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# Corporate Governance Intervention for a Sustainable Socio-Economic Model

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## Abstract

In our days the global society is facing the following problem: the wealth was created through capitalism based on the market, although the market system creates insecurity and inequality for the social classes. Under the social pressure that is shifted on the political class, the last one is obligated to execute the “change for a better future”; the public sector and the private sector must share their strategies and development policies to restart the capitalist system and put it back on the right road. This research paper presents the factors that create the basic problems: social inequality and unsustainable economic growth and development of a country, and the feasible solutions that include the implementation of corporate business principles that are combined with social problems through the development of public-private partnerships and of an integrated proactive governance system of the unstable situation of an emergent country.

*Keywords:* capitalism, competitive advantage, corporate governance, developed country, emergent country, sustainable economic growth

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## Introduction

In the last years, the future was seen as economic development through capitalism. The individual has only one purpose: generating wealth and creating a better life span for the future generations.

There are questions that can be asked on capitalism by bringing in the spotlight the idea of social inequality based on the earnings of a company's CEO and the new hired personnel, this gap is in average of 500 times bigger, in practice it represents a non-ethical situation and underlines social disparities; in addition to this problem we have the inefficient situation of income re-distribution that instead of being distributed for investment and creating better social welfare, by building schools and improving the healthcare system, those incomes are re-distributed for the payment of the budgetary deficit.

All associated problems with capitalism are accepted by building a network economy model through the influence of globalization, this way the capitalist system needs reform to keep its focus on the long run, starting with the healthcare system, educational system and pension and social insurance system (especially when we observe the global perspective), from here we need to start the partnership between the public sector (execution availability) and the private sector (implementation availability).

Between national prosperity and social blending there is a direct link and the two of them are influenced by investments that aren't achieved in poor areas, this way the social inequality has the tendency to grow the gaps between developed countries and emergent countries. Under-development and low foreign investment have as a result a growing social influence through the economic-social feedback created between the decrease of investments and the growth of violence.

In this moment the global trend is to create a corporate and social capitalist model (corporate governance state integrated) based on the solutions developed at a small scale and molded for national, regional, union and global implementation, which have as implementation channels the ministries that create the government and its implementation channels – the adopted economic policies. In this situation the horizon for implementation must be discussed. In developed countries the notion of economic vision from the public sector vantage point has the life span of a short cycle, followed by an adjustment that is done to achieve the purposes of the private sector and having a small life span (specific for speculative investment). The same modus operandi was implemented in emergent countries, especially the short term horizon idea; here the leadership by example problem appears because it should be delivered by the developed countries. Today capitalism is facing great changes, and this paper represents the big picture on a model of corporate governance through which we can achieve sustainable economic growth of an emergent country and in the same time to obtain the decreasing of the existing social inequity that exists in these countries.

### ***The “healthy” level for economic growth***

To enter the matrix of today’s level of knowledge in this domain we should see as a basic starting point Joseph Schumpeter’s idea on the survival of capitalism by putting on the table private management versus social management and their defining differences: the followed purpose – profits versus social welfare (Schumpeter, 2011). The sustainable evolution of an emergent economy can be framed into an corporate model, bringing here Schumpeter’s idea of an underlined benefit, a corporate model gives better protection to a nation, region or state union by lowering the necessity of an intervention in the economy through government action and only to maintain the connection between market needs from the private sector, receiving as a result a linear cyclicity of the demand, this way the chances of technological under-utilization of production factors and its results in the economy decrease. As a secondary result we should see the social welfare of the entire nation, including in the big picture corporate welfare, but in the limits that do not decrease total social welfare.

Between state and corporation links are created. These links explain the capitalist structure with results in growing economic performance that must be maintained at a sustainable level from the desire not to over-heat the economy. Another idea from Schumpeter can be reviewed here, the idea of “healthy” economic growth, of 2% per year (according to the 1890 – 1940 period, including here the unsustainable growth of 3.8% per year before the crisis – the 1890 – 1929 period) (Schumpeter, 2011). This way the relation between government action and corporate governance is similar to the relation between urban management and business management. The purpose is to attract to the city/corporation investors/stakeholders by giving them an advantage from other areas that have similar characteristics, but keeping the logical economic sense to maintain a competitive environment on the local governing entity and an efficient relation with that town’s members, and to maintain an organizational culture that is on the same wave length with its employees and with an initial business purpose, this way this paper has a reasoning part for the economic environment of an emergent state through the corporate governance approach of the problem.

### **How to develop a stable economy through a corporate model**

Capitalism without democracy is not possible, so we need to bring to the table the theory of the functionality of political democracy in ideal conditions (Becker, 2003). This theory underlines the idea that an ideal democracy is similar to the system of free enterprise in a given market, stressing on the ideological convergence between democracy and capitalism. This view is designed through the idea of efficiency in “assuring functionality” (corporate governance) of an economic

sector at a higher level than what the state can create through government action or the political party through its doctrinal view. Choosing only a sector and not the entire economy is done because the approach on competition in a democracy is similar with the connections between an economy and its sectors in parallel with a corporation and the divisions that create it, this dividing in purpose creates a better way to obtain the output based on specialized governance, which is done by individuals from the corporation (division directors, department managers, etc.) and by individuals or work groups from the economic sectors (ministry or secretaries).

An approach from the individual's perspective (the citizen) and from the corporation's perspective on rational managing an economy can be approached through the following structure:

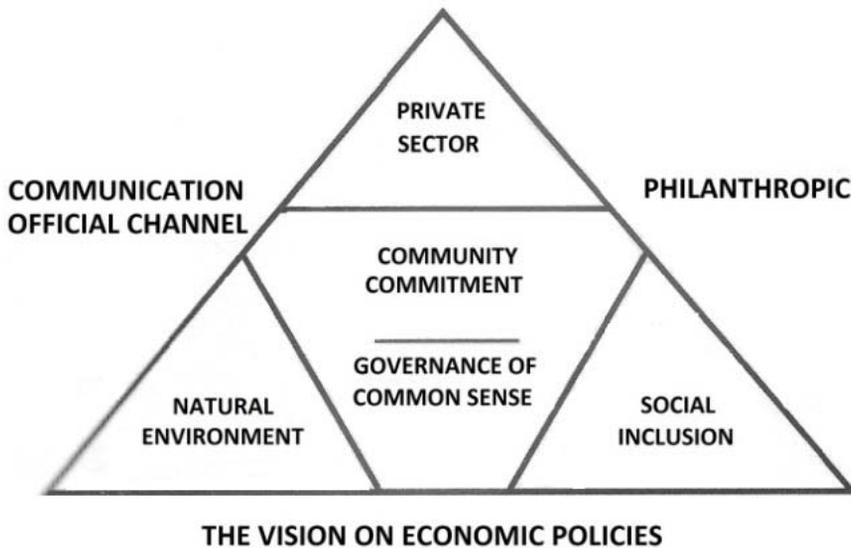


Figure 1. *The Public Sector – Private Sector Synergy*

“The Public Sector – Private Sector Synergy” model can be used as an example of basic implementation for creating a synergy between the public sector and the rationality of the private sector. The basic construction was tested at regional level, in the Bangalore region (India) by Hewlett-Packard (Dunn & Yamashita, 2003: 1-22).

This perspective can be treated and molded as an innovation brought to the debate by the thesis of Albert Hirschmann in “Rhetoric of Reaction”, in which he shows the problem of wealth creation in the last century. The perversity thesis – the wanted political, social and economic action creates an backwards reaction for what was intended for, the futility thesis – the social transformation doesn't have

any results (through political and economic implementation) and the risk thesis – the proposed solution cancels other results and then the final cost would be too big for the implementation of the solution (Hirschmann, 1991). These entire theses are taken in consideration because the deliverable must be a realistic solution, feasible and with an implementation on the short run, but with perspective on the long run.

The corporate governance models always have been an efficient solution to obtain sustainable economic growth, offering ways to follow for solving state-governance problems, because there are made from the same building elements of corporate evolution like in state evolution. We can see similarities between a (developing) country and a corporation, between the ministries of a country and the departments that are the components of middle and top management of the corporation, to these we add the prime minister's office, the presidential administration and the existent executive execution entities, compared with the C-level suite from the corporation' framework (Bodislav, 2011: 129-140). The control of efficiency, the efficiency in creating the legal framework (regulations and laws) of ministries, government agencies and all legal and executive entities can be done through entities entitled control bodies (for departments, agencies, ministries, etc. them being supervised by the control body of the president), the corporate equivalent being for the internal component the internal audit and business law divisions and for the external component the audit companies (the "Big Four" auditors for large corporations: Ernst&Young, Deloitte, PricewaterhouseCoopers and KPMG).

Innovation is the core of economic vitality, drives growth, creates jobs, builds healthcare, gives employees a purpose, regenerates organizations and consolidates the consumer's life span through new products and revolutionary services (Branson, Bodislav & Stoyanova, 2010: 4). The reverse engineering component is given through the use of development models and business innovation and implementing the resulted deliverables in the development, the creation of added value and long term innovation to create a stable country, similar to corporate evolution (the deployment from start-up to corporation) (Bodislav, 2010).

### **Creating the "problem-solver" model**

The real conditions of economic life show that it is possible for some syncope to exist, like different vantage points, opinions, purposes, state or corporate orientation as an entity or the orientation to a human component (people create the state or the corporation, so welfare and self interest are in pole position) (Lynch, 2005), the extensive and intensive development model for the state or corporation for sustainable economic growth, which is accessible through outsourcing systems as net beneficiary, for example: import of cheap under qualified

work force from China; export of cheap qualified work force for developed countries, exported to the U.S., for the IT&C sector. This flow can create market inefficiency, seen from the macroeconomic perspective, but decomposed as corporate operations that have one conclusion: the inefficiency in governing and managing the human capital, the available assets, maintaining cost of debt and cost of equity for multinational corporation and external credit and the sovereign risk for states in the limits of economic efficiency, this way the governance process is similar to a process that is goal oriented from a corporation.

To have a better perspective on the work model we can see an out of the box model by offering a work scheme:

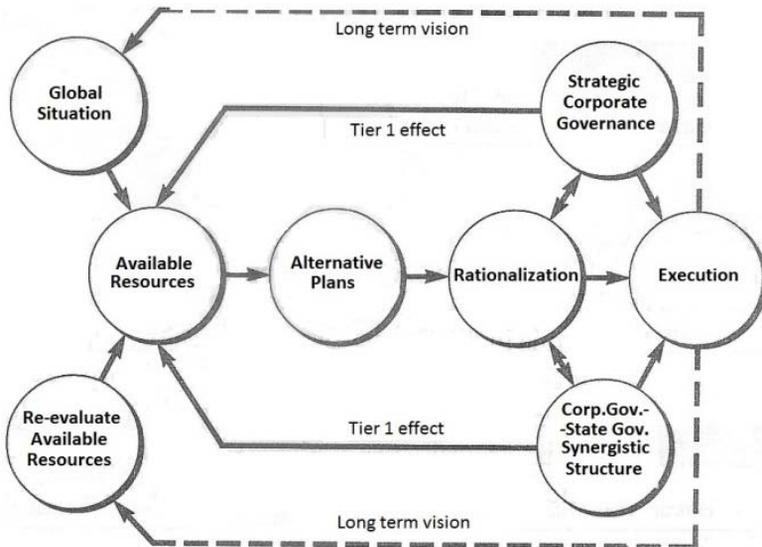


Figure 2. *The Framework for Nation-wide (State) Implemented Corporate Governance*

Figure 2 represents the model that represents the work structure and the linkage between the corporate governance model and state governance.



Figure 3. *The Synergistic Environment (S.E.)*

This figure represents the interconnections between the synergic environment (the crossroad between corporations and states), the threats that appeared (the competition or the global vertical pressure) and the opportunities that were discovered (at unit level: sustainable economic growth and at individual level: satisfying higher needs that grow in the same time with economic growth), and the intersection between Corporate Governance (shaping the desired *implementation model*) and State Governance (the *execution model* applied by the ruling government).

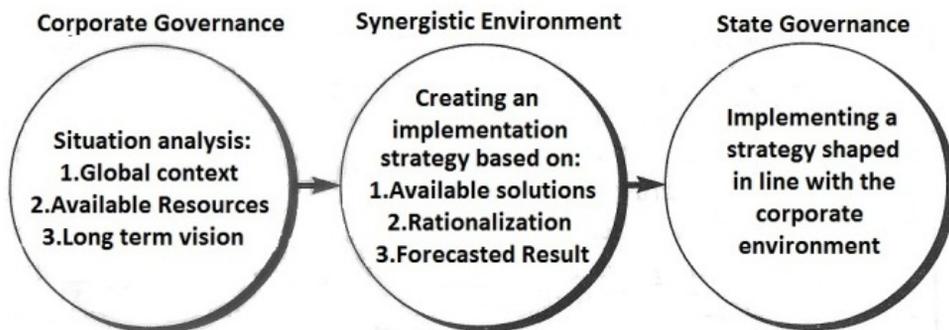


Figure 4. *The Creation Algorithm for the Synergy of Corporate – State framework*

This algorithm represents the main body on which the rational-informational module will grow and offer a feasible economic deliverable on today’s situation and with sustainability on the long term. These schemes are designed to finish the primary factors structure of the relation between state and corporation:

1. State factors: (1.1) *Institutional framework*: legislation; bankruptcy procedures; investor's protection algorithms; the development of the capital market; (1.2) *Macroeconomic factors*: market conditions; economic growth; inflation rate; average interest rate;
2. Corporate factors: (2.1) *Exogenous*: credit ratings; market value of the corporation; (2.2) *Endogenous*: profitability; corporation's size; assets' tangibility; growth opportunities of the corporation.

A part of the above presented factors underline the main differences between developed countries and emergent countries, these being the main paths on which state and corporate governance is deployed and developed. From the econometric perspective, the quantitative studies (with qualitative deliverables) show that models are grouped in five classes: (1) Models based on the American market; (2) Models validated on developed countries' markets; (3) Models validated on Asian' markets; (4) Models validated on emergent' markets; (5) Models validated on pre-emergent' markets (these models represent a stand-alone class, because they are emergent countries, but didn't achieved all needed tasks to be framed as an emergent country, for example: Romania).

Studies show that through corporate governance the American economy was designed, and this was the starting point for the rational development of other markets, the major difference between the validated model of the American market and of other developed countries is represented by the existence of another balancing and hierarchic model, representing the distribution model through long term decisions on debts, un-used profit and the need of a long term corporate governance foresee (Delcoure, 2007: 400-415). These differences are accelerated between developing countries and emergent countries.

A general model can be designed: we have two companies or countries: A and B from Figure 5 that was created having as starting point the "classic model" (Porter, 1998) that wants to show the idea of strategic positioning versus low cost and product or governance differentiation (economic advantage created by the state). The company/state B dominates the internal and external market through low costs and business model differentiation, we can see the classic concept on being part from the functional framework of a corporation, but in this situation this business model can be implemented to obtain a competitive advantage for the country. The company/state A identifies new production capabilities that help to create a better position in the market or in an economic union resulting the fact that it can cooperate better with external business partners or with other states that are part of the union. From initial position (P0) A can move horizontally in the P1 position (low cost for production, work force or capital, or for synthetic factors like: low taxation that creates a lower cost through the derivativity effect of low taxation of production) or in a vertical plan, in P2 position (differentiation obtained through "created product" – management or governance innovation and production) or it can shift its position in the P3 position where it can obtain advantages

through costs and differentiation (the P3 position can't have a lower cost than the P1 position or a better product differentiation than the P2 position because of the spacial-economic exchange). Collaboration brings the company/state A the shift on a competitive advantage frontier P1 – P2 – P3.

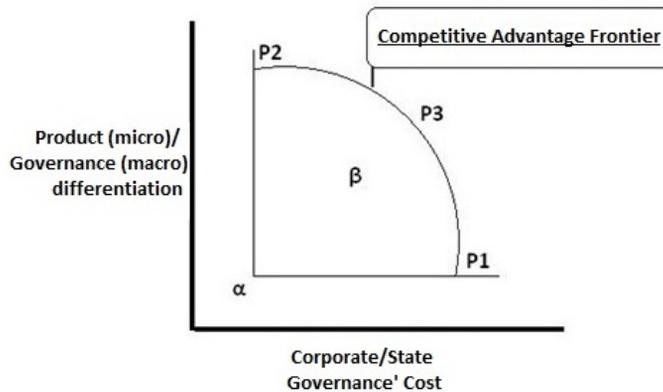


Figure 5. *The Competitive Advantage Frontier*

The emotional force is the one that separates and links states and corporations, but state identity or corporate identity is the “element” that creates the Singularity phenomenon. Maintaining an Identity (state or corporate) is based on the inter-connection between two basic needs of the rational being: the need for differentiation or uniqueness and the need to be part of a group (Dinu, 2010). It can be considered that managing the five types of market models presented earlier can be seen as limitations because they represent physical, cultural, technological differences that divide groups (joint-ventures or unions). More important, these differentiations are rediscovered in the definition of the rational being. The Identity isn't showing what we do, but what we are.

## Conclusion

If we accept the problem and try to apply the structure created and shaped in this research paper and observe what syncope are stressed we can analyze the challenges and economic interdependences that appear in emergent countries and state unions that are underlined by the actual economic context (a crisis of ideas and solutions that are founded on: politics, culture, social, economic and innovational contexts) that were born as a sub-prime crisis and evolved to a deficit crisis, having as observed countries the PIIGS (Portugal, Ireland, Italy, Greece and Spain), that will lead on the long run to the rethinking of the implementation

model for economic solutions (in governance or deployment), and the intra-corporative approach for the economic management can evolve to the optimal model for sustainable economic growth.

The main purpose of this research paper is to show that in the actual economic environment we need to define and draw the basic problems (to have a solution we need to design the problem hypothesis) and to design a solution, the creation of a model or algorithm that will be used as a proactive guidance program to surpass the actual crisis and the beginning of future crises, based on deficits or basic foods supply inefficiency, crises that will occur because we have to consider the economic cyclicality – Kondratiev cycle for the last two major crises 1929 – 1933 and the one started in 2007 and human-economic cyclicality.

Probably the force and duration of the actual economic crisis wouldn't have reached this peak point if we wouldn't have been situated on a descendent trend of the world economic engine, the United States of America, which drove to the inefficiency trend of the world economy as result of the network economy effect, this trend movement should be considered as the end of a Kondratiev cycle, but stressed by the intersection between many types of economic cyclicality and the fact that we are at the end of the First Modernity.

If the global economic problem is taken under consideration and the presented solution is implemented under the public – private partnership, the global economic development of the economy will evolve into a new type of capitalism, the “common sense” capitalism, a hybrid capitalism that takes in consideration the corporation, the state and the “no men left behind” principle .

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