

CORPORATE GOVERNANCE- A TRANSPARENCY INDEX FOR THE ROMANIAN LISTED COMPANIES

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The purpose of this research is to analyze the corporate governance information disclosed by Romanian listed companies on the internet, with the objective of assessing the extent and the influence of several corporate characteristics on the level of information voluntarily disclosed. The results suggest that there was low willingness of Romanian listed companies to provide voluntary information in addition to the disclosure requirements. Information relating to financial statements and employees issues are found more frequently disclosed by listed companies than those which were regarded as sensitive such Board and Executive information.

Key word: corporate governance, transparency, online disclosure, Bucharest Stock Exchange, RASDAQ

JEL code: G15, G34, L22, M41

1. Introduction

Recent events have put a global focus on corporate governance issues. Bankruptcy and failures in Western banks and financial institutions are in large part attributable to corporate mal-governance and distorted incentive structures. The current financial crisis and its contagion and spillover effects are currently felt across the globe, including in Romanian market.

The recent media focus on corporate governance has prompted calls for greater transparency and disclosure on companies around the globe. Transparency regulation intends to improve the quality of information about company and management. It should be noted that the intention of this legal strategy is not to improve the quality of the accounting procedures as these are usually not incorporated in corporate law but are set by accounting standards boards. More disclosure increases the trust of the market on e.g. corporate policies and contracts directly related to the management. More specifically, corporate legislation regulates the extent to which information is released on the managerial compensation package and the requirement to disclose any transactions between management and company (e.g. consulting contracts, interest-free loans). The quality of the transparency is more reliable when the law or the stock exchange regulations include a comply-or-explain principle.

Global trends lead toward greater disclosure of corporate governance practices, responding to market disruptions such as the subprime market collapse and resulting credit crisis on the one hand, and attracting investors by enhancing access to information on the other hand. In a globalizing economy, country markets competing for increasingly mobile pools of capital can benefit from strong assurances of good practices in corporate governance disclosure.

As a result, several leading financial-information providers have launched disclosure rankings, evaluations, and research related to how companies disclose information to rely on market force and mechanisms to encourage voluntary disclosures of companies.

2. Methodology

The purpose of this research is to analyze the corporate governance information disclosed by Romanian listed companies on the internet, with the objective of assessing the extent and the influence of several corporate characteristics on the level of information voluntarily disclosed.

The main objective of this research has been the computation of a **transparency index** for the Romanian companies which are quoted at the Bucharest Stock Exchange (BSE).

The general population is represented by all the companies which are quoted at the Bucharest Stock Exchange in both sections: BSE and Rasdaq. The results following this research can be extrapolated at the level of the specified general population. The observation unity is given by the quoted company.

A total number of 2,100 companies registered at the Bucharest Stock Exchange have been studied, in two sections, BSE and RASDAQ, the following variables having been taken into account: the number of accomplished transactions during the year 2007, the volume of the transactions and the value which was transacted. The selection was made on two levels, according to a number of criteria, among which the capitalization and the liquidity of the companies, thus leaving in the end a number of 110 companies available for the computation of the transparency index and the accessibility to information.

The study was based on the ranking of the companies according to six criteria of great interest for the corporate governance, an original set of sub criteria having been developed for each of the criterion. In the end, a total number of 38 variables have been analyzed for each company.

C1: THE ATTITUDE TOWARDS THE CORPORATE GOVERNANCE

C1.1 The existence of a reference towards CG

C1.2 The existence of a commitment towards CG

C1.3 The existence of a special column dedicated to the corporate governance

C2: INFORMATION REGARDING THE STRUCTURE OF THE OWNERSHIP

C2.1 Ownership structure

C2.2 Shareholder type (individual investors, institutional investors, shareholding by nationality etc)

C2.3 The list comprising the significant shareholders

C2.4 Information about Corporate group structure

C3: THE RELATION WITH THE INVESTORS

C3.1 Number of issued stocks and their nominal value

C3.2 The transaction value

C3.3 Information regarding the transaction

C3.4 GMS convening notice

C3.5 Attorney form

C3.6 GMS decisions

C3.7 Information regarding the dividends

C4: FINANCIAL TRANSPARENCY

C4.1 Annual report

C4.2 Half-yearly report

C4.3 Quarterly report

C4.4 The report of the audit firm

C5: INFORMATION REGARDING THE COMPANY BOARD

C5.1 List of Board members

C5.2. Details of the current occupation of the members of Board

C5.3. Details on age, studies, experience

C5.4. Details of role and functions of the board of directors

C5.5. Details of the duties of each member

C5.6. Duration of directors' contracts

C5.7 List of specialized committees

C5.8 Annual number of held meetings

C5.9 Official statements of the Board

- C5.10 Details of the shares owned by the Board
- C5.11 Details of the compensation system of the Board members
- C5.12 The list of the Board of directors
- C5.13 Details of the top manager's professional experience
- C5.14 Details of the top manager's compensation

C6: ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE

- C6.1 Clients – details of the offered services / products
- C6.2 Details of the main clients
- C6.3 Made or planned investments
- C6.4 Information which is of interest for the employees (employments, wage system policy, information regarding the syndicate etc)
- C6.5 Information regarding environmental problems
- C6.6 Declarations concerning the social responsibility of the corporation

The rating for the C1 criterion has been done as following:

- 0 – there is no reference to corporate governance
- 1 – The C1.1 sub criterion is fulfilled
- 2 – The C1.2 sub criterion is fulfilled
- 3 – The C1.3 sub criterion is fulfilled

The rating for the C2 – C6 has been made from 0 to 3 under the following conditions:

- 0 – the information does not exist or is not up to date
- 1 – the information exists but it is not visible
- 2 – the information can easily be found but it is difficult to be understood or it is incomplete
- 3 – the information can easily be found, it presents no understanding difficulty and it is complete

The general transparency index has been computed as a simple arithmetic mean of the arithmetic means of the six criteria.

$$\begin{aligned}
 M1 &= \max (C1.1, C1.2, C1.3) \\
 M2 &= \sum C2i / i , \quad i = 4 \\
 M3 &= \sum C3j / j , \quad j = 7 \\
 M4 &= \sum C4k / k , \quad k = 4 \\
 M5 &= \sum C5m / m, \quad m = 14 \\
 M6 &= \sum C2n / n , \quad n = 6 \\
 M_t &= (M1+M2+M3+M4+M5+M6) / 6
 \end{aligned}$$

A classification has been made according to the general transparency index. According to this ranking, the company which is situated on the first place, SNC Petrom SA, has obtained the maximum value 1. The values of the indices obtained for the other companies have been obtained by referring the total indices afferent to the companies to the maximum index.

The transparency index takes values between [0, 1]

$$I_t = M_{ti} / M_t \text{ max}, \quad i = 2 - 58$$

The transparency index on a scale from 0 to 3 was also tracked, according to the note above, which is afferent to each of the sub criterion for the whole sample.

3. Survey Results

Good corporate governance is required in all sectors, but is of particular importance in financial institutions. The financial sector plays the central role of intermediating savings and allocating capital in the economy. Firms in the financial sector are key players in creating market disciplines favouring better standards in the corporate sector more generally. Most of these firms have important fiduciary functions and act as internal or external monitors. In part due to the multiplicity of intermediaries and the increasing consolidation in the financial sector across

different activities, conflicts of interest are numerous. This situation has been recognised from Romanian companies also, 9 from the first 10 most transparent companies come from this sector. A top ten ranking of the companies rated according to each criterion is presented in table 1.

Table1. Top 10 companies according to the transparency criteria

	M2		M3		M4		M5		M6		MT	IT %
<u>SIF1</u>	3,000 0	<u>SIF</u> <u>1</u>	3,000 0	<u>SNP</u>	3,000 0	<u>SNP</u>	2,000 0	<u>SNP</u>	3,000 0	<u>SNP</u>	2,69642857 1	100,0 0
<u>SIF4</u>	3,000 0	<u>SIF</u> <u>4</u>	3,000 0	<u>SIF1</u>	3,000 0	<u>SIF</u> <u>3</u>	1,857 1	<u>RRC</u>	3,000 0	<u>SIF1</u>	2,21825396 8	82,26
<u>SIF2</u>	3,000 0	<u>SIF</u> <u>2</u>	3,000 0	<u>BR</u> <u>D</u>	3,000 0	<u>SIF</u> <u>2</u>	1,571 4	<u>PTR</u>	3,000 0	<u>BR</u> <u>D</u>	2,11309523 8	78,36
<u>SIF3</u>	3,000 0	<u>OIL</u>	3,000 0	<u>SIF4</u>	3,000 0	<u>BR</u> <u>D</u>	1,357 1	<u>ATB</u>	2,666 6	<u>SIF4</u>	1,99603174 6	74,02
<u>TLV</u>	3,000 0	<u>TEL</u>	3,000 0	<u>SIF2</u>	3,000 0	<u>AL</u> <u>R</u>	1,357 1	<u>BRD</u>	2,500 0	<u>SIF2</u>	1,98412698 4	73,58
<u>BR</u> <u>K</u>	3,000 0	<u>IMP</u>	2,714 2	<u>SIF3</u>	3,000 0	<u>TL</u> <u>V</u>	1,285 7	<u>SCD</u>	2,500 0	<u>SIF3</u>	1,96031746 0	72,70
<u>SNP</u>	2,750 0	<u>BR</u> <u>D</u>	2,571 4	<u>TLV</u>	3,000 0	<u>OIL</u>	1,285 7	<u>FLA</u>	2,500 0	<u>TLV</u>	1,93253968 3	71,67
<u>BR</u> <u>D</u>	2,250 0	<u>SIF</u> <u>3</u>	2,571 4	<u>OIL</u>	3,000 0	<u>SIF</u> <u>5</u>	1,214 2	<u>AM</u> <u>O</u>	2,500 0	<u>OIL</u>	1,79761904 8	66,66
<u>BC</u> <u>C</u>	2,250 0	<u>PCL</u>	2,571 4	<u>ATB</u>	3,000 0	<u>SIF</u> <u>1</u>	1,142 8	<u>UC</u> <u>M</u>	2,333 3	<u>ATB</u>	1,78968254 0	66,37
<u>ATB</u>	2,000 0	<u>SIF</u> <u>5</u>	2,571 4	<u>BR</u> <u>K</u>	3,000 0	<u>SIF</u> <u>4</u>	1,142 8	<u>SIF1</u>	2,166 6	<u>BR</u> <u>K</u>	1,77380952 4	65,78

As it can be seen in table 1 and also in figure 1, which present in a graphical manner the transparency index online for the 58 companies comprised in the present study, there is a relatively great difference between the top ten companies that are listed here. For example, between SNP Petrom, which is the first company, and SIF Banat Crisana, which is the second company, the gap is of 17.74%. Another example can be found between the first company and the one that is situated on the 10th position that is SSIF Broker Cluj, where the gap is 34.22%. The gap is even more accentuated between the first two companies quoted by Rasdaq. The difference between the two is of 31.13%.

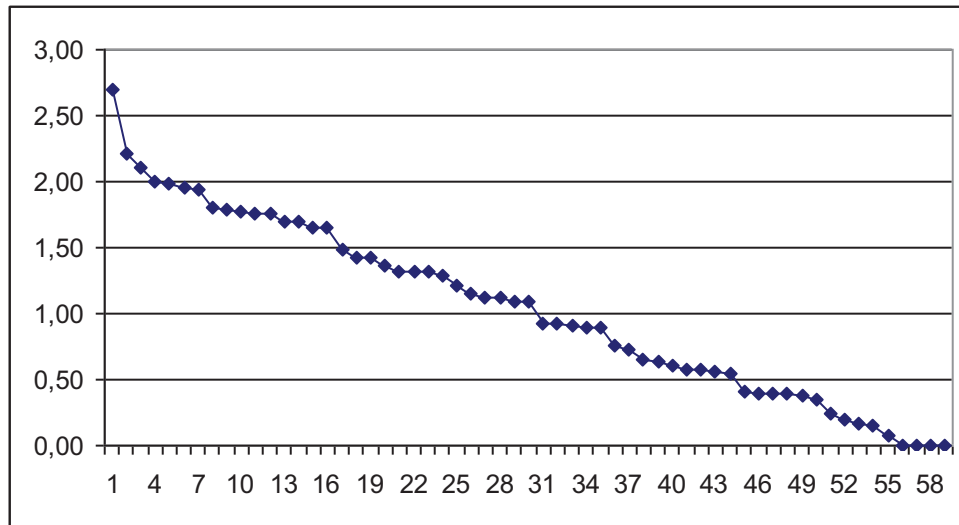


Fig.1. The general transparency and accessibility index – BSE

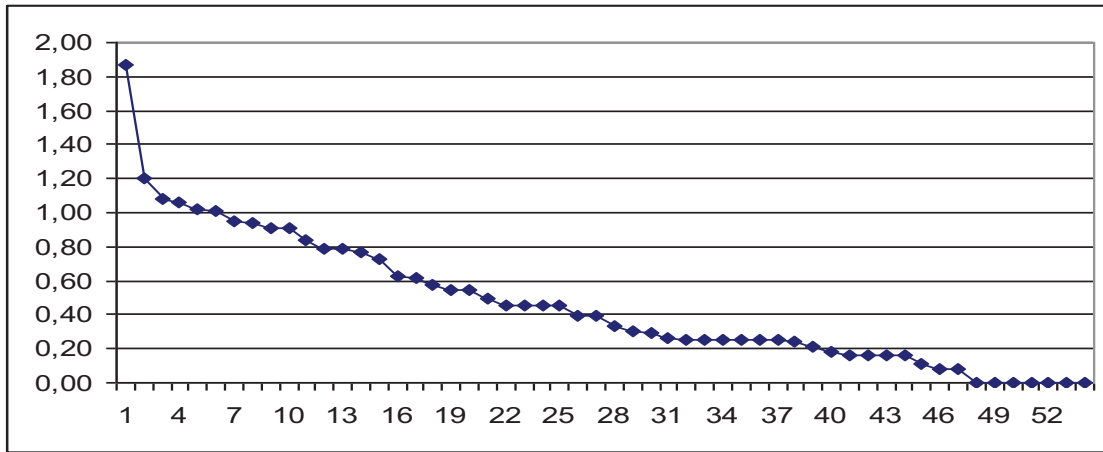


Fig.2.The general transparency and accessibility index - RASDAQ

As it can be seen in figures 3 and figures 4, it is impossible to establish any correlation between the liquidity of a certain issuing agent, expressed by the number of transactions in 2007 and also by the transparency index and the access to information which is offered to its stakeholders. SIF5, which is the most transacted company in 2007, is not present in the top ten companies list, according to the general transparency index and the accessibility, the company occupying only the 16th place, having an index of 61.51%, in comparison with the 1st listed company. This aspect is much more visible for the companies quoted in Rasdaq.

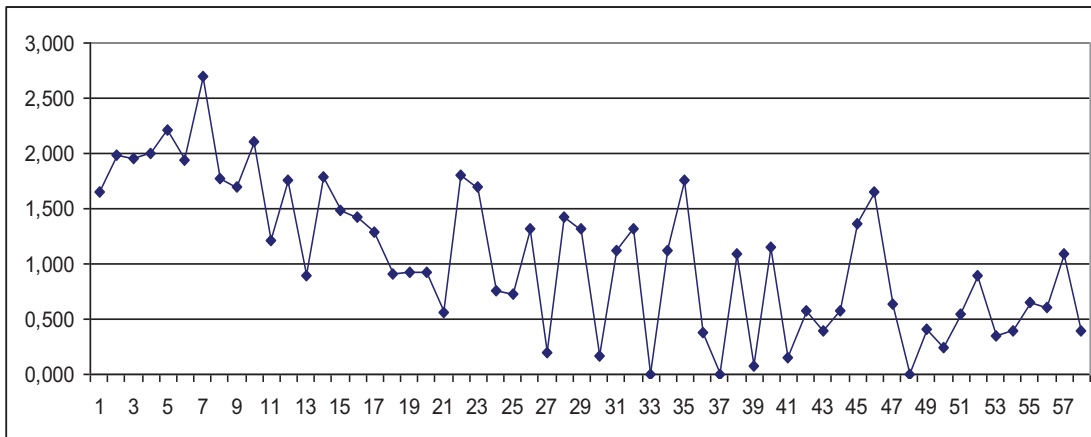


Fig.3.The transaction of the companies and the general transparency and accessibility index BSE

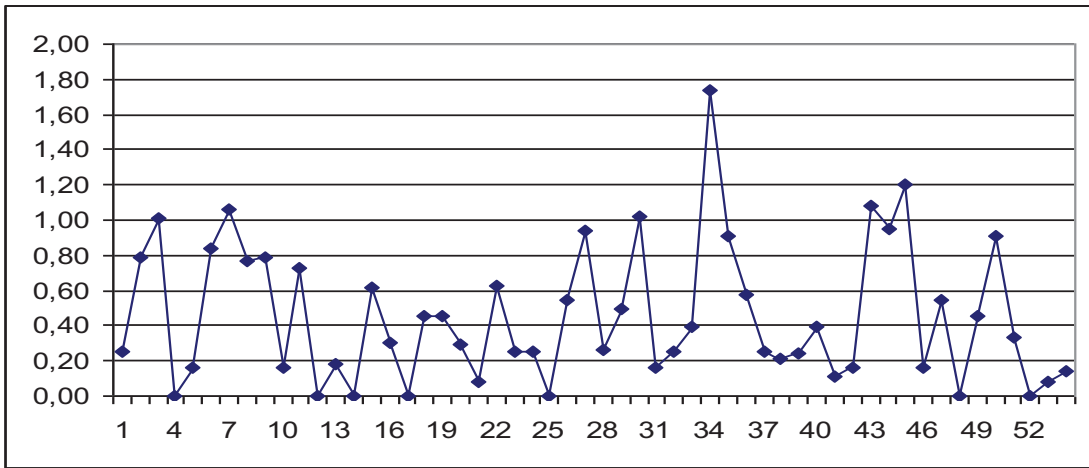


Fig.4. The transaction of the companies and the general transparency and accessibility index RASDAQ

Moreover, none of the computed indices can be correlated with the number of the transactions accomplished in these firms, as it can be seen in figure 6.5.

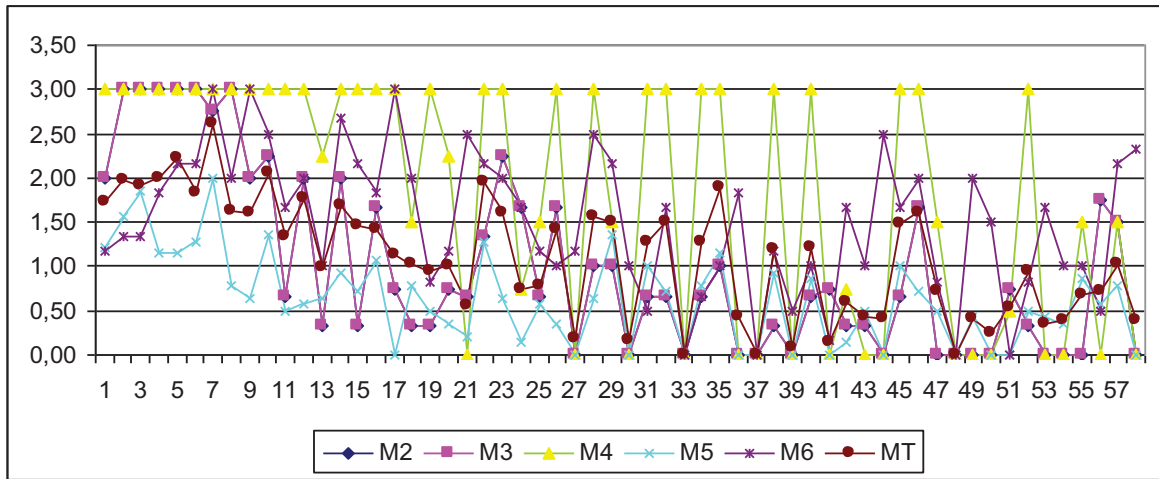


Fig.5. The transaction of the companies and the transparency and accessibility index for the set out criteria

4. Conclusions

This paper suggests a new approach that examines the relevance of internet, and orients supervisory authorities in the direction to follow for improving corporate governance transparency in listed companies. The composite voluntary disclosure checklist will serve a good basis of measurement in corporate disclosure.

The results suggest that there was low willingness of Romanian listed companies to provide voluntary information in addition to the disclosure requirements. Information relating to financial statements and employees issues are found more frequently disclosed by listed companies than those which were regarded as sensitive such Board and Executive information. This study fulfils a gap in prior research by examining the interest in corporate governance issues, in an emerging economy.

This is an exploratory study which shows that further research may provide more concrete evidence of the changing corporate disclosure environment in Romania.

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