

THE ECONOMIC CRISIS, A VECTOR OF CORPORATE GOVERNANCE'S CHANGE

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ABSTRACT

The current global economic crisis is a nowadays problem, settled since 2007, the United States of America and extending worldwide since anul2008. This things has got the economy going unprepared. Therefore solutions must be found embedded in the current international economic context, especially in terms of financial accounting regulations .

The literature on the global economic crisis field is not yet very clear developed. We are in the middle of a major financial crisis with global implications. The financial crisis combined with other potential crises (such as energy crisis, food crisis or the policy) could lead to generalized recession globally, so do not feel that this financial crisis must be treated in isolation, but I think this is strongly linked to the current paradigm of business.

KEYWORDS: *corporate governance, economic crisis, stakeholder*

The crisis is neither good, nor bad. It could represent a crossroad. It gives us a choice. We are tempted to compare the two crises, but we can not do this because, first, that from the 1929-1933 period was caused by overproduction, while the latter was caused by overconsumption.

The desirable therapy, if we can say like this, would be a challenge to change the system. A crisis has a good side in it. People have different needs, different interests.

We need to put together more resources, we need more power. Institutions like the World Bank, International Monetary Fund are outdated, we must create new ones.

The countries are not international actors, corporations now play this role. The phenomenon of globalization requires a framework currently governing the international financial system more secure and solid, based on multilateral cooperation efforts of those involved, given that an increasingly interdependent world economy to function effectively needs rules and international instruments adjustment based on the principle of "win-win" as a series of ethical requirements of sustainable development locally and globally in order to reduce the impact of negative externalities (external marginal costs induced others) as well as the promotion of positive externalities (external marginal benefits generated by third parties).

The failure to adopt corporate governance is one of the root causes of the financial crisis. Transparency and accountability, the two basic tenants of corporate governance, were completely flouted by the investment and commercial banks in the developed world, resulting in the crisis. All the risk management and funding schemes were envisaged without any regulatory mechanism.

The economic recession, in all regions of the world, is deep-seated, resulting in mass unemployment, the collapse of state social programs and the impoverishment of millions of people. This process of economic decline is cumulative. All categories of the labor force are affected. Payments of wages are no longer implemented, credit is disrupted and capital investments are at a standstill. The "recovery" of the U.S. economy had been predicted and confirmed through media. Meanwhile, the social plight of increased unemployment in America has been scrupulously camouflaged. Economists view bankruptcy as a microeconomic phenomenon.

The media reports on bankruptcies, while revealing local-level realities affecting one or more factories, fail to provide an overall picture of what is happening at the national and international levels. People are led to believe that the economy has a logic of its own which depends on the free interplay of market forces, and that powerful financial actors, could not, under any circumstances, have willfully influenced the course of economic events.

The global economic crisis has contributed to widening social inequalities both within and between countries. Under global capitalism, mounting poverty is not the result of a scarcity or a lack of human and material resources. Quite the opposite holds true: the economic depression is marked by a process of disengagement of human resources and physical capital. The economic crisis is deep-seated. The structures of social inequality have been reinforced, leading not only to a generalized process of impoverishment but also to the demise of the middle and upper middle income groups. The wealthy rather than the middle class are rapidly becoming the consuming class, leading to the relentless growth of the luxury goods economy.

What we face now is a crisis of liquidity and not of insolvency. Most of economies made significant progress in corporate governance. However, it was mainly restricted to introducing new rules and regulations, without much attention being paid to its enforcement. For example, we can find some independent directors in the Board of Directors of every corporation now. But how much influence they really exert, is the crucial factor.

The worldwide economic crisis that erupted in 2008 and deepened in 2009 is challenging a host of the conceptions and theories of effective corporate governance.

Through corporate governance rules are established which will take place on the relationship between shareholders, managers, employees, creditors, suppliers without incurring discrimination mechanisms are developed which established the goals of society and are the means of achieving them and monitoring performance. Corporate governance mechanisms are relevant to larger

business organizations, where there is a separation between ownership and effectively manage the business. For small economic organizations, the investor or a small number of investors are directly involved in company management, is relevant only under certain aspects, such as relations with employees, creditors etc.

Corporate Governance serves several categories of stakeholders:

- investors can monitor and protect their investment in better conditions, the company acquires the ability to finance its development faster and cheaper. A high level of corporate governance to better entails monitoring the activities of managers by shareholders;
- capital markets, which could not exist and function normally in the absence of protection mechanisms;
- third parties (employees, creditors, suppliers, customers, etc..) Are in relation to the undertaking, to protect their best interests;
- public authorities, which by promoting appropriate standards of corporate governance can improve the business environment and encourage investment;
- professional associations and non-governmental organizations which have an interest in promoting transparency, fighting corruption and tax evasion;
- people who can better manage their economies, being able to place them on the capital market as an alternative investment to banking.

The main European codes and regulations are : the OECD Principles (with references to the rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, information dissemination and transparency, the responsibilities of the Board, providing an effective framework for corporate governance), Cadbury Report 1992, Greenbury Report 1995.

The governance shortcomings contributing to the crisis of confidence are not uniquely American, however, with companies in many countries adding their own governance shortcomings to the crisis. Iceland's government, for example, fell due to its banks' extreme financial exposure, leading to the country's technical bankruptcy. Britain was forced to effectively nationalize HBOS and the Royal Bank of Scotland as their ineffective risk oversight led to insolvency. And UBS in Switzerland has tacitly admitted to allowing wealthy foreigners to hide assets in their bank so as to avoid paying taxes at home.

Many complex and interdependent forces led to the greatest economic crisis since the Great Depression of the 1930s, and corporate governance systems are arguably one of them. Most corporate governance systems were not working properly. And while corporate governance may or may not be a root cause of the economic crisis, it would appear to be an important contributing factor, unfortunately.

Are interesting the specific reforms required in national and global corporate governance systems. Suggestions for addressing this crisis are already emerging, though proposed reforms may not work globally and others may not work at all. As

such, the following suggestions for reform, can provide some guidance for future scholarly conceptual or empirical studies as well as new perspectives:

1. Empowering shareholders to influence corporate boards more readily.
2. Instituting new governmental rules and regulations for corporate governance.
3. Creating an international corporate governance oversight agency.
4. Formally separating the roles of board chair from chief executive.
5. Emphasizing stronger self-regulation (and stiffer penalties for failing to do so).
6. Nationalizing and reconstituting the governing boards of firms for a period of time.
7. Limiting financial institutions from becoming "too big to fail" in the future.
8. Overhauling accounting and financial reporting systems to better signal risk.

The above suggestions are by no means comprehensive, and explorations of other innovative reforms are encouraged.

The following corporate governance issues emerging from the financial crisis need to be addressed globally:

- (a) The regulatory & supervisory powers of central banks should be extended to investment banking and related non-bank financial intermediation.
- (b) Risk management frameworks, processes, and implementation practices require reform in order to redress the shortcomings revealed by the turmoil.
- (c) The role and form of regulation of credit rating agencies needs to be addressed.
- (d) Executive remuneration and incentive structures need to be linked to long-term performance and risk profile of firms.
- (e) Corporate governance practices need to be strengthened, in particular by increasing board competence and responsibility. Board members need to have up-to-date knowledge on financial issues and risk management to fulfill their functions and training should be required when necessary. Boards should conduct annual evaluations of their performance and report to shareholders.
- (f) Governance and accountability of regulators are equally essential and the region should adopt and implement existing guidelines
- (g) Good corporate governance is important not only for listed companies, but also for State and Family-Owned enterprises.

Next steps by the OECD Working Group include:

- Finalisation of the draft Policy Brief on corporate governance of banks.
- Preparation of a Policy Brief on corporate governance of State-Owned Enterprises.

- Finalisation of the Policy Brief on corporate governance of insurance companies.
- Recommendations on Insolvency frameworks and practices.
- Establishment of a Task Force on Islamic Finance.
- Undertaking pilot studies on corporate governance of family-owned enterprises.

Corporate scandals and the current economic crisis have heightened demands for new approaches to governance, particularly in relation to executive compensation and risk management.

Conclusions

We have the ability to change the world. If we do that or not is our choice. The financial crisis is one of the biggest challenges of the century. However, there are a number of reasons to continue the corporate governance initiatives particularly in times of economic instability.

Acknowledgements

This article was prepared as part of the PhD in Economics from the DoEsEC., European Social Fund project co-funded by Human Resources Development Operational Programme 2007-2013 and coordinated by the Academy of Economic Studies, Bucharest.

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