

NON-FINANCIAL PERFORMANCE. RELATIONSHIP BETWEEN SOCIAL RESPONSIBILITY OF COMPANY AND CORPORATE GOVERNANCE

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Abstract: : Romanian companies were privatized listed in the table, forming a highly dispersed ownership, free of activism in managing companies and the emergence of a powerful group of majority shareholders. These companies are controlled by managers and employees or shareholders at the expense of minority shareholders's interests and other social partners, in violation of their rights, which led to lower their property by shareholders. The corporate governance of listed companies makes the decisive financial and economic performance of the current and future. Therefore, the quality of administration and management is a key variable for assessing non-financial performance of companies listed on global stock market.

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Performance entity is not only the profit reported in other financial indicators (cash flow, rate of return, the book value of assets, etc.), but cover all financial and non-financial aspects of business unit. Overall performance of companies is based on user interests, be they internal or external. Investors are also interested in the company's past and prospects for future development¹.

Performance can be defined as an achievement of organizational objectives, whatever their nature and variety. This achievement can be understood in the strict sense (result, output, therefore roots), or in the broad sense of the process leading to the result (action). Unless there are performance can be measured and this process can not be strictly limited to knowledge of a financial result². It was therefore concluded that the impact of business on society and the environment must be measurable, and results are taken into account in determining the non-financial performance.

¹ Sandu, G. *Performance concept and its importance for users of the information contained in annual financial statements*, Yearbooks of University Tibiscus, vol. XVIII, 2011

² Lebas M., *Oui, il faut définir la performance*, Revue Française de Comptabilité, juillet- août, 1995

Social responsibility of business (RSE) is the integration of companies' social and environmental concerns with business activities and relationships with stakeholders³. They expect these entities to report on how they manage their activities and take the impact on employees, shareholders, riverside residents, environment, society, etc. In this sense, the concept of non-financial performance is used to evaluate the application of sustainable development strategies and to report on the social responsibilities of various partners.

In this context, management companies can maximize profits if partners take into account the interests of any kind, can not achieve performance without identifying and harmonizing the interests of its most important partners. This ensures corporate governance system⁴.

The concept of corporate governance is defined as the mechanism by which an asset is managed and controlled entity. **Corporate governance code** is a set of principles, standards and best practices of governance issued by a particular institution, whose application is not binding, but one option. In the European Union (EU) was adopted 35 codes, each country having at least one corporate governance code. Most of these codes (25) were issued after 1997, ie after financial scandals and bankruptcies of some British companies listed on capital markets.⁵ The elaboration of codes of corporate governance has intensified especially after the years 1997 - 1998, a period dominated by the Asian economic crisis.

Although different, all valid codes in member states of the European Union addresses four important issues:

1. **fair treatment of all shareholders**, whose interests must be given priority;
2. **clear responsibility of the Board of Directors and management**;
3. **transparency of company** or the accuracy of financial reporting transparency and non-financial in time;
4. **responsibility for the interests of minority shareholders and other social partners** and respect for law.

Principles of corporate governance refer to the following:⁶

- *the rights of shareholders* - corporate governance framework should protect shareholders' rights;
- *fair treatment of shareholders* - must ensure fair treatment of all shareholders, including minority and foreign shareholders. All shareholders should be able to obtain appropriate compensation for infringement of their rights;
- *the role of stakeholders in corporate governance* - is necessary to recognize the rights of stakeholders established by law and encourage active cooperation between

³ COM 366 : *Livre vert - Promouvoir un cadre européen pour la responsabilité sociale des entreprises*, Commission européenne, Bruxelles, Juillet 2001

⁴ Robu, V., Vățui, M., Anghel, I., etc. Performance analysis of Romanian companies listed in the context of EU integration. The issue of corporate governance models used in EU countries and general management diagnosis and management model specific Romanian companies listed. Comparative analysis of corporate governance system of Romanian companies and models used in EU countries – www.management.ase.ro

⁵ Stan, V., Sandu, G. Pricing and equilibrium condition for the market of production factors in the perfect competition , *Yearbooks of University Tibiscus*, vol. XVIII, 2011

⁶ Tabără N., Horomnea E., Mircea M.C., *International Accounting*, Ed TipoMoldova, Iasi, 2009, p483-484

companies and stakeholders to create wealth, jobs and maintaining sound financial entities;

- *presentation of information and transparency* - all relevant information on the society is presented correctly and on time, including financial statements, performance, ownership and corporate governance;

- *Board responsibilities* - to ensure the company's strategic direction, effective monitoring of management by the board and board accountability to society and shareholders.

An agreement on a set “global” principle is likely to be made only in very general terms. Therefore, there can be no concept of a single model of corporate governance. Corporate governance should facilitate the communication necessary, sufficient and useful, permanent between domestic participants (shareholders, board members, steering committee members, executives), in order to achieve the objectives of efficiency and effectiveness of management activities in achieving the organization measured by internal and external audits of quality and choice of optimal decisions by the Board. This can be accomplished primarily through the **stakeholders** are kept informed on the objectives and financial situation of the company, subject to commercial confidentiality.

Any code of corporate governance will contain provisions regarding:⁷

- *Board - structure*, division of powers, responsibilities, code of ethics, conditions of appointment of a person on the board of directors, board size, frequency of board meetings, the nature of the management contract, the nature of the contract between the company and executives, the role and remuneration their participation in meetings of other parties, etc..;

- *Communication and transparency* – the quality of information, the structure of reports of directors to shareholders, type of reports to shareholders, type of reports to the board of directors, dialogue and social partnership (equal treatment of shareholders);

- *financial control of business managers* - minimum requirements for directors and executives (exposure to risk, performance indicators, etc..), for auditing and auditors (employment, remuneration, etc..).

Proper functioning of these processes is based on maturity of the enterprise because it requires the existence of networks that are supported in decision time and require considerable work to be maintained.

Corporate governance codes are not mandatory and can be adapted to the needs of companies. Their compliance not required raises a question mark on their effectiveness in practice; there is a real risk of their failure to apply.

In Romania, companies generally have a corporate governance model based on internal control and management employees, but with certain peculiarities depending on the area. The main problem of corporate society in Romania is, however, conflict of interest between shareholders and minority shareholders resulting often problems between management and minority shareholders and between shareholders and business partners of the company, especially specific economies transition, resulting in degradation of long-term performance of companies and their bankruptcy. According to studies conducted in Romania, the most important forms of violation of shareholder rights are: wealth dilution of minority shareholders, transfer of profits outside the

⁷ www.ccir.ro, Voluntary code of corporate governance, March 2002

company's tactics "empty shell" improper allocation of profits, delay in providing the dividends of shareholders limited access minority information.

This is explained by the existence of excessive authority and lack of control of major shareholders and the monitoring of the entity's other business partners. Therefore, given the quality of relationships between the firm and its social partners in Romania, which provide companies premises to improve performance, it can be concluded that corporate governance is poor Romanian.

CONCLUSIONS

In conclusion, Romanian companies have been privatized listed in the table, forming a highly dispersed ownership, free of activism in managing companies and the emergence of a powerful group of majority shareholders. These companies are controlled by managers and employees or shareholders at the expense of minority shareholders' interests and other social partners, in violation of their rights, which led to lower their property by shareholders. Board of Directors and the auditors have only a formal role in approving the decisions of managers or controlling shareholders.

The corporate governance of listed companies makes the decisive financial and economic performance of the current and future. Therefore, the quality of administration and management is a key variable for assessing non-financial performance of companies listed on global stock market.

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5. * * * www.management.ase.ro
6. * * * www.ccir.ro