Implementation of corporate governance principles in Romania

Ramona Iulia Țarțavulea (Dieaconescu)[1]

The paper aims to conduct a study regarding the manner in which corporate governance principles are applied in Romania, in both public and private sector. In the first part of the paper, the corporate governance principles are presented as they are defined in Romania, in comparison with the main international sources of interest in the domain (OECD corporate governance principles, UE legal framework).
The corporate governance (CG) principles refer to issues regarding board composition, transparency of scope, objectives and policies; they define the relations between directors and managers, shareholders and stakeholders.
The research methodology is based on both fundamental research and empirical study on the implementation of corporate governance principles in companies from Romania. The main instrument of research is a corporate governance index, calculated based on a framework proposed by the author. The corporate governance principles are transposed in criteria that compose the framework for the CG index.
The results of the study consist of scores for each CG principles and calculation of CG index for seven companies selected from the public and private sector in Romania. The results are analyzed and discussed in order to formulate general and particular recommendations.

[1]**Ramona Iulia Țarțavulea (Dieaconescu),** Bucharest University of Economic Studies, Bucharest, Romania, e-mail: ramona.tartavulea@yahoo.com

The main conclusion of this study is that that a legal framework in the area of corporate governance regulation is needed in Romania. I consider that the main CG principles should be enforced by developing a mandatory legal framework.

Keywords: corporate governance regulation, legal framework, OECD principles, corporate governance index
JEL Classifications: G34, G38

Introduction

Corporate governance is recognized as a key element in attracting investments and increasing economic performance and competitiveness in the long term. Globalization of financial markets has contributed to reducing differences between advanced economies and emerging economies in terms governance implementation (Feleagă et al., 2011).
Researches recognized weaknesses in corporate governance as one of the major sources of vulnerabilities that led to the Asian financial crisis in 1997.
A few years after the latest financial crisis emerged, its impact influenced the Romanian society, causing significant economic, political, social and administrative changes (Androniceanu and Drăgulănescu, 2012).
The financial crises that started in 2007-2008 brought a highly devaluation of assets, inclusive a large decrease on shares' prices (Geambaşu et al., 2014). The effects of the crisis raised questions regarding the shareholder's trust in management structures of companies.
Though the principles of good governance are recognized worldwide, most companies don't implement all of them. Usually, companies take into consideration the rules that have legal grounds and they are selective with regards to the rest of them, which are only defined by nonbinding sources. The main international organization that has been active in the domain of corporate governance regulation is OECD

(ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT).
The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non OECD countries (OECD, 2004). They refer to: the rights and equitable treatment of shareholders and other stakeholders, disclosure and transparency and the responsibilities of the Board of Directors.
This paper's main objective is to analyse the particularities of implementing OECD corporate governance principles in Romania. In order to achieve this scope, I started from analysing some core documents, which are essential in the domain of corporate governance regulation, as mentioned in the section Review of the scientific literature.

Review of the scientific literature
After a thorough research, I identified the main official documents on the subject of corporate governance regulation at international and local level: The OECD Principles of Corporate Governance (2004), the Corporate Governance Country Assessment for Romania (2004) that is part of World Bank-IMF Reports on the Observance of Standards and Codes (ROSC), The Bucharest Stock Exchange Code for Corporate Governance (2008), The BSE (Bucharest Stock Exchange) Guide for Implementing the Code for Corporate Governance (2010).
The OECD Principles were released in May 1999 and revised in 2004 and are considered to be one of the 12 key standards for international financial stability of the Financial Stability Board and form the basis for the corporate governance component of the Report on the Observance

of Standards and Codes of the World Bank Group. The OECD Principles are currently under review (OECD, 2014).

The OECD Principles provide the framework for the World Bank Group Reports on the Observance of Standards and Codes in the area of corporate governance and they offer guidance on implementation of good practices.

Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital (The World Bank, 2009). Industrialized countries have a greater capacity to finance public objectives than those recording lower levels of development (Gherghina and Cretan, 2013). Policy makers are now more aware of the contribution good corporate governance makes to financial market stability, investment and economic growth. Companies better understand how good corporate governance contributes to their competitiveness (OECD, 2014).

In today's economies, interest in corporate governance goes beyond that of shareholders in the performance of individual companies. As companies play a pivotal role in our economies and we rely increasingly on private sector institutions to manage personal savings and secure retirement incomes, good corporate governance is important to broad and growing segments of the population. The Principles are a living instrument offering non-binding standards and good practices as well as guidance on implementation, which can be adapted to the specific circumstances of individual countries and regions (The World Bank, 2009).

Research Methodology

The research methodology used for this paper is based on fundamental research on corporate governance regulation and a quantitative research on the implementation of corporate governance principles in both public and private sector from Romania.

The fundamental research is based on the analysis of corporate governance principles, defined by OECD and how they are reflected in the national regulation of Romania. An important source of documentation is the Corporate Governance Country Assessment for Romania, published by the World Bank-IMF and the official documents published by OECD on corporate governance principles.
Furthermore, the research is focused on an empirical study conducted on a selection of Romanian companies.
The empirical research is conducted by using a new, innovative framework for evaluating the firms' degree of compliance with the principles for sustainable corporate governance.
The corporate governance principles are transposed in criteria that compose the framework for the CG index, as described in Table 1 and Table 2.

Table 1

Criteria that compose the Index for Corporate Governance

No.	Criteria *C*	Degree of importance *p* (in percentage):
C1.	The Statute / Regulation of corporate governance are posted on the website of the company, indicating the date it was last updated.	15%
C2.	The company publicly disseminates all the main aspects of its corporate governance policy.	25%
C3.	Posting of Annual Report on the company's website	20%
C4.	The company disseminates information on corporate governance policy, especially regarding the application (or failure) of the principles of the declaration Apply or Explain.	20%
C5	The company has a sustainability strategy, and they offer information on how it has been included in the organizational governance principles	20%

Source: Țarțavulea and Drăgoi, 2014

For the second criteria, the main aspects are detailed in Table 2.

Table 2

Criteria that Compose C2 Section for the Index Regarding Corporate Governance

Criteria *C*		P_2
2.1. With reference to CA (Council of Administration), the company disseminates:		15%
2.1.1 List of board members	3%	
2.1.2 An overview of each director	3%	
2.1.3. The existence of a Supervisory Board (list of members)	3%	
2.1.4 A list of other positions held by members of the Supervisory Board	3%	
2.1.5 A report on the meetings of CA (Council of Administration, also known as Board of Directors) or AGA (General meeting of investors), including the number of sessions, and the average number of each director present	3%	
2.2 With respect to executive management, the company disseminates:		10%
2.2.1 A list of senior executives		
2.2.2 A short version of your resume for each executive director		

Source: Ţarţavulea and Drăgoi, 2014

The main instrument for quantitative research is an index, meant to measure the degree of implementation of sustainable corporate governance principles on the sample of Romanian companies. The index is calculated using a mathematical function, for each selected company, based on the criteria (as presented in Table 1), which were selected from The Guide for Implementation of Corporate Governance Code (Fundatia Institutul de Guvernanta Corporativa al Bursei de Valori Bucuresti, 2010).

Implementation of corporate governance principles in Romania

A Report on the observance of Standards and Codes, released in April 2004, by the joint World Bank-IMF, detected major weaknesses in the implementation and enforcement of modernized legislation on corporate governance in our country. An impressive package of financial legislation was approved in 2006 as part of the impulse to bring Romania into compliance with the EU directives (Acquis Communautaire). The current crisis has accelerated the process of fair, transparent, expedient and efficient implementation of new body of legislative work in Romania (Pardo, 2011).

Corporate governance of public enterprises is defined as the set of rules that govern the management and control system in a public enterprise, the relations between the tutelary public authorities, the board of directors or supervisory board, managers, shareholders and other stakeholders.

Through the Founding Act or by the decision of the public tutelary authority may determine that the executive management responsibilities are delegated by the board of directors to one or more managers, which will sign contracts for mandate.

Public enterprises, that function as commercial companies, may be administered according to unitary or dualist management system, regulated by Law no. 31/1990.

The corporate governance principles defined by OECD were transposed into CG codes applicable to private companies. A Corporate Governance Institute created by BSE has been an active participant in the discovery of best practices on corporate governance, contributing to the adoption of White Paper on Corporate Governance in South Eastern Europe countries (Feleagă et al., 2011). BSE also revised the Code for Corporate Governance in 2007-2008 and published a Guide for Implementing the Code for Corporate Governance in 2010.

With regard to the European Commission consultations, Romania has adapted its legislation to the European standards in this area.

Case Study on the implementation of CG Principles in companies from Romania

In order to analyze the manner in which corporate governance regulation is applied in the public sector, we conducted a study on four of the most valuable Romanian companies, according to the rating given by Ziarul Financiar and Capital Partners investment house in the material "The most valuable 100 companies in Romania", published in November 2013. The main criterion was that the state should be the majority shareholder. The selected companies and their financial evolution in the past seven years are presented in Figure 1.

Table 3

Financial Evolution over the past 8 years of the most Valuable Companies in 2013

Company	Sector	Market value (mil euro)							
		2006	2007	2008	2009	2010	2011	2012	2013
Private company 1	oil&gas	8977	8439	4892	3576	4513	3728	4980	5708
Public company 1	oil&gas	2295	2900	3700	2739	2578	2713	3078	2595
Private company 2	telecom	4813	5550	4600	3513	3151	2864	2316	2502
Public company 2	other	-	-	-	3500	3800	1410	1593	2472
Private company 3	telecom	3447	4950	4050	3085	2683	2004	1683	1891
Public company 3	energie	2700	3500	3600	3287	3357	3490	1242	1363
Public company 4	energie	460	910	1750	1800	1747	1344	1303	729

Source: adapted by the athor based on data provided by Ziarul Financiar and Capital Partners investment house, 2013

Table 3 presents the scores awarded to selected companies, for each criterion, by the author, using professional judgment, based on information collected from official sources.

Table 4

Scores awarded to the first four most valuable public companies, according to the criteria C1-C5

Company/criteria	C1	C2.1.1	C2.1.2	C2.1.3	C2.1.4	C2.1.5	C2.2.1	C2.2.2	C3	C4	C5
Public company 1	0	1	1	0	0	1	1	1	1	1	0.5
Public company 2	1	0.5	0	1	0	1	0	0	1	1	0
Public company 3	0	1	0	0.5	0	1	1	1	0.5	0	1
Public company 4	1	1	1	0	0	1	1	1	1	0	1

Source: Author projection

The basis for the professional judgment regarding the scores presented in Table 3 is a detailed analysis of the fulfillment of sustainable corporate governance principles for each company.

Using all the information collected for each criterion for corporate governance described in Table 1 and table 2, we calculated the index, as explained by the function:

$F(x) = (\sum_{i=1}^{n} C_i * p_i)*100$ (1)

Where: $i \in \{1,2..n\}$ and for this particular case n=5, because we have 5 criteria

And x= the company for which the index is calculated

C_i is the the rating associated with each criteria i, based on the verification of degree of fulfillment of the sustainability principles of corporate governance;

C_i can take values from 0 to 1, 0 meaning the criteria is not fullfiled at all and 1 meaning the criteria is completely fullfiled;

p_i= the degree of importance assigned to each criteria Ci (as shown in Table 1)

Table 5

Calculation of corporate governance index for public companies

	Criteria						
Company	C1	C2.1	C2.2	C3	C4	C5	F(x)
Public company 1	0.00	0.60	1.00	1.00	1.00	0.50	69.00
Public company 2	1.00	0.25	0.00	1.00	1.00	0.00	58.75
Public company 3	0.00	0.50	1.00	0.50	0.00	1.00	47.50
Public company 4	1.00	0.60	1.00	1.00	0.00	1.00	74.00

Source: Author projection

Previous research on this subject has revealed the following results for the first three private companies from Romania, which were selected from the rating "The most valuable 100 companies in Romania", published in November 2013 by Ziarul Financiar and Capital Partners Investment House.

Table 6

Calculation of Corporate Governance Index for Private Companies

	Criteria						
Company	C1	C2.1	C2.2	C3	C4	C5	F(x)
Private company 1	0.75	0.80	1.00	1.00	1.00	1.00	93.25
Private company 2	0.00	0.30	0.75	0.50	0.00	1.00	42.00
Private company 3	0.00	0.00	0.00	0.25	0.00	1.00	25.00

Source: Ţarţavulea and Drăgoi, 2014

Analysis of the results and conclusions

In order to make a comparison between the results of the research on implementation of sustainable corporate governance principles in private and public companies from Romania, we calculated the average CG index for each sector.

The results show that the companies analyzed from the public sector led to a 62.31 CG index average, while the ones from the private sector have a 57.58 CG index average. Considering the fact that our study was conducted on only 7 companies, we cannot generalize these results, but some conclusions can be formulated.

The analysis of the results led to the identification of three factors of influence on the value of corporate governance index in companies present on the Romanian market:

- The majority ownership of the company: public/private
- The original nationality of the company: Romanian/foreign
- The status of the company with regards to the listing of shares: listed/not listed at BSE

As for the first factor, our analysis has shown that public companies from Romania tend to respect the CG principle more than the private ones. Still, this conclusion should be interpreted in the light of the second factor, because Private company 1 actually has the biggest CG index, but Private company 3 and Private company 2 have lower values. The difference comes from the fact that companies that were founded in Romania (even though some have foreign partners or are part of a larger international group) are more willing to publicly disseminate information on their structure and management policies, corporate governance code or their annual financial results.

Private company 3 and Private company 2 have extremely low scores on criteria C2 and C4, regarding the transparency of the Board of Directors and Executives structure and the declaration "Apply or explain" concerning the conformity with principles of good corporate governance proposed by The Bucharest Stock Exchange. These two telecom companies have websites created especially for Romania, with extended information about their services to customers and about their corporate social responsibility programs, but with very scarce or no data about the management system and corporate governance structure and regulation. They are highly focused on marketing activities and fail to offer public information on their financial results in Romania or their corporate governance principles.

Public company 2 has very low scores on the C2 and C5 criteria, because it doesn't offer information on the members of CA and AGA and the CSR component is missing. As opposed to that, the two mobile companies have high scores awarded to their CSR policy. Public company 3 and Public company 4 also have a good activity in the area of social responsibility, but the same as the two mobile companies, they don't publish the declaration "Apply or Explain" that should give details about the compliance with the principles for sustainable corporate governance.

The results regarding C5 criterion confirm previous studies conducted on companies activating on the Romanian market: in what concerns the allocation of CSR management standards on the main areas of activity, the most "active" sectors are: Oil & Gas, Communications, Food & Beverages, Constructions and Financial Services (Filip et al, 2012).

As for the third factor, we can definitively state that the companies listed at BVB have the biggest corporate governance index. Of course, this is a natural conclusion, as the listed companies have to comply with the Bucharest Stock Exchange CG Code, in order to be accepted for public sale of shares.

The main conclusion of this research is that implementing the corporate governance principles contributes to sustainable economic development by improving the performance of companies.

After conducting this study, the most important recommendation is that a legal framework in the area of corporate governance regulation is needed in Romania. Now the CG principles are only included in a guide and companies select and respect only part of them. I consider that the main CG principles should be enforced by developing a mandatory legal framework.

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