ORGANIZATIONAL FRAMEWORK FOR THE SYSTEM OF CRISIS CORPORATE GOVERNANCE

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Abstract: The paper distinguishes the new category “crisis corporate governance”. The study elucidates the reform of corporate governance body of companies. Based on the research of the main problems of corporate governance, we propose to eliminate the Audit Committee as the governance and control body of corporate governance and create instead the Crisis Committee. The paper provides renewed structure of Crisis Committee. The major purpose of activities is studied along with responsibilities of each commission as a member of the Crisis Committee. The study highlights basic advantages of the proposed changes in corporate governance of companies.

Keywords: crisis corporate governance, Crisis Committee, Audit Committee, system of crisis corporate governance.

Introduction

In terms of permanent changes and unforeseen crises, the necessity of crisis prevention management, as well as its separate allocation become increasingly important. According to our research, we suggest to go further and integrate crisis management into the overall system of corporate governance. Basic provisions, principles, methods, tools and other elements of management system should be a priori crisis preventive. Forecasting, planning and preparation in advance are more rational ways of doing business than operational activities in crises period. Facing the exogenous factors, sometimes company doesn’t have an opportunity to avoid crisis. It is essential to make diagnosis and analysis of trends and challenges of the external environment of the enterprise. Therefore it allows being ready for potential problems in nearest future.

Therefore it is very important to distinguish the category “crisis corporate governance” that considers risk and crisis management at the level of executive management, board of directors, shareholders and other stakeholders.

Results

Crisis corporate governance speculate reconciling the interests of shareholders, supervisory board, executive directors and all stakeholders in prevention, diagnosis, elimination and control signs of a crisis, overcoming a crisis condition and avoid the liquidation process. It combines key aspects of crisis management and corporate governance and should be the next phase in the development of corporate governance, which will significantly improve the performance of the system and ensure proactive development of a company.

Taking into account that corporate governance is the foundation for a system of crisis corporate governance, it is necessary to explore specific features of its bodies, with subsequent distinguishing of enhancing factors for their interaction.

Our research of specific features of functioning of corporate governance bodies has come across the following problems:

1. Inequality of different groups of shareholders.
2. Information asymmetry arising between management bodies.
3. Increasing the number of corporate conflicts.
4. Low efficiency of corporate governance.
5. The lack of clear strategy.
6. High level of internal corruption.
7. The formal existence of some management bodies.
8. The lack of a corporate governance code.
Scholars raise issues about the rationality of executive compensation in corporations. It is noted that high levels of executive pay prevents the long-term development of the company. Opportunism, risky contracts, lack of transparency, financial frauds cause crises in enterprises, and often lead to bankruptcy. Some scholars believe that the aggravation of the financial crisis of 2008 caused the bankruptcy of U.S. investment bank Lehman Brothers, whose managers were accused of forgery financial statements.

Linkages and relationships between management bodies is the basis of crisis corporate governance. The major problems caused by lack of coordination activities between authorities, low efficiency of organizational structure.

Therefore on the assumption of problems caused by deficiencies in organizational structure, there is acute need for body that will:

- align and combine management and business processes in the enterprise;
- accumulate the necessary information about company, making its objective analysis and present it in appropriately way, based on the specific needs of each body;
- neutralize the problem of information asymmetry and conflict of interests;
- develop a clear business strategy, monitor its compliance and make necessary adjustments;
- remove the formal levels of management;
- provide proper functioning of all organizational structure.

In our opinion, for building an effective system of crisis corporate governance, the Audit Committee as a governing body should be dissolved. Theoretically, functioning of the Audit Committee is reasonable and justified, but in practice this body operates on paper only as an indicator of compliance with certain statutory and common standards. The role of the Audit Committee in management process is indirect. Functional responsibilities of this body include inspection and control.

Only 30 % of companies provide information on corporate governance in Ukraine, about 60% of these companies are inspected by the Audit Committee, therefore effectiveness and feasibility of the activities of this body seems doubtful (Ukraine, 2012).

Real effective management requires a body not only for checking and diagnosing, but also for providing informational support for strategic planning process in company, making predictions and analyzing the possible consequences (Paliga, 2008). In terms of our research, we propose to dissolve the Audit Committee and to form instead the Crisis Committee. Functional and organizational structure of the Crisis Committee will be much wider than the structure of the Audit Committee, but at the same time it would not burden the company. It wouldn’t create significant additional costs because it will be made on the basis of existing staff. It is possible to involve external consultants, but mostly as a temporary assistance.

The Crisis Committee will be the core of corporate governance, which will eliminate the shortcomings of the old organizational structure and thereby significantly improve management of a company.

At different periods of the company’s life cycle, it faces different challenges. Depending on the current needs and preferred directions of each company, it determines the required amount and specifics of functional commissions of crisis committee. Therefore the most objective and reasonable would be to create the following commissions:

- Commission on Audit;
- Commission on Corporate Development;
- Commission on Information Policy;
- Commission on Personnel.

Let us consider specific features of each of the above commissions.

Commission on Audit will ensure control over all processes, especially finances and business operations of the company. In terms of ensuring the effectiveness of corporate governance, it is important to gather a skilled and experienced team, consisting of professional auditors, the personnel of eliminated Audit Committee, other responsible employees with management experience. The company should encourage employees to train and acquire new skills. It is reasonable to organize the appropriate courses or seminars on the basis of the enterprise. The staff of the Commission on Audit depends on the policy of corporate control in the company and company size. The least number of members of the Commission on Audit - 3 persons, including the head of the Commission on Audit - a member of the supervisory board (certified public accountant), thus avoids the problem of information asymmetry. Chairmens of commissions are responsible
for the quality of the activities, completeness and timeliness of tasks, and have to report at the Crisis Committee meetings that should be held at least once a month. Functional responsibilities of the Commission on Audit are:

- complete diagnostics and analysis of the company;
- strict compliance with laws, regulations, corporate policies and codes of business;
- control over the condition of the property;
- assessment the effectiveness of corporate governance;
- risks control and risk assessment of a company;
- preparation of operating and annual reports, identification of existing deficiencies and elaboration of improvements;
- control over the quality and completeness of innovation;
- cooperation with external auditors.

Commission on Corporate Development will establish long-term growth, provide necessary measures to improve the corporate governance of the company. The Commission on Corporate Development definitely depends on the size of the company. It is reasonable to create a commission of at least 4 people, consisting of marketing expert, lawyer, financial analyst, project management expert, including the head of the Commission on Corporate Development - a member of the executive board.

Functional responsibilities of the Commission on Corporate Development are:

- examination of the effectiveness of corporate governance;
- control over the dynamics of company value;
- compliance with generally accepted principles of corporate governance;
- development and improvement of corporate code;
- analyze the possibilities of entering new markets;
- risk and strategic management;
- monitoring international trends and practices of management;
- coordinating the activities of other commissions.

Commission on Information Policy will be responsible for generating reports, proper informational support of the company, ensuring the reliability, accessibility and transparency of information for all stakeholders of the company, creating a favorable information environment. The Commission on Information Policy requires a document specialist, lawyer, financial analyst, marketing expert, and other specialists. The least number of members of the Commission on Information Policy - 3 persons, including the head of the Commission on Information Policy - a member of the supervisory board.

Functional responsibilities of the Commission on Information Policy are:

- collecting and processing information about the state of the company, its position in the market;
- generate reports on the all activities of the company;
- information support of the Crisis Committee and other corporate governance bodies;
- creating right public image of the company;
- managing of public image, building mutually beneficial social cooperation of public relationships.

Commission on Personnel will develop personnel policies, deal with conflict situations and special issues of staffing, provide informational support for personnel. The least number of members of the Commission on Personnel - 4 persons, including the head of the Commission on Personnel - a member of the executive board.

The Commission on Personnel requires a lawyer, HR manager, HR specialist.

Functional responsibilities of the Commission on Personnel are:

- reducing emotional stress in the corporate team;
- conflict prevention activities, rational and effective ways to solve conflicts on any level of management;
- implementation of personnel policies depend on needs of a company;
- informing employees about the current situation and strategic plans of a company;
- ensure adherence to the strategic plans of a company, providing staff loyalty;
- labor market research.

At the Crisis Committee meetings where will be announcement of results of performance review, identify gaps in business and other processes in company, develop new and correct old goals and objectives. Any employee may participate in a meeting of the Crisis Committee and express own opinion and wishes about the corporate activities in writing form. It is sensible to invite personnel, which directly engaged in
production process, and not only at meetings of the Crisis Committee but also for a temporary collaboration to discuss specific projects or solutions. The involvement of shareholders in the activities of the Crisis Committee also honored.

In addition to set above, therefore company may establish any other commissions in crisis committee. Among them are Commission on Strategic Planning, Commission on Risk Management, Commission on Compensation and Rewards, Commission on Investments, Commission on Legal Affairs, Commission on Occupational Safety and Health, Commission on Corporate Social Responsibility and others (Bayura, 2009). This all depends on company needs and size. Structure of crisis committee should not burden the staff of the company.

In contrast to the Audit Committee, which mainly serves as the monitoring and diagnosis body of the company, the Crisis Committee will be comprehensive body, which consist of members of the executive supervisors, board of directors and shareholders, and will act as a core and the body for the analysis of corporate governance and instrument for improvement of the whole system performance.

Implementation of crisis corporate governance involves substantial transformation of management in the company, leading to drastic changes in its activities. Managers of company need to understand and explain the necessity and inevitability of these changes to the personnel.

In terms of high rates of globalization, the active transition of the Ukrainian economy to market principles of management, but situation that existed on domestic enterprises was inadmissible.

Replacement the Audit Committee for the Crisis Committee, as the body of corporate governance is a key moment in the transformation into a new effective way of managing. At first this will allow to neutralize problems that took place in the national practice of corporate governance and afterwards to solve them.

Active and simultaneous involvement of all corporate governance bodies in functional processes of Crisis Committee will:
• combine and align management processes in the enterprise;
• overcome tiered internal corruption;
• neutralize information asymmetry, due to the fact that all government bodies will work simultaneously and with the same information base;
• allow to avoid traditional conflict at the principal - agent.

Discussion
Reconciliation of management process in one core of corporate governance – the Crisis Committee - will significantly increase the effectiveness of corporate governance. A clear defining of goals and objectives, their coordination both at the manufacturing and at the highest level of management, will create accurate and realistic development strategy, phase the implementation process agree with a budget.

The problem of many companies is isolation of the development strategy from real life, no implementation plan or it’s formally existence on paper. Although the issue lies not only in the formalities of all strategies, specific actions or processes of a company but also in useless existing of entire departments, without adjusting goals and objectives, operational and strategic plans.

The crisis state of many businesses is the signal for fundamental changes. Organizational framework is the basis of the business, and therefore its transformation is the most effective and the most difficult at the same time, but without necessary changes company is doomed to bankruptcy.

References