CORPORATE GOVERNANCE OF ROMANIAN COMPANIES IN THE CURRENT EAST-EUROPEAN CONTEXT

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Abstract
In a business environment influenced by globalization and mondialization, a company's relations with its partners can not be limited to financial matters so that serious conflicts may occur, with negative influence on its results. In this respect a responsible behavior is necessary to avoid such conflicts, which means in fact adopting a corporate governance model. In Romania, rebuilding corporate governance system was a major component of the economic reform, although aware of its importance became gradually and relatively late, on one side due to the inefficient governance of state enterprises and on the other side the increased activism of shareholders.
This paper aims is to analyze the stage of corporate governance in Romania at the its perception and application level, and how quality and operational efficiency of such a system influences the economic and financial situation of enterprises. For this propose is illustrated Romania's situation compared with some representative countries of Eastern Europe.

Key words: corporate governance, Romania, financial reporting
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Introduction

Twentieth century was dominated by the economic boom that emerged before and the First World War, acquisition and mergers of companies, which led to the development of conglomerates. In such a context it began to feel the growing need for information, according to numerous studies and reports made by experts employed by universities, banks, etc. The best known are *Cadbury Report* in the UK and *King Report* from South African. Cadbury Report led to the development of a Corporate Governance Code of London Stock Exchange, which required the principles and basic rules of management companies to obtain higher efficiency and eliminate discrimination between shareholders. Since 1992, have been developed and adopted many of these codes by companies like Microsoft, General Electric, becoming more transparent to investors and other partners. In the European Union, the concept of corporate governance has seen a moment of glory in 1997, when many countries have adopted such codes in their work.

Nationally, a proper corporate governance is to support researches and technological innovations, economic and social, both at the enterprise level and at institutional level. The communication policy represent the expression of modernity, an organizational philosophy which shows that without adequate promotional products can not only sell their characteristics, even if they are superior to the competition. So, occurs the role of corporate communication, practice showing that only through a sustained interaction with the business environment, an economic entity can grow.

Corporate governance is becoming more necessary in the development of capital markets, emergence of just-in-time production, finally, globalization.

1. Some theoretical notions concerning corporate governance

Corporate governance defines the management and control system of an organization, in accordance with the principles and best practices. At entity level, is considered the way of structuring the distribution of power and responsibilities among shareholders, directors and managers. Currently, the concept is used to describe the action of government, the manner of managing, administering, in the states, world organizations and enterprises. The objective of an corporate governance is to ensure a balance between the various actors and implementation of power control instruments, both for shareholders and other interested parties in the capital of the entity.

Modernization of the economic and also the social environment, made the current governance system to not only take into consideration the need to inform shareholders, but also their satisfaction, the company's ability to respond positively to the new market restrictions, through the relations established with external bodies, employees, general public, etc. Have appeared, in this way, new economic relationships and processes between business owners and executives. Their modeling and pursuing represent *the subject of corporate governance*, but its basic objectives have remained unchanged. So, whether for a communication between employees and management, or between managers and business partners or owners, efficiency is also desirable. The communication minimizes conflicts, increases efficiency, and its absence hinders the enterprise activity, especially through the teamwork inability.

Implementing a system of corporate governance involves the basic principles leading to relations between different participants, defining responsibilities and ensuring the correct operation of the decision making process. A well-based information system is essential for optimal functioning of organizations, but also for their future development. The main objectives of corporate governance are considering:

- an improved, permanent and useful communication system;
- efficient and effective organizational activities, measured through internal and external audits;
- protecting the shareholders' rights;
- ensuring efficiency, through optimal decisions of the Board;
- informing the public about the objectives and financial situation of the company, respecting trade secrets;
- a responsible attitude to the community through social actions and environmental protection.

Corporate governance system is based on principles developed by the OECD published in a first form in 1999, revised in 2003 and approved by OECD countries in April 2004. They have been formulated to achieve transparency, accountability and fair treatment of shareholders, to outline the most effective practice models of governance. Under the new principles, a corporate governance system must meet the following conditions:

✓ to increase transparency and efficiency of markets;

- ✓ to protect shareholders' rights, through fair treatment;
- ✓ to recognize the rights of all participants to economic activities;
- ✓ to encourage active cooperation to get wealthy and new jobs;
- ✓ to provide real-time dissemination of information on the situation of an entity;
- ✓ to ensure a strategic direction and an effective monitoring of management activities.

Corporate governance focuses on principles of ethics and social responsibility, but all the rules and procedures ultimate aimed to increase enterprise value. So, the efficiency of the model implemented in a company is given by the extent to which it manages to maximize value from the perspective of shareholders. The success of such an approach is to organize a closed ideal system that involves meeting the requirements of customers, suppliers, employees, etc., the results being concretized in an enhanced and sustainable value for the company.

2. Evolution of the concept in Romania

Romania, like other socialist countries has experienced an abortion of corporate system for about 70 years, during which its foundation in Western countries was done both as a reglementation of corporate relations and stability legislative form. In Romania, the concept of corporate governance has emerged in the early of 1990s, but failed to substantiate it for more than ten years the subject being left out. The context of transition, but the difficulties to be resolved in light of EU accession, have offered to Romania new challenges to organize an economic system in which to combine efficiency and sustainability, social equity, democratic and decentralized governance. However, there is still none optimal model that helps to ensure a good governance, being noticed several weaknesses in this area, such as: unequal access to information of shareholders, a minor role of the Board and ineffective communication with investors.

Romania's economic evolution has largely neglected the corporate management. Romania has lost its important position in many industries, the main causes being large machinery and equipment of some traditional-national enterprises, lack of investment, low rate of research and indigenous scientific and technological innovation which are not up with the current progress of foreign producers, they being increasingly present on Romania's intern market, competitiveness and local initiative thus having to suffer Acceptance of requirements and opportunities of joint ventures, results in degradation of the national economic potential.

In Romania, privatizations allowed managers and employees access to companies capital, which made the foreign shareholders to not involve in financing investments, because the means of control are ineffective. The used system resulted in the appearance of an ownership uninvolved in enterprise activity and which does not use effective control. So, in the absence of an efficient governance, the conflict of interests between majority and minority shareholders can not be avoided, concerning the violation of the lattest rights and the reduce of their wealth by the majority shareholders. This main conflict generally leads to other disagreements between directors, the Board and minority shareholders and between majority shareholders and business partners. Such situations can be solved by applying the principles of corporate governance by drawing strict rules on shareholder rights, the settlement role of various participants in the business life.

Romanian companies have a general model of corporate governance based on internal control and management employees, influenced by the transition from a planned economy to the market. The privatization process has led to several forms of governance:

- within firms where the state is shareholder, autonomous or not fully privatized companies there is an inevitably conflict between managers, employees and state, economic performance is not the primary objective and directors' interests are rarely subordinated to the ones of shareholders;
- private closed companies that not hold shares traded on the market, have as a common feature that owners are also managers, therefore are not any kind of interest conflicts in this regard. There are disputes between the venturers and managers do not seek to maximize value priority, but expanding business;
- privatized companies (opened), can have a very dispersed ownership, with rights generally neglected or major shareholder with a strong control. This shows a conflict either between management and minority shareholders, or between them and the majority. As in the case of private closed companies, autonomous decision making and operational of the management team is raised, organizational structures and information systems are flexible, dynamic and efficient and economic levers are predominantly used as management tools.

Currently, corporate governance is seen especially in companies listed on Bucharest Stock Exchange, although neither they are not really concerned with the efficiency of the implemented system. Smaller entities and not listed ones, are questioning the need for corporate governance standards in their work, arguing that a small number of shareholders, such a step is unnecessary and costly. This situation is attributed to the poor legislative framework, the lack of interest in support of independent bodies working to promote, implement and monitor a governance system in companies.

While Romania has weak progress about good corporate governance practices, other Eastern European countries have managed, at the same time (after 1990), to be appreciated in this respect by the big investors in Western Europe and worldwide. To illustrate, can be briefly discussed the situation in Poland, many investors affirming that entering on Warsaw Stock Exchange requires a complete revision of attitudes regarding communication with stakeholders and corporate governance, a fact which is beneficial for any firm. This stock exchange provides an opportunity to assess the efficiency of investment or long term, unlike the Romanian context, the main reason being a quality and top legislative and political stability. The situation is even worse, since there are companies that "leave" the Bucharest Stock Exchange and prefer the one in Warsaw. Even BSE president said, in 2010, with the occasion of "Bucharest Stock Exchange – 15 years of modern Stock Exchange" that Romania should look to Poland to have a model of what it means privatization through the stock. For year 2012 there are intentions, especially in the political, as such an approach to be ever present on the Romanian market. On the other hand, the results of an analysis attributed to Greg Konieczny, manager of Property Fund show that the stock market situation in Romania over the period 2010-2012 is the same with the situation of Polish stock market of 2000.

While the capital market in Poland is seen as an alternative to privatization and has an important role in development strategies, Romania has so far focused mainly on privatization, and very few have been achieved through stock exchange. Poland collected for three years between 8 and 10 billion from such sales, respecting commitments and planning each transaction by time. These schedules are made by multi-annual strategy, usually for periods of three years, which are annually updated and published on the website of the Ministry of Finance, projects are promoted through direct contacts with investors and diplomatic visits, but also through public notices for population. Thus, for the projects in 2012, there is developed a privatization program since 2009. Following recent progresses, it can be said that in attraction of foreign investors, Poland can compete with the Austrian market.

The situation of Romania in the field of privatizations is in trouble, documentation is poor, there are no medium or long term strategies and intentions are generally known in the form of rumors, with no certainty of their realization, given that, in other Eastern European privatization plans are carried out on four to five years in advance.

3. Financial reporting – crucial factor of companies' relationships with stakeholders

Definition and nature of accounting has changed over time. From the traditional perspective, in a simpler form, this implies a relationship by which some people are required by others to provide explanations and taking responsibility against their actions. Later, its meaning has changed, being found in its scope both the report, keeping accounts and application of judgment or punishment, taking into account the needs of citizens.

Romanian entities have begun to feel the the need for an effective communication with employees and other stakeholders. Shareholders access to information must be improved through modern means of communication, used both by companies and authorities. Companies comply with legal requirements and provide the information required by regulatory bodies but shareholders access remains often limited, especially to outsiders. In the last years, the situation has improved due to development of electronic communication environment, by which all stakeholders can access the information.

Financial reporting is, above all, an external control mechanism which may require more or different forms of financial and non-financial information, other than those commonly used in private sector companies to meet corporate governance rules. Financial and accounting information constitute inputs of the implemented control mechanisms. Managers are evaluated based on performance measures, and accounting policies have effects on other indicators such as share price. Given the temptation of managers to manipulate financial information for their benefit, it can be said that entities with weak governance are the most susceptible to criminal involvement. Agency theory postulates a conflict of interest between members of an organization, in which the owners are characterized by a relatively weak influence against managers. Such conflicts are also found in Romanian companies, whether they are branches of foreign organizations or are controlled from within the country. Developing the concept of corporate governance, following the financial scandals, has led regulatory authorities to monitor the relationship between board and shareholders and to strengthen controls in preparing and auditing financial statements. An effective governance provides control and promotes enterprise performance, so that shareholders value is enhanced and funds are not wasted on unattractive projects.

Transparency of financial reporting is closely associated with disclosure, presentation and with public access nature. Some authors distinguish between the disclosure or information dissemination and communication. They argue that transparency can be achieved if are not fulfilled the reporting conditions – especially the ethical ones – provided in accounting standards. So the broadcasts should be accessible to the interested public by reporting tools to ensure transparency: using a simple language, standardization, electronic access, consultation and appeal rights. In addition, commercial confidentiality militates against public access to information about private funding and considers necessary the government involvement to develop an effective framework of transparency, allowing to maintain the confidentiality sufficient to limit access to information for hostile parties (competitors), but also to ensure proper accounting.

Legal obligations on continuous information are currently well established, imposed by the securities legislation and their listing requirements. They relate to financial reporting annual or biannual, encumbered, most times, by audit requirement. Romania, like many other Eastern European countries, is based on national accounting system, which requires more importance to external control through reports and audits, to ensure financial transparency.

There are different professional backgrounds in Romania, each with their own experience and mentality that lead to divergent opinions, attitudes and communications. This limits the dialogue with other disciplines and external stakeholders, dialogue that can be very important in terms of economic pressure. Such pressure may arise with some restatements leading usually to a loss of reputation and even a financial trouble, if public perception on company gets out of control. Without a timely intervention of managers, in addition to image will suffer also the market value of the company. So it is essential the collaboration between management, accounting and independent audit in order that the enterprise be able to withstand these pressures. Many investors and market participants are using the made reports to determine the severity of existing accounting problems.

Implementing accounting policies in accordance with the existing rules, requires managers to recognize losses on nonperforming purchases. Such reports can be a negative signal for market and an incentive for managers to abandon those projects as soon as possible. In conclusion, a timely loss recognition stimulates better acquisitions and accelerates abandonment of nonperforming investment, avoiding other future losses. Late reporting of negative information and anticipated communication of the favorable can be explained in terms of “stakeholder theory”, according to which, without a possibility to hide unfavorable aspects, due to publication requirements, management will try to delay their presentation. So, managers can offer to investors the opportunity to withdraw or transfer the invested capital in the company’s shares before the bad news to come on the market. In practice, also exist “internal reporting hypothesis” according to which such information about financial performance are primarily provided to higher hierarchical levels, verified, explained, restated and then presented to the entity’s external environment.

There are voices in the Romanian business environment, supporting the need for greater fiscal controls, especially in large companies and holdings owing money to the State. Also, it is recommended that administrators do not receive loans from the companies they run, bonuses and other additional benefits. Potential investors expect the presentation of accurate and timely information, a high professional quality of administrators, so they are willing to pay a higher equity prices by 23%, as premium for good governance, because these features are considered more important than financial data. Notable progress has been made in attracting funds from large institutional investors, but results are still significantly below other East European countries.

4. Accounting profession facing the new challenges

At the OECD recommendation, Romanian legislation adopted since 2001, the corporate governance principles, developing or modifying various normative acts in this respect – Law no. 85/2006 on insolvency proceedings, the Tax Code, Ordinance no. 101 of 6 December 2006 on the reorganization of the Authority for State Assets by merging through absorption with Office of State Ownership and Privatization in Industry, Investment Law, Privatization Law, Company Law Official republished in 1066/2004, Law no. 297/2004 on the capital market.

Business environment was forced to adapt to the new demands resulting from globalization and that the role and responsibility of the professional accountant becoming increasingly important in an organization. Managers must accept that these responsibilities are no longer limited to the obligation to execute orders and to keep records, but reaches to meet the developed management strategies.

Accounting profession considers corporate governance a quest on administrative rules to prevent and correct the fraudulent practices of the enterprise and granting unfair privileges. The importance of accounting in the governance system is highlighted by international studies, considering the role of financial information to attract new investors and maintain existing relationships.

Although it should be noted the contribution of other officials, the professional accountant is the essential factor in preparing the information for internal and external users. This is a complex entity that requires, simultaneously, ethical, accounting, economical, legal and even informatics skills. In the current context of globalization, professional accountants should be in line with international trends and not confined only to national regulations. Knowledge of economics and accounting in Europe and worldwide is a prerequisite, but also a consequence of the need to modernize the Romanian regulations.

Introduction of International Financial Reporting Standards (IFRS) and specific changes in corporate governance, have determined the audit firms to seek avoiding any risk on the application and/or interpretation of GAAP. So, audit services will be most times limited to specific departments within companies, to receive the final certification in accounting and/or audit issues. Typically, auditors apply the rules strictly, without leaving space for interpretations or suggestions from managers who, in turn, increasingly resort to legal advisers to verify opinions on accounting issues.

Restatement of financial statements can affect public confidence in the company. This is true even more in Romania, given the instability of fiscal, legal and financial system. However, these companies can reduce the damages, if they know how to manage restatements. Unfortunately, there are many problems in this respect, from the obstacles present in the dialogue with stakeholders and the general public. Few enterprises know how to communicate the causes and effects of the restatement, for the public to understand where default is not a financial difficulty, with risks for investors. The consequence is, inevitable, the loss of credibility for leadership, accounting and auditing, from perception distortion to financial reporting (especially when there is suspicion of an act knowingly and maliciously). Losing public confidence attracts almost always a decline in market value of the company.

Beyond financial issues, accounting manifests concerns also for non-financial performance. So, accountant skills have developed in a fast pace, managing to cover issues of intangible assets, natural and social aspects. This was determined by the appearance in Romania of corporate social responsibility concept, under the influence of international approaches.

Regarding social responsibility reports, the company Braun&Partners Network, seen as a regional leader for management and strategic consulting services in the field, based on international experience, develops CSR markets in Eastern European countries. A study published in 2009, showed that although in this area been in its infancy Romania makes progress and ranks ahead of Bulgaria, but after Poland and Hungary. Romanian companies have Internet sites well developed, but more dedicated to customers for product promotion than to provide information for related parties, or to maintain relationships with suppliers and human resources data are often presented only partially.

Social reporting according to international standards GRI (Global Reporting Initiative), is not common for Romanian business culture. The results show a poor performance on communication of best practices in human resources are, and projects involving civil society.

(Instead of) Conclusions

On many occasions, for the situation of Romania, be it the economic, social or even political have been found various explanations and few solutions, and at present it fails to compete even with the important ex-socialist Eastern Europe countries and even less with the Western ones.

In Romania, the entrepreneurial culture is low and laws are preferential applicable or even broken, so it requires an increasing emphasis on external control of governance through reports and audits, to ensure financial transparency. Corporate governance, although adopted by some companies listed on BSE, does not constitute for them an area of great interest, and for the small and medium ones this term is unknown, or just a fashionable expresion, irrelevant for their activity.

Recent researches have shown that, unfortunately, Romania has serious shortcomings regarding the capital markets, corporate governance and social responsibility. The main factor that leaves Romania behind other more developed markets is represented by liquidity and capitalization gap. The success of other East European countries is due to public offers on stock market launched by governments, to the transparency for investors, the correct information of shareholders and public. So that Romania may reach the development level of other countries in the region it should be more concerned with improving the organizational culture elements, both in public sector services and in private businesses. The future promises progress to be made in this regard, due to the pressure from foreign investors potential or already existing on Romanian market, but also from European Union.

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