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CORPORATE GOVERNANCE AS A FACTOR LINKING THE ETHICAL AND ECONOMIC DIMENSIONS OF CONTEMPORARY MANAGEMENT

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Purpose: Identification of corporate governance as a concept combining the ethical and economic dimension of contemporary organizations, taking into account the category of enterprise value.
Design/methodology/approach: The paper is based on critical analysis of the literature, mainly in the field of corporate governance, as well as in the area of corporate value and ethics in management.
Findings: The considerations presented in this study show that corporate governance can be approached as a management tool that would enable an enterprise to achieve various goals, both in the area of economic efficiency and business ethics. This means that corporate governance can be perceived as a factor that links the ethical and economic dimensions of contemporary management.
Practical implications: Although the presented considerations are theoretical, they can be useful in practice in the work of managers of various enterprises. That is because they show the effects that can be achieved through introducing elements of corporate governance in the company. They show governance as a tool enabling the achievement of various goals.
Social implications: Presenting governance in this way may result in greater interest in this concept. Its application in practice may cause multi-faceted beneficial socioeconomic consequences because governance provides such possibilities.
Originality/value: This study shows a specific approach to the issues of corporate governance. This is not only a well-perceived code of good practices, but – above all – a tool for achieving various goals that are important for the functioning of modern enterprises.

Keywords: corporate governance, ethics, enterprise value.

Category of the paper: Viewpoint, General review.

1. Introduction

The progressing complexity of the market and the situation, in which modern enterprises operate, require taking a variety of decisions, which are expressed not only in economic effects, but – above all – in compliance with ethical norms and principles. There is no doubt that the basic goal of the company's activity is to increase financial benefits of the owners of the organization, which is especially reflected in the increase of the market value of the company. However, the inclusion of ethical norms and principles in the company management structures, on the one hand, shows the honesty and responsibility of the owners towards all stakeholders and, on the other hand, translates into managerial behaviours. Therefore, an enterprise can effectively conduct its business activity on the market, contributing to generation of profits and increasing the value of the enterprise, while observing ethical principles. This approach to management is consistent with the "3 E" rule, i.e. efficiency, economy and ethics of enterprise activities as interdependent values (Olejniczak, 2014).

In order to assess the situation properly, it should be taken into account that the modern market is dynamic, even chaotic, therefore the achievement of goals, as well as changes in organizational reality, are accompanied by the need of stabilization and permanency of essential rules of the organization's functioning, based on the foundation of values. This results in an increase in the significance of ethical aspects in management, because the issues of ethics and social responsibility are perceived by modern companies as sources of competitive advantage, while recognizing the supremacy of actions aimed at increasing the market value of the company is seen as the most important factor determining the strategy of company's operation (Kwiecień, 2014). This statement provides the basis for connecting the idea of value creation with the idea of corporate governance, the principles of which may constitute such a foundation of value. This relationship is an expression of a combination of ethical and economic aspects of modern management.

The purpose of this study is to identify corporate governance as a concept linking the ethical and economic dimensions of modern organizations, while taking into account the concept of enterprise value.

Thus, it was assumed that the inclusion of business ethics in management structures becomes a premise for achieving the economic goals of enterprises in a constantly changing environment.

2. Determining factors for linking ethics and economy

Finding relationships between the two concepts of economic efficiency and ethics is quite difficult. The problem mainly derives from the fact that effectiveness can be measured, while ethics or ethical behaviour cannot be determined with a clear measure that is comparable to performance indicators. Seeking a relationship between efficiency and ethical behaviour on the economic level concerns the way in which efficiency is achieved, as well as the framework it is accompanied by (Wojciechowska, 2020). This requires proper management, which, as a profession, is identified with the main driving force of social and economic development. Management as a continuous process refers to controlling the overall activity of an enterprise, its development or behaviour in the environment (Olejniczak, 2012). However, there are some divergencies in management methods that relatively differ between enterprises. They are determined by a different enterprise culture, as well as compliance with the standards and values of business ethics in management (Łukasik, 2012). S. Ghoshal, Ch. Barlett and P. Moran (1999) emphasize that the new role of management cannot be built on the narrow economic assumptions of the past, but should take into account the following facts:

1) modern enterprises are the main economic actors creating value and supporting economic development,
2) the growth and development of companies depends considerably on the quality of management,
3) a new "moral contract" between the enterprise, employees and society is the basis for operation of a contemporary enterprise.

This is not easy, as modern enterprises face the difficult situation of dealing with various, seemingly contradictory challenges. In such circumstances, ethics becomes the basis for economic effects. However, in the literature, there are also statements that efficiency is the basis of business, the achievement of profit, i.e. an economic goal, is the premise for doing business, while ethical norms become a ballast in achieving this goal (Skrzypek, 2010). This means that some people perceive ethical activities, which are cost-intensive and do not generate profit, as an additional task conducted for the benefit of the common good and separated from the basic activity. However, this is a wrong assumption. Contemporary management requires the understanding that various actions taken for the benefit of all stakeholders will, consequently, translate into economic value. The lack of ethics can cause chaos, reduce employee motivation and deteriorate the quality of their work. It must be remembered that every type of business activity is conducted in a social environment and with social consent. The company should implement the so-called "3 E" principle, i.e. effective, economic and ethical exchange (Encyclopaedia, 2020). Efficiency, economy and ethics should interact with each other to achieve the company's goals (Gasparski, 2020).

However, it should be remembered that, without going to the extremes, ethics cannot replace economy and operational efficiency. The idea is to achieve harmony of cooperation on various levels, i.e. economic efficiency and ethics.

3. The essence of corporate governance in the context of ethics and value of enterprises

According to R.A.G. Monksa and N. Minow (1996), corporate governance should be understood as striving to maximize wealth, that would not burden the entire society with inadequate costs. It is supposed to be a golden mean reconciling the financial aspirations of the enterprise with the needs and aspirations of the stakeholders involved in its functioning, while also having regard to the good of the more broadly perceived community. This statement alone links the ethical and economic dimension of management and is a premise for the relationship between enterprise values and the concept of economic governance. The relevance of the conducted considerations may be confirmed by the thesis (Supervision, 2008) that properly defined relationships in the field of corporate governance lead to limiting the possibility of abuse by the management and supervisory bodies of the company and big shareholders, while forcing managers to effectively manage resources, which has a positive impact on the company's financial results and its value.

Among all structures and mechanisms of corporate governance, the most frequently indicated is the relationship between corporate governance and the enterprise value, while also paying attention to the following elements (Marcinkowska, 2011):

1) ownership and control structure – separation of ownership and control, as well as ownership structure. The issue of the relationship between concentration of shares, as well as the effectiveness and value of an enterprise is important here.
2) supervisory board – the number of board members, the number of independent members, profile, knowledge and experience of directors, diversity of board members, internal organization of the board (committees) and the scope of board responsibility etc.,
3) management appraisal and remuneration – formal appraisal of management, construction of remuneration motivational system, as well as share-based remuneration etc.,
4) disclosure of information – information policy, scope and quality of disclosed information, voluntary disclosures, availability of information etc.[1]

[1] References to many global studies on these issues can be found in the case study of M. Marcinkowska (2008).

The standards of measurement of values and their changes are developed in management systems oriented on creation of enterprise value. Increasing attention is focused in these standards on qualitative elements (e.g. disclosure of information), which do not have financial nature, but significantly affect the functioning of the enterprise, and thus its valuation. The very mechanism of corporate governance is such an element.

Corporate governance can be defined as a set of systems, processes and principles, which ensure that the company management considers the interests of all participating parties, i.e. all stakeholders, while scarce resources of enterprises are allocated, managed and distributed in such a way, that they contribute to maximization of productivity and company value (Lander, Reinstein, 2005).

However, the principles determined for governance indicate taking into account various aspects of the organization's functioning:

- Harmonization of interests of the entities that are parties participating in the corporation functioning,
- Providing owners and stakeholders with effective procedures and institutions for monitoring the management board and correcting its errors,
- Successive increase of company value from the point of view of the owners and other interested entities,
- Creating investment attractiveness and ensuring the inflow of financial resources enabling the company's development (Chojecka, 2008, p. 411).

The issues of maximizing value for stakeholders and harmonious cooperation of the parties emerge from these tasks.

Organizational order is, at the same time, a requirement and expression of legal responsibility before the owner, market, society and state. Applying its principles, the organization protects the interests of entities that are in many complex interactions with the organization. It is characteristic that, today, the role of governance is perceived more broadly, and the issues of governance go beyond the interest of shareholders in the company's results. Today, governance also covers the issues arising from the concern to maintain a good standard of company behaviour in various aspects of their business.

Therefore, when buying shares in a given company, individual and institutional investors more and more often expect not only an adequate financial result, but also appropriate behaviours towards stakeholders and the immediate environment. Transparency and appropriate communication with shareholders (which are the essence of corporate governance) have become one of the most important success factors in the strategy of many companies (Rok, 2004).

In this case, the Code of Good Practice provides the basis for behaviour. The recommendations it contains usually do not have legal force, but their purpose is to set standards of behaviour for companies and the desired direction of changes in their legal and business practice (Bogacz-Miętka, 2011). Good practices are a set of principles and rules of corporate governance that define the standards of conduct in relations between listed companies and the environment. It is also a set of rules of conduct, especially ethical and professional standards, for entrepreneurs who commit to comply with them (Ustawa, 2007, art. 2, item 5).

Good practices only concern the areas, in which their application may have a positive impact on the market valuation of enterprises. Therefore, the Code of Good Practice is perfectly consistent with the view of modern perception of value management essentials that link economic and ethical issues.

Business ethics is a kind of regulator of behaviour, while constituting a paradigm that guides human behaviour. From the point of view of a human being in an enterprise, ethics in business is a real dimension of human activities (Mele, 2009).

It can be concluded, that business ethics is an important premise for choosing the methods of making profits. It determines the quality of relationships between an enterprise and its clients, business partners, employees and competitors (Wrona, 2018). These relationships must be compliant with applicable law and accepted rules of conduct. Striving to achieve the highest possible profit and minimize their own costs, enterprises sometimes make controversial decisions that are contrary to the norms of social coexistence. Compliance with the principles of the Code of Good Practice should help in avoiding such situations. Ethics in business should be the foundation of every organization's activity. Knowing and using it serves better business operations.

It should be emphasized that paying attention to the role of ethics in management is not a new approach. What distinguishes the contemporary approach to ethics is the need to highlight its decisive role in business strategies and to include it in management structures at all levels. This possibility is provided by a reasonable implementation of the concept of corporate governance and its use for the purposes of achieving the main goal of enterprises, which is to increase market value.

Summing up the considerations on corporate governance in the context of ethics and company value, it can be stated that action based on the basic guidelines of this concept, i.e. care for the interests of all stakeholders and the broadly understood community, has the features of ethical action and supports the creation of enterprise value.

The research conducted so far mostly shows that there is a positive correlation between the quality of corporate governance and the effectiveness and growth of the enterprise value (Krawczyk, 2011). Good corporate governance is as important to institutional investors as the very financial results, and thus it sets an important investment criterion. A significant proportion of investors is willing to pay more than their market price for shares of companies with a high level of corporate governance (Marcinkowska, 2011). Accordingly, company's failure to comply with corporate governance rules may be considered by investors as an additional risk factor associated with the investment, the monitoring and the control of which requires additional expenditure.

The correlation between the level of corporate governance and the achieved results can have a feedback nature. Securities of enterprises exhibiting a higher level of corporate governance may be valued higher by the market and the enterprises may achieve better financial results (Węcławski, 2016). On the other hand, entities in a better economic situation may be more willing to invest in creating a higher organizational culture of the company, including the implementation of corporate standards. Therefore, it can be concluded that companies with reliable corporate governance solutions are rated higher, while a higher rating encourages companies to adopt better and better corporate standards (Krawczyk, 2011).

However, the strength of relationships is determined by the effectiveness of the mechanisms and the willingness of companies to build relationships with investors based on trust, long-term cooperation and ethical attitudes.

It should be remembered that the provisions on corporate governance alone or sole declarations on their implementation do not contribute to the creation of a company value. Only specific actions aimed at implementing the recommendations contained in them are relevant.

It may seem that adopting such corporate governance principles that ensure maximum return on investment and increase the value of the company is in the interest of every owner or manager. In practice, this is not yet the case. In the basic code for the managerial environment, "Good practices of companies listed on the WSE", effective from 1 January 2016, only two points on 20 pages of recommendations relate to the company's strategy and building its value.

Focus on formalities is still visible in our market. Such issues as circulation of corporate documents, competences of corporate bodies and control seem to be the priority. In a mature corporate system, strategy and development come first on all levels of regulations. Focusing activities around formal issues results in a situation where meeting formal rules justifies little care for the strategic basis for the development of assets entrusted to management boards and councils by the investors (Pawłowski, 2019). That is why it seems relevant to discuss the ethical aspect of corporate governance and its role in creating value for enterprises, as well as disseminating this knowledge among managers.

Due to the different level of corporate governance solutions implemented in practice, it is not possible to clearly answer the question whether the investors can get above-average returns on shares by building investment portfolios based on companies practicing good corporate governance. The explicit impact of the quality of corporate governance on share prices is difficult to estimate (Babchuk, 2012). However, there is no doubt that good governance is related to ethical activity and is perceived as a factor affecting the quality of management in individual entities. It is taken into account by investors when making investment decisions (Coombes, Watson, 2000). Management based on the principles of corporate governance, on the other hand, improves financial results.

Thus, the role of corporate governance in achieving strategic goals of enterprises, including the creation of enterprise value, should be emphasised. It is in line with the modern canon of management linking ethical and economic aspects.

4. Conclusions

The economic determinants of the operations of modern enterprises emphasize the social and ethical nature of management. This means that contemporary management should be based on a combination of economic and ethical dimensions. The presented considerations suggest that the inclusion of business ethics in management structures becomes a premise for achieving success in a constantly changing environment.

Effective use of the concept of corporate governance in practice can combine all three pillars of "3E" modern management of an enterprise, where efficiency refers to the implementation of the fundamental goal of the enterprise, i.e. profit, economy refers to rational and efficient management of all its resources, while ethics relates to the compliance with adopted and accepted standards. Taken together, these elements should enable the implementation of the strategic goal of enterprises defined as long-term value growth that will be satisfactory for various stakeholder groups through linking the concept of enterprise value with the principles which are the basis of corporate governance.

It is hoped that corporate governance becomes a tool that, through transparency and improvement of the quality of management, will allow for actual creation of value based on ethical factors that are so important nowadays. The implementation of the main goal of many enterprises, i.e. creating value for stakeholders, through implementation of the Code of Good Practice under corporate governance, will allow to link the economics and ethics in the functioning of modern enterprises.

Both the concept of corporate governance and the enterprise value, or ethics in business, represent complex and multi-faceted categories. The paper only attempts to indicate the essence of relating these categories in the context of linking ethical and economic aspects of business management.

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