

How should a Manager Choose : A Case study

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Abstract

In China, where human relations are an important factor in corporate governance, when a problem arises, the operating performance of subsidiaries often becomes an issue, and operational guidelines are frequently disregarded. In such situations, it is often difficult to force a subsidiary to rectify a problem with repeated warnings based on internal control requirements. Any further occurrences of operational risk control incidents would then be even more difficult to deal with, and violations or fraudulent activities also become more difficult to prevent. However, in situations where compromises are made to accommodate each other for the purposes of maintaining cooperation and loyalty, corporate governance becomes a mere formality, and its effectiveness would be called into question. Independent directors or supervisors become utterly ineffective in handling the problems. This article provides an in-depth discussion of the role of an internal auditor, and how mediation negotiations can be used to reduce information asymmetry to achieve the best results for corporate governance. The paper also discusses concepts that are lacking in corporate governance requirements such as internal audit processes, and focuses on acquainting readers with the theory behind international corporate governance and conglomerate network governance.

Keywords: Internal Control, Corporate Governance, Meditation Negotiation

1. Introduction

For the purpose of preventing management risks from causing an impact on a company's overall growth, a company will request necessary assistance from its internal departments when it performs a parent company audit and subsidiary supervision by following the scheduled annual audit plan. With respect to the audit results, different responses will be produced by different department

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managers. There are few disputes over regular audits. However, if there are any cases of negligence in the process, contradictions in the process design, failure to enforce internal control, or abnormalities in the appropriateness, legality, and handling of accounts, the response strategy for the department under audit will change and differ subtly. The balance between human relations and discipline will require careful consideration in order to avoid any impact on the company's normal operations.

2. Main problems for case companies

2.1 Case company description

Kunshan Company for CK Construction Company in 1997 by Virgin Islands holding company invested to establish a subsidiary in China, business scope in Suzhou, Kunshan, Wuxi, Nantong, Yangzhou, has 12 concrete professional production lines, production capacity of 450 Articles. equipped with a 150 sets 8 square concrete trucks, 2 sets 34 meters automobile pumps, 6 sets 36 meters automotive pump, 10 sets 37 meters automobile pumps, 5 sets 42 meters automobile pumps, 7 sets 43 meters automobile pumps, 7 sets 48 meters and 10 sets car pump stationary diesel pump. One area Equipped with a sets spare parts of diesel generator sets, 150 square meters of professional laboratory and advanced test equipment, in company the fixed assets 297 million yuan, current assets of 838 million yuan, total assets of 1.056 billion yuan, in east China top ten ranking of production capacity in 2010 concrete producers.

A traditional construction company operating profit is to manage the job performance of the acquisition. Operation and management of the subsidiaries company are owned 100% equity stake. In addition to the mainland subsidiary audit work commissioned to PWC Taiwan funding for checking outside the Taipei headquarters to the subsidiary responsible for implementing internal audit supervision operations. If find a job on the internal control negligence, reflections caused by negligence causes, for efforts to implement and corrective measures the prevention of work .

2.2 Main problems for case companies

When going through the books and audit trails for Kunshan subsidiary, Auditor Huang (Prime Specialist of the Auditing Group, Chairman's Office) discovered an abnormality and found that the following accounting items in June of

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2013: Non-operating expense - Fines, with the following notes. (1): The Taxation Bureau levied fines of RMB\$108,295.75 for the 2011 books. (2): The Taxation Bureau levied late penalties of RMB\$40,935.79 subsequently submitted for the 2011 books with proof attached: Electronic tax certificates and receipts from the bank at RMB\$400,000 approved by VP Lee of the Finance and Accounting Department, for the tax administrative penalty decision (Kunshan national tax audit penalty (2013) No. 6) and tax penalty decision (Kunshan national tax audit penalty (2013) No. 1*0), removed by the tax bureau in 2011: (1) Depreciation in 2011 was RMB\$56,255.76 (Tax adjustments have not been settled when multiple extraction). (2) Receipt for vehicle inspection fees at RMB\$110,810 (The Third repair shop did not purchase invoice, nor invoiced to your company.) (3) Safety driving bonus of RMB\$506,370 (Tax adjustments have not been charged and more settled). (4) PWC audit fees at RMB\$229,029.18 (Tax adjustments have not been charged and more settled).

There are 5 points in the operating procedures and processes that require clarification and explanation from the Kunshan subsidiary. "(1) Expense claims and advances shall be based on the approval authority. For fines of RMB \$60,000 or more, the authorized supervisor for approval is the CEO, while the authorized supervisor for the actual payment is VP Lee of the Finance and Accounting Department. (2)The Finance and Accounting Department failed to verify that the receipt issuer is consistent with the name of the contracted vendor. (3)For receipts issued by noncontract vendors, the applicant units were not required to provide explanations for their failure to enforce appropriate controls. (4)Receipts obtained under abnormal circumstances were not verified to be authentic. (5)Controls on adjustments of the expected expense items for the current year were not enforced and the adjustments were not reversed at year end."

The finance and accounting staff at the Kunshan subsidiary were notified to provide necessary explanations and improvement measures. Chang accounting manager of the company, provided an oral explanation that receipts for maintenance work were obtained after completion and the responsible accounting staff had left the company, and as a result the internal controls regarding abnormalities had been suspended. As the parent company and its subsidiaries are independent corporate entities and financially independent from each other, the responsible persons of the subsidiaries have the authority to make decisions in spite of the parent company being the controlling company of the subsidiaries. The parent company has only the authority of corporate

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governance over the subsidiaries, and the supervisors of the parent company have only the responsibility of demanding improvement and should not give orders beyond their authorities or interfere with the accounting and financial activities at the subsidiaries. Given that negotiation is conducted without affecting the commanding authority of the responsible persons of the subsidiaries and the negotiation must not cause damage to the human relations between the parties, it will be important to negotiate with the central administrative departments and local management units and to require that controls are enforced to reduce operational risks, which involves a number of exchanges of correspondence and bureaucratic excuses, in order to facilitate cross-border corporate governance.

Manager Chang explained the process, "The units must be given some room to maneuver in certain matters. A memo was submitted to the chairman to report this case, and the accounting section chiefs will be required to verify all details at the monthly inspections in order to prevent similar incidents."

Auditor Huang understood that he would like to play down the severity of the matter and the apparent mistakes incurred during negotiation, as well as the problems observed by the auditor, by claiming that, "The receipts were obtained after completion and the responsible staff had already left the company." Auditor Huang, facing the attempt of Manager Chang to make excuses and cover the facts, knew that it would not be wise to directly ask the local leader make improvements according to the rules. It would not be advisable even for the parent company to recite inflexible rules to the local supervisors, which often would produce the opposite of the intended result.

Cross-border corporate governance involves interaction between companies in two different political systems. Therefore, Auditor Huang sought the advice of Assistant manager Lin of the Maintenance Department of the company, and the Assistant manager Lin said, "You discovered the incident because the CEO was strict about not tolerating abnormalities. However, this case is clearly failure to comply with the operating procedures when the accounting and Maintenance Departments conducted reviews. How would a case like this be handled in Taipei?" Auditor Huang replied politely that, "The massive expenses to pay fines in the system clearly indicate abnormalities in the operation. Hence the situation was investigated through a review of the accounting evidence. It is the management's responsibility to protect a company's best interests, and so I would like to hear your advice.". In the meantime, VP Lee (supervisor of the Finance and Accounting Department) received the internal memo issued by Auditor Huang to request for explanation regarding the operational

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abnormalities. The accounting section chief was assigned immediately to provide the related documents for individual items required and made an explanation in person to Auditor Huang. VP Lee stated that, "The former staff responsible for accounting started at the company in February 2012 and left in April 2013. The current accounting staff started less than six months ago. "Frequent employee turnover was the cause of failure to make a smooth transition." Auditor Huang stated that, "It is my understanding that the current control process requires the accounting section chief to cross check for any abnormalities in the transactions every month. Therefore the enforcement of the monthly checks by the accounting section chief, or the lack thereof, goes beyond what you suggest and shows clearly inadequate controls. It should be treated as a failure in execution. Please propose a response strategy for future controls." VP Lee appeared to understand the need for performance controls on process reviews and had immediately issued internal memos to the related department heads and carbon copies to the CEO and Auditor Huang. The memo stipulated that, "All responsible staff, when receiving receipts from vendors, shall verify that the information therein matches the transactions, and shall be prohibited from obtaining illegal receipts for use as proof for expenses. The accounting staff shall enforce the receipt review process and return any unsatisfactory receipts back to the original departments for explanation. Expenses may not be claimed in any future application if a reasonable explanation cannot be provided." An email was sent to all accounting personnel, stating, "All accounting personnel are required to write off the expected items in the books every month and the general ledger section chief will deliver a report to the accounting manager by December 25. For any unwritten-off accounting items and balances, carbon copies are delivered to all accounting personnel, and unwritten accounts that should have been written off in the current must not be carried forward to the next year."

Auditor Huang discovered that the management of Kunshan subsidiary chose not to enforce the internal operating procedures, in exchange for operational convenience. The attitude of implementing only superficial solutions and the tendency to excuse inaction with a lack of clear instructions from the superiors are not simply problems regarding corporate governance. Auditor Huang explained the importance of internal control to VP Lee and requested him enforce the management of receipts and books as well as the controls rules based on the management principles from headquarters. Auditor Huang also requested VP Lee complete the formulation of the related rules as soon as possible.

2.3 Practical difficulties in enforcement of internal control

Hoitash, Hoitash, & Bedard (2009) claimed " The association between corporate governance and disclosures of material weaknesses (MW) in internal control over financial reporting, that board and audit committee characteristics are associated with internal control quality. ", ASHBAUGH-SKAIFFE, Collins, & LAFOND (2009) proposed " The mandate is costly to firms but may yield benefits through lower information risk that translates into lower cost of equity and the firms with internal control deficiencies have significantly higher idiosyncratic risk, systematic risk, and cost of equity. ", Auditor Huang presented first in the post supervision review meeting that according to the non-operating expense and fines in June of 2013:

(1)."Fake receipts resulting from the Maintenance Department's use of receipts issued by non-maintenance vendors to write off expenses", the difficulties were, after random checks of external repairs and attached proofs, (A) Automated outsourcing of machinery maintenance was approved by the authorized supervisor. (B) The maintenance vendor issued a maintenance quote and a list of material requisitions, for the staff requesting maintenance to verify. (C) There were confirmation reports prepared by the engineering staff after maintenance. (D) No receipt was included in the write-off of external repair expenses. It was discovered from the accounting staff that the maintenance vendor did not provide a receipt before confirmation and the payments were made only after the maintenance staff had obtained the receipt. (F) For tax reasons, vendors only issue receipts under a certain limit. Therefore, the common practice is either to obtain a receipt in the following months or to have the maintenance vendor obtains receipts from other vendors and gives away as its own. Thus, it is quite common that the names of the issuing company and the contracted vendor or paying vendor do not match. It is difficult in practice for the staff to verify the legitimacy of a receipt. Recommendations for operations as follows: (A) To specify in a contract to be signed or in an order: The Company will proceed to calculate the payment only after the seller has submitted a receipt. The Company asks the seller to excuse any delay in the payment. (B) To specify in a contract to be signed or in an order: If the seller provides a receipt that does not match the contracted vendor, proof of legitimacy shall be required. If a receipt is found fake, the seller shall be liable for any damage and forfeit beneficial excursions. (C) The staff is prohibited from personally obtaining illegal receipts as proof for payment. The accounting staff shall enforce the procedures for

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receipt reviews. Expenses under circumstances without reasonable explanations shall be paid by the staff.

(2). Fines (A) Taking the Taipei headquarters as an example, a member of the accounting staff was unable to complete the reporting required by the Futures Bureau and was fined RMB\$120,000. The resulting fine was ultimately paid by this member of the accounting staff. In contrast, the Kunshan subsidiary pays fines as a result of employee negligence as a non-operating expense, without approval from the authorized supervisor when the expense was written off, which was a violation of the rules. (B) A special memo was submitted to the chairman, but the chairman had written the comment, "Did the finance and accounting VP and the CEO say nothing?" The Human Resources Department, upon receiving the memo, wrote down "the staff involved should be disciplined" but there was no subsequent action taken. Recommendations: (A) To request that the Finance and Accounting Department enforce the related procedures in order to prevent similar incidents. (B) Fines caused by personal negligence may not be paid out of the company's accounts.

2.4 Strategic difficulties in cross-border corporate governance

Auditor Huang discovered the problem and conducted discussions with CEO Wang to formulate a solution for neglected controls and the failure to comply with internal rules. The solution was presented to the responsible person of Kunshan subsidiary. CEO Wang delegated the management of Kunshan subsidiary in China, who, in addition to following instructions from above to develop finance and accounting management, needed to govern all management related matters for the construction business in China while promoting construction management and project bidding. With respect to business strategies, business plans are proposed by the entities in China and approved by the chairman at the company's headquarters. Regular performance reports are delivered to the headquarters to facilitate the control process performed by the staff at the headquarters. The Sales Department at Kunshan subsidiary obtains information on invitations for bids through different channels before the bids are assessed and made. If the bids are successful, they are allocated to a nearby subsidiary established for the purpose. As CEO Wang is responsible for the operations in China, he cannot be only a messenger for the highest level of management and has authority over resource reallocation during organizational restructuring.

While CEO Wang is a charismatic leader who is willing to take any blame, and

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is therefore respected by his subordinates, his attitude has also created problems in the internal governance system. CEO Wang felt that Auditor Huang followed the letter of the law too closely, and the most important task of a manager should be to create revenue for the company. The focus of this review was on the adequacy of receipt management, accounting evidence management, and accounting staff training in the execution of transactions and expectations in order to reduce the control risks and side effects of inappropriate handling. Therefore, the requests from Auditor Huang were ignored, instead adopting a "watch and wait" strategy. From Auditor Huang point of view, the responses of CEO Wang and the section chiefs suggested that an auditor who places too much emphasis on the company's operating guidelines would be considered hard to please. Additionally, the fines were too large to be feasibly paid by accounting staff. The rule would be difficult to enforce. Supervisors in an organization are entities without actual authority. Potential revenge or resistance from inside the organization would hinder work in the future. However, resorting to human relations would lead to failure to fulfill the obligation to the management, and the subsidiary's management would attempt the same strategy again in the future, to muddle the issue when a similar incident occurs.

2.5 Network governance - potential issues in human relations and discipline

Bouwman, (2011) pointed out that "the same practice creates different influences and effects in different companies and networking governance leads to conventional convergence." Enterprises establish guidelines for actual business activities and transactions and utilize the control system for internal control to conduct the operations. They target processes in which errors occur and take appropriate preventive and corrective measures in order to achieve effective management after improvement. Supervisory processes are implemented to facilitate the management system for risk assessment in measuring the characteristics of different industries and observing the results of improvement. The two systems serve different purposes in the workplace and create a mutually supportive relationship between human relations and discipline.

Auditor Huang first submitted the meeting minutes to CEO Wang for verification. CEO Wang wrote in his reply that, "I have no recollection of saying such things. A lot of things were delegated to different levels. Everyone should know exactly where the boundary of his responsibilities is and I hope Mr.

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Huang would see the facts and be careful with his words." Auditor Huang found out that the purpose of message delivery was not only to inform all parties involved. Transparency in a message could make it less relation oriented. CEO Wang's attitude toward the matter would change. Naturally it was also a form of negotiation, in that it provided a chance for higher-ups to network, thus reducing paranoia and changing the management philosophy in the responsible persons of the subsidiaries. The aim was to change the habits of only taking action when prompted and excusing inaction with a lack of clear instructions from the superiors. This is the secret of human relations and discipline.

3. Research method

This paper explores the situation of cross-border corporate governance. Qualitative analysis was chosen to record the actual circumstances and the authenticity of algorithm. Preliminary methods to obtain information included interviews, observations, and questionnaires. The interviewees were executives in the parent company and Kunshan subsidiary. Inference, conception, interviews, and information collection were combined with inductive reasoning in order to make full use of the data collected, observe the human relations network, concepts and related factors between individual cases, and to summarize different phenomenon in the individual cases. The interactions in the supervisory process were explored and operational process improvements were implemented to improve human relations and discipline between the parent company and the subsidiaries.

3.1 Interview with executive management

Table 1 Table of Interview

Interviewee	Reason	Description and improvement	Notes
CEO Wang	Terms in trading contracts were unclear and the process required improvement.	Purchasing Dept. are required to notify the supplier, if the supplier has fulfilled the contract does not provide invoices, settlement deadlyne interpretation must be in writing and must be accompanied by proof. Notes should be added directly to the new contracts and orders.	Solving existing problems 4.1

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		management Dept. and the auditor's office will randomly check performance.	
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3.2 Questionnaire

35 copies of the questionnaire were sent to department heads or someone higher in the cross-border corporate governance structure. 32 copies were returned for an effective response rate of 91.43%, 3 copies did not response, for a person (Procurement Associate) ready leave, a person (director) back to Taiwan debriefing, a person (human resources assistant manager) new reporting for duty, work experience is still insufficient to answer the questionnaire, mainly questionnaires on cross-border corporate governance and satisfaction with human relations and discipline, which were analyzed as follows:

Questionnaire subjects

Table 2 Questionnaire subjects

	CEO	VP	SVP	Manager	Assistant manager	Chief
Number	1	2	4	16	5	4
Sex	Male	Male	3 Males, 1 female	16 Male s	5 Male s	4 Male s
Department	Managem ent 1	Manufac turing 1, Finan ce and Account ing 1	Sales 2, IT 1, HR 1	Managem ent 6, Finance and Accounting 5, and Manufacturi ng 5	Managem ent 5	Managem ent 4
Average tenure (years)	8	7	5.6	5.5	4.3	3.2

4. Research results

4.1 Interview results

Improve the company's operations in Kunshan competent to positive Response, CEO Wang in his decision-making "The new contract, purchase order directly

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coupled with the new provisions, the purchasing department to partner notification, the asset accounts establishment of uniform provisions headquarters, in accordance with the regulations implemented.", VP Lee in his decision-making "Before the completion of the invoice adjustments, shall not apply. All branches have been temporarily set aside the various cost control accounting manager job requirements to exercise control.", ISO Representatives in his decision-making "Amendments enacted new regulations and the implementation of every business decision control permissions, please indicate the implementation of the business sector."

In summary, the executive management of Kunshan subsidiary thought.

4.2 Questionnaire analysis results

A cross-border corporate governance questionnaire includes the items of internal control, personnel attitude, process time, method, and quality and scores were given on a scale of 1 to 5, representing "satisfactory, good, average, poor, and unsatisfactory" with 5 points for satisfactory, 4 points for good, 3 points for average, 2 points for poor, and 1 point for unsatisfactory. The total score divided by the number of people would be the satisfaction score. For human relations and discipline, the performance of the eight major cycles in internal control and the process quality design were chosen as the questions in the questionnaire. The scores and calculation were identical those for the cross-border corporate governance questionnaire.

(1) Quality of cross-border corporate governance

Table 3 Governance satisfaction questionnaire

Unit: %

	Satisfactory	Good	Average	Poor	Unsatisfactory
Internal control	18	23.2	30.6		
Personnel attitude	32.4	33.6	13.2		
Process time	23.4	28.8	22.8		
Process method	20.7	36.8	17.4		
Process quality	20.7	40.8	15.6		

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Average	23.04	32.64	19.92		
Subtotal	75.6				

Calculation: Copies of The questionnaires responses (n) multiplied by satisfaction coefficient(0.9,0.8,0.6,0.4,0.2).

Observed Kunshan company departments operating personnel, working implementation of the company's policy guidelines are not followed. How to explain the operation and decision-making processes and approval ratings of the decision by the department head, the implementation of the internal control system of the rule of law and to a lesser extent. Competent management and control capabilities are strong, strict requirements; on the contrary, requirements are lower.

Questionnaire responses shows that “Personnel attitude” is satisfaction, Process time , “Internal control” is poor , “Process method” and “Process quality” need to strengthen.

(2) Quality of human relations and discipline (process level)

Table 4 control system and discipline satisfaction questionnaire

Unit: %

Cycle	Satisfactory	Good	Average	Poor	Unsatisfactory
Sales and accounts receivables	54	28.8	2.4		
Manufacturing	20.7	37.6	11.4	4.4	1.6
Procurement and accounts payable	11.7	24	22.8	1.2	0.6
Personnel salary	21.6	30.4	17.4	3.2	
Financing	18	32.8	23.7		
Fixed assets	23.4	52.8	4.8		
Investment	15.3	26.4	30		
Computerization process	27	27.2	25.8		
Average	23.96	32.5	17.29	1.1	0.28
Subtotal	75.13				

Questionnaire responses shows that “Sales and accounts receivables” is satisfaction, “Procurement and accounts payable ” is poor , “Personnel salary” needs to strengthen.

(3)Reliability check

For the purpose of ensuring the reliability of this study and helping coders understand the objectives, questions and category, this study utilized Holsti's (1969) reliability formula. The questionnaires were divided into 2 categories by the researcher, cross-border corporate governance and human relations and discipline satisfaction, based on the contents of the questionnaire. There were 32 (7+25) analysis elements and 5,120 (32 analysis elements ×32 questionnaire ×5 levels) observation elements. The contents were observed by 3 coders to verify the reliability of this study.

Average pairwise percent agreement obtained = $(0.753+0.754+0.756)/3 = 0.754$

(A)Pairwise percent agreement

Reliability formula proposed by Holsti (1969)

The formula for average pairwise percent agreement (A) in this study =

$$\frac{3M}{N1+N2} = \frac{75.6+75.4+75.13}{95+95+95} = 0.7934$$

M: Number of questions answered by 3 coders with identical answers

N1、N2: Number of questions answered by 3 coders separately

(b)Reliability

Reliability formula (B) in this study =

$$\frac{N * A}{1 + [(N - 1) * A]} = \frac{3 * 0.7934}{1 + [(3 - 1) * 0.7934]} = 0.9201$$

n: Number of coding participants

Gerbner (1973) proposed a cultural indicator, which utilized 0.70 as the standard reliability coefficient. A larger reliability coefficient indicates a higher reliability in the measurement. The reliability of this study is 0.9201 and within the standard range.

5. Solutions for individual cases

Dalton & Dalton (2011) proposed that financial performance was one of the essential elements in corporate governance. It is possible that the dependence on reviews is better replaced by constructive use of substitutions on different levels to supplement the shortcoming in the analysis. Armstrong, Guay, & Weber (2010) indicate that the purposes of transparency in the financial statements are to reduce the number of required managers for governance, to reduce disputes between board directors and shareholders, and to reduce disputes between shareholders and creditors. Drucker (1973) pointed out that, "One of the vital

elements in management is measurement and assessment." Past discussions on corporate governance focused on rights proxy and management remuneration design such as the establishment of independent directors, appointment of managers, remuneration committees, audit committees, and selection of internal audit supervisors or the impact of professional institutional directors or large shareholders. Love(2011) says that most of the evidence so far shows a connection between a proactive corporate governance practices and a variety of performance measures. Corporate governance can be generated internally as determined by a company's physical characteristics and environment. A manager in a subsidiary is a part of the subsidiary management facing supervision from above, but is also obligated to act in the best interest of the shareholders. Therefore, in the event of conflicts of interest between the group and individual companies, the responsibility of coordination will play a much more important role.

This paper referred to an individual case of cross-border corporate governance. The discussion of cross-border corporate governance focused on the corporate governance imposed by a parent company on an overseas subsidiary. The management of the overseas subsidiary was under the control of the headquarters, and the board of directors of the parent company planned to send the internal audit unit at the headquarters to supervise the subsidiaries. The auditors would conduct onsite audits. If the cross-border company had the same cultural background between different locations, such as Taiwan and China, supervision of the audit supervisors at the subsidiaries would tend to accommodate human relation. On the other hand, supervision required by the board of directors and the supervision review faced by the management of the subsidiaries would have to comply with complex operating guidelines and discussions on changes in current circumstances. The topics of discussion could be divided into three aspects. The first is how to establish a control system and management of exceptions, the second is to develop relation networking in order to enhance cross-border management, and the third is the utilization of supervision and a shared decision making system.

5.1 Establishment of a control system and management of exceptions

As the decision making authority for the overseas subsidiaries was held by the executive management of the overseas subsidiaries, it was not possible to intercede in time in a large number of violations of the rules by the subsidiaries. The only possible response was to send requests for explanation. In the internal

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process of cash flow control, the most important element is the payment application process and receipts and proof of acceptance have to be audited and checked for significance. (A) Failure to send immediate feedback on incomplete statements prevents the management from determine whether the seller is unable to provide a receipt or related proof and whether to suspend payment of the accounts payable; or to reinforce the statement process to reduce incomplete internal acceptance of proof in order to reduce the impact of any outstanding balance on the balanced relationship between the parties. (B) For failure to send immediate feedback caused by the seller refusing to complete the transaction the contract is not signed (incomplete proof), dispute over quality or delivery date, or the seller demanding a higher price or delivery delays, the seller will be asked to deliver the goods in part or complete signing the contract as soon as possible. The existing controls often fail to provide timely information to facilitate management decisions and cause damage to the company.

In addition, when a purchase receipt cannot be obtained with the delivery as specified in a trading contract or the seller is unable to issue a receipt and uses instead a receipt issued by another vendor, the choice between insisting that the seller follow the terms and issue a receipt with delayed payment and undertaking the risk of incurring a fine for the fake receipt by accepting the third party receipt is often made with consideration of avoiding disrupting the trading relationship between the parties. However, for the purpose of having an audit trail for the application and approval in order to eliminate disputes in future reviews, it is recommended to keep complete management information under the scenario at the time as well as the audit trail for the decisions made at the time. However, the highest level of management may exercise discretion within the scope of its authority in order to ease the tension in the situation and let the management of the subsidiaries enforce implementation. Making different decisions through communication and feedback and based on the circumstances may be another good idea and a good way to manage exceptions.

The greatest problem in this discussion was that the local management thought flexibility was very important. He had the authority to resolve certain matters over which they considered they had authority and full authorization meant that they could be flexible and make changes to reference points as circumstances required. As a result, room to maneuver was very important to the management of exception. Ultimately, the management of the subsidiaries is responsible for all outcomes and any deviation from the rules should be stopped immediately. It is a difficult issue in cross-border corporate governance.

Authorization does not equal delegation after all. In order to enhance

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operational controls, corruption prevention and profit generation are vital. When different scenarios require small modifications to the processes, they must be decided by persons with the authority and not by any individual, and a good cycle of plan, do, check, and action should be executed. Therefore, it is better not to disrupt a complete process as one detail can render the guidelines nonexistent or even destroy the system as well as all difficult issues of management responsibility and cross-border corporate governance. To ensure full use of symmetric information and enforce communication and feedback is the only way to enhance business performance.

5.2 Development of human network to enhance cross-border management

Krishnan, Wen & Zhao (2011) state that the latest trend in the makeup of the company's board of directors shows that more directors with professional legal expertise are being appointed. Connelly, Hoskisson, Tihanyi & Certo (2010) indicate that different ownership structures with enhanced management awareness increases the impact on performance of business owners. This study explains that given a lack of the optimal condition for corporate governance, supervision has become a symbol of the emphasis on human relation in Chinese companies and the companies are using it to increase profits and company value. As China maintains the current economic system, supervision represents a partnership of resource sharing and mutual dependence between companies. Most of the studies of supervision focused on the discussion of the impact on business performance and neglected the functions of cross-border management such as joint research and development, reduction of management information asymmetry, and process improvement for greater benefits. Research has found that for individual companies, cross-border management has a positive effect on business performance; for a company as a whole, supervision can reduce management costs. The process improvements pointed out during supervision do not focus on the business performance of individual companies but on the mutual benefits between affiliated enterprises. Therefore, the cost of process improvement has a negative effect on the percentage of the R&D expenditure. Process improvement helps to reduce the R&D expenditure for individual companies while supervision performed by a company helps to increase its business performance.

Internal control represents the characteristic of "discipline" and leads to the discussion on human relations and discipline. Companies use it to increase profits and company value. As China maintains the current economic system,

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internal control and supervision represents a partnership of resource sharing and mutual dependence between companies. In addition to regular reports of business performance management, financial statements costs, and expense management, the control on supervision requires that for acquisition of sufficient resources, designated management departments or personnel should be established in the organization to assist the employees in knowledge management in order to ensure sharing among employees, feedback and knowledge building, and internal process transformation for enhanced productivity, quality, reduced costs, and increased competitiveness. Enhanced process management leads to reduction in operating costs and expense ratios and increase in business performance. The design of a management performance feedback mechanism is to be based on the parent company's financial performance and process performance. Management experience is returned and transformed into management knowledge in a systematic manner in order to facilitate consistent increase in corporate intellectual assets. Consequently, a solid business philosophy can serve as a long term competitive advantage for a company and encourage growth. The development of cross-border corporate governance was found to be beneficial to a subsidiary's business performance.

5.3 Utilization of supervision and shared decision making system

For the purpose of breaking out of current market constraints and keep up with corporate development and growth in overseas markets, a parent company has to place local managers in command, thereby creating the issue of cross-border corporate governance. It is a problem that requires careful handling. A parent company, as the major shareholder of its subsidiary, controls business performance, product price assessment, profitability analysis, and the profitability of the company.

The case in this study presented another important decision making approach, which was how much flexibility in decision making should a parent company give to a subsidiary? The question involves the facts that "the management of a subsidiary with authorization is fully responsible for all outcomes" and "the management of a subsidiary participates in management of the company but shares none of the benefits of successful decisions or the losses of failed decisions, which will be born by the executive management of the parent company." Considering the two principles above, a joint decision making system is very important. It does not answer the question of whether a decision

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is important, but allows the executive management of the parent company to see whether the subsidiary made the decision out of personal interest, laziness, risk-taking attitude, or experience.

6. Conclusions

The significance of cross-border corporate governance is "to understand a subsidiary's execution of management requirements by the parent company and more importantly to achieve corruption prevention and profit generation by verifying the authorities of the parent company and its subsidiaries and the completeness of different assets." Jenkinson, & Mayer (2012) indicate that the form of corporate governance varies significantly from one country to another. The reasons for the differences and the consequent business performance are mainly the result of different companies and the local form of legal ownership. This study has found that although operational abnormalities stipulate process modification in order to reduce operational costs and prevent future occurrences, these factors do not necessarily have an impact on cross-border corporate governance. Owners and executive management have to ensure that the established business models meet the expectations of the business and customers. As a result, the effect of cross-border corporate governance is not significant. It affects how companies approach market competition under different business strategies and consequently the company's business performance in the future. Payne, Benson & Finegold (2009) indicate that performance teams will facilitate an efficient board of directors and affect a company's financial performance. To improve a company's performance should start with improving the existing processes and establishing standard guidelines. The main objective of this paper is to help the subsidiary's employees understand the current management policies of the parent company and ensure complete communication and feedback. In other words, the greatest objective of cross-border management is to raise awareness of human relations and discipline or "effective control."

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