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Corporate governance framework in Romanian companies

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Abstract

The Romanian legal framework for private companies started more than 20 years ago an effervescent process of renewal, as a result of ending the communist period and changing the general prospective towards the European Union. This process asked for a totally different legal basis for the activity of companies. The legal basis is since quit instable, as it quickly changes according to the demands both on the domestic and European level. Until now, the legal framework for corporate governance in Romania developed in three steps. In 1990 the first modern companies legal framework was adopted. It regulated five types of companies, each with its own particularities in ownership and management. After the official intention to join the European Union (2007), the legal framework supported some adjustments, in order to align to the communities system of law. The corporate governance also registered some positive but also negative influences. In the third phase, as a result of social environment pressure, the legal framework changed dramatically in 2011, when a new Civil Code came into force.

The paper presents a theoretical approach on this process, pointing out the progress that has been done and also the aspects that still need to be improved based on some empirical evidences.

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Keywords: companies law; improvements; corporate governance; corporate social responsibility;

1. Introduction

As a simple definition, corporate governance is about striking a balance between achieving organizational objectives/aims and complying with applicable regulations, ethical norms, and contracts. In the short run, there

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appears to be some trade-off between these two sides of the scale and in the long run, achieving the latter actually serves the former by enhancing the sustainability of the company and control of resources, and thus shareholders' wealth. Corporate management must ultimately realize that, one way or another, they will be "held accountable by the 'invisible hand' of the market and by government". (Monks and Minow, 2011).

World Bank defines corporate governance as a combination of laws, regulations and codes of conduct adopted voluntarily, providing companies the opportunity to attract financial capital and human resources and its business opportunity to operate effectively so that to ensure existence by generating long-term value for shareholders and society as a whole. World Bank refers to the ways of implementing corporate governance and the areas that are affected by it.

Corporate governance is a gradually emerging, and highly relevant, business concept in the markets of Europe and Central Asia. All companies and financial institutions in the region, whether listed or unlisted, whether family-owned or with more diverse ownership structures, and whether large or small, can benefit from adopting sound corporate governance practices (IFC, 2012 October).

2. Corporate Governance Background

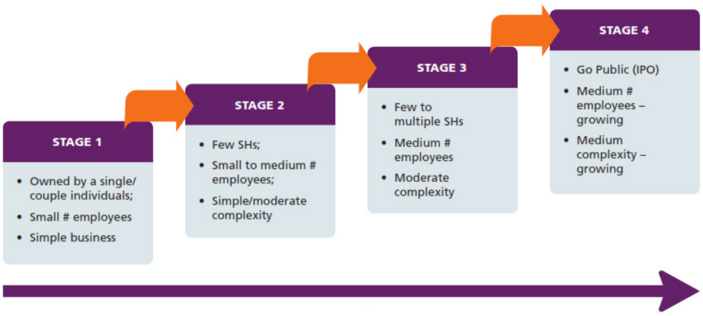
The practitioners (IFC, 2012 December) consider that "Implementation of good Corporate Governance beyond mere compliance can be seen in the interaction between a company and its stakeholders. If a company runs its operations using a win-win approach, generates profit, and at the same time provides benefits to all its stakeholders, then this company can be considered a good corporate citizen. This is what implementing Good Corporate Governance is all about".

Literature establishes some benefits (IFC, 2012 October) of corporate governance. So that, good corporate governance practices assist companies and financial institutions to:

- meet the challenges of the modern business environment
- enhance performance, operations, competitiveness, profitability and long-term value
- attract capital, investment and business partners
- build reputation and trust through strengthening of stakeholder relationships
- establish clear roles, responsibilities and accountabilities
- improve decision-making and decisions quality
- define and implement corporate strategy and direction
- expand in a sustainable manner
- identify and manage risks
- create appropriate incentives

The key factors dictating corporate governance framework are as following:

- Ownership structure/company type
- Size (employees, revenue)
- Nature and complexity of business
- Where the business is going



Capital, Stewardship, & Control needed through to varying degrees
Source: (IFC, 2013 January)