

Corporate Governance as a System of Social Interactions: Informational-Analytical and Financial Aspect

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ABSTRACT

The issues of improving corporate governance as a social interactions system are a management task that is quite complex and urgent. The authors devoted their research to the problems of improving corporate governance as a system of social interactions. The authors studied legislative norms, analyzed the social essence of corporate governance, objective and subjective factors, gave a comparative description of the progressive global models of corporate governance, and the Ukrainian model. To formulate relevant proposals, the authors surveyed 174 respondents, to study whose interests, in their opinion, are primarily implemented in corporations. The generalization of the existing approaches of modern economic theory and practice to understanding and defining the essence of corporate governance made it possible to form a methodology of corporate governance as a system of social interactions, which was positively assessed by the respondents and which will strengthen trust in the company and contribute to the creation of value in the interests of shareholders, employees and other stakeholders, which will lead to an increase in its value of the company by increasing its competitiveness, efficiency and growth. However, in the study, possible obstacles arose, which will be studied in more detail in further investigations by the authors.

Keywords: Code of corporate conduct; Corporate governance; Corporate social responsibility; Social interactions.

JEL Classification: M14, G30, G34

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El Gobierno Corporativo como Sistema de Interacciones Sociales: Aspecto Informativo-Analítico y Financiero

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RESUMEN

Los problemas de la mejora del gobierno corporativo como sistema de interacciones sociales son una tarea de gestión bastante compleja y urgente. Los autores dedicaron su investigación a los problemas de la mejora del gobierno corporativo como sistema de interacciones sociales. Los autores estudiaron las normas legislativas, analizaron la esencia social del gobierno corporativo, los factores objetivos y subjetivos, hicieron una descripción comparativa de los modelos globales progresistas de gobierno corporativo y del modelo ucraniano. Para formular las propuestas pertinentes, los autores encuestaron a 174 personas, para estudiar qué intereses, en su opinión, se aplican principalmente en las empresas. La generalización de los enfoques existentes de la teoría y la práctica económicas modernas para comprender y definir la esencia del gobierno corporativo permitió formar una metodología de gobierno corporativo como sistema de interacciones sociales, que fue valorada positivamente por los encuestados y que reforzará la confianza en la empresa y contribuirá a la creación de valor en interés de los accionistas, los empleados y otras partes interesadas, lo que conducirá a un aumento de su valor de la empresa mediante el aumento de su competitividad, eficiencia y crecimiento. Sin embargo, en el estudio surgieron posibles obstáculos, que serán estudiados con más detalle en posteriores investigaciones de los autores.

Palabras clave: Código de conducta empresarial; Gobierno corporativo; Responsabilidad social de las empresas; Interacciones sociales.

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1. Introduction

The consequences of privatization and shadow processes of the economy, the concentration of ownership and control over financial resources, and the complication of state regulation of socio-economic processes have actualized the problem of developing effective tools to influence corporate relations.

The urgent need for enterprises is the creation of competitive production and the successful, effective building of relationships within the corporation itself. One of the main factors that significantly impact corporations' competitiveness is their economic and production efficiency is corporate culture and corporate behaviour.

In Ukraine, the principles of corporate governance were first adopted in 2003. At the end of 2018, the National Commission on Securities and Stock Market) agreed with the Ukrainian Academy of Corporate Governance to develop several recommended corporate governance practices for companies listed on the stock exchange in Ukraine. 13 March 2020 the National Securities and Stock Market Commission has approved the Corporate Governance Code of Ukraine (after this – the Code), which reflects the latest developments in the field of integrated environmental, social and corporate governance. The Code applies first of all to joint-stock companies whose shares are admitted to trading on the stock exchanges of Ukraine. However, it can be an essential benchmark for all public and private companies seeking to build an effective management system [19]. Based on it, additional extensions (for state-owned companies, financial market participants, non-listed companies, etc.) and separate policies on more specialized topics will be developed later (the role of shareholders in management, risk management, the functioning of the audit committee of the supervisory board, the nomination of candidates, prevention of corruption, etc.).

The essence of the problematic situation is that with a variety of status positions and motives of behaviour, the unpredictability of assessments of subjects and participants of corporate governance in corporate relations, mechanisms for regulating and harmonizing interests operate based on the established general norms and rules within the framework of the national model of corporate governance. In the Ukrainian context, an unstable corporate governance model operates the norms and rules of which continue to form, including compromise and contradictory ones, which complicate the regulation and coordination of interests of subjects and participants in corporate governance. The sociology of management's contribution to solving this problem lies in the analysis of the interests of participants in corporate relations, disclosure of internal and external mechanisms that ensure convergence, coordination and achievement of a balance of interests of subjects and participants in corporate governance. Thus, the consideration of corporate governance features as a system of social interactions is relevant both in scientific and applied terms.

2. Theoretical analysis

2.1 Theoretical and methodological foundations of the research

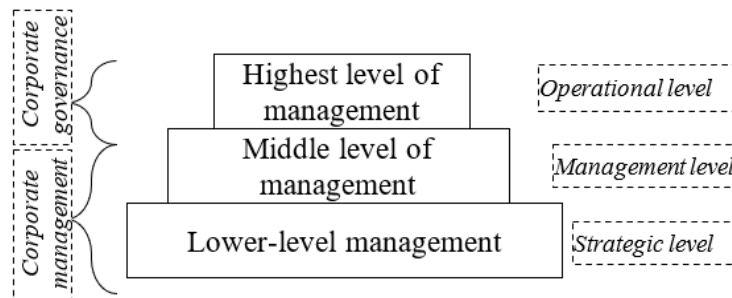
The theoretical and methodological foundations of the study are:

- agent theory of M. Jensen and W. Meckling [16], stakeholder theory by R. Freeman [10; 11];
- new institutional economic theory by R. Coase [6], D. North [20; 21], O. Williamson [25]; the theory of corporate conscience by K. Goodpaster [13], the theory of corporate social responsibility by G. Bowen [3];
- the theory of social action by M. Weber [24], the theory of dramatic interaction by E. Goffman [12], the theory of the system of social action by T. Parsons [22; 23], the theory of communicative action by J. Habermas [14; 15];
- methodologies of corporate governance by A. Berle [2], P. Drucker [9] and others.

2.2 The social essence of corporate governance

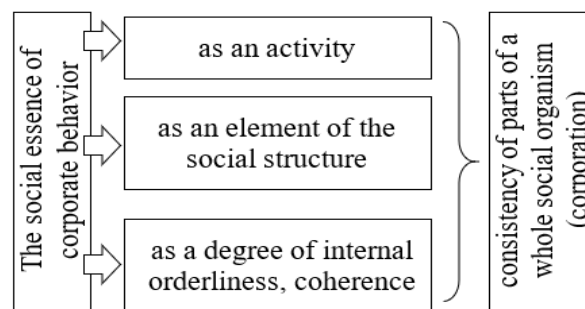
In management, the corporate name management was fixed. It is assigned to organize and control business processes in the company, coordination at all management levels, and strategic planning of the company's activities [7]. A corporation is an elaborate multi-stage entity that requires its effective management. In total, it is customary to distinguish three basic levels of corporation management: strategic, managerial and operational (Fig. 1).

Figure 1. Levels of governance in a corporation



The social essence of corporate behaviour lies in the unity of three aspects of this category (Fig. 2).

Figure 2. Aspects of the social essence of corporate behaviour



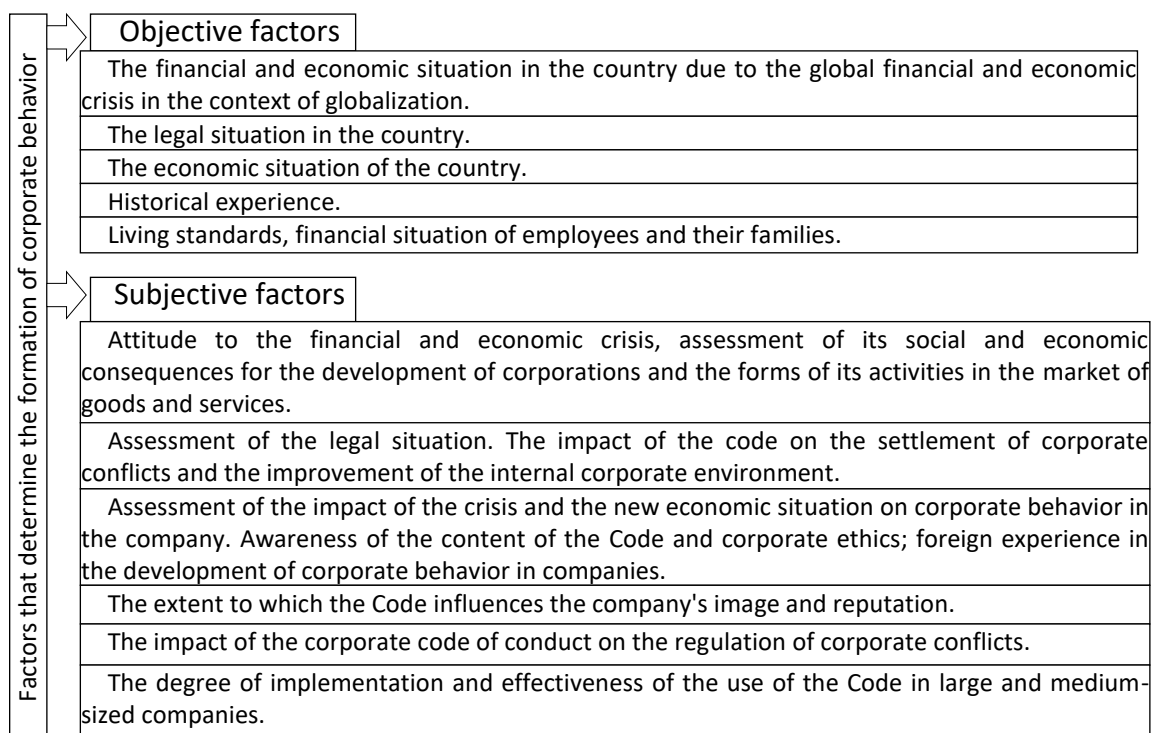
On the one hand, it is a specific type of social behaviour and social action of an individual in the system of social groups and relations between them. Moreover, in terms of their content, these can be relations of cooperation, mutual responsibility, corporate solidarity, collectivism, or, on the contrary, opposition and selfishness of various social groups differing in interests, goals and value norms based on the values of a market economy.

On the other hand, corporate behaviour is associated with the organizational behaviour of the individual within the social organization itself. It depends on the specific situation: the size of the organization, the level of uncertainty of the surrounding conditions, etc. A corporation, being a large organization, requires high specialization, formalization, and a large number of hierarchical levels. The development of a corporation as a type of social organization is significantly influenced by the corporate culture, values, and norms of corporate behaviour, which directly impact employees' behaviour, which is regulated by certain norms, codes, and rules established by the corporation itself. In this context, the Code of Corporate Conduct serves as a regulator of an individual's social behaviour within its organization.

At the same time, corporate behaviour is a type of economic behaviour of an individual in a market economy. Based on the theoretical interpretation, economic behaviour is viewed as a system of specialized social actions that are associated with the use of limited financial resources and values, different in function and purpose, differing in their orientation towards obtaining benefits (profit, reward).

Considering the objective and subjective factors that determine the formation of corporate behaviour in the system of market relations, the authors highlight the features of their impact, reveals their content and measurement indicators (Fig. 3).

Figure 3. Objective and subjective factors that determine the formation of corporate behaviour



2.3 Comparative characteristics of progressive world models of corporate governance and the Ukrainian model

Anglo-American model. The Anglo-American (Anglo-Saxon model) corporate model is based on a significant dispersion of share capital. Focused primarily on "public" shareholders, even the owner of 2-5% of shares can be considered a significant shareholder. They are characterized by a one-tier structure of governing bodies, in which the board of directors includes executive and independent directors. Simultaneously, this model assumes high liquidity of the stock market with limited influence of banks and the high cost of raising capital.

Analyzing the shortcomings of this corporate governance model, it should be noted that there is a conflict of interest between investors seeking high returns and the company's management, which focuses on short-term goals, albeit to interest investors. The consequences of this are often manifested in the distortion of financial statements.

German (Western European) model. The German model is characterized by the concentration of ownership in the hands of medium and large shareholders with significant cross-ownership. The influence of bank formations is quite considerable. In particular, financing is provided more by the banking sector than by the stock market. At the same time, the cost of raising capital is relatively low compared to the Anglo-American model. The system of governing bodies is two-tier, which provides for the separation of functions of the supervisory board and the board. Undoubtedly, joint-stock companies' relations are more similar to partnerships and involve the interaction of a wide range of participants [1].

The German model's main shortcomings are associated with the low level of information transparency of the company, a rather complex investment scheme, inadequate attention to the protection of the rights of small shareholders.

Japanese model. The Japanese model's main characteristics are the consolidation of business by individual companies into groups, which involves a high concentration of ownership in the hands of medium and large investors with their cross-ownership of the member companies of the group. The main source of financing of the group is its bank, which concentrates savings in deposit form and reduces the stock market's influence. The management system is focused on all participants' social unity and is carried out on the principle of "equal among equals". In general, social obligations play a significant role and are almost the ultimate goal of society [8].

The main disadvantages of this model are the lack of transparency of information about the activities of the company, low system of protection of the rights of small shareholders and insufficient attention to the issue of profitable activities.

The family model of corporate governance, or family capitalism and family business groups, has spread to almost every country globally. Such a system of corporate governance is quite common in Asia and Latin America, Canada, as well as in European countries (Sweden, Italy, France). In this model, large corporations are run by members of the same family, and control of the business is entirely theirs. Capital is concentrated and distributed through family channels [4]. Control over companies in family business groups is established through the group's pyramid assistance and cross-ownership of shares. The pyramid scheme is the basis for building almost all family business groups and allows the family company to control capital and resources.

Family groups often issue shares with different voting rights to maintain control over other firms. Shares with fewer votes per share are placed on the stock exchange for circulation, and the family firm owns shares with more votes. Suppose all the company's shares have one vote. In that case, the shares belong to the family, receive additional benefits, such as the exclusive right to elect members of the supervisory board, and so on. This tool allows you to identify and control the company's activities without owning a large stake.

Advantages of the family model:

- the possibility of strict control over the business;
- reducing the risks of the principal owners (families);
- the possibility of capital accumulation for the implementation of major projects;
- high coefficient of stability of the company.

Disadvantages of the family model:

- the primary purpose of the business is to satisfy the interests of the family;
- insufficient attention to the rights of minority shareholders;
- the possibility of unprofessional leadership due to family heredity;
- low information transparency of business and the difficulty of attracting foreign investment.

Nowadays, the family model of corporate governance is closed to new shareholders and continues to be the sphere of influence of owners' family groups.

Ukrainian model of corporate governance. The current management practice in Ukrainian companies does not fit into any classic models and is a mixed version of their use. It is in the process of formation, combining the features of the Anglo-American and German models. The specificity of the Ukrainian model of corporate governance is due to companies' history in the process of mass privatization and subsequent redistribution of property, which led to its high concentration and insufficient separation from management.

Corporate governance in Ukraine is characterized by the following features (Fig. 4) [17; 18].

Figure 4. Objective and subjective factors that determine the formation of corporate behaviour

Features of corporate governance in Ukraine	economic reform is slow, and privatized enterprises often do not have the necessary capital;
	distrust of the joint-stock form of ownership;
	lack of a developed stock market and in the vast majority of opportunities to buy and sell shares on the secondary securities market;
	information transparency and disclosure of information on the activities of stock market participants are at a shallow level;
	inefficient state regulation of socio-economic processes;
	improper management of the state by its corporate rights leads to the shadow distribution of income from the state share in the ownership of joint-stock companies not in favour of the state;
	the use of state mechanisms of influence (taxation, licensing, etc.) often leads to the fact that the state pursues its interests as a shareholder contrary to the interests of other stakeholders, shareholders and the company itself;
	the prominent participants in corporate relations are private third-party owners and management, and the role of employees and small shareholders is tiny;
	management of a joint-stock company has a two-tier structure in which management and control are divided between the supervisory board and the board with a low level of accountability;
	the development of the banking sector continues, and banks are often major shareholders;
	there are few powerful institutional investors in the market.

The Ukrainian model of corporate governance is a combined version of the Anglo-American and German models, which is quite natural, given the foundations of the formation of joint-stock companies in Ukraine. Referring to the history of the creation of the joint-stock sector, it should be recalled that the result of the first certification period of privatization was a scattered ownership structure in Ukraine, which is typical of the Anglo-American model. While the second stage of privatization, on the contrary, contributed to the concentration of property. Thus, today's main shareholders of the existing structures are the state, banks, company management, and employees. At the same time, the primary source of funding is banks, which is more typical of the German model. Insufficient attention to small shareholders remains undeniable.

The structure of shareholder ownership is increasingly leaning towards the continental model, which implies a further reduction in individuals' number of small shareholders. Besides, Ukraine has a two-tier system of governing bodies in line with the German model. However, the legal separation of powers between the supervisory board and the board is not clear enough, while the supervisory board is not sufficient enough. There is also a real problem in the sufficient awareness of shareholders and members of the supervisory board. According to experts, the further development of Ukrainian corporate relations is leaning towards the continental model.

This will help consolidate investors and reduce the number of small shareholders whose stratum is caused by the initial privatization process. Of course, there are real problems in this direction. And today the mechanisms of material support of the interests of small shareholders have no legal basis. From this point of view, the settlement of issues is seen in state activity plane through binding mechanisms. There is a need to ensure equal interests of all market participants, including small investors, which is inextricably linked to corporate governance's effectiveness, which can provide the realization of legitimate rights of owners, affects shareholder income and improve alternatives for financing and increasing its value.

3. Analysis of results and proposals

Corporate governance is characterized by a plurality of management subjects, which determine the direction and nature of the development of the corporation and affect the actions of the participants in corporate governance associated with it. The main groups of corporate governance

participants have multidirectional interests, responsibilities and rights, which is the cause of conflicts. Reconciliation of interests is carried out on the basis of the methods of foreign and Ukrainian researchers. We surveyed 174 respondents, whose interests, in their opinion, are primarily implemented in corporations to study. Among the respondents were shareholders, top managers, middle managers, government officials, media representatives, insurance companies, and banks.

The results obtained make it possible to better understand participants' social field of interests in corporate relations (Fig. 5).

Figure 5. Priorities in realizing the interests of groups of participants in corporate relations

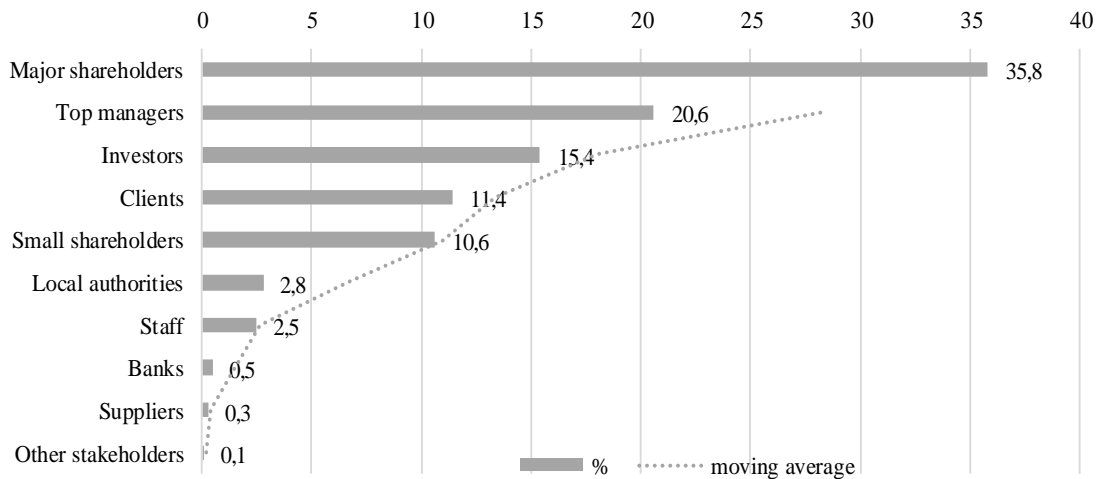


Table 1. The effectiveness of the methodology according to respondents

Criterion	Positively	Neutral	Negatively
<i>General criteria</i>			
Intelligibility	52,3%	23,2%	24,5%
Transparency	68,9%	22,4%	8,7%
Efficiency	62,8%	10,7%	26,5%
Implementation possibility	44,7%	13,8%	41,5%
The right time for implementation	74,8%	14,7%	10,5%
<i>Specific criteria</i>			
Will help to fairly take into account the interests of the participants	55,0%	22,4%	22,6%
Improves relationships with stakeholders	51,7%	27,4%	20,9%
Eliminates the possibility of using fraudulent schemes at any level	68,5%	10,0%	21,5%
Improves relationships within the company	55,8%	10,7%	33,5%
Helps reduce company costs	40,1%	7,8%	52,1%

The study confirmed that the behaviour of participants in corporate governance is generally determined by mercantile motives: making a profit (94.7%), receiving intangible benefits (68.4%), control (65.2%). Such motives also dictate behaviour: striving for order (61.8%), dedication (36.5%), opportunistic motives are also present: deception (23.9%), lack of principle (22.1%), moral principles are rarely motivated participants: fairness (15.7%), honesty (8.5%), equality (6.4%), impartiality

(4.6%). Thus, the study confirms that improve corporate governance as a system of social interactions; it is necessary to consider it a system of legal, ethical, and cultural measures (Fig. 6).

This methodology will build trust in the company and create value for shareholders, employees and other stakeholders, which will lead to an increase in the company's value by increasing its competitiveness, efficiency and growth.

We also asked those respondents to rate our proposed methodology; the results are shown in Table 1.

The survey results indicate that, in general, the proposed methodology is effective; however, not all participants believe in the possibility of its implementation, as they think that corruption schemes within the company and the defence of top managers for the interests of their group will not allow it to be fully applied; therefore, mechanisms for introducing the proposed methodology can become further research paths.

Figure 6. Corporate governance methodology as a system of social interactions



4. Conclusion

The issues of improving corporate governance as a system of social interactions are a management task. Its solution is associated with the development and implementation of a set of recommendations, programs, techniques. Among the measures aimed at increasing the level of corporate governance, the following are proposed: improving legislative and internal corporate norms, contractual relations; implementation of ethical and cultural standards; introduction of methods that ensure the coordination of the interests of participants in corporate relations and prevent opportunism in their behaviour; organization of training to ensure the effectiveness of corporate governance in the corporation.

Good corporate governance helps increase a company's value by increasing its competitiveness, efficiency, and growth and strengthening trust in the company and helping to create value for the benefit of shareholders, employees and other stakeholders.

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