

The Corporate Governance Code of the Bucharest Stock Exchange: Comply or Explain

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Abstract

The companies in Romania which have their titles traded on the Bucharest Stock Exchange (BVB), must operate in a transparent manner, based on the rules established by the Corporate Governance Code (CGC) of the Bucharest Stock Exchange. The implementation of these rules will be based on the "comply or explain" principle that aims to provide the market with correct and up-to-date information on how the listed companies comply with the corporate governance rules. The BVB monitors the degree of implementation of the CGC provisions by the companies listed through the "comply or explain" statement, a statement that includes a self-assessment of how the "provisions to be respected" are met and the measures taken to comply with the provisions that are not fully fulfilled yet. The objective of the work is focused on the analysis of the compliance of the provisions of the CGC, respectively of the level of implementation by the Romanian companies listed on the Main Market of the Bucharest Stock Exchange during 2016-2018. The companies analyzed in the study must comply with a set of principles and recommendations set out in the Corporate Governance Code, based on the fact that these shares are traded on a regulated capital market. The purpose of the CGC is to create an attractive capital market internationally and to increase the confidence in the listed companies, based on best practices, transparency and trust.

Key words: corporate governance, corporate transparency, Stock Exchange Bucharest
J.E.L. classification: G30, M40, M41

1. Introduction

In a world full of uncertainty, there is an increasing need for transparency and accountability. This need is also found in the relationship between the organization and the stakeholders, respectively investors, with the objective of presenting an overview of the entity, how it creates value in the short, medium or long term.

The complexity of the economic activities of today means that the overall image of a business is no longer analyzed only from the point of view of the financial results. In addition, information on sustainable development, social responsibility, environment, as well as corporate governance elements should be evaluated, transparency being closely linked to this concept.

This research concerns the companies listed on the Bucharest Stock Exchange and we considered it necessary to present the BVB Corporate Governance Code with justification of the importance of the declaration of conformity known as "Apply or explain". The BVB Corporate Governance Code was based on the OECD Principles and contains 34 principles. Analyzing the composition of these principles we find that the transparency of economic and financial information occupies a central place, being the essence of the entire act of government.

For listed companies, transparency can also be determined by analyzing the indices and indicators specific to the capital markets. Based on the data presented on the official websites of the analyzed companies and the Bucharest Stock Exchange, we will analyze the main indices and indicators of the companies included in the sample. As the volume of the information obtained from the research is large, we considered it of real importance to incorporate them into an

aggregate index, through which we quantify the degree of transparency of the information. Starting from a study by Standard Poor's, we will develop an index that includes all the elements analyzed in the research. The Excel spreadsheet software provided by the Microsoft Office application will be used for data processing

The paper is structured as follows: the first section offers a review of the specialized literature, summarizing the previous studies on corporate transparency. The second section describes the research method used, population selection and data collection, this section also describes the variables and the proposed model. The third section presents the results of the statistical analysis, and the last section presents the conclusions and contributions of the study.

2. Literature review

Crowther and Seifi (2010), subscribing to the OECD's principles of corporate governance, place transparency in the first place among the eight principles required for good corporate governance. The two authors consider that transparency is primarily useful for external users, thus the economic entity is responsible for how its actions are perceived in the external environment. The other six principles refer to the consistency with the rule of law, regarding the regulatory framework of the activity of the entity, the participation of all parties involved in the governance act, the prompt reaction in the service of all users, the equity through which the opinions of all parties involved are taken into account, efficiency and effectiveness, with which the costs are minimized in favor of increased profits, sustainability, which ensures the long-term viability of the business and not least, the entity's responsibility for its decisions and actions.

Bunea et al. (2012), considers that information transparency is a relative concept, influenced by cultural elements and the accounting model specific to each country or region, as well as by the qualities, education and character of the accounting professional in charge of reporting.

Transparency involves the transmission of economic and financial information effectively, equality in terms of access and timeliness. Information can only be effective if user access to it can be done in an easy way. Regardless of the quality of the information, if it does not reach the users when they need it or the way of transmission and presentation is cumbersome, its value is significantly reduced. We consider that the decision of the investors depends largely on this attribute of information, being the main deciding factor towards the capital markets.

Reporting non-financial information, without proper regulation, can be assimilated to voluntary reporting. The research carried out (Cotter et al., 2011) led to the conclusion that the managers who opt for voluntary reporting of some information have brought great economic benefits to the companies they manage, well above the costs of drawing up and reporting. These benefits are observed at the level of company credibility, increasing the value of companies, facilitating access to low cost capital or increasing the number of investors. Voluntary reporting can also have the role of self-regulating capital markets by achieving an optimal level of financial transparency that contributes to supporting investor confidence.

Transparent financial communication, supported by sound corporate governance, represents the prerequisites for developing capital markets. An optimal level of transparency ensures economic stability and sustainability, with positive effects on the economic level.

Reporting on corporate governance practices is compulsory at the level of listed companies and must include a self-assessment of how the provisions regarding compliance or non-compliance with the principles of corporate governance are met. If initially there was a reluctance to implement, due to the high costs and, above all, the lack of an adequate culture in the field, time convinced that the report offers users transparent information through which they gain or increase their confidence. We further propose to analyze the need for the implementation of corporate governance and to present the principles of the Corporate Governance Code of the Bucharest Stock Exchange from the perspective of the transparency of the information leading to their implementation.

3. Research methodology

Research has led to the conclusion that transparency is an attribute of corporate governance. In support of this assertion the Corporate Governance Codes represent a real help as these are based on the recommendations necessary to obtain the transparency and trust of the listed companies.

The first Corporate Governance Code in Romania was published in 2001, being drafted by the Bucharest Stock Exchange, through the transposition into the national regulation of the provisions of the OECD Report. Companies that have decided to partially or totally adopt it are required to submit annually a declaration of compliance or non-compliance with the provisions of the Code (the "Apply or Explain" Statement). This statement mentions what recommendations have been implemented and how to implement them, and in case of a negative answer it must be accompanied by explanations. The purpose of the code is to create in Romania an attractive capital market internationally, based on best practices, transparency and trust. The promotion of high standards of governance and transparency aims to increase confidence in listed companies.

As we have presented above, the objective of the work is focused on analyzing the compliance of the CGC provisions, respectively of the level of implementation by the Romanian companies listed on the Main Market of the Bucharest Stock Exchange. The sample is composed of 73 companies listed on the Main Market of the Bucharest Stock Exchange in 2016-2018. We believe that based on the data obtained we will be able to come to an eloquent conclusion and we will be able to anticipate the trends on corporate governance for 2019.

Considering Romania, it is expected that the companies will adopt and present information regarding corporate governance practices (Feleagă, Feleagă, Dragomir and Bigioi, 2011). This practice is similar to the practices applied in other studies conducted on listed Romanian companies, especially for those who have investigated corporate governance or information disclosure practices (for example, Caloian, 2013).

The companies analyzed in the study must comply with a set of principles and recommendations set out in the Corporate Governance Code (CGC) of the Bucharest Stock Exchange (BVB), since their shares are traded on a regulated capital market. The purpose of the CGC is to create an attractive capital market internationally and to increase the confidence in the listed companies, based on best practices, transparency and trust. CGC recommends listed companies and not only to build a strong relationship with shareholders and stakeholders, through efficient and transparent communication.

In this regard, BVB monitors the degree of implementation of the CGC provisions by the companies listed through the "apply or explicit" statement, a statement that is part of the annual report of the companies, which includes a self-assessment of how the provisions are met, this must be respected, as well as the measures taken to respect the provisions that are not yet fully fulfilled.

The Declaration of Conformity is a specific section of the Administrators' Report through which the following information must be reported, and contains 4 sections and 34 principles:

- references regarding the responsibilities of the Council;
- description of the main characteristics of the internal control and risk management systems in relation to the financial reporting process;
- description of the management reward and motivation mode;
- the disclosure of information to shareholders and market participants, respectively the devolution of the relationship with investors, available on the websites of companies.

In order to evaluate the compliance or non-compliance of companies with the principles of corporate governance, the data published by the companies included in the sample were centralized and we evaluated them based on the scores given, as follows:

Apply	1
Do not apply	0

The first element considered was the preparation and reporting of the declaration of conformity. Following the centralization of the data, we selected a sample made up of 73 companies that prepare and report the statement "Apply or explain" throughout the analyzed period, respectively the period 2016-2018. Companies that did not draw up and report the "Apply or Explicit" statement during the entire analyzed time period were excluded from the sample.

The second element considered in the analysis of the degree of compliance was the elaboration of a corporate governance score through which the quality of the corporate governance system at the level of the companies selected in the sample is determined. We considered in establishing the scores of the methodology adopted by Standard & Poor's and applied at national level by Achim, Borlea and Mare (2016). The 34 recommendations of the "Apply or Explain" statement are divided into four sections, as follows:

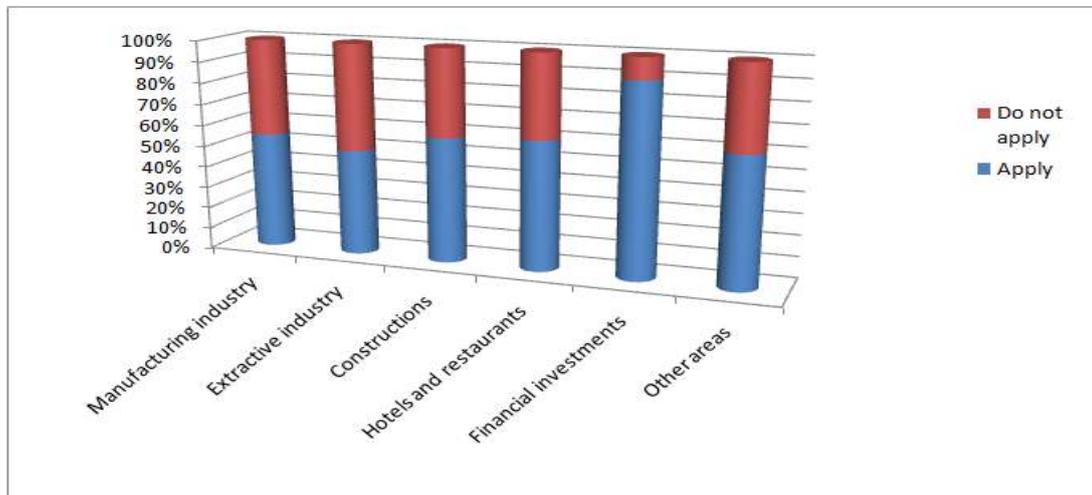
- responsibilities of the Council (section A);
- system of risk management and internal control (section B);
- just reward and motivation (section C);
- adding value through investor relations (section D).

Section A has assigned 11 questions, section B - 12 questions, section C - 1 questions, and section D - 10 questions, the issuers' answers to these questions may be YES or NO. In the case of a negative answer there is an additional heading, in which the reason for the non-compliance must be argued and justified. For each positive answer one point is awarded and for the negative answers zero points, a company can register a maximum of 34 points.

4. Analysis and Results

Our study is represented by the determination of the corporate transparency, respectively of the level of compliance with the provisions of the CGC based on the scores obtained, for year 2016 the situation is presented as follows:

Figure no. 1. The situation of the corporate governance score at the level of 2016



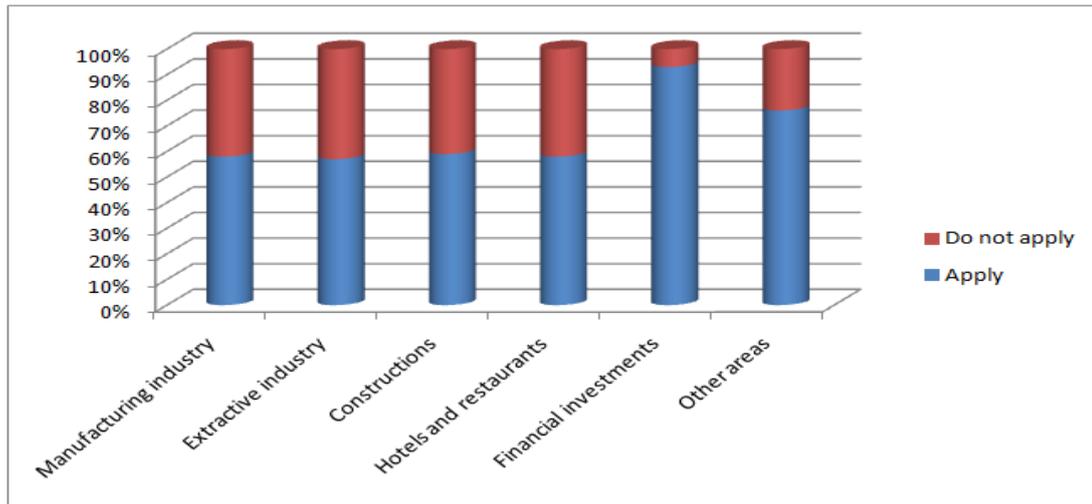
Activity Field	Apply	Do not apply
Manufacturing industry	55	45
Extractive industry	50	50
Constructions	59	41
Hotels and restaurants	61	39
Financial investments	90	10
Other areas	61	39

Source: author processing based on data published by listed companies, available on the websites of companies

For 2016, the best corporate governance score was registered in the field of financial investments and the banking sector (90%), followed by hotels, restaurants and companies from various fields of activity (61%), and the lowest score was obtained by companies from the extractive industry (50%). This year the average corporate governance score was 62.66%, a value considered reasonable, considering that the number of principles applied is higher than those that are not applied, or are partially applied.

In 2017, the situation is presented below:

Figure no. 2. The situation of the corporate governance score at the level of 2017



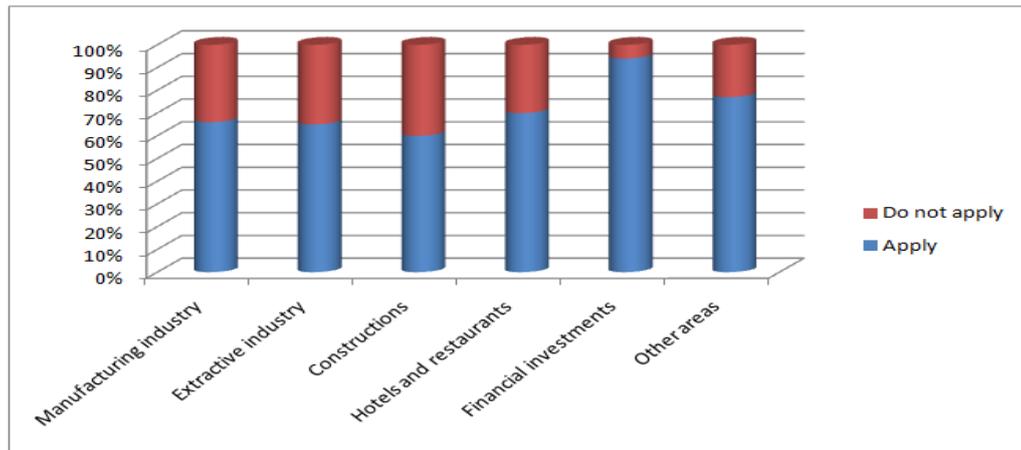
Activity field	Apply	Do not apply
Manufacturing industry	58	42
Extractive industry	57	43
Constructions	59	41
Hotels and restaurants	58	42
Financial investments	93	7
Other areas	76	24

Source: author processing based on data published by listed companies, available on the websites of companies

Compared with 2016, in 2017 we observe a level of compliance in the field of Construction (59%), an alarming situation was registered in the area of Hotels and restaurants where there was a decrease of three percent compared to 2016 (58%). On the other hand, companies from other fields registered an increase of 15% compared to the previous year. The average annual corporate governance score increased compared to the previous year by 3.63%, the average score being 66.83%, which means that listed companies comply with a higher number of principles of the Corporate Governance Code.

In 2018, the situation is as follows:

Figure no. 3. The situation of the corporate governance score at the level of 2018



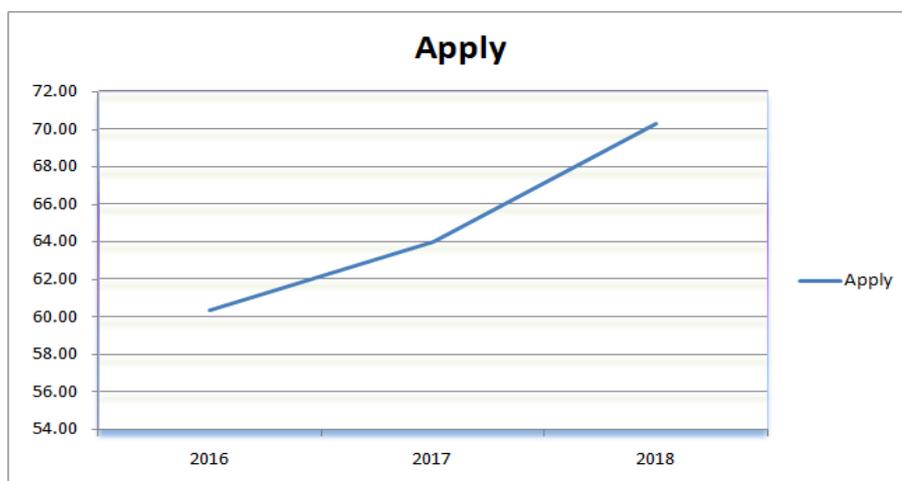
Activity field	Apply	Do not apply
Manufacturing industry	66	34
Extractive industry	65	35
Constructions	60	40
Hotels and restaurants	70	30
Financial investments	94	6
Other areas	77	23

Source: author processing based on the data published by the listed companies, available on the websites

In 2018 there is an increase in the level of compliance in all fields of activity, the largest increase during the three years analyzed is recorded by companies in the extractive industry field of 15%, the score obtained is 65%, and at the other extreme is located the companies in the field of constructions that register an increase of only 1 percent (60%). The average annual corporate governance score for 2018 is 72%, registering an increase compared to the first year analyzed by 9.91%, which indicates that the company listed on the BSE has a behavior that aims to increase the level of compliance with the provisions of the Corporate Governance Code.

For the period analyzed the evolution of the average corporate governance score of the companies included in the sample is as follows:

Figure no. 4. The situation of the average annual corporate governance score



Apply	60,35%	63,98%	70,26%
Do not apply	36,65%	36,02%	29,74%

Source: author processing based on data published by listed companies, available on the websites of companies

Analyzing the data presented we observe an evolution of the level of compliance for the listed companies on the main market of the BSE. The high degree of compliance indicates a favorable perception of the company by the investors, which is why the last section of the Declaration of Conformity analyzes the "Investor Relationship". We consider that this evolution generated by the increase of the market value of the companies, as a result of a fair and complex reporting from the point of view of the corporate governance. Involving the management of companies in reporting the declaration of compliance may be another reason for increasing the scores obtained by the analyzed companies, the data provided by this declaration being an element of transparency of reporting.

5. Conclusions

The purpose of this paper was to analyze the transparency of information from the perspective of the reports made by the issuers and its evaluation based on the conditions of good corporate practices. In order to achieve the proposed objective, we performed the analysis of the declarations of compliance of 73 companies included in the sample for the period 2016-2018 and we tried to draw an eloquent conclusion based on the analysis of the trend of the companies in the three years analyzed.

The declaration of compliance is a separate section of the directors' report and contains elements regarding the overall relationship between the entity's management structures and the other stakeholders, how the company's objectives are met and how to quantify the results and how to give the incentives of the management structures for the fulfillment. objectives.

For the evaluation of the results, a corporate governance score was determined, which was applied to each of the companies included in the sample, and the average score per field was subsequently made. The corporate governance score includes the average of the answers regarding: CA responsibilities, risk management system, investor relations, structure and production process and financial transparency and information dissemination.

After analyzing the 219 declarations of conformity of the companies included in the sample, we conclude the following:

- ✓ The number of companies publishing the declaration increased from 60.35% in 2016 to 70.26% in 2018;
- ✓ All the companies maintained a relatively balanced situation regarding the average annual corporate governance score, except for the hotels and restaurant companies, which in 2016 registered a decrease of the average score;
- ✓ The extractive industry recorded the lowest corporate governance score for the analyzed period (50%) and the highest evolution of the degree of compliance with the principles of the Corporate Governance Code, at the end of the analyzed period (an increase of 15%);
- ✓ The financial institutions registered the highest value of the average annual governance score among all the analyzed areas, respectively 92.33%;
- ✓ The causes of increasing the degree of compliance are various, targeting both the responsibilities of the CA, the relationship with investors, and the remuneration and motivation system of the management.

Based on the above, we believe that transparency is an indispensable prerequisite for the quality of corporate reporting that offers openness and credibility on capital markets. Reporting non-financial items contributes to achieving an optimal level of transparency that contributes to supporting investor confidence.

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