CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

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Abstract
Corporate governance along with social responsibility represent a major point of interest for most shareholders and stakeholders, as it is desirable for any investor or organization to implement mechanisms that are able to ensure a proper control of a company's operating framework. It would be ideal for the business environment in every country to adopt and respect policies which lead to a reliable and secure employment, a minimization of risks, a maximization of incentives, as well as protected communities and a preserved environment. Corporate governance and social responsibility form an area that includes various concepts, but based on information gathered, we may reveal that the compliance with certain rules and regulations can generate higher welfare and prosperity. We managed to analyze the interrelationship between the two notions, definitions, the factors that linked them, and some important issues that appear when integrating social responsibility into corporate governance, meaning behavioral norms and industry impacts, economic environment, regulation, and responsible decisions. For a full comprehensive picture, further reading is required.

Key words: Corporate governance, Social responsibility, Sustainable development, Responsible leadership.
JEL Classification: G30, G38, M14, F64.

Introduction

This paper explores the essence of corporate governance and social responsibility, by stating the various concepts related to them, as well as the impressive positive impact upon businesses, employees, and community as a whole, triggered by their connection. It was also important to set the historical beginning of the notions due to the fact it helps to make a comparison with the current situation in the economic environment, and then come to a conclusion in terms of the evolution and the forces that drive corporate governance and social responsibility. We designed a structure of facts, a synthesis of theories and definitions, as well as a qualitative research, precisely an interview. We tried to review this theme based on 7 books and business journal articles.

The reason for which we focused on this theme is represented by the fact that corporate social responsibility plays an important role in corporate governance, and together they bring many benefits to society, while contributing in a high amount to a sustainable development. By embedding social responsibility into corporate governance, companies are able to establish strong, long-term, and safe bonds with its employees, obtain consumers' loyalty and trust, but most importantly, create a rational and strategic plan of action which can bring considerable earnings, at the lowest level of risk. In this sense, we consider that it is of great importance to trigger interest in and raise awareness for corporate governance and social responsibility, if we are to consider that they are the key to wealth, well-being and organizational justice, all at the same time.

It is relevant to mention that a key aspect of this article is to emphasize the fact that all companies should present a responsible behavior towards future, and by all means, they should focus on protecting the environment, by implementing water and waste management, monitoring and diminishing emissions into the air, aiming for efficiency of material consumption, and many others. Corporate governance is undoubtedly needed, and associated with social responsibility, they are truly valuable for societies.

The governance of the corporation is now as important in the world economy as the government of countries. (Wolfensohn, 1998). This statement illustrates the critical position corporations have come to play in both business and social lives. It may also speak to the global reach and political power of corporations, which in many cases transcend the reach and power of governments.

On the other perspective, this empirical study has as a second aim to emphasize, according to our methodological approach, the fact that the implementation of efficient corporate governance structures lead to the efficiency of the enterprise at overall. But this is not the only advantage for those who adopt it, the society has its own benefits that are designated to be driven towards economic welfare, social and environmental responsibility.

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1. Literature Review

The concept of corporate governance has gathered a broad category of adepts worldwide. During the last decade its success has been proved in capital systems, from Germany to Japan, and many other countries in between. The legal approach of the corporate governance is considered by Modiglini and Muller (1958)," a natural continuation of the field, as it has developed in the last 40 years". They also claimed that securities such as debt and equity are claims to cash flows.

Maybe one of the loudest impacts of this concept lays in its ability to protect the investors. As many claim, the implementation of corporate governance is not only crucial for the financial point of view, but also from legal aspects. The amplitude and complexity of the concept spread through all the divisions and compartments of a company, gathering in a chain the most important man in the structure to the last employee, if one falls, the others follow.

A lot of subjective comments rely on the main ability of corporate governance to give the investor protection, a vital factor that triggers and influences the real economy. Initiator of a chain reaction, the Corporate Governance has a prime role in enhancing the financial development, mainly through resource allocation and in the end from the investor protection may provide the growth of productivity and output (La Porta, 2000).

Corporate governance structures have a major impact on the cash flow efficiency for enterprises. A research made by Jarrard Harford, Satar a Mansi, and William F. Maxwell supported by the article named "Corporate Governance and Firm Cash Holdings in the U.S.", made by the same authors, emphasizes the fact that firms with weaker corporate governance structure have smaller cash reserves as when the managers are to take an important decision regarding cash reserves they prefer to repurchase instead of increasing dividends for shareholders. We know that "excess of cash reserves and weak shareholder rights lead to low profitability and high valuations" (Harford et al., 2012). The cause for this situation would be the fact that managers are not controlled enough and they tend to make acquisitions rather than hoard the money to distribute higher dividends for shareholders. Apparently, the problem of inefficiency in the implementation of a corporate governance mechanism which is not related to laws, regulations or judicial decisions, is an internal issue for enterprises as a study made by Martin Lipton and Jay W. Lorsch "A modest proposal for improved corporate governance" suggests this clearly.

Furthermore the perspective on corporate governance is referred to as the separation of ownership represented by shareholders or investors and control represented by managers. The most common approach to corporate governance is involved here: giving some power to the investors in the perspective of legal protection from expropriation by managers. "Protection of minority rights and legal prohibitions against managerial self-dealing are examples of such mechanisms." (Shleifer & Vishny, 2014). Another approach would be the ownership by large investors. Examples of corporate governance mechanisms include large share holdings or relationship banking which are large investors that exercise their power. Corporate Governance is typically implemented by large investors because they do not need as many regulation frameworks as small investors do.

Corporate governance is the rules and procedures that draw the relation between company's management, shareholders, and stakeholders. Corporate governance develops a structure to achieve company's objectives, and the means of reaching those objectives. "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined." (OECD, 2004)

All directors must have high integrity and the appropriate competence to represent the interests of all shareholders in achieving the long-term success of their company. Ideally, in order to facilitate engaged and informed oversight of the company and the performance of its management, a subset of directors will have professional experiences directly related to the company's business. At the same time, however, it is important to recognize that some of the best ideas, insights and contributions can come from directors whose professional experiences are not directly related to the company's business. Stakeholder and shareholder interests are not mutually exclusive, however. Corporations do not succeed by consistently neglecting the expectations of employees, customers, suppliers, creditors, and local communities, but neither do corporations attract needed capital from equity markets if they fail to meet shareholders' expectations of a competitive return. (OECD, 1998)

CG is a process carried out by board directors to organize committees, and decision flowing between the different levels of the hierarchy. Corporate governance provides directions, authority, and oversight for management.

"It means how to make the balance between the board members and their benefits and the benefits of the shareholders and the other stakeholders". (Yossef, 1991)

Corporate governance is rules and procedures that ensuring company is flowing according to the interests of owners and shareholders that invest all their savings, and funds. It is also considering the interests of other entities like employees, environment, and the community.

Corporate governance ensures that the business environment is fair, transparent, and that companies can be held responsible about its actions. Weak corporate governance leads to mismanagement and gaps between the current performance and targets. Only good corporate governance ensures the sustainability of good management.

Corporate governance improves the access to financial markets and surviving in an increasingly competitive environment through mergers, acquisitions, partnerships, and risk reduction through asset diversification. As demand for investment funds increases in developed and developing nations, and barriers to the free flow of capital fall, policy makers have come to recognize that corporate governance is relevant to the ability to attract capital and to operate in free market.

Corporate governance can't be restricted by a single accepted definition. Broadly, the term describes the business model, processes, practices and structures through which a company manages its business and works to reach its financial, operational and strategic objectives and achieve long-term sustainability. (McInnes Cooper, 2014)

Corporate governance assigns two basic elements:

- The long term relationship which has to deal with investments, incentives, and communications between different management levels.
- The transactional relation which involves the integrating between functional areas.

One example of the corporate governance is the financial practice and controls placed how transactions occur. Corporate governance here is the financial regulations, reports, and updates. It may allow shareholders to look for financial reports cash flow, balance sheets, and the loss and profit reports.

In the rise of the financial crisis that began in East Asia and rapidly spread to other developing parts of the world, policy directors have learned that systematic failure of investor protection mechanisms, followed with weak capital market regulation in systems that depend heavily on "crony capitalism," can lead to failures of confidence that spread from individual firms to entire nations. Insufficient financial disclosure and capital market regulation, lack of minority shareholder protections, and failure of board and controlling shareholder accountability all supported lending and investing practices based on relationships rather than on a prudent analysis of risk and reward. (Lillstein, 1998).

In terms of definitions which we can associate to corporate governance, we may mention that there is no unique one to describe perfectly the meaning of the notion, and evidence can be found in what Brickley and Zimmerman sustained in 2010, meaning that "The definition of corporate governance stays a substance of confusion and argument". Nevertheless, the conventional and accepted denotation of corporate governance was established by the Organization of Economic Cooperation and Development in 1999 and in 2005, Hebble and Ramaswamy explained the concept as "the system by which business corporations are directed and controlled". In their perspective, corporate governance deals with the allocation of duties and rights among members of the company, meaning shareholders, stakeholders, the board, and managers. Besides this, its main purpose is to enact policies which can lead to wise decisions in relation to a collaborative business environment within economies.

For businesses, the compliance with legislation is required in order to survive, expand, and contribute to communities in an educated and rational manner. So as to achieve performance, firms must take seriously into consideration "aspects surrounding labor practices, human rights, society, and product responsibility"(Hřebíček et al., 2011), and respect rules. When social responsibility is incorporated into corporate governance, personal interests become less important than the abundance of communities. Non-discrimination, child labor, prevention of bribery, corruption, and monopoly practices, as well as maintaining a green environment, represent just some of the regulations imposed by corporate governance, and must be respected, as sanctions may appear in case of non-compliance. However, caring for these rules is also a matter of respect to you, and also to the society.

2. Methodology

The aim of our article was finding the main reasons for which corporate governance is so vital in the day by day activities of businesses, regardless their sector of activity or level of development. The main type of research used was a qualitative one, as we tried to gain understanding of the main motivations to use the concept of corporate governance in the context of the business dynamic, to provide insights of how the big companies see this concept, and last but not least how the term, corporate governance is perceived in particular cases (Ex: Romanian Market). To gain further insights about our domestic market, we conducted an interview with an experienced entrepreneur, which activates on the market since the early 90's. The facts and details found from the manager of a firm activating in the southern part of Romania, in Alexandria, came simultaneously as a confirmation and as an interesting definition of the concept.

Valexina Impex SRL is a company, founded in 1998, in Alexandria, Teleorman and became a dream come true for a 30 years old entrepreneur. With almost 20 years' of experience on the market, the company is one of the most appreciated on the local market, due to its qualitative services and products. The company activates with a relatively small number of employees and started first with the production of PVC. The company`s field of activity rapidly expanded as they started to sell air conditioning equipment and thermic installations. The revenue recorded last year reached approximatively 190.000 RON. The interview was addressed to one of the managers of the company, Toma Alexandru, a 48 year old entrepreneur, with origins in Alexandria.

Besides the interview conducted, our research is based on academic papers, as we tried to find out more details about the broad term of corporate governance. Drawing a line, at the end we can conclude 7 academic papers from where we gathered the information encountered in the article.

As previously stated the aim of our project was to enlighten the patterns used by the concept of corporate governance, what are the objectives of this strategy, but also the results given, both by the small or big companies using it.

3. Case study proving the importance of Corporate Governance - Buenaventura Corporate Governance

As market becomes global and with the entering of digital markets, business becomes more complicated, societies are reliance more on the private sector as the engine of the economic growth. Economic development is relying on firms that are changed to corporations. Corporations are law's creatures; societies are relying on such corporation that provides efficient and ensure the stability in market.

In April 1998 the OECD Business Sector Advisory Group on Corporate Governance, chaired by renowned governance expert Ira M. Millstein, issued an influential report focused on "what is necessary by way of governance to attract capital." According to the Millstein Report, government intervention in the area of corporate governance is likely to be most effective in attracting capital if focused on four essential areas:

- Ensuring the protection of shareholder rights, including the rights of minority and foreign shareholders, and ensuring the enforceability of contracts with resource providers (Fairness);
- Requiring timely disclosure of adequate, clear and comparable information concerning corporate financial performance, corporate governance and corporate ownership (Transparency);
- Clarifying governance roles and responsibilities, and supporting voluntary efforts to ensure the alignment of managerial and shareholder interests, as monitored by boards of directors (Accountability); and
- Ensuring corporate compliance with the other laws and regulations that reflect the respective society's values. (Millstein, 1998)

Growth is more than merely one part of the mission and vision of Buenaventura the leading mining company in Peru and one of the largest gold and silver producers in the world. Today, Buenaventura operates four important mines in Peru and has an aggressive explorations program. The company owns 43.65% of Minera Yanacocha S.R.L., one of the most important gold producers in the world. The company has 2,127 employees. Operating in a capital and labor intensive industry, and in a geographic environment not as welcoming to investments as it should be, the company recognizes that it must be persistent to maintain the degree of success it has achieved over the years. And when it came to creating long-term sustainable shareholder value, there was only one way to do it: by enhancing corporate governance practices.

The Needs for Governance

Was proven in the early 1990s, however. Peru emerged into a period of greater stability, allowing Buenaventura to plan for a more promising future. When the company decided to invest in Yanacocha, now a world-class gold deposit, Buenaventura faced high-cost exploration and development investments. Convinced that the market pays for good corporate governance practices, Buenaventura chose to cancel its debt with the proceeds of an initial public offering (IPO) of ADRs on the NYSE in 1996. This IPO permitted the company to raise approximately US$ 150 million. The decision reflected Buenaventura's Board of Directors' and management's commitment to comply with United States Securities & Exchange Commission's (SEC) regulations. Prior to the IPO, the company took several critical steps toward improving its governance:

- Revamped its Board of Directors, introducing independent members and establishing Board committees;

- Implemented an Ethics Code;
- Created a Disclosure Committee; and
- Eliminated its dual class share structure and converted all its shares into a single class with equal voting rights.

Corporate Governance Steps

Buenaventura has implemented a comprehensive set of rules to ensure good governance. The reforms were inspired by the recommendations of major international organizations, such as the OECD, the Global Corporate Governance Forum and the World Bank/IFC. For example, the decision to convert all shares into a single class of common shares served to keep the controlling group together, but was also considered the best way to continue to maximize the value of the company. The liquidity of shares was bolstered as a result, as evidenced by investors' positive responses to the single class of voting shares.

Similarly, although minority shareholders are not offered formal tag-along rights, there are other safeguards in place in the event of a tender offer. Specifically, the Board must review the terms of the tender offer, communicate and make its recommendations to all shareholders on the specific terms of the offer. In turn, the shareholders are then asked to make their own decisions on whether or not to accept the offer. In practice, this means the Board does afford all shareholders the same opportunity to participate in the tender offer on equal terms. This is one example of how Buenaventura takes its shareholder voting rights issues seriously. ADR holders also receive proxies through the depositary bank, and special procedures have been put in place to ensure that:

i. ADR holders have sufficient time to consider how to vote;
ii. and that their votes are duly represented at the company's Meetings.

The Board of Directors

Transparency: Quality and Integrity of Financial Reporting

The Disclosure Committee and the Board are responsible for publishing financial statements and the annual report with the active participation of management. Buenaventura follows international reporting standards, and its financial statements generally adhere to US GAAP.

The financial reports are audited by an independent external auditor that is accountable to the Board. The company discloses ownership and control information every month and does not enter into any shareholder agreements that may negatively affect its corporate governance system or its equitable treatment of shareholders. In addition, the company discloses all business relationships and material provisions of contracts to shareholders. The company's chief of internal audit reports to the Board of Directors.

4. Results and discussions

Buenaventura recognizes that it must continue to improve its governance framework as it strives to maximize shareholder value. Its governance improvements are clearly recognized by the market, as demonstrated by its overall company performance. Most notably, the company has had a three-fold increase in market capitalization, from around US$ 400 million in 1995 to US$ 3.6 billion at the end of 2005. The company's share price increased 23.6% from US$ 22.9 on 31 December 2004 to US$ 28.3 as of December 31, 2005. The company also reported increased total revenues in the amount of US$ 337 million in 2005, representing a 1% increase from 2004 (US$ 334 million). Likewise, net income in 2005 was up 31% to a total of US$ 274 million, compared to US$ 209 million in 2004.

Our approach to this article was a qualitative one, and as we can see the final results ended up to be clears. On the display, first of all was finding out about the motivation that drives an entrepreneur to step up to such a huge challenge. As a key response we can highlight: the independency, the superior financial status, and other personal beliefs. The Romanian market can still be considered a young one, with lot dynamism and explosive changes from year to year, a very unstable growth, which provides insecurities to the business environment.

Other results worth mentioning are the higher demands provided by this market from year to year. The expectations became higher and higher as the profile of the consumer has dramatically improved since the communism era has come to an end. Firms activating in the domain have changed their vision and perspectives, by trying to implement new strategies and adopt a new position when facing the wind of change. The subject of our article, the Corporate Governance is presently a constant and central focus for both the experienced entrepreneurs, and the new waves of contestants on the market.

From the research methodology that we approached, an interview with an entrepreneur, implementer and supporter of corporate governance, we discovered the following results, which are very interesting to emphasize.

We discovered that the implementation of corporate governance structures within small firms requires following a specific regulation framework which makes this process more difficult for entrepreneurs to achieve. But the advantage is that these types of firms have a smaller board of directors and consequently the firms' value increases in terms of management control.

For large firms, to improve corporate governance that can be implemented voluntarily by business corporations and boards, without having any involvement in laws, regulations or court decisions or to affect shareholder behavior, is focused on the following elements: limiting board size; setting a two-to-one ratio of independent to inside directors; increasing the time directors spend on board matters, including an annual strategy session; the CEO should be evaluated annually by the outside directors; a lead outside director should be selected; improving the flow of information to the board; systematically reviewing and comparing corporate and management performance against goals; creating an annual forum for the board to meet with major shareholders; and providing a special report to shareholders, and access to the proxy statement for major shareholders, in the case of unsatisfactory long-term results. Therefore, the improvement of corporate governance for large firms is more complex as it involves many stakeholders in the game.

Considering the answers given by the entrepreneur Toma Alexandru, we now have evidence of the fact that processes and materials used by companies usually involve certain negative impacts upon the environment, and what must not be ignored is that the contamination of the air has become the most common, but also one of the most dangerous threats to our environment. Luckily, there are measures to reduce the dismissal of toxic substances into the air, and corporate governance, as well as social responsibility, is mandatory concerning the prevention of situations like these.

When we asked the interviewee if he encountered a situation when a firm could not manage its cash reserves because it had a weak corporate governance structure we were answered the following elements: Business involves risks and we cannot manage everything after all. Controlling the subordinate managers' acquisitions and implementing the need to increase cash reserves for dividends would bring enough awareness within the company to the importance of social and financial effectiveness for shareholders. Value creation has as a leading point the welfare of the society, but in the same time there is the need to satisfy shareholders, subordinates and mostly clients. To achieve this goal we have to know exactly the company's mission: if we are environmentally friendly, if our company follows moral rules or if it takes into consideration the good of the society at overall.

Conclusions

The conclusion of our research study has the basis on the principle that the implementation of corporate governance and social responsibility within small or large firms has an enormous impact on the social, financial and managerial effectiveness of the company. This study confirmed the positive influence of corporate governance upon firms, as it showed that corporate governance mechanisms lead to legitimately higher profits, and also to other benefits, such as increased recognition within the market. Moreover, the environment has the advantage to be protected against toxic substances and once with this protection against pollution, social awareness is raised within the society and regular customers become loyal customers once the business is environmentally friendly. This means that it contributes to the welfare of the society at overall, it takes into account environmental risks and social risks as the business is socially responsible. Social responsibility is the key to success nowadays. A business that is socially responsible it has the competitive advantage on the market which triggers profitability and high revenues.

Corporate governance and social responsibility are linked as they both provide benefits for the company that implements them. Firms should adopt a responsible behavior through the implementation on waste and water management, monitoring and diminishing emissions into the air, aiming for efficiency of material consumption to support sustainable development.

Last but not least corporate governance has an economical implication for the firms in terms of profitability, financial efficiency, dividends and others. This implication is reflected by the fact that when corporate governance is implemented within a company the system will be changed entirely as it focuses on social and economic advantages.

Corporate governance is the relation index that reflects the collaboration between stakeholders, directors, employees, and customers. It is a frame of rules, and regulations to monitor the internal performance of the corporation to attack external resources and investments.

Directors have to believe that good corporate governance is a journey and not a destination.

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