Control of corporate management

Omran Alfky

phd.candidat

DOI: 10.29322/IJSRP.12.10.2022.p13003

http://dx.doi.org/10.29322/IJSRP.12.10.2022.p13003

Paper Received Date: 19th August 2022
Paper Acceptance Date: 24th September 2022
Paper Publication Date: 6th October 2022

Abstract- In today’s business world, due to the globalization of the world market, in which multinational companies take precedence, the function of corporate governance is gaining an increasing role. The need for corporate governance is necessary in order to separate the two segments of the company, namely: ownership structure, on the one hand, and corporate governance, on the other hand. Also, due to the globalization of the world market, the integration of large organizational systems is frequent. In such cases, a large number of interest groups appear as stakeholders, such as: shareholders, supervisory boards, various committees, employees, business associates and others.

The function of control is a modern business philosophy, which represents professional support to management, and which contributes to transparency, coordination and integration of business. If corporate governance is to be implemented effectively, certain factors must be met. The first, there are factors that are conditioned by the environment in which the organization operates. Environment determines the normative legal system of the country in which it operates. Normative legal regulations should provide protection of property to shareholders, ie legal protection of business. Globalization has brought instability to the market, due to increasing competition. Also there is economic crises that have affected the whole world, both due to poor financial operations and due to the crisis caused by the Covid-19 virus.

Index Terms- corporate governance, control function, management, human resources, crisis, crisis management, economy, economy, Libya.

I. INTRODUCTION

For all crisis periods it is common to face risks that are inevitable and that must be adequately analyzed, controlled so as not to jeopardize the work of the organization. There is no single model for resolving crisis situations, which can be applied in all national economies or organizations individually. Each case of crisis must be approached separately from the previous one, taking into account economic, social, political specifics of the country where the crisis arose and goals, and organizational values.

Only those companies that permanently strengthen the positive practice of corporate management are able to create the conditions for the improvement of the responsibility system, which results in a lower risk related to fraud by the company’s employees. All of the above, including effective risk management, then improvement of the internal control system, as well as control mechanisms for responsible employee behavior, enables timely recognition of possible problems before a more serious crisis occurs. Only if the company applies the above-mentioned approach in its daily activities, then it creates the possibility to maintain the long-term growth and development of the company. Only by applying the standards of good corporate governance, companies achieve positive effects that are reflected in the improvement of the decision-making system within the company. If the company wants to implement the principles of corporate governance in the best possible way, it is necessary to have an effective control system, so that it can be aware of the implementation of corporate governance activities at all times. Control represents the phase of the management process in which managers check the realization of management decisions, the effectiveness of organization and leadership, and where, if necessary, they take corrective action measures to eliminate disturbances.

II. INTERNAL CONTROL FACTORS OF CORPORATE GOVERNANCE

Some of the most important internal control factors of corporate governance are:

- "separation of company management from its ownership;
- professionalization of managerial functions and other managerial bodies;
- setting managerial standards and performance norms;
- measuring and evaluating the performance of managers;
- rewarding successful and punishing unsuccessful managers;
- conclusion of professional managerial contracts;
- concentration of ownership;
- shareholders' supervisory bodies;
- the relationship between interest-influential groups;

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http://dx.doi.org/10.29322/IJSRP.12.10.2022.p13003

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financial transparency and appropriate disclosure of relevant and important information.¹

"Owners in business systems, i.e. in larger companies, they generally do not perform a managerial function, they do not manage the business and management of the company, and they are also not responsible for the result and success of the company. In the name and on behalf of the owner, the business of the company is performed by hired professionals, i.e. managers. Considering that shares in a joint-stock company are the subject of purchase and sale, it means that ownership in the company becomes by purchase, or is lost by selling shares, and this means that the ownership of the company is not permanent and exists until the moment the owners own the shares of the company."²

As mentioned before, due to the sale of shares, the ownership of one entity ceases, while on the other hand, due to the purchase of the same, there is new ownership. The change of ownership in the company does not necessarily imply that the company ceases to exist. The fact that the owners of the company have changed does not affect the operation of the management activities in the same, but the company continues to renew itself and operate, regardless of the fact that there has been a change in the ownership structure of the company.

"The development of more complex forms of enterprise organization conditions the realization of a smaller number of economically complex, but also organizationally complex enterprises (corporations) for the successful management of which the owners often do not have enough opportunities, so they hire professional and competent teams of experts to whom they entrust the management of such enterprises. Realizing power through the application of new knowledge-based ideas and concepts, managers in an enterprise become an irreplaceable factor in the enterprise's ability to change, adapt and create new opportunities in order to successfully compete in the changing business environment. However, the professionalization of the managerial function and the transfer of responsibility for company management to managers also results in the appearance of abuse of managerial positions in order to achieve their own interests."³

Today's modern environment has undergone a large number of changes in a relatively short period of time, and as a result, companies are facing increasing challenges, as various interest groups demand much more from them than just providing data on the current state.

"Management performance norms represent the measurement of the expected results of the manager's business in the company for a certain period of time. Norms of performance of managers in a company led by professional managers are, as a rule, defined in advance in companies and business groups and have practical significance, both for managers and owners in the company."⁴

Performance standards are significant for managers, since they clearly and concretely specify obligations in running the business of the company, which, by comparing the achieved with the planned owners, enable the acquisition of reliable information about the manager's success. Norms of manager's performance are established for all levels of company management, and failing to set norms related to the introduction of such a system of norming the success of management in a company in which the manager can be irresponsible can have serious and criminal consequences, especially when setting managerial goals and interests above goals and interests of business owners.

Establishing standards of manager's performance, as well as measuring and evaluating managers by comparing the achieved with the planned standards of manager's performance, is applied in almost all companies of the world, which in companies and corporations of many countries of the world is a basic, not an auxiliary way of monitoring the work of managers. In countries with a developed capital market such as the USA and Great Britain, the capital market and information provide important information obtained from the rise and fall of share prices, becoming one of the most important parameters on the basis of which the success of the manager's work is determined and evaluated in the same way, while performance norms and the comparison of the achieved with the planned benefits as an auxiliary system for evaluating the success of the manager's work.⁵ If a company wants to effectively measure and evaluate the performance of the company's work, it is necessary for managers to assume certain responsibilities for their decisions and the performance of the company as a whole. They should, among other things, create and implement a code of ethics that helps management promote every important characteristic of quality corporate governance.

Here are some of the most important measures:

- a clear organizational strategy;
- effective risk management;
- discipline and commitment;
- fairness towards employees and customers;
- transparency and information sharing;
- Social Responsibility; and
- regular self-evaluation.⁶

"A modern system of corporate management implies the readiness of the top management to enable the creation of an organizational structure for the company in which all employees would be able to participate in the development of the company's operations. From the moment of separation of ownership and managerial functions, the basis for more efficient and effective

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³ Aleksandra Radojević, Corporate governance in the function of aligning the interests of management and shareholders in

Montenegro, Faculty of Mediterranean Business Studies Tivat, University "Adriatik" Bar, Tivat, 2020, page 24

⁴ Aleksandra Radojević, Corporate governance in the function of aligning the interests of management and shareholders in

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business operations of the company is created, but it also creates the possibility of a natural conflict between the owner and management. This requires defining and designing an adequate mechanism for stimulating and rewarding management, in order to balance conflicting interests and encourage more profitable and responsible business operations. Stimulating the management is based on a set of various monetary and non-monetary rewards for the management's work or contribution in achieving the company's goals. The goal of the reward system has changed over time, from proper reward, stimulating managers to achieve the best possible business success, and the effort to attract and retain the most capable and skilled. Manager reward systems or "manager motivation packages" can be in monetary or non-monetary form. The fact is that every employee in the company wants to be adequately rewarded for his work, effort, commitment, etc. For this reason, it is necessary for each company to develop its own reward methods.\(^6\)

III. DIFFERENT TYPES OF INTEREST GROUPS

The most important advantage of the Anglo-Saxon model of corporate governance enables the collection of larger sums of financial resources, given that a large number of owners provide capital to the company, while the lack of this model can be seen in the passivity of small and smaller shareholders, because managers have more significant decision-making power and make decisions that are primarily directed towards excessive investments. The lack of the continental model is characterized by the existence of limited financial resources available to the company, and greater concentration of ownership means that control is in the hands of larger and larger shareholders who hold greater power, influencing decision-making and increasing profitability. Greater profitability is a fundamental advantage of the continental model of corporate governance.\(^7\)

A comparative analysis of business systems emphasizes the importance of two elements: surveillance costs and the effectiveness of hostile takeovers. If we look at the values of the costs of supervision, on the one hand, and the possibility of a hostile takeover, on the other hand, then the optimal mechanism of corporate governance is reflected in:

- "concentration of ownership (when supervision is more expensive and there is no threat of takeover);
- surveillance (in case of low surveillance costs and when downloads are ineffective) or
- dispersed ownership and hostile takeovers (when there is a weak takeover defense mechanism and monitoring costs are high).\(^8\)

Interest groups mean those actors who are directly or indirectly involved in the work of the company and without whose presence the company would hardly survive. "Although companies often will not always be aware of all influence-interest groups, neither will interest-influence groups always be aware of the potential impact of the company on their interests. Interest-influential groups are all individuals or groups that have an interest in the business of a trade, company or corporation. There are many interest groups, and their demands are different, but their overall fulfillment is almost impossible. Nevertheless, interest-influential groups and other investors, as a rule, strive to achieve profit maximization on the invested amount of capital, i.e. to increase the value of the company, and to independently decide how to use the money they have earned. On the other hand, managers must satisfy all interest-influential groups, because they often run the company, and are responsible for bad results, and at the same time they want to achieve their goals and interests, which are usually in conflict with the interests and goals of the company owner.

Employees strive for good and regular salaries, opportunities for training, a good attitude of management towards them, to advance in their careers, and to realize many other rights, which are often ensured by engaging unions. Consumers, on the other hand, want to achieve products and services that are as cheap as possible, but also of better quality, while suppliers aim to have a correct and fair relationship, and that the purchase price of the materials procured through them is as high as possible, faster and with regular payment terms. The local and political community has several interests, the most important of which are those related to the increase and preservation of jobs, the possibility of collecting taxes under the conditions that the company operates positively, encouraging the company to successfully continue its work, etc. All these goals and requirements, which are often very contractual for the subjects that are an integral part of the corporate management process in the company, so managers are required to balance successfully by striving to make compromises in order to achieve the general satisfaction of the majority.\(^9\)

IV. CONCLUSION

Corporate governance is a form of company management that deals with issues arising from complex interactions between the board of directors, top management, owners and other interested parties, including creditors, analysts, auditors, and more widely deals with issues of social responsibility of companies towards employees, customers, suppliers, and society as a whole. The most important goal of all those interested in the economic field is the efficient functioning of the economy, that is, companies, because only then are incomes, employment and general well-being maximized. In order for this to be achievable, it is necessary for companies to be well managed, i.e. that the business decisions made in them are the best possible, given the circumstances. And the basic prerequisite for making valid business decisions is a well-organized company management


\(^8\) Kose, J., Dedia, S: Design of Corporate Governance: Role of Ownership Structure, Takeovers, and Bank Debt, Article in SSRN Electronic Journal · December 2006.

\(^9\) Aleksandra Radojević, Corporate governance in the function of aligning the interests of management and shareholders in Montenegro, Faculty of Mediterranean Business Studies Tivat, University "Adriatik" Bar, Tivat, 2020, page 34-35
system. So, under the problem of corporate governance, we do not mean the issue of the quality of the company’s business decisions, that is, its business management, but, as stated, the management and control system of the company. In other words, it is a set of the most important rules according to which the internal organization of the company functions (jurisdictions and procedures of the assembly, board of directors, management, etc.). Corporate governance is a system of relationships defined by structures and processes. For example, the relationship between shareholders and governing bodies consists in the former providing capital to the latter to achieve a return on their (shareholder) investment. Shareholders elect members of the company’s body, which determines the company’s business strategy and supervises the company’s operations. That body should represent the interests of shareholders in the company. It essentially provides strategic guidance and control to the company’s executives. Managers through this body should regularly and transparently submit financial and operational reports to shareholders. In addition, the managers are responsible to this strategic-supervisory body, which in turn is responsible to the shareholders through the shareholders’ assembly. The structures and processes that define these relationships typically focus on various mechanisms to ensure effective governance and reporting.

These relationships may involve parties with different and sometimes conflicting interests. Between the main bodies of society, i.e. shareholders’ meetings, directors (executive and non-executive) and members of the supervisory board may have different interests. Conflicting interests most often exist between owners and managers and are often called the “principal-agent” problem2. Conflicts can also exist within each governing body, such as among shareholders (majority vs. minority, shareholders who control the company vs. those who do not control it, individual shareholders vs. institutional shareholders) and company board members (executive vs. non-executive, external vs. internal, independent vs. dependent); and each of these conflicting interests must be carefully observed and kept in balance.

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AUTHORS

First Author – Omran Alfky, phd.candidat