THE ADVANTAGES OF APPLYING THE PRINCIPLES OF CORPORATE GOVERNANCE TO PUBLIC ORGANIZATIONS IN THE WATER RESOURCES DOMAIN

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Abstract: Corporate governance is a multi-level approach in the system of relations between interest groups (employees, managers, shareholders, regulators, the general public, the media) and corporate governance includes the relationships that are established between the Board of Directors and the interested parts, internal or external.

Corporate governance refers to how the rights and responsibilities between the categories of participants the work of the organization are divided, while also specifying how decisions are made about the company's activity, how to define the strategic objectives, how to reach them and how to monitor financial performance.

Currently, all organizations and most countries are concerned about the implementation of corporate governance principles.

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1. INTRODUCTION

Corporate governance designates the set of rules by which a company is run and controlled. With regard to company management during the Board of Directors' mandate, the priorities are: ensuring guiding principles and control elements that operate together to further develop the company by completing the proposed projects.

Being a political relation, with other interested parts, governance also has an extended interest. Thus, in the case of public water resource organizations, in addition to managers and shareholders, it is necessary to give due weight to both creditors, employees and users with their claims.

2. OBJECTIVES

The purpose of this paper is to highlight the importance of applying corporate governance principles to public organizations in the water resources domain in order to maximize the efficiency and effectiveness of their work.

3. METHODOLOGY

The research methodology was based on the analysis of the data sources represented largely by the specialized scientific literature as well as on the direct observations made on the specific documents and regulations of corporate governance.

4. ANALYSES

One of the results of the economic globalization has been to reach a consensus on the international development of corporate governance principles, and this task has come to the attention of various international institutions.

To that end, the Organization for Economic Cooperation and Development (OECD) developed the first corporate governance standards for Member States in 1999. The corporate governance principles developed by the OECD fall into the category of the 12 pillars of international financial stability.

According to the OECD, corporate governance involves a set of relationships between a company's management, its board of directors, its shareholders, and other stakeholders. This assembly is "the structure through which the company's objectives, the means to achieve its goals, and the way in which performance is monitored and determined are set" (OECD, 1999).

In 1999, the OECD published the "Principles of Corporate Governance" which contained five principles on issues where managers play a key role in shareholders' rights, fair shareholder treatment, their role in corporate governance and the board's responsibility, and investors, creditors, suppliers and employees are considered partners.

The five fundamental principles of corporate governance developed by the OECD are centered on equity, transparency, accountability and liability, and refer to:

1. ensuring fair treatment of shareholders and observance of their rights;
2. observance of the rights and interests of all categories of stakeholders;
3. establishing the role and responsibilities of the Board of Directors;
4. ethical behavior and integrity of the management team;
5. transparency of reporting and fair presentation of both outcomes and future outlook.

Corporate governance is the concept that affected most of the developed or developing countries. For this reason, the OECD has prepared a general set of corporate governance principles that seek to complement the Board of Directors' tasks with demanding elements for countries where democracy is at the beginning and where the concept of registered companies may be poorly implemented.

In May 2004, the OECD published a revised version of corporate governance principles introducing the concept of "corporate governance should ...". The idea behind it was to improve corporate governance practices for both member countries and non-member countries.

OECD principles are recognized by the Financial Stability Forum as one of the 12 basic standards for solid financial systems.

Within corporate governance concepts, a central place is the transparency of financial-accounting information, as it is the basis of the entire decision-making process. Thus, financial accounting information should be of superior quality to contribute to the efficient management of the organization and to the increase in its market value.

In the following table are presented the six relevant principles:

Table no. 1 Principles of corporate governance

Principle	Content "The corporate governance framework should ...
Transparent and efficient promoting of markets	... promote efficient and transparent markets, ensure compliance with legislation and clearly articulate the division of responsibilities between supervisors, regulators and executives".
Respect of shareholders' rights	... protect and facilitate the exercise of shareholders' rights".
Ensuring equitable shareholders' treatment	... ensure fair treatment for all shareholders, including for minority and foreign shareholders. All shareholders must be able to obtain redress for violation of their rights".
Ensuring decision-making transparency	... ensure timely and accurate disclosure of all main aspects of the economic entity, including the performance, financial position, ownership and governance of the company".
Recognition of rights of interest holders	... recognize and strengthen the rights of stakeholders as established by law or through mutual agreements and actively encourage cooperation between companies and stakeholders in creating wealth, jobs and the sustainability of sound financial enterprises".

Source: OECD, 2004: 17-25

The state of development of corporate governance varies from one country to another, each country facing specific problems in implementing corporate governance. Issues that both developed economies and emerging economies can face in implementing corporate governance practices are addressed in the following table.

Table no. 2 Corporate governance issues

Developed countries	Developing countries
☐ Broken property: agency issues between shareholders and managers; ☐ Construction of a CEO's empire; ☐ Non-disclosure of information; ☐ Excessive remuneration; ☐ Insider trading; ☐ Defense mechanisms (e.g. poison pills); ☐ Internal control issues (audit independence).	☐ Concentrated property: agency issues between those controlling the company and minority shareholders; ☐ Conflicts of interest; ☐ Inefficient Management Boards: ☐ Poor capacity ☐ Passive approach ☐ Low Independence; ☐ Inappropriate treatment of minority shareholders, especially in situations of change of those exercising control; ☐ Succession; ☐ Transparency;

Source: Solomon, 2007

Although these issues have been identified and ignoring the principles of corporate governance has led to the emergence of famous financial scandals (UK-Guinness1986, USA-Enron 2001, European Commission-1999/2002), in practice companies tend to adopt the best standards of corporate governance to be competitive and to attract investors.

In Europe, corporate governance legislation and policies address both the interest of shareholders, but also of other interest groups: employees, creditors, clients, suppliers, the local community, civic organizations and government.

Table 3 Interests of influence factors in the activity of a company

Influence factor	Interests
Shareholders	• Controlling the decision; • Net profits; • Dividends; • Recovering the investment; • Notoriety and recognition; • Increase share value.
Employees	• Secure jobs; • Attractive salaries; • Motivation of work (bonuses, promotions); • Safe working conditions; • Health insurance;
Creditors	• Timely payment of loans; • Interest, commissions; • Profitability, creditworthiness;
Clients	• Quality; • Low prices; • Correct and timely information; • Equal treatment;
Suppliers	• Orders and contracts; • Timely payment of invoices; • Trust; • Fair competition;
Government	• • Investments; • Compliance with legislation; • Environment protection; • Payment of taxes and fees;
Community	• Jobs; • Developing the local market; • Healthy environment; • Sponsorship.

Source: Ghiță, 2009

As far as corporate governance is concerned, an important aspect is related to the impact that the implementation of corporate governance principles and corporate governance codes has on company performance. In recent years, the aspect of determining causality between these two elements has become increasingly important in corporate governance research.

5. CONCLUSIONS

In order to maximize the quantifiable and non-quantifiable economic and social outcomes of public organizations in water resources domain, the relationships established between the Board of Directors and stakeholders (internal and external) should be based on the following guidelines:

1. Relationship with shareholders:

• informing them of all aspects of the company, of the economic and financial results, as well as of the development and strategic objectives of the company;

• fair treatment of all shareholders, including minority shareholders;

• ensuring the transparency of information and its timely dissemination with regard to the reporting of current, financial, administrative activities on a regular basis;

• ensuring correctness in the conduct of the economic-financial activity by exercising an annual external financial audit.

2. **Relationship with employees:**

• regular consultation of employees on the basis of job-satisfaction questionnaires and decisions affecting the human resources area;

• employees' participation in important company decisions through their trade union leaders;

• ensuring employees' motivation - finding financial and non-financial stimulus solutions so that they are positively motivated to perform a high-quality activity, aiming at maintaining a favorable climate for performance;

• developing collaborative relationships between company's employees;

• ensuring a staff retention policy so that the reduced staff turnover contributes to the accumulation of necessary experience in organizing the organization.

3. **Relationship with users:**

• increasing the quality of the services provided / rendered. This is to improve the production activity, expand, rehabilitate or modernize the water and sanitation networks, improve the work of the personnel responsible for customer relations;

• increasing the quality of life by supplying drinking water and providing sewage service according to the European standards in force;

• ensuring the confidentiality of personal data;

• campaign on information and raising awareness on the benefits and the need to carry out the work;

• constantly informing the public about the organization's efforts to verify and maintain quality at high standards;

• prompt resolution of intimations and complaints, achievement of the planned value of the performance indicator specific to the performed activity;

• development of electronic ways to maintain permanent links with customers via e-mail and through the company's website;

• carrying out actions to raise awareness and empower people about the need to conserve natural resources and protect the environment.

4. Relationship with other collaborators

• direct access to information - all interested parties receive complete and accurate general interest information on the financial situation and economic outcomes of the development objectives and the decision making mechanisms as well as any other information of public interest;

• the company is subject to an annual, independent and objective, external financial audit confirming the veridicity of the company's economic and financial situation.

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