КОРПОРАТИВНО УПРАВЛЕНИЕ НА КОМПАНИИТЕ В ЮГОИЗТОЧНА ЕВРОПА

CORPORATE GOVERNANCE OF THE COMPANIES IN SOUTH EASTERN EUROPE

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Abstract: *Corporate governance is an important element in the investment process, mobilization, allocation and monitoring of the efficient use of resources, and its performance provides solid foundations for economic growth of a country. The construction of successful corporate structures and good governance in companies is an important issue and has a direct impact on the overall economic development of Southeast Europe. The problems of corporate governance in these countries, it should encourage them to understand the priorities and guiding framework that must be set for the implementation of reforms in this area if they want to function. Finding adequate solutions, establishing a balance between the preferences of holders of material interests of companies, ensuring successful operation and management is a difficult but necessary task. Therefore, it takes large and persistent efforts, in terms of defining strategies of corporate governance and making recommendations for further positive development of the companies in Southeast Europe.*

Keywords: *corporate governance, companies, Southeast Europe, economic development, corporate structure.*

INTRODUCTION

Corporate governance has a major impact on the development of capital markets and is increasingly becoming a reality and needs of companies and other forms of organization of business, but also for other sectors, as well as all social activities in Southeast Europe. There is a correlation between efficient economic markets and economic growth of countries such as microeconomic and at the macroeconomic level and connectivity, conditionality and interdependence of corporate governance and economic growth.[1]

The period after the privatization was pretty chaotic in terms of shareholding and management control in many countries in Southeast Europe. Shares of many companies have been disposed of more shareholders, undeveloped stock markets and regulatory institutions appear to make extraordinary efforts to prevent any irregularities which arose in the joint and corporate governance of companies.

Fortunately, recent years have seen greater focus to good corporate governance, which is an essential segment of success and sustainable growth of all business entities. However, many companies still have not fully perfected, hence, the more there is a need to analyze this issue.

Non-discrimination of shareholders of large and small, independent auditing, transparency and management companies is an extremely important factor in corporate ethics, which by the nature of things is often a conflict of interest, and consequently, corruption and financial scandals.

Good corporate governance should provide the proper incentives to pursue objectives that are in the interest of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources effectively".[2] In addition, it improves relations with employees, creditors and other stakeholders, increases confidence among domestic and foreign investors to the economies in South East Europe and an important prerequisite for attracting foreign investment, especially one capital required to ensure faster economic growth in the longer period.

The system of corporate governance plays a central role in economic performance as it provides mechanisms, one of the tasks is the return on investment of companies from their external financiers.[3] When we talk about the quality of corporate governance, among other things, we mean business performance and most efforts in this direction are focused on upgrading its system in terms of permanent improvement.

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[1]Begović, B. et al, Improvement of corporate governance, CLDS, 2003, p. 5

[2]OECD, Principles of Corporate Governance, Preamble, 1999

[3]Arsić, L., Milićević, Z. & Milaćić, S., Affirmation and quality of corporate governance, Ekonomika, 2009, pp. 122 -129

SOME SEGMENTS OF CORPORATE GOVERNANCE IN COMPANIES IN SOUTH EAST EUROPE

Companies in Southeast Europe can be organized in the two known forms or systems of corporate governance: one-tier and two-tier. In the one-tier system, the board of directors has the key functions of corporate governance of the company and also has control over the management. This form of corporate governance is most prevalent in companies in Montenegro. In the two-tier system of organization, the company's management is separate from the corporate governance and supervision. The first part includes the board, and the second part is the supervisory board. This system of organization of companies is represented in Bosnia and Herzegovina.

According to regulations set by the European Union, there are several options for companies, and they have the opportunity to choose whether they want to be organized according one-tier or two-tier system of corporate governance. This is the case in Macedonia, Serbia, Croatia, Bulgaria, Romania and Albania.

In practice the distinction between the two systems is not as pronounced. There are many hybrid systems where components of one tier system is combined with components from the two-tier system. This is quite a challenge for separation of steering and control system and is very important to ensure effective and efficient operation of companies in Southeast Europe.

The general conclusion is that companies in Southeast Europe, except in the manner of functioning of the boards, there are major problems in other segments related to corporate governance. They, in particular, are expressed through:[4]

- **Lack of information** - Minority shareholders are not informed on time about the place and time of the annual meeting and did not receive information about the planned new share issues;
- **The shrinking of ownership interest** - this is the tactic of shareholders that an issue of new shares significantly change the ownership structure, usually by selling shares of the influential business partners and wealthy individuals;

[4] Stamevska, E., Corporate Governance, EURM, Skopje, 2014, pp. 95- 96

• **The policy of dividend payment** - the most common tactic of management is delay the payment of dividends, which in most economies inflation is a huge savings to the company, and a great loss for investors;

• **Redirect the flow** - concluding supply contracts with companies who own managers, their relatives and friends or selling products at privileged prices is a sure way of shortening the rights of shareholders;

• **Sale of parts of the property** - involves selling parts of fixed-owned enterprise to selected buyers, then the exchange of shares (already impaired) for shares of the holding companies whose owners are managers or their friends, increasing responsibilities and finally bankruptcy, that drive Trustees, appointed by the local influential managers.

THE IMPACT OF CORPORATE GOVERNANCE ON THE VALUATION OF COMPANIES IN THE MARKET

There are five channels through which corporate governance can affect the market value of companies. These channels are:

1) Increased access to external financing for companies - This channel offers the possibility of greater investment, faster growth and development of the company and allows opening of a large number of jobs. The possibility of attracting fresh capital to stimulate companies to think about new products, new markets and any sort of innovative solutions that will provide more sales and still higher profits for the company.

2) Lower financing costs - This channel allows companies to be more attractive to investors which enables greater growth and opens the possibility of more jobs. Low capital costs enable the creation of competitive products, the possibility of greater investment in research and development of new products or services. Companies with lower costs of funding have better liquidity and therefore have better financial stability in comparison with companies that have higher financing costs.

3) Improved operating performance - Improving the operation of a company, thanks to corporate governance comes through better allocation of resources and better management. Practices worldwide show that standardization and all forms of standardization make better use of the resources that the company owns and thereby increases productivity and profitability of a company. Examples of such processes are standardized implementation of ISO standaradite which are quite prevalent in developing countries and thus in Southeast Europe. This is due to the legislative framework in countries that require certain standards to apply, tenderira or sell a particular service or product.

4) Lower probability of financial crisis - Well designed and implemented corporate governance allows to reduce the likelihood of financial scandals and problems within the company. Consequently any company that has a successful and stable work history is always attractive to investors no matter what type they are. Also financial problems and scandals make large financial expenditures that are unnecessary if you are working in accordance with the codes of corporate governance. Besides the financial aspect, and avoid media scandals that could hurt the company long term. Generally if in one country there are companies with good corporate governance and few cases of financial scandals, the state gets more credibility in terms of investment conditions and thus the potential for a better credit rating.

5) Functional relations with all stakeholders - active and successful collaboration between all stakeholders to establish dialogue and thus to improve relations between companies and labor. As a result of such successful communication workforce can receive better working conditions and understanding by management. The general rule is that if a company has an efficient and motivated workforce can be expected them more loyalty, commitment and greater commitment to promoting and improving the services or products that the company offers to the market. Workers should behave in the household and loyalty companies would reduce the costs of recruiting, training and education of new employees. It will also accumulate more knowledge in the same company which can lead to competitive advantage over the competition. According to all probability the company achieved higher sales and profits is much higher, which is the most important goal of any investor when investing its assets.

ESTABLISH FUNCTIONAL LEGISLATION ON CORPORATE GOVERNANCE

Southeast European countries have launched ambitious reforms in order to create a favorable environment for private sector development, including trade liberalization and policies of investment, measures to strengthen the financial sector and encouraging the growth of exports, the technological progress and attracting foreign investments. The results of these reforms are seen in the growth of investment, productivity, income, exports, and expanding financial markets. However, even those countries that have made significant strides in improving the business environment, can not expect the fruits of reform if the established regulations in the practice of corporate governance.

The main challenges related to corporate governance of companies in the prevention of conflicts of interest and protect the weaker members, ie minority shareholders in companies and depositories in the banks. Companies that open capital market need to convince investors and ensure that they are managed properly and that the interests of Investors protected (so-called lines of defense, internal control, internal audit, risk management). The special interests of the directors should not cause a conflict of interest with those interests of other shareholders and stakeholders. The main application of this concept is to have an independent and qualified director the head of those things that are likely to be potential for conflict of interest. The largest number of jurisdictions in Southeast Europe have incorporated the concept of board of directors and independent directors, but often these concepts are poorly placed.

In order to win happen conflict of interest it is necessary to develop a concept of care to emphasize the role of independent directors on the board of directors and to ensure that the directors will do their job in the best possible way and with appropriate supervision. Intended to protect minority shareholders and investors it is important to pursue a policy of equal treatment of all shareholders. This is one of the most sensitive factors for good corporate governance.

All shareholders should have defined their voting and property rights. The crucial is legislation in the state to provide the basis to ensure the rights of shareholders and to punish those who do not respect the minority shareholders.

Legislation in one country it is necessary to create a legal framework in which companies can successfully operate. National legislation should not push the companies with unnecessary requests. Thus, companies will be free to decide in terms of structuring their internal mechanism of corporate governance will be able to attract investors and will work effectively.

Flexibility is a key factor when making corporate decisions. For this purpose there have been numerous laws, the market has developed codes of corporate governance, including a set of optional recommendations.

All these measures were taken because of the establishment of the internal mechanisms of the company that should guide the company towards correct direction.Companies are not required to implement all the recommendations, but unless you act in accordance with the recommendations need to explain the reasons why. It should be the case in the countries in Southeast Europe, but only in Croatia and Romania this practice is better developed, while in other countries is still in its infancy.

CONCLUSION

Southeast Europe is a region which during the last two decades is developing very fast. Some countries are already members of the European Union, and some expect its membership in the near future. This fact has contributed to numerous changes in legislation and practices of companies in Southeast Europe. Many of these changes are driven directly from the market, and the other by the legislation itself.

We live in the world of economics, the world of money, which human civilization leave permanent scars and inevitably determine its future, essential features. ,,Idolatrous or not, the beginning or end of any human activity, especially commercial, is directly linked and influenced by capital (money). Only theoretically ideal conditions, the total supply of capital, a rare and dynamic economic resource category, which permanently changes the size and shape of appearance, is equal to the total demand ".[5] Starting from this, and in order to increase the capital companies need in Southeast Europe to successful corporate governance, which will be ,,solid pillar", which will be based on its work and development..

The improvement of corporate governance in these countries is a key element for a revival of investor confidence, economic stability and growth. It involves strengthening transparency and public access to information and independent control of management, as well as termination of „unhealthy relationships" between countries, businesses and the financial sector.

Companies should establish basic prerequisites for improving the quality of corporate governance or effective capital markets, efficient justice system, competent regulation, political stability, access to sensitive macroeconomic and financial data, trained and experienced professionals in the role of independent directors and auditors.

Unfortunately, not all the mechanisms promoted by the market and by the European Union are fully understood. The biggest challenge is to ensure a sound legislative framework for the management and control of the operations of the companies in an efficient and effective way to reduce potential conflicts of interest in order to ensure greater profitability, investor protection, and all other stakeholders.

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[5] Jovanovski, P., Financial Markets and Institutions, 3 edition, EURM, Skopje, 2009, p. 13

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