Efficiency and Sustainability through A Responsible Management of the Enterprise

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Abstract

Motivation to investigate the link between corporate governance system and performance of an enterprise can be seen from a dual perspective. Firstly, for the theory of costs’ perspective, managers have an incentive to choose a level of governance to ensure compliance with all regulations to protect the investors. Secondly, should be considered that the best governance practices, such as communication and low vulnerability can makes the investors to demand a lower risk premium and managers to obtain an incentive in order to improve, to a voluntary basis, the efficiency of the company’s governance practices, with low implementation costs.

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Introduction

Contemporary modern enterprise must ensure a policy through environment to be integrated into its business managed to transform its social policy advantages in economic development effects. In contrast are those entities that aspire to higher short-term gains, but can not consolidate a long-term market. Moreover, practice has proved that speculative business is leading to tensions in relations with the social environment, resulting in loss of customers and even business liquidation. Economic prosperity can not exist without respect and concern for people, environment or community as a whole. Leaders who learn to work with other corporations, government agencies and social sector organizations will find a new meaning and a new impact concerning their activities. Leadership has an essential role in the relationship with different levels of operational structure. The manager is a responsible daily faced with difficult of business specialization, involving directly assuming responsibility for its performance. In performing tasks, he features human resources and relies on the general organization of the entity put together by management. By definition, a professional manager is able to use the means made available in conditions of autonomy.

Applying Best Practices for a Responsible Behavior

Corporate governance primarily seeks how the investors are leading managers to provide an adequate return on invested capital. This problem is reflected by the agency theory which proposes disciplining an ineffective management team, so that management activities to provide a return on measure of the capital brought by investors. Practice has already shown that managers with poor performance are facing disciplinary pressures from internal mechanisms and external corporate control [1]. Monitoring methods that align the interests of owners and managers, to discourage or limit managers to act only in their own interest, affecting the achievement of the strategic objectives, should be positively associated with firm performance. Thus, a high level of monitoring could promote the growth of performance by preventing opportunistic managerial behavior [2]. CEOs are increasingly criticized for focusing on targets unrelated to company performance or trying to achieve short-term rather than long-term, bigger profits. This behavior is often accused of damaging the competitive position on the market. Thus, the performance of a company is weak or declining is expected, as rational measure from the owners, the replacement of the executive management, especially key people in decision making. The basic premise of this theory is that managers and owners have different motivations and, if there is no mechanism through which the first ones can be discouraged to act in their own interest, they will try to maximize their benefits at the expense of owners’
objectives. If instead, managers are prevented from acting in that way, regardless of conflicting motivations, theory of executive freedom of action is compromised. Therefore, owners of the companies should establish the best retention system that encourages managers respecting the interests set.

If the pay range is determined by supply and demand of the labor market, the main means by which a manager is rewarded or whether prosecuted for superior or inadequate performance, is the renewal or termination of his contract and not the change of its material compensations. In such cases, the turnover and/or term of leading office are better indicators of managers' performance than their remuneration. According to the literature, board composition is another factor affecting the firm performance and corporate decisions. Structure can be influenced by major shareholders able to choose its members and to appoint managers. Independent directors and supervisors can improve efficiency and performance of an enterprise, if they take rational decisions, reducing the potential for an inappropriately capital investment. Various specialized studies analyze a negative association between size of board and corporate performance, according to with opinion that problems of coordination and communication become more severe as the membership grows. This makes it difficult to hold board meetings and to reach consensus, which decreases efficiency of decision making. Is considered a directly proportional relationship between board size, costs of agency problems and dialogue difficulties, in a word the corporate performance [3].

Arguments supporting the tendency of such relations are closely linked to research on group decision-making in economics and social psychology. In economics, several authors state that the group decision is a compromise reflecting different views pertaining to individual judgment, showing errors and increased communication costs. The higher the council of administration is, it becomes easier for executives to influence and control its decisions, being much stronger in the company.

On the other hand, more independent managers were been related to improve financial performance, reduce fraud and discourage earnings manipulation. Recent research on a continuously modernizing business environment, indicates that an independent director with a wide range of responsibilities, acquire knowledge to increase financial performance. However, too much independence to the Board may prejudice the monitoring process, over the interests of shareholders.

Revision of corporate governance codes recommends assessing the performance of managers and board in order to improve overall efficiency by maximizing the strengths and reduce weaknesses, even by proposing new members. Best practices recommend that collective assessments to be communicated to all council and the individual ones to be kept confidential and presented to each manager concerned. The main aspects covered are considering, in relation to corporate objectives, effectiveness of the board, contribution of managers and obtained performances. In order to evaluate, the role of information about earnings is to facilitate investors' inferences regarding the stochastic elements of the company's value, which are independent of managerial actions. Investors do not see gains as a result of efforts made by managers, but as incentives for them. Bonuses offered to executive are can not considered incentives, but a pretext for a policy to reduce the earnings of those employees who are no longer withstanding the pressures and do not hold shares in the company [4].

Firms that apply best practices of governance are able to provide transparent information for the allocation of decision rights and control between an entity and its investors. Therefore, they will be able to access capital markets in optimal conditions and best practices influence performance evaluation and market position. Good governance may be assessed on the basis of eight variables, perceived as quality attributes for the practices employed [3, 1]:

- Board independence, measured as the proportion of independent directors to all existing members;
- CEO duality, defined by an indicator variable coded 1 if the Director General is also Chairman of the Board and 0 otherwise;
- Board size, perceived as a natural logarithm of the total number of board members (representative of good governance);
- Remuneration committee, as natural logarithm of total annual amount of benefits paid to all board members;
- Recommendations to executives, is an indicator variable note 1, when at the end of the year there are recommendations that have not been taken into account, and otherwise the notation is 0;
• Existence of an audit committee, as an indicator with value 1, if it functions independently of the Board or the value 0;
• Existence of a remuneration committee, defined just like the indicator above;
• Existence of a nomination committee, with the same interpretation as last two variables mentioned.

The current economic context a question arises: how important is the implementation of a CSR policy for a company’s reputation, but also for its economic performance? Business practice shows that maximizing the value of an enterprise can not be achieved if are ignored the interests of social partners: shareholders, managers, employees, creditors, suppliers, customers, state, etc.. From the company’s perspective, these interests may come into contradiction, such as impending internal conflicts that adversely affect the economic and financial results. For example, increasing wages and providing adequate working conditions meet the needs of employees, but involves making additional expenses that reduce the company profits. Harmonization of these interests is achieved through implementation of a corporate governance system whose quality and operational efficiency determines the control of those factors with impact on business results.

Managing towards Sustainability

Originally, the concept of corporate social responsibility (CSR) focused on reducing the harmful effects of industrial operations, but was extended to the speeches about sustainable development. Business environment, government and civil society should cooperate in dealing with social and environmental challenges related to industrial operations and associated relationships, forming a voluntary partnership to promote sustainable development through constructive cooperation, mutual and practical.

When corporate governance is considered exclusively from the perspective of shareholders, comes seemingly at odds with the notion of CSR, because it involves commitment to a wider variety of stakeholders and not only to the owners. Instead, when viewed from the perspective of stakeholders, it overlaps with the CSR, but there is still no consensus on how corporate governance and social responsibility should be articulated as a whole [1].

Some specific studies investigate the role of corporate sector in promoting rural development and the challenges of using available resources and involvement in local development issues, given the communities affected by industrialization. The private sector should not overlook the fact that its activities are public, insofar as they affect the substance of limited resources and community sector capacity. Typically, large corporations are present in rural areas where there is an abundance of natural resources extraction and processing industries needed. Will result benefits for corporations, through financial results, establishing important business relationships and strengthen specific market, but also for the community by creating jobs, developing the potential of the area and increase the welfare of life. However, should not be forgotten respecting human being, both in terms of employees (decent working conditions, adequate salaries) and people living near the mining area (monitoring and reducing air pollution, soil and even sound). At the same time, especially if are non-renewable resources, the corporation must ensure their recovery favorably not only for itself, but for the community. Thus, good governance must take into consideration, besides economic impact of a company’s activity also the natural and social one [5].

Despite the requirements of sustainable development, leading to the concept of corporate social responsibility, most companies are limited in this respect, only to support traditional forms of community through the provision of services in its own, sponsoring events or direct cash contributions. This form of good corporate represents the generally speech based on the confluence of global capitalism to do good business and do well, that gives the impression of compassion for which the community should be grateful to the company, the latter forgetting that without community input (through resources, manpower, etc.) it could not survive.

To create a dynamic sustainable development, adapted to business needs in the context of globalization, is widely recognized, in the European context, the need to clarify issues of social responsibility in companies. In today's competitive economic environment and, taking into account the acceleration of globalization, they must remain competitive in the long run. Thus, quality of goods and services and maximize short term profits are not a sufficient condition anymore. Civil society expects from companies a high quality level, but also measures to protect the environment, both by reducing consumption of natural raw materials and by a low impact resulting from the decrease of waste volume or obtain biodegradable wastes. So, companies can contribute to a sustainable environment, meeting obligations to future generations.
Given that social and environmental performance can influence buying decisions and labor relations, entities need to understand the expectations of related parties to protect their profits and trade relations. Also, the protection of natural environment is a highly topical and worldwide are made pressures that producers, large consumers of resources, to ensure their future existence [5, 2].

The concept of sustainability is defined by the fact that economic activities should not extend over the total capital - including the natural one - maintaining a stock of capital as a safe measure to ensure the sustainable increase of benefits.

Over the last two decades, ecology passed from a narrow approach to an integrated and proactive. Corporate sustainability strategies include measurable objectives, audited by independent groups and are integrated into core business activities, through tools becoming more standardized, such as life cycle assessment, monitoring the supply chain, eco-certification, social and environmental reporting. An increasing number of investment directed towards sustainability contributes to encouraging green innovation and commercialization of new technologies on main markets. In the absence of well developed international environmental standards, sustainability is defined from a business perspective, by the adoption of corporate sustainability objectives and rules through global supply chains, assuming the role of regulators.

To some extent, adopting a faster pace of responsible leadership, increases confidence in business executives and the value of activities directed towards sustainability. Big companies integrate sustainability in economic operations as a strategic tool to achieve the established business objectives: reduce costs and increase efficiency, revenue growth, market value, improve supply chain performance and productivity. So, sustainability becomes a lever to increase firm value, and beyond the character of responsibility, may be an opportunity to strengthen business in financial terms.

**Barriers to an Effective Governance**

Management credibility is a valuable asset, but can be easily damaged in a restatement situation. This deterioration is a major reason why investors negatively respond to a restatement, more than would be the case, which leads to reduce net income. Marketing researches showed that the credibility acts as a halo: low credibility of a company puts all actions in a negative light.

Therefore, when management is public discredited, it can strongly influence market perception, affecting firm value. On the other hand, it is necessary to understand. The fundamental difference between an accounting restatement due to an irregularity (committed intentionally) and one derived from an accounting error (committed accidentally or resulting from misinterpretation, unintentional), often is not recognized or is not sufficiently taken into account, so there is a dishonest approach from the public or media. Whole spectrum of accounting adjustments is ranging from estimated changes, to error correction and restatement, being the subject of a complex set of technical rules and judgments in accounting [6].

There may be significant differences to understand a real event and the message passed as a result of its production. Executives do not fully understand the differences between categories of restatements and market sentiment towards them, which can lead to uncertainties in both internal and external enterprise's environment and therefore a further loss of market value.

One way to remedy these problems, commonly used in the Anglo-Saxon model (U.S.), means that institutional investors play a more active role in the governance system of enterprise. Owning a considerable extent in equity, wider access to information resources and the right to vote may lead to a significant impact of investors in the company's governance. The more common this conditions are among major holdings of capital, costs of monitoring are expected to be lower than those faced by individual investors. Such means seem to be the best incentive for stimulating the managers to pursue strategies to enhance business value. Measures mentioned have as a result, most times, increasing company performance and investment value [7].

Tendencies for handling financial situations have a major impact on the quality system of governance. The focus is on the contagion effect (behavior that is not substantiated by a rational economic model, but is an imitation, simultaneous or delayed behavior similar entities) of a negative accounting event for other companies beyond the one that is financial handling accused. Inappropriate accounting practices of some entities seem to have implications for regulating another one, from the perspective that accounting manipulations can influence the evaluation of some others. Governance mechanisms such as
institutional ownership and external monitoring, are crucial for improving the practices used and provides two important indicators of governance quality: shareholder protection and accounting standards.

Limitations in information processing efficiency can be obstacles to a system of governance. Institutional investors hold very diversified portfolios, and to reduce the processing costs, they choose to put pressure on a small number of firms, especially those with poor management. They also try to make changes in the way to lead of an entity, pleading for improved general rules of governance (eg. adopting a fair wage practical supports stakeholders who wish to evaluate the opportunity to invest). They will not be tempted to intervene in companies that have implemented effective governance mechanisms. There may be other barriers to effective information processing, two main situations being considered. Firstly, investors business relations with firms in their portfolio can be a real obstacle to effective governance and therefore to obtain accurate and complete information. Secondly, the regulatory framework can be perceived as a barrier, limiting the authority of directors. In either case, investors may have an active role in all companies that hold capital.

Corporate governance literature offers a variety of mechanisms to resolve the agency problems, including profit sharing, direct monitoring by boards, competition among managers and capital market. These refer to existent financial difficulties in attempting that company funds are not being wasted on unattractive projects and that the market and administrative controls are designed to avoid this [7, 2].

Analyzes on recent failures of corporate governance systems have put their cases on behalf of the board and audit committees that have not properly monitored the financial reporting and protecting interests of those involved. An indicator reflecting the reduced quality of governance is the restatement of earnings. In response to a rapid growth of restatements and other indicators of failure of governance, Blue Ribbon Committee recommended increasing the independence of directors, and Sarbanes-Oxley code stressed the need to increase the independence of members of audit committees. A greater independence is related to the improvement of financial performance; reduce fraud, handling revenues and therefore the number of restatements.

Conclusions

Relevance to investors of information on quality and efficiency in the management of listed companies shows that improving corporate governance can be a strategy to increase overall performance, respectively to increase the stock price of shares in the capital market and thus increase the enterprise value. The relationship between management characteristics and firm performance continues to be a fundamental problem in corporate governance literature. The association between board size and corporate performance level variation occurs when large boards have problems of communication / coordination and agency problems.

Corporate governance is concerned, mainly of how equity investors are leading managers to provide an adequate return. A solution to this problem is to discipline managers to avoid a failure and give investors an adequate return on their capital. Internally, the Board is responsible for monitoring and replacing managers, and externally, takeovers provide an opportunity outside the company to impose management discipline.

Introducing best practices of governance, improving responsible behavior and relations with economic and social partners, are already essential conditions for profitable business of a company. Economic and social performance is in an inter-relationship, so that effective policies directed towards social welfare both within the company (employees) and outside (community), reflects long-term of financial results growing. So, managers who do not believe in the necessity of their contribution to building and development an environment (economic, social and natural) stable and cohesive, must be convinced to consider social and environmental costs as profitable investments ensuring business continuity. That’s where intervenes the unequivocal role of the professional accountant, since any decision or persuade of managers must be based on real and concrete analysis.

Corporate environmental sustainability becomes a more common concern in the private sector, especially for big companies in different industries. A number of factors influencing this phenomenon involves historical and firm size, complexity of supply chain and product, support campaigns and partnerships with NGOs. Among the effects of corporate attitudes directed towards sustainability can be listed rising consumer demand, public awareness, increased interest of employees and a new environmental legislation. The current economic context, under the strong
influence of globalization and internationalization, is characterized by increasing competition in business so, no entity can survive on the market in which operates, if not keeping pace with new trends mainly regarding technology and products. Therefore, it becomes more than necessary a constant concern for innovation and restructuring.

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