International Journal of Science and Research (IJSR)
ISSN: 2319-7064
ResearchGate Impact Factor (2018): 0.28 | SJIF (2018): 7.426

The Problem of Good Governance and Fiscal Risk Explained through the Lens of the Agency Theory

Ezouine Driss[1], El Haddad Mohamed Yassine[2], El Gorfti Abdelouahed[3]

[1, 2, 3]Department of Management, University of Mohammed 5 – Rabat, Faculty of Law, Economics and Social Sciences -Agdal, Morocco

The study of the issue of governance is at the center of fiscal risk research.

This highly correlated dual has been the subject of several empirical studies for several years; these researches have been able to uncover this subject through the agency theory, which remains the closest explanation of this relationship and its consequences.

The theory explains the problem of governance while linked to the presence of this risk and raises the role of several internal and external actors in the company to help in the resolution of this problem and therefore in the management of this type of risk.

In 2009 ; Perez, in his book: "The reciprocal rights and duties" P.34 exposes this interaction as follows: "The various stakeholders (contributors of capital, employees, customers and suppliers ...) are linked in this contractual knot thanks to this legal fiction that commercial law has authorized by creating these legal entities that are societies. For each party, the terms of the contract specify more or less in detail ... we can not always predict everything, hence the incompleteness of contracts.

The first empirical approach defines the theory of the agency when a "main" entrusts a mandate to another person a.k.a. "agent" to perform any given task on their behalf (Delegation),

In a company, this agency relationship exists between the shareholders (owners) and the managers. The shareholders entrust the decision-making responsibility to the managers (non-owners). But the objectives of both parties diverge and are bound by a contract that is incomplete and obscure, the shareholders are forced to bear costs that are called agency costs:
- The cost of management supervision;
- Expenses incurred by executives to perform their duties;
- Bear residual losses and costs related to decisions taken against shareholders' opinions.

Stakeholders of the system also include economic actors, making governance even more complex, whether it be contractual or economic.

The second approach, introduced by Hirigoyen (in 2000), specifies that "a governance partnership defends the opposite thesis that leaders must manage companies by taking into account all rights holders" P-12. This so-called partnership theory "also emphasizes the central role of the leader in the relationship between the stakeholders and the company. This role is all the greater that it is up to the leader to give priority to a requirement expressed by a given stakeholder"

As a result, according to Hirigoyen (2000) and Pochetet Seny Kan, (2008): the governance system is the set of mechanisms designed to control managerial action and preserve the interest of all partners other than shareholders.

In this model, each stakeholder has the ability to influence the decision-making process. Risk management is one of the most fundamental elements ofgood corporate governance (Zéghal and Ajili, 2005).
Corporate governance is "the set of organizational mechanisms that have the effect of delimiting powers and influencing the leaders' decisions, in other words, they are governing their discretionary space" (Charreaux, 1997: 1652).

Risk management aims to protect the interests of all stakeholders in the company. It is thus an integral part of partnership governance that focuses on the relationships that the company has with its various stakeholders in order to achieve its objectives. The company must then take into account the expectations of all stakeholders and not only shareholders (Saulquin, 2009). According to Mauléon (2009, p.147), "One of the most effective ways to manage reputational risk is to implement corporate governance that includes proactive risk management, listening to stakeholders, and to practice a transparent communication about the problems encountered by the company ".

And in order to achieve an effective risk management process, the decision-making body must create a process by which it must ensure that the company acts in the interest of its stakeholders by defining and allocating responsibilities in the area of risk management. This mechanism can be implemented through a risk committee, in the form of a "Chief Risk Officer" "a corporate governance regime must guarantee the timely dissemination of accurate information on all significant matters regarding the company, and in particular the financial situation, the results, the shareholding and the government of this company ".

The COSO, in its "internal control-integrated framework", defines internal control as "a process put in place by the board of directors, the managers and the staff of the entity, intended to provide reasonable assurance as to the achievement of these objectives: optimization of operations; The reliability of financial information; - Compliance with the laws and regulations in force "(COSO, 1994, p.3).

I-The partnership model

The main internal players in the partnership model are: the board of directors, the management and the internal audit function.

The administration or the management of the company according to the legal form of the company and its modus operandi carries out a surveillance activity and must have a global vision of the risk management mechanism of the company. Therefore, it must have reliable information and the guarantee of having an effective and adequate control system. (COSO 2005, IFA and IFACI 2009).

The governing or managerial entity must have an independent unit of work to ensure good risk management.

In other words, "the audit committee will have to make sure that the risks have been identified and that the internal control procedures are designed and operated in such a way as to reduce these risks. There will therefore be a link to be established between the identification of the risks and the internal control procedures that have been implemented "(KPMG and ACI, 2009, p.7).

According to IFA and IFACI (2009, p.31), the Audit Committee "ensures that major risks are under control and have been adequately addressed by management, that major risks are monitored by a competent person and that there is a link between the risks and the work programs of the internal audit ".

External actors who play a role in managing the risks of the enterprise are the external auditor, the legislator and other external partners.

The external auditor also contributes to the improvement of the risk management processof the company. Maders and Masselin (2009) indicate that the external auditor is neither integrated in the internal control system nor responsible for its effectiveness, but recently developed laws (French financial security law, etc.) tend to attribute an important role to it in the improvement of the internal control system.

Legislators can also influence the risk management system put in place by companies. Thus, the last decade is characterized by a proliferation of new legal obligations focusing on improving the corporate governance system and more specifically the internal control system.

Customers, suppliers, as well as other third parties having a business relationship withthe company can be a source of information that helps the latter in itsrisk management system. Creditors may require, with the purpose of granting of a loan, obtaining information on the situation of the enterprise, inter alia, on the degree of achievement of its objectives, which is directly related to the risk management process (COSO, 2005).

II. Tax risk, related to governance:

The problem of tax-related governance was always a topical issue and a focus of research, especially in countries where taxes account for most of their budgets. Recent empirical research has also emphasized the governance implications of conflicts of interest between shareholders and executives that may have spillover effects on fiscal risk.

This research defined the company as a separate and independent entity of management whereas in reality it is a center of intersection of contracts between several stakeholders with opposite interests. This opposition is amplified by the existence of the tax risk.

Fiscal risk in the context of agency theory can create a governance problem that affects shareholders' interests and requires the establishment of control mechanisms to manage it. In this context, Desai and Dharmapala (2008) emphasize that the separation of ownership and management is at the root of a governance problem related to taxation.

Schön (2008: 33) states:"unlike the situation of the individual taxpayer, the different aspects of tax life are not concentrated in the hands of a single person. While a natural person must pay taxes on his own income and wealth, must file his own tax return and must pay his own share of taxes, in the context of the business, responsibilities are dispersed, leading to opportunistic behavior, principal agent conflicts, the problem of moral hazard ... ".

According to Desai and Dharmapala (2006), "decisions on risky tax planning are made by leaders. The analysis of these decisions is made within the framework of agency, according to which the leaders can draw private profits through a diversion of rents. "

Desai and Dharmapala (2008), "A business executive can create multiple entities in tax havens. These entities provide ways to reduce the tax burden. The details of the structures and transactions made with these entities cannot be given to avoid the detection by the tax administration and the questioning of the declared benefits. "

In this context, a recent government action aims to review the transfer prices in 2018-2019 in Morocco.

Desai and Dharmapala (2008) also cited Enron's financial scandal. According to these authors, the manipulation of the tax results was at the origin of the scandal through transactions with a high tax incidence but which increase the accounting result before tax.

As a result, the presence of tax risk has a direct impact on shareholders' interest and may result in high agency costs for shareholders. Thus, there is a problem of governance related to the taking of the fiscal risk by the directors of the company.
Consequently, the corporate governance system must be effective to ensure better management of this risk.

References

[1] Addison, T., A. Roe and M. Smith, Fiscal Policy for Poverty Reduction, Reconstruction and Growth, Policy Brief, nº 5, Helsinki, UNI/WIDER, 2006.

[2] Baunsgaard, T. and M. Keen, Tax Revenue and (or?) Trade Liberalization, IMF Working Paper, nº 05/112, Washington, DC, IMF, 2005.
[3] Burnside, C. and D. Dollar, Aid, Policies, and Growth: Revisiting the Evidence, World Bank Policy Research Working Paper, nº 3251, Washington, DC, The World Bank, 2004.
[4] Comité du développement (Banque mondiale et Fonds monétaire international), La politique budgétaire : un instrument de croissance et de développement. Rapport intérimaire, DC2006-0003, 6 avril 2006.
[5] Cottet, C. et J. Amprou, Aide et politique budgétaire des pays bénéficiaires : une revue de la littérature économique, Rapport thématique JUMBO, nº 16, Paris, Agence française de développement, septembre 2006.
[6] DFID, DGIS, GTZ, IMF and OECD, Environmental Fiscal Reform: What Should Be Done and How to Achieve It?, Washington, DC, The World Bank, 2005.
[7] Fjeldstad, O.-H. and O. Therkildsen, Taxation, Aid and Democracy: Research Programme 2000-2003, Final Report,Bergen, Chr. Michelsen Institute, 2004.
[8] Moore, M., How Does Taxation Affect the Quality of Governance?, Working Paper, nº 280, Brighton, Institute of Development Studies, April 2007.
[9] Moore, M., « Taxation and the Political Agenda, North and South », Forum for Development Studies, nº 1-2004, pp. 7-32.
[10] Moss, T., G. Pettersson and N. van de Walle, An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa, Working Paper, nº 74, Washington, DC, Center for Global Development, January 2006.
[11] OCDE, 2005, La réforme fiscale écologique axée sur la réduction de la pauvreté, Lignes directrices et ouvrages de référence du CAD, Paris, OCDE, 2005.
[12] Murphy, R., J. Christensen et J. Kimmis, Taxez-nous si vous pouvez, briefing paper, Londres, Réseau pour la justice fiscale, 2005.
[13] SchümperliYounossian, C. (responsable du dossier), Annuaire suisse de politique de développement. Partenariats public-privé et coopération internationale, vol. 24, nº 2, Genève, IUED, 2005, p.213.
[14] Thévoz, L., « La décentralisation dans les Andes ou l'art d'accompagner un processus », Politorbis. Revue de politiqueétrangère, nº 41, 2/2006, Berne, DFAE, 2006, pp. 43-50.
[15] Williamson, J., « What Washington Means by Policy Reform », in J. Williamson (ed.), Latin American Adjustment: How Much Has Happened?,Washington, DC, Institute for International Economics, 1990.

<u>Principaux sites Internet consultés</u>

[16] Banque mondiale : <http://www.worldbank.org>.
[17] Direction du développement et de la coopération (DDC) : <http://www.deza.admin.ch>.
[18] Fonds monétaire mondial (FMI) : <http://www.imf.org>.
[19] Organisation de coopération et de développement économiques (OCDE) : <http://www.oecd.org>.
[20] Organisation des Nations unies (ONU) : <http://www.un.org>.
[21] T. Addison, A. Roe and M. Smith, Fiscal Policy for Poverty Reduction, Reconstruction and Growth, Policy Brief, nº 5, Helsinki, UNI/WIDER, 2006, pp. 1 et 7 (notretrad.).
[22] l'étude du Réseau pour la justice fiscale : R. Murphy, J. Christensen et J. Kimmis, Taxez-nous si vous pouvez, briefing paper, Londres, Réseau pour la justice fiscale, 2005.
[23] Le FMI publie des chiffres par pays, qui indiquent la structure des recettes fiscales selon la nature (par exemple impôts directs, impôts indirects, commerce international). Voir : FMI, Manuel de statistiques de finances publiques 2001, Washington, DC, FMI, 2001, disponible sur <http://www.imf.org/external/pubs/ft/gfs/manual/gfs.htm>.
[24] Pour une discussion plus détaillée de ces motifs, le lecteur intéressé se référera à M. Moore, « Taxation and the Political Agenda, North and South », Forum for DevelopmentStudies, nº 1-2004, pp. 7-32.
[25] Tous les instruments liés à la fiscalité écologique ne poursuivent pas nécessairement ces trois objectifs. Sur le plan théorique, un impôt écologique au sens strict n'a d'objectif ni fiscal, ni social. Il ne vise qu'à attribuer un prix à l'usage de l'environnement. La raison du présent choix s'inspire des travaux d'agences bilatérales de coopération et de l'OCDE. Voir : DFID, DGIS, GTZ, IMF and OECD, Environmental Fiscal Reform : WhatShould Be Done and How to Achieve It ?, Washington, DC, The World Bank, 2005, et OCDE, La réforme fiscale écologique axée sur la réduction de la pauvreté, Lignes directrices et ouvrages de référence du CAD, Paris, OCDE, 2005.

References

[26] Pascal RAESS, « Fiscalité et gouvernance : rôle et impact de la coopération internationale au développement », Annuaire suisse de politique de développement [En ligne], 26-2 | 2007, mis en ligne le 24 juin 2009, consulté le 24 mai 2019. URL : http://journals.openedition.org/aspd/153.
[27] **Charreaux, G., Couret, A., Joffre, P., Koenig, G., Montmorillon, B.** (1987). De nouvelles théories pour gérer l'entreprise. Editions Economica, 151 pages.
[28] **Depret, A., Hamdouch, A.** (2009). Gouvernance d'entreprise. Edition De Boeck, 216 pages.
[29] **Derbel, F.** (2009). Les groupes de sociétés : cadre réglementaire, impératifs de transparence et de la bonne gouvernance. Séminaire sur l'analyse du risque des groupes le 27 février 2009,20 pages.
[30] **Ghertman, M.** (2004). Stratégie de l'entreprise : Théories et actions. Editions Economica, 271 pages.
[31] **Guedrib, M.** (2013). Impact des mécanismes internes de gouvernance sur le risquefiscal : une étude menée dans le contexte tunisien. Thèse de doctorat en sciences de gestion. Université de Franche-Comté, 373 pages.
[32] **Jarboui,** A. (2008). Impact des mécanismes de gouvernance sur la stratégie de diversification des groupes tunisiens. Revue Mangement & Avenir. N°17 : pp. 83-104.
[33] **Kartochian, S.L.** (2010). Théories des organisations. Editions Lextenso, 159 pages.

[34] **Negra, S.** (2004). La problématique de la gouvernance dans les groupes de sociétés en Tunisie. Mémoire pour l'obtention du diplôme d'Etudes approfondies en management à la Faculté des Sciences Economiques et de Gestion, 227 pages.
[35] **Omri, A., Hakim, F., Triki, F.** (2009). Impact de l'audit externe sur la qualité du résultat comptable : Cas des entreprises tunisiennes cotées. Revue gouvernance automne 2009 : pp.1-19.