RISK MANAGEMENT, CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

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Abstract
Financial management implies a complex and extensive area of interest with deep connections with financial analysis, corporate finance and risk management. Thus, risk management is an integrative part of the financial management, referring to the set of actions and strategies performed in order to cover the risks incurred by various dimensions of the company activity. Financial management and, implicitly, risk management, involves an oversight responsibility of the Board. In fact, the Board is in charge with the monitoring of the effectiveness implied by risk management strategies and practices, resulting that the connector between financial management and corporate governance consists of the corporate risk management.
The paper starts with general aspects on corporate risk management as support to company's value, which sets forth the scope of the issues the paper discusses. It briefly describes why Board of Directors involvement in the company strategies is directly related with firm performance. Next, by reviewing the general evidence, the paper explores why corporate governance may matter for sustainable development.

Key words: *Risk Management, Corporate Governance, Sustainable Development, Financial Market*

JEL Classification: *G15, G32, G34*

I. INTRODUCTION

In the last decades, financial risk management has become more and more important and. Globalization triggered capital markets development and, meanwhile, the increase of the volatility, which has generated a high degree of incertitude for all participants into the market. Since 2007, with the beginning of the global financial crisis, financial risk management has been declared the first priority of all corporate managers, with a special attention for the financial companies and institutions. Capital structure and financial performance of the companies are impacted at large level by the volatility of the markets, generating the development of the financial management in deep correlation with the risk management field which focuses on the main variables representing the sources of risk: equity and commodities prices, interest rate, or foreign exchange rates.

In this context, financial analysts have been preoccupied to identify potential correlations between companies' value and financial management, especially from the scale economies point of view. There are different theories on the contribution of risk management to shareholders' value creation. Nevertheless, imperfections of financial markets represent the layer by which company value may increase to benefit of the shareholders. By definition, risk is direct related to uncertainty of the returns from the investments, so this uncertainty is transferred into volatility or the fluctuation of the expected returns from an investment. By analogy with corporate segment, risk derives from the fluctuations triggered by the modifications of various external or internal factors. These fluctuations are recorded especially at the level of the profitability indicators as well as at the level of capital structure ratios, reflecting the manner in which an aggregate assembly of factors can impose the volatility of company' financial performance.

Risk management systems implies the setup of precise objectives which focus on ensuring a favorable growing context for the company, on the condition of risk mitigation. Nevertheless, company' shareholders ask for high returns in order to be recompensed for the assumed risk in exchange for providing the capital within the enterprise.

Value maximization objective may have different meanings for financial managers and shareholders, the first ones having the responsibility to setup and achieve convenient objectives in terms of assumed risk level as well as in terms of risk mitigation techniques.

Corporate governance framework represents the solution to this dilemma: the Board of Directors is designated to monitor the manner in which company' managers perform the necessary diligence in order to implement required corporate policies ensuring the achievement of the maximization value objectives set up by the shareholders. Meanwhile, Board of Directors aims at compensating the managers and at establishing fair level of remuneration, in line with the financial and economic results that are obtained.

II. FINANCIAL MARKET IMPERFECTIONS AND CORPORATE RISK MANAGEMENT

During the last decade, there is an extensively growing literature on the contribution of risk management strategies to the increase of company value (Mardsen A., Prevost A., 2005). In the initial stage, from the perspective of high costs implied by the structuring of risk management departments, Taking in consideration the International Fischer Effect and Purchasing Power Parity, which revealed that negative effects of the economic factor are compensated immediately by an offsetting development in another factor, theories converged to the irrelevance of the risk management with reference to the firm value (Shalishali M., 2012). Research revealed that the parity conditions are valid in the long run, but on short term the perspective is a different one, confirming the importance of risk management departments (Dionne G., Triki T., 2004).

Modigliani and Miller uncovered the irrelevance of capital structure, meaning that the financial mix used by a firm does not impact its value. This theory is confirmed from the perspective of the fact that shareholders have the opportunity to replicate the company' capital structure by capital market transactions under some restrictions: absence of information asymmetries on the market, absence of transaction costs and a complete capital market. The only method by which firm value is likely to increase is represented by the Net Positive Value of investment projects, irrespective of the internal or external financing formula used by managers. In reality, financial market is characterized by an assembly of imperfections which leads to the perceiving the positive impact of risk management strategies.

The risk management system becomes a modality by which company's value is likely to increase even in the context of capital market imperfections. Corporate risk management generates the reduction of corporate cash-flows volatility, which determines the decrease of the variance associated with the company value. Nevertheless, the costs relative to financial markets imperfections are correlated with cash-flows volatility. A higher volatility is positively related to high transaction and fiscal costs, while a reduction of this type of costs will diminish the cash-flows volatility (Mackay P, Moeller S.B., 2007).

III. CORPORATE GOVERNANCE FRAMEWORK AND COMPANY VALUE

An effective corporate governance framework should be built on the principles of transparency and effective market and are consistent with existing legislation so that no misunderstandings about the role of the different authorities involved in the process. According to The Organisation for Economic Co-operation and Development (OECD) an efficient framework is the result of the perfect combination of laws, regulations, rules, and not least of voluntary standards imposed. This joint can vary from country to country but his contribution to the business practices and integrity economy in general is very important. OECD recommends the development of the corporate governance framework in view of its impact on the performance of the entire economy and incentives for the various participants in the process, and promote transparent and efficient markets because these markets promotes accountability among participants.

The corporate governance framework should be a clear, transparent and consistent with law. In such a legal framework involved in managing corporate authorities must be clearly defined and serve public interests. According to the OECD the authorities should have power, integrity and resources to fulfill their tasks objectively and professionally. Roles and responsibilities must be clear and explicit authority made to enhance the independence and quality of their services.

The OECD Principles are one of the 12 key standards for international financial stability of the Financial Stability Board (FSB). The Principles represent a common basis that OECD member countries consider essential for the development of good governance practices. Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.

Following the financial crisis, many companies have started to pay more attention to risk management. It appears that most companies consider that risk management should remain the responsibility of line managers. Responding to public and/or shareholder pressures, some company boards, especially in widely-held companies, have started to review their incentive structures, including through the reduction of potential incentives for excessive risk-taking, notably stock options for top executives. Existing risk governance standards for listed companies still focus largely on internal control and audit functions, and primarily financial risk, rather than on (ex ante) identification and comprehensive management of risk. Corporate governance standards should place sufficient emphasis on ex ante identification of risks. Attention should be paid to both financial and non-financial risks, and risk management should encompass both strategic and operational risks.

Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behavior. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance. Employees and other stakeholders play an important role in contributing to the long- term success and performance of the corporation, while governments establish the overall institutional and legal framework for corporate governance. The role of each of these participants and their interactions may vary widely. These relations hips are subject, in part, to law and regulation and, in part, to voluntary adaptation and, most importantly, to market forces.

One of the main corporate governance objective is to manage the firm risk level; in line with this, the attention paid to corporate governance principles is directly related to the risk level. On the other hand, company risk is impacted at industry level, as high-technologies firms imply an intrinsic high level of risk associated with their operations (Mehan H, Rosenberg J, 2008). From the psychological point of view, deeply associated with the economic cycle stage, the investors are looking different the corporate governance standards. During the downturn phase of the economic cycle, when investors become risk adverse and more prudential, corporate governance framework is perceived as having a vital function.

Moreover, the corporate governance valuation is highly impacted by financial market conditions. In a bear market, corporate governance is considered of a higher importance, while in a bull market it is neglected.

IV. CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

Corporate governance can be considered as an environment of trust, ethics, moral values and confidence - as a synergic effort of all the constituents of society - that is the stakeholders, including government; the general public etc; professional/service providers - and the corporate sector. One of the consequences of a concern with the actions of an organisation, and the consequences of those actions, has been an increasing concern with corporate governance (Aras G., Crowther D, 2008).

There seem therefore to be two commonly held assumptions which permeate the discourse of corporate sustainability. The first is that sustainability is synonymous with sustainable development. The second is that a sustainable company will exist merely by recognizing environmental and social issues and incorporating them into its strategic planning.

In developing a strategy to incorporate sustainable development, companies must determine how planning their short, medium and long term, respectively. Adopting a sustainable approach requires a longer time horizon and short-term performance evaluation is an impediment to companies that seeks to integrate performance in the context of sustainable development. Vision of a sustainable performance involves a long-term scenario planning and proper management to ensure success.

A challenge in promoting sustainable performance is linked to the business approach: it is not only managerial decision adopted at some point by the management company, but a possible continuous outcomes, with significant expenditure of time and resources for companies planning and implement such a system based on sustainability indicators. Market response to measures taken by companies is also very important while corporate customers are increasingly aware of the quality and safety of products and services offered by companies.

V. CONCLUSIONS

From the research conducted, it appears that there are at least three success factors that enable a company achieve performance in the context of sustainable development:

(1) A manager/leader with an innovative vision within the company, ensuring optimal performance at da sustainable business. This is needed because must carefully review all factors for determining a company's sustainability performance - both internal factors (organizational and managerial) and external factors (external stakeholders). Stakeholders can often have conflicting requirements and returns manager/leader responsible for assessing the impact of the implementation of these expectations, and their eventual reconciliation. A good leader must have the ability to be flexible to changes and to engage in dialogue and partnerships with various members of society;

(2) Availability for change. Adopting an approach based on sustainability and sustainable development require a sustained effort, involvement and adaptability. An important factor is the incorporation of sustainability into strategy and policy of the firm overall. The companies recognized for the successful implementation of sustainable development programs is improved performance measurement system in this area and encourage collaboration within the organization to identify products and services that promote innovation.

(3) Opening or stakeholder engagement. Internal and external stakeholder engagement support learning and innovation and increases credibility comapniilor increase taking into account this approach. Public reporting and communication investments or programs that support sustainable development prove transparency and reliability of their respective companies, and from the point of view of external stakeholders - investors, customers, suppliers, creditors, etc. - Allow judging business performance and making decisions about how and to what extent they will interact with the company. For adequate information to external stakeholders is very important for publication reports of companies to distinguish clearly between voluntary activity and legal requirements in the business.

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