actions, all of which are important elements for a firm's success in today's competitive world. Yet, in today's world of social justice, many firms are still slow to add women and minorities to board of director positions.