Implementation of Corporate Governance Models that Ensure the Most Efficient Management

Ionuț Riza
Costinel Cristian Militaru
Aurel Dincă
University of Craiova, Faculty of Economics and Business Administration, Romania
rizaionut@gmail.com
cristianmilitaru2005@gmail.com
aureldinca@yahoo.com

Abstract

Globalization increases the complexity of the business world. A successful global business is challenged by this complexity, which makes it difficult to create strategic plans for the future. Corporate governance therefore involves the relationship between several players (shareholders, managers and the board of directors) and the company's objectives. It is used to verify the concordance between objectives and results and to motivate the organization to improve its activity by aligning behaviors. The governance structure consists of the rules and procedures that influence the decision-making on corporate affairs, representing the way in which the company's objectives are established, as well as the means to achieve and monitor the performance of those objectives. This article analyzes the main models of corporate governance, practiced by companies, respectively are identified and prioritized each component of the models.

Key words: corporate governance, shareholders, company, managers, decision-making
J.E.L. classification: O16

1. Introduction

The concept of corporate governance is a lesser known notion in Romania. The term corporate governance refers to the set of rules by which a company is governed and controlled. Corporate governance is the combination of control elements that operate together to regulate the relationship between all those who have an interest in the company: shareholders, management, employees, customers, suppliersc. Corporate governance aims to increase the company's performance and harmonize different interest groups. In particular, after the great scandals that shook companies such as WorldCom or Enron, governments and supervisors focused their attention on establishing a more efficient system of corporate governance.

Corporate governance is an extremely difficult subject to define in a single sentence. Some have a narrow view of corporate governance, considering that it has to do with the functioning of the management group and its relationship with the management department. This definition is found in the OECD Code of Governance and Corporate Governance Principles, discussed in 2004. A broader definition includes the company's relationship with its shareholders, especially in high-property organizations. Finally, academic studies dealing with governance extend the definition to all relationships within a business, including issues raised by the actions of its shareholders, especially investment institutions, the operation of the general meeting and the company's relationship with financial markets.

No matter how complex the concept of corporate governance is, it can ultimately be reduced to a simple formula to optimize its main goal, the creation and distribution of wealth. Corporate law and financial market regulation authorities are trying to formulate this optimization equation, thus helping to design rules for striking a balance between the various interests of corporate investors.

Different legislative systems of the European Union are involved in a convergence process: in each Member State, companies function properly due to the harmonization of capital, staff structure, sales and production opportunities. The conceptual differences are associated with a special aspect: the involvement of shareholders is related to the postulate that managers are mainly appreciated for the attention paid to investors' interests than those of shareholders, ie the degree of protection of employees and creditors.

International standards on corporate governance focus on the sphere of joint stock companies. In Romania, the companies listed on BVB are far from having a management that takes into account the interests of all shareholders. The principles of corporate governance are ignored by smaller issuers and inconsistently applied by large ones. The idea of an administration with a high degree of transparency does not delight the administrators of the companies, although it has been circulating in the stock market environment for some time. For one reason or another, companies do not consider it a priority to move to the Plus category, where only issuers that have mastered these principles reach.

Most companies consider it difficult to adopt the rules of corporate governance, because it involves changing the articles of association of the company. The changes would aim, among other things, at respecting the rights of shareholders, fair treatment of all shareholders, and sufficient and transparent communication. Last but not least, corporate governance requires a well-developed control system.

The companies are not obliged to apply the mentioned system in order to be listed on the stock exchange. Its application is, however, a necessity, the capital market law being made according to European Union Directives that refer to a good corporate governance. This is the reason why the Stock Exchange has developed a modern management code.

The main purpose of the article is to analyze the main models of corporate governance, practiced by companies, and to identify and prioritize the specific components of each model.

2. Literature review

In Dragomir (2010) theoretical and pragmatic view, corporate governance is analyzed as a set of organizational and institutional mechanisms aimed at different powers, to influence the decisions of directors and to reduce their optional scope.

In the United States, over the past decade, corporate governance has been the subject of intense debate amid countless proposals for definition. For the purpose of this preliminary discussion, corporate governance refers to the internal organization of a corporation, the purpose of which is to provide a reasonable guarantee for corporate executives who make decisions based on certain organizational attributes (Bostan and Grosu, 2010).

The legal basis of companies in the United States is contained in the General Corporate Law of Delaware. This act is often debated, rarely understood, mainly due to the fact that it is not a federal law, and due to the lack of a government agency responsible for ensuring stricter enforcement. Its clauses can be divided into three main themes (Renard, 2002):

(a) the creation of a corporation;

(b) the laws of a corporation (statutes, charter);

(c) the potential responsibility of the steering committee.

In contrast, considering the United States Securities Act, this regulatory document is certainly much better perceived, mainly due to the fact that it is a federal law whose implementation is closely monitored by a government agency.

In the United States, corporate governance dilemmas are partly focused on supervisors' supervisory work and partly on the shortcomings of the board's management, caused primarily by the risks inherent in ensuring corporate investor liability. Similarly, it can be said that in the U.K., similar problems were posed by the Bank of England, the relative passivity of directors, which led to several corporate scandals in the 1970s (Ghiţă, 2004).

Anglo-Saxon countries, ie the U.K., Canada or Australia, are classified as common law countries, in contrast to many countries in Continental Europe, such as France, which are considered to have a civil law system. In common law countries, the freedom to formulate incorporation and charter acts is much more pronounced than in countries with a civil legislative system, thus being used as a barrier against uniformity in the field of trade laws. What strengthens the code of a best practice code is against its non-binding nature, the London Stock Exchange requires listed companies to debate a statement of agreement with code principles. Non-compliance with these standards is possible, but any deviation should be explained based on the compliance-or-explanation principle (Ghiţă and Sprânceană, 2004).

Referring to France, in the mid-1990s the country witnessed the emergence of corporate governance formulas and phenomena, taking into account the influence of major factors: the uncontrolled globalization of financial markets - despite the market shock caused by the international financial crisis, internationalization of the French capital market, privatization and political involvement of private and public companies (Arens and Loebbecke, 2003).

About two decades ago, Canada's corporate governance system was reformed to the highest standards in the industry. In 1994, the Toronto Stock Exchange (B.V.T.) published the report of the day entitled Where were the directors?, which became a benchmark in the field of corporate governance. According to this report, government failures are the result of resonant scandals - the Commercial Bank of Canada, the Bank of Nothland. The Canadian Code includes 14 provisions, which are considered to be standards of good corporate governance in Canada, and even internationally. This code of governance took into account, beyond principles and rules, the interests of the various constituent elements - legislators, investors, corporations and the government (Renard, 2002).

The separation of control ownership has led to a constant suspicion about the conduct of managers. However, there is nothing to stop us from believing that, in some situations, managers could be the victims of miscalculations from shareholder strategies, when the abuse of the former is incompatible with the creation of values.

The purpose of this relationship between agents is to obtain internal and external mechanisms implemented as managerial interests, seeking to satisfy exclusively the interests of shareholders. On the other hand, this relationship is also focused on a performance-based remuneration system for directors. In addition, a workforce, supposed to be efficient, is a way to discipline managers. The financial performance of a company is the basis for increasing the remuneration of managers in various forms, for example by providing them with plans for stock options. This type of remuneration encourages agents to maximize the value of the action in order to take full advantage of an opportunity to earn as much as possible. If shareholders and managers have interests that are formulated for the same purpose, it could facilitate a conflict with creditors, since the entity could benefit from more risky projects to increase shareholder wealth (Renard, 2002).

Appointed following the shareholders' vote, the board of directors decides on important prerogatives related to internal control and supervision. Obviously, it is almost impossible for the decisive powers, on the one hand, and the prerogatives of control, on the other, to be held by the same persons; hence the need to appoint external directors to the board of directors. If these two attributes are well separated, the costs of actions are kept to a minimum and managers will be controlled effectively. If the board is not able to effectively supervise the actions of the executors, investors are asked to do so by voting through delegates and collective actions taken during the general meeting of shareholders (Bunget *et al.*, 2009).

To resolve conflicts between shareholders and creditors, two methods seem to be the most used: preventive clauses and tradeoff (or compromise) arrangements. Even if the protection generated by preventive measures is only partially effective, creditors could try to reduce investment risks by proposing various clauses that could reduce the occurrence of reprehensible behavior on the part of shareholders or executives. In this category of defense-related clauses, creditors may include restrictions on: financing policy, dividend policy, investment policy, early repayment and the possibility to change and use hybrid insurance – shares (Dragomir, 2012).

With regard to exchange arrangements, control of the company should be taken over by creditors when the value of the company is equal to or less than its liquidation value. Lenders are not without defense since their shares do not provide them with control rights in the event of bankruptcy. It can be said that the exchange arrangement could reduce the cost of shares by restricting conflicts of interest between shareholders and creditors, the latter becoming shareholders themselves.

These events could encourage restructuring, which is absolutely necessary in the case of managerial efficiency and the distribution of wealth among creditors and shareholders (Ghiţă, 2004).

In order to analyze the events that have taken place since the second quarter of 2000, and taking into account their influence on corporate governance systems, it is possible to take further steps to improve these systems, namely the institutional components and the involvement of the agents concerned. The two stages must be combined, since the reduction of institutional integration is a fundamental component of the profile and of the corporate agents. However, both behavioral and institutional failures could be examined for each of the leaders of the corporate governance system. In this regard, not only the corporate components involved could be examined, but also the supporting elements, the purpose of which is important in corporate governance. Some of these components carry the attributes of regulators.

If the manager of an entity is also its creditor and sometimes the main shareholder, the governance mechanisms are either almost non-existent or strictly peripheral. The opposite situation, when investor involvement leads to the formation of large companies, running considerable wealth, is related to two fundamental elements, both being well established as American values. First, the entrepreneurial culture allows managers to achieve their investment goals when faced with new challenges related to shareholder demands. Second, the primacy of property rights leads to the establishment of several governance mechanisms, designed to ensure that owners are not harmed and that the entity's activities proceed to their advantage. These two elements are more or less compatible, but they are certainly part of the overall picture of the political, ideological and cultural values of the American economic environment. They justify the implementation of certain corporate governance systems in the United States, taking into account the multiple images of different historical periods (Ghiţă and Sprânceană, 2004).

The media implications of stock market developments over the last decade and the increasingly significant involvement of financial analysts have led to the expansion of managerial opportunism which, in some cases, has been a key pawn that has led to the bankruptcy of entities. Some cases of fraud assessment and review have been published en masse, namely Enron and Worldcom. The long-term vision of the company implies a strategic direction of a rational nature, leading to an increased performance of the entity (Renard, 2002). Thus, profitable choices will contribute to improving the competitive situation for a group of companies, with the main goal of reducing the risks of all the activities of that group. Short-term legal representation derives from the fact that shareholders have fixed contracting ties with the entity, so that they can easily give up the invested capital. In the case of resale, the costs will include any loss of value - when the sale price is lower than the purchase price and the transaction costs - costs that occurred during the sale and purchase of the shares (Renard, 2002). Shareholders will be oriented towards financial indicators - cash flow, earnings per share, and will not consider other indicators that lead to the long-term performance of the entity.

3. Research methodology

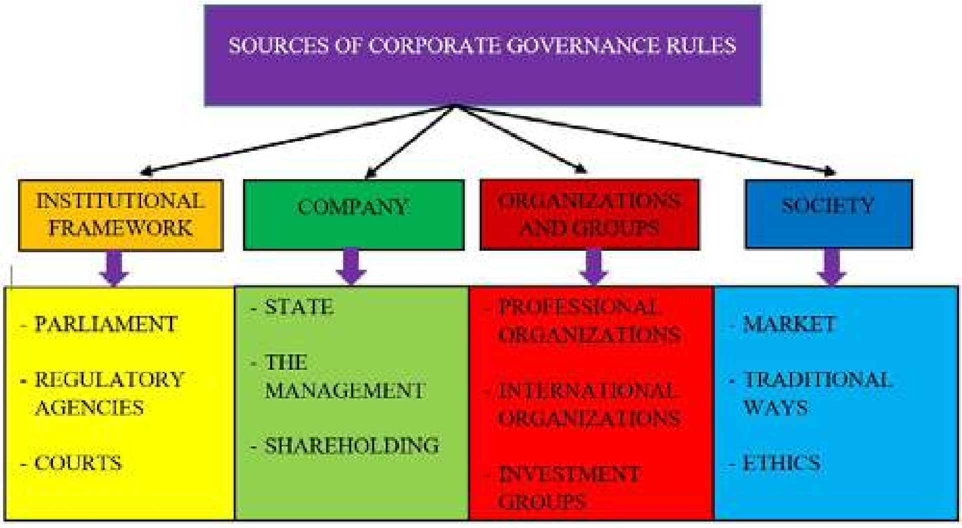
In the research study on corporate governance, 130 shareholders from various companies in Romania were involved. The research method was based on the questionnaire and the size of the sample in this study was simply a random sample. In order to determine the value of the loan, the method of alfa-Kronbach, the value of the loan was equal to 0.86. For the analysis of the data, statistical methods were used, such as Friedman, Pearson and Spearman methods.

The research was based on the analysis of five elements that define corporate governance:

1. Employees: together with the structures in which they operate;
2. The boards of directors that represent the management body of the enterprise and that approve the company's strategy;
3. Steering Committee: the top management that is responsible for implementing the strategic decisions taken;
4. Shareholders: who can express themselves through the vote guaranteed by holding shares but who have the possibility to leave the company by selling the shares if they do not agree with the decision taken;

In the research, it identified the main sources of corporate governance rules that ensure optimal current economy: institutional framework, company, organizations and groups, society (Figure no.1).

Figure no. 1 Sources of corporate governances rules



Source: Developed by authors through adaptation and processing after Renard, 2002

During the research, the corporate governance models practiced by the companies subject to the research were analyzed and in this section the elements of each model were analyzed and prioritized (Table no. 1).

Table no. 1 Corporate governance models

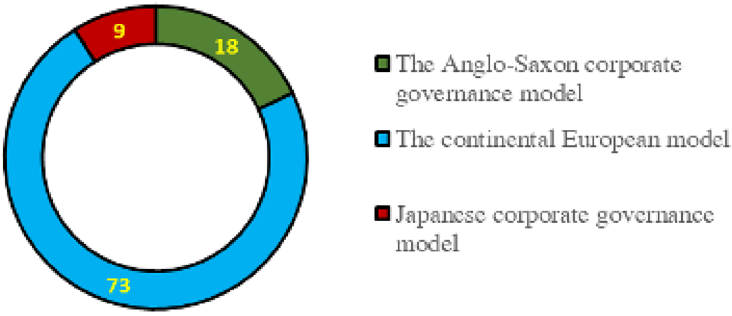
The Anglo-Saxon model	The continental European model	Japanese extended model
Oriented towards the stock market	Oriented towards the banking market	Oriented towards the banking market
Based on shareholder ownership	Based on shareholder ownership and the correlation between Employees and the company	Based on the interests of stakeholders
Dispersed shareholding structure	Concentrated shareholding structure	Concentrated shareholding structure, (cross-ownership of shares)
Control mechanism: internal	Control mechanism: internal	Control mechanism: internal
Accounting System: Generally Accepted Accounting Standards-GAAP	Accounting system: International Financial Reporting Standards -IFRS	Control system: Combination between GAAP and IFRS regulations

Source: Developed by authors through adaptation and processing after Renard, 2002

4. Findings

The analysis of the research study showed that 73% of the interviewed shareholders implemented the Anglo-Saxon corporate governance model, the second most important was The continental European model with 18%, and the last place with 9% was occupied by Japanese extended model (Figure no. 2).

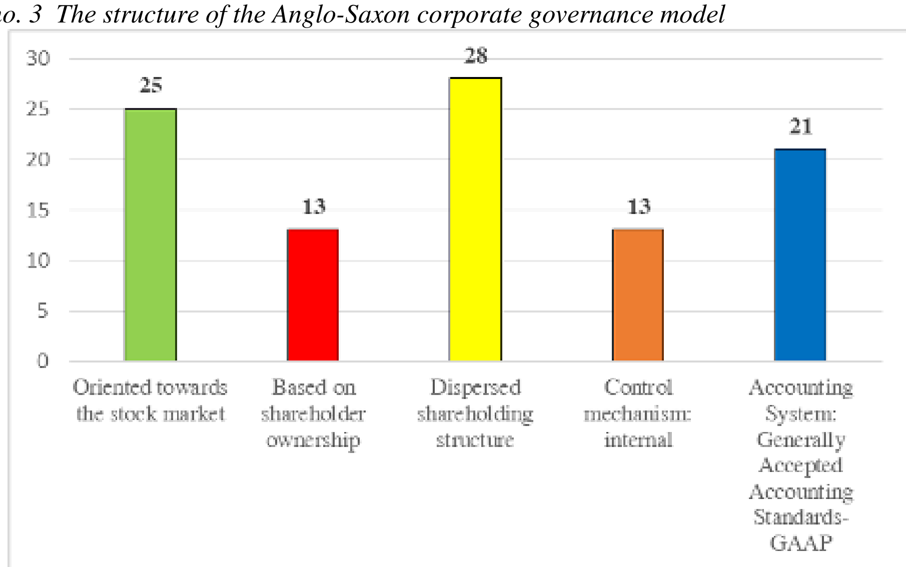
Figure no. 2 Percentage of implementation of each corporate governance model



Source: developed by authors

Anglo-Saxon corporate governance model: is based on the dominance of independent people and individual shareholders who are not related to the corporation through business relationships (outsiders). The share capital is dispersed to a lot of shareholders who are mainly interested in dividends. Shareholders are aggressive and revolutionary in accelerating the implementation of effective policies, being prone to the rapid reorganization of unprofitable subdivisions and the financing of new profitable activities. The percentage of each element that makes up the governance model, depending on the importance given to shareholders, is presented in Figure no. 3.
Advantages: ensures the mobility of investments and their placement in inefficient and stagnant areas in those that develop effectively.
Disadvantages: excessive focus on profitability to the detriment of the development and implementation of development strategies.

Figure no. 3 The structure of the Anglo-Saxon corporate governance model



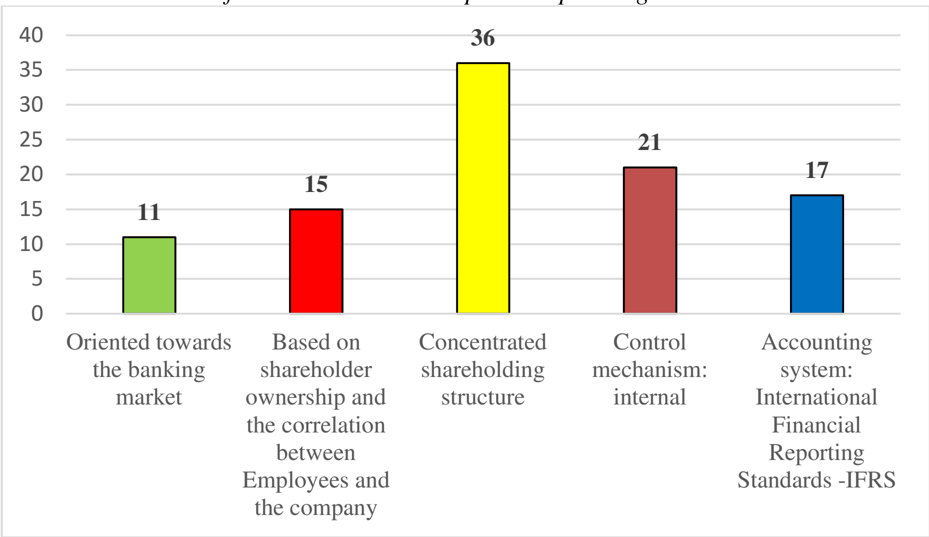
Source: developed by authors

The continental European model: is based on the high concentration of capital - the majority shareholders are linked to the corporation by common interests and take part in the management and control of the enterprise.

Advantages: this model consists in the fact that the shareholders are oriented towards a long-term strategy and stability in the business. The percentage of each element that makes up the governance model, depending on the importance given to shareholders, is presented in Figure no.

Disadvantage: shareholders are not flexible in making prompt decisions related to the liquidation or marketing of inefficient business segments.

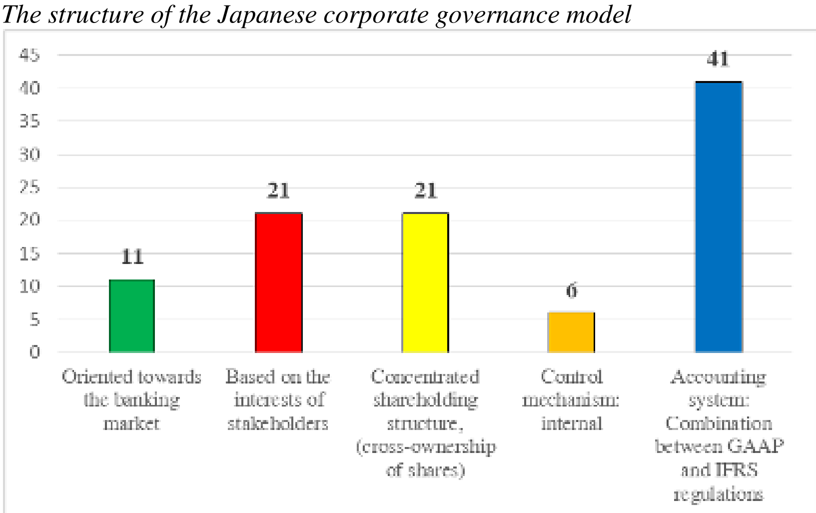
Figure no. 4 The structure of the Continental European corporate governance model



Source: developed by authors

Japanese corporate governance model: is characterized by the cohesion at the level of companies and at the level of business of some industrial groups called holding companies. The Japanese model in which the state has an active role has manifested itself over the years by participating in the strategic planning of companies. The percentage of each element that makes up the governance model, depending on the importance given to shareholders, is presented in Figure no. 5.

Figure no. 5 The structure of the Japanese corporate governance model



Source: developed by authors

Each of the models analyzed in this article has advantages and disadvantages, and involves both benefits and risks. The Anglo-Saxon model emphasizes the profit brought to the shareholders, and the Japanese / continental-European one emphasizes both the added value brought to the shareholders and the human capital, ie on the relations with the social partners, including the employees.

5. Conclusions

Therefore, companies, especially listed ones, but also banks, cannot ignore the pressure from shareholders and market forces to improve their corporate governance practices. Increasingly, investors are demanding companies where high standards of governance apply, in order to get the best return on their investment. These companies have a competitive advantage, attracting capital and reducing financial risks for investors and, consequently, the cost of capital, which is an essential incentive for the intense promotion of the application of corporate governance principles in Romania.

Following the research, the main factors influencing corporate governance were identified:

- ✓ the degree of dispersion of capital - be it human, financial or material;
- ✓ the role of the capital market and respectively of the banking market in financing the activity of the entities;
- ✓ legal protection of minority shareholders;
- ✓ ways to control the activity of managers;
- ✓ representing the interests of employees, managers;
- ✓ the degree of corporatism of the national economy.

Reform of the governance system is an ongoing process that requires regular adjustments to address the problems and challenges of global markets. Whenever changes are considered, both politicians and others involved in the reform process at the level of corporate governance must assess and try to understand the legal context, behavior, and factors that have contributed to success or failure. their.

Most shareholders believe that a key condition for good governance is:

- respect for shareholders' rights;
- maximizing the value of shareholders;
- transparency and frequency of reporting;
- control over the internal management of corporations;
- a correct and regular verification of the financial statements of the companies.

Regardless of the adopted model, the implementation of the corporate governance norms requires the observance of more or less the same principles, namely:

1) The rights and fair treatment of shareholders;
2) The role of stakeholders;
3) Board of Directors and management supervision;
4) Transparency and ensuring access to information.

Given the trend in the international market, a natural conclusion is that corporate governance will remain on the list of top management of companies for a long time to come. It all comes down to a simple reality: companies that will adopt a transparent culture and an effective corporate governance model will perform much better and those that refuse to accept this reality and, more recently, necessity, will perform worse. It goes without saying that market volatility, combined with shareholder pressure and economic insecurity, will create the premises for the risk that top management will act ethically incorrectly. Therefore, the importance of an effective corporate governance model that monitors and evaluates the company's performance, while meeting the needs of all stakeholders and thus creating added value, will increase even more. Under current conditions, it is more of a tool that helps maximize the value of corporations.

In order to support the restoration of confidence in corporate governance, in the context of the current crisis, it is necessary to implement measures to restore confidence in corporate governance, measures that are being debated globally.

6. References

- Arens, A., Loebbecke, J., 2003. *Audit - an integrated approach.* Bucharest: Arc Publishing House;
- Bostan, I, Grosu, V., 2010. *The role of internal audit in optimizing corporate governance at the level of enterprise groups.* Bucharest: Theoretical and Applied Economics Publishing House;
- Bunget, O.C., Florea-Ianc, Z., Ghiţă, M., Nicolau, C., Pereş, C.E. and Pereş, I., 2009. *Corporate governance and internal audit.* Timisoara: Mirton Publishing House;
- Dragomir, V., 2012. *Corporate Governance.* s. Bucharest: Academy of Economic Studies Publishing House;
- Ghiţă, M., 2004. *Internal audit.* Bucharest: Economic Publishing House;
- Ghiţă, M., Sprânceană, M., 2004. *Internal audit of public institutions.* Bucharest: Economic Tribune Publishing House.
- Renard, J, 2002. *Theory and practice of internal audit.*Bucharest: Ministry of Public Finance;