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Corporate management models

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Abstract

Problems in the management of corporate structures differ from the management of individual organizations, first of all, in content, object of influence, models and mechanisms. The management of corporations is a process related to complex systems in which relations of dependence prevail between units in the system, presented mainly in the form of management and subsidiary organizations. Corporate governance is defined as a system of mechanisms used to achieve and maintain the balance of interests between all participants in the governance process. The effectiveness itself is determined by the use of certain principles in corporate management. The corporation, like any form, is an open system, the management of which should be based on principles common to any economic system.

Keywords: management, corporate structures, management, strategies, models
Jel codes: A1, A2, A3, A33, Q5, G4, L2

1. Introduction

Problems in the management of corporate structures differ from the management of individual organizations, first of all, in content, object of influence, models and mechanisms.

The concepts of corporate governance and corporate management should be distinguished. Management is a narrower concept compared to corporate governance. Corporate management is carried out exclusively by the management of the corporation (top management), and corporate governance is a function of all governing bodies of the corporation (general meeting of shareholders, board of directors, executive bodies) and interested parties (the state, regulatory bodies, etc.). n.). Corporate governance is primarily strategic in nature and is aimed at the successful functioning of the corporation in the external environment (protection of shareholders' rights, interaction with authorities, partners, creditors, etc.)

The management of corporations is a process related to complex systems in which relations of dependence prevail between units in the system, presented mainly in the form of management and subsidiary organizations.

2. Corporate governance process

In this regard, the range of participants in the corporate governance process is wide enough:

- owners of the corporation's capital;
- owners of the capital of the enterprises and organizations entering the corporation;
- managers of the central company in the corporation (professional hired managers who are often also owners);
- managers of individual enterprises participating in the corporate structure;
- personnel working in the corporation;
- entities from the external environment (infrastructure, authorities, tax authorities, financial organizations, etc.).

The forms of income for the participants in the corporate process are also different. Owners receive dividends, while managers and employees receive primarily salaries and other types of remuneration (bonuses, bonuses). Usually, data on the income of individual groups is not published.

3. Corporate governance inherently includes the following problematic aspects:

First, the relationship between the management of the lead company and the subsidiaries, suppliers and consumers. One of the most important features of the corporation is not so much the presence of different groups of participants as the presence of differences in their financial interests.

Second, the relationship between shareholders, co-owners of the corporation's capital, and management at various levels. That is why corporations are called bipolar systems. Manifestation of normal relations is observed when achieving a synergistic effect of the integrated interaction, which is also characterized by the absence of conflict situations between owner and manager.

Third, the relationships between the management of the various structural units in the corporation, manifested in the struggle for limited resources in the integrated structure (relationships on the occasion of receiving investment resources from the leading company or partners, on the occasion of determining internal prices, etc.). The most complex problems for corporate management are ensuring synergy with the development of algorithms for joint behavior in the markets, ensuring the mechanism for subordinating the private interests of participants with the general strategy, ensuring a rational ratio between centralization and decentralization when taking management decisions. decisions. This is an extremely complex task, presupposing the presence of exceptional professionalism from the top level of management.

Fourth, relations regarding the distribution of profits in the corporation and the payment of dividends. This type of relationship turns out to be the most complicated, and as practice shows, often criminal.

Fifth, the relations between individuals, collectives or governing bodies. Management relations between superior and inferior bodies or persons always have a voluntary nature. Even when the decision is taken by a collective body, the volitional character in the relations between the object and the subject in management is preserved. Modern democratization in the management of joint capital and production may reconcile this process, but not eliminate it.

By its nature, corporate governance in the broadest sense is considered as a system of knowledge about regularities and effective forms, methods and means of purposeful impact on subjects in the corporate structure, on their management bodies, on material and material elements, financial systems and others components ensuring the efficient functioning of the corporation and the achievement of harmony and synergistic effect.

In a narrower sense, corporate governance is defined as a system of mechanisms used to achieve and maintain the balance of interests between all participants in the governance process.

The achievement of the main goal, in the interest of which corporations are created and function, is ensured as a result of effective management of the integrated structure. The effectiveness itself is determined by the use of certain principles in corporate management. The corporation, like any form, is an open system, the management of which should be based on principles common to any economic system.

4. The system model

The system model assumes the presence not of any, but of ordered types of connections. In organized assemblages, the parts are connected in such a way that they are in causal relationships. Management influence on the causes allows to regulate the outcome of events. Correlation between the elements of the system and also between the state of the elements and the results should be the basis for choosing the objects for corporate unification. On this basis, the basic principles of the methodology of the corporate governance system are formulated.

First - the principle of the complex approach in the organization and management of the corporation. In this case, complexity is seen as a set of components, the interaction between which gives rise to new qualities that are not inherent to these components. The essence is that system-forming elements, when integrated into a system, lose some properties, but at the same time new system qualities arise. This concludes one of the most important features of the complex system – integration of system qualities not as a sum of the properties of the components forming it.

Second - the principle of synergistic effect. According to one of the modern formulations, the synergistic effect is manifested through the potential of the system, differing from the sum of the potentials of the elements entering it separately. This formulation is in harmony with the concept of "complex system" and only concretizes it through the concept of "potential of elements" as a quantitative indicator. There are not a few situations of manifestation of the synergistic effect from practical life situations to scientifically based mathematical models. For example, in living nature, many biological species group into colonies, herds and packs, which provide them with better survival, i.e. easier to defend and hunt effectively. The manifestations and use of the law of synergy in the human community are diverse. That is why corporate governance is primarily the management of a certain set of synergistic effects, called in strategic management theory "strategic fits".

Third - the principle of effective connection with the external environment. It is based on one of the axiomatic conditions in systems theory that each system represents an element of a higher order system and forms a particular unity with the environment. The corporate management of business entities, from the point of view of the systemic approach, is an open system, and also as a single entity, it can come to life only in this case, if it satisfies some need located outside itself. In order to achieve profit and ensure the competitiveness necessary for existence, the corporate formation should watch for the environment in which it operates and which significantly shapes the overall purpose of the organization. In addition, the given principle has certain specificity applicable to integration structures depending on their scale and degree of impact on the economy of both the individual country and the world. In this case, it is not so much the external environment that determines the conditions for the creation and functioning of the corporation, as the corporation forms this environment, determining the parameters of economic and often political development and the conditions for the activity of entities in small and medium-sized businesses.

Based on the idea of the corporation as a system, it can be concluded that other well-known principles for the organization of systems and processes, such as: continuity, proportionality, parallelism, rhythmicity, specialization, are also at the core of the organization of the corporation.

Some specific corporate governance principles include:

- coordinating the actions of managers from the various business areas of the corporation;
- organizing effective management of the corporate portfolio;
- constructive interaction between capital owners (shareholders) and management;
- diversification principle;
- stabilization of strategic alignments.

The stated principles imply their active impact on the external and internal environment in order to preserve and increase the opportunities inherent in the elements of corporate governance and the effective forms of their integration links. The partial or complete loss of their potentials in the formative stage of corporations can reduce, in general, the synergistic effect.

The modeling of corporate governance by using the stated principles creates a system of organization from the point of view of the presence and features of the following elements:

- key actors;
- structure of share holders;
- composition of management bodies;
- legislative restrictions;
- requirements for public information;
- corporate actions requiring shareholder approval;
- mechanism for interaction between participants.

5. Insider and outsider model

As already noted, in the modern corporation the owner is separated from the management, and in practice there is a splitting of interests and not only that. Often the owner is a person or persons who are unknown. They are not known and they do not wish to be recognized. Of these positions, two models exist: insider and outsider. According to them, the owners can act as insiders or as outsiders.

In the insider model, the owner exercises control, i.e. present within the structure of the corporation. The most obvious example of this is when the owner(s) are the managers of the corporation. The insider model is typical with an insignificant number of shareholders.

The outsider model envisages external control over the corporation. In this case, the number of shareholders is large, and the control of the owners is usually of a non-permanent nature. The main focus is on strategic issues.

It is very difficult to determine which of the two models is more effective. American scientists, studying more than 1,000 companies, obtain data that the market value of the company grows when the ownership of insiders increases to 40-50% of the shares, after which it begins to fall.

Table 1. Comparative characterization of the insider and outsider model of corporate governance

Criterion for comparison	*Insider model*	*Outsider model*
Control	*Universal bank control and internal ownership control*	*Capital markets and external control*
Ownership	*Concentrated*	*Dispersed*
Shareholders	*Active, oriented towards long-term cooperation*	*Passive, oriented towards shareholder democracy and competition of interests*
Corporate advice	*Two levels*	*One level*
Stock market liquidity for shareholders	*Low, mutual share ownership, pyramid schemes, holding structures*	*High*
Degree of protection of small shareholders	*Low*	*Good*
Degree of protection of small shareholders	*Low*	*High*
Other features	- *participation of workers in management;* - *active participation of universal banks in financial decisions* - *focused monitoring for management*	- *strong protection of creditors' rights;* - *ban on internal tansactions;* - *clear rules for the transfer of property, including securities;* - *clear bankruptcy procedures*

6. The importance of corporate governance

From the point of view of the importance of the main determinants of corporate governance, four models can be distinguished aimed at:

- to the executive director;
- to checks and balances;
- to the owner;
- to the consensus.

The CEO-centric model is most commonly found in the US. In management, a decisive role is given to the President of the company. This model allows operational decisions to be made, but leads to a loss of control over the system - some CEOs allow the existence of a strong board of directors challenging risky decisions.

The checks and balances model exists, for example, in Germany in the form of split governance (i.e. the executive and supervisory management have different functions) and also in England, where the chairman of the board of directors and a majority of the independent directors determine the limit for action of the executive director and top management.

The owner-centered model assumes that the major shareholder (the family) determines the corporation's development priorities. At the same time, the fascination in the daily solution of problems can be different. Thus, the American investment guru Warren Buffett and the Quandt family at BMW are known for instilling in the heads of their managers the question: "And what does our owner think about this?" The Ford family interferes in the affairs of the corporation only in case of deterioration of the affairs of the corporation.

The consensus-driven model pays attention to the stakeholders in the corporation – banks, suppliers, consumers and others. Although this model provides access to financing and the possibility of long-term forecasting, it nevertheless does not allow making operational decisions, as it requires consideration and coordination of the interests of a large number of interested parties. This model is most common in Japan.

From the point of view of the concentration of the management's attention, two more models of corporate governance are distinguished: managed and directed corporation

7. The controllable model

The managed corporation model implies a concentration of power. In this model, senior managers are responsible for directing the corporation and making decisions. The functions of the board of directors consist of hiring managers for the top level, controlling them and firing them when they do not cope with their activities. The role of the shareholders is to dissolve the board of directors when the financial performance of the corporations is not satisfactory. In fact, shareholders are generally treated as if they are unable to judge the corporation's policy for themselves, but are entirely dependent on managers and directors to do so for them. Corporate disasters occur as a result of hidden failures in the decision-making procedure, ie. in how the board of directors and top managers make decisions and control the development of the corporation.

The main idea of this model is the decentralization of corporate ownership among the large number of shareholders (which means that shareholders no longer participate in the determination of corporate policy) and the emergence of a new class of professional managers who were neither major shareholders nor founders of the corporations. Therefore, in this model, managers are "leading" and directors on the board and shareholders are "led". The job of the management system is to find the right managers to supervise and replace when they fail.

The corporate governance system also does not facilitate the members of the Board of Directors and top managers to take into account the opinion of external shareholders. In this model, shareholders are supposed to protect their interests only by replacing the board of directors that are not performing well.

When a major cause of corporate failure is managerial incompetence, the corporate governance model would work effectively with a different management team. But most of the crises in the activities of the companies are the result of mistakes, arising not as a result of incompetence of the managers, but as a result of shortcomings in the procedure for discussion and decision-making. As a result, this model perpetuates the silence-crisis cycle.

Errors arise from the ordinary reality of group behavior and decisions made by people. It is human nature to make mistakes. They tend to be biased towards decisions and strategies that enhance or diminish their personal positions. Also, as the well-known phenomenon of cognitive dissonance in psychology shows, people find it difficult to come to terms with past failures. Research in the field of psychology confirms that both individuals and groups stick to old decisions more strongly the worse the practical results of those decisions. Managers persistently pursuing unsuccessful policies, regardless of disastrous results and shareholder dissatisfaction, demonstrate a scientifically established pathology of behavior and evaluation.

In relation to this pattern, one can add the natural reluctance of people to challenge the existing state of affairs. In hierarchical organizations, junior managers often feel uncomfortable questioning decisions made, as this may affect their career development. As information moves up, bad news tends to filter out. This, within the corporation, the function of criticism should be taken over by the colleagues and advisors of the CEO, i.e. the members of the board of directors. However, council members are also prone to a bias in favor of collegiality and consensus. First, it's easier than going to a conflict. Second, even assuming that one or the other decision is incorrect, in most cases the directors do not have enough facts to make an argument. In large organizations, the majority of the board of directors live and work far away from the company and have very little direct contact with its market positions, and would be reluctant to speak without evidence.

The managed corporation model underestimates the flaws in the behavior of people and organizations and allows mistakes to be repeated until they lead to catastrophe. The problem is that in the managed corporation, the board of directors does not direct the managers to change until the financial results become unacceptable.

8. Governed corporation

The governed corporation model restores the relationship between the most important variables in the corporate governance equation—shareholders and the board of directors—through the decision-making process. As a result, positive changes are realized in the practice of discussion, analysis and strategy selection for the company.

This model of corporate governance is not based on controlling managers by the board of directors, but on optimizing the decision-making process. The goal is to reduce the probability of the risk of errors and the possibility of quickly overcoming them. The most important step in this direction is the involvement of directors and shareholders in the decision-making process.

The involvement of the board of directors and shareholders in the decision-making process dulls the psychological problems inherent in people that lead the company to rash decisions. An opportunity arises to optimize the decision-making process through discussions and overcoming false unanimity.

For the implementation of this model, changes are proposed in five main directions:

First, the members of the board of directors should be specialists in the areas affecting specific problems of the corporation's business and its branches, in finance and financial structure, in the legal and regulatory system.

Second, new decisions, strategy and policy should be discussed at council meetings, not just results of past activity. This implies another style of work, ie. the main time to be devoted to strategic and organizational innovations, to encourage debates.

Third, to improve external directors' access to information about production, to consumer opinion, market conditions, to important strategic and organizational issues, because. as a rule, the directors receive the package of working materials not long before the meetings.

Fourth, outside directors on the board should spend more of their time on corporate issues. In many corporations, the norm is 4-6 meetings per year, which is hardly normal for making informed decisions.

Fifth, council members should receive motivating remuneration for their work. It is impossible to expect them to carry out the difficult task of affirming and criticizing corporate policy if the directors' personal income is not tied to the success of the corporation.

A more robust, pluralistic and flexible decision-making process with the availability of new ideas is characteristic of the guided corporation model. The control procedure is less personalized, being based not on the competence of the general director, but on the effectiveness of the organization as a whole. The risk that isolation, stagnation and false unanimity will deprive the organization of sober assessment and attachment to wrong policy is reduced. This model makes the company accountable to shareholders.

9. Depending on the territorial distribution, in general, three corporate governance models are distinguished: Anglo-American, German and Japanese.

The Anglo-American model has the following features:

- one level of the board of directors, which includes the executive directors who directly manage the corporation. In order to distinguish the functions of supervision, control committees are created at the board of directors, which do not include the executive directors;
- ownership, as a rule, is highly diversified among numerous small shareholders (a block of shares of 10% is considered dominant). These shares are traded on the stock exchange, from which the

company often seeks funds for development by issuing new shares. Small shareholders are not interested in the management of the corporation;

- the model is oriented towards preferentially satisfying the financial interests of the shareholders;
- the Anglo-American model is of the outsider type.

The German model has the following features:

- separation of control and management functions, thanks to the two levels in the management system, which include a supervisory board and a management board;
- the controlling block of shares is concentrated in banks and partners of the corporation;
- the stock market plays a supporting role;
- shareholders play a crucial role in strategic planning;
- emphasis is placed on maintaining the balance of interests of all stakeholders and mutual accountability.

The Japanese model is close to the German one.

A distinctive feature of the Japanese model is the orientation towards social cohesion at the corporation level and business cohesion at the industrial group level. Unlike the German model, this cohesion is not equal, but hierarchical in nature, i.e. sacrificing the interests of the 'junior' in exchange for patronage from the 'elders'.

In general, it can be considered that following the Anglo-American model promotes dynamism, while the German model promotes sustainability.

10. Conclusion

It should be assumed that the content of the corporate governance mechanism with the help of the indicated models should include the set of conceptual theories, methods, technologies and tools determining the order of corporate governance and the resulting risks.

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