CORPORATE GOVERNANCE SYSTEMS IMPACT ON TOP MANAGEMENT TEAMS DIVERSITY: EVIDENCE FROM CENTRAL AND EASTERN EUROPEAN PUBLIC LISTED COMPANIES

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Abstract

The paper aims at investigating how the specifics of top management team diversity aspects are affected by the corporate governance systems in the public listed companies on the stock exchanges in the Czech Republic, Poland, Estonia, Hungary, Bulgaria and Russia. There are two types of Corporate Governance Systems- monistic and dualistic spread across Central and Eastern Europe but their implementations is considerably shaped by the external environment. The paper encompasses extended literature review on theories in Corporate Governance as Agency theory and Institutional theory. Several models are tested in the papers in order to demonstrate that top management team characteristics such as team tenure, age, gender, nationality and education are significantly influenced by the implied corporate governance system in the selected countries. The authors address in the paper the importance of senior management members teamwork for adequate implementation of particular corporate governance system. Furthermore, the paper findings demonstrate that national culture shapes companies' mechanisms of Corporate Governance and that in Russia the companies' governing bodies are hybrid between monistic and dualistic systems of Corporate Governance. Although the testing models in the study show to what extend the diversity affects the systems of Corporate Governance.

Key words: Diversity, Impact, Corporate Governance Systems, Central and Eastern Europe

JEL Codes: G 34, M14

Introduction

Diversity management is considered today as a very important factor influencing substantially managerial efficiency and performance. It stems from the hypothesis that the higher the diversity is, the higher efficiency and performance of the particular managerial team, because diversity of individuals brings into the team different ideas, new opinions, fruitful exchange of experiences and brainstorming atmosphere. Diversity means that composition of different managerial teams, in our case top managers, boards of directors, managerial board and supervisory boards is not homogenous in different factors as well as in the level of these factors. Research on multicultural teams, however, suggests that national diversity has positive effects for team effectiveness and performance. Diversity in national origin is associated with diversity in values, cognitions and experiences that generate broader knowledge bases and different perspectives within the team (Cox, Lobel & McLeod,1991; McLeod & Lobel, 1992; Watson, Kumar & Michaelsen, 1993). One of the most important factors which can substantially increase the efficiency of decision-making of top management teams (TMT) is the characteristics where we measure efficient composition and diversity of TMT. Business World tries to find this efficiency by incremental (ongoing) improvement of TMT. The Management Board should pay attention to diversity when filling management positions in the company and, in particular, strive for appropriate consideration of women. The Executive Board sets targets for the proportion of women in the two management levels below the Management Board.

In addition, the members must bring a qualification corresponding to the task. Each member of the Management Board is to disclose conflicts of interest to the Supervisory Board without delay and to inform the other members of the Management Board.

The members must also ensure that they have enough time for the individual mandates and thus can fulfil their obligations.

The board should consist of several persons and have a chairman or speaker. Rules of procedure are intended to regulate the work of the Management Board, in particular the responsibilities of individual members of the Management Board, the matters reserved for the full Board of Management, and the required majority of decisions by the Board of Management (unanimity or majority vote) (Gottschalk et al, 2017).

1 Corporate Governance Systems across Europe

A major corporate governance difference between countries is the board structure, which may be unitary of dual depending on the country. As in the UK, in the majority of EU Member States, the unitary board structure in predominant (in five states, the dual structure is also available). However, in Austria, Germany, the Netherlands, and Denmark, the dual structure is predominant. In the dual structure, employees may have representation on the supervisory board, but this may vary from country to country (Mallin, 2011).

1.1 Unitary Board

A unitary board of directors is the form of board structure in the UK and the USA, and is characterized by one single board comprising both executive and non-executive directors. The unitary board is responsible for all aspects of the company's activities, and all the directors are working to achieve the same ends. The shareholders elect the directors to the board at the company's annual general meeting.

1.2 Dual Board

A dual board system consists of a supervisory board and an executive board of management. However, in a dual board system, there is a clear separation between the functions of supervision (monitoring) and that of management. The supervisory board oversees the direction of the business whilst the management board is responsible for the running of the business. Members of one board cannot be members of another, so there is a clear distinction between management and control. Shareholders appoint the members of the supervisory board (other than the employee members), whilst the supervisory board appoints the members of the management board (Mallin, 2011). The situation of board structure is different across the countries in the World.

1.3 Corporate Governance System in Russia

In Russia the legislation enables companies to be substantial flexible in creating the structure of the governance. The structure here depends on the amount of shareholders that a company has. In case there are less than fifty shareholders with voting rights there is a requirement to have at least the following elements: General Meeting of Shareholders, General Director and Revision Commission (or one person who has the same functions) (Zheltov, 2004). Additionally at the discretion of a company there can be established other governing bodies such as: Executive Board and Supervisory Board. In case there are more than fifty shareholders with voting rights then it is required for a company to have a Supervisory Board together with those bodies that are obligatory for a company with the amount of shareholders less than fifty.

Similarly, the Executive Board is compulsory for such type of companies (Uhlenbruck, Meyer & Hitt, 2003).

1.4 Corporate Governance System in Germany

Listed companies have a two-tier board system in Germany. The members of the Board are only elected by the shareholders, usually by the General Shareholders' Meeting. The board members are usually distinguished into executive and non-executive members. The executive board members take over the operational management of the company. The non-executive members of the Management Board, in contrast, are primarily involved in a consulting and controlling function and do not exercise this position on a full-time basis and are not employees of the company (cf. Niedenhoff, 1979)

The German Corporate Governance Code provides that the Management Board and Supervisory Board work closely together for the benefit of the company. The Management Board coordinates the strategic alignment of the company with the Supervisory Board and discusses the state of strategy implementation with it at regular intervals. The Supervisory board provides advice on all activities. In addition, the Executive Board informs the Supervisory Board regularly, promptly and comprehensively about all issues of strategy, planning, business development, risk situation, risk management and compliance that are relevant to the company. It also considers deviations in the course of business from the plans and goals established, stating the reasons. It is emphasized once again that the Board of Management has to manage the company on its own responsibility, but in the interests of the company, thus taking into account the interests of the shareholders, its employees and the other groups (stakeholders) associated with the company with the goal of sustainable value creation (Gottschalk et al, 2017).

The Management Board should pay attention to diversity when filling management positions in the company and, in particular, strive for appropriate consideration of women. The Executive Board sets targets for the proportion of women in the two management levels below the Management Board. In addition, the members must bring a qualification corresponding to the task. Each member of the Management Board is to disclose conflicts of interest to the Supervisory Board without delay and to inform the other members of the Management Board.

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1.5 Corporate Governance systém in the Czech Republic

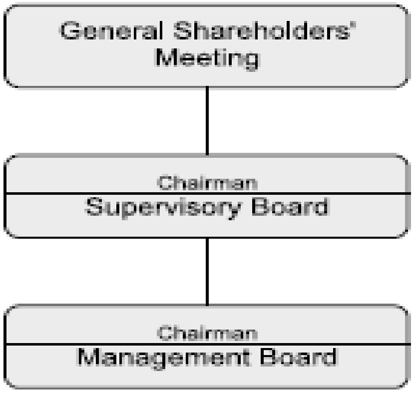
The Czech government had two choices in its decision regarding which system of corporate governance board structure to adopt for the whole Czech economy. It could have chosen either a one-tier (unitary) system (Figure 1) or a two-tier (dual) system (Figure 2).

Fig. 1: Corporate Governance Systém in the Czech Republic

Source: Authors

Czech companies adopted, in harmony with the new Czech Business Act, a two-tier structure of board architecture. This means that a company's governance is composed of a general shareholders'. Meeting as the supreme body with the highest approval authority. This body approves board decisions regarding mergers, acquisitions, selling parts of the company, issuing new shares, terminating the company's activities, electing new board members and removing the existing ones as well as other issues (KPMG, 2005). Contrary to common continental practices where the competencies of management and supervisory boards are clearly and logically divided, Czech practices are not yet unified and thus use two different approaches regarding board structure and their competencies in a two-tier structure (Maly, 2006).

Fig. 2: Corporate Governance systém in Czechia



Source: Authors

2 Methodology

For the purpose of the study data collection from around 400 public listed companies have been gathered from the biggest companies in Central and Eastern Europe according to their volume of sales from the database of Thomson Reuters One for the period of 2015-2017. The paper quantifies selected TMT characteristics based on theory of upper echelons. The task to quantify the level of the managerial diversity of the factor and to assess the optimal level of each factor is in some factors logical and relatively easy, in others very difficult because of the lack of logical arguments, enabling to do it. Moreover the "optimal level" is theoretical figure, which may not be acceptable in managerial practice for different reasons. In this situation managers use more realistic figures based on their practical or expert experiences. We can call this figure "operational level". The construction of the optimal and operational level in each diversity factor follows as our original contribution to the theory of managerial diversity topic.

Gender diversity is one of the only few factors, where the optimal level can be set theoretically or logically easy. The optimal level is when the ratio of male and female in the managerial team is 1 to 1, the same number of males and females. Mathematically we can express it so that the level or value changes from 0 (zero) to 1 (one) in interval <0; 1>. Zero value is the case when there are only male or female members in the managerial team, one value is when the male and female are equal. The other values of gender diversity are changing in the interval <0; 1> according to the real ratio of males and females (See Table 1). In literature sources we can find the practical proposals of the operational level of GD. The directives of EU suggest the value of 40 per cent of females in boards.

Table 1: Top Management Teams Diversity

	Gender	Age	National ity	Professional Background	Level of Education	Interlocking Directorate Diversity	Independent
Gender	1.000						
Age	0,2614	1.000					
Nationality	0.2233	0.0981	1.000				
Professional Background	0.0267	0.0194	0,0147	1.000			
LE- Level of Education	-0.0152	-0.0247	0.0126	0.0169	1.000		
Interlocking Directorate	-0.0285	-0.0261	0.0244	0.0285	-0.0183	1.000	
Independent Member Diversity	-0.0158	-0.0163	-0.0279	-0.0212	0.0117	0.0166	1.000

Source:Authors

In Table 2 is depicted that the Corporate Governance models vary from country to country, Moreover, we can state that there is no correlation between Corporate Governance system and Diversity of Top Management Teams, as higher diversity presents in both types of Corporate Governance Systems.

Table 2:Cumulative table of CG Systems across the World

Country	CG System required by Stock Exchange
USA	Unitary
UK	Unitary
France	Dual or Hybrid
Italy	Hybrid
Germany	Dual
Czechia	Dual
Russia	Dual or Hybrid
Finland	Unitary
Japan	Dual or Hybrid
Bulgaria	Dual
Singapore	Unitary
China	Unitary

Source: Authors

Conclusion

Although the testing models in the study show to what extend the diversity affects the systems of Corporate Governance, there are still another external factors as stock exchange regulations specifics, other socio-economic and political decisions which may impose impact on the companies' mechanisms of governance. Many previous studies have shown that TMT characteristics have critical effects on organizational outcomes and contextual factors such as firm culture, climate, and knowledge base. In addition, many scholars have studied the social and contextual factors that influence company performance. However, few studies have examined the direct relationship between TMT diversity and Corporate Governance systems, as most of existing studies are concerned with a group impact on company performance. A few papers that examined the relationship between TMT diversity and organizational performance did not successfully address top managers' various characteristics other than their business-related abilities or backgrounds.

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