CORPORATE GOVERNANCE RELATIONSHIP WITH STRATEGIC MANAGEMENT

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Abstract:

The paper highlights on corporate governance relation through collecting and analyzing different secondary resources such as websites, lectures, published articles and books and primary resources about performance of leading companies implement new strategic models and adopt governance principles. The financial crisis has asked responsible institutions to review all the topics under discussion in this paper through adding more responsibilities on corporate governance and adopting new strategic methods assuring high priority of corporate sustainability. The result of the paper ensures these relations between corporate governance, strategic management and corporate sustainability. The paper provides enhances the collective relations between corporate governance and strategic management with assuring its role in corporate sustainability in new perspective to pave the way for new academic researches discussing these relations.

Key Words: *Corporate Governance, Strategic Management, Sustainability.*

JEL classification: G34, M41, Q 56

Introduction

Globalization with agency theory have created in last decade new terms and financial scandals as well, which required responsible reactions from concerning institutions and government to gather their efforts in different fields to save companies and global economic from collapsing. The mistrust between financial society and a company comes positive motivation on many concepts and principles to be developed, also the idea of being prepared for globalization are grown among being scared from it, monitoring these impacts is possible among avoiding it.

Corporate governance, a term that scarcely existed before the 1990, is now universally invoked wherever in business and finance are discussed since corporate governance carries such a wide variety of interpretations, it seems appropriate to begin by setting out the approach generally adopted in the volume. Here it is assumed that an effective system of corporate governance has two requirements: at the micro level it needs to ensure that the company pursuits its objectives. Thus by following Anglo-American conception of a company as a device to further well-being of shareholders, good governance is a matter of ensuring that decisions are taken and implemented in pursuit shareholder value. Importantly, that involves in actions, which reconcile the need to protect the downside risk to holders referred to managerial accountability as well as to encourage managers to take risks to increase shareholder's value (Keasey and Wright, 1993). At the macro level of corporate governance, in the words of Federal Reserve Chairman Alan Greenspan has evolved to more effectively promote that allocation of the nation's saving to its most productive use. Thus in financing activity, whether through equity or debt savings; are channel-led into productive activities, the return on which ultimately determines national prosperity. The recent US experience with Enron, WorldCom and other failures is a reminder that if failures at company level are sufficiently serious and/or widespread, there will be a miss-allocation of funds in the short term and systemic consequences for longer-term investment if confidence is damaged. The corporate governance refers that blend of law, regulations, and appropriate voluntary private-sector practices, which enable efficient performance and attracting human and financial capital to a company and thereby preserves it by generation long-term economic value for its shareholders, and the interests of stakeholders and society are respected as a whole. The prime characteristics of corporate governance are: disclosing relevant operational and financial information and internal control and oversight processes of management forcing and protecting exclusive right of all shareholders, and providing independent strategy, decisions and business plans for a company approved by independent directors, independently hiring management to monitor integrity and performance of managers, and replacing management when it is necessary. Ira M. Millstein; Senior Partner, Weil, Gotshal & Manges LLP, and noted authority on corporate governance.

Agency theory establish conflict area of interests between various parties, these parties are determined according to theories; shareholder theory limits these conflicts between shareholders, debtors and managers among limiting these conflicts between stakeholders; stakeholder theory (shareholders, debtors, customers, employees, managers, suppliers, governments, societies and environment). Full investigation has been done after finance theory has elaborated empirically and theoretically. Plus differences of cultures in markets have significances for preponderance of agency conflicts and how to control these conflicts. It is impossible that managers act perfectly in each possibility that affects their benefits and other benefits as well that is called agency problem, which creates cost which is seen as losing value to shareholders (Jensen and Meckling 1976). Monitoring agency cost is enforced by statutory practices, companies are asked to provide compliant statement according to governance codes such as Cadbury, and Greenbury in United Kingdom bringing attention on moral conflicts between stakeholders including shareholders with managers, as well that is proofed by empirical studies; poor performance of directors is more like the reason behind directors losing their jobs. Agency problem goes far when agency costs affect on profit to impose capital structure, the decision-making of investors and labor market are affected, over all call all responsible institutions to act urgently.

Corporate Governance and Strategic Management

Starting with 1990 strategic management has entered new period of developing and adopting new styles based on thinking "My business is thinking – T.A. Edison". That asks managers to be aware about company's atmosphere and understand well the changes of business world. Managers must recognize exchanging relationship between environment, society, economic and their companies switching from liner thinking to non-liner thinking, managers should be creative in achieving companies' objectives. Plus, financial scandals in United States of America and its shadow on Europe Union and growth economic countries, where the head quarter of multinational companies around the world are, push researchers to develop strategic management by adopting new terms and styles talking with the reality. Management must respect all interests of stakeholders, and from this point corporate governance starts its role, the financial society becomes strict with corporate governance through recognizing governance as a solution key to earn back the lost trust generally, not only stock market. Many codes have taken place such as Sarbanes – Oxley, Cadbury report, Hample Report, etc. Governance improvements are started when its activities are criticized. Strategic intention contents vision, mission, and strategic objectives, company's vision is changeable(updating and reviewing process) at micro level and fixed at macro level, dynamic thinking is presenting in vision by measuring developing opportunities on long-term with presenting the most essential interests of shareholders that is about team work, accountability, integrity, responsibility and customer enthusiasm. Mission concentrates on external image talking about assumed fundamental communication values by top-management, general statement of vision and clear objectives of strategic and correlating with company's social responsibility.

Strategic management is handling accountability and social responsibility as part of vision and mission, and shareholder' interests are highlighted, that can interrupt by employee's interests or even environment regulations and responsibilities creating interest conflict. Running long-term business is an essential object for successful management achievement that can be happened through different possibilities to attract new investors. Corporate governance is to ensure that the interest of top-level managers is lined up with the interests of shareholder, moving on in the conflict areas of interests between shareholders, managers, and board of directors these areas include election of Board of Directors (BOD) and Chief Executive Manager (CEO), and other stakeholders. Overall corporate governance is structure and strategic direction, here it shows that corporate governance has managerial role through different tools, there are corporate governance legislation, corporate governance ethics and corporate governance responsibilities socially and environmentally which can serve to achieve strategic objectives. Agency theory takes place between shareholders and manager, and also between managers and employees, managers are agents and they should understand well all stakeholders' interests with putting their companies' objectives as main priority. Agency relationship leads to managers' self-interest called academically "managerial opportunism" with weak controlling system this interest will be maximized, and therefore ethic codes are created to solve issues of self-interests of managers granting long-term relation between stakeholders with achieving main objectives and other individual interests of stakeholders. In other words, ethic codes' self-regulation is part of strategic management in modern structure. The deficiencies in corporate governance mechanisms occasionally fail to adequately monitor and control top-level managers' decisions that might cause systematic risks which have resulted by mechanisms changes of corporate governance.

In generally, corporate governance is related to controlling and administrating a company, each element of governance analysis gives birth to large number of recommendations, then a general view is presented about examining governance by evaluated each element of the loop ultimately and considering the interactive relations among these elements. The result is that corporate governance is an important part of strategic management that can improve company's performance, and a central objective of corporate governance is to make managers accountable to shareholder otherwise managerial opportunism is increased with possibility that individual interests of managers are not matching with other stakeholders' interests. Competitive and dynamic are main features of business nowadays; its survival depends upon good management and leadership, and more important is that the vision of a company, over all must have clear view about the business and industry. The need of creating strategy is to enable managers to create value and to maintain competitive advantages. Creating value and maintaining competitive advantages are common objectives on long-term for corporate governance and strategic management.

Responsibilities related to society and environment have impacts on strategic management through implementing these responsibilities and strategic management many objectives can be achieved easily with lower cost for an example; when multinational company carries social and environmental responsibilities such as Nokia, Ford and Chevrolet. Nokia for example opens several factories in Eastern Europe where living level is low comparing with Western Europe. Nokia management's objectives are achieved by one shoot in long-term:

- The net profit is increased through decreasing products cost; transportation cost is lesser than before, marketing researches are more effective and cheaper through using market segmentation, plus the employees can be included in marketing plan since employees live in same domestic market.
- Shareholders' interests are achieved, attracting new investors.
- Gaining well-educated employees reducing training cost to focus on ethical practices courses.
- Developing societies and protecting environment achieving social and environmental responsibility.
- Have a respecting image globally.
- Maintain competitive advantages
- Achieving corporate sustainability.

All these positive points ensure the necessity of corporate governance and applying ethic codes to control unethical behaviors of managers and board of directors, moreover it assures the effective relationship between strategic management and corporate governance.

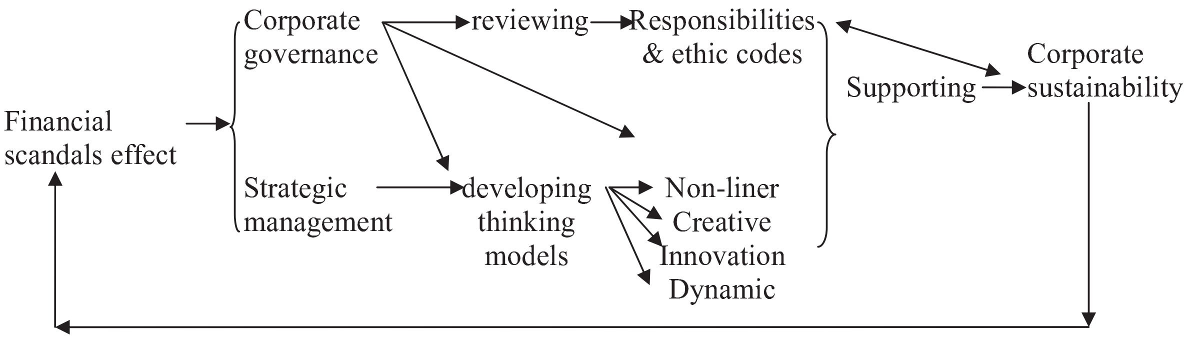
Conclusions

Business world is affected by invention term called globalization, it can be better to prepare for it instead of avoiding it, and corruption growth is common concern for strategic management, and corporate governance, all over are forced to gather their efforts for the battle. As well multinational companies and globalization have influences on all mankind promoting need of confident in economic growth and strong relations between strategic management and corporate governance.

The article attempts to prove the positive relationship between corporate governance and strategic management with awareness that strategic management improvement comes from changing of internal / external factors among corporate governance improvements comes from governance mechanism that means strategic management are forced to change, but corporate governance can reduce reinforcement by self-developing, also corporate governance through ethics codes and social responsibility can be implemented in HR function. Corporate responsibility should be recognized not as obligations, in accounting language obligations means debts and expenses, but I believe it is a long-term investment which brings benefits to company that can make differences in academic researches, because the generated benefits are shared between all stakeholders. Sustainability in dynamic environment needs effective corporate governance aiming companies to improve financial operations, enjoy capital low-cost and attract intelligent clients, suppliers, investors and partners.

Corporate governance with stakeholder theories tries to solve conflicts of stakeholders' interests, not only internal issues are considered. Governance does not treat just internal issue, for the first time managements are forced to take more responsibility toward environment and community supporting corporate sustainability. Moreover corporate governance contents ethics codes and corporate responsibilities which are part in somehow of companies' vision and mission, outputs quality of companies can be increased through this combine, successful companies who implement even partially and indirectly corporate governance items in strategic management; they achieve financial stability and sustainability.

Corporate governance relations with AS, SM & CS.



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