CORPORATE GOVERNANCE RE-SHAPED AFTER THE 2007 CRISIS

Lecturer PhD. Dumitru-Alexandru BODISLAV1, Prof. PhD. Alexandru NEGREA 2, PhD. Candidate Petronela Evelina BĂLU[3]

Abstract

This paper tries to highlight the new findings developed at academic and practical level in the domain of corporate governance after the economic crisis from 2007. The research approaches two sides of corporate governance, using at its best the resources it has and global collaboration as a scalling tool, all for creating a new approach on the future of business, from the governance perspective. This research is a nexus of previous researches implemented by the authors and done on the subject of corporate governance and the exogenous perspective of its development during time.

Key words: *corporate governance,corporate strategy, collaboration, governance.*
JEL classification: G34, L1.

1. INTRODUCTION

To underline the degree of freedom that a country could have there should be measured the level of international interactions, these being seen as the global exchange or commerce for services and commodities (also capital could be included, but it can not be measured as a cause – effect process). International commerce offers the foundation to ease the pressure of internal consumption, but also lowers prices through imports that are more competitive for the same or similar products (Pascu et al., 2015). International competition lowers prices and offers the specialization solution for products that are needed for exports (Costinot, 2009, pp. 255 – 264), because at comparative level the company that produces a national specific good has a competitive advantage against companies situated in countries that could not produce at the same prices or standards, and at state level countries are more (intensively) developed than other countries in creating specific products.

International commerce is a blessing and also represents a new type of pressure for multinational companies. Developing a corporation that includes more than one country involved in product development and operations development needs a specific of cultural molding for each country. Comparing countries and nations when it comes to competitive and comparative advantages was for the first time discussed by Dunning (1977, 1981) and all rounded by Paul Krugman (1992). Starting from the theory of the comparative advantage, the first step was done by David Ricardo who used for validating the existence of this theory the efficiency of labor, although labor could be displaced and replaced it has other qualities when it comes to aggregate labor and team work, especially when that work is done in other countries, different from the country of origin or where the labor was recruited. Transferring labor from one country to another lowers the competitive advantage of a corporation by decreasing the efficiency of the given salary (Pascu et al., 2015). This phenomenon is seen in markets that are near perfect competition, in markets that are suffering from some types of asymmetries and are not in tune with the theories that describe competition chain reactions are seen at economic agents that get together and form cartels or deals that develop into monopoly, be it on the product or its distribution.

[1] Bucharest University of Economic Studies, dumitru.bodislav@economie.ase.ro
[2] University Ovidius, Constanta
[3] Bucharest University of Economic Studies

2. COMMERCIAL POWER – THE NEW EQUILIBRIUM MET AFTER 2007

The economist David Ricardo used the concept of technological differentiation for underlining the problematic of international trade and to validate its utility by crating the comparative advantage. The classic model could be recreated and validated by using two economic unions that have intense commercial relations, USA and EU. Also the difference between comparative and competitive advantage is a nuance between national side and corporate side when it comes to developing products that could be sold worldwide and also could be easily copied (Pascu et al., 2015). On the long run the competitive advantage is the star because it is also highlighted by its performance and relevance at corporate where the cause – effect process is seen between product innovation and profits, and also it is stressed by the political class that could easily set higher peaks for a competitive advantage by practicing lobbying at al levels of power. If we will go towards the West we will observe that develop countries are disadvantaged by the high salaries they must pay and from the start emergent countries have a competitive advantage, especially those that are tagged as third world countries, phenomenon also known as outsourcing for lower costs and smaller salaries.

Comparing companies with nations on the obtained advantage is limited by the timeframe of the competition between companies (Levchenko, Zhang, 2011). If a company produces a good or service at cost higher than the market' price (or average price) than that company is on the road to failure if it doesn't create a market strategy or a business strategy to differentiate, be it by offering a lower price (so by cutting costs), by differentiating the product for better value for money (hardly to implement, especially for low end products) or by using the "Apple way", reimagine the product so that it has the same characteristics with others, but it offers another type of feeling when you buy or use the product. Specialization for countries and its shift towards new specs stresses the fact that countries are also adaptive, but at slower pace because countries can not go bankrupt literally, while companies they go bankrupt and disappear for ever. When companies go bankrupt actually they validate almost each time Ricardo's model for comparative advantage regarding countries on the foundation of international trade.

If a company from South Korea that produces smart TVs and hi-fi products (Samsung) goes one on one with the biggest technology company from the US and the biggest company in the world (755 billion USD market value on 22nd of February 2015), Apple and compete on the market for smartphones, tablets and displays there would some things to clear-out. The market share of Apple in absolute value and in comparative value against Samsung is easy to evaluate, but when it comes to the components that are used to create the Apple devices, then Samsung wins at components domination because 40% of the components used for creating Apple devices come from Samsung, and the other 60% come from Foxconn and LG. Samsung components are developed in South Korea, also the LG components, but all of them are assembled in China, so the comparative advantage goes to China in relation with South Korea and the US, but the financial value and the competitive advantage goes to USA and South Korea in relation with China, because of the intellectual property, the brand, marketing, and SaaS (Software as a service) that differentiate US and South Korea of China, also between the US and South Korea there is a differentiation when it comes to operating systems, because iOS (Apple) is built in house by Apple while Samsung uses on a larger scale Android which is developed by Google, another American company. For all markets when it comes to their products, Apple has a competitive advantage because of the marketing and the Apple ecosystem while Samsung excels with their products quality and the great product that could be highly customized, the Android operating system. At state level we can also observe the comparative advantage developed as theory by David Ricardo which is stretched at its maximum theoretical value, because Samsung doesn't have a comparative advantage when it comes to software solutions (both OS are developed in the US, the iOS and the Android), but Samsung gains a competitive advantage when it comes to using the software solution inside its mobile devices (Pascu et al., 2015). The moral dilemma appears when we highlight the fact that Apple's components are made by Samsung and sometimes the supplier uses protected information that the client (Apple) protected through patents, this way the intangible component of the competitive advantage and unavailable comparative advantage leads to the deployment of processes between the two companies on intellectual property issues.

Douglas Irwin in 2002 observed a situation that was prior to the Apple – Samsung dilemma (USA vs. South Korea), the situation between Chrysler and Toyota/Mazda in the early '90s, or if we observe it at national level, the US versus Japan. Although the US was in direct competition with Japan on developing small cars and there was no competitive advantage available for one of the two countries, Japan developed a comparative advantage by using their labor force that is highly specialized and disciplined while they reviewed all the specs of the American cars found on the market and offered a better solution. Chrysler was on a ascendant trend worldwide, but the fight lost against Japan damaged the image of the US and its comparative advantage against the world on producing cars was annulled, also Chrysler was caught up by General Motors Company and Chrysler lost its power play forever.

Underdeveloped countries have one of the best comparative advantages that exist: cheap labor, but the downside is that that work force is under qualified. If the investment done in personnel training could be covered by the savings realized on the short run through a smaller salary given to those employees then the outsourcing solution is optimal (Krugman, 2011). Many times this aspect brings down the average salary in developed countries and its considered one of the negative externalities resulted from the globalization phenomenon.

3. COLLABORATION REPRESENTS THE FUTURE OF CORPORATE GOVERNANCE

When it comes to the challenge between companies or countries and creating new derivate comparative advantages and other hybrid "new age" competitive advantages. In the next figure we will address the evolution from a traditional model and a model based on collaboration (comparative and competitive advantage). Here we have the "merchant" model of observing collaboration, from which results the outsourcing of services and production. This way are created deliverables that are obtained from breaking the innovational value chain, partner firms being treated as "classic suppliers" and are approached in this manner. The model of innovative companies can be named as the "collaborative" model, that is focused on a product before it's created and on the production process, before this process is linearized - the idea of creating an entire production process, from entering raw materials to the exit of the product from the company's plant for selling (Figure 1 is a graphic designed from Branson et al., 2010). Imitating a product has low risks (implies only production) despite creating a product (implies innovation) that includes high risks, not only economic ones but physical and environmental ones. When the company has to deal with low incertitude it can approach the idea of outsourcing production (being a merchandising problem), but as the incertitude level rises, the collaborative model is better in approach – the „Perfect contracts theory" between companies (Williamson, 1998).

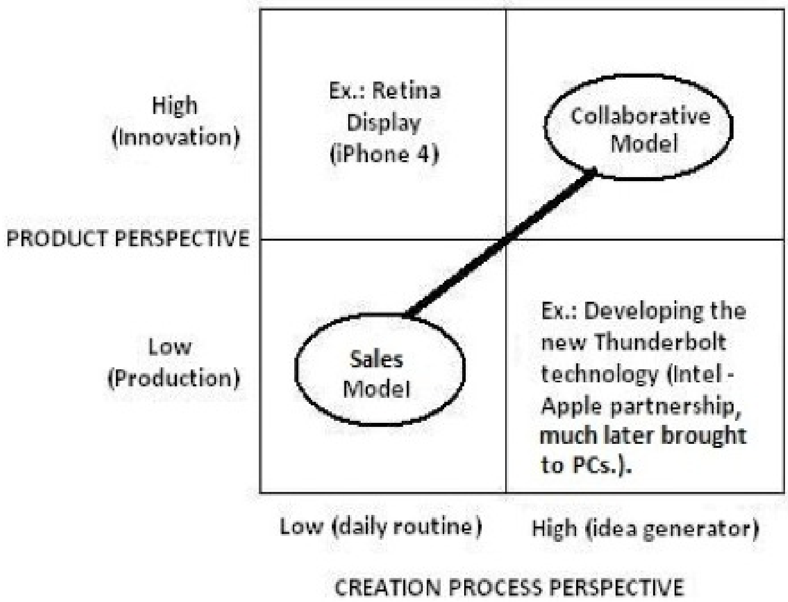

Figure 1. Corporate governance based on shifting from a Sales Model towards a Collaborative Model

Source: Pascu et al., 2015 and Bodislav, 2012.

Companies that adopt the collaborative model include in the way of approach future visions on work teams' structure, internal and external contracts' structure and of collaboration and managing intellectual property.

4. THE NEW CORPORATE STRATEGY: RESOURCE ORIENTED

The feasible options are created based on the resources integrated in the available value chain of extracted resources (Bodislav et al., 2015, pp. 107 – 113). Basic resources are shaped also by the basic competencies that together develop new founding strategies.

Strategy based on resources are shaped with the following work scheme (Lynch, 2002 and Bodislav et al., 2014, pp. 566-572):

Leadership + Minimal competencies in the domain + Added value => Needed resources for conceive strategy + Know how => Competitive advantage.

To explain the work scheme for the resourced based strategy we should highlight the added value's value in the circuit (Lynch, 2002). The principle of the "added value" is founded on the interconnectivity in the vertical workflow:

1. The above process component: the relation between suppliers should be developed with and for efficiency, and the corporation should develop an implementation system for global work standards; be it by producing standardized goods (quality standards, environmental friendly, building efficiency, etc., be it by offering services that are audited for its standards, the best solution for standards is the ISO. Furthermore, from the practical side, the added value is brought by supplying raw materials in continuous flow state from suppliers.
2. The under the stream component: creating some market niches that create a competitive advantage for the company or even creating a temporary monopoly. Creating and maintaining these new niches could be cost inefficient, from continuous modifications in production facilities, from

continuous advertising expenses to promote differentiated products. Added value seen above the process is created through Research and Development (including also the patenting process), advertising and market positioning.

Options based on resources are derived from the organization's core, being based on humans, finances and operations (Lynch, 2002). To these we supply also three multidisciplinary areas (Bodislav et al., 2014, pp. 566-572):

a. The area for competencies based on resources: the company's assets, i.e.: General Electric is the largest producer of industrial products and a global end consumer, which owned till 2014 NBC, the biggest tv channel from the United States, and it sold it to Comcast, the largest cable operator in the US.
b. The area for basic competencies: here we find know-how and work flow technologies, i.e.: the power to aggregate news at global level and creating your own media products and propagation channels, suitable to characterize News Corporations (the company that owns Fox Networks).
c. The area for lowering costs: lowering costs represents a needed factor to develop all organizations.

The area for competencies based on resources represents the first level confronted to distinguish a company from another (Porter, 1985). To create a workflow in this area of the company the following key factors should be overviewed:

1. The Architecture: the network developed between relations and contracts developed with partners, suppliers, challengers and clients;
2. The Reputation: the rounded image for the company is a general example also for the employees and also as a propagation vehicle for internal information;
3. The Innovation: the creativity and development process for bringing to the market new products and services.

The area for basic competencies is rounded by know-how and available technology that creates the competitive advantage for a corporation. Gary Hamel and CK Prahald (1994) developed four steps for succeeding in creating efficient competencies:

A. Connect the dots (connecting market needs with the corporation's know-how);
B. 10 years plan (creating a forecast for the following 10 years, not only from the organizational point of view, but also from the evolutionary perspective had on know how);
C. The white spaces (bringing together the niches between markets that could be filled with the corporation's know how);
D. Mega-opportunities (any opportunity could present new business, only the risk being and needing leverage).

The area of lowering costs presents the perfect timing when the executive board of a corporation must give up some business components to increase the company's performance and its attractiveness in front of the investors.

The main objectives of corporate strategy found in a company are to create added value and maintain on the long run a competitive advantage (Bodislav et al., 2014, pp. 566-572). To create an efficient and optimal system there must be created an equilibrium depending on the needs of the corporation regarding between the corporate strategy based on resources and the one based on markets. The efficiency and optimality are measured through performance criteria, for example (Peters, Waterman, 1982, Lynch, 2002):

1. *Coherence.* This criteria could be defined as framing horizontal vision and optimal integration towards the vertical flow of an corporation and all needed measures taken for the long run;

2. *Compatibility.* This criteria completes coherence through the fact that it also considers the internal and external environment of the corporation and the strategy that follows;
3. *Validity.* The used and available strategies must be validated by testing them using economic information as work hypothesis;
4. *Feasibility.* This is based on culture, knowhow and available internal resources;
5. *Economic risk.* This criteria offers a quantitative solution to each followed strategy, this way they will remain valid only those that have an accepted risk level;
6. *Attractiveness.* The interest created in the market, on the stock exchange, with the suppliers, competitors and clients.

5. CONCLUSION

Actual schemes for governance in the international framework could be linked to the capacity to govern of the public or private actors. The work strategy is based on three dimensions: the congruence between the issue's purpose and the organizational structure of the involved actors, the problems typology and the institutional context (Knill, Lehmkuhl, 2002, pp. 41-63).

The governance could be seen as a model for theoretical implementation in real life situations. Five ideas could be extracted and presented as real game changers:

- Governance represents a complex set of institutions and actors that are attracted towards and outwards governance.
- Governance recognizes undrawn borders and responsibilities for approaching social and economic problems.
- Governance identifies the power of the involved dependence in the relation between involved institutions in the collective action.
- Governance represents a network of actors that auto-govern themselves.
- Governance recognizes the capacity to finalize things and that do not stop the governmental power to command or to use authority. This idea represents a model for using new tools and techniques for reaching the targeted result (Stoker, 1998).

The ideal governance is based on four types of governance. Created by the relation between the public and private sector and the capacity to influence social and economic layers and political processes involved in different actions (Bodislav, 2012, pp. 51-56). Keeping in mind the pressure created by the internationalization and the political and economic power it results the actor's capacity to be anchored in the governmental reality. The internationalization could be seen as representative for a tridimensional governance scheme, based on: extra-regulation or on the auto regulation that is legally deployed, auto regulation that is imposed from the competitiveness perspective and the market regulated regulation. Another problem is the number of actors involved in the economy: the public actors that couldn't directly influence the behavior of the private actors and this way it results in a direct correlation between the power to influence and the flawless functionality of the economic mechanism.

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