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CRISIS MANAGEMENT INFLUENCE TO CORPORATE GOVERNANCE STANDARDS

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Abstract: *Business crisis represent unplanned and unwanted period in company business with timelines and uncertain outcome that impacts liquidity, potential and company's success. Corporate governance analysis of the impact, apropos, fault in risk management system at the corporate level and management reward system make start point in crisis situation analysis and corporate governance standards implementation in crisis. Crisis management focused on preventive management aspects, identification and proactive managing of the process of crisis. Implementation of corporative governance standards in crisis situations mean adjustment process to the new conditions operation of the company, apropos, analysis, identification the causes of the crisis, implementation measures for suppression and reduction crisis effects and monitoring and evaluation operation results.*

Keywords: *Business crisis, coproprativive governance standards, criris managment.*

1. Introduction

Corporate governance in the broadest sense relates to the way management and control of companies are organized in the form of joint stock companies, that is, the relationship between the company's equity and ownership structures and other stakeholders. Corporate governance provides a structure for the implementation of company goals as well as elements of monitoring and evaluation of results, in relation to the projected goals.

Appearance of cyclical phenomena of the crisis indicates that its causes are not adequately determined, nor are there any measures that address them adequately. The 2008 hyper-liquidity crisis in the financial markets resulted in the emergence of business crises in most of the world's economies as a result of the interdependence of the economy around the world, the consequences of that crisis are still reflected today.

The business crisis represents a sudden and unplanned situation in the company or some other financial and non-financial institution with a negative effect. It influences the projected goals, the strategy and the way of doing business and requires flexible adjustment in order to level out or eliminate the negative effects.

The subject of research refers to crisis management, that is, the impact of crisis situations in the company's operations or other financial and non-financial institutions on corporate governance and its adjustment to crisis situations.

The problem of research can be put in a question: how and in what way crisis management affects the standards of corporate governance and effectiveness business performance in crisis conditions?

The main hypothesis of the research stems from the aforementioned problem, which reads: crisis management requires consistent application of corporate governance standards as an adequate tool

for solving the causes of the crisis and improving the business.

The complexity of the research problem inevitably involves examining the essential causes of the crisis at the macro and micro level, the impact on the company's operations as well as the application of corporate governance standards in order to adapt the company to an unfavorable situation and neutralize or reduce the negative effects of the crisis.

2. The role and importance of corporate governance

Corporate governance can be defined in many ways, depending on the type of institution, the author, the legal system, etc. Thus, International Financial Cooperation (IFC) defines corporate governance as structures and processes for the management and control of companies (IFC 2009, page 6), while the Organization for Economic Co-operation and Development (OECD) in Corporate Governance Principles defines corporate governance in a way that the corporate governance framework should promote transparent and efficient markets, be consistent with legal regulations and rules and articulate with the division of responsibilities between different levels of supervision, regulation, and enforcement (OECD 2004, page 17). A widely accepted definition of corporate governance is defined as an internal asset that is managed and controlled by corporations, which includes a group of relationships between the management, supervisory or management board, shareholders and other stakeholders.

Corporate governance differs from corporate leadership, and therefore, these terms should not be confused. Corporate governance focuses on company structures and processes to ensure impartiality, commitment, transparency and accountability in corporate behavior (IFC 2009, p. 13). On the other hand, corporate leadership refers to the provision of resources that are necessary for the realization of the projected goals.

The emergence of economic crises such as the Great Depression in 1929, the 1970s banking crisis in the United Kingdom, the liquidation of savings and loan co-operatives in the US in the 1980s, the Asian crisis and the crisis in Russia in 1997 and 1998, the Internet crises in 2000 and the economic crisis in 2008 are just some of the causes at the macroeconomic level that have influenced the emphasis on the importance of the role of corporate governance.

After the 2000s, the market and macroeconomic environment demanded a reorganisation of the state of corporate governance: board directors should have clear vision about the company's strategy and risk aversion and they should respond in a timely manner requiring an efficient reporting system (Kirkpatrick 2010, page 58). On the other hand, the termination of work of some corporations from various spheres of business, such as Mirror Group, Bearings Bank, Erron, Parmalalat etc., as a result of the incompetence of management and violation of regulatory rules, contributed to the creation of new management frameworks, primarily by making new national regulations about corporate governance. There may be different interests between the shareholders' assembly, the supervisory board, and executive bodies which can cause crisis situations in the business of the corporation. The most commonly opposite interests are reflected between shareholders and executives and are called the principal-agent problem.

Also, crisis situations are often encountered between each level of management. Thus, problems arise between minority and majority shareholders, members of the supervisory board and between different levels of management. Therefore, it is very important to evaluate the opposite interests and balance them in order to achieve the projected goals of the company and maximize return on the invested capital. The Shareholders Assembly decides on the most important issues for the company's work, the Supervisory Board performs the routing and control of the executive bodies, while the executive bodies implement the strategies as a specific way to achieve the goals. (Babić and Lukić 2009, page 138). Over the past decade, many laws have been passed in relation to the principles of corporate governance, and to a large extent they define the role of the supervisory board and have a limited international reach. The most common framework for corporate governance has been defined by the OECD. OECD principles relate to the overall governance framework and represent a corporate governance base around the world. The OECD Framework for Corporate Governance relates to four basic postulates: impartiality; obligation; transparency; and responsibility. Corporate governance has a major impact on the national economy at the both micro and macro level. At the company level, effective corporate governance provides the company with the opportunity to reach capital more easily and under more favorable conditions, which is one of the key aspects of corporate governance. Macroeconomically, good corporate governance contributes more effectively to the stability of the

national economy. The business logic of corporate governance, that is, the potential benefits of good governance can result in the following elements: improved operational efficiency; easier access to the capital market; lowering the cost of capital and business reputation. Companies with a good management system, efficient use of corporate standards, transparency and accuracy of business information, represent a good business opportunity for investment.

A good corporate governance practice creates a good image and reputation for the company, and human resources. Effective implementation of corporate standards creates a company that has greater public trust and protection of investors' interests, making it suitable for investment, growth and development. In addition to better company reputation, good corporate governance practices also affect the reputation of members of the supervisory board and executive leadership in the business world.

3. Importance and role of crisis management

In the business economy, the crisis refers to a situation that significantly affects the existence and business of the company. When the crisis situation arises, the task of the management is analyzing the situation, defining measures of action in order to manage the crisis situation in a more efficient manner and to prevent the negative consequences of the crisis for the company. This means that the company's management must analyze, formulate and test all alternatives, timely come up with the conclusions and based on the situation they need to change already defined concepts and set new ones.
The business crisis is often defined as an unplanned and unwanted process of limited duration and possibility of impacts, which hurt primary goals, with an ambivalent outcome (Osmanagić Beenak 2010, page 103). The primary goals of the company are those goals whose inability to realize for any reason significantly affects the company as a whole. These goals are: preserving liquidity at every point of the company's business; achieving minimum net profit; and creating and preserving the company's potentials.
The liquidity crisis, as a form of operational crisis, means that the company is illiquid and that it is not able to service due liabilitiesin the short term. This leads to a decrease in the value of equity capital and additional borrowing, that is, over-indebtedness. The crisis of success, as a form of an operational crisis, involves a company with large or unbalanced losses. A strategic crisis is a lack of potential for success, knowledge, products or services the company offers to the market. There are several types of business crises, of which the most common are: management crisis, crisis of creative leadership, financial crisis, social crisis, organizational crisis, product or service placement crisis, business cycle crisis, general economic and social crisis.

The crisis is, the knowledge of the action and the crisis process through phases:

- the potential crisis- situation in which the crisis cannot be foundnor it exists;
- a latent phase- crisis is emerging, but it is not possible to identify it with quantitative measurements;
- Phase of acute crisis - noticeable effects and organization is trying to suppress them (Keković 2006, page 444).

A crisis situation leads to a new business orientation, changing of behavior and reviewing the company's current business goals. This applies to all internal and external factors that affect the crisis situation, that is, on the one hand the management of the company and its employees, and on the other hand customers, suppliers, financial institutions, etc. The size of a crisis impact situation in a company depends primarily on the size of the company and its market share. However, if the crisis in the company is perceived as a chance, the opportunity for new business policies, taking into account the positive aspect of the crisis, then the crisis has constructive consequences. The crisis situation can stimulate management and employees in the company to easily adapt to changes, initiate product innovation and production processes, create creative potentials to respond to market competition. From the aspect of the management of the company and the employees, it represents excellence in terms of organizational structures and work and information processes, management styles and cooperation. The constructive consequences of the crisis depend on the extent to which the management and employees of the company are ready to adapt to the new circumstances and how quickly they will accept the aforementioned aspects of the business.

From the aspect of the company's external environment, the constructive consequences are reflected primarily in a better and more intensive cooperation with shareholders, financial and non-financial institutions, suppliers, and customers.

In order to level out or minimize the negative effects of the crisis, it is primarily necessary to identify and separate the concepts of managing crisis and crisis management itself. Managing crisis is more connected with political processes, while crisis management concerns private and public companies. Crisis management can be

defined as a set of activities in the company's management process that are done in order to prevent or minimize processes that can significantly affect the company's operations.

One of the best methods of prevention of crisis situations in the company's business is the analysis of operations by independent audit control.

An external audit performs an analysis of the company's operations with a comparative analysis of the balance sheet and success rate. In this way, there is an answer to the primary question in the operations of each company, that is, in which stage of development the company is located and whether it is in a crisis situation or is threatened with the possible occurrence of the crisis.

During its business, the company can adapt to crisis situations. There are two choices to prepare and respond effectively to the emergence of the crisis or to react before the crisis really arises. Based on the methods of crisis prevention, crisis management is divided into: active crisis management and reactive crisis management.

Active crisis management is characterized by activities aimed at preventing the possibility of a crisis occurring and is focused on potential and latent crises in the company. In the phase of a latent crisis, the focus is on warning and preventive suppression, and in the phase of potential crisis, warning measures are used to prevent possible or existing crisis situations.

Reactive crisis management is primarily defensive, and is aimed at tackling the acute crisis or minimizing the already visible effects of the crisis.

Professional, accountable and cautious management of the company will be ready at any time to identify potential crisis situations, minimize the risk in the company's operations and limit its effect. An important conclusion is that the responsibility of the board of the directors is to define the strategy and that the risk aversion should be increased to establish and control a wide range of risk management systems in the company (OECD 2010, page 4).

4. The impact of crisis management on corporate governance

The business crisis is a sort of test for the corporate governance system. In a crisis situation, weaknesses and shortcomings at all levels of governance become more visible, and the company becomes more vulnerable and the future of its business is in question. Considering that the board is one of the key functions in the company's corporate governance system, decisions made in it have an existential importance in the company's business. Good corporate governance can be of great importance for leveling or eliminating the negative effects of a crisis situation on a company's business flow. However, a good board can at least help company to minimize the risk by doing the following things:

- establishing the right strategy with the appropriate risk appetite...;
- overseeing the application and implementation of the risk management system;
- scanning the environment and understanding the actuators of business in order to facilitate the early detection and understanding of the crisis;
- ensuring better preparedness and tougher response to crisis situations...;
- demonstrating a leading role in contemplation through better decisions making and by avoiding panic;
- eliminating certain reasons for the internal crisis...;
- indicating trust to external stakeholders, especially investors and employees, regarding the future of the company (OECD 2010, page 11).

The first phase of the board's action in crisis situations refers to the understanding of the crisis itself in order to be able managed to manage it. Crisis situations can have several causes. To a large extent, the above mentioned corporate crises have a common cause, and that is a lack in corporate governance of the company. This lack of corporate governance stems from the contradictory views between: majority shareholders and minority shareholders; shareholders and company management; board and company management and mutual relations of board members. The mentioned relationsor, the crisis in the corporate governance system is determined by conflicts at certain levels of corporate governance that are not managed in an efficient way.

When a crisis situation arises in the company, the corporate governance system must adapt to the newly emerging situation. The board, as the most important body in the decision-making process, should implement rapid and precise measures to reduce the impact of the crisis. This means that the board should accept the crisis as a rarity, react quickly to level the effects of the crisis, modify the composition of the board in order to implement the decision-making process as quickly and efficiently as possible, delegate responsibilities and publicly announce the actions and solutions that have been made. The board should actively engage in the

resolution of the problem, but should also resist the attitude that only the board solves the crisis. It is necessary to support the management of the company, to provide them with enough room for work, an advisory role and an efficient reward system. After that, it is necessary to create a crisis plan in order to avoid the next similar crisis. The board should create new policies and directions of action. The directions of action relate to the possibility of personnel changes if necessary, setting specific goals to the leadership, stimulating employees and investing in human resources development. In crisis conditions, the primary goal in all activities of the board is to create the preconditions for the survival of the company. However, if there is no strategic viability of the company's survival, it is necessary for the board to consider one of the exit strategies. There are several strategies for dealing with crisis situations, two of which are the most important:

- consolidation and renewal strategy;
- an abandonment strategy.

Within the strategy of consolidation and renewal, there are several important strategic directions. The first strategic direction refers to a strategic shift, that is, the creation of rapid and radical strategic changes. The goal of a strategic turn is the establishment of a distorted unison between the company and its environment by changing its strategic position (Buble 2005, page 122). Sometimes a crisis situation can arise as a result of a poor selection of the company's activities and the market where the company is present. However, if the board, based on strategic analysis, determines that some of the business activities have no prospect, then the company may leave them by selling, liquidating or re-orienting it to another strategic activity.

If the company successfully overcomes the crisis situation or continues to exist in business, it is necessary to conduct a comprehensive analysis after the crisis. The board's analysis should be aimed at identifying the key factors that led to the emergence of a crisis situation. After that, the key corporate governance standards are analyzed, that is, transparency, accountability, rewarding systems and supervision of management's work. Lessons learned and the opportunities to profit from the crisis situation should go in the direction of auditing and how the board functioned during the crisis. In many cases, it is necessary to restructure the company, as new trends in the external environment emerged from the point of view of competition, suppliers and business associates, customer preferences, technical and technological aspects. Based on analytical estimates by the company's leadership, board makes decisions about the priorities of changes, reorganization of the company's business and the company's competitive position on the market. These activities require the expertise and ability of board members to make strategic decisions regarding the company's operations.

5. Deficiencies and imperfections of corporate governance as the cause of the business crisis

The disadvantages of corporate governance systems most often relate to the problem of establishing relationships between different stakeholders in the corporation. Different interests of the stakeholders are reflected in the choices of business directions, implementation of strategy and realization of the projected goals of the corporation. The structure of corporate governance in a particular country is constructed of the legal and regulatory framework and founding acts of the corporation, as the basis of the corporate governance system.

The Anglo-American corporate governance system is applied in the Anglo-American area and is characterized by the separation of ownership and control in corporations. The basic postulates of the Anglo-American model of corporate governance are: individual and institutional investors have ownership of the company's shares; a developed legal framework defining the rights and responsibilities of key stakeholders and simple procedures that define relationships between owners and corporations. The legislative framework of corporate governance in the United States relates to the Delaware General Corporation Law and the Employee Retirement Income Security Act. According to these solutions, the emphasis of corporate governance is to place the Board of Directors on the task of implementing the corporate strategy and goals of the company, while at the same time it means that they operate within the concept of fiduciary duty. (Lojpur, Lakicevic 2009, page 332). In fact, this means that the board of directors should work in the best interest of shareholders, as the owner of the company and they should also protect the rights of minority shareholders. The law on the protection of the income of retired workers created the obligations defined by the federal law relating to loyalty issues and the caution of the commissioners and managers of private pension funds.

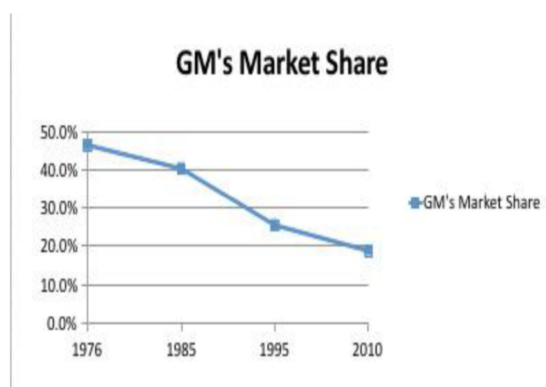
One of the main characteristics of the US corporate governance system, compared to European one, is that there is no supervisory board in US companies. The board of directors, in addition to internal directors, also has external directors. They form committees aimed at monitoring financial reports, auditing and appointing managers in order

to level large influences of specific shareholders and managers. External directors are not a result of law, but requests from the most important financial institutions at the federal level.

Research in this paper shows the shortcomings of corporate governance systems in the example of General Motors, or its crisis in 2009. The General Motors, founded in 1908, had a dominant position in the American automotive industry and the economy for most of the XX century. The company has contributed to the great innovations in the automotive industry, has successfully expanded into international markets employing over 200,000 workers and producing vehicles in 34 countries through its 13 brands. Until 2008, when Toyota passed it, GM was the world's largest carmaker with a production of over 9 million cars annually. GM has 463 branches and employs 234,000 workers, of which 91,000 in the US, where it also provides health and pension insurance for 493,000 retired workers. In the United States alone, GM spends $ 50 billion a year on the purchase of parts and services from a network of 11,500 retailers and allocates $ 476 million on monthly salary costs. (The Economist, 2009). The impact of the crisis caused a fall in sales of cars, so by September 2009, car sales fell by 44.7%, compared to 2007 when the car sales were at its highest level. In addition, vehicle sales globally fell by 13.2% compared to the peak of 2008. The company's management failed to timely reorganize itself and respond adequately to the elements of the crisis. The external risk that the company was exposed to primarily was connected with the rise in oil prices, which caused a decline in purchasing power of consumers and a reduction in demand for all vehicles, including cars. In addition, Westcott (2006) considers that higher oil prices have been caused by sharper credit conditions by monetary authorities.

The strategic risk was related to company's management failure to react to market changes. Since the mid-2000s, and the rise in oil prices, there has been a change in the demand structure for vehicles, primarily in the US market. According to Bates, Bagley (2009), buyers sought more fuel-efficient vehicles with less power and oil consumption, and GM continued to produce expensive and inefficient minivan vehicles, sports and pickup vehicles. GM was extremely inflexible in terms of producing and delivering more economical and more efficient vehicles in the short term. The company's financial risk was reflected in the constant lack of liquid assets, as operating costs were significantly higher than current revenues. The company was facing a position of growingilliquidityand insolvency. The management of the company observed a decline in market share without effective solutions to overcome the problem of lack of financial resources. However, the biggest problem, in financial terms, that company was facing when the sales of the vehicle had a downward trend was a cost reduction problem due to the high share of fixed operating costs. In most manufacturing companies, when there is a fall in sales, some of the biggest costs are also reduced. On the other hand, GM had very large fixed costs, due to unfavorable contracts, from the aspect of the company, with the Union of Workers. Closing certain production facilities, primarily in the US, did not automatically mean job losses for workers. This means that the drop in sales at the company level did not result in an adequate reduction in costs. This resulted in the company's large financial losses.

Picture 1: GM’s market share in USA from 1976 to 2010



Source: Business Insider. (2011). Union Workers' Greatest Enemy: The Collective Bargaining Agreement. http://www.businessinsider.com/union-workers-greatest-enemy-the-collective-bargaining-agreement-2011-6

According to Augustine (1995), there are six stages of effective crisis management: avoiding the crisis, preparing crisis management, identifying the crisis, containing the crisis, solving the crisis and benefiting from the crisis. Analyzing the above six phases on the example of GM, there are many shortcomings in the corporate governance system in the terms of need for crisis management as a solution to crisis situations.

Phase 1: Avoiding the crisis: The Company’s management did not undertake the necessary activities to avoid the crisis, that is, not all possible scenarios were examined in relation to the strategic decisions making. The company's management did not assess the possible consequences of poor governance in relations with the Union of Workers (UAW). In addition, GM responded slowly to the delivery of new types of vehicles.

Phase 2: Preparation for crisis management: During the crisis, it was clear that the company's management did not have an adequate plan to react to the crisis. The decline in sales of a large number of divisions, which began in the mid-1990s, did not affect the company's management to improve its planning or change its business plan.

Phase 3: Recognizing the crisis: When the company's market share in relation to foreign competition was reduced, GM management lobbied the US government to increase customs duties on import vehicles instead of focusing on investing in the competitiveness of its vehicles. In addition, the company has created a strategic partnership with Toyota in order to apply their production system.

Phase 4: Containing the crisis: The company's management has failed to focus and respond adequately at the right moment to crisis situations in the company's business. A good illustration is the increase in demand for more efficient vehicles in terms of oil consumption, where Toyota has developed its hybrid Prius model four years before GM. Also, management ignored the fact that fixed cash costs for workers, pensions and health insurancewere about $ 7 billion a year. Phase 5: Resolving the crisis: Analyzing the previous phases, it can be easily concluded that the ability of GM management to quickly and effectively resolve the crisis was extremely low. Only things that the company's management was able to realize was the improvement of short-term strategies such as zero percent financing, asset sales and closure of production facilities. Stage 6: The benefit of the crisis: Learning a lessons and getting some benefits from a crisis depends on the way a particular company reacted to the previous five phases. In the case of GM, the most important thing is that the new management of the company does not repeat the mistakes of its predecessors. Analyzing GM, reasons for corporate crisis were: GM made cars that consumers did not want; GM was too slow with the innovationsconsidering the size of the company; GM was an overly bureaucratic company and was unable to adapt to market changes; the GM dealership network was extremely large and GM sold its previously profitable GMAC (GMAC) business. (Berman, Knight 2009).

Additionally, there are some other bad management moves, such as extinguishing the EV1 electric car program, ignoring a member of the Board of Directors of Jerry Yorke regarding future market forecasts, a poor business strategy with FIAT, and exaggeration in relation to the rapid development of the trucks market. The result of bad corporate estimates and management decisions presents company's loss of a $ 79 billion, the closure of 14 factories and 2400 dealers, and the transition of a large number of permanent employees into the status of work on the schedule. The US government invested $ 50 billion in the company and acquired a 60.8% shareholder package, and the Canadian government provided $ 9.5 billion and gained a stake of 11.7%.

CONCLUSION

The corporate governance system is one of the most important factors in the success of the company. Corporate governance was a consequence of imperfection in the companies functioning, resulting in crises in companies and the macroeconomic framework. The legal regulations and internal acts of the company represent the framework of the corporate governance functioning system. Economic crises, from the beginning of the last century to the last, in 2008, created the need for modification and improvement of corporate governance. The corporate governance system is based on the role of human resources, and the company performance depends on relationships between employees. Crisis situations have revealed many failures and imperfections in corporate governance standards. Primarily for transparency, accountability, rewarding and controlling systems. Crisis situations can have destructive and constructive consequences, depending on the ability of the company, or its management part, to minimize or eliminate the consequences of the crisis. Crisis situations require the application of crisis management, that is, modifying the role of boards and executives, as carriers of the company's business policy implementation. Relationships, job co-ordination, the system of responsibility and the protection of interests of all stakeholders in the company are the most important factors in the company's success or failure in crisis situations.

The latest economic crisis, on a global scale, created a different approach and modified the corporate governance system. Corporate governance is a matter that needs to be constantly adapted, depending on changes at the national and global level, so that the company can fulfill the defined business goals and enable the owners to maximize profit in relation to invested capital. Republic of Srpska, and Bosnia and Herzegovina, have a strategic commitment to join the European Union. In this regard, it is necessary to harmonize legal regulations in the field of corporate governance and to give greater importance to crisis management and corporate governance standards as important factors in the company's business

activities. The current framework of corporate governance in the Republic of Srpska and B&H is characterized by concentrated ownership, poor professionalization of management and an underdeveloped capital market. All of these factors significantly impede the operation of companies and investors' interest in entering the ownership structure. One of the basic conditions for improving this part is the construction of a modern legal framework for corporate operations. Crisis management must strictly implement all the standards of corporate governance in its operation of solving problems in business, because only in what way it can adequately controlled and can improve the business, which shows the correctness of the hypothesis.

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SUMMARY

Crisis management is one of the newer methods that should and must be used by the manager in response to increasingly complex conditions in business. Obsolete management methods can not provide adequate answers to numerous problems that arise in modern business. A separate problem occurs when Managers tryto apply the standard corporate governance at the moment of crisis in business, because thenManagers usually try to combat this problem either with standard measures or with non-formal work. Corporate governance standards relate to the efficient functioning of the corporation by recognizable parameters for all stakeholders, and are particularly important for equity holders and potential investors. The business crisis appears most often as an unplanned business situation that brings the corporation into a subordinate position on the market, and its hardest form for a corporation is illiquidity as the ultimate exponent of all negativity in business. As an adequate response to these phenomena's, the implementation of crisis management, which in fact represents a set of measures to eliminate negative impacts on business or reduce it to a controlled level of impact. Management must act proactively so that the company does not encounter problems with business. In these cases, corporate governance standards can often provide a limitation to resolve the crisis, and most activities are expected by the Board in terms of adopting a range of measures to eliminate the crisis itself, but also the causes of the crisis. The biggest challenge of corporate governance is how to reconcile the different interests of all stakeholders in the corporation. Managers who implement the crisis management model must implement all corporate governance standards in solving the emerging crisis in business, but always taking into account the stabilization of the corporate operations and its image in the environment.