



Emerging Markets Queries in Finance and Business

The assessment of corporate governance system quality in the Romanian sectors. Analysis of the companies listed on the Bucharest Stock Exchange

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Abstract

This paper aims to analyze the quality of the corporate governance of companies listed on BSE Romania. The contribution of this paper consists in analyzing the corporate governance quality in the main Romanian sectors (extractive industry, manufacture, energy, construction, commerce, transport, accommodation and financial activities). Assessing the corporate governance quality is based on own determined score of transparency and disclosure practices. Our sample consists in 78 companies listed on BSE companies at the end of May 2013. The results reflect that a highest level of adoption the best practice principles belongs to the companies in Energy sector, following by companies in Extractive and Financial activities, and Transportation, Construction, Manufacture, Commerce and Accommodation, relating to the results for the end of May 2013.

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1. Introduction

The conflict of interest determined by the separation between power and control in the company had generated an opportunistic behavior by managers which are not necessarily converges with the interests of shareholders those of shareholder wealth maximization. Thus, managers were likely to the moral hazard and

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opportunistic behavior guided by their own interest to maximize the performance. Stock-options techniques and remuneration of managers basing on performance could not fully achieve to align their interests with those of shareholders and caused many damages to minority shareholders. That's were some of the main reasons of financial scandals like Xerox Guinness 1986, Poly Peck International 1989, Maxwell 1991, BCCI-1991, Enron-2001, Allied Irish Bank- 2002, WorldCom-2002, Xerox 2002, Merrill Lynch-2002, Parmalat-2003/2004, Andersen-2001/2002 that creating a new pillar towards the new concept –a corporate governance framework.

Effective corporate governance allows shareholders to ensure that companies in which they hold shares are managed in accordance to their own interests. In the same while, it must be satisfying the customer requirements, respecting the employees' opinions and protecting the environment.

Therefore, in the context of "new economy", the role of effective corporate governance is primarily in ensuring the sustainability of the organization being highlighted by the world economies concerns in elaborating and adopting the corporate governance codes. These codes set the provisions and requirements that adjust the company management in terms of strategic planning and decision making for maximizing the interests of shareholders, creditors, customers, employers and employees. The codes do not set provisions for defining business ethics or relationships between different companies or ethical rules that employees of a company must comply. To guarantee that these provisions will be adopted in real business they should be reflected in the legal acts of companies

In Romania, the requirements of corporate governance recently occurred comparing to other European countries. Romanian companies have begun to meet the corporate governance requirements, especially in the context of voluntary corporate governance requests developed by Bucharest Stock Exchange for listed companies.

2. Literature review about the assessment of corporate governance system quality

In evaluating the quality of corporate governance system, the results of numerous studies enhance that the main component of corporate governance consists in *transparency and disclosure practices* Cromme, 2005; Karamanou and Vafeas 2005; Bhat et al., 2006; Aksu and Kosedag, 2006; Junarso, 2006; Ben Ali, 2008; Kuznecovs 2011; Desouki & Mousa, 2012; Ionaşcu and Olimid, 2012. It is also relevant that the international rating agencies (Standards & Poor's, Credit Lyonnais Securities Asia-CLSA, Vigeo Agency) pay particular attention to the practices of transparency and dissemination of information about the company, as an important component in order to develop a corporate governance score.

Gompers et al., 2003 basing on a sample of 1500 US companies, constructed a CG Index by using 24 variables, as a tool for analysis the quality of corporate governance system.

Larcker et al., 2007 on his survey consist in analysis of 2106 sample companies quoted in USA, between 2002-2003, constructed a corporate governance score by using 39 criteria including board characteristics, anti-takeover provisions, compensation characteristics, ownership, and capital structure characteristics

In Croatia, Vitezic, 2006 analyzed the corporate governance of listed companies by using three corporate governance qualitative variables such as: environment of emerging economy, board attributes and disclose level. So, he no built a score of CG, only used some qualitative criteria.

For Greece, Italya and Spain, basing on a sample of firms listed on the Athens, Milan and Madrid Stock Exchanges, Bekiris and Doukakis, 2011 try to find some correlation between corporate governance and accrual earnings management. For this scope, first they build a Corporate Governance Index composed of 55 individual measures. More specifically, they categorized these measures in five dimensions of corporate governance, namely Board of Directors, Audit, Remuneration, Shareholder Rights and Transparency.

In Russia, Kuznecovs, 2011 analysing the corporate governance on a sample of largest listed companies in Russia covering 80% of the Russian stock market over the period 1995-2007, he not constructed a corporate governance (CG) score but used only qualitative approach for this purpose.

In Greece, Niels and Vasiliki, 2011 composed a CG rating as a tool for analysing the corporate governance

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