

**A NEW CHARACTERISTIC OF THE
MODERN CONCEPT OF CORPORATE
GOVERNANCE IN THE CONTEXT OF
GLOBALIZATION AND THE ECONOMIC-
FINANCIAL CRISIS**

Abstract

Corporate governance is of paramount importance for a company and it is almost as important as the primary business plan. The subject has come under the spotlight following a chain of events heavily publicized who created a sense of unease and a lack of trust in the international capital market. In response, Governments and different competent bodies have initiated changes, corporate governance laws and especially introducing sanctions meant to cause companies to adopt transparent and ethical policies. The result of this reaction is that currently the vast majority of developed and developing countries have a code of Corporate Governance issued by the various regulatory bodies. But more important than such as corporate governance and modern management concept is a new characteristic and a new dimension: the detection and elimination of potential problems or mitigate the damage not only for the company's highly but at least equal measure for external financial and economic environment in which it operates.

Keywords: concept/management policy; company; the laws of corporate governance, code of corporate governance, financial and economic external environment; extreme damage potential

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**O NOUA VALENȚĂ A
CONCEPTULUI MODERN DE
GUVERNANȚĂ
CORPORATIVĂ ÎN
CONTEXTUL GLOBALIZĂRII
ECONOMIEI ȘI CRIZEI
ECONOMICO-FINANCIARE**

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Rezumat

Guvernanta corporativă este de o importanță capitală pentru o companie și este aproape la fel de importantă ca și planul de afaceri primar. Subiectul a ajuns în centrul atenției în urma unui lanț de evenimente puternic mediatizate care au creat un sentiment de neliniște și o lipsă de încredere pe piața de capital internațională. Drept raspuns, guvernele și diferite organisme competente au inițiat schimbări, înăsprirea legilor guvernantei corporatiste și mai ales introducând sancțiuni menite să determine companiile să adopte politici etice și transparente. Rezultatul acestei reacții este acela că în prezent, marea majoritate a țărilor dezvoltate și în curs de dezvoltare au un Cod de Guvernanta Corporativă emis de diferite organisme de reglementare. Mult mai important decât atât, guvernanta corporativă ca și concept managerial modern capătă o nouă valență și o nouă dimensiune: depistarea și eliminarea ori atenuarea problemelor cu potențial de prejudiciu extrem nu numai pentru companie ci și cel puțin în egală măsură pentru mediul economico-financiar extern în care aceasta își desfășoară activitatea.

Cuvinte cheie: concept/politică managerială; companie; legile guvernantei corporatiste; cod de guvernanta corporativă; mediu economico-financiar extern; potențial de prejudiciu extreme.



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INTRODUCTION

Although Governments and various regulatory authorities and international insists relatively long on this topic, the corporate governance in the modern sense of this concept has caught the attention of the press, investors, and especially, the companies just a few years.

Spectacular recent bankruptcies, financial crises and the precipice of compensations awarded to directors and corporate performance in the last three decades have shown that the establishment of corporate governance is not just a means of surviving nowadays, but a strategy to thrive. Governance helps companies to attract investment and to increase their economic performance and competitiveness in the long term (Blundell-Wignall, 2007).

This aid is carried out, in particular, by the fact that corporate governance requires transparency of all transactions and the adoption of standards for transparency in the relationship with investors and creditors. In addition, the corporate governance improves the management of the company in that it limits the power of the abuse from within the company's resources and provide the means to monitor managers' behaviour, to ensure the company's responsibility (Omar et al., 2004, p. 6).

The subject has come in the spotlight following a chain of events, namely a series of heavily publicized scandals that have created a sense of unease and a lack of trust in the international capital market. It all started with the collapse of the energy giant Enron, which effectively became a symbol of corporate fraud, remarkable event, representing the main argument for the importance of solid corporate governance in modern economy. The examples of this kind of continued with a considerable number of companies have failed just as dramatically: WorldCom, Tyco, Parmalat, Comroad are just some examples that outlined the scope of corporate failure.

Therefore as a serious consequence but of what happened have emerged serious doubts concerning the possibility for investors to take right decisions are analyzed on information provided by companies and the stock market.

As was natural, and the question of whether these scandals were simply the result of a lack of integrity of leaders or the result of flaws in the legislation in force. The fact is because of these events spread an atmosphere of doubt and uncertainty on the capital market.

In response, Governments and different competent bodies have initiated changes, corporate governance laws and especially introducing harsher sanctions meant to cause companies to adopt transparent and ethical policies. The Result? Currently, the vast majority of developed and developing

countries have a Corporate Governance Code – code amounted to a framework document – issued by different regulatory bodies. Among the best known are the Sarbanes-Oxley Act in the US, the renewal of Britain's code at the initiative of Derek Higgs, Cromme Code of Germany, Financial Security Law of France. Romania has a code of corporate governance, prepared by the Bucharest Stock Exchange.

It is therefore a common philosophy for an organisation's practices and culture and thereby to its employees. In the modern economic world of powerful States developed a company/institution without a system of corporate governance is perceived like a human body without soul and conscience. Corporate governance and keep an honest company, performing and especially lacking in trouble.

If this common philosophy breaks down, then these assurances will be cancelled. In addition to product quality will be diminished and the deterioration of management will lead to increased corruption by default. The end result is a waterfall that will occur when the gravity of the situation-in the form of audited financial reports, criminal investigations and federal polls – will ultimately lead to seizures of assets and shares, and so the company goes bankrupt over night. Dishonest and unethical business ethics of the company shareholders, which can cause panic, mistrust and disgust.

VITAL IMPORTANCE OF CORPORATE GOVERNANCE

Recent studies link between companies ' performance and efficiency of corporate governance model. Investors attach great importance to the new corporate governance systems implemented in a company and are willing to pay extra for good results in this domain (Van Manen and de Groot, 2009).

Companies are perfectly aware of this reality and be given considerably more importance compared to previous years. Good and bad examples of international market speak for themselves. Thus, on the one hand, there are companies that have made much effort and time to attain high standards of corporate governance. As a result, are perceived as exponents of governance based on value added, being able to maximize the company's value through systems and processes that allow managers, regardless of their hierarchical level, to evaluate and monitor its performance (Borio, 2008).

On the other side of the barricade are the companies that have managed to build a complex corporate governance structure and to have a clear approach toward the various parties interested in taking over or preliminary assessment of the company hence the weaknesses in the systems concerned organizations come to the surface and turn out to be more than inappropriate, sometimes with disastrous results (Fukao, 2001).

In the end, the effectiveness of the model of governance of a company is the measure in which it took to achieve the main objective, namely, to maximize the company's value from the perspective of shareholders. Everything related to the manner in which it manages to organize a perfect closed system: to meet the requirements of customers, employees, suppliers, distributors, etc. the reward, if there are good results, high value and sustainable.

Considering the trend of the international market, the natural conclusion is that corporate governance will stay on the list of top management for a long time from now. It all boils down to a simple reality: companies will adopt a transparent culture and an efficient corporate governance model will have a much better performance and those who will refuse to accept this reality and, more recently, necessity, will post weak results (Hau et al., 2009).

It goes without saying that the volatility of the market, combined with pressure from shareholders and economic uncertainty, will create prerequisites for risk as top management to act improperly in terms of ethics. Therefore, the importance of an effective corporate governance model that controls and assesses the company's performance, the same time satisfying the needs of all stakeholders and creating keyboard duties value added, will increase and more. In these circumstances, corporate governance is far from being another bureaucratic layer. It is much more a tool that contributes to maximizing the company's value.

An essential characteristic of our times, is that it transcends the boundaries of cross-border activities of companies. As a result, local/national companies disappear and become international companies. This change has a profound impact on the way companies do business, managerial culture and of their organizational structure (Felton and Reinhart, 2008).

After integration process involving the legal, fiscal and economic, as well as organizational and cultural problems. All of this leads to the necessity of designing a model of highly complex corporate governance and effective.

In the last decade there has been an intense debate on the convergence of corporate governance around the world, either at national level or at the level of company (Institute of International Finance, 2008). Generally speaking, the convergence concept refers to a tendency to give corporate governance systems in a global framework, a new system, probably the best system of Corporate Governance.

Due to the policies implemented in the last period of the most developed countries of the world in the sphere of sustainable development, corporate governance is seen as a commitment to ethical behaviour in business strategy, operations and organizational culture embraced unrolled, the ultimate

goal being pursued corporate reputation. However, in the globalized environment in which we find ourselves today, investors, lenders and other stakeholders involved, have come to recognize that social responsibilities towards the environment, but particularly those related to governance entity, is an integral part of their performance and sustainability on the medium and long term.

Today, these concerns can help increase profits, and because the companies operate successfully and to support growth, the board of management should incorporate these new trends, sizes, in their processes of decision-making (Honohan, 2008).

The global financial crisis has increased the need for guiding groups to provide strategic direction and to duly engage the views that go beyond short-term financial results, preparing such companies to a more direct approach to risk, apparently, by anticipating adverse impacts on the environment and employees, avoiding to some extent risks that may arise. You can also generate wealth through creating value for shareholders by increasing business opportunities and broader market access.

A new vision is emerging, one in which is contained a set of core values, including human rights, environmental protection, and anti-corruption measures, the relationship with company management or responsibility in relation to the holders of shares. Rachel Kyte, Vice President, International Financial Group, said that "good practices of corporate governance in the companies require, visions, processes and structures to ensure long-term sustainability".

The Administrative Committee, as a whole, or directors, individually, are key pieces in the attainment of the objectives or tasks listed above. As he said Sir Adrian Cadbury, "Corporate Governance deals with the maintenance of a balance between economic and social objectives, as well as between the individual and the goals of the group".

The impetus for the understanding of this new concept of accountability to the Board, can be found in the growing number of global initiatives, i.e. from some specific industries. The most important of these being considered "Corporate Governance Principles" laid down by the OECD or the "global compact" provided by the United Nations. These principles and values embodied by the two organizations, provide information on efforts to promote good corporate practices in the emerging markets and countries with a level of micro and macroeconomic indicators dropped (Ricol, 2008).

A company well governed, are turning to shares in the medium and long term, discover opportunities and allocate capital in such a way as to satisfy the shareholders. There can be no better way to conquer the trust of the public and to build a prosperous future. In the figure below, I tried to show how

responsible action within the framework of a sustainable business and profits fall within the functions of the Administrative Board.

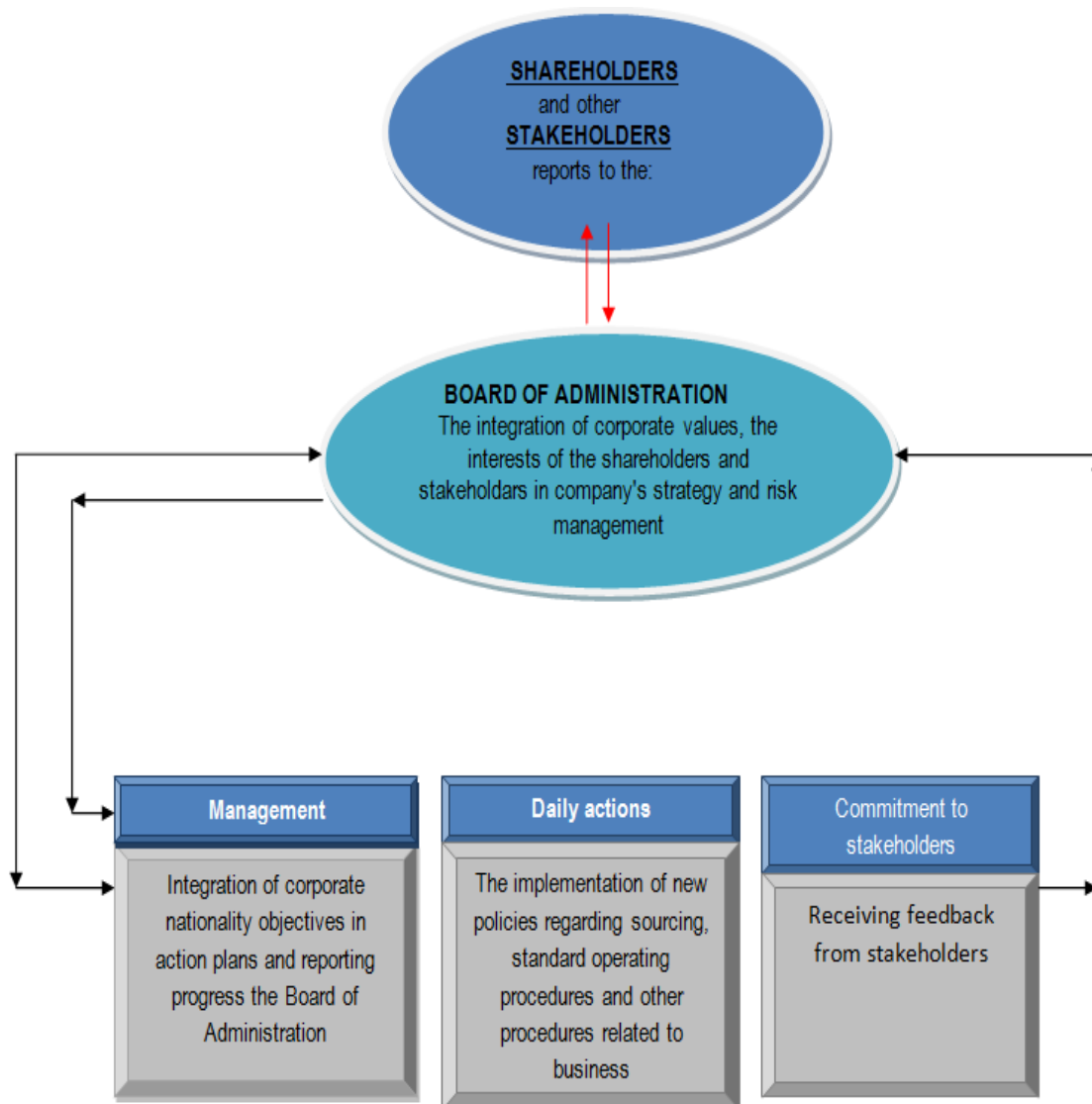


FIGURE 1 - RESPONSIBLE BUSINESS ENGAGEMENT AND SUSTAINABLE PROFITS IN THE FUNCTIONS OF THE ADMINISTRATIVE BOARD

Source: International Financial Corporation, World Bank Group, 2009, p. 2

"It takes twenty years to build your reputation and only five to lose, if you think of it then you'll do things differently," said Warren Buffett, and apparently so is. In the global economy of today, in a world of information technology that develops in geometric or exponential, success or crisis gained are a click away. Exaggerated or not, but referring to the reputation of the Organization, is the most important asset of the Administration, and among the factors affecting this reputation can be found, social

responsibility (56%), product quality (40%) or the business fundamentals (34%). What is in fact a good corporate governance standards that are used for its assessment? Corporate governance means that solution which pastes on the same sheet of business best practices, ensuring that positive changes in the scope of management of the Organization, the responsibility of the partners, whether we're talking about customers, suppliers or partners, the commitment towards the community and support the financial performance. Global, good corporate governance means rules and practices governing the relationship between managers and shareholders of companies, as well as with stakeholders, such as employees, local communities, transparency, fairness and safeguards of accountability. When that trust is undermined, lenders and investors are losing their appetite for risk. Today corporate citizenship – focused on a clear call to responsibility toward the environment, and governance – socitate binds directly to the three fundamental functions of administrative councils and their duties towards the company and the shareholders they serve (Ladipo et al., 2008).

1. Protection of the rights and interests of the stakeholders; 2. Addressing risks; 3. Creating value for business

As I tried to illustrate in Figure 2, between the three components or functions there is a link, and although it could be addressed separately, the optimal result is achieved through the combination of the two, the proportion given the specifics of the business environment, in which acting and individual outcomes pursued by the entity, thus neglecting the US relationship with other entities or partners or competing.

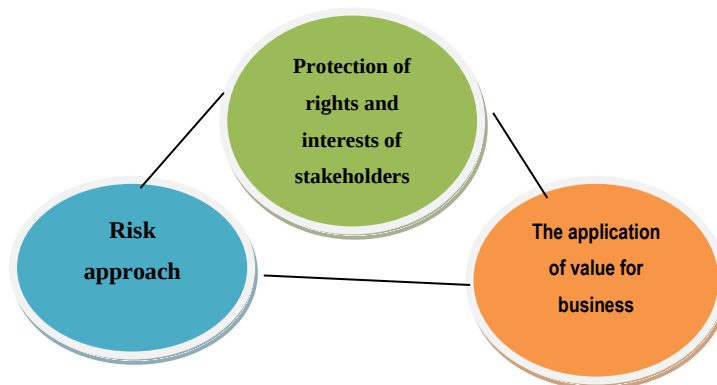


FIGURE 2 - THE INTERDEPENDENCE OF FUNCTIONS WITHIN THE BOARD OF ADMINISTRATION
 Source: International Financial Corporation, World Bank Group, 2009, p. 3.

A. Protection of rights and interests of stakeholders

The principles set out by the Organisation for economic cooperation and development, are appealing to all businesses to recognize and defend the interests of all parties concerned, including the legitimate interests and the need for information. These principles require the administrative councils to be truly

responsible in relation to the holders of shares, and to undertake actions leading to high standards of corporate governance and ethical behaviour. Effective corporate governance requires due to the leadership, support and support for a broad network of interested parties, stakeholders, including holders of shares, employees, clients and the community. If the stakeholders are affected by the actions of companies, the value of the shares of the companies will suffer.

With the increase, appraisal, insurance and pension funds and other institutional investors, holders of shares, are also interested in companies' stakeholders. Therefore, the needs of all of these groups are becoming increasingly closer, and even falls. Members of the board that recognize the value of a holistic approach towards stakeholders commitments, chiefly in the social sphere or governance, I am pleasantly surprised to observe that the holders of capital are turning towards a common approach to these issues.

This includes continuous communication with interested parties about such concerns and periodic reporting on performance of the company, ideally related to periodic financial reporting (Heller, 2008). Direct response to concerns of interested parties can generate other benefits:

- In a broad sense, the main idea is that the long-term costs of corruption are raised both for society and business. Anticorruption measures can strengthen relationships with stakeholders, by building a culture of trust and cooperation;
- When companies adopt anticorruption initiatives, which include empowering employees, this in turn, can cultivate good practices with regard to solving the problems that occur in the workplace;
- Employees who work in an environment where their rights and needs are respected, tend to be more productive, executing and the duties at a higher level than those who are treated inappropriately.

High standards of integrity, transparency and information can have a notable influence in restoring public and investor confidence in the private sector. They are also a starting point for a permanent dialogue, constructive, with stakeholders such as communities that are affected, and may in turn help determine business performance. There are multiple outcomes the ideas presented above, we can say that in this respect the interests of the stakeholders, that corporate governance refers to the way in which the administrative councils overseeing how the companies are run by managers appointed for these purposes, and how the members of the board are held accountable by the shareholders. This has implications in the "behavior" of not only the holders of shares, as well as to employees, customers,

who financed the company, other stakeholders, including communities in which the companies will carry out the activities. Research has shown that the responsible management of issues of governance, social and environmental benefits, creating a business ethic that rely on the integrity of a company within the company and with the confidence of its shareholders.

B. Risk approach

New business approaches show that the board have legal and fiduciary obligations, the risks to manage social, environmental and governance. Managers need to be informed and trained to be able to manage these long-term references, along with the typical corporate directives. Effective approach to these risks, the board can manage in such a way that these businesses prosper from a financial standpoint, and to assure the long-term (Guerrera and Thal-Larsen, 2008). In the case of some failure, administrators are undermining the authority of the companies they run. More and more companies extend their internal controls in order to detect problems of ethics and integrity that may arise (Nestor Advisors, 2009). Many investment managers examine the rigor and quality of such checks, in order to ensure that the practices of business entities and are well managed, as an example:

- Proactive Identification of interests related to human rights, allows for a more efficient approach to the risks within a business;
- Initiatives such as principles of IFC – one of the financial industry, used by more than 60 institutions, worldwide, for determining, assessing and managing social and environmental risks in financing projects, Dow Jones and the indicator of sustainability, FTSE4 "suggested" that taking risks of social responsibility gives you open access to the financial markets and reduces the cost of capital purchased;
- Competitive advantage through risk management measures for anticorruption include alignment with customer expectations, protect reputation, compliance with the requirements of the ethical investment funds.

C. The application of value for business

The role of each group is driving corporate strategy to guide and to create value for shareholders. Daily develops new business opportunities, but should focus on social responsibility, so as to converge towards corporate governance, and business designed for the future must necessarily take account of this (Gup (ed.), 2007). Effective sustainability strategies must be offered by top management, incorporating a wide range of ideas provided by stakeholders and to align the entity's priorities.

This ensures a more efficient allocation of resources for these initiatives, which in turn can generate new business opportunities.

- Improvement of working practices in the operations conducted with suppliers can transpose into increased productivity and reducing reputational risks. Better working conditions would improve the efficiency of the supply chain;
- The strategies applied in the field of employees ' rights, such as the prevention of discrimination and the promotion of equality among ethnic groups and genders, may prove useful in ensuring diversity and innovation in terms of products and services. A diversification of the workforce and a larger database with clients, can lead to the development of new markets previously not aimed;
- Environmental Programs-can generate financial benefits, such as reducing operational costs through new market penetration, the use of new technologies and employee morale;
- Good performance management in the field of governance, the environment and social impact, proved to be important catalysts in the process of strengthening the reputation and value of the brand, an asset whose value is increasingly being tracked in the last period.

CONCLUSIONS

In these respects it follows clearly that the absence of partial malfunctions, omissions, errors and/or the superficiality of the principles of corporate governance-lead to incalculable disaster which go far beyond the boundaries of what the companies are guilty of all these mistakes that are not allowed. Precisely for this reason the concept of corporate governance is becoming much more important in the light of extremely harmful experiences recorded prior to reaching the rank of actual economic and financial concepts-vital social grade 0. Hence the new dimension, new valence of this concept which takes into account not only the vital interests of the company/Corporation, but sometimes the interests of a region, of a State, of a geo-political zones, more or less extensive or even of the whole world-având the world financial and economic globalization, as happened in the case of the recent financial crisis in the U.S.A.

In the above conditions the new Valence and the new dimension of the corporate governance of companies-especially transnational mega companies with financial or economic-profile is effective in detecting and removing or mitigating problems with potential damage to the company not only extreme but at least in equal measure-for external financial and economic as they operate. Avoiding the deterioration of the business environment should be in soon, essential.

The basic idea which led to the formation of this new dimension and valences of the concept of corporate governance is as follows: as deregulation and the development of economic liberalism in accordance with the principles of the market economy have led to pollution of virtually irreversible physical and biological environment of human civilization, the energy crisis and ecological food in the chronic phase, all the way to deregulation of the institutions and economic and financial organizations will soon lead to irreversible damage to the economic and financial environment of human civilization.

To underline the immense importance of the concept of corporate governance in the way the article reiterate the statement of James Wolfensohn, the President of the World Bank: "the governance of companies is important for world economic growth than the national or federal State Government".

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