CORPORATE GOVERNANCE DISCLOSURES IN EUROPE: WEST VS. EAST

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ABSTRACT:
This paper aims to present the corporate governance disclosure practices, the level of transparency and its determinants of the companies from eight European countries that are members of the European Union. The study is separately analyzing the situation of the Western countries (France, Germany, Spain and UK) and of the Eastern countries (Bulgaria, Czech Republic, Poland and Romania), concluding with the comparison of the obtained results and the identification of their determinants (firm-level and country-level).

KEYWORDS: *corporate governance, disclosure, transparency, firm-level variables, country-level variables*

1. INTRODUCTION

Corporate Governance is a relatively new area in which the development was acquired by substantial influences that came from other domains such as finance, economics, accounting, law, management and organizational behavior (Monks & Minow, 2012). The failures of first tier businesses in the early 80s raised awareness upon the gaps of a system that seemed to be perfectly accurate until then. Corporate collapses and financial scandals affected the trust of the investors even more when it was revealed that in most of the cases the annual report and accounts seemed fine (Mallin, 2013). As a consequence, corporate governance appeared from the need to look beyond the annual report and accounts of a company, to some aspects that are of extreme importance for investors and, unfortunately, have been neglected for years.

After 1990, due to geo-political factors, many ex-communist countries have become members of the European Union. Although, they adhere to the international treaties in which the Western members of the European Union were already part, significant differences continue to exist between the Western and the Eastern wings of the EU. Some of these differences are related to corporate governance (Berglöf & Pajuste, 2005).

The way in which each country chooses to implement the Corporate Governance principles and to disclose the obtained result is affected by institutional and cultural specific issues, creating disparities at European level. The aim of this paper is to analyze these disparities and to identify their determinants in eight economies of the European Union.

2. LITERATURE REVIEW

2.1. Corporate Governance

Corporate Governance is a relatively new area and its development was influenced by a large number of theories from different disciplines, such as finance, economics, accounting, law, management and organizational behavior. Beyond all these disciplines, corporate governance also incorporates cultural, institutional and other structural differences. Therefore, the Corporate Governance principles should be viewed in conjunction with the legal system, cultural beliefs and other factors and not analyzed independently.

The great economic failures of the 70s and 80s that led to the loss of investors' confidence in companies, in general, and in managers' ability of leading, in particular (Albu, Durica, Grigoraș, Grigore, Mateescu & Ichim, 2013). After these early issues, there was a continuous struggle to improve corporate governance mechanism and to avoid other failures, transforming the development of corporate governance into a necessity of the economies worldwide.

In the international area, the earliest solution for implementing of corporate governance appeared under the form of *Good Practices Code.* In Europe, the first steps to a modern corporate governance system were made in UK, in 1992, when the Cadbury Code was adopted, followed in the next years by subsequent reports. In order to assure uniformity and coherence at the international level, The Organization for Economic Cooperation and Development (OECD) issued in 1999 and revised in 2004 a set of principles regarding the corporate governance phenomenon. These principles are meant to represent a model of efficient implementation of the corporate governance codes at national level.

The Organization for Economic Cooperation and Development (OECD) principles are structured into six sections, each one discussing one issue. One of the six sections is dedicated to corporate governance disclosures and transparency. The requirement for proper disclosures in corporate governance is a natural response to the economic failures and business collapses registered worldwide due to the lack of information movement between shareholders, board of directors, management and employees (Tricker, 2012).

2.2. Corporate Governance Disclosures

Researchers have discovered that information symmetry is strictly linked to the efficiency of a business; more symmetry in information, more efficiency in business. This is actually what transparency of corporate governance means. Disclosures that are made on a periodic basis are reducing the informational asymmetry between the company's management and its stakeholders. The early requirements for disclosures were headed to financial reporting, but today we are facing among European companies a tendency to disclose much other relevant information on factors such as auditing, detailed relation with stakeholders and corporate social responsibility (CSR) (Gîrbină & Albu, 2012).

The transparency of information could be a two-way road for a company. On one hand, as stated above, it is important to facilitate the exchange of information between management and shareholders, because more transparent companies manage to gain the investors' trust. Gaining investors trust, they attract more financial resources, increasing their market value. On the other hand, transparency of a company's information could be a disadvantage if that information helps competitors create a competitive advantage against it (Berglöf & Pajuste, 2005).

In the early 2000s, when OECD published the corporate governance principles and the set of best practices, only a few countries adhere to these principles, implementing the stated rules in their national codes. The 'comply or explain' principle governed most of the corporate government mechanism until the middle of the 2000s. Companies were tending to disclose only those aspects that were required by the national laws and comply with non-voluntary regulations from two perspectives; first of all, if they were intending to enter the stock exchange market, they have no other choice but to comply, because this would increase their market value and the investors' trust; secondly, if they were already listed on the capital market and they do not comply, then, according to the 'comply or explain' principle, they had to motivate why they have not disclosed the required information.

Beginning from 2005, several studies regarding this matter were conducted in Europe, in both Western and Eastern wings of the continent. Studies revealed that many important disparities exist between European countries. Most of these disparities were created between Western and Eastern countries, but there were also many differences between from the same part of the continent, even they were considered to have similar economic development levels.

Taking into consideration the fact that the international regulations were homogeneously presented by the OECD statement, incorporating all the other issued codes, the conclusion is that the determinants of these disparities are not provided at an international level, but at lower levels. Further studies that were conducted revealed that the disclosure practices of the companies are influenced by company-level and country-level determinants.

Authors' opinions are divided into several points of view; some of them are considering that the company-level variables influence the level of transparency the most. They base their statements on the agency theory, elaborated by Jensen and Meckling in 1976, which discusses the relationship between the principal and the agent and the level at which the information is exchanged between them (the higher the level, the more efficient the business). On the other hand, there are authors that support the institutional theory, elaborated by Scott in 1987, which looks at the institutional environment and its influence on societal beliefs and practices, including the practices used by corporates to disclose corporate governance information (Mallin, 2013).

Being given the fact that corporate governance is an area of continuous research and development, this domain is currently evolving. Its level of transparency is the amount of the process' operations that is visible in the exterior, communicated to the interested parties, even if they are shareholders, employees or other stakeholders. Therefore, it is a matter of great importance to identify and analyze the factors that determine the fluctuation of this level (if any fluctuation).

3. RESEARCH METHODOLOGY

3.1.The sample of the study

The sample on which the study was made consists of 80 companies from 8 different. The 8 countries are all members of the European Union; 4 of them are Western European Union countries, the other 4 are Eastern European Union countries. The selected countries are Bulgaria, Czech Republic, France, Germany, Poland, Romania, Spain and UK. Each of the 80 companies selected is listed in the first tier of the national stock exchange. In order to be sure that the selected companies are among the most financially powerful companies of that given country, the stock exchange indexes were used in each case.

The SOFIX index was used for the Sofia Stock Exchange, the PX index was used for the Prague Stock Exchange, the CAC40 index was used for the Paris Stock Exchange, the DAX index was used for the Frankfurt Stock Exchange, the WIG20 was used for the Warsaw Stock Exchange, the BET index was used for the Bucharest Stock Exchange, the IBEX35 index was used for the Madrid Stock Exchange and the FTSE index was used for the London Stock Exchange. The information related to the presented sample was collected for the 2013 financial year from annual reports, corporate governance reports, companies' websites and the websites of the Stock Exchanges of each country. Also for collecting the information regarding the country-level factors, the World Bank's website was used.

3.2.The Level of Transparency

The level of transparency is considered to be one of the most important indicators that prove the efficiency of corporate governance mechanisms. The subject was analyzed in several studies during the years. In order to assure a coherence of the current study, three of these studies were used as a model: the Berglöf & Pajuste study, the Kowalewski, Stetsyuk & Talavera study and Gîrbină & Albu study.

In order to calculate the level of transparency for every country, the LoT (Level of Transparency) index was assigned. It will measure to what extent companies are disclosing information involved in their corporate governance practices.

For this operation, 6 variables were chosen: *Website*, *AnnualReport*, *CGSection*, *OwnershipStr*, *NonExBoard* and *ExBoard*. These variables were selected to reflect the most relevant information that should be disclosed by the companies involved and are all derived from prior studies mentioned above. Each of the variables stated above can take three possible values: 0, 1 or 2.

The values are assigned as follows:

Website=0, if the company does not have a website;
Website=1, if the company has a website available only in the national language;
Website=2, if the company has a website available also in English;

CGSection=0, if the website of the company does not contain information about corporate governance;
CGSection=1, if the website of the company contains information about corporate governance, but the information is not gathered in one place;
CGSection=2, if the website of the company contains information about corporate governance and the information is organized in a separate section related only to this aspect;

AnnualReport=0, if the company does not disclose the annual report on the website;
AnnualReport=1, if the company disclose the annual report on the website, but it is available only in the national language;
AnnualReport=2, if the company disclose the annual report on the website, and it is available also in English;

OwneshipStr=0, if the company does not disclose information about shareholders;
OwnershipStr=1, if the company discloses information about shareholders, but they are not presented individually, but aggregated in groups;

OwnershipStr=2, if the company discloses detailed information (name and number of shares) about shareholders that detain at least 5%;

NonExBoard=0, if the company does not disclose information about the non-executive members;
NonExBoard=1, if the company discloses information about the name of the non-executive members;
NonExBoard=2, if the company also discloses information about the independence of the non-executive members;

ExBoard=0, if the company does not disclose information about the executive members;
ExBoard=1, if the company discloses information about the name of the executive members;
ExBoard=2, if the company also discloses information about the professional experience of the executive memebers;

As a consequence, the LoT index is calculated as follows:

LoT = (Website+AnnualReport+CGSection+OwnershipStr+NonExBoard+ExBoard)/12.

The sum of the 6 variables is divided by 12 because this is the maximum value of the LoT index. After the LoT index is calculated for each country - as an average of the LoT indexes of the companies from that specific country – the LoT index for Western Europe and Eastern Europe will be calculated. The two final LoT indexes will be compared in order to show the difference in the level of transparency between the Western and Eastern Europe.

3.3.Factors that influence the LoT index

The study continues with the identification of the determinants for LoT Index. According to prior studies, there are two types of variables that can consistently influence the level of transparency: firm-level variables and country-level variables. By analyzing the relationship between the LoT index and the two types of variables, we can reveal which of the two exert a higher pressure on the corporate governance practices. The selected variables, both firm-level and country-level, are similar to those used in prior studies and researches regarding the corporate governance practices.

3.3.1. The firm-level variables (internal variables) are: *TotalRevenues, TotalAssets and Auditor*

TotalRevenues refers to the profitability of the company. It is important to test if more profitable companies tend to be also more transparent or the other way around. Data about the total revenues of the companies included in study was extracted from the annual report of each company and is associated with 2013.

TotalAssets refers to the size of the company and the relationship between this variable and the LoT index will reveal if larger companies are more transparent or, on the contrary, less transparent. Data about the total value of the company's assets was extracted from the annual report issued for 2013.

The last firm-level variable is *Auditor* and refers to the audit firm that is associated with the selected company. In other words, it is important to see if the audit firm is a Big4 or not and if this aspect has any impact on the LoT index. Previous study conducted by Morris in 2012 revealed that corporates audited by larger audit firms tend to have better financial disclosures (Morris, Susilowati & Gray, 2012). The relationship between this variable and the LoT index will demonstrate if the large audit firms have also an influence on the corporate governance disclosures. If the studied company has a contract with a Big4 audit firm, the Auditor variable equals 1. If the company does not have a contract with a Big4 audit firm, the Auditor variable equals 0.

Table1. Firm-level variables (internal variables)

Country/internal variable	Average TotalRevenues * in EUR m	Average TotalAssets * in EUR m	Auditor
Bulgaria	390,81	667,92	0,40
Czech Republic	3763,40	1701,32	0,90
France	33327,12	47439,44	1,00
Germany	37702,59	53547,82	1,00
Poland	3120,67	6793,42	1,00
Romania	439,10	1139,06	0,60
Spain	21284,82	39732,94	1,00
United Kingdom	73762,94	92575,82	1,00

3.3.2. The country-level variables (external variables) are: *GovEff*, *RuleOfLaw* and *CtrlOfCorruption*

The relationship between the three country-level variables and the LoT index reveals the influence that the characteristics of the national environment have on the corporate governance practices of a company, in this case, especially on the level of transparency.

GovEff variable refers to the efficiency of the national governmental system and to the efficiency of the legal implementation. The relationship between the *GovEff* variable and the LoT index will be tight if the efficiency of the governmental processes determine the companies to disclose more information of their corporate governance process. If we are talking about non-voluntary information, efficiency could mean efficient enforcement, while in case of voluntary, information efficiency is related to the efficient imposing of a governmental model for the business society. Data was collected from the World Bank website and represents one of the annual world governmental indexes issued by the report committee for 2013.

RuleOfLaw variable is meant to be analyzed in relationship with the LoT index in order to reveal the attitude of the companies towards corporate governance practices in correlation with the national attitude towards national laws in general. The attitude of the people regarding the national laws is reflected in every legal aspect of that specific country and is even transposed to non-legal aspects (ethics, morality, education). The analyzed relationship is going to test if this attitude of the citizens is also influencing the business environment and the corporate governance disclosures. Data was collected from the World Bank website and represents one of the annual world governmental indexes issued by the report committee for 2013.

CtrlOfCorruption variable's relationship with the LoT index shows the impact of corruption upon the corporate governance practices and transparency. While corruption is an illegal operation, hiding corrupted aspects is a common practice. If these corruption aspects are inflicted in a company's processes, then the level of transparency is expected to decrease, in order to hide the illegal operations that might be discovered. Data was collected from the World Bank website and represents one of the annual world governmental indexes issued by the report committee for 2013.

Table2. Country-level variables (external variables)

Country/external variable	GovEff	RuleOfLaw	CtrlOfCorruption
Bulgaria	59,3	51,2	49,8
Czech Republic	75,1	82,5	62,7
France	89,5	88,2	88,0
Germany	91,4	91,9	94,3
Poland	71,3	73,5	70,8
Romania	52,6	56,4	52,6
Spain	82,8	81,0	75,1
United Kingdom	90,0	92,9	93,3

4. THE RESULTS OF THE RESEARCH

4.1.The LoT index

First of all, the results will be presented separately for each of the six variables that were assigned for every country. The comparison is important because it allows us to see the starting point for the later difference that will result in the LoT index.

Table3. The six variables analysis

Country / variable	**Website**	**CGSection**	**AnnualReports**	**OwnershipStr**	**NonExBoard**	**ExBoard**
Bulgaria	1,00	0,55	1,00	0,55	0,45	0,30
Czech Republic	1,00	0,85	1,00	0,85	0,65	0,70
France	1,00	1,00	1,00	1,00	1,00	1,00
Germany	1,00	1,00	1,00	1,00	1,00	1,00
Poland	1,00	0,90	1,00	0,95	0,65	0,95
Romania	1,00	0,95	0,95	0,75	0,40	0,45
Spain	1,00	1,00	1,00	1,00	0,70	0,80
United Kingdom	1,00	1,00	1,00	1,00	1,00	1,00

Analyzing in more details the values of the six variables for each country we can identify some characteristics of the LoT index for every country. First of all, the 80 companies from the 8 countries included in the study have a website which is available in at least two languages: the national language and English. Among the companies from France and

Germany, many have a website available in three languages or even more. The value of the Website variable is 2 for every company included in the study and, as a consequence, for every country.

Regarding the corporate governance section, Bulgarian companies are not familiar with having a website with a separate corporate governance section. In the rest of the countries the phenomenon is usual.

The annual report of the selected companies is available on the website in both national language and English, except for one company in Romania. Although, being an isolated case, we can confirm that companies tend to disclose their annual report according to the corporate governance practices.

The ownership structure is presented in depth in most of the countries, except Bulgaria and Romania. Especially in Bulgaria, we have several cases in which the ownership structure is only vaguely presented with shareholders aggregated in groups. In Romania, some companies tend not to disclose the name of the shareholders, labeling them with 'private ownership' instead.

The information regarding the non-executive members of the board, as well as the information about the executive members of the board is briefly disclosed. The name of the members is disclosed in almost every situation, except for some cases in Bulgaria and Romania. Unfortunately, the independence of the non-executive members is an issue rarely disclosed by companies, except for three countries: France, Germany and UK. It is important here to mention that the independence itself was not a criterion of adding value to the variable, but only the information related to independence. The same three countries are the only ones that disclose, in every case, information about the professional experience of the executive members. The phenomenon of not disclosing the professional experience of the executive members is an intimidatingly common in countries such as Bulgaria, Romania and even Czech Republic.

The calculation of the LoT index was made according to the procedures presented in the previous chapter and using the given data sources. The resulted LoT index values will be presented separately for Western European countries and Eastern European countries, in order to allow the comparison between them.

Table4. LoT for Eastern European countries

Country	**LoT**
Bulgaria	0,64
Czech Republic	0,84
Poland	0,91
Romania	0,75
Eastern Europe	0,79

Table5. LoT for Western European countries

Country	**LoT**
France	1,00
Germany	1,00
Spain	0,92
United Kingdom	1,00
LoT for Western Europe	0,98

The calculation of the LoT index reveals the transparency issues that Eastern European countries have with their companies' corporate governance practices compared to the Western European countries. While among the Western European countries, Spain has scored the lowest with slightly above 92%, among the Eastern European countries, this value is closed to the highest score obtained by Poland with 91%.

Another identified problem beyond the gap between the West and the East is the gap between the East and the East. The differences in corporate governance transparency created between the Eastern European countries are upsetting; 15% between Romania and Poland, 26% between Bulgaria and Poland.

The LoT index calculated for every selected country and then, separately, for Eastern Europe and Western Europe, respectively, reveals a difference of 19% between the two wings of the European Union. It is important to find its determinants that involve such a gap of transparency between the companies from European Union member countries.

4.2.The LoT index's determinants

In order to discover the determinants of the transparency level involved in each case, the correlation between the LoT index and the six variables will be analyzed. The research uses the Spearman coefficient and the Pearson coefficient as well. In the next table are the values for both Spearman and Pearson calculations; Spearman coefficient is presented above the diagonal of 1s, while Pearson coefficient is presented under the diagonal of 1s.

Table6. Spearman & Pearson coefficients of correlation

	LoT	TotalRevenues * in EUR m	TotalAssets * in EUR m	Auditor	GovEff	RuleOfLaw	CtrlOfCorruption
LoT	**1**	0,737	0,775	**0,944**	**0,912**	**0,942**	**0,952**
TotalRevenues * in EUR m	**0,952**	**1**	**0,989**	0,549	0,785	0,752	**0,858**
TotalAssets * in EUR m	**0,976**	**0,976**	**1**	0,594	0,822	0,769	**0,887**
Auditor	**0,894**	0,791	**0,873**	**1**	**0,837**	**0,957**	**0,948**
GovEff	**0,927**	**0,952**	**0,929**	0,764	**1**	**0,929**	**0,952**
RuleOfLaw	**0,903**	**0,976**	**0,929**	0,709	**0,929**	**1**	**0,919**
CtrlOfCorruption	**0,976**	**0,952**	**0,976**	**0,873**	**0,952**	**0,905**	**1**

Values in bold are different from 0 with a significance level alpha=0,01

The results suggest that LoT index is highly correlated (the closer the number is to 1, the higher the correlation) with all the country-level variables according to both Spearman and Pearson coefficients. This means that the institutional context from a country exerts a great influence on the transparency level of the corporate governance practices of the companies in that country. Law is the linking word for all the country-level variables stated above, because it is the good implementation of law the one that decides the government effectiveness, the attitude towards law the one that decides the RuleOfLaw variable value and the enforcement of law the one that provides the value of the CtrlOfCorruption variable. In other words, being a set of rules, the corporate governance principles are applied and respected on the territory of a country in the same manner in which the other national rules are.

Although lower than the correlation between LoT index and the country-level variables, the correlation between the LoT index and the firm-level variable is also significant. The size of the company and its profitability are decisively influencing the level of transparency. Large companies tend to disclose more information about their corporate governance practices. In the same manner proceed the profitable companies. The explanation may be the fact that the shareholders are interested in developing a healthy corporate for maintaining a continuous growth of the company, so their demand is higher. The higher companies are also disclosing more corporate governance information because they are willing to gain the trust of new investors and to attract new funding sources.

Even though the company's auditor must not intervene in the implementation of the corporate governance mechanism, the study reveals that companies that are audited by a Big4 audit firm disclose more information and higher-quality information, especially when we are talking about financial information.

5. CONCLUSIONS

This paper investigates the situation of the corporate governance transparency at European level, considering a sample of 80 companies from 8 countries, all of them members of the European Union.

The most important question is whether the national legal or business environment has the power to guide the implementation of the national corporate governance mechanism or if there are more influential internal variables that impose the implementation of certain corporate governance practices.

Although the sample was homogeneous, significant differences were identified between the selected countries, especially between Western and Eastern countries, but also among countries from the Eastern wing of the European Union. Because of these findings, I extended the study, in order to identify the determinants of these differences and the determinants of the transparency level in general.

The study of the correlations between the transparency level and the supposed determinants revealed that the amount of information disclosed by the European companies in the selected sample is influenced by institutional context, characterized by the government effectiveness, the rule of law and the control of corruption, but also by firm-level variables such as the total revenues value, the total assets value or the nature of the auditor.

All in all, I do consider that the result of this study is encouraging. Even if there is still a gap between the member countries of the European Union regarding corporate governance implementation and transparency, the companies are more and more aware of the significant importance represented by the corporate governance mechanisms and their impact on the economic and business area.

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