Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 23 (2015) 1023 – 1029

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

2nd GLOBAL CONFERENCE on BUSINESS, ECONOMICS, MANAGEMENT and TOURISM, 30-31 October 2014, Prague, Czech Republic

Responsibility in The Corporate Governance Framework and Financial Decision Making Process

Hussam Mussa[a], Zdenka Musová[a], Lenka Debnárová[a]*

[a]*Faculty fo Economics, Matej Bel University in Banská Bystrica, Tajovského 10, Banská Bystrica 975 90, Slovakia*

Abstract

Many organizations today have realized that if they want to be successful, they must have a sense of responsibility not only for their business activities but also for the development of the whole society. Honesty, fairness, integrity and the people – consumers, customers, clients, community, the public, the company and their needs and interests are gradually taking top ranks in the charts of corporate values. This approach is entirely consistent with the concept of socially responsible business, of which corporate governance (in the economic field) can be considered an integral part. Our main objective is to highlight the importance of applying the principles of governance corporate for companies whose securities are listed on the Bratislava Stock Exchange. The paper uses a correlation analysis to examine the association between corporate governance as a part of socially responsible business and financial decision making process in the area of dividend policy and indebtedness. We measured the level of corporate governance by corporate governance index, which contains information about the disclosure of annual reports, corporate governance information in annual reports, the content of corporate governance statements, boards of companies, remuneration of board members, risk management, audit, remuneration and nomination committee characteristics. We have compiled the first corporate governance index in Slovakia and we found inspiration in foreign studies with respect to the specifics of the Slovak financial market. The most important contribution of this paper is the finding that the application of the principles of corporate governance affects financial decisions of companies. There is a correlation between the responsible application of corporate governance principles and the total debt of companies. And also, there is a correlation between responsible application of corporate governance principles and the amount of dividends paid to shareholders.

Selection and/ peer-review under responsibility of Academic World Research and Education Center

Keywords: Socially responsible business; Corporate governance; Corporate governance index; Financial decision; Bratislava Stock Exchange

* Lenka DebnárováTel.: +421-048-4466-314.
E-mail address: lenka.debnarova@umb.sk

Selection and/ peer-review under responsibility of Academic World Research and Education Center
doi:10.1016/S2212-5671(15)00371-8

1. Introduction

In recent years, socially responsible business has become the most determining instrument in both company and public policy worldwide. It is becoming common practice that if a company wants to be successful, it is expected to participate in getting all key partners involved in socially responsible business, which includes providing high quality products and services, employee care, fair treatment of all stakeholders, ethical management in the company, principles of corporate governance, responsibility to the environment, cooperation with local communities etc. The mentioned ideas are particularly important in a crisis (and post-crisis) period.

The statements of the European Commission and the OECD in the context of the economic crisis are consistent and as the main problem they see that the managements of companies failed to apply the principles of corporate governance. In the context of the financial and economic crisis, representatives of world institutions are looking for a global solution which could help to create effective and sustainable management systems. The principles of corporate governance can help to make this happen and these principles are one of the means to reduce the harmful short-term and excessive risk taking. Nowadays, corporate governance is one of the key elements in building people's trust.

2. Theoretical background of Corporate Governance

The term corporate governance and its everyday usage is a new phenomenon that appeared in the last twenty years or so. The basic theories that influenced the development of corporate governance include a variety of areas including finance, economics, accounting, law and management.

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Schleifer, Vishny, 1997). A definition from the OECD clearly captures the essence of corporate governance "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs" (OECD, 2004). Corporate governance is governance and management of the principles of openness, honesty and responsibility of the management to the shareholders, employees, suppliers, customers, banks, regulators, immediate surroundings and the environment (Lazárová, 2008).

Some authors define corporate governance from the perspective of the agency cost or stakeholder theory. Corporate governance is understood as a response to the agency problems that arise from the separation of ownership and control in a corporation (Boubaki, 2005 in Elbadry, 2010). In the case of separation of ownership from management there is a set of mechanisms that affect the decision making of managers. Through corporate governance we can influence managers acting in their own interest to implement decisions that maximize the value of owners (Elbadry, 2010). From the perspective of the stakeholder theory, corporate governance is defined as ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of all stakeholders, not just shareholders but also creditors, employees, customers, suppliers and so on (Elbadry, 2010).

3. The impact of Corporate Governance on debt and dividend policy of companies on the Bratislava Stock Exchange

The authors of several studies have researched the direct relationship between corporate governance and the debt of companies. Chen et. al (2010, p. 234) found the overall impact of external financing needs on corporate governance. Their results demonstrate the important implications that corporate governance practices have for those firms with a particularly strong need for external equity, and the fact that external financing needs provide incentives for firms to seek out ways of making improvements to the overall quality of their corporate governance practices. In this case, good corporate governance gives a signal to investors that firms are likely to have fewer potential problems of information asymmetry and conflict of interest between managers and shareholders, and thus, creates