

Mirela-Oana PINTEA  
Babeş-Bolyai University, Faculty of Economics and Business Administration  
Melinda Timea FÜLÖP  
Babeş-Bolyai University, Faculty of Economics and Business Administration

# CORPORATE GOVERNANCE AND PERFORMANCE IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT

Theoretical  
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## Abstract

*The characteristic elements of the new economy require economic entities new performance standards that go beyond economics. These standards should be integrated into corporate strategy development to ensure sustainability of activities. Globalization affects corporate governance reforms currently characterized by what we call corporate responsibility and transparency. Companies are pressed to provide in addition to financial information the non-financial information, which focus on social and environmental impact of their activities and the way sustainability related constraints are integrated into their strategy for achieving organizational success. This paper highlights the changes imposed by sustainable development on corporate governance regarding the increased information that stakeholders need and the way performance is seen, as a holistic concept. Today, corporations are challenged to meet through performance the values, interests and expectations of society. The main objective of a corporate governance system is to assure a sustainable growth of the company taking into consideration the new standards imposed by the requirements of sustainable development.*

## 1. INTRODUCTION

"Corporate governance" has become one of the most used phrases in the language of global business. The global financial crisis that swept the financial markets and economies around the world, causing bankruptcies and resulting economic recession has pushed the concept of corporate governance in the spotlight (Fülöp&Pintea, 2014). Corporate governance deficiencies are regarded as causes of the crisis. Excessive remuneration of managers, failures of internal control and risk management, inadequate monitoring of the activity and the lack of independence of boards of management are the main "accused" liquidity crisis and its consequences.

Crisis-related events have drawn particular attention to internal control systems, risk management and entities' performance. While previous attempts to reform the system of corporate governance focused on composition board or remuneration matters, the financial crisis has brought risk to the forefront. The present economic conditions, the effects of the global crisis and the attempts to over pass the effects of the crisis determined the companies to apply a balanced management of performance.

In the current globalization of the world economy, a company that registers performance is a "company that creates added value for its shareholders, satisfies customer's demand, takes into account the opinion of employees and protects the environment. Thus, ownership is pleased that the company has achieved the desired return, customers have confidence in the future of the company and in the quality of its products and services, company's employees are proud of where they work, and society benefits through policy adopted by the enterprise, of environmental protection" (Jianu, 2006).

The main objective of any company should be to achieve sustainable performance. So, to achieve sustainable development at the level of companies they must collect performance at three dimensions: environmental, economic and social. In the current macroeconomic context ignoring social and environmental issues can lead to loss of international market shares of large corporations, more than this, they are forced to bear costs of greening the area of activity and spend considerable sums for loss control to regain consumer confidence.

If in the last century the force was on financial performance, companies have now realized that this is only the outcome of the race, but the race itself and the vector of the success of today's racing, in the context of sustainable development of society, is what we call global performance. Bachet since 1998 found that performance should not be reduced to the sum of partial performances, considering that performance

is "an emergent property that shouldn't be reduced to the amount of partial performances, but to an overall performance which is based on a virtuous link between the economic and social and on a long-term concern for success" (Bachet, 1998).

We consider that the two concepts, corporate governance and global performance, are interconnected. Following the corporate scandals and the global financial crisis, corporate governance has received significant attention from the regulator and the public (Fülöp, 2012). Regulatory measures have focused on increasing the disclosure requirements related to corporate governance, and this has led to increased awareness and demand for assurance on internal corporate governance processes (Soh& Martinov-Benie, 2011). Sustainable development and, therefore, globalization require new standards of performance that exceeds the economic field, both for domestic companies, as well as international ones. So, these standards should be integrated into corporate strategy development to ensure sustainability of activities undertaken by harmonizing the economic, social and environmental objectives.

## 2. CONCEPTUAL ISSUES ON CORPORATE GOVERNANCE AND PERFORMANCE

With the development of the economy and the formation of a common market, there has been an upward trend in global interest in forms of leadership, both private entities and public institutions designed known as corporate governance.

Even if the emergence of the concept of governance in the international market is not recent, has not yet reached a consensus on the adoption of a single definition. Discussions related to good corporate governance derived from agency theory in 1932 when he was drafted by Adolf Berle and Gardiner Means that theory. Thus, in the literature, there are a variety of definitions, some of which are enormous and others focusing on specific issues.

Tricker (1984) defines as essential components of corporate governance: corporate strategy, executive management, accountability and oversight.

Since the 1990s, corporate governance has been seen as an essential ingredient for economic development. It is reflected, for example, by creating special groups within international institutions, whose primary goal is to ensure the conduct of good governance (Wagner, 2013).

Adrian Cadbury (1992) suggests that the corporate governance concept can be defined as "the system by which companies are directed and controlled." This definition seems simple and brief, but clearly conveys the importance of control within the company. Thus is because it excludes all external elements such as markets, banks and

advisers, elements which in practice significantly affect how each system (for instance, national) works. The word “system” includes both formal and informal structures, but also and relationships, and thus, in our opinion, makes up for an adequate definition of corporate governance, also keeping in mind that it brings up one aspect that we are concerned about: systemic inadequacies.

Later on Shleifer & Vishny (1997) emphasizes the financial aspects of corporate governance in their work and define corporate governance as a way to funds providers of the company to ensure that they will receive the benefits due on the investment made.

A much detailed definition was given by the Organisation for Economic Cooperation and Development (OECD, 2004), which stated that corporate governance “specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making” (OECD,2004).

In general, the term "corporate governance" refers to the process or processes by which an organization is directed and controlled (Edwards et. al., 2012). When it comes to corporate governance talk about authority, responsibility, management, leadership, guidance and control, all of which are exercised in the organization.

In other words, the concept of governance is defined as a combination of processes and structures implemented by the administration, whose role is to inform, direct, manage and monitor the activities of the entity towards the objectives.

Since it is a multi-dimensional concept, the term "governance" is used differently depending on the analytical point of view of the observer or look under control (Edwards et al., 2012).

One of the main objectives of corporate governance systems is to obtain performance. In the current economic context, the companies need to obtain global performance. So, performance in seen in a holistic manner, representing the aggregation of economic, social and environmental performance (Alazard&Separi, 2001; Reynaud, 2003; Robu&Vasilescu, 2004; Baret, 2006; Mironiuc, 2009). This approach of performance was represented by Reynaud as follows Figure no. 1.

Overall performance concept is present in the literature to assess the implementation of business strategies in the context of sustainable development. The concept is a reflection in the management system of the macroeconomic concept of sustainable development (Capron&Quairel, 2005). This can also be translated into corporate social responsibility that is seen as the way in

which companies choose to manage their business and conduct their efforts to create a positive and desirable impact on society in general (Popa & SalaŃă, 2014).

For acquiring sustainable performance, economic entities must take into account the social and environmental issues and invest in related programs. The importance of social and environmental performance evaluation has been proven through various studies over time that shown that environmental and social issues facing an economic entity attract public attention and influence to a large extent the image of that entity, thus affecting the market value of its shares.

### **3.GOOD GOVERNANCE AND PERFORMANCE OF THE ENTITIES**

Achieving good governance is vital in creating the economic welfare of society and the practice has shown that it takes a complex process, with implications for economic, political and not least human (Tophoff, 2013).

Corporate governance is a concept that encompasses a wide range of activities, rules, processes and procedures to ensure optimal use of resources and corporate strategies so that its objectives are achieved.

Good governance in a company mitigates risk, improves performance, opens the way to efficient financial markets, and establishes an attractive investment climate, showing transparency and social responsibility.

Good governance is underpinned by five core principles. An organization that uses good governance is one that always, in word and action, demonstrates: accountability; leadership; integrity; stewardship; and transparency (Figure no 2).

In addition to ensuring compliance and performance requirements for accountability, corporate governance should ensure, above all, the operation of the organization so as to meet the objectives. So, those charged with the management must verify that agreements and governance practices are not unduly concentrated on the line at the expense of performance.

Bodies that enter the government task must verify and monitor it continuously. So, are the appropriate structures and processes through which to pursue financial and non-financial performance of government plans implemented.

Corporate governance should ensure the success of an entity is durable, and value created for stakeholders is short. Therefore, as I stated in implementing governance organization should not be just an exercise in compliance, designed in order to meet regulatory requirements, but must be reflected in all structures and planning entities.

Successful organizations have a corporate governance and culture that goes beyond compliance with regulations and supporting the

organization's efforts to improve performance (IFAC, 2013).

In practice, as could argue that accounting professionals, the skills and knowledge could influence the success of a marketing entity. Many times it happens that they are involved in planning, implementation, execution, evaluation, and improve governance within the organization in which they work. Furthermore, many accounting professionals are given the responsibility to provide objective, accurate, and analyzes to support all these activities.

As we stated before the main objective of corporate governance is performance. Because performance "represents the aggregation of basic stages of action, from intention to result" (Lebas 1995), we can't separe the result, namely the performance obtained, of the resources and activities through which it was obtained, of the objectives to be achieved because a result doesn't mean anything if is analyzed by itself. Moreover, "If you can't measure, you can't control. If you can't control, you can't manage. If you can't manage, you can't improve and can't be efficient" (Kuegen&Krahn 1999 quoted by Albu&Albu 2003).

Founder of the principles of management, Peter Drucker (1954) considers "few things are important to the firm's performance as performance measurement," which tells us that it could represent a vulnerability for management today. Performance management includes and precedes performance measurement.

Performance evaluation of the economic entity requires approaching several criteria, such as industry and economic entity type, managerial and entrepreneurial strategy, competitive environment, human and material resources available, using a system of appropriate performance indicators for this purpose (Petrescu, 2008).

The management of the economic entity uses indicators to measure, report and improve entity's performance. The relationship between indicators and management is ensured by the existence of performance measurement and can be captured as follows Figure no. 3.

The exigencies of communication occurred on the growing number of phenomena that marked the global economy in recent decades (internationalization and relocation of business crises and turmoil in financial markets), demand performance measurement to be made in a comprehensive way by financial and non-financial criteria. Non-financial criteria take into account the entity's long-term orientation, and they derive from aspects such as social responsibility (Mironiuc 2009).

In the current context of sustainable development, performance evaluation process should take into account the interests of all parties involved (Kubiak 2003): internal and external

customers, suppliers, partners, investors, society as a whole. Thus, indicators of the economic entity's performance evaluation that should be included in the set of indicators indicated by Evans&Lindsay (2005) can be divided into the following categories (Paunescu 2006): "financial indicators; indicators reflecting the overall performance of an economic entity; indicators reflecting on the market performance of the entity; indicators for quality of products and services; indicators on customer relationships; indicators on human resources and indicators for social responsibility and ethical behavior."

For the sustainable development of the company, the strategy and value creation can't be analyzed strictly using financial terms. Corporations must apply the principle of balanced development, based on various aspects. A notorious example is the concept of multidimensional performance evaluation theory focuses on the Triple Bottom Line. The theory underlies the balanced development of the economic entity, in terms of social and economic environment (Secara, 2006). TBL performance also requires involvement in all three areas of action of reporting: economic performance, social performance and environmental performance.

The concept of Triple Bottom Line (TBL) focuses on entities not only economic value added, but also by social and environmental values that they create, or have them destroyed (Elkington, 1997). The strict sense of the TBL is used as a framework for performance measurement and reporting entity on three dimensions: social, environmental and economic.

Triple Bottom Line (TBL) concept developed by John Elkington, advocates the idea that a company's overall performance should be measured by its contribution to triple economic prosperity, environmental quality and social capital. Subsequently, this idea began to be widely supported by a large mass of writers such as Kotler and Lee (2005) and Vogel (2005).

Performance measurement systems were initially used for leadership and then for public responsibility that brought some difficulties in implementation. In this context, the corporate governance system needs to cover the following issues: internal control systems, performance measurement and quality assurance (Tabara&Ungureanu, 2013). So, we can state that the corporate governance system needs to manage any exposure of the company at risk. According to Tabara and Ungureanu performance measurement should consider capturing the overall business obtaining information at the following levels (Tabara&Ungureanu, 2013):

- financial and non-financial;
- strategic and operational;
- internal and external.

The corporate governance's mechanisms of control use the financial accounting information, expressed through different indicators, that provide essential information for control of its current activities, planning strategies, tactics and future activities, ensuring optimal use of resources, measurement and performance evaluation, reduce the size of subjectivity in decision making, improving internal and external communication. The management of the company is evaluated through the measures of company's performance, this being a major factor for the management attempts to manipulate especially the financial information for their interests. This is why it is need powerful governance structure in order to prevent any attempt to manipulate the result for a certain period.

The relation performance –corporate governance is obvious through the fact that managers use performance indicators to manage and direct the work of the economic entity, given the conditions in the market in which it operates, and now they must consider the requirements of sustainable development. The information provided by performance indicators enable managers to make the right decisions at the right time.

To measure the link between corporate governance and company's performance, there are three steps to follow:

1. identify the indicators that asses corporate governance;
2. identify indicators that asses global performance (financial and non-financial indicators);
3. test the link between the two concepts.

The link between corporate governance and performance can be interpreted as a journey from "mission" to "measures" like Parmenter showed in his paper (Parmenter, 2007) Figure no. 4.

Corporate governance defines the system, its structure and relationships with stakeholders, by which companies are directed and controlled. Performance indicators focus on both the appropriate form of corporate governance principles, as well as on compliance.

#### 4. CONCLUSIONS

In order to perform a variety of functions, business entities must meet a complex set of political goals, economic, social and environmental issues, stating that the primary objective of increasing or maintaining welfare.

Given the developments of the macro environment and micro environment in particular, entities, felt threatened in achieving performance, so they started to look for all sorts of solutions to this problem.

International organizations having greater experience in managing global problems there came with the suggestion of implementing governance codes.

The concept of governance is based on principles that relate to honesty, integrity, ethical behavior and commitment to stakeholders. How is it subjective aspects, is very difficult to achieve an analysis and measurement of the degree to which the entity or personnel demonstrate their behavior to them. So we need a certified opinion that cannot be made so easily questioned.

Accelerated social and economic transformations in global corporations subject corporations to the continued need to change their business model, the mode of thinking, attitudes, and patterns of interaction with stakeholders. Time when companies built their business solely around the needs and expectations of the consumer is long gone. Today, corporations are challenged to meet through performance the values, interests and expectations of society. The main objective of a corporate governance system is to assure a sustainable growth of the company in the present context of globalization, taking into consideration the new standards imposed by the requirements of sustainable development.

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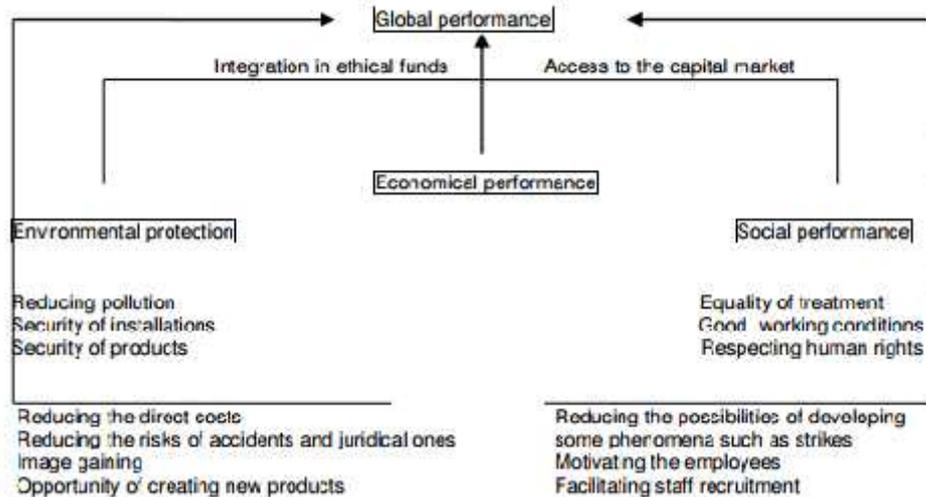
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**Figure no. 1** Global performance



Source: Reynauld, 2003

**Figure no 2.** Core principles of good governance



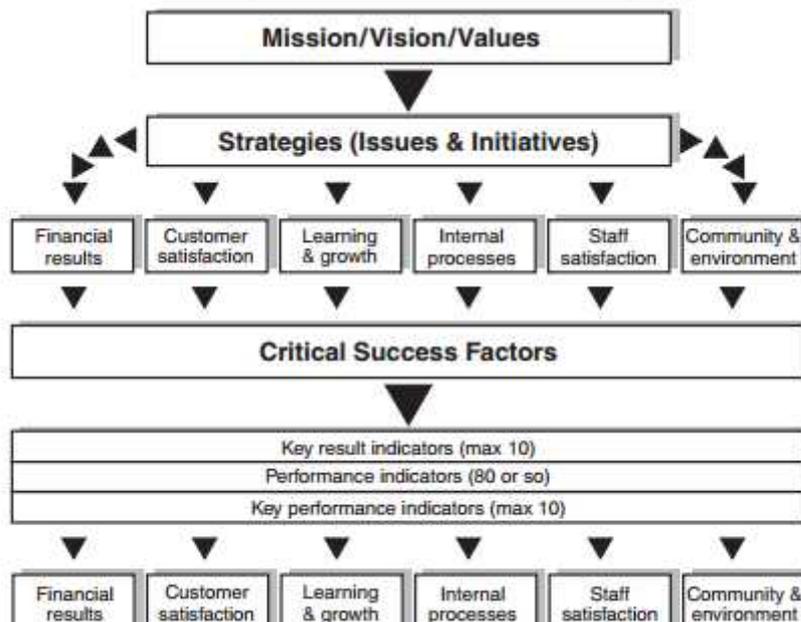
Source: Auditor General of British Columbia, 2008: 6

Figure no. 3. Relationship between performance indicators and performance management



Source: Pintea, 2012

Figure no. 4. Travelling from "Mission" to "Measures" of performance



Source: Parmenter, 2007