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Corporate Governance and public sector entities

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Abstract

Public entities' Corporate Governance is a concept that is gaining more and more field both in specialized literature and in practice. The public bodies' Corporate Governance as leadership and control method involves a set of clear rules and principles (integrity, honesty / sincerity, transparency and responsibility), clear risk management and control mechanisms, elements needed to achieve the purpose of public entities, which is satisfying public needs. Is Corporate Governance necessary within public entities? Can it contribute to the efficient use of public funds, the decrease of expenses or budget deficits, the elimination of corruption and the increase in performance in public entities? The purpose of the paper is to achieve an academic analysis of the development process of the Corporate Governance concept in public entities and of how it is an efficient governance form. The research methodology was based on consulting specialized literature, respectively using the historical method for pointing out the milestones in the Corporate Governance concept evolution and the comparative method for the analysis of advantages and disadvantages of corporate governance in the private sector and how this model can be implemented in the public sector.

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1. Introduction

The present paper proposes an analysis of the Corporate Governance (CG) concept of public entities, as a method for management and control.

What is CG? Is there a unanimously accepted definition of this concept?

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If the term “governance” refers to “leading” / “managing”, the “corporate governance” then refers to something extra, respectively the leading / managing of an organization (Ghita, 2008: 13). Therefore, we can affirm that this concept – corporate governance – is the integral management of an organization in its entirety, by accepting all internal components, which work together, but which will eventually be integrated to the leadership and implementation of risk management within the organization, as well as the financial management and internal control management system, including internal audit. (Ghita, 2008: 13)

The purpose of this research is to achieve both a theoretical analysis of the CG concept as management and control form of public entities, and an empirical analysis of the CG models of public entities in states that have implemented this governance model.

In the first part of the paper, we will briefly describe the history of CG, where we will relate the key moments of the appearance and development of CG and we will define the concept. In the second part, we will analyze and highlight the principles and characteristics of CG in the private sector (the American model), followed by the third part, where we will analyze the characteristics of CG in public entities, as implemented in UK. The last part of the paper will be reserved for conclusions, as they flow from the relevant information presented thus far.

1.1. The Appearance of the Corporate Governance concept

The appearance of the Corporate Governance term at international level took place in the context of repeated serious fraud and financial abuse in countries with developed capital economies (USA, UK, Italy).

According to specialized literature (Ghita, Albu et al. 2013; Ionescu, 2010), the first time CG was mentioned was in the 70s, following the Watergate scandal, where American private companies were discovered to have been involved in politics, respectively through illegal financing of political parties in the USA.

Later on, during the 80s and 90s, several companies from the United Kingdom, which were listed in the stock exchange became bankrupt within a very short period of time (Ghita, 2008): Guinness, 1986, Polly Peck International – 1989, Maxwell – 1991, The International Trade and Credit Bank – 1991, Barings Futures – 1995, etc.

It was not only the private sector that faced financial failure and fraud, but also the public sector. Some illustrative examples are: the Metropolitan Police case of 1995, where the deputy manager of finance of the Metropolitan Police, Anthony Williams, stole over £5 million during the period 1986-1994, as well as the Inland Revenue case of 1997, where the Group Chief of the Inland Revenue Special Office No 2, Michael Allock, who was investigating foreign business people's taxes from 1987 to 1992 was accused and found guilty of fraud, receipt of bribery, spending family vacations paid by certain business people, as well as using the services of a prostitute in exchange for information on certain cases.

Also illustrative is the case of the European Commission – 1999/2002 (Ghita, 2008), where 15 members of the Commission resigned following fraud and inadequate financial management identified by 5 independent experts nominated by the European Parliament.

As a response to these financial failures and frauds, national governments and different competent bodies manifested concern and initiated changes, by toughening the CG laws and introducing sanctions meant to determine companies to adopt ethical and transparent policies. These concerns and changes were translated into CG codes.

At the present moment, the great majority of developed and developing countries have a Corporate Governance Code, issued by different ruling bodies (according to www.ecgi.org, at global level there are 409 developed corporate governance codes). Among them, the best known are Actual Sarbanes-Oxley, in the USA, developed as response to the failures and scandals that took place in the USA, the Cadbury Code and the updating of the United Kingdom code, as a reaction to the failures of companies listed in the British Stock Exchange.

Therefore, in the context of the 1970-1990 scandals, the mission of CG was that of balancing and equal division of power between shareholders, administrators and executive management, with the purpose of preventing the appearance of new frauds and financial abuse, and especially of regaining the society's trust in the business environment.

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