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TOWARDS A RELATIONAL VIEW OF CORPORATE GOVERNANCE

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Abstract

The ongoing transformation of corporate governance dominant focus from its traditional toward an integrated multidimensional level denotes actually that the new paradigm is emerging, the one that highlights a holistic governing approach and an augmented, overall corporate responsibility as well as long term corporate success and sustained competitiveness. Within such kind of an extended discipline's domain the conceptualization of more flexible governance models is needed, supported with the continuous improvement of the corporate governance practice. Consequently, a development of new mechanisms able to provide and maintain corporate fitness in contemporary fast changing business reality and an upgraded approach to governance processes design are required. The paper deals with the idea of conceptualizing the relational corporate governance framework suitable for an integrative, corporate governance system self-regulation, therefore assuring corporate fitness.

The theoretical part is based on a literature analysis in corporate governance, corporate reputation, strategic management and organizational studies research. The conceptual relational corporate governance framework is designed, grounded on dynamic capability view and stakeholder orientation, sustained by the social system theory. The outcome of the paper contributes to the underlying conceptual work for corporate governance and strategic management. In details, a theoretical relational based corporate governance concept aimed for managing ecosystem's corporate fitness as well as the underlying corporate and board capabilities are developed and proposed.

Keywords: *corporate governance, dynamic capabilities, corporate reputation.*

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1. INTRODUCTION

Corporate governance as a field recently became a topic of top academics and practitioners' interest, and moreover of regulators' and institutions' as well, due to the global occurrence of economic crisis and its unwanted consequences that have revealed many governance failures. As a result, there is an ongoing change of corporate governance practices, supported by OECD issue of *Key Findings and Main Messages* (OECD, 2009). In parallel, another movement is happening: in a contemporary business vision the firm is seen as an institution of modern society and as a sovereign social actor (King *et al*., 2010). An understanding of a company as a nexus of relationships (Wu and Eweje, 2008, p.7) instead of a nexus of contracts (Jones, 1995, p. 407; Jensen and Meckling, 1976) highlights its interconnectedness with and embeddedness into surrounding and global ecosystem.

The ongoing transformation of corporate governance practice denotes actually that the new paradigm is emerging, the one that highlights a holistic governing approach and an augmented, overall corporate responsibility as well as long term corporate success and sustained competitiveness. Within the newly shaped context, the scope of the field has to move beyond the classical meaning of the term "governance" as it is usually applied to contractual relations in and between organizations and their constituents (Lindberg, 2003), toward more of relational contracting. Thus, the relational assets of the corporation come to the focus. Among them especially sali-

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ent is corporate reputation since it can be understood as a kind of label for the corporate behavior as well as an interacting risk indicator. Indeed, companies interact while performing, and as the key outcomes of an overall corporate performance an operating result followed by the corporate reputation emerge.

Within this article, corporate governance is viewed as an integrative system of stakeholders' relations as well as a form of meta-management that joins legal, financial, ethical and organizational issues of the firm performance. On the other side, corporate reputation is regarded as a multidimensional phenomena and unique strategic relational resource, able to provide assistance in achieving various corporate goals, as well as in shaping the preferable kind of relations with its numerous stakeholder groups. The aim of the paper is revealing the powerful role of relational assets and particularly corporate reputation in the corporate governance processes, and thus shaping a new perspective of corporate governance based on relations. Moreover, within this article proposed relational corporate governance view (RCGV) actually imports a new dynamic perspective in corporate governance field by shaping bidirectional, two ways relational links between company and its stakeholders, moving from managing relationships toward building collaborative relationships suitable for the privileged exchange of ideas, knowledge and information, all necessary for generating and sustaining ecosystem's corporate fitness.

Such a framework has not been constructed up till now. The challenge of this article is to propose ecosystem's corporate fitness as an ultimate goal of a good corporate governance practice, grounded on a similar set of capabilities. RCGV allows for a shaping of corporate fitness capability and the corporate reputation to be used as a newly inaugurated self-regulating integrated corporate governance mechanism, designed as a driver of the firm's market and non-market based competitiveness and suitable for auditing quality of the firm governance system, as well. Starting with the ontological and epistemological changes of the corporate governance and related fields, the paper continues with the relational assets and dynamic capability overview, followed by relational governance framework conceptualization sustained by corporate reputation and its functionalities and concludes with some potentially useful managerial implications.

2. THEORETICAL BACKGROUND

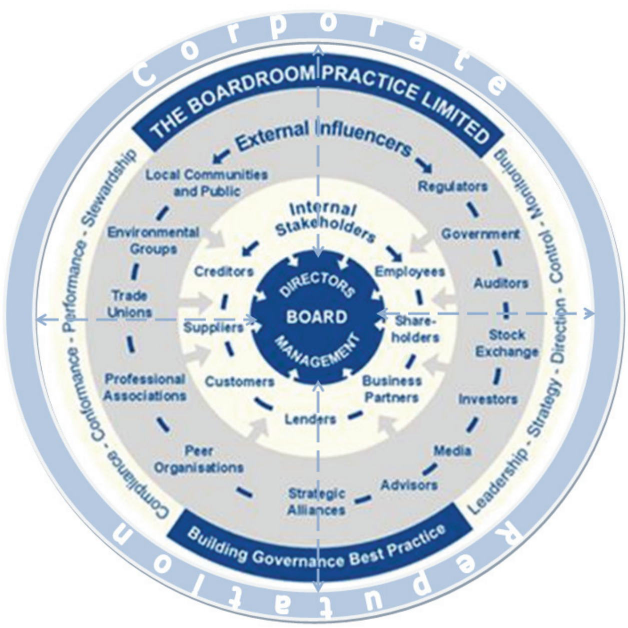
According to OECD, corporate governance (CG) involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined (OECD, 2004). Corporate governance can thus be defined as a kind of management of the management or meta-management. Good corporate governance depends on the balance of relations between internal and external mechanisms which ensure the efficiency of governing and help in the resolution of natural problems, as well as the possible conflicts that may occur within a corporate structure (Tipurić, ed., 2011). Effective governance requires leveraging of multilevel processes with respect to corporate institutional framework, stakeholders' interactions and managerial autonomy and accountability. Overarching important determinants of the quality of corporate governance are effective and efficient boards and their capabilities for provision of effective and efficient decision-making.

The essence of CG lies in the crafting and continuously refining of codes, laws, regulations, and processes that govern companies' operations, ensuring that shareholder rights are safeguarded and stakeholder and manager interests are reconciled. The control aspect of CG encompasses the notions of compliance, accountability and transparency (MacMillan *et al.,* 2004), and how managers exert their functions through compliance with the existing laws, regulations and codes of conduct (Cadbury, 2000). The direction aspect of CG includes corporate goals and related strategic choices, i.e. leadership and strategy aspects, which implies broader, organizational frame of governance, that involves: defining of roles and responsibilities; orienting management toward a long-term vision of corporate performance; setting proper resource allocation plans, contributing know-how, expertise, and external information; performing various watchdog functions; and leading the firm's stakeholders in the desired direction (MacMillan *et al.*, 2004; Cadbury, 2000;). The leadership and control aspects of CG both define the attention and the extent of power accorded to various stakeholders, including executives, managers, employees, and, to a lesser extent, external constituencies and actors.

The complexity of the issue has been recognized and shaped into three basic theoretic approaches: agency, stakeholder and stewardship theory. All three theories ponder the questions of the position and supervision of managers, but their responsibility, behavior and the manner of achievement corporate goals diverge. Despite of agency theory's longevity and still salient assumptions (Jensen and Meckling, 1976), the stakeholder and the stewardship theories of corporate governance offer more comprehensive approach to contemporary acceptable mode of governing the corporation. Born within strategic management field, the former has fundamentally shook up regulatory and contractual agency postulates. The later has emerged within the field of corporate governance as an alternative to agency theory. Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business, and rejects the separation thesis (Freeman, 1984), whilst the fundamental postulate of stewardship theory is that managers always act in such a way to maximize the interests of a company, while the contemporary business environment is forcing management towards ethically responsible, innovative, but profitable businesses (Davis *et al.*, 1997.)

Three mentioned theories may be considered as a partial dominant logic. Evaluated separately, each one offers good solutions to corporate governance problems that Sir Cadbury has defined as "the system by which companies are directed and controlled", more than two decades ago (Cadbury, 2000, p.8, Cadbury report, 1992). A narrow view of CG portrays it as an enforced system of laws and financial accounting. There is, however, a broader CG conceptualization, emphasizing every business' responsibilities toward the different stakeholders that provide it with the necessary resources for its survival, competitiveness and success (MacMillan *et al.*, 2004). Such an approach highlights the relational aspect of the field, dealing with the relations of governance structures within corporations determining the components of the governance system and the supervision of the corporation (Cadbury report, 1992). In this vein, governance could be seen as concerned with the mechanism by which business' relationships are directed and controlled (MacMillan *et al.*, 2004, p.15). The snapshot of the corporation's stakeholder relations perspective, encompassing the direct and indirect relations simplified depicts the figure 1.

Figure 1: Corporation's stakeholder relations perspective



As the figure 1. shows, corporate reputation and board have the salient role within relational perspective. Due to its specific position in the corporate structure, as a link between shareholders and top management, and being a provider for stakeholders' alignment, the supervisory board work assumes three roles: (1) control role, (2) strategic role and (3) service or resource provision role. The service or resource provision role of the supervisory board is primarily concerned with maintaining the formal and informal relationships with firm's stakeholders. The supervisory board can help the firm connect with the relevant segments and environmental constituencies and in securing important resources, while at the same time is expected to take into account the relevant interests of other stakeholders, especially employees, creditors, customers, suppliers and the local community, and in performing its duties should apply essential social standards and environmental protection principles. A supervisory board with a strong service or resource provision role can help better articulate the interests and overcome the inherent conflict between the various stakeholders. However, the strategic role of the board does not imply that the board engages in the strategy formulation, since it is the duty of the management board, but that it supports and leads the management in the realizing the firm's mission and its goals. The control role of the supervisory board implies monitoring and supervising the company's operations, current as well as preventive, i.e. the monitoring of business decisions and company's plans (Tipurić and Mešin, 2013).

Prior to proceed with the introduction of the RCGV in position as a new holistic approach to corporate governance that sustains corporate fitness, a genuine motivation for taking such a perspective as well as several notions, occurrences and attitudes need some attention to be properly introduced and explained, since they originate from a strategic management discipline and have not been regarded nor used within the corporate governance field so far.

3. THE ONGOING CHANGE OR A PARADIGMATIC SHIFT

The appearance of the broader view of corporate governance could be considered as a reaction to stakeholder-shareholder orientation rivalry. Nevertheless, it is a new global pattern of business and society integration that brings a shift in values and consequently, an emerging higher standard of corporate performance demand in terms of more corporate responsibility and increased requirements of performance. Companies are expected to conform while performing, or put differently, to do well and good to be acknowledged in today's business reality. Until recently predominant influential profit maximization business paradigm is fading away (Blair and Stout, 2007), due to the augmented accountability, as well as the transparency issues, while stakeholder value maximization and sustainable success concepts rob authority. All in turns motivate a movement for governance practice beyond its traditional bottom line towards an extended one.

The extension is headed for a holistic organizational level of governing the corporation that comprises regulative, social and environmental dimension, even political, beside economic. Within such kind of an extended discipline's domain the conceptualization of more flexible governance models is needed, supported with the continuous improvement of the corporate governance practice. Consequently, a development of new mechanisms able to provide and maintain corporate fitness in contemporary fast changing business reality and an upgraded approach to governance processes design are required.

Taking the attitude that the modern corporation is organization, an economic and social instantiation of the environment in which it is embedded, the notion ecosystem is used to explain the complexity of the business, social and institutional environment the corporation operates in. The comprehensive environment needs an equal perspective of CG domain and its existing practice upgrade, in order for the well governed company to possibly make advantage of its effective and efficient corporate governance system (Tipurić, ed., 2008, p.6). Following Teece, the business "ecosystem" stands for the community of organizations, institutions, and individuals that impact the enterprise and the enterprise's customers and supplies. The relevant community therefore includes complementors, suppliers, regulatory authorities, standard-setting bodies, the judiciary, and educational and research institutions (Teece, 2007, p.1325).

Such a complexity of environment should be taken as a new business reality. It indicates that corporations have to be or should become able to cope with obstacles to their sustainability by using opportunities and assets that are legitimately available. In such a framework, it is the duty of managers to make decisions that will increase value for shareholders and all relevant stakeholders' principals of the company, taking into account its competitiveness and efficiency, as well as its sustainable development (Tipurić, ed., 2008, p.vii). Steiner and Sterner has defined basic postulates of sustainable business as "be ethical, responsible, and profitable" (Stainer and Stainer, 1998, p.5). Each of the three postulates has its own issues, thus their integrated implementation requires the redesign of governing model orientation towards long-term economic, ecological and social performance that could provide for a corporation to achieve and sustain ecosystem's corporate fitness. Within this notion, the industrial, social and institutional dimension of business fitness is understood, all three considered as antecedents that support corporate sustainable success (Tomšić, 2013a, p. 849). The notion fitness is borrowed from population ecology literature and is brought to strategic management as a conceptual yardstick for measuring the performance of corporate dynamic capabilities (Helfat *et al*., 2007, p.7). The phenomenon of dynamic capabilities, as well as of the ecosystem corporate fitness will be explained in details in the subsequent chapter.

While witnessing actual corporate governance field debate, based mostly on the different approach to corporate responsibility and on the need for more managerial ethics and temperateness, but moreover on the highlighting the corporate embeddedness within the ecosystem it operates in, is seems that the very field nature is changing. The alliance of the business and society and all its growing interconnectedness have brought a need to (re)consider the corporate governance as a multidisciplinary field composed of organizational, financial, ethical, legal and strategy perspective as well, that should all be respected together when corporate goals set and decision making occurs. Thus, the kind of meta paradigm as a label for an integrated corporate governance perspective is needed.

CG discipline is not to be regarded separately from the other interfering fields. With respect to global ongoing changes and the nascent different business philosophy, related corporate governance disciplines are not speared of huge change magnitude either, a kind that is supporting the modification and stakeholder alignment of governance practices. Within the strategy field, there is a movement for integrating of economic rationality and so called "cold" cognitive mode with its, so far quite neglected "hot", emotional side and ethics, thus rebuilding a very foundation of the discipline, and transforming it into the one with more soul (Hodgkinson and Healey, 2011; Minoja, 2012). In conjunction with the traditional market based view and resource based view, an institutional based view is proposed by Peng *et al*. (2009) as a third leg of strategy.

Moreover, aside of the strategy discipline, the new institutionalism movement (Scott, 1995; DiMaggio and Powel, 1991) correctly points out the limits of a rational choice framework of economic decision making. However, by failing to explain the sources and avenues of modifications of those constraints, the new institutionalism alone is unable to provide a satisfactory explanation of change. Finally the capability approach, especially dynamic capability view (Teece *et al*., 1997; Helfat et al. 2007; Teece, 2007) has brought the need for ambidextrous kind of organizations (O'Reilly and Tushman, 2008) that respect duality at a corporate level which implies that the corporation has to manage competences and transactions simultaneously, or put differently, the mechanisms of the firm involve both economizing transaction costs for static efficiency and generating values through learning and innovation for dynamic efficiency.

Within the organizational studies, King's, Felin's and Whetten's (2010) meta theory of the organization as a social actor is proposed. Actually it suits as an good example of holistic meta paradigm. It highlights organizational intentionality and sovereignty, beside coherence and identity, as well as distinctive social actor status of the organization. That puts the corporation itself in the central position as acting subject, while its board and management plays an even more influential role in shaping overall corporate performance and related responsibilities (Minoja, 2012).

All mentioned implies that the special attention is to be dedicated to adequate corporate behavior as well as on creating the value for stakeholders and achieving the corporate sustained success, all in one.

It is on a discipline academics and practitioners to approve or disprove whether is just a context change happening or is the real paradigmatic shift going on, but following Kuhn, the later occurrence might be closer to the present reality. In his well-known treatise on how science progress, Kuhn (1962) stated that the fields develop through paradigm shifts, intermixed with periods of "normal science" during which the implications of the paradigm are explored. When a new paradigm emerges, it calls for the agreement on at least (new) basic ontological enquiry, hoping for an adequate epistemological sustain of the changed reality in form of new knowledge, meaning and understanding. Ontology is defined as the branch of metaphysics dealing with the nature of being (Oxford dictionary, 1992, p. 829). Thus, with respect to all tackled global business' nature change, as well as the incidences within the disciplines that CG as a field is naturally related to and shares an attitude of the corporate survival and sustained successful performance as an overarching goals, the reconsideration of CG practice is to be observed in parallel with the ongoing transformation within the related fields. Since, like Rumelt, Schendler and Teece have objected for the strategy management, it seems that the corporate governance as an intrinsically interdisciplinary field could not be regarded any more through an unifying, but rather as an integrated meta paradigm lenses (Rumelt *et al*, eds.,1994, p.1).

For articulation of the fundamental issues underlying the extended and arguably changed field domain, the meta theory of the organization as a social actor, as well as dynamic capability view that comprises three generic, behaviorally based higher order capabilities actually suit as a good starting point for shaping the new holistic CG frame, labeled here as RCGV. Such an approach might be helpful in resolving some of still under-explained, but fundamental questions in stakeholder orientation, i.e. to whom the company is responsible, whose expectations are to be respected, to what extent, when and how?

4. RELATIONAL ASSETS AND DYNAMIC CAPABILITIES VIEW

With respect to previously mentioned board's strategic as well as service or resource provision role, an extended CG view implies that both of the roles have an extended scope. Taking the view of corporation as a social actor as well as an organization, its assets may be classified as: financial, physical, relational, human, cultural, practices and routine assets, and intellectual property assets (Marr et al. 2004, p. 315). Using of the assets terminology that are usually grouped as tangible and intangible, of particular interest in fast changing hypercompetitive environment are intangible assets that are understood as a critical value drivers (Hall, 1992).

Intangible assets defined by Itami as invisible assets are information-based, which includes technology, consumer trust, brand image, corporate culture, as well as management skills. According to Itami they are the most important resources for long-term success because only invisible assets can be used simultaneously in several areas (Itami, 1987). Intangible assets are defined as those assets whose essence is an idea or knowledge, and whose nature can be defined and recorded in some way (Hall, 1992). The author splits them into intellectual property (those assets for which the organization has property rights) and information or knowledge assets (those assets for which the organization does not has property rights). Intangible assets drive capability differentials, which in turn drive sustainable competitive advantage, which is why organizations need to bring intangible resources and core competences into their strategic thinking (Hall, 1993).

Relationship assets rest and could be cultivated in the relationship between an organization and its internal and external stakeholders as well as in their interactions. Relationships can include official relationships such as partnering or distribution arrangements as well as non-formalized relationships. Itami (1987, p. 19) has first started to highlight the information or knowledge exchange between company and their external environment. Information flows from the company to the external environment include corporate reputation, brand image, corporate image, and influence over the distribution channel and its suppliers. Hall suggests that reputation is, along with human capital, the most valuable corporate intangible assets (Hall, 1992). Besides, it is the most reliable safeguard of corporate relational assets and especially stakeholder relations, both primary and secondary (Mahon, 2002).

Corporate reputation (CR) is the fundamental bond between company and its stakeholders, which by shaping the way of their behavior, can generate many favorable consequences to a company (Fombrun and Shanley, 1990, p.233), since it is a concept held in the minds or cognitions of stakeholders (Bromley, 2000). It is a reflection of social evaluation of the firm (Deephouse and Suchman, 2008), whose value steams from the positive collective perception of stakeholders (Pfarrer *et al.,* 2010). Corporate reputation is viewed through economic and social contexts, as intangible resource and as corporate liability, in parallel. Within the resource view, reputation is considered as strength and opportunity making construct (Fombrun, 1996), while within governance view, reputation is regarded as corporate behavior' restrictive effects generating and binding construct, due to fulfillment of stakeholder expectations (Mahon, 2002). While summarizes all what is known about the company (Schultz *et al.*, 2001), reputation may be considered as a mirror in which the company can accurately see its history, current market reflection and its internal situation (Dortok, 2006; Fombrun, 1996). Thus without an acceptable reputation, it is very difficult for a corporation to survive or to make progress.

Reputation entails two main components: p*erception* - how the company is perceived by all stakeholders; and *reality* - the truth about a company's policies, practices, procedures, systems and performance (Schultz and Werner, 2005). Consequently, due to its informational asymmetry power, it is a suitable corporate tool for influencing stakeholders' perception (Weigelt and Camerer, 1988). CR is formed directly through stakeholder's experience in relations with the company, or indirectly, through a recommendation of intermediates, media or participants of direct interaction (Fombrun in Hitt *et al.,* 2001, p.296). Companies can have reputations for different characteristics, behaviors or outcomes (MacMillan *et al*., 2005, p. 217), but whatever kind, reputation is fragile, easy to ruin, hard to recover, its safeguarding is employees and employers job, but its managing is board's duty. Since CR encompasses all of the company's explicit and implicit promises toward its stakeholders (Devine and Halpern, 2001), based on past actions in similar situation (Mahon, 2002, p.418), it reflects corporate conformance and performance, simultaneously.

The assistance of a good reputation in empowering company's relational skills within stakeholder network, for the company is important not only from the perspective of the influential groups for its survival and achievement, but also as an external source of new information, ideas and knowledge that could help boards in better decision making and direction of the company, in terms of sensing and seizing opportunities and deterring threats. To be able to, company has to have developed dynamic capabilities (Teece, 2007; Teece *et al.*, 1997). Capabilities refer to a firm's capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end. They are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm's resources (Amit and Shoemaker, 1993, p.35).

Dynamic capability (DC) is the capacity of an organization to purposefully create, extend, or modify its resource base (Helfat *et al*., 2007, p.1), understood as a higher-order skills that help in creating, reconfiguring and balancing of organizational resources and capabilities (internal perspective), in identifying, knowing and realizing opportunities, and in timely detection, offsetting and managing threats (external perspective), linking the external and internal company's environment (Tomšić, 2013b). DC can be disaggregated into the capacity: to sense and shape opportunities and threats; to seize opportunities; and to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets (Teece, 2007, p.1319). For the purpose of RCGV, DC can be defined as collective, managerial and organizational capacity of corporation to purposefully revitalize and transform its resource base in order to achieve congruence with the changing ecosystem, ensuring an ecosystem's corporate fitness and thus corporate sustainable development (adjusted, based on Helfat *et al.*, 2007; Augier and Teece, 2009).

Relevant field research highlights the importance of dynamic managerial capabilities as the key mechanism to achieve congruence between the firm's competencies and changing environmental conditions. Adner and Helfat (2003, p. 1012) define dynamic managerial capabilities as the capabilities with which managers build, integrate, and reconfigure organizational resources and competencies. They insightfully identify the three attributes underpinning dynamic managerial capabilities as (1) managerial human capital, (2) managerial social capital, and (3) managerial cognition. Managerial human capital includes the skills and knowledge repertoire of managers, which are shaped by their education and personal and professional experiences. Managerial experiences in specific contexts allow managers to acquire and develop specialized knowledge and skills, while managerial social capital involves managers' ability to access resources through relationships and connections (Adler and Kwon, 2002). Managers' formal and informal network ties help acquire essential resources and provide them with critical information for decision making. Managers' human capital and social capital are linked because the information and knowledge that managers gain through various relationships can be crucial in building and renewing their human capital (Coleman, 1988).

Dynamic managerial capabilities are driven by managerial cognition, which consists of the belief systems and mental models that managers use for decision making. Managerial cognition is shaped by personal and professional experiences and managers' interactions in internal and external networks (Adner and Helfat, 2003). All three elements of dynamic managerial capabilities: human capital, social capital, and cognition are intertwined. But Kor and Mesko extended the perspective by arguing that the three elements of dynamic managerial capabilities are vitally linked to the notion of managerial dominant logic such that they are the key inputs in shaping this logic. Managers' dominant logic refers to the way in which managers conceptualize the business and make critical resource allocation decisions. (Kor and Mesko, 2013, p. 235). This logic represents management's view of the world, where the firm stands in its business environment, and what it ought to be doing. Dominant logic is an articulation of the fundamental strategic beliefs, assumptions, and intentions of the CEO and senior management (Lampel and Shamsie, 2000).

For the conceptualization of RCGV Kor and Mesko idea will be borrowed for developing of board specific dominant logic, enriched with, corporate reputation in the position of balancing corporate governance mechanism (Tomšić, 2013a), both aimed at cultivating corporate fitness, thus shaping a dynamic corporate governance model.

5. CONCEPTUALIZATION[2]

Many different kind of relationship has been conceptualized so far within and between firms, such as joint ventures, alliances and networks, highlighting their firm-specific role contributing to a better performance (eg. Dyer and Hatch, 2006; Helfat *et al*., 2007). But there is no limit to apply such logic to a corporate stakeholder network. Stakeholder relations are firm specific, customized web of corporate life and are equally suitable for internal and external exchange of intangible assets, such as information, knowledge or ideas. Relational advantage approach (Dyer and Singh, 1998) postulates that some unique assets of company's need outside of its boarders are reachable but only through a form of willingly exchanging, not through formal contractual relationship. It is up to corporation to learn how to use them as well as to develop specific mechanisms for the purpose. Such kind of capability could be developed at the corporate level, sustained by a mediating role of its boards, supervisory and management, since they represent a decision making authorities of the corporation as a whole. Within this article, the corporate level

[2] Conceptualization is an extraction of the forthcoming doctorial thesis theoretical and empirical research: Tomšić, D. (2013): The role of corporate reputation in building dynamic capabilities of firms. Zagreb: Faculty of economics and business.

of performance as the unit of analysis is regarded, with respect to all three basic board's role, but in particular strategic decision making and goal setting activities.

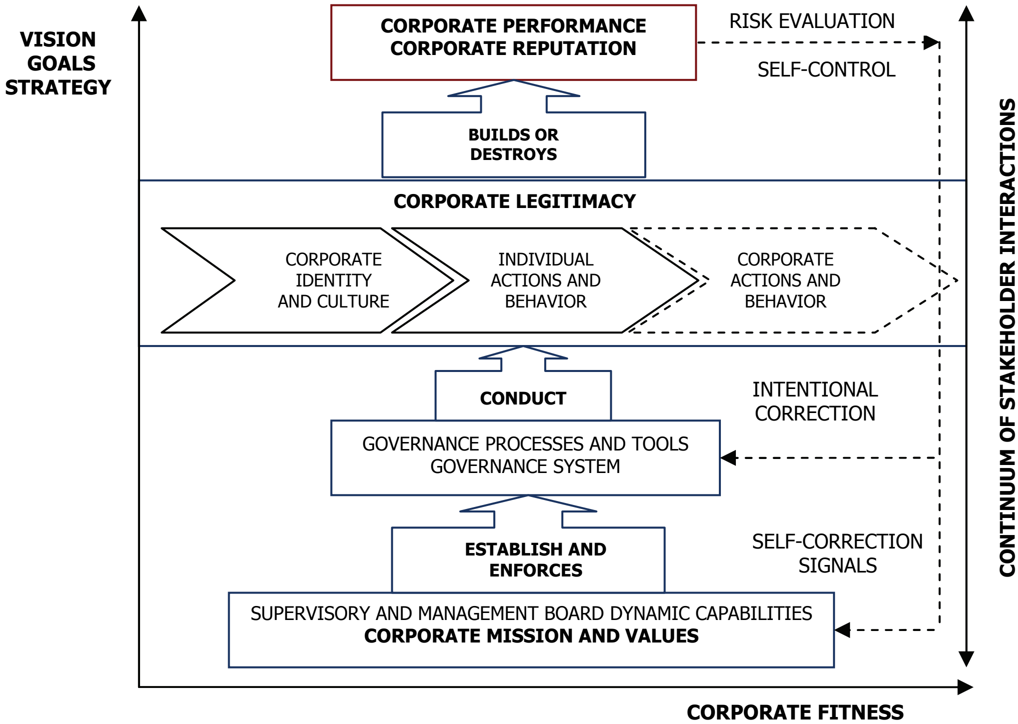
Bringing the capability notion within CG field actually means that the whole new perspective, aside of transactional contracting in taken, since the term governance is traditionally associated with lowering transactions costs between contracting parties and arranging incentives in such a way (Lindberg, 2003., p. 71). Transaction cost economics (Williamson, 1985) has strongly influenced understanding of governance so far, thus good cooperation is seen as a transaction with low transaction costs of contractual relations. But, on the other side, many scholars including transaction cost economists have observed that the governance of interorganizational exchanges involves more than formal contracting, since are typically embedded in social relationships. Dyer and Singh have proposed a relational view of a cooperative strategy as a source of interorganizational competitive advantage, thus starting the avalanche of research with respect to privileged interfirm exchange of routines and knowledge, suggest that a firm's critical resources may span firm boundaries and may be embedded in interfirm resources and routines. Relational capacity is defined as the ability and willingness of companies to the partnership through which can reach resources and capabilities beyond its borders (Dyer and Singh, 1998:672).

Besides, they have defined the relational rent notion as a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners (Dyer and Singh, 1998, p. 660). Relational contracts are defined as informal agreements sustained by the value of future relationships (Baker *et al.,* 2002). Relationally based governance emerges from the values and is agreed-upon processes found in social relationships which may minimize transaction costs as compared to formal contracts. For such relationally-governed exchanges, the enforcement of obligations, promises, and expectations occurs through social processes that promote norms of flexibility, solidarity, trust and information exchange (eg. Poppo and Zenger, 2002 for review).

The challenge of this article is to propose ecosystem's corporate fitness as an ultimate goal of a good corporate governance practice, and as a dominant board logic that should be grounded on a similar set of capabilities. The strategy management field literature is already familiar with the different forms of performance fitness. Helfat *et al.* (2007) contrasted evolutionary (dynamic, external) fitness with technical fitness. Technical fitness looks upon how effectively a capability is performed, while dynamic fitness, by which external fitness is meant regards whether the right activity is being performed. The latter is about making the right investments at the right time, and lining up the necessary complements (Augier and Teece, 2009, p. 412), but both are adaptive in nature. Thus, Teece has additionally proposed entrepreneurial kind of fitness, highlighting so the element of dynamic capabilities that involves shaping the environment capacity, which is entrepreneurial in nature.

Here proposed ecosystems' corporate fitness (ECF) stands for the context and performance integrated - industrial, social and institutional - dimensions of business fitness of a corporation. In particular, ECF is designed as a measure for the corporate capacity of self-regulated governance. To be able to practice fitness of a kind, grounded on a similar self-governance capacity, labeled here as ecosystem's corporate fitness capability (ECFC), corporation needs to develop and sustain its relational resources and routines and a favorable corporate reputation, due to the convenience of reputation's dynamic nature. In accordance with the definition of organizational capabilities, corporate fitness capability is composed of: (1) sensemaking ability for overarching supraindividual goals as a dominant logic; (2) ability to adopt, master and making use of dynamic capabilities sustained with favorable board-member reputation; and (3) the ability to understand stakeholders' attitudes and balance their expectations and demands through direct and indirect interaction.

Figure 2: The model of ecosystem' corporate fitness capability – ECFC within RCGV



Following Weick's call for explaining "more verbs instead of nouns" (Weick, 1995, p. 198), taking social actor lenses as corporate governance meta-theory, as well as dynamic capability and stakeholder orientation in term of boards and stakeholder engagement, the conceptualization of RCGV starts with the allocation and the recognition of roles. Following Kor and Mesko (2013) idea, the new dominant logic construction would be, as follows: (1) the company as a social nexus takes the principal role and becomes the acting subject; (2) board takes the member-agency role and become the performing predicate; (3) corporate goals, actions and a mode of behavior become the object in focus; and (4) corporate reputation become a new corporate governance mechanism as well as a self-regulated and directed tool for developing and sustaining ecosystem corporate fitness. Finally, as an overall outcome of the RCGV perspective, the flexible and dynamic model of corporate governance practice is shaped and depicted within figure 2. as the role model.

The framework reveals core corporate governance processes with respect to mission, identity and legitimacy as a constructive elements of corporate reputation, and paths of their linkage with corporate goals and chosen strategies in order to calibrate stakeholder alignment. Thus, boards have got both market and non market evaluating tool, suitable to audit corporate direction and control processes in form of achieved positive or negative reputational change. Moreover, direct and indirect relations between framework elements point to a dynamic process view of corporate governance that places reputation in a mediating position for the corporate goals setting and for the manner the performance is to be conduct in order to achieve and sustain corporate fitness. The role model corporation from a perspective of RCGV is in need of a good corporate reputation, since it is taken as a criterion for stakeholders' interaction entry decisions.

6. DISCUSSION AND FINDINGS

The challenge of this article is to propose ecosystem's corporate fitness as an ultimate goal of a good corporate governance practice and RCGV as flexible and dynamic corporate governing meta-model. In doing so, the basic step to be taken is to reorient overall board members mindset from short term and individually opportunistic toward supraindividual overarching goals to act appropriately (Lindenberg and Foss, 2011, p.504). Moreover, since board cognition mediate the relations between corporate context and the strategic responses to environmental change, to be able to cope with external and internal pressure and expectations of good performance and behavior board, equally as management are in need of dynamic capabilities, especially its sensing capacity, in order to achieve ecosystem's corporate fitness.

6.1 Sensemaking ability for overarching supraindividual goals and mindsets

By its very nature, sensemaking is an interpretive process that people use to place equivocal and ambiguous environmental stimuli into defined cognitive schemas, or mental frames that allow them to make sense of those stimuli. Organizational sensemaking allows organization members and groups to develop commonly shared meanings about key features, such as the organization's meaning, which issues it faces, and how to resolve these issues (Weick, 1995). Through organizational sensemaking, individuals and groups interactively create their social reality, which ultimately becomes the organizational reality. Sensemaking processes are important in organizational life and strategic decision making as they allow determining reference points and suggesting possible outcomes of organizational actions (Gioia and Chittipeddi, 1991).

At the board level, sensemaking processes involve as well activities such as environmental scanning and issue interpretation, which in turn influence decisions about corporate activities and goals setting. Board as a decision making authority of the corporation as a whole have to have a good understanding of a corporate mission and the values it sustains and revolves. Mission and values serves as a starting element of the corporate strategic goal framing through which the organizational and consequently corporate identity emerge. Aligning of corporate goals set with the corporate mission and identity oriented toward stakeholder value creation is assuring the mutual understanding of overarching supraindividual corporate goals. Overarching goals combine cognitive and motivational elements. When they are activated, such goals "frame" a situation by steering important cognitive processes in the service of the focal goal, a process in which motivation expresses itself though cognitions. Supraindividual mindset means to sustain collective orientation instead of individual opportunism. (Lindbenberg and Foss, 2011, pp.504-505).

Within the RCGV there are two goals of a kind that are valid for board decision making: the first is to act appropriately and fair and the second is to respect reputation effects and its risks consequences. They are here proposed as a new generic corporate dominant logic.

Stakeholder-oriented discourse emphasizes the communal aspects of reputation by reconstructing the business in a reciprocal relationship with its surrounding community (Lähdesmäki and Siltaoja, 2010, p. 213). According to Bosse *et al.,* (2009) people behave reciprocally by rewarding others whose actions they deem fair and willingly incurring costs to punish those they deem unfair. The underlined logic here goes for the corporation and its board behaving and acting. The idea that norm-based social control mechanisms - like reciprocity - commonly influence the behavior of parties to an incomplete contract is well established. Therefore, the level of contribution nonemployee stakeholders provide to the firm can also be expected to vary according to their perceptions of reciprocity. That is, variance in stakeholders' reciprocal behavior toward a firm hinges on the same thing that influences employees' reciprocal behavior—their perceptions of fairness (Bosse et *al.*, 2009, p.451). Thus, any stakeholder that perceive a firm as fair across all three types of justice, distributional, procedural and interactional will have an incentive to contribute more positive effort to the firm than those that perceive the firm is unfair on every or one of these dimensions.

Acting appropriately stands for the goal setting mode in the best interest of the corporation, with respect to its corporate mission, identity, legitimacy and reputation. This imaginary chain actually represents the internal and external perspective of corporate reputation building, which emerges as an outcome of firm interactions that spans all groups of corporate stakeholders. Bosse *et al.* (2009) have empirically tested how perceptions of fairness result in reciprocity extending toward all stakeholders of the firm, and thus positively affects firm performance. Thus, when board' decision-making is perceived as being appropriate and fair, stakeholders' reaction upon taken decisions is expected to be favorable as well, even though some decisions might not meet stakeholder expectations (Fassin, 2012). In the RCGV model, management board is considered also as a stakeholder group. Following overarching, supraindividual goals setting logic, the board should not have more doubt about goals' paradox expressed as the picking-achieving system of equations (Tomšić, 2013a, p.848).

Having in mind that corporate reputation is created both inside and outside of the company, it reflects the quality and the efficiency of the way the company is conduct. The quests of direction, control and responsibility could be well sustained by use of corporate reputation. Thus, CR is suggested as an integrated, internal and external corporate governance mechanism (Tomšić, 2013a). By using of social discourse, reputation could be portrayed as a control mechanism because it tells others about company's compliance with norms and even about how the business is conducted from the moral point of view. In this normative sense, the discourse is based on the kind of social control and is therefore understood as a mechanism to ensure compliance with norms (Lähdesmäki and Siltaoja, 2010, p. 214-215).

But moreover, the reputation role as the governance mechanism expands when is supported by reputational risk management approach. Building on Scadizzo, reputational risk can be seen as a function of the gap between stakeholder expectations and the company performance, with the former measured through regular attitude surveys and the latter through specialized audits (Scandizzo, 2011, p.50). Thus the management of reputational risk is as much a matter of governance, information gathering, accountability and controls as it is a by-product of a firm and its people's commitment to stay true to its mission and its values in their day-to-day work.

Corporate board decision making, in order to safeguards or to reshapes stakeholders' alignment and corporate reputation, has to be performed with a high awareness of reputational risks and its effects on companies control governance mechanisms. The board capable of and willing to perform in line with here proposed generic corporate dominant logic, essentially demonstrates distinguishing, corporate governance specific facet, suitable for sustaining corporate governance overall performance, and thus achieving and sustaining ecosystem's corporate fitness.

6.2 Ability to adopt, master and making use of dynamic capabilities sustained with favorable board-member reputation

Within RCGV board takes the member-agency role and becomes the performing predicate. Being in such position, board reputation affects overall corporate reputation. Besides, board reputation could be assessed through its members individual or collective perspective, thus it is important to create and sustain positive individual and collective favorable reputation of board members, since it is taken as a criterion for stakeholders' interaction entry decisions. Stakeholder support, on the other hand is needed for the strategy implementation as well as for the developing of beneficial relationships, to be of use for a company. Relationship to stakeholder group is to be assessed from descriptive, instrumental and normative view (Donaldson and Preston, 1995) of their salient expectations in order to calibrate overall corporate performance. As the descriptive perspective, within RCGV, the corporate dominant logic is understood.

RCGV anticipates that dynamic sensing, seizing and transforming capabilities, as they are introduced in organizational level form are the prerequisite of modern governance in ever-changing environment. A company that is excellent at making the wrong things will fail (Augier and Teece, 2009, p. 411). Arguably, corporation without the board, capable of sensing stakeholder expectations, expectations' gaps and the level of their satisfaction that is achieved so far by actual corporate behavior and performed CG practice, has a huge obstacle in its way to become ecosystem's fit. It especially matter when corporate goals are set and strategies approved. Moreover, board unable of seizing capability, in form of making strategic decisions as well as timely investment decisions, arguably harms corporate resource base and future potentials. The transforming capability within CG perspective actually refers to management board oriented actions with respect to its performance.

Board unable of transforming the management board timely, which implies the replacement of underperforming managers, rewarding of over-performing, and undertaking other necessary sensing, seizing and transformation oriented activities could be considered as the board with unsatisfying governance capacity, and as such a kind of threat and weakness for overall corporate performance, as well as its prospects for survival. Moreover, with respect to its control and strategic role, board that does not sense, act and intentionally correct all the corporate activities that endanger corporate performance or its reputation might be considered as failing in its both, monitoring and directing role, that will consequently weaken its services or resource providing role too.

Following Adner and Helfat (2003) concept of dynamic managerial capabilities can be helpful for explaining the differences in board members respond to changes in the external as well as internal corporate environment. The three attributes could be taken as underpinning indicators of their dynamic capacity on personal level, namely, board member human capital, social capital and cognition, and how they affect particular board member's ability to sustain corporation's fitness and overall performance within his or her assigned board member role and supervisory duty.

The board capable of mastering organizational and individual level dynamic capability, essentially demonstrates self-regulating capacity as the distinguishing, corporate governance specific facet, suitable for sustaining corporate governance overall performance, and thus achieving and sustaining ecosystem's corporate fitness.

6.3 Ability to understand stakeholders' attitudes and balance their expectations.

Corporate behavior as well as its reputation outline an overall corporate performance in terms of economic, financial, social, and environmental outcomes (Fombrun 1996, p. 399) since, while operating, companies interact. These interactions "take place both in the marketplace of goods and services (where strategy is focused) and in the marketplace of ideas (where corporate social performance and political strategy research are focused)" (Mahon, 2002, p. 417). As the consequence of company's interactions, its reputation emerges, encompassing; on the one hand, it's both market actions and behaviors that praise the corporation's competitiveness and conformance at the same time; on the other hand, the extent of stakeholder expectation fulfillment. By obeying to legal and regulatory institutional framework of the environment they operate within, corporations meet a minimum of requirements, in particular a necessary part of their legitimacy. But beside regulative terms, there are normative and cognitive ones (Wang, 2010, Deephouse and Carter, 2005) company should not disregard in order to assure the sustained development of its business activities and an acceptable reputation, as well. So, pursuing of corporate principles, practices and values represents the board-chosen path that deliberately shapes corporate behaving.

Companies that act and perform below stakeholder expectations are gaining unfavorable reputation, which restricts their prospects of long term successful performance (Scandizzo, 2011). As figure 2. depicts, CR is situated as corporate performance consequence, and as antecedent in a next business cycle, as well. By respecting reputational change, board actually has an indirect and direct stakeholder feedback response with regarding corporate direction and behavior, and is in position to deliberately adjust corporate processes. To meet the stakeholder expectation(s) regarding overall corporate performance without significant gap is a hard corporative goal to achieve, but could be calibrated better by delving into the mode of meaning(s) (re)construction to reputational dimensions change. Referring to the doctorial thesis empirical research performed in Croatia in 2012 on a simple of 1000 biggest companies (ranked by total annual income), results point out to emergence of the relational dimension of reputation. Thus, the functional, relational, affective and social dimensions are proposed as the newborn taxonomy of corporate reputation. Table 1. summarizes the empirical findings.

By following new, four-dimensional reputational taxonomy, the interpreting of changes in corporate reputation might be much more accurate than it presently is, if is evaluated through each of four proposed dimensions. Herewith, market performance could be matched with functional reputation, behavior with relational reputation, corporate social responsibility and citizenship with social reputation, and appearance with affective reputation. Besides, such a framework allows for matching, even mapping of relevant primary and secondary stakeholders' requirements toward a company, and thus achieving more calibrated decision making, regarding the targeted extent of stakeholder satisfaction.

Table 1: Corporate reputation generic four dimensional taxonomy

REPUTATION	*Functional*	*Social*	*Affective*	*Relational*
Reference	Objective world of the true Performance tags of functional system	Social world of the good Ethical standards Expectation gap	Subjective world of the beautiful Individual character Image	Experiential world of (direct and indirect) interactions Values, culture, behavior organizational identity,
Indicators	Competence Success	Integrity Responsibility	Attractiveness Uniqueness	Relationship mode Fairness
Appraisal style	Cognitive-rational	Ethical	Emotional	Behavioral
Sub dimensions	Performance Quality Capability	CSR Citizenship	Communication Emotions Character	Trust and credibility Commitment Reliability and responsibility Legitimacy

Izvor: Tomšić, D. (2013b). The role of corporate reputation in building dynamic capabilities of firms. The doctorial thesis in preparation. Zagreb: Faculty of economics and business. The model is built on the basis of Eisenegger and Imhof (2008, p.130).

Respecting previously stated theoretical and empirical research results of CG and CR fields, as well as proposed conceptualization insights, the governance control mechanisms and reputation dimensions relationship could be accessed through high-medium-low scale, a kind that is common at risks management practice. Thus, following proposed dominant logic, corporate board decision making, in order to safeguards or to reshapes stakeholders' alignment and corporate reputation, has to be performed with a high awareness of reputational risks and its effects on companies control governance mechanisms.

Besides, having in mind that stakeholder' relations could be regarded as the firm specific network reveals the hidden talent of corporate reputation: a company that posses positive reputation, and is perceived as behaving fairly within its complex network of internal and external relationships may use its reputational platform as a kind of privilege information and knowledge sharing space that Nonaka and its colleagues labeled as *Ba*: the shared context for knowledge creation (Nonaka *et al.*, 2000).

Corporate reputation, viewed in such an dynamic mode, actually means its transformation from one-directional (inside out) oriented emitting resource to bidirectional, two ways (inside out and outside in) operating flow, which capture is role as a resource and as a driver capability. Reputational capability is defined as the capacity of companies to make use of their reputational potential in order to create, develop, maintain and exploit interactions with stakeholders within the overall performance context for the purpose of knowing valuable and relevant information, ideas and knowledge, and for the effective balancing of the company's resource base. Since stakeholders in interaction with the company gain experience and feelings of it, directly or indirectly, that form their attitude, and moreover their behavior toward the company in focus, by making use of its reputation capacity a company may achieve better understanding of its arms length as well as embedded relationships, thus cutting the expectation gap (Tomšić, 2013b).

In line with previously stated propositions, the board able to understand stakeholders' attitudes and balance their expectations essentially demonstrates leveraging capacity and a dynamic flexibility of corporate governance practice, suitable for sustaining corporate governance overall performance, and thus achieving and sustaining ecosystem's corporate fitness.

7. CONCLUDING REMARKS

The challenge of this article was to propose ecosystem's corporate fitness as an ultimate goal of a good corporate governance practice and RCGV as flexible and dynamic corporate governing model. By orienting towards relational aspect of corporate governance, the missing link for a holistic perspective is highlighted and added, in particular, ecosystem stakeholders' interacting. Besides, the idea of the paper might help in resolving many ongoing debates within the field. Corporate reputation potential, along with dynamic capabilities, corporate and board', are surely surprising as being introduced to corporate governance field. However, in searching for improvements of effectiveness and efficacy of governance system, and in sensing and implementing corporate change and renewal in a manner that is highly regarded in market as well as in non market arena, they are more than desirable and robust concepts. Their significance is expected to increase in the future, as they form a constituting part of the business sustained success.

Social actor meta-theory seems like the promising avenue for resolving many under-explained questions within stakeholder orientation. Corporate fitness as well as the underlying capability that are in line with the contemporary strategy's state of art hopefully will served as the new path for developing of more efficient and effective corporate governance practice, possibly as the yardstick for corporate governance quality. The insights and propositions offered here need to be further empirically tested in order to gain the firm inference and explanatory power, which is considered as the major limitation of the article.

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