

How Do Listed Romanian Companies Comply with or Explain Good Corporate Governance Guidelines?

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Abstract

This study aims to present the main guidelines published by the Bucharest Stock Exchange regarding the general principles of corporate governance, as well as an analysis of the level of compliance with them by listed companies. Thus, the authors have developed a three-level corporate governance index by means of which the level of compliance with the guidelines published by the BVB can be measured. Following the analysis, the authors conclude that the score obtained by the analysed companies is positive, based on their level of compliance with most of the guidelines presented by the BVB. Moreover, companies in the Premium category have a higher level of compliance with the guidelines of the Code of Corporate Governance than other companies listed on the regulated market. From the perspective of future research, the authors aim to investigate whether corporate governance can influence a company's financial performance.

Keywords: Romania, Bucharest Stock Exchange, corporate governance, index, *comply or explain*

JEL classification: G30, G38, K22, M4, M40, M48

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➔ Introduction

What is corporate governance? How is the concept of corporate governance applied? Is it beneficial to companies? How can we measure the benefits of applying corporate governance mechanisms? These questions have been asked over the last two decades and the numerous research studies have led to further research on this topic in order to find new answers. This study looks at how corporate governance guidelines are applied by Bucharest Stock Exchange (BVB) listed companies.

This study aims to investigate the level of compliance with the concept of corporate governance in companies listed on the BVB. To address the proposed hypotheses, three scores were calculated based on the *comply or explain* statements published in the annual reports of these companies. The purpose of these scores is to express the level of compliance of non-financial companies listed on the BVB with the provisions of the Code of Corporate Governance and to allow an analysis of the results obtained.

The period analyzed spans from 2017 to 2021, and the analysis is limited to the information published by each company. The relevance of the selected timeframe is based on the fact that 2017 was the first full year in which the provisions of the Code of Corporate Governance were applied to listed companies. 2018 was the

first year in which legislative provisions regarding the establishment of the audit committee came into effect and introduced financial penalties for non-compliance, while the analysis of reports for the period 2019-2021 takes into account the delay in the full application of the Code that occurred for certain firms due to poor coordination with certain legislative aspects that emerged at the end of the reporting period.

Thus, this paper aims to study the transition period to the new Code by analyzing the manner and level of compliance achieved by the selected actors, the positive evolution of the application of the provisions related to corporate governance during the reference period, and whether companies listed in the Premium category achieve better governance scores than those in the Standard category. The adoption of legislative provisions may be a reason for the increased degree of compliance with the Code's provisions during the studied period.

This article is structured into four sections. The first part includes an analysis of the literature, specifically the main ideas defining the concept of corporate governance, as well as the presentation of the main evidence that motivates this study, from both international and local literature. The second section presents the research methodology, with discussions on the construction of indices. The third part presents the results obtained, and the last part includes a series of conclusions and comments.

In the context of an emerging economy, the application of the Code of Corporate Governance is particularly relevant for listed companies. By analyzing the compliance scores, this study aims to highlight the impact of legislation on corporate behavior and the performance differences between companies listed in the Premium category compared to those in the Standard category. These efforts are essential for better understanding the transition to solid corporate governance and for identifying continuous improvement opportunities within the Romanian capital market.

➔ Literature review

■ General issues regarding the corporate governance

The concept of corporate governance emerged in the 16th century, when the East India Company was established ([Cheffins, 2011](#)), but its theorisation and implementation came many years later. For example, in 1991, the Cadbury Committee was set up by the Financial Reporting Council, the London Stock Exchange, and professional accountancy bodies. In December 1992, the Cadbury Committee issued a final report containing guidelines on the implementation of the corporate governance concept. This report is a landmark in the development of the concept of corporate governance and also provides one of its best-known definitions: "Corporate governance is the system by which companies are managed and supervised." ([Cadbury, 1992](#)).

In the light of high-profile scandals (Enron, Parmalat, WorldCom, etc.), additional legislation related to the regulation of governance mechanisms has emerged, such as the Sarbanes Oxley Act, in the United States ([Bhabra and Hossain, 2018](#)). It can thus be seen how benchmarks in this area have emerged in strong economies. Moreover, [Feleagă et al. \(2011\)](#) also note that best practices for corporate governance emerged within developed economies and were rapidly disseminated beyond their borders. In the case of Romania, which is specific to former communist countries, state-owned companies had a major influence in the economic life of the country until the 2000s.

In 1995, the Bucharest Stock Exchange was re-established and along with this re-establishment a new reporting model involving a high level of transparency has to be applied by listed companies. From a corporate governance perspective, the first code published by the BVB was in 2001. This code was successively revised in 2008 and 2015, the latter being the latest version of the code applied by companies listed on the BVB.

The sources of corporate governance mechanisms in Romania are represented both by the legislation regulating the activity of companies (e.g. Company Law No. 31/1990, republished, as subsequently amended and supplemented, Accounting Law No. 82/1991, republished, as subsequently amended and supplemented, etc.) and by the Code of Corporate Governance published by the BVB. The latter has a guideline character for listed

companies and failure to meet specific criteria requires explanations from these companies. In practice, from this perspective, Romania has adopted a principles-based model, which is referred to in the literature as *comply or explain*.

■ *Comply or explain*

The *comply or explain* model of the corporate governance system involves an analysis of how companies apply the guidelines of the Code, and where companies do not comply, they must provide relevant information to support non-compliance with the application of the Code of Corporate Governance. The effectiveness of applying such a model has been the subject of numerous studies which have shown, on the one hand, that the benefits of the principles-based approach are overstated and that the guidelines of the Code of Corporate Governance should be incorporated into mandatory regulations ([MacNeil and Li, 2006](#)) and, on the other hand, that a principles-based governance system is beneficial and this allows companies to circumstantially apply corporate governance practices ([Luo and Salterio, 2014](#)). Another pro-regulation argument is that the principles-based governance system may conceal rhetorical strategies geared towards misleading explanations to justify non-compliance with the Code, which can harm the *comply or explain* system ([Shrives and Brennan, 2017](#)). [Keay \(2014\)](#) suggests that the *comply or explain* system approach would work better if a regulator had the authority to audit the level of compliance with corporate governance guidelines and, if the situation requires it, to impose sanctions. This positioning would in essence result in mandatory enforcement of corporate governance requirements and a transformation of corporate governance principles into regulation.

Previous studies have also addressed the level of compliance and the quality of explanations of listed companies. Although the corporate governance literature is limited in Romania, there are pros and cons approach at regional level. Thus, Greece faces a low level of compliance with the recommendations of the Code of Corporate Governance and an even lower level in terms of explanatory disclosure ([Nerantzidis, 2015](#)). Other studies have shown a high level of compliance in Poland ([Campbell et al., 2009](#)) or found an improvement regarding the transparency of Slovenian companies ([Djokic and Duh, 2018](#)). [Szczepankiewicz et al. \(2024\)](#) show that the size of the companies is linked to the degree of compliance with the provisions of the new Code of Corporate Governance. The manner of justification for non-compliance with corporate governance principles has also been analysed. [Thanasas et al. \(2018\)](#) present information on companies in Greece where they tried to justify non-compliance with the Code, but the claims presented were similar for all companies. Italy is in the same situation. Here, companies failed to thoroughly justify why they did not comply with the guidelines ([Lepore et al., 2018](#)). On the other hand, in Sweden, the *comply or explain* principle is effective and most of the companies analysed provided relevant information ([Achtenhagen et al., 2018](#)).

The pros and cons information presented above, relevant to other jurisdictions, leads to the emergence of a new question regarding how to adapt corporate governance principles to the Romanian local context. This question is in line with the findings of [Bhasa \(2004\)](#), who argues that similar approaches to corporate governance are unlikely to be identified given the political differences between countries.

In Romania, [Albu and Gîrbină \(2015\)](#) analysed the compliance with the Code of Corporate Governance by companies listed on the BVB between 2010 and 2011. The results of this analysis noted the failure of Romanian companies to set up committees at board level. The authors also concluded that, in emerging economies, legal systems discourage the adoption of principles-based approaches on the grounds that they include unclear provisions. Moreover, in terms of the *comply or explain* statement, two-thirds of all guidelines were found to be complied with and a few companies published this statement on their website.

[Achim et al. \(2016\)](#) analysed the same period (2010-2011) and their results could not determine a correlation between compliance with corporate governance principles and the companies' financial performance. However, the cited authors identified a positive correlation between corporate governance and the Q Report for 2011.

Feleață et al. (2011) show that a significant number of the analysed companies do not fulfill the requirements of the BVB Code of Corporate Governance when assessing the independence of directors and audit committee members. Moreover, the level of transparency in the analysed companies is much lower compared to other European companies. Despite numerous studies that have confirmed the direct relationship between corporate governance and the financial performance of companies, Romanian companies do not show such a link.

Also, Pintea et al. (2021) conclude on the absence of an impact of corporate governance principles on financial performance from 2010 to 2015 in Romania. Another conclusion that can be drawn from this study concerns the average corporate governance index (approximately 74%), a percentage that can be seen as a state of corporate governance compliance.

■ Corporate governance in Romania

After the fall of communism, the law on companies (Law No. 31/1990) appeared. Corporate law thus assimilated the concept of management of companies by authorised persons other than shareholders. In addition, directives were drawn up on how the board of directors should be organised, how directors should be appointed and their term of office limited, and other obligations designed for the company were set up. This regulation is valuable for understanding the concept of corporate governance because it brings two sources of corporate governance mechanisms: legislation and the company's articles of incorporation. Since then, numerous amendments and pieces of legislation have been introduced, that have affected the way companies are controlled, especially those in banking, investment or insurance, and other heavily regulated areas.

Later, another source of corporate governance mechanisms in Romania is the re-establishment of the BVB. In 2001, the BVB issues the first Code of Corporate Governance that was addressed to listed companies. A new Code, based on OECD principles, appeared in 2008, but its application started in 2009. The latest version of the Code of Corporate Governance was updated in 2015 and its applicability starts in 2016. As stated in the preamble of the Code, listed companies are obliged to report the level of compliance by filling in the *comply or explain* statement. The BVB also provides a model statement where companies should report their compliance with the guidelines or explain their non-compliance with the guidelines on the requirements of the Code.

Moreover, the governance Code is accompanied by a corporate governance manual to help listed companies comply with the recommendations presented in the Code. The handbook includes the manner of designing the compliance statement which contains the following: information on the structure, activities and responsibilities of the board of directors and committees, risk and internal control information, information on the remuneration of the board of directors, and the shareholder information.

➔ Research methodology

The research methodology is based on the analysis of compliance statements found in the annual reports of Romanian companies listed on the BVB. On the basis of this analysis, an index was developed to measure the level of compliance of the analysed companies with the requirements of the Code. The methodology for the construction of indices measuring the level of compliance with the guidelines of the Code of Corporate Governance has been used in the past by various authors who tried to include as well as possible in their construction the elements that influence the level of compliance.

Lepore et al. (2018) developed a six-level index based on the level of compliance with Italian corporate governance recommendations. The Istanbul Stock Exchange also computes a corporate governance index to measure the price and performance of listed companies. A score between 1 and 10 is provided by the Turkish Stock Exchange as the result of compliance in relation to the four pillars of corporate governance: shareholders, reporting and transparency, stakeholders, and board of directors (Çalışkan și İçke, 2011).

As an example for Romania, Pintea et al. (2021) developed an index, according to Cremers and Nair (2005), by means of which they could measure, in a binary manner, compliance with the requirements of the Code of Corporate Governance, based on the publication of the compliance statement. Thus, a value of 1 was assigned to companies in compliance with the guidelines of the Code of Corporate Governance, while a value of 0 was assigned to companies not in compliance.

Another index is presented in the Romanian literature by Albu and Gîrbină (2015). The authors coded on a scale from 1 to 4 the responses in the companies' compliance statements or explanations. The authors also took into account the quality of the explanations provided by companies to justify non-compliance. The index was computed by relating the points awarded to the total possible score. The index developed in this study contains three levels and focuses on compliance and accuracy of explanations for non-compliance. Thus, 0 is assigned for non-compliance, 1 for full compliance, and 0.5 is for non-compliance accompanied by explanations that have been deemed unsatisfactory scoring 1. The scoring for non-compliance or full compliance cannot be questioned as it is based solely on the answers provided by companies in the *comply or explain* statement. On the other hand, the evaluation of the intermediate scoring can be viewed through the prism of the authors' subjectivity. Thus, in order to accurately assess the information submitted by companies using the *comply or explain* statement, the authors used the instructions presented in the corporate governance reporting manual published by the BVB in 2015. Additionally, the authors checked the application of these principles against the instructions present in the Compendium of Corporate Governance Practices published by the BVB.

The Manual for Reporting Corporate Governance rates an explanation as satisfactory if it meets the following requirements:

- clearly specifies the requirement to which it refers;
- briefly covers the historical context and conditions of the exception;
- provides a specific, convincing, and understandable justification for the non-compliance, and not a "circular" explanation (e.g. *"We acted in this way because we did not act in other ways."*);
- describes the actions taken to minimize risks and maintain compliance with the relevant principles;
- indicates whether the non-compliance is temporary and when the company intends to be in compliance with the relevant principles.

Given all information presented above, the authors considered the five recommendations presented in the corporate governance handbook to assess the quality of company disclosures. Therefore, these obtained disclosures were prioritised by the authors on three levels.

Thus, explanations identified in the analysis that call for future action, e.g. *"Will be implemented."* or *"No assessment has been carried out by the Chairman of the Board of directors."*, were scored with 0 points. Detailed information that also presented the process applied was scored with 0.5 points if the level of compliance was partial, e.g. *"The work of the Board of directors has not been evaluated by the chairperson, but the Shareholders Decision (SD) evaluates their work annually based on certain financial indicators. The decision of the SD is published on the company's website."* The identified information that met the five points in the manual was scored with 1 point, e.g. *"The Internal audit department reports to the CEO from an administrative perspective. However, the Internal audit department continues to maintain some reporting functions to executive management, leading to a partial approach to the requirements by the company. The Audit committee is regularly briefed on key internal audit findings and other activities of the Internal audit department. The Audit committee approves both the audit charter (the terms of reference for the audit department in terms of its purpose, authority, and responsibility) and the annual internal audit plan. In our opinion, the independence and objectivity of the internal audit function is not affected by this reporting structure. The Internal audit department has not encountered any situations in*

its past experience that would jeopardize the independence or objectivity in terms of reporting arrangements. The company is currently exploring the possibilities of becoming compliant in the future.”. A peculiarity of the 0.5 point rating is offered by companies in special administration (insolvency) proceedings.

Using the scores obtained above, the authors computed three scores (per company, per question, and average per year) for each year analysed, as follows:

$$CGScore \text{ per company } (\%) = \frac{\text{Company score}}{\text{Maximum score possible}} \times 100$$

$$CGScore \text{ per question } (\%) = \frac{\text{Question score}}{\text{Maximum score possible}} \times 100$$

$$CGAverage \text{ per year } (\%) = \frac{\sum CGScore \text{ per company}}{\text{Number of analysed companies}}$$

Given the structure of the model statement provided by the BVB for reporting compliance with the Code’s guidelines, 34 recommendations were analysed for companies listed in the Premium category and 33 for those in the Standard category. The analysis carried out did not take into account the additional recommendation on the composition of the board of directors and those related to investor relations. However, the information published by the company for each sub-recommendation was analysed and matched with the answers provided for the main guideline.

➔ Results analysis

Based on the methodology, compliance statements from non-financial companies listed on the Bucharest Stock Exchange in the Premium and Standard categories were analyzed for the period 2017-2021. Similar to other authors ([Arcot et al., 2010](#), cited by [Albu and Gîrbină, 2015](#)), financial companies were excluded from the study based on the argument that they are subject to different specific regulations. Therefore, only companies that provided a compliance statement were analyzed. 64 companies were analyzed in 2017 and 66 companies in 2018. During this period, some firms were delisted, while others were listed, causing a dynamic change in the number of companies analyzed from year-to-year. In 2017, seven companies were identified as not having published a compliance statement, and in 2018, five companies were in this situation. In 2019, four firms were identified as having used the old version of the Code or not having published the statement, while in 2020 and 2021, three companies did not comply. Additionally, during the studied period, two companies were delisted and one suspended.

■ Corporate governance score per company

According to the calculation of the corporate governance score per company for the five years, 39 firms recorded higher index values in 2018 compared to 2017, and only eight had lower values, while 16 obtained the same score. Regarding the 2019/2018 ratio, 25 companies improved their scores, seven recorded lower values, and 32 had the same score. The average variation 2019/2018 was only 2.4%. For the 2020/2019 ratio, 23 firms improved their scores, 15 had lower values, and 26 obtained the same score. The average variation 2020/2019 was 3.1%. In 2021, 30 companies improved their scores compared to 2020, 20 recorded lower values, and 14 had the same score. The average variation 2021/2020 was 3.8%.

Regarding the 2018/2017 ratio, the highest positive variation was 77.4%, and the highest negative variation was 40.82%. In the 2018-2019 interval, the maximum positive variation was 56.1%, while the maximum negative variation was 17.86%. In the 2019-2020 period, the maximum positive variation was 60.5%, and the maximum

negative variation was 20.5%. Between 2020 and 2021, the maximum positive variation was 65.7%, and the maximum negative variation was 25.3%.

Table 1 presents the percentage of compliance with corporate governance for the five analyzed years.

Table 1. Corporate governance scoring per company

- % -

Companies	2017	2018	2019	2020	2021	Companies	2017	2018	2019	2020	2021
ALR	45.59	80.88	83.82	86.76	90.00	ELGS	34.85	34.85	34.85	37.88	40.00
ATB	97.06	100.00	100.00	100.00	100.00	ELJ	59.09	84.85	69.70	65.15	67.00
BIO	51.47	54.41	58.82	58.82	62.00	ENP	n/a	63.64	63.64	60.61	62.00
COTE	95.59	95.59	95.59	95.59	95.59	EPT	48.48	48.48	48.48	48.48	50.00
EL	100.00	100.00	100.00	100.00	100.00	IARV	93.94	93.94	93.94	96.97	97.00
ELMA	52.94	76.47	79.41	77.94	82.00	MECE	13.64	12.12	13.64	16.67	18.00
IMP	80.88	79.41	91.18	92.65	93.00	MECF	69.70	81.82	81.82	86.36	87.00
M	77.94	92.65	98.53	100.00	100.00	NAPO	24.24	25.76	24.24	22.73	23.00
SNG	83.82	97.06	97.06	97.06	97.06	OIL	78.79	86.36	93.94	93.94	94.00
SNN	88.24	92.65	98.53	95.59	96.00	OLT	54.55	59.09	Delisted	Delisted	Delisted
SNP	94.12	95.59	94.12	94.12	94.12	PPL	36.36	45.45	50.00	59.09	60.00
TEL	86.76	91.18	91.18	97.06	98.00	PREB	77.27	77.27	77.27	77.27	77.27
TGN	86.76	86.76	86.76	86.76	86.76	PREH	42.42	42.42	43.94	43.94	44.00
AAG	n/a	84.85	83.33	86.36	87.00	PTR	39.39	69.70	80.30	78.79	80.00
ALT	90.91	86.36	87.88	45.45	50.00	RMAH	92.42	98.48	100.00	100.00	100.00
ALU	92.42	92.42	92.42	92.42	92.42	ROCE	74.24	75.76	78.79	81.82	82.00
ARM	19.70	18.18	21.21	21.21	22.00	RPH	93.94	96.97	93.94	93.94	94.00
ARS	66.67	92.42	96.97	93.94	94.00	RRC	53.03	78.79	81.82	81.82	82.00
ART	54.55	89.39	89.39	Delisted	Delisted	RTRA	37.88	39.39	39.39	45.45	47.00
ARTE	27.27	25.76	25.76	30.30	35.00	SCD	69.70	63.64	54.55	54.55	55.00
BCM	71.21	72.73	72.73	72.73	73.00	SCPS	74.24	43.94	Suspended	Delisted	Delisted
BRM	46.97	46.97	46.97	50.00	52.00	SNO	74.24	89.39	89.39	89.39	90.00
CAOR	40.91	69.70	72.73	75.76	78.00	SOCP	30.30	33.33	33.33	33.33	34.00
CBC	30.30	31.82	31.82	48.48	50.00	STZ	59.09	60.61	60.61	60.61	61.00
CEON	80.30	84.85	87.88	87.88	88.00	TBM	n/a	89.39	89.39	93.94	94.00
CMF	45.45	51.52	51.52	51.52	52.00	TRP	93.94	93.94	96.97	87.88	89.00
CMP	84.85	86.36	89.39	89.39	90.00	TUFE	53.03	53.03	53.03	66.67	68.00
CNTE	54.55	57.58	57.58	57.58	57.58	UAM	31.82	34.85	34.85	30.30	32.00
COMI	43.94	43.94	43.94	43.94	43.94	UCM	56.06	55.76	56.06	57.58	58.00
COS	54.55	54.55	54.55	56.06	57.00	UZT	53.03	62.12	96.97	96.97	97.00
COTR	75.76	75.76	75.76	0.00	0.00	VESY	59.09	72.73	69.70	63.64	65.00
DAFR	39.39	43.94	46.97	50.00	52.00	VNC	74.24	74.24	74.24	72.73	73.00
EFO	77.27	81.82	81.82	78.79	80.00	SFG	86.76	89.71	91.18	88.24	89.00

Source: Author's processing, 2024.

From Table 1, the average compliance rate for each year was also extracted. Thus, in 2017, it was 62.96%, in 2018 – 69.17%, in 2019 – 71.13%, in 2020 – 69.85%, and in 2021 – 70.75%. Given the positive trend, we can conclude that there is an increase in the compliance rate from year to year.

Another relevant analysis concerns the classification of companies into Premium and Standard categories. In the Premium category, a score of 88.24% was recorded, while in the Standard category, it was only 63.79%. We observe that, in general, companies have shown a trend of improvement in corporate governance scores over the five analyzed years.

■ Corporate governance score per question

Before calculating the corporate governance score per question, it was noted that in 2018 28 questions had higher scores compared to 2017, five had lower scores, and one had a similar score to the previous year. For the five questions with lower scores, the average negative variation is 0.76%, while the average variation is 9.78%. The 2019/2018 ratio is similar. Thus, 30 questions had higher scores, and only four had lower scores. However, the average negative variation is 1.5%, while the average variation is 3.23%. Therefore, we can observe a higher variation for the 2018/2017 ratio compared to the 2019/2018 ratio. In 2020, 24 questions showed an increase in scores compared to the previous year, 10 experienced a decrease, and one remained at the same level. The average negative variation for the 10 questions is 2.56%, and the average variation is 1.97%. For the 2021/2020 ratio, 27 questions had higher scores, seven had lower scores, and one maintained the same value. The average negative variation is 1.02%, and the average variation is 2.87%.

The values of the corporate governance scoring per question are presented in Table 2.

Table 2. Corporate governance scoring per question

- % -

Questions	2017	2018	2019	2020	2021	Questions	2017	2018	2019	2020	2021
A.1	73.81	75.76	77.34	75.76	77.25	B.7	50.79	66.67	67.97	66.67	72.19
A.2	62.70	68.18	71.09	70.45	74.22	B.8	51.59	66.67	67.97	67.42	71.88
A.3	73.81	73.48	73.44	75.76	76.25	B.9	96.03	96.21	96.88	98.48	98.13
A.4	76.98	83.94	85.94	86.36	84.75	B.10	49.21	53.79	57.03	60.61	61.25
A.5	73.02	72.73	74.22	74.24	76.25	B.11	84.13	87.12	89.84	84.85	92.50
A.6	70.63	75.76	75.78	77.27	78.44	B.12	53.17	70.45	74.22	73.48	78.75
A.7	88.10	87.12	90.63	91.67	93.13	C.1	39.68	40.15	38.28	50.76	49.63
A.8	30.16	34.09	38.28	37.12	42.19	D.1	71.43	72.73	73.44	73.48	76.88
A.9	73.02	77.27	79.69	78.03	82.50	D.2	43.65	47.73	53.13	54.55	57.19
A.10	78.57	78.79	80.47	78.79	83.75	D.3	37.30	41.67	43.75	49.24	46.25
A.11	67.86	67.86	71.43	71.43	74.38	D.4	100.00	98.48	98.44	100.00	99.38
B.1	59.52	68.94	71.09	69.70	74.69	D.5	85.71	86.36	87.50	86.36	89.38
B.2	55.56	65.15	68.75	66.67	72.50	D.6	79.37	84.85	87.50	86.36	90.31
B.3	50.00	59.85	64.06	65.91	68.13	D.7	80.16	82.58	83.59	82.58	86.25
B.4	47.62	60.61	63.28	63.64	62.50	D.8	89.68	89.39	88.28	89.39	90.00
B.5	46.83	59.85	61.72	61.36	60.63	D.9	42.86	46.21	46.88	50.76	49.38
B.6	47.62	60.61	64.84	63.64	69.38	D.10	50.79	53.79	56.25	60.61	59.69

Source: Author's processing, 2024.

■ Average corporate governance index per question for each category

Based on the corporate governance scoring per question and the number of recommendations for the four categories of the Code, Table 3 presents a comparative overview of the average values of the corporate governance scoring per question at the level of recommendation categories.

Table 3. Corporate governance scoring per category

- % -

Category	Average 2017	Average 2018	Average 2019	Average 2020	Average 2021
A	69.88	72.27	74.39	74.26	76.19
B	57.67	67.99	70.64	70.20	73.54
C	39.68	40.15	38.28	50.76	49.63
D	68.10	70.38	71.88	73.33	74.47

Source: Author's processing, 2024.

For these recommendations, a linear positive trend can be observed for categories A, B, and D, while category C shows a sinusoidal trend. Based on the information presented in Tables 2 and 3, the evolution of corporate governance indices for the four pillars covered by the Code of Corporate Governance recommendations is noteworthy (structure, responsibilities, and activities of the board of directors and committees, risk and internal control, board remuneration, and information related to shareholders).

Thus, the questions included in category A of the Code (concerning the structure, responsibilities, and activities of the board of directors and committees) show an average positive variation of 4.08% during the period 2017-2018. Also, for the first category, the average positive variation is 3.42% for the period 2018-2019, 2.09% for 2019-2020, and 1.67% for 2020-2021.

A significant average variation is recorded for category B (concerning risk and internal control). The period 2017-2018 shows an average positive variation of 20.1%, while between 2018 and 2019, it is just 4.11%. For the period 2019-2020, the average positive variation is 2.8%, and between 2020 and 2021, it is 1.56%.

Regarding the index for category C (on board remuneration), an average positive variation of 1.19% is identified for 2017-2018, while between 2018 and 2019, there is an average negative variation of 4.66%. The period 2019-2020 shows an average positive variation of 1.41%, and between 2020 and 2021, it is 0.94%.

The index for category D (on shareholder relations) highlights an average positive variation of 4.54% for 2017-2018 and 2.77% for 2018-2019. For the period 2019-2020, the average positive variation is 2%, and between 2020 and 2021, it is 1.38%.

➔ Conclusion

The aim of this study is to evaluate how non-financial companies listed on the Bucharest Stock Exchange have understood and applied corporate governance principles at the beginning of a new era of reporting in this field. Information was collected from public sources to calculate the three indices that form a picture of the degree of compliance with the provisions of the Code of Corporate Governance. This paper contributes to the specialized literature on this topic by offering a new perspective on the *comply or explain* model and how Romanian firms have understood and managed to comply with the Code's provisions in the period immediately following its adoption.

The results of the analysis indicate a general improvement in corporate governance scores among companies listed on the BVB. This positive trend suggests increased awareness and a more rigorous application of corporate governance principles by firms, reflecting a heightened commitment to transparency and accountability to stakeholders. It is important to note that year-on-year score variations can be influenced by multiple factors, including legislative changes, economic developments, and companies' internal strategies. Furthermore, the continuous improvement of scores emphasizes the importance of periodic evaluations and ongoing adjustments to corporate governance policies.

From the conducted analysis we can observe a positive evolution in the scores calculated for the majority of listed companies over the studied period. This indicates the firms' increasing attention to the recommendations of the Code of Corporate Governance. It is important to analyze whether the current trend will continue in future

periods. Additionally, it is notable that the variation in the 2017-2018 interval is much larger than in subsequent periods. This can be explained by the increasing awareness among companies regarding the adoption of recommendations, as well as the fact that 2018 marked the introduction of legislative provisions overlapping with those of the Code. Meanwhile, although the score evolution in the periods after 2018 is positive, it has not recorded an accelerated growth. Thus, it is interesting for future research to study how Romanian firms have matured in applying these provisions and to what extent they remain relevant for their management and control.

On the other hand, a lower compliance index can be observed with regard to the formation of the audit committee. The underperformance in 2017 improved significantly in the following years (2018 and 2019). These results are also confirmed by the research of [Albu and Gîrbină \(2015\)](#). However, this evolution should also be viewed in light of the statutory audit law, applied since 2018, which obliges public interest companies to form audit committees. Thus, this conclusion, corroborated with the increased compliance score for category C in 2020, may partially answer the question of how Romanian companies have applied the *comply or explain* model. The adoption of normative acts providing for sanctions has led to a significant increase in the degree of compliance with the recommendations included in category B, which once again confirms that reporting is dominated by the idea of producing state-oriented information ([Jianu and Jianu, 2012](#)).

Another relevant aspect that emerges from the analysis is the failure of companies listed on the BVB to present information about the remuneration policy of the board of directors. The average index for this recommendation was lower across all five years compared to indices for other categories. This result can be explained by the hesitation of the board to publish information about the remuneration of its members. The specialized literature on director payments is vast, which is why these results can contribute to future research.

Another conclusion relates to the classification of companies listed on the BVB into Premium and Standard categories. In our analysis, firms in the Premium category show a higher degree of compliance with the Code's requirements compared to those in the Standard category. Thus, to be listed in the Premium category, companies must meet certain conditions related to the market value of the number of shares issued and available for trading. Therefore, it can be understood that these companies are the largest on the market. Although this study does not correlate the corporate governance index results with company size or financial performance, the obtained results are important as the score recorded by large firms in the Premium category is higher than that of other companies.

The current study presents limitations regarding the small sample size, which makes the extended statistical analysis process challenging.

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