

# Corporate governance vs. crisis of company

## *Zájmové skupiny vs. krize podniku*

P. MOULIS

*Czech University of Agriculture, Prague, Czech Republic*

**Abstract:** There is a lot of available investigations in the area of company crisis reasons problems nowadays. These inquiries were summarised into the indicators of company crisis reasons. The development and level of these indicators is not possible to consider to be company crisis reasons but above all to be its manifestation. The veritable reason of crisis is the absence of effective control mechanisms in the company, especially of the “natural” control mechanisms. The natural control mechanism means such as rises from the substance of joint stock companies (respectively legal rules of joint stock company). There is a presumption of control activities interaction among the General Assembly, Supervisory Board and Board. Control mechanisms work on the common economic principles’ base in this sense and it means that the owner is considered to be the primary managing element and the management acts as the derivative managing element. The assumption of effective economic principles functioning is the existence of standard variable of these relations i. e. the existence of relevant interests.

**Key words:** company, crisis, corporate governance

**Abstrakt:** Existuje celá řada šetření, která se zabývala problematikou příčin krize podniků. Tato šetření byla shrnuta do ukazatelů o příčinách krize podniku. Vývoj a úroveň těchto ukazatelů nelze považovat za příčiny krize podniků, ale především za jejich projevy. Skutečnými příčinami krize je neexistence účinných kontrolních mechanismů v podniku, především kontrolních mechanismů „přirozených“. Přirozenými kontrolními mechanismy je nutno rozumět takové, které vznikají z podstaty akciových společností (resp. právní úpravy akciové společnosti). To předpokládá vzájemnou interakci kontrolních aktivit mezi valnou hromadou, dozorčí radou, představenstvem. V tomto smyslu kontrolní mechanismy působí na základě obecných ekonomických principů, to znamená, že vlastník je považován za primární řídicí článek organizace a management působí jako řídicí článek derivativní. Předpokladem efektivního fungování ekonomických principů je existence standardních proměnných těchto vztahů, tj. existence relevantních zájmových skupin.

**Klíčová slova:** podnik, krize, zájmové skupiny

## **CORPORATE GOVERNANCE AND COMPANY MANAGEMENT**

Changes in the area of economics are represented only by particular variables – changes and uncertainty enforce significant changes in understanding business, when respecting these new variables and new understanding of business goals. It becomes essential to create and establish strategic management. Successful strategic management establishment is correlated with business success, which is at present expressed by the continuous increase of company market value. Such a company must reach performance, which satisfies market needs.

Performance business process creation needs human work, machinery, instruments and materials utilisation. Working performance, tangible fixed assets and material are three production factors, which are combined in a company, however, this combination itself does not take place as a natural process – it is the result of managing,

planning and organising human activities. These dispositional activities belong to human performance capacity (as well as a turner or secretary working capacity). In accordance with the above mentioned, we can, in particular, differentiate two kinds of working performance: executive (performing) work and managerial (dispositional) work. Since the total combination of production factors represents dispositional working performance and since other factors (working performance, tangible fixed assets and material) cannot be efficient without managerial activities, there is a need to earmark the dispositional work from human work factor as an independent production factor. Then we differentiate four production factors:

1. dispositional work (business management) – its functions are leading, planning, organising and control of business process. These activities performance is in decisions preparation and accepting
2. executive work (work related with object)
3. tangible fixed assets
4. materials.

---

The contribution presented at the conference Agrarian Perspectives XI (CUA Prague, September 18–19, 2002).

Table 1. Production factor and example of identified corporate governance

Production factor	Example of identified corporate governance
Dispositional labour	Company management
Performing work	Employees, contractors, government, unions
Tangible fixed assets	Creditors, contractors, government
Materials	Contractors, government, competitors

Production factors mentioned in points (2)–(4) are marked as elementary factors or factors related to object, since they have a close relation with production subject. Their utilisation is managed by dispositional factor. We understand managers, i.e. group of people, who can charge other people directly to be dispositional factor – we adopted the term “management” to mark them. Term management is simultaneously used for functions, which these people execute.

Within strategic management it means to define business mission. Success of reaching business mission and goals is significantly affected by accepted preliminaries in connection with relation to individuals and corporate governance, which provide (in various forms) corporate resources. Needs satisfaction rate of individuals and particular corporate governances is the indicator of business success. As a corporate governance, we understand any physical entity or corporate body, formal or informal group of these persons, whose activities can affect the company and vice versa.

If we take into consideration the business structure of production factors (mentioned above), we can (on these bases) define several types of corporate governance (see Table 1).

Of course, there is a number of another possibly identified corporate governances besides this simple list in the above table. The most important are owners, customers, clients, competitors etc. Respecting requirements of these corporate governances leads to successful meeting of the business mission. The most important corporate governances are owners, management and employees. Relations among these corporate governances are formally given by the Business Code and Law Code. Both these codes were objects of significant changes during the last years, in particular with the goal to express more exactly relations among these corporate governances.

#### **CORPORATE GOVERNANCES IN THE AREA OF AGRICULTURAL COMPANIES**

Alternative arrangement of ownership relation was understood to be one of the agricultural subjects' bad economical situation solution during the past years. The majority of transforming agricultural cooperative were

transformed into joint stock companies during the years 1998 and 1999, affected by the events and external environment development. This trend was prolonged in the following years. This conversion was determined not only by agricultural co-operatives duty to balance the transformation debts or even by the need to manage a company on the above mentioned asset complicity in business. The co-operative ideas were not fulfilled by agricultural co-operatives. There are three relevant corporate governances in the new agriculture companies: owners, management and employees.

*Owners:* corporate bodies, in accordance with the Act No. 42/1992 Coll., which have decision-making authority. They shall have interest in the business development in the long term and reaching the adequate capital productivity of capital, which was reached by agricultural co-operatives transformation. Owners are represented by general assembly of the joint-stock company. It is the representative body of the company and from its centre, there is elected part of the board of directors and part of the advisory board members.

*Management:* it is the executive element of organisation management. Its activities are liable to owner requirements, which are represented by the general assembly. Top management is represented in the board of directors and is elected by company owners. On the bases of certain simplicity, they are hired workers (derived managerial body), which shall increase value of the particular owners assets.

*Employees:* of course even they are the unchangeable part of company and have clear requirements, which could be asserted by mostly 1/3 representation in the advisory board. In general, it could be said that employees have requirements on the adequate appraisal of their work, providing of certain social benefits, which issue from the employment with the company, and they also are interested in the development of the company. Their requirements are directed to the area of wages increase in the particular years.

A terrain research was done with regard to farmers during the last year. I examined one corporate governance – owners. The result of this research is in relative measures expressed in the following text.

Several facts were found out:

- 75% of owners do not know their rights in connection with equity participation in the company;
- 60% of owners cannot specify what they expect from their equity participation in the company;
- 65% of owners are not satisfied with the amount of rent for their equity participation in the company; from that
- 45% do not think of officially claiming the change of interest increase of the participation;
- 15% think official claiming to be useless
- 5% made oral claim to management.

On the base of non-standardised interviewing the owners covered by this research and other owners from other agricultural companies, there was identified one very important finding – owners talk about management like

about “them” and “their company” not about “me” and “our or my company”.

Agricultural companies’ management judges predominantly the problems connected with the company economy as rising from bad conception of the state agricultural policy and then as problems, connected with the agricultural co-operatives transformation. In many cases, there are even opinions about the targeted political activity of state bodies leading to the liquidation of agriculture in the CR.

Czech agriculture undertook a huge restructuralisation in the area of the production structure changes and changes in the legislative of agricultural companies. We can also comprise restructuralisation from the point of agricultural company view. All these changes are mentioned in particular in the “Green Reports”. However, restructuralisation, in this conception, did not solve, in fact, the problem of the whole industry. We could assume, at the first sight, that it is characteristic for Czech agriculture in the years, which are mentioned in particular tables and charts.

From another point of view, we could say that some indicators show the causes of the agricultural companies crisis, for e.g. when comparing the often mentioned data about the increase of farmers prices compared with input prices.

When adopting this point of view, there is often forgotten one fact – a company is a part of a certain system, which the company can also influence. It remains to be a problem to choose the effective means to influence the external environment of a company.

Since the importance of one factor – civil service – like administrators and the order of public estates, the area of influencing external environment is more topical with the development of opinions on multifunctional agriculture, the success is directly connected with the multifunctional agriculture development. There was mentioned, in this text, only one of the examples of identifying corporate governance in the business external environment.

## CONCLUSION

Real causes of the crisis are the non-existence of effective control mechanisms in a company. It is predominant-

ly about the “natural” control mechanisms. It is necessary to understand as natural control mechanisms such mechanisms, which rise from the essence of joint stock companies (resp. legislation of joint stock companies). It assumes a mutual interaction of control activities among the general assembly, the supervisory board and the board of directors. Control mechanisms, in this sense, operate on bases of the general economic principles, i.e. the owner is considered to be the primary managerial body of organisation and the management operates like the derivative managing body.

There is a need to remind once more, in accordance with the knowledge from terrain research, that owners of agricultural companies do not mostly know their rights, range of authority or even the share of their responsibility in the management and control of the company.

Agricultural companies owners mostly lack the competence for effective economics with their equity participation and for claiming their decision-making authority.

At this state, there could be assumed that further development will lead to a backward equity integration of purchasers and forward equity integration of suppliers into agricultural companies in the situation of crisis. It is important to bear in mind that the basic principles of effective business management are about capable people, what is then reflected in efficient decisions.

## REFERENCES

- Wöhe G. (1995): Úvod do podnikové hospodářství. C.D. Beck, Praha.
- Daigne J.F. (1996): Ozdravná opatření v podniku. HZ Praha, Praha.
- Hron J., Tichá I. (1997): Strategické řízení. ČZU, Praha.
- Kašík J., Michalko M. (1998): Podniková diagnostika. Tandem, Ostrava.
- Zelená zpráva 1996 (1997). Agrospoj, Praha.
- Zelená zpráva 1997 (1998). MZe, Praha.
- Zelená zpráva 1998 (1999). Mze, Praha.
- Zelená zpráva 1999 (2000). Mze, Praha.
- Zemědělství 2000 (2001). Mze, Praha.

Arrived on 21<sup>st</sup> February 2003

---

### Contact address:

Ing. Pavel Moulis, PEF, Česká zemědělská univerzita, Kamýcká 129, 165 21 Praha 6-Suchbát, Česká republika  
tel.: +420 224 382 256, fax: +420 220 922 259 e-mail: moulis@pef.czu.cz

---