

HOLISTIC MANAGEMENT AND THE SELECTION OF MEMBERS OF CORPORATE GOVERNANCE AUTHORITIES OF ORGANISATIONS IN THE CZECH REPUBLIC

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The article is focused on selecting members of the administrative bodies of companies carrying on business in the Czech Republic. It is desirable for the execution of good corporate governance that the members of the administrative bodies of the company have a Holistic Competence (proper attitude, necessary skills and developed knowledge) in the area of corporate governance. The main objective was to determine the level of application of the knowledge of Corporate Governance and Holistic Competence by members of the corporate governance of multinational and Czech joint-stock companies in the territory of the Czech Republic. On the basis of the results of the questionnaire survey recommendations are proposed concerning how to increase the level of corporate governance in the Czech Republic.

Keywords: Corporate Governance, Corporate Governance Authorities, Holistic management

1 Theoretical background

The first mention of corporate governance dates back to the 17th century, when the power of colonial empires increased and the trade of capital companies developed. In the 20th century ownership was separated from control, by which necessary conditions were created for the formation of corporate governance with corporations of that time (companies with share or stock capital). Hučka, Malý and Okruhlica at present, considerable attention is paid to corporate governance [8]. Subramaniam and Ratnatunga regard the given issues as one of the key themes of the present time [16].

For the purposes of the article the definition of the term “corporate governance” is based on the more comprehensive conception of corporate governance, based on the classical approach of stakeholder groups: *By the term “corporate governance” we understand relationships among shareholders, administrative bodies, top management, and other stakeholder groups (creditors, employees, customers, suppliers, the state, media, and the like).*

The scope of attention paid to the issues of corporate governance exceeds the national level of individual member states of the EU. At the level of the EU the European Corporate Governance Forum (ECGF) and the European Commission (EC) deal with the given issues especially in their action plan *Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward* [6] and in the so-called modernising Green Paper *Corporate governance in financial institutions and remuneration policies* [4], the Green Paper *Audit Policy: Lessons from the Crisis* [3], and the Green Paper *The EU corporate governance framework* [5].

The principles based on the documents *Principles of Corporate Governance* [12], *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, [11] and *State-Owned Enterprise Governance Reform: An Inventory of Recent Change*, [13] issued by the Organisation for Economic Co-operation and Development have become the basis of the formulation of recommendations to individual states of the EU when applying corporate governance at the national level.

The knowledge of the legal framework of corporate governance and the ability of applying it every day are a prerequisite for increasing the competitiveness of companies in the Czech Republic. The recommendations formulated in the documents issued by the OECD after their adaptation to the conditions of the Czech business environment were published by the Czech Securities and Exchange Commission under the name *Kodex správy a řízení společnosti* (Corporate Governance Code). On the basis of an analysis of the Codex and analyses of the Commercial Code and other collections of laws the situation in

the area of corporate governance at the level of the Czech Republic was mapped.

On the basis of theoretical knowledge acquired we characterize two main approaches to corporate governance, i.e. the shareholder approach and the stakeholder approach.

Within the stakeholder approach the theories of representation and administration are characterized. The theory of representation characterizes a manager as an individual maximizing his or her benefit at the expense of the shareholders [14]. The theory of administration understands a manager to be an individual whose interests do not differ from interests of the shareholders. When maximizing the market value of the company, managers also satisfy their interests and contribute thus to an increase in the performance of the company on a long-term basis [15].

We distinguish between two versions of the stakeholder group approach; the shareholder version and the classical version. The main objective of the stakeholder version is the growth of the market price of shares which is achieved by improving the performance of stakeholders (e.g. employees) on the basis of satisfying their interests. The classical version of the stakeholder group theory does not consider the maximization of the market price of the shares to be the main objective of an organization, but it aims primarily at maximizing the satisfaction of interests of all stakeholder groups.

There are two main bodies in the one-level management system: the general meeting and the board of directors. In the two-level model, the supervisory board and the board of directors work in the organizational structure of corporate governance in addition to the general meeting [2]. The main emphasis is laid on the German model, the elements of which have become the basis of the two-level model applied in the Czech Republic [10].

The bodies of joint-stock companies in the Czech Republic are the general meeting, the board of directors and the supervisory board and these have an irreplaceable function in the application of the main principles of corporate governance. We consider the level of knowledge of administrative body members to be a critical factor in the competitiveness of Czech companies [9].

The level of knowledge in the area of corporate governance is clearly defined within neither Czech nor foreign literature. Klířová state that members of corporate governance bodies should have at least a basic knowledge in the area of management [10].

The content of the article is limited to the evaluation of knowledge, skills and approaches of corporate governance body members according to the holistic management philosophy.

The holistic competence of subjects of management is expressed as $CQ = VQ, AQ, SQ$ [15].

The members of corporate governance bodies should be holistically competent. They should have the necessary knowledge to execute their functions, which they acquire through education, they should have the necessary skills acquired through training, and, last but not least, their development should be directed towards the only objective – social maturity [14].

2 Research

2.1 Main objective

Determine the level of application of the knowledge of corporate governance by members of corporate governance bodies of multinational and Czech joint-stock companies in the territory of the Czech Republic.

2.2 Data collection method

The data were acquired on the basis of a questionnaire survey among members of corporate governance bodies in the Czech Republic.

Research set: 193 respondents were approached; the final number of the questionnaires processed was 61, i.e. the rate of return was 31.61 %.

Data collection methodology: The questionnaire was sent out by classical mail or e-mail. The questionnaire contained 1 dichotomous question, 3 identification questions, 12 questions where the respondent was to determine the degree of assessment of knowledge, skills and approaches when selecting an administrative body member (1 – Applied, 5 - Not applied).

Data collection took place in the months of April 2011 to April 2012.

Data processing method: The questionnaire was evaluated on the basis of descriptive statistics; the results of the questionnaire were processed in the graphical form and then interpreted. In the next stage, the determined hypotheses were tested on the basis of statistical methods (Chi-square test for goodness of fit and Wilcoxon test for two dependent samples) [1;7].

2.3 Evaluation of the method

Using a questionnaire as a quantitative research method is suitable under such conditions where the author of the questionnaire has the sufficient rate of their return ensured. Under such condition it is an applicable method the main benefits of which are:

- low costs connected with data collection;
- the possibility of covering a large samples of respondents; and
- relatively low time requirements.

In our case the rate of return of the questionnaires was ensured with the help of colleagues and personal contacts acquired over the period of cooperating with practising people which contributed to a large extent to the return of the questionnaires [1].

2.4 Limits of the questionnaire survey

For the success of the questionnaire survey it was necessary to ensure that the respondents were only administrative body members. The lower number of the questionnaires evaluated is also connected with this because this represents specific issues and potential research respondents are considerably busy and their attitude towards the questionnaire survey was mostly negative.

2.5 Hypothesis

H: When selecting corporate governance body members, more emphasis is laid on their professional knowledge and practical skills than on their personal traits (social maturity).

The holistic competence of an individual to exercise functions of an administrative body member and the correct selection of members on the basis of evaluating their capabilities are of great importance to an organization. On the basis of studies of available literature dealing with the given issues we assumed that when selecting corporate government body members, more emphasis was laid on their professional knowledge and practical skills than on their personality traits (social maturity). To test this hypothesis, we used the questionnaire.

2.6 Results

Respondents

Large enterprises have the largest representation within the research (44 %). On the contrary, only 11 % of enterprises (7 enterprises) are micro enterprises. This fact was caused by the

fact that mainly joint-stock companies, which achieved the best results in the Czech Republic, were approached.

Another criterion which was examined within the quantitative part of the research was the area of business activities. The greatest representation was that of industrial enterprises (25 enterprises), trade (10 enterprises) and the construction industry (7 enterprises). Some respondents who stated a different type of company mentioned such responses as information technologies and publishing.

When collecting the data, our effort was to get mainly Czech enterprises in terms of their ownership structure. This criterion was successfully fulfilled because the Czech-owned enterprises represented the 64% portion of the companies the data of which were analysed within the qualitative part of the research. The data from 15 % of companies with the majority of European owners (9 companies) and from 21 % of companies which were considered by respondents to be world ones (13 companies) were also analysed.

Competences assessed when selecting an administrative body member

When selecting an administrative body member, his or her holistic competence to execute the function should be assessed.

When selecting an administrative body member, mainly the knowledge of the organizations which it manages is assessed. Up to 21 respondents (34.43 %) stated that the organizations fully applied this criterion. It is necessary for administrative body members to be informed of the current state of the financial and commercial aspects of the company, of the strategy for its further development, and of possible problems and tasks which are currently solved by the administrative body of the given organization.

The knowledge of the management functions (planning, organizing and controlling) is considered to be the basic knowledge of a manager at all levels of management. The organizations that participated in the research largely assessed the knowledge of the management functions. We can say that almost 70 % of the respondents stated that the given criterion was applied or partially applied when selecting a member for a position.

An important criterion which should be assessed when selecting a new member of an administrative body is also his or her ability to work with information. The average value of the given criterion reaches a level of 2.36.

In the analysed companies, the largest reserves were found in the area of assessing the knowledge about the system approach because the average value of the given criterion reached a level of 2.61.

The research shows that when selecting a member of a body of corporate governance in the Czech Republic, his or her communication skills are assessed the most within practical skills. 38 (62.30 %) of the respondents stated that the given criterion was applied or partially applied in their company. On the contrary, the ability to motivate (the mean value is 2.56) and the self-management and time management abilities (the mean value is 2.51) are assessed the least.

The importance of motivation is mainly the domain of top management but the ability to motivate should not be underestimated even in the case of a supervisory board member. On the basis of the answers of the respondents we draw the conclusion that the ability to motivate as well as the self-management and time management abilities are hardly ever assessed by 14.75 % of the companies and even not assessed at all by 6.56 % of the companies.

It is necessary to draw attention to the fact that up to 9.84 % of the respondents stated that when selecting an administrative body member, the ability to work in a team was not considered at all. This can lead to considerable instability of the

administrative body in the case of determining the strategic direction of the enterprise.

The character and the will are considered to the highest degree within social maturity. Fifteen respondents (24.59 %) fully agreed and 24 respondents (39.34 %) partially agreed with the statement that when selecting an administrative body member, their organization considered just his or her character and his or her will characteristics. The average value reached a level of 2.31. Only a slightly higher average value (2.33) was determined for the cognitive and creative abilities.

When assessing the SQ level of newly taken on members of boards of directors and supervisory bodies in the business conditions of Czech companies, the greatest deficiencies were found in assessing temperament characteristics, even though only one respondent stated that the given characteristics were not considered in their company, the average value of this criterion was 2.54.

2.7 Testing hypothesis

Hypothesis:

We assumed that when selecting corporate governance body members, more emphasis was laid on their professional knowledge and practical skills than on their personality traits.

We described the scientific hypothesis:

H: When selecting corporate governance body members, more emphasis is laid on their professional knowledge and practical skills than on their personality traits.

In the first step we converted the responses of individual respondents to their scores. In case that a respondent fully agreed with the statement that when selecting an administrative body member his or her individual knowledge, skills or approaches were assessed, a value of 1 was added to the score. In case that a respondent did not agree with this statement at all, a value of 5 was added to the score. The score was calculated for all respondents for individual pillars VQ, AQ, and SQ

Subsequently, we tested the VQ and SQ and also AQ and SQ data sets which contained the scores of individual respondents.

The scores of the respondents which take into account the extent to which his or her professional knowledge is assessed when an administrative body member is selected are contained in the data set (VQ).

The scores of the respondents which take into account the extent to which his or her practical skills are assessed when an administrative body member is selected are contained in the data set (AQ).

The scores of the respondents which take into account the extent to which his or her social maturity is assessed when an administrative body member is selected are contained in the data set (SQ).

Test of the VQ and SQ data sets

We expressed the hypothesis H_0 and the alternative hypothesis H_1 :

H_0 : The respondents' VQ responses are from the same set (with the same median) as the respondents' SQ responses.

H_1 : The respondents' responses for VQ are not from the same set (with the same median) as the respondents' SQ responses.

We took decision on what test we would use to test the hypotheses:

As the data are not from a normal distribution, which we verified by tests in the STATISTICA CZ programme, and the data are dependent on each other (we obtained paired values from one evaluator – respondent), we select the test:

Wilcoxon test for two dependent samples.

We established the critical region – W:

$$W = (\infty, -u_{0,975}) \cup (u_{0,975}, \infty) = (-\infty, -1.96) \cup (1.96, \infty)$$

We established the test criterion:

$U = 0.68$ (calculated using the STATISTICA CZ programme); the p-value of the test is $p = 0.49$.

We took decision on the validity of the hypothesis:

$U \notin W$: We do not reject H_0

On the basis of the test carried out we can draw the conclusion:

We proved at the 5 per cent significance level that the VQ responses are from the same set as the SQ responses.

At the 5 per cent significance level we can state that the respondents' responses to what extent his or her professional knowledge (VQ) is assessed when selecting an administrative body member are from the same data set as the respondents' responses to what extent his or her social maturity (SQ) is assessed when selecting an administrative body member.

Test of the AQ and SQ data sets

We expressed the hypothesis H_0 and the alternative hypothesis H_1 :

H_0 : The respondents' AQ responses are from the same set (with the same median) as the respondents' SQ responses.

H_1 : The respondents' AQ responses are not from the same set (with the same median) as the respondents' SQ responses.

We took the decision on what test would be used to test the hypotheses:

As the data are not from a normal distribution, which we verified by tests in the STATISTIKA programme, and the data are dependent on each other (we obtained paired values from one evaluator), we select the test:

Wilcoxon test for two dependent samples.

We established the critical region – W:

$$W = (\infty, -u_{0,975}) \cup (u_{0,975}, \infty) = (-\infty, -1.96) \cup (1.96, \infty)$$

We established the test criterion:

$U = 0.42$ (calculated using the STATISTICA CZ programme); the p-value of the test is $p = 0.67$.

We took the decision on the validity of the hypothesis:

$U \notin W$: We do not reject H_0 .

On the basis of the test carried out we can draw the conclusion:

We proved at the 5 per cent significance level that the AQ responses are from the same set as the SQ responses.

At the 5 per cent significance level we can state that the respondents' responses to what extent his or her practical skills (AQ) are assessed when selecting an administrative body member are from the same data set as the respondents' responses to what extent his or her social maturity (SQ) is assessed when selecting an administrative body member.

On the basis of these results we can state:

When selecting corporate governance body members, the same emphasis is laid on their professional knowledge and practical skills as on their personality traits.

Conclusion

In the hypothesis verification chapter we did not confirm the hypothesis that when selecting corporate governance body members more emphasis is laid on their professional knowledge and practical skills than on their personality traits (social maturity). It is positive that the personality traits of administrative body members are also significantly assessed

when selecting corporate governance body members. But it is necessary to continue to emphasize the importance of correct human attitudes (the pillar of social maturity, SQ) when selecting potential administrative body members in companies operating in the Czech Republic.

On the basis of our results and studies of professional literature we formulated the following recommendations:

When selecting a member of an administrative body (board of directors and supervisory board) in the two-tier model and (board of directors) in the one-tier model of corporate governance, it is necessary to consider his or her professional knowledge, practical skills, and, of course, social maturity. Informing competent persons of individual pillars is of not negligible importance to the sustainable development of the organization. After all, just the careful selection of administrative body members the organization acquires a basis in the form of highly valuable human capital. The holistic management philosophy represents an important basis of the evaluation of the competency of potential members of administrative bodies and it is therefore necessary to pay attention to informing administrative body members of the holistic competency model.

The pillar of social maturity is placed the first in the didactic sequence because of its importance to the practice. The pillar of social maturity is based on the personality traits of subjects of management (owners, managers, and employees) and consists of the knowledge of character traits and will, cognitive and creative abilities, temperament and emotional characteristics, and, last but not least, somatic characteristics (physiological and mental – spiritual). Just these are the characteristics the importance of which is often underestimated. One of our objectives is to inform members of boards of directors and supervisory boards of organizations in the Czech Republic with the results obtained by analysing available information sources, not only Czech, but especially foreign, concerning a critical impact of social maturity on the success of the whole organization. It is just the selection of members with high social maturity what is an important factor in the competitiveness of every organization in the current turbulent economic environment.

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