CORPORATE GOVERNANCE MECHANISM PRACTICED BY ROMANIAN ENTITIES

Alina Mădălina BELU^{a}, Cătălina SITNIKOV^b, Anca BĂNDOI^c*

^{a,b,c}University of Craiova, Romania

ABSTRACT

Corporate governance defines all the principles, rules and norms that ensure the administration and management by managers of entities, in the interest of current and potential investors; this interest is classic and the most common. In its context, managers are studied in relation to shareholders. Being a political report, in which there are other stakeholders, the governance acquires an extended interest. A distinct place is occupied in the case of managers and shareholders, creditors and employees, with their claims. Corporate governance has an important role to play in protecting shareholders' interests as it supports maximizing the value of long-term ownership of the company, and in stimulating investors' attention to the company by making the company's activities and processes transparent and efficient as investors need accurate and quality information. The purpose of the research: to determine the way in which the managers of several entities in Romania perceive the main elements of corporate governance. Method: we resorted to the approach of a statistical-mathematical analysis of quantitative type, for data collection using the questionnaire as a research tool. Findings: pursuing the purpose of analyzing corporate governance, some ideas can be advanced and developed, such as the fact that corporate governance does not only involve supervision and stimulation in order to achieve performance, it must encourage experiments and the dissemination of advanced practices, make a decisive contribution not only in defending the interests of investors but also in ensuring social stability, encouraging mobility and qualitative growth of human capital, orderly development of production processes, close correlation with cultural values.

KEYWORDS: *corporate governance, employees, customers, providers*

DOI: 10.24818/IMC/2021/04.07

1. INTRODUCTION

The introduction in Romania of the principles of corporate governance in order to increase the economic performance of economic entities is absolutely necessary, because, following a long and incomplete privatization process, there are many joint stock companies belonging to the state, but also to foreign or domestic investors managerial control is cautious or non-existent. Simultaneously with the regulation and implementation of all the basic components of governance, action must also be taken to improve the business climate in the economy. The corporate governance code will become useful and will give expected results only in a normal business environment. At present, corporate governance is applied as a management system only at the level of large enterprises in Romania. Given the advantages of this management model, I expect an expansion and the level of smaller enterprises. The need for corporate governance arises, first of all, due to the dynamics of the national and international business environment. Corporate governance is a concept that has been of increasing concern to public organizations lately. Corporate governance provides a greater degree of assurance that an effective control system is implemented at the level of the public organization

* Corresponding author. E-mail address: alina.bbelu@gmail.com

(Martynova and Renneboog, 2011). Although the concept and practices of corporate governance received more attention in Romania, especially after 2000, they are still a critical point due to their relevance for good management practices and for attracting investors and as a result of the rather small steps taken in this direction. In detail, corporate governance refers to the way in which rights and responsibilities are divided between the categories of participants in the company's activity, such as directors, directors, shareholders and other interest groups, while specifying how decisions are made on the company's activity, such as strategic objectives are defined, what are the means to achieve them and how economic performance is monitored. By implementing and applying the principles of corporate governance, companies ensure a real improvement of economic efficiency, implicitly the value of the company and the investment climate, increasing the level of transparency and trust for them.

The present study aims to be an empirical one, regarding the issue of corporate governance. This study addresses current issues regarding the corporate governance system as well as the importance of an effective governance system based on rules or principles. The study is relevant to indicate the degree of readiness to make changes, but also expectations and perceptions of corporate governance. The importance of corporate governance will increase in the coming years, as the company wants to remain competitive in an ever-changing market, and an effective corporate governance system could be an asset for attracting financial and human capital.

This research study claims to be exhaustive in terms of analyzing the particularities of corporate governance of economic entities in Romania.

2. LITERATURE REVIEW

In the last decade, the literature on corporate governance and corporate law has sometimes supported stakeholder models as attractive normative alternatives compared to those strongly oriented towards shareholders (Lenghel, 2015). Stakeholders can be employees, creditors, customers, traders in the local community of a company or even larger interest groups, such as beneficiaries of a well-protected environment. It was stated that stakeholders will be subjected to opportunistic exploitation by the company and its shareholders if the managers of the corporation are accountable only to the company's shareholders (Feleagă and Vasile, 2006). The manager has an important role in the corporate governance debates because he / she is an important player in the economic process aimed at creating and distributing value. Managers cannot maximize the value of the company if it ignores the interests of its social partners: shareholders, employees, creditors, providers, customers (Romano, 2015). With the abandonment of the privileged role of managers, employees or the state in corporate affairs, today there is almost a consensus that shareholders are the only stakeholders to whom managers have an obligation to answer.

Governance studies in Romania are relatively early. Romanian political scientists prefer simpler concepts such as *governance*, a fact reflected by the titles of social and political sciences courses. Corporate governance of public organizations is defined as the set of rules governing the administration and control system within a public organization, the relationship between the public guardianship authority and the bodies of the public organization, between the board of directors or supervisory, directors, shareholders and other interested parties (Berheci, 2013). Corporate governance is a complex of processes, practices, policies, regulatory framework, with an impact on the management, administration and control of an organization (Barker, 2010). At present, there are numerous studies and empirical evidence that show that certain fundamental aspects of corporate governance play a key role in improving the performance of enterprises, primarily by facilitating their access to capital markets, which increases investor confidence and contributes to growth competitiveness of enterprises.

The principles of corporate governance involve a series of measures that ultimately lead to increased transparency of companies, which makes them more attractive (Berg and Love, 2009). Governance

could be assimilated, in a simple formula, with what political scientists understand by the philosophy of government, the method by which the decision-making act is as close as possible to the needs of citizens (Gănescu, 2013). Governance as a method of governance (a concept that signified the executive operational exercise of an administration) emerged in the 1990s at the World Bank as a formula for managing money lent to Third World countries. In 2001, the European Commission also launched a *White Paper on the governance of the European Union*, a document that contains both the definition of governance as a set of rules and principles of public administration, as well as its principles such as: transparency accountability, coherence, readability and efficiency of community decisions (Achim, 2013). At the same time, several concepts were launched, such as *good governance* but also *multilevel governance*, which highlights the quadruple dimension of the actors: European, national, regional and local (Russu, 2018). This does not mean that there is an agreement whereby the company should operate only in the interest of the shareholders or that the law should sanction this (Agrawal and Knoeber, 2012). The company should be organized in such a way as to serve the interests of society as a whole and that the interests of shareholders do not carry more weight in this social calculation than the interests of other members of society (Albu et al, 2013). There is currently a convergence in that the best method of corporate governance through which general social welfare can be pursued is that in which managers are held directly responsible only for the satisfaction of shareholders.

3. AIM OF THE RESEARCH

The purpose of the study is to determine how managers in several entities in Romania perceive the main elements of corporate governance (employees, customers and providers) - Table 1.

Table 1. Elements of corporate governance mechanisms

INFLUENCE FACTOR	IMPACT OF THE DECISION
EMPLOYEES	<ul style="list-style-type: none"> ✓ Professional development of staff ✓ Motivation and maintenance of staff ✓ Occupational health ✓ Providing information and methodological assistance in the field ✓ Human resources management ✓ Information on personnel policies
CUSTOMERS	<ul style="list-style-type: none"> ✓ Conduct employees in relation to customers ✓ Quality control and customer satisfaction ✓ Filling the clients
PROVIDERS	<ul style="list-style-type: none"> ✓ Choice of furniture ✓ Integrity and independence in relationships ✓ Ethical conduct of providers (contractors)

Source: adapted from Achim (2013)

Based on the purpose of the scientific research, the following objectives have been drafted:

1. Analysis of the corporate governance system;
2. Analysis of the main elements of corporate governance;
3. Identifying the links between the elements of corporate governance.

Based on studies and theories in the field of literature and personal observations, the following hypotheses have been formulated that underlie scientific research:

Hypothesis 1: The professional development of the staff is a basic element within the corporate governance mechanism;

Hypothesis 2: Quality control and customer satisfaction is crucial in corporate governance;

Hypothesis 3: Choice of providers and the ethical conduct of providers has an important role to play in implementing corporate governance.

4. RESEARCH METHODS

The purpose of the mathematical analysis is to identify the main items that were used to assess the corporate governance mechanism (employees, customers and suppliers). For this, multiple linear regressions were used, in which the dependent variable was the overall score, and the predictive variables, items (elements of stakeholders). The data collection was carried out between January 2021 and July 2021, using the questionnaire. A number of 470 valid questionnaires were obtained. In processing and analyzing the collected data we used the statistical research software S.P.S.S. to calculate and apply the method of calculating linear multiple regression.

5. FINDINGS

5.1 Analysis of the elements of the corporate governance mechanism that define employees

The average of the scores obtained regarding the importance of employees in corporate governance was performed. Values were rounded to the nearest whole number. Thus, we thus obtained an overall score for the interrogated subjects. The majority (51%) had a medium and high level of importance (21.2%). 15.4% of subjects were found with a low level (Table 2).

Table 2. Average overall score of tested subjects, importance of employees in corporate governance

		Percent	Percentage valid	Cumulative Percentage
Valid	Very small	1,0	1,0	1,0
	Small	15,4	15,4	16,3
	Medium	51,0	51,0	67,3
	Great	21,2	21,2	88,5
	Extreme	11,5	11,5	100,0
	Total	100,0	100,0	

Source: developed by the author based on the collected data

Multiple linear regressions by the stepwise method, identified 5 predictive mathematical models, based on 5 predictors (elements of corporate governance specific to employees). Model number 5 is the most complete and reliable, with a prediction coefficient of 91%, adjusted $R^2 = 0.910$; $R = 0.955$ and $R^2 = 0.911$, respectively (Table 3).

Table 3. Predictive mathematical models for employees

Model	R	R^2	R^2 adjust	Standard estimation error	Change statistics				
					Modification R^2	Change F	df1	df2	Significant change F
1	,909 ^a	,826	,826	,372	,826	1476,305	1	470	,000
2	,932 ^b	,869	,868	,324	,043	100,787	1	470	,000
3	,947 ^c	,897	,896	,288	,027	81,492	1	470	,000
4	,954 ^d	,909	,908	,270	,013	43,695	1	470	,000
5	,955 ^e	,911	,910	,268	,002	6,538	1	470	,011
a. Predictor: (Constant), Professional staff development									
b. Predictor: (Constant), Professional development of staff, Motivation and retention of staff									
c. Predictor: (Constant), Professional staff development, Staff motivation and retention, Occupational health									
d. Predictor: (Constant), Staff development, Staff motivation and retention, Occupational health, Human resources management									
e. Predictor: (Constant): Staff development, Staff motivation and retention, Occupational health, Human resources management, Personnel policy information									

Source: developed by the author based on the collected data

Table 4 presents the mathematical model number 5, which shows that of the 6 initial factors specific to employees, only 5 are significantly predictive.

Table 4. Predictive mathematical model for employees

Model	Non-standardized coefficients		Standardized coefficients	t	Significant	Correlations		
	B	Standard error	Beta			Order zero	Partially	Semi-Partial
(Constant)	,225	,080		2,828	,005			
5 A1- Professional development of the staff	,292	,032	,348	9,044	,000	,909	,459	,154
A2- Motivation and retention of staff	,404	,094	,406	4,290	,000	,852	,238	,073
A3-Occupational health	,300	,030	,335	9,939	,000	,883	,494	,169
A4- Human resources management	,214	,032	,189	6,737	,000	,781	,359	,115
A5- Information on personnel policies	,236	,092	,233	2,557	,011	,831	,145	-,044

Source: developed by the author based on the collected data

Of these predictors, three are the most important: A1 "Professional development of staff", with a β coefficient of 35% ($p < 0.001$), A2 "Motivation and retention of staff", with a β coefficient of 41% ($p < 0.001$) and A3 "Occupational health", with a coefficient β of 33% ($p < 0.001$), thus Hypothesis 1 was validated. The rest of the predictors participate significantly in a relatively small proportion. The dependency diagram of the overall score for employees looks like this (Figure 1).

Figure 1. Dependency diagram of the overall score: employees

Source: developed by the author based on the collected data

The diagram, above the arrows, shows the results of the partial correlations between each predictive item (elements specific to employees in corporate governance) and the overall score. This type of correlation shows only the relationship between the predictor and the dependent variable after the effect of the other predictors on both the predictive variable and the dependent variable has been removed.

5.2 Analysis of the elements of the corporate governance mechanism that define customers

The average of the scores obtained regarding the importance of clients in corporate governance was performed. Values were rounded to the nearest whole number. Thus, we thus obtained an overall score for the interrogated subjects. The majority (46.2%) had a very high level of importance and high (27.9%), respectively a low level of 10.6% of the subjects (Table 5).

Table 5. Average overall score of tested subjects on the importance of customers in corporate governance

	Percent	Percentage valid	Cumulative Percentage
Valid Very small	10,6	10,6	10,6
Small	15,4	15,4	56,7
Medium	27,9	27,9	84,6
Great	46,2	46,2	56,7
Extreme	100,0	100,0	

Source: developed by the author based on the collected data

Multiple linear regressions by the stepwise method, identified 3 predictive mathematical models, based on 3 predictors (customer-specific elements in corporate governance). Model 3 is the most

complete and reliable, with a prediction coefficient of 91%, adjusted $R^2 = 0.914$, $R = 0.957$, respectively $R^2 = 0.916$ (Table 6).

Table 6. Predictive mathematical models for customers

Model	R	R^2	R^2 adjust	Standard estimation error	Change statistics				
					Modification R^2	Change F	df1	df2	Significant change F
1	,956 ^h	,913	,911	,261	-,001	2,243	1	470	,135
2	,956 ⁱ	,915	,913	,259	,002	5,805	1	470	,017
3	,957 ^j	,916	,914	,258	,001	3,956	1	470	,048
a. Predictor: (Constant), Impartiality									
b. Predictor: (Constant), Impartiality, Quality Control and Customer Satisfaction									
c. Predictor: (Constant), Impartiality, Quality control and customer satisfaction, Customer involvement									

Source: developed by the author based on the collected data

Table 7 shows the mathematical model number 3, which demonstrates that of the 4 initial factors (customer-specific corporate governance elements) only 3 are significantly predictive.

Of these predictors, the most important are: C2 "Quality control and customer satisfaction", with a β coefficient of 25% ($p < 0.001$), C1 "Impartiality", with a β coefficient of 21% ($p < 0.001$) - Hypothesis 2 has been validated. The last predictor does not participate significantly in a relatively small proportion. The dependency diagram of the global score for customers looks like this (Figure 2).

Table 7. Predictive mathematical model for customers

Model		Non-standardized coefficients		Standardized coefficients	t	Signif	Correlations		
		B	Standard error	Beta			Order zero	Partial	Semi-Partial
3	(Constant)	,094	,067		1,394	,164			
	C1- Impartiality	,187	,019	,213	9,867	,000	,609	,493	,164
	C2- Quality control and customer satisfaction	,209	,025	,251	8,249	,000	,837	,428	,138
	C3- Customer involvement	,085	,025	,098	3,415	,001	,722	,193	,057

Source: developed by the author based on the collected data

Figure 2. Dependency diagram of the global score: customers

Source: developed by the author based on the collected data

The diagram, above the arrows, shows the results of the partial correlations between each predictive item (customer-specific corporate governance element) and the overall score. This type of correlation shows only the relationship between the predictor and the dependent variable after the effect of the other predictors on both the predictive variable and the dependent variable has been removed.

5.3 Analysis of the elements of the corporate governance mechanism that define providers

The average of the scores obtained regarding the importance of shareholders in corporate governance was performed. Values were rounded to the nearest whole number. Thus, we thus obtained an overall score for the interrogated subjects. The majority (41.3%) had a very high level of importance and high (38.5%) - Table 8.

Table 8. Average overall score of tested subjects on the importance of providers in corporate governance

	Percent	Percentage valid	Cumulative Percentage
Valid Lack	1,0	1,0	1,0
Very small	2,9	2,9	3,8
Small	11,5	11,5	95,2
Medium	4,8	4,8	83,7
Great	38,5	38,5	42,3
Extreme	41,3	41,3	100,0
Total	100,0	100,0	

Source: developed by the author based on the collected data

Multiple linear regressions by the stepwise method, identified 3 predictive mathematical models, based on 3 predictors (governance elements specific to providers). The last model, number 3, is the most complete and reliable, with a prediction coefficient of 95%, adjusted $R^2 = 0.945$, $R = 0.973$, and $R^2 = 0.947$, respectively (Table 9).

Table 9. Predictive mathematical models regarding providers

Model	R	R ²	R ² adjust	Standard estimation error	Change statistics				
					Modification R ²	Change F	df1	df2	Significant change F
1	,972 ^a	,945	,943	,208	,002	10,951	1	470	,001
2	,973 ^b	,946	,944	,206	,001	6,468	1	470	,011
3	,973 ⁱ	,947	,945	,204	,001	6,111	1	470	,014
a. Predictor: (Constant), Choice of providers									
b. Predictor: (Constant), Choice of providers, Integrity and independence in relationships									
c. <i>Predictor: (Constant), Choice of providers, Integrity and independence in relations, Ethical conduct of providers (contractors)</i>									

Source: developed by the author based on the collected data

Table 10 shows the mathematical model, number 3, which shows that of the 3 initial factors used, all are significantly predictive.

Table 10. Predictive mathematical model regarding providers

Model		Non-standardized coefficients		Standardized coefficients	t	Significant	Correlations		
		B	Standard error	Beta			Order zero	Partially	Semi-Partial
3	(Constant)	-,166	,045		-3,711	,000			
	F1- Choice of providers	,255	,029	,269	8,792	,000	,885	,453	,117
	F2- Integrity and independence in relationships	,367	,034	,393	10,909	,000	,866	,534	,145
	F3- Ethical conduct of providers (contractors)	,159	,030	,157	5,306	,000	,858	,293	,071

Source: developed by the author based on the collected data

Of these predictors, the most important are: F2 "Integrity and independence in relationships", with a β coefficient of 39% ($p < 0.001$), and F1 "Provider's choice", with a β coefficient of 27% ($p < 0.001$) - Hypothesis 3 was partially validated. The last predictor participates significantly in a relatively small proportion. The dependency diagram of the global score for providers looks like this (Figure 3). The diagram, above the arrows, shows the results of the partial correlations between each predictive item and the overall score. This type of correlation shows only the relationship between the predictor and the dependent variable after the effect of the other predictors on both the predictive variable and the dependent variable has been removed.

Figure 3. Dependency diagram of the global score: providers

Source: developed by the author based on the collected data

6. CONCLUSIONS

At present, corporate governance is applied as a management system only at the level of large enterprises in Romania. Corporate governance is a complex of processes, practices, policies, regulatory framework, with an impact on the management, administration and control of entities. The process of improving overall economic efficiency must start from good governance and governance. The principles of corporate governance involve a series of measures that ultimately lead to increasing the transparency of each economic entity, which makes it more attractive. In addition, the implementation of corporate governance measures is a concern of managers but also of the authorities. The importance of implementing corporate governance is essential in attracting important investors.

The test of the effectiveness of the corporate governance model is the extent to which it manages to achieve its main objective, namely to maximize the value of the company from the perspective of employees, customers and suppliers. Adherence to the principles of corporate governance is recognized as increasingly important not only in terms of ethics, but also essential in the development of a healthy and prosperous business.

Each of the *stakeholders* has their own aspirations and interests, sometimes even contradictory, which are reflected in decisions that are difficult to harmonize. In this context, a series of rational financial decisions can be invoked from a certain point of view, but which generate hostility from other points of view, as follows:

1. Shareholders want an increase in distributed dividends in order to quickly recover their investment and to achieve the highest possible personal return. As a result, wages should be reduced and investment funds should be limited to a level that ensures an increase in dividends. Such a decision can cause adverse reactions from employees.
2. Both the management and the employees have as objective the remaining position and, of course, the increase of salaries and the acquisition of their own interests in the activity carried out and less the improvement of the living standard of the shareholders. In this context, in the absence of a rigorous control by the shareholders, their wealth can be wasted and even the object of control disappears;
3. Suppliers, in turn, aim at the rapid collection of the value of the services provided and the collection of a price as high as possible, under the conditions of making a minimum effort. A reaction of the company can be the rupture of the contractual relations with them, but it can generate difficulties until finding substitute suppliers, reason for which this decision must be taken at the opportune moment;

4. The local community is also interested in the effect of the company's prosperity on other enterprises in the area and its impact on the local labor market.
5. The state, as a structure that represents through its bodies the overall interests of the nation, is not indifferent to the proper functioning of the company and the propagated effect of its activity on the functioning of the macro-system of which they are part, respectively the national economy as a whole.

Proposals for improving the current system:

- ✓ taking the initiative, not assuming the role of reaction, by the management boards for carrying out the company's business;
- ✓ using managers' remuneration programs depending on the real value created;
- ✓ investor style, not owner style, especially in the case of institutional shareholders.

We can therefore say that the limits of research are highlighted by political, social and cultural aspects of nations everywhere.

In conclusion, this research aimed in particular at identifying the options that entities can take to improve the corporate governance system as well as their impact on economic performance.

The limits of the study undertaken are diverse, from which we point out: the time horizon chosen by us is quite narrow, because research topics often generate studies of 20-25 years; the scientific approach was channeled on the interpretation of the studies and not on the explanation of the use of the obtained findings; the inductive research methodology was easily realized.

REFERENCES

- Achim, M. V. (2013). *The theories of the company and the entrepreneur: revaluations and perspectives*. Romanian Academy Publishing House, Bucharest.
- Agrawal, A., & Knoeber, C. R. (2012). *Corporate Governance and Firm Performance*, Chapter 26 in Thomas Christopher R. and William F. Shughart II, eds., *Oxford Handbook in Managerial Economics*, Oxford University Press, New York.
- Albu, N., Durica, A., Grigore, N., Grigoraș, D., Mateescu, R., & Ichim, A. (2013). Corporate governance in Romania. Perceptions and perspectives. *Accounting, Expertise and Business Auditing*, 12(4), 12-27.
- Barker, R. M. (2010). *Corporate Governance, Competition, and Political Parties. Explaining Corporate Governance Change in Europe*, Oxford University Press Inc., New York.
- Berg, A., & Love, I. (2009). *The Governance Premium*, in the handbook of international Corporate Governance. A definitive guide, 2nd edition, Kogan Page, London and Philadelphia.
- Berheci, M. (2013). *Corporate responsibility and performance of multinational companies*, Romanian Academy Publishing House, Bucharest.
- Feleagă, N., & Vasile, C. (2006). The governance of the enterprise between classicism and modernism, *Theoretical and applied economics*, 18(9).
- Gănescu, M. C. (2013). *Corporate social responsibility. The relationship between economic efficiency and social justice, between competition, cooperation, solidarity and social inclusion*, Romanian Academy Publishing House, Bucharest.
- Lenghel, E. (2015). *Performance management in the context of organizational change*. Romania of Tomorrow Foundation Publishing House, Bucharest.
- Martynova, M., & Renneboog, L. (2011). Evidence on the international evolution and convergence of corporate governance regulations, *Journal of Corporate Finance*, 17(5).
- Romano, R. (2015). *Public Pension Fund Activism in Corporate Governance*. Reconsidered Columbia Law Review.
- Russu, C., Dumitrescu, M., & Pleșoianu, G. (2018). *The quality of the company's management. Evaluation and interpretation*, Economic Publishing House, Bucharest.