



## RELATIONS BETWEEN OWNERS AND MANAGERS

**Oana BOCĂNETE**

*<sup>1</sup>PhD Lecturer, “Tomis” University – Faculty of Economic and Administrative Studies, Constanta, Romania, E-mail: oana\_bocanete@yahoo.com*

**Abstract** *Independent of our will in social life, order tends to turn into disorder. This evolution is determined by the action of the entropy law. People can not oppose the evolution of the law, but they can create the framework of action in such a way as to channel this evolution towards desirable changes. Within the company - socio-economic system, as in any social system, order and disorder are strongly determined by culture. From this perspective, the sets of values, the beliefs and the concepts of the staff that fit it, the attitudes, opinions and common practices are particularly important for the firm. Each component of the company comes within it with its own ideas about heads and subordinates and can assimilate over time the habits, rules and restrictions within it.*

**Key words:**

*Managers  
Commodity market  
Labor market  
Shareholders  
Conflicts*

**JEL Codes:**

**M16**

### 1. INTRODUCTION

Relationships between owners and financial markets, relationships between owners' and labor markets, relationships between managers and the commodity market outweigh the boundaries of corporate relationships, and we analyze them as far as the involvement of these institutions as intermediaries of corporate relationships.

Therefore, there remains the relationship between owners and managers, which, in our opinion, is the object of research in studying corporate governance, which reveals the mechanism of its realization. These mutual relationships consist in protecting the owners from the ineffective activity of managers.

### 2. CONFLICTS BETWEEN OWNERS AND MANAGERS AND THE SPECIFIC MOTIVATIONS

A characteristic feature of corporate governance efficiency is not just the professionalism of corporate managers, but also the suitability of managers to motivate their owners.

Classical theories of the firm assume that managers act in the best interests of the owners, but when it comes to practice, we have a whole different picture. Everything lies in the fact that managers are also people, namely the managers' own images and interests, not the interests of the owners often play the most important role in decision-making on the management.

This concerns the problems of the image of the company's managers (administrative blocks, representation costs), the problem of their reporting to

risk (managers adopt and make decisions for which they are not responsible), as well as the problems of the investment, production policy and strategic (corporate absorption - goals to increase own influence, not to obtain the economic effect).

"Such conflicts between corporate managers and their owners have become the name of agency conflicts."  
(Ionescu, 2012)

**Table 1 Main types of agency conflicts**

<b>Problem</b>	<b>Owners</b>	<b>Managers</b>
Picture of corporate managers	Trend to Economy	Trend towards luxury
Selection of investment horizon	Long term	Short term
Risk attitude	Owners bear the risk on the decisions taken by the hired managers	Managers adopt and make decisions, on the basis of which, as a rule, they are not responsible.
Effective use of earnings	Obtaining in the form of dividends or capitalization, at a rate no lower than the rate of profitability	Increasing personal influence in corporations and personal welfare
Front Attitude of the corporation	As against a source of income	As for the sole source of income
The trend toward installing corporate control	To big packet owners - strong, at small owner - low	Strong
Incentives for corporate merging and absorption	Getting income not below the norm return	As a rule, increasing your own influence and satisfying vanity
Attitude towards the sale of the corporation	In the case of the first enough for the sale of the positive - equity package	As a rule, negative
Trend towards the implementation of own expenses in the corporate account	Low, the share of the share capital is lower, lower	High

Source – (Bocanete and Burlacu, 2010)

"Such conflicts between corporate managers and their owners have become the name of agency conflicts." (Ionescu, 2012)

The difference between the views of the owners and managers of the corporation on the management process is presented in detail in Table 1.

So the question arises as to how the owner can protect his own interests? This question is rhetorical in the corporate management system. In the author's paper, the corporate governance system will be presented and the interdependence between some elements and the appreciation of its effectiveness will be detected.

### **3. INTERNAL CONTROL MECHANISMS**

Currently, the experience of running the corporation allows to talk about external and internal mechanisms for resolving agency conflicts for the benefit of the owners. Internal control mechanisms are built on the basis of mutual reciprocal relations between shareholders and managers of the corporation or mediated by the Board of Directors of the corporation. And the external control mechanisms are based on the efficient operation of intermediaries in the mutual relations of the owners and administrators of the company (Holban and all, 2010). In the system of foreign intermediaries, in the view of many

economists, the state, the land and commodity markets are included.

Internal mechanisms report:

- drawing up the employment contract and forming the remuneration system of the managers' work;

- assign control over the activity of corporate managers to the Board of Directors.

The first control tool, to which shareholders employ the general managers of the corporation, is the drafting of the employment contract. Theoretically, the employment contract must state the conduct of the general manager in all possible situations in the event of management. In the case of deviating the behavior of the Director-General from the conduct set out in the contract, he shall be automatically dismissed. (Certo, 2002)

Thus, his interest in a qualitative activity appears. The difficulty lies in the fact that, under the conditions of corporate governance, a multitude of variants of economic situations is possible and their prognosis is either impossible or the forecasting costs will be comparatively too high compared to the effect obtained.

### **4. STRUCTURING OF THE MANAGERS REMUNERATION**

Therefore, in practice, the key moment when drafting the contract is not the attempt to determine the behavior of the general manager in

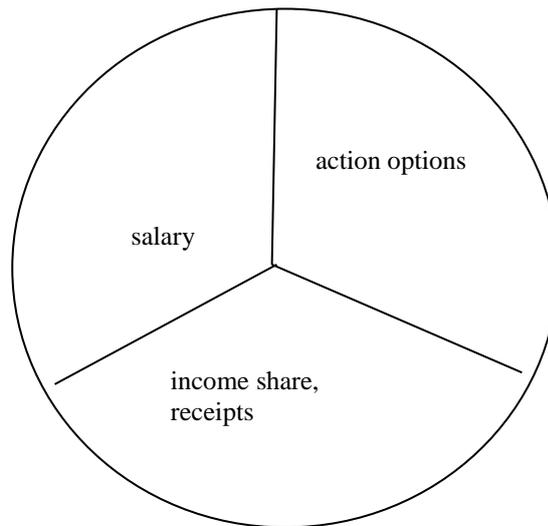
all possible situations but the structuring of the remuneration system of the managers' work.

The purpose of this operation is to establish a mix of different types of top managers' remuneration to "place managers and shareholders in the same boat" (Bocanete,

2010), ie to share the interests of shareholders and corporate managers.

At present, there is the remuneration system for managers' work, which consists of two elements (Fig. 1): Fixed salary, floating remuneration.

**Figure no. 1 Setting up remuneration money of managers**



Source - author elaboration

Solving agency conflicts by creating a pay system requires answers to the following questions:

- What should be the proportion of senior managers' remuneration in relation to other corporate employees to create an effective incentive system for all workers?

- Which part of the money should be floating and fixing?

- How should managerial float pay be formed?

There are two opposite assumptions about the proportions of senior managers' salaries and the rest of staff.

According to the first, the salary scale must be very progressive so that the remuneration of the Director-General serves as a "carrot" for all other employees.

The followers of the second hypothesis consider the above view ineffective because, first of all, most workers are aware that they will never become general managers. Secondly, the tendency to advance on the service scale at any cost may lead to a reduction in economic efficiency.

The supporters of this hypothesis believe that the most optimal is the weak progressive scale. The empirical verification of these hypotheses by McGrew A. and others testifies to the first hypothesis agency conflicts and guarantee the most efficient activity of first. (Brealy and Myers, 2000).

However, practice has identified essential gaps in this theory.

The problem of determining the size of optional facilities. If theoretically it is assumed that considerable facilities are the best means of

stimulating efficient managers' work, in practice, even an insignificant change in the course cost of the corporation, can lead to enormous benefits for corporate managers (Hammer and Champy, 1999). If facilities include the possibility of reassessing options in the event of a decrease in the share price, the remuneration scheme of any risk is definitively excluded.

## 6. CONCLUSIONS

From the point of view of the negative approach, countries that can damage the corporate climate can be defined as a tense state that occurs when two or more parts of staff have to interact in order to fulfill a task, make a decision, and solve a problem, but the interests of the parties are different and the actions of one party cause negative reactions to others, the parties being unable to resolve the controversy criticizing each other.

From the point of view of the positive approach, relational imbalance states can be defined as a state that can become tense and which is generated by the interference between two or more important issues that need to be eliminated only when it constitutes an obstacle to the achievement of the objectives of the organization .

We remember that we should not even avoid conflict within the corporation as long as it is controlled and contributes to the dynamism of creative energies. In implementing effective management in this area, we will need to consider the impact of stress on the conflict in the organization;

## REFERENCES

- Bocănețe Oana, *Management activities of exploitation of port equipment in port of Constanța*, Conferința Internațională “Economie și Globalizare”, 22-24 octombrie 2010, Constanța
- Bocănețe, Oana, N. Burlacu, *Принципы корпоративного управления –методология организации* [*Corporate Governance Principles - Organization Methodology*], Revistă științifică “Studii Economice” [Scientific journal "Economic Studies"], An.4, nr. 1-2, (juni 2010, ULIM, 2010.
- Brealy R., Myers S., *Principles of Corporate Finance*. Sixth Edition, The MacGraw-Hill Companies, 2000.
- Ionescu, Ion Gr., *Comunicare și negociere în afaceri* [*Communication and business negotiation*], Editura Ex Ponto [Ex Ponto Publishing House], Constanța, 2012.
- Grant R. M., *Contemporary Strategy Analysis*, 4th edition, Blackwell, 2002.
- Certo, S., *Management modern - Diversitatea, calitatea, etica și mediul global* [*Modern management - Diversity, quality, ethics and global environment*], București: Teora, 2002.
- Hammer, M., J. Champy, *Reengineering the corporation*, London, Nicholas Brealey Publishing, 1999.
- Holban (Oncioiu), I., P. Bocănețe, O. Ion-Bocănețe, The new role of public leadership, [Global Conference on Business and Finance Proceedings], Vol. 5, no.2, San Jose, Costa Rica, 25-28 Mai 2010, The Institute for the Business and Finance Research.