Reflections on Corporate Governance

Domnişor Sorin
University of Craiova, Faculty of Economics and Business Administration
domnisorusorin@yahoo.com

Dragomir Isabela
University of Craiova, Faculty of Economics and Business Administration
isabela.dragomir@yahoo.com

Dan Roxana Loredana
West University of Timisoara, Faculty of Economics and Business Administration
roxana.dan90@yahoo.com

Abstract

While approaching a complex topic which has long been debated in the specialized literature, this paper makes an attempt to capture a significant part of the recent shortcomings of corporate governance, in spite of it being recently thought to have reached a considerable level of perfection. It enumerates some important issues and reflections, while the authors manage to express their own reflections on what else could be done so that corporate governance may become more successful in creating a healthier social and business environment.

The paper at hand emphasizes the fact that learning from the past is the first step towards, in the long run, a future society of responsibility and ethical corporate governance, in which quantity and tight time limits may become obsolete and replaced by a constant concern with sustainable growth as a safe way to maximize the value of certain entities, and to achieve the general interest.

Key words: corporate governance, social and economic environment, ethics

J.E.L. Classification: G34, M40

1. Introduction

Corporate governance is a complex concept, the practice of which has begun along with the first forms of social partnership, although the current notion of corporate governance was only coined in the 1980s. As Tricker showed in his work (2015, p.4), Chaucer, one of the best English poets of the 14th century, who used the concept in his work, was in doubt as for the correct spelling of the word: either “gouernance” or “governaunce”. Shakespeare illustrated the paradigm of the practice of this form of entity governance in his play “the Merchant of Venice”, by describing the agony which was tormenting Antonio, the merchant, as he saw his ships sail away with his entire fortune, after having entrusted his wealth for others to manage.

If we think of corporate governance in legal terms, we could say that it originated in the legal system, in the concept of “corporate law”, which goes back to the middle of the 19th century (https://en.wikipedia.org/wiki/United_Kingdom_company_law). Its object of study was how shareholders, directors, employees, creditors and all the other interested/affected parts interacted with one another (https://en.wikipedia.org/wiki/Corporate_law).

Blair (1995, p. 19) believes that corporate governance is a correlation of legal, cultural and institutional measures which describe what various entities do, the person in charge, how control is exercised, how risks are assigned and how it affects the actions of the respective entity.

Wolfensohn (1999) believes that corporate governance is as important in the economic environment as state governance is in the political world, as it aims to promote corporate correctness, transparency and responsibility.
After what seemed to be the maximum level of appraisal of corporate governance, a series of financial and economic mistakes proved that corporate governance is a double-edged sword. It is not only built around a set of paths leading to performance, but it can also be “the tempting cup” beyond which different opportunistic leaders create different illusions. The latter can, in the long run, prove to be genuine bombs, with contaminating effects, which can make the entire social and economic environment explode.

Within this context, corporate governance is not described as a new paradigm, but day-to-day reality makes it increasingly interesting, given the premises it is able to generate within an entity and its impact upon the economic dynamics in general.

If there is such thing as “the positive effect of crises” or of failure, in relation to corporate governance, it is the fact that they show the uncosmetized face of reality and they create the perfect moment to “change governance policies” (Organization for Economic Cooperation and Development, 2009).

Morariu (2012) describes corporate governance as “encompassing the formal and informal public and private entities of a country, which rule together to govern the relations between the administrators of those corporations and the people who invest their resources in the corporations in the respective country”.

A considerable number of interested and/or affected parties, including governments, regulation authorities, surveillance organizations, professional organisms, as well as international agencies and organizations, such as the International Organization of Securities Commissions, Organization for Economic Cooperation and Development, United Nations Conference on Trade and Development, and the World Bank are currently debating the challenges and solutions for an efficient corporate governance (https://www.ifac.org/global-knowledge-gateway/governance?overview).

Within this framework, the starting point for the debates regarding corporate governance constituted the failure and weaknesses of corporate governance mechanisms, including the systems of risk management and executive compensation (Kirkpatrick, 2009), as past lessons that can be used to reinforce principles and improve governance practices. Other debates have turned towards the deficiencies of the corporate governance framework and the incompetence of internal and often external audits (Angur, 2009; Afrasinei, 2009; Haspeslagh, 2010; Jones, 2011 and others) as causes of these mistakes.

The International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy (2014) notice the need for an efficient corporate governance in the practice of the entities and feel that it can only be achieved by means of a qualitative, rather than a quantitative approach, which would, in the long run, prove unreasonable. It is already claimed by everyone that it is necessary to base corporate governance upon integrity, objectivity, transparency, responsibility and intellectual honesty.

For instance, in an attempt to identify the best way to practice corporate governance, Armstrong et al (2016) believe that financial reports are essential, as they can contribute to an efficient corporate governance, by ensuring a transparent environment in which, theoretically speaking, the managers’ interest can meet the shareholders’. The authors think that, by means of high-quality financial reports, it is possible to soften the informational asymmetry and provide early warnings on profitability and risks to the respective entity, enabling it to intervene in order to remedy the situation. A similar point of view is expressed by Avram et al (2017, p.87), who think that governance also includes the surveillance of the financial reporting process.

In a different train of thoughts, Tricker (2015) suggests a complex approach to corporate governance, structured in three parts: principles, policies and practices. The author's vision includes the origins and evolution of corporate governance within the context of the financial crisis, the legislative framework and case studies related to corporate governance in certain states. The work also brings to the reader's attention the executive compensation systems and brings forth the topic of what can be done for a more efficient corporate governance, as well as the attitude towards risks and the importance of organizational culture within the corporate governance of various entities.
Within this framework, our study makes an attempt at detailing the existing studies regarding efficient corporate governance, while drawing attention to the fact that the principles of an efficient corporate governance are useless in the absence of the necessary key factors enabling entities to implement it. We will also try to express a point of view regarding the way corporate governance can be put into practice.

2. Summary regarding the evolution and contents of the concept of corporate governance

Getting a clear image of the evolution and contents of the concept of corporate governance implies hard work and an ample framework, which will be thoroughly observed during our research activity. Nevertheless, given the fact that such an introduction is imperative to our study, we shall enumerate some of the most important elements related to the evolution and contents of the notion of corporate governance. Thus, in 1992, Cadbury defined corporate governance as “the system used to manage and control entities”.

The evolution of the economic environment led to the development of various approaches, resulting in an expression according to which corporate governance is “the set of responsibilities and practices exerted by the Administration Board and the executives in order to provide strategic orientation, reach objectives, manage risks and ensure that the organization's resources are used responsibly” (International Federation of Accountants, 2009).

Hilb (2012, p.7) defines corporate governance as “a system by means of which companies are strategically and integrally managed and holistically controlled in an ethical, entrepreneurial way, according to the given context”.

OECD (2015), believes that “corporate governance implies a set of relations between the management of an entity, the administration board, the shareholders and the stakeholders. Corporate governance also assumes the organization enabling the managers to determine the entity's objectives, the means towards these objectives, and to monitor performance”.

After having analyzed the above-mentioned concepts, we can infer that the study of the concept of corporate governance has evolved in time, resulting in richer contents. It began with entity administration (“ruled and controlled”), in which the entity's actions complied with strict rules, and went on to ensure sustainability, by considering the interests of the social and economic environment, resulting in responsible decisions and use of the existing resources. Conceptually speaking, this was a happy measure, given the fact that the actions of the parts (“integrally managed and holistically controlled”) constitute an entire set, the success of which is largely dependent on the harmony (“set of relations”) and approach (“ethical”) on the part of those who add value to the contents of any projection: the people.

The entire theoretical evolution of the study of corporate governance led to the idea that “rules and procedures are not enough to ensure a proper workplace behavior (Schu, 2016). Something else is necessary in order to restore business balance. Within this context, “the landscape of corporate governance is changing and we must all make an effort to improve trust in the business environment and to promote a stronger economy” (Financial Reporting Council, 2017).

3. Towards the future of corporate governance: how can we align theory and practice?

In our attempt to reveal this “something else”, we are joining those who have noticed that, despite its constant concern with improving, corporate governance has yet failed to prevent the occurrence of economic failure and financial crises. As Broadley mentioned in 2006, no governmental system, regardless of how well it is conceived, will fully stop the greedy, dishonest people from placing their own personal interests above those of the entities in their administration.

Short-term earnings have led the leading structures to venture foolishly into taking exaggerated risks and to invest heavily in unprofitable current assets without holding sufficient information or taking useful hints. It is no surprise the fact that “the way the managers, the monitoring authorities, the financial auditors or the rating agencies carried out their duties”, has led to the creation of an unstable environment (Bulata, 2014). The result was a series of business failure: Enron, WorldCom, Tyco, Parmalat,Comroad, the maximum point of which being the financial crisis in 2008. The business behavior which characterized the management structures of these entities is
similar: manipulation, an appetite for fraud and deceit and discarding long-term thinking, in favor of today's benefits. This was bound to undermine value and bring about business failure.

In a more general perspective, it is our belief that the pursuit of immediate, exorbitant amounts of money was made possible by the annihilation of the protection provided by the system of internal control in its largest sense and of the possibility to make an early diagnose of problems thanks to financial auditing. The perversity of the leading structures also contaminated the external audit and converted it to suit their own interest by using a common god: easy money. This was done by means of not only having a certain firm run the external audit, but also acquiring various services from the same firm (such as audit services or business consulting), which enabled the corrupt company to conceal reality in misleading statements which were meant to portray an efficient corporate governance.

Nevertheless, it is our opinion, as well as that of most specialists, that various measures can be taken in order to reduce the risk of fraud and to restore normality to the economic community, given the fact that there are visions and governing principles, but they are not properly put into practice. Within this context, Bulata (2014) believes that the entity's actions should be conducted in transparent conditions, profit should be reconsidered and seen from the perspective of correct accounting practices, just compensation and clear financial reports, which should not mislead the market. Moreover, it would be desirable that all of these elements may not be approached based on the idea that profit is the only performance indicator.

Dennery (2013), believes, and so do we, that an efficient corporate governance should make use of the leaders' judgment. They should learn to distance themselves from the theoretical approaches to corporate governance, implement it effectively in making decisions and taking risks, and start taking ethics into consideration in order to achieve a socially responsible governance of the entities.

Avram et al (2014, p.49) consider that the future of corporate governance can be approached either passively (“we'll see what happens”), or proactively, by setting the premises of bringing forth a more desirable future.

As far as we are concerned, we think that, when organizing and carrying out an entity's actions, it should be taken into consideration the principles and contents of the concept of an ethical corporate governance. It is the only way to create good practices of corporate governance that would serve a social interest.

In our opinion, it is necessary to create a Framework of corporate governance with worldwide applicability, as is the Universal Declaration of Human Rights, based on ethics, morality and professionalism, and the implementation of which should be ensured by a rigorous sanctioning of those who intentionally disregard ethics and the law and go down the road of fraud. Given the fact that we are all responsible for the social and economic environment and for our own welfare, we must not compel the future generations to live in an unbalanced environment with neither social nor economic resources. On the other hand, we think that an efficient corporate governance should be the background of socially responsible organizational cultures created by capable leaders, who would reinforce the system of internal control, in a creative, mobilizing and restoring way, which would eliminate shortcomings and frustration. Also, as indicated by most of the members of the economic community, the economic field will require some highly trained professionals, who may take responsibility for their own decisions.

As Colella inferred in 2017, “using past mentalities to solve tomorrow’s issues will undoubtedly fail”. We can never have a clear prevision of what the future holds, but one thing will always be certain and true: “ethical management, integrity and wisdom are absolutely essential to the governance of any business”.

Corporate governance seems to us to take on the aspect of an eternal topic, as it will long be the object of theoretical research and debate of various professional organisms, in order to provide answers to an entire range of concerns: How can we implement the results of the studies regarding the efficient corporate governance of entities? Who bears the responsibility of monitoring the practices of corporate governance at the national, international or global level? Who should sanction digressions from the principles of corporate governance, and how? Could this monitoring affect the principles of a democratic society and set the premises for tyranny, or for a set of unitary, responsible practices? …
The main shortcoming of our work is obviously the fact that it does not provide an exhaustive approach, but stays rather principled. However, it is our opinion that this material constitutes a good starting point for further quantitative research aiming at identifying various factors and quantifying their individual and concentrated influence upon the quality of corporate governance. It may also prove interesting to study the comparative analysis of different models or specific cases of corporate governance etc.

4. Conclusions

In the end we have reached the conclusion that corporate governance tends to develop into becoming an institution, with an entire series of complementary elements: leaders, shareholders, stakeholders, legal framework, professionalism, organizational culture, internal control and audit, sustainability, long-term visions, seriousness, responsibility, etc.

The good practices of corporate governance are mere reflections of the theoretical principles in the actions of various entities. On the other hand, it is important to stay reasonable and admit that any system, regardless of how good its intentions are, will always have shortcomings. However, these shortcomings should not be caused by human premeditation, rather they should take on the aspect of a force majeure event.

Our study emphasizes the fact that learning from the past is the first step towards, in the long run, a future society of responsibility and ethical corporate governance, in which quantity and tight time limits may become obsolete and replaced by a constant concern with sustainable growth as a safe way to maximize the value of certain entities, and to achieve the general interest.

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