

WHAT IS CORPORATIVE GOVERNANCE AND WHAT DOES THIS CONCEPT BRING?

Ghiță Emil

Universitatea "Spiru Haret" Facultatea de Management Financiar Contabil Craiova, str. Brazda lui Novac, nr. 4 ghitaemil@yahoo.com 0744614536

In the last decades, on an international plane, it has been seen an increase of the number of companies that have entered in inadequate and fraudulent financial combinations, that have promoted some sounding failures. Although, in the last period of the 19th century and the beginning of the 20th century, by its unprofessional behavior or even fraudulent of the head managers of some international companies, the corporative governance has took part at a negative commercial it is incorrect to minimize its importance for the organization.

Practice confirms the need to intensify the efforts for accepting the corporative governance, because it has been seen that the organizations that devote themselves to the implementations of principles have even reached to maximize their profits.

Keywords: governance, corporative governance, administrating the risks.

JEL Classification:

M14 - Business Administration and Business Economics; Marketing; Accounting - - Business Administration - - - Corporate Culture; Social Responsibility

Conceptual clarifications and the evolution of the corporative governance concept

The "governance" term in Romanian is synonym with the term of "administration/administrative processes". Also, in the vocabulary of the Romanian language there's also the term of "governance" which means "leading" and which implicates all the activities in the frame of an entity which enters the management sphere.

In the Anglo-Saxon system it is used the concept of Corporative Governance, a term that has entered in the practice of audits and which is foreseen also in the international standards of the intern audit. If the term "governance" means "leading", this means that "corporative" comes from "body", which inducts the idea of ensemble, full, unity, organization.

We mention that, in practice, although incomplete, for many the synonym for governance is control.

In figure nr. 1 there are presented by diagram the principles of corporative governance functionality.

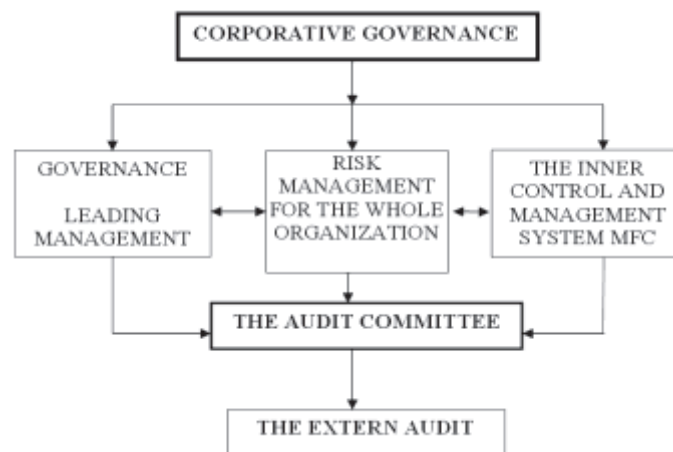


Figure 1. The principles of corporative governance functionality

A good corporate governance assures the improving of the economic efficiency and choosing an interactive climate of investments. Through the most important benefits of the implementation of some high standards of administration for the companies we mention: the efficient use of resources, the decrease of capital cost, the increase of the investor's belief because of the sensible decrease of the discreet attitude of the managers and reducing the level of corruption. At the opposite pole, a weak corporate governance distorts the efficient allocation of the capital in economy, brakes the foreign investments, reduces the faith of the owners of capital and favors corruption.

The corporate governance⁵⁰ is a concept with a large connotation which includes the following elements:

- the managers' responsibility for the information accuracy from the financial reports;
- the existence of very short time limits for financial reporting;
- total communication and transparency over the financial results;
- the transparency of the intern audit, the processes and the extern audit.

In this sense, Sir Adrian Cadbury defined corporate governance as being "the system by which the companies are led and controlled"⁵¹.

The corporate governance is a concept that has entered the specialty literature and the good practice in the domain in the last two decades. The simple description by Cadbury, like in the way the organizations are led, it contains elements of high depth and send to performance, which is a major preoccupation of any organization.

The organizations must adhere to all the concepts, principals, standards and regulations of the corporate governance, in order to be evaluated and to reach the policies and performances relevant and awaited, and the corporate governing codes and policies have reached to be a balance between conformity and performance.

Looking more closely at the details, the corporate governance refers to the way the rights and responsibilities are divided between the categories of participants and the company's activities, like the council of administration, the managers, the shareholders and other groups of interest, specifying at the same time the way the decisions are took in the company's activity, how strategic objectives are defined, which are the methods of reaching them and how financial performances are monitored.

The corporate governance concept is seen as having two faces⁵²: the behaviorist one, which refers to the way in which the managers of a company interact, the shareholders, the employees, the creditors, clients and suppliers, the state and other groups of interest in the frame of the general strategy of the company and the normative one, which refers to the set of regulations that frame in these relations and behaviors, described before, respectively the law of the commercial societies, the law of the mobile values and capital markets, the law of bankruptcy, the law of competition the requests of stock-market quotations, etc.

Administering the risks in the concern of intern control system implementation, respecting the codes and policies of the corporate governance, represent the assuring of integration, sincerity, transparency and responsibility, in performance conditions.

In practice, any organization wishes the implementation of these three ideals, respectively the corporate governance, the risk administration and the system of intern control and the intern audit represents the key-component of monitoring these.

Even more, the intern audit has a role in educating the leading management, in finding some efficient solutions and in assisting at the process of implementation and development of the

50 In practice the concept of "corporate governance" must be seen as a process in which the organization is implicated in ensemble and makes reference to all the intern component parts that work together and which finally will integrate a single structure recognized for leading.

51 Cadbury Report - Report of the Committee on the Financial Aspects of Corporate Governance, 1992.

52 Stilson Nestor – International Efforts to Improve corporate governance: Why and How? OECD, 2001

techniques and instruments needed in this domain. That is why, the intern audit must have a profound understanding of the corporative governance, it is most proper in assuming this major role in the organization in what concerns the realization of sustaining the management and assuring the organization's success.

The Intern Audit Institute, in the year 2004, has completed the definition of the intern audit, elaborated in 2000, in concordance with the new context in which has evolved the frame of the corporative governance, respectively:

The intern audit is an independent activity, objective for assuring and consultancy conceived for creating value and for improving the operations of an organization. Assists in an organization at the achieving of its objectives by implementing a systematic and disciplined approach in evaluating and improving the efficiency, the risk management, the control and the governance processes.

If we refer to the head management of an organization, we must take into consideration the fact that it holds major responsibility in assuring the correct functionality and efficiency of the systems in the frame of the organization.

In the USA and Great Britain⁵³, practically the leaders realize an unitary council where the executive director holds responsibility for the organization's management, and the president assured the correct and efficient functioning of the administrative council.

The professionals in the domain consider that these roles should be separated, although there are many examples of successful companies in which the decisions are took by a single person.

In Germany, there is a dual governance system, in which the executive council is responsible for the management of the organization and the administrative council is responsible for the supervising of the execution council.

The governmental structures and the non-profit organizations not all the time have an executive director and a president, but however they will have persons responsible to act in this direction.

Referring to the council of administration, the leading management is responsible for the strategy and the planning on long term of and organization.

In the companies oriented towards profit, where the managers act in the interest of the shareholders, the leading management is organized in a council of administration that reports the company's shareholders.

In the other activity sectors, the leading management may not be organized in a council, but will be responsible for its actions in front of an administrative council at an hierarchic superior level. However, for assuring the efficiency in executing the tasks there will be key committees like: the audit committee, the naming committee, the remuneration committee, subordinated to the administrative council.

In the theory of the agent/agency, the managers in the leading activity act like agents of the council of administration and have a single important preoccupation – maximizing the investment's profitability.

The theory of the agent is the traditional point of view over the way in which the organization auto-leads itself.

Conclusions

- In consequence, we can affirm that this concept – corporative governance – means the ensemble leading of a whole organization by accepting all the intern components, that acts together, which finally will be integrated in the leaders, and the implementation of the risk management from the frame of the organization (ERM) and the financial management system and intern control (MFC), including the intern audit.

53 Corporative governance and the risk management, the second edition, The Institute of Intern Audits from Great Britain and Ireland, 2002, adaptation and editing from p. 4-5.

- The corporative governance has mode to do with the effective management and with the managerial structures, but it is known that there are important problems also the ones about the social responsibility and the ethics of the business practices.
- The corporative governance describes the methods and systems used for leading the organizations of any type, measure, public or non-profit and also, companies from the private sector and those constructed under the form of partnerships.
- In consequence, only after studying the corporative governance domain, the risk management and the intern control system we can approach the real value of the intern audit and its role in the frame of the organization.
- In practice, it is unanimously recognized that there is no universal method of organizing the leading management and that we must have in concern that the leading term (the action of leading) is not synonym with the one of management (the science, the art of leading)⁵⁴.

Bibliography

1. Marcel Ghiță, Emil Ghiță, Alina Georgiana Manta - Guvernanța corporativă si auditul intern, Ed. Universitaria, Craiova, 2009.
2. Emil Ghiță - Audit public intern, Ed. Sitech, Craiova, 2007.
3. Jacques Renard - Teoria și practica auditului intern, editată de Ministerul Finanțelor Publice printr-un proiect finanțat de PHARE, București, 2002.
4. Internal Auditing & Business Risk, The Institute of Internal Auditors - UK and Ireland, Colecția 2005.

⁵⁴ Cartier – Dicționar enciclopedic, Bucharest, 2003.