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GOVERNANCE AND CORPORATE ORDER – NEW CHALLENGES FOLLOWING A FINANCIAL CRISIS

This article presents issues which relate to the wide understanding of corporate order, defined as relations among various organisation stakeholders. The economic crisis recorded in 2007-2009 revealed a large range of mistakes made by managers of business and financial institutions, thus showing the weaknesses of corporate governance. These circumstances evoke the questions asked previously about the future of governance, the role of leaders and definition of leadership. The limited prospect caused by the crisis imposes an obligation on leaders to safeguard interests of those who are out of power and have no influence on decisions taken.

1. INTRODUCTION

The concept of corporate order can be considered in several aspects which are closely interrelated. The basic definition of corporate order is the set of rules and norms related to the governance of organisations. Corporate order is usually related to a specific organisation and it comprises of governance and supervision rules, as well as, the relationship between shareholders participating in a given organisation[3].

In a broader perspective corporate governance relates to the process during which organisations are directed and obliged to submit reports. Corporate order can also be understood as a system managing and steering an organisation[4]. Moreover, corporate governan*ce* describes rules which guarantee the return of investment to providers of company capital[5]. Mechanisms of corporate governance are institutions which can be transformed by various political processes[6].

Another definition of corporate governance is the set of interrelations determining post factum negotiations over quasi rents generated by a company[7]. Corporate governance relates to the institutions dealing with conflicts between the interests of investors and

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[3] Szajkowski A., [in:] Sołtysiński, Szajkowski, Szumański, Szwaja, *Komentarz do Kodeksu Spółek Handlowych*, vol. II, Warszawa 2005, p. 451.

[4] Cadbury A., *The Report of the Committee,* The Financial Aspects of Corporate Governance, 10, UK 1992, p 25.

[5] Shleifer A., Vishny R.W., *A Survey of Corporate Governance,* Working Paper, National Bureau of Economic Research, New York 1996, 4, p. 37.

[6] *Ibidem.*

[7] Zingales L., *Corporate Governance - entry to The New Palgrave Dictionary of Economics and the Law,* 10, 1997, p.98.

"managers" who want to increase their control over the usage of funds with a minimum investor participation.

Understanding the essence of corporate governance has improved together with the development of market economies. In the nineteen thirties in the USA, where corporations grew the fastest, the issue of ensuring adequate and effective supervision over managers in situations when shareholders were widely scattered, was the main focus for discussion over corporate governance rules. Consequently, certain mechanisms were created and even implemented: complex, motivation systems which raised effectiveness, combining the interests of managers and shareholders and solutions enabling the takeover of ineffective companies.

Together with the change in character of modern corporations and market globalisation the main point of interest in corporate governance issues moved towards problems of shareholders' rights protecting and the regulation of the capital market.

Corporate governance concentrating on the market should cover issues of companies controlled by owners and should also generalize a model of multi-party negotiations as well as searching for influence between all stakeholders[8]. The American model of corporate supervision ensures profit maximization for shareholders. Other stakeholders' position, as well as, the state's is minimized by such a direction. The lack of responsibility for a company's long-term plans can be an outcome of this attitude. The focus on short-term results generates the danger of pathologies in institutions.

2. INNOVATIVE DIRECTIONS IN MANAGEMENT FOLLOWING A FINANCIAL CRISIS

Governance comprises all activities aimed at the proper usage of human and material resources to achieve objectives accepted earlier. All functions which can be mentioned in the governance process, i.e. planning, organizing, giving directives, co-ordination and control are used as instruments to implement company goals and objectives.

Governance relates to human resources, production processes as well as marketing. Moreover, it can be applied to current matters, so called operational governance or otherwise to company strategic issues. Thus the decisions made by managers can relate to a wide spectrum of cases and problems of various importance.

The essence of governance is taking variety into account in planning and transforming a potential conflict into co-operation. Co-operation which ensures the survival and development of an organization relates not only to the internal members but also to its external partners.

During the financial crisis in the period 2007-2009 there was a rapid decline in trust towards free market institutions, management staff acting on behalf of shareholders and supervisory bodies. This situation exposed a vast range of mistakes made by managers. It also showed the weakness of modern corporate governance.

In these circumstances relevant questions arise related to the future of the governance field, strategies fighting side effects of constant changes such as conflicts, confusion, chaos and pathology in institution formalized structures.

[8] Mayer C., *Paper written for inaugural lecture at Universite Libre de Bruxelle*, Oxford University 2000, 2, p. 21.

One of the possible answers may be a strategy understood as a process supporting environment development in where each employee will have the chance for self-fulfilment or introducing innovations. This strategy encouraging mutual trust may lead to the situation in which organization members live up to the expectations of all stakeholders.

3. CASE STUDY OF MARIAN K.

According to Marian K. governance is not only responsibility for the financial result of the institution one works for but also responsibility for a team of subordinate employees. This view was formed thanks to Marian's professional experience.
The Year 2010 was to be important for Marian K. – another step up on his career ladder. Instead it became a milestone which forever changed the direction of Marian's activities.

Marian K. is a middle manager with 20 years of professional experience. In his career he faced redundancy three times. One might consider him unlucky, but for him it was just the opposite.

Marian can be seen as a lucky person who was meant to live in an interesting time when insurance and financial institutions were transformed which enabled him to acquire comprehensive skills, personal development and to ascend the professional ladder. His first workplace was a local company where he started as an accounting inspector and later worked as a customer service assistant. The formation of the second pillar insurance was an opportunity for him to change work and to start his first management job. In the insurance company called PTE Marian formed his first sales team. He had a direct influence on his salary. In the company he met his first mentor, a man he admired and tried to follow, a demanding boss who looked after his subordinates' development.

After a period of prosperity the time came for redundancies. One day his boss phoned him and told him: "Your redundancy notice was brought to me and I said it was a mistake but next month this trick will probably not work". This was the first redundancy in Marian's career. Overall, however, his situation was positive – he gained managerial experience, participated in a large number of training courses, he built a house, and fulfilled his personal ambitions.

A financial institution with a long tradition was Marian's next workplace. It was a breakthrough period for this institution as the controlling shares had been taken over by an international financial corporation. Marian was witnessing the encounter of two organizational cultures. During induction training it was easy to guess which part of institution the trainer came from. In the case where there were a mixture of different work styles, new requirements and procedures, difficulties and even conflicts arose. For Marian it was a time for building his position, brand and place in the organization. He was part of a new project. He participated in creating a new packet of services. As a result of a very good evaluation of his work the post diploma studies he had dreamt of were financed. It was a time when he felt he was part of the organization. Together with colleagues from other regions they formed "a high quality team". He still has good relations with a majority of them.

In Marian's fifth year of work the decision was made to close the project he worked on. The supervisors took care in preparing the employees for changes in the department to be closed down – meetings were organized where the situation was presented. More than a month before the first redundancies the employees knew the terms of their redundancies and the amount of redundancy pay. Professional advisers counselled everyone involved in the redundancy exercise till he or she found another job and recommendations were sent out to institutions in the same field.

Marian’s next workplace was an international corporation which implemented a new strategy; this related not only to the change of departments’ and logo visualisation but also to the change of the entire sales strategy as well as to the monitoring of results. The skills Marian had acquired enabled him to adapt quickly in the new workplace. He successfully managed his departments for several years.

By chance Marian read an advertisement relating to a vacancy in a new, interesting project and without hesitation applied for the job. He was offered the job after his interview and he accepted it. His new tasks were related to building a sales structure, the implementation and training of sales teams in the region he was in charge of, as well as, the responsibility for the realisation of targeted income plans.

At the start of 2009, the first rumours appeared about the project being closed in which Marian worked. The chairman denied the rumour, telephoning each of the regional directors assuring them that the financial crisis would not cause redundancies. However, the chairman was soon removed by the executive committee. In the area where Marian worked a new boss was appointed as well. The first meeting of managers with their new boss was really memorable. The table in the conference room was smaller than before and there were also far fewer chairs. The employees who arrived were surprised not to see their line managers. The beginning of the meeting was unusual as well, the managers were called in twos to an adjacent room and after a couple of minutes or a little longer they returned silently to their places. Marian was in the last pair and he gripped the arm of his chair nervously waiting for his turn. When his time came, the superiors declared that it was the end of individual talks and that in difficult times some reorganizational decisions had to be made. Thus, out of a dozen or so regions a few new ones were formed. In the following months nobody officially mentioned more redundancies at work – just the opposite – the expansion of the network, new products and a more liberal financial policy were announced. Christmas parties were full of intricate speeches by the directors confirming the steady growth of the business. Marian was proud to present the results for his region.

Dramatic news reached Marian while he was on his holiday. His colleagues from various parts of the country informed him one by one by phone that they had received notices at work. The following day an announcement was made concerning a change in the company’s organizational structure. However, Marian didn't receive it as he was already "cut off” from the information. It was the third redundancy in his career but it was the first one that made him reconsider his entire professional future and his prospects...

Currently Marian runs his own company and knows what his vision, mission and strategy are. He can realise the agreed targets and is responsible for the financial result of his company as well as for the team of employees he is in charge of.

4. NEW CHALLENGES FOR GOVERNANCE FOLLOWING A FINANCIAL CRISIS

The value of leadership is revealed when employees need to be motivated to take up demanding challenges, exceeding tasks specified in their contracts. In such a situation the ability to adapt can be considered as the most important indicator of leadership[9].

In the period of the market instability the various needs of all stakeholders i.e. shareholders, employees and customers should be recognized. Conflicts should be handled and conflicting interests negotiated. Thus, the following question can be posed: Is leadership a way of overcoming a financial crisis? A leader running a company during a crisis is one of the most valuable assets in the organization. However, the fact is that managers do not aspire to be leaders. This raises a follow-on question: why is this the case?

Managers sometimes cannot be personally in charge of all the changes taking place in the organization and its environment. In such cases formal management should be replaced with an efficient information flow and a system of task sharing. To implement such procedures successfully all employees should be encouraged to search for solutions. The increase in information flow can be a way of achieving this aim. This way all company employees could in their scope take independent decisions and most importantly is they could share their knowledge gained from their innovative initiatives.

To work out such a policy a manager has to give up some power. The fundamental aim here is to generate an employee attitude to that as if they owned their workplace. It must be stressed that these are regular employees who will bear the costs of the financial crisis. Some parts of the companies will cease to exist and some posts will be made redundant.

Thus the success of the organization will depend both on the ability of superiors to show compassion and on the strategic decisions related to changes within a company. Theoretically people are the most vital and valuable resource for each organization. However, the reality of things usually differs. The conviction that employees need their organization more than the organization needs them is very common. In real life, however, companies have to employ new teams – they have to keep the best candidates, reward, appreciate and support them and at the same time to promote advantages of their workplace among prospective candidates the way services and goods are advertised[10].

Post elimination in economic downturn seems a routine phenomenon. It should be remembered, however, that laying off employees is usually a painful necessity for leaders[11]. The managers' real talent is then revealed – their actions in critical situations reveal the truth regarding the coherence or the lack of it with the value of employees they are in charge of[12].

[9] Heifetz R., Grashow A., Linsky M., *Przywództwo w dobie (permanentnego) kryzysu,* Harvard Business Review Polska, Warszawa 2009-2010, 12, pp. 115-122.

[10] Shapiro D., *Dlaczego tłumienie emocji jest szkodliwe dla firmy,* Harvard Business Review Polska, Warszawa 2009-2010, 12, pp. 192-202.

[11] Banks J., Coutu D., *Jak ocalić Twoją karierę w czasach recesji,* Harvard Business Review Polska, Warszawa 2009, 3, pp. 69-72.

[12] Thomas R. J., *Crucibles of Leadership,* Harvard Business Press, 2008.

Redundancies in companies cause increased stress, decreased level of safety and even burnout syndrome at work. This is the reason why the tasks related to job reduction should be implemented in a just way, having considered alternative reorganization options first[13].

Redundancies are undoubtedly an organizational shockwave. However, giving employees as much information as can be revealed concerning the near future of particular individuals and teams, as well as, the whole organization, lets them be better prepared for the future and at the same time causing less suffering[14].

Example: "A few years ago Robert Sutton ran a workshop with senior managers from the company Procter & Gamble. The importance of ensuring predictability for employees, their understanding of the situation, control and compassion was one of the subjects discussed"[15].

The conclusions from the workshop were the following - the closures did much less damage when:

1. Managers announced the date of closure and key milestones far in advance and also detailed how employees and members of the community would be affected.
2. Managers fully explained to employees and the community the business reasons for the closure.
3. Managers gave the employees affected the chance to find other jobs within the company.
4. Managers expressed their human concern, both publicly and privately, to affected employees and officials of the community.

Summing up, Procter & Gamble managers appreciated the importance of events' predictability, understanding the background to the decision relating to the company as well as compassion and support in the time of organizational transformation[16].

The quoted arguments justify the postulates of Rakesh Khuran and Nitin Nohria, the Professors of Business Administration from Harvard Business School, which relate to the implementation of a rigorous code of professional ethics for managers[17] which could guarantee not only social benefits but also improve the quality of the management.

The responsibility towards shareholders is not the only responsibility of the management, the people in charge should also be guardians of an institution or organization. The financial crisis triggered a break in mutual trust towards the activities of market players. This is the reason why leaders should review their professional obligations so as to regain the trust of market participants and at the same time they should contribute to the common understanding of business management and raised to the level of a profession.

The crisis during the period 2007-2009 clearly revealed that short-term strategies of profit maximisation trigger the creation of risky and exotic instruments. Incentive systems for the first line employees encouraged foisting products on customers without due care as demanded by the description of hazards and risks. Thus, leaders of financial and insurance

[13] Nyberg A. J., Trevor C. O., *Jak można zwiększyć efektywność pracowników ocalałych po zwolnieniach,* Harvard Business Review Polska, Warszawa 2009, 7-8, p. 44.

[14] Sutton R. I., *Jak być dobrym szefem w ciężkich czasach,* Harvard Business Review Polska, Warszawa 2009, 7-8, p. 54.

[15] *Ibidem.*

[16] *Ibidem.*

[17] Khurana R., Nohria N., *Czas podnieść zarządzanie do rangi profesji,* Harvard Business Review Polska, Warszawa 2009, 2, p. 85.

institutions should promote long-term strategies leading to the prospect of success. They should be responsible for the protection of all stakeholders who put trust in them[18].

News related to negative experience and a high employee turnover reach the community. This fact causes an increasing reluctance amongst students to link their professional future with any aspect of sales. More often than not managers limit their model of management to the requirement of achieving the agreed sales targets. They overestimate "the power of negative thinking" described by a behavioural economy professor Dan Ariely in his book entitled "Predictably Irrational".

The author points out that people are far more motivated by the prospect of loss than they are by potential gain[19].

However, it is worth keeping in mind that negative stimuli applied in the long run, gradually lose their power and " turning up the volume" of pessimistic predictions leads to discouragement, apathy and finally to total indifference. This is a short-term strategy of "electric shepherd" which might work for a flock of sheep, but in the case of team management it wastes the potential, it does not use specialists and lower level managers in an effective way.

Daniel Shapiro, the director of Harvard International Negotiation Program, in his article published by Harvard Business Review emphasizes the importance of 5 core concerns responsible for satisfying the basic needs of employees: appreciation (recognition of value), affiliation (emotional connection to others), autonomy (freedom to feel, think or decide), status (standing compared with others), and role (job label and related activities)[20].

In the book entitled "Crucibled of Leadership" Robert J. Thomas emphasises the fact that the systems encouraging co-operation and the continuous learning process by leaders will be the main driving force of institutional success in the near future. Managers engaged in the personal learning strategy develop the most appropriate leadership qualities such as the ability to solve real-life problems which are important for others and encouraging people to take challenges. Thus, the idea of "followership" appears right. According to this idea employees are in charge and ask their managers many questions which in turn encourages the managers to try to become great leaders[21].

5. SUMMARY AND CONCLUSIONS

In the light of the events of the last financial crisis, the introduction of principles into corporate governance which will enable finding solutions for challenges facing management in the 21st century seems justified.

Looking for development directions in the field of governance a group of scientists and managers met in California in May 2008 on a two-day conference to define the directions for innovation in the field of management. A model was created called "Manage-

[18] Hammel G., *Kosmiczne wyzwania w dziedzinie zarządzania,* Harvard Business Review Polska, Warszawa 2009, 5, p. 86.

[19] Ariely D., *Potęga irracjonalności,* Wydawnictwo Dolnośląskie, Wrocław 2009.

[20] Shapiro D., *Dlaczego tłumienie emocji jest szkodliwe dla firmy,* Harvard Business Review Polska, Warszawa 2009-2010.

[21] Thomas R. J., *Crucibles of Leadership*, Harvard Business Press, 2008.

ment 2.0"[22]. Its aim is for every company to reflect its employees, which poses a responsible task for all stakeholders in the organization.

Advanced technologies and the Internet are changing the structure of contemporary economies. Markets no longer have limitations related to their geographical location. People are becoming a fundamental asset for companies, what counts is their training and knowledge and not tangible assets. It might mean that corporate governance in the 21st century should focus mainly on the appropriate motivation for company employees and not exclusively on having tangible assets.

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[14] Zingales L., *Corporate Governance - entry to The New Palgrave Dictionary of Economics and the Law,* 10, 1997

ZARZĄDZANIE STRATEGICZNE A KONKURENCYJNOŚĆ BANKÓW

W pracy przedstawiono zagadnienia dotyczące szerokiego rozumienia ładu korporacyjnego, definiowanego jako relacje między różnymi interesariuszami organizacji. Kryzys gospodarczy odnotowany w latach 2007-2009 ujawnił dużą skalę pomyłek menedżerów firm i instytucji finansowych, ukazując tym samym słabości „corporate governance". Okoliczności te przywołują stawiane już wcześniej pytania o przyszłość zarządzania, rolę liderów oraz definicję przywództwa. Menedżerowie myślący jedynie w kategoriach odpowiedzialności wobec akcjonariuszy powinni sprostać również oczekiwaniom społecznym.

[22] Hammel G., *Kosmiczne wyzwania w dziedzinie zarządzania,* Harvard Business Review Polska, Warszawa 2009.