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Corporate governance disclosure practices and their determinant factors in European emerging countries

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Abstract: This paper investigates the corporate governance voluntary and non-voluntary disclosure practices of the listed companies from four European emerging countries, namely Estonia, Poland, Hungary and Romania. The study also identifies how compliant are the companies from these countries with their national corporate governance recommendations, including the compulsory corporate governance information, but also how willing they are to disclose voluntary corporate governance information. Finally, the paper aims to analyse the factors that influence companies from these countries to disclose certain types of information, trying to discover whether the companies' corporate governance systems are mostly influenced by their national business or legal environment or if there are more powerful internal factors which influence the enforcement of certain corporate governance practices.

Keywords: corporate governance, transparency, compliance, institutional investors, firm-level variables, country-level variables

JEL codes: G32, M41

1. Introduction

The subject of corporate governance has gained an increasing attention over the last years, especially after a series of major economic failures, when a great extent of investors lost their confidence in the managers' leading abilities. Beside the attention corporate governance has gained in the developed countries, it has

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become also of a great concern in the emerging countries, which are considered the dynamic engine of economic growth (Berglof & Pajuste, 2005; Adiloglu & Vuran, 2012; Ertuna & Tukel, 2013; Albu *et al*, 2013a,b; Girbina *et al*, 2012; Hryckiewicz, 2009; Hermes et al., 2007).

Many ex-communist countries in Eastern Europe are nowadays members of the European Union. In 2003, the European Commission published the Communication 284 (COM-284) with the purpose to suggest ways in which corporate governance in these countries could be improved. The issues addressed in this document refer to three main pillars, namely disclosure policies, strengthening the rights of investors and board of directors' modernization. Therefore, transparency and quality of disclosures became an important objective of the European authorities (Berglof & Pajuste, 2005), in association with the corporate governance reforms (Adiloglu & Vuran, 2012).

Bonson and Escobar (2006) explain the fact that Eastern European face additional challenges related to the adherence of the EU common rules and their national disclosure practices should become secondary. However, authors (Malinowska & Gad, 2013; Hryckiewicz, 2009; Berglof & Pajuste, 2005; Girbina *et al*, 2012) have conducted several studies on countries of Central and Eastern Europe and the results vary widely from country to country, which suggests the need to study this phenomenon in different environments and to discover the factors that influence disparities that exist between countries.These countries share many similarities in their economic and political context, but also they have differences in culture and institutions.

Therefore, the aim of this paper is to investigate corporate governance disclosure practices and their determinants in four emerging economies from Eastern Europe.

2. Literature review

2.1 Corporate governance in emerging countries

Corporate governance is a concept that is being studied more and more by worldwide researchers and which has gained a special place in the strategy of those companies whose major objective is business excellence. Corporate Governance is an extremely rich field of study, placed at the crossroads of finance, accounting, management, law. This is the reason why it generates a lot of research questions and themes, the great variety of approaches given by researchers being the proof of the growing importance of corporate governance.

Corporate governance is a concept that aroused in the early '70's in the United States as a result to a series of great economic failures that had led to the lost of investors' confidence in managers' ability of leading the great corporations and public institutions (Cheffins, 2012; Albu *et al*., 2013a). Since then, there has been a continuous care for improving corporate governance mechanisms worldwide, as to avoid new bankruptcies and improve companies' accountability. Given this last aim, the reforms in corporate governance were a necessity in emerging economies.

In order to support international comparability, but also the reforms of developing economies and as a result of continuous research, The Organisation for Economic Cooperation and Development (OECD) released in 1999 a set of best practices regarding corporate governance mechanisms (revised in 2004). These principles are meant to guide national corporate governance authorities in implementing efficient national corporate governance codes. They represented a model for Eastern European countries, too, since Romania implemented it in 2000, and Hungary and Poland implemented their codes in 2004 and Estonia in 2006 (Mygind, 2007).

Some studies conducted on emerging countries (Hermes *et al*., 2007) show that, in most of the cases, their corporate governance codes are quite similar because the external forces that have driven to the need of implementing them are similar, namely their integration into the global economy, opening of stock markets to foreign investors, increasing the role of foreign institutional investors as well as recommendations made by international organizations in order to improve corporate governance practices. Also, they followed similar models. However, other studies (Postma & Hermes, 2007; Mygind, 2007) have also shown that internal factors such as each country's own institutions led to some differences between the codes.

2.1.1. Corporate governance compliance

Bianchi *et al*. (2011) present the fact that in the European developed countries, the companies tend to comply to a very large extent with the national corporate governance codes, bringing into discussion the example of Netherlands, where the companies implement 95% of the Dutch corporate governance recommendations, while Germany, Italy and Belgium usually conform to about 85% of their national corporate governance principles. Adiloglu and Vuran (2012) suggest that, given the increasing importance of corporate governance practices worldwide and the development of financing through stock markets, companies are trying to adapt more and more to their national corporate governance codes' requirements. The same authors mention the fact that companies with a high level of compliance with national corporate governance codes represent a signal to investors that the companies are more accountable and transparent.

Hermes *et al*. (2007) support the same idea introduced by Adiloglu and Vuran. Their results have led to the idea that the implementation of these codes in European emerging countries is the result of the companies' desire to list on stock markets than the awareness that their implementation would produce an improvement in the companies' activity and management.

These results question the effectiveness of adopting corporate governance codes at a national level, since companies became symbolic adopters or manifest reduce level of compliance. Therefore, an investigation of entities' practices (as a result of codes' implementation) would be useful to suggest the results obtained through reforms.

2.1.2. Corporate governance disclosure practices and their determinants

As a response to the large economic failures, the corporate governance worldwide authorities have adopted a series of regulatory changes, part of them regarding an increase in disclosure requirements (Hermalin & Weisbach, 2007). As a reaction, as I previously mentioned, one of the objectives of corporate governance reforms in Europe isanincrease in the companies' transparency level. According to Adiloglu and Vuran (2012), corporate governance refers to the quality, transparency, and dependability of the relationships between the shareholders, board of directors, management, and employees that define the authority and responsibility of each in delivering sustainable value to all the stakeholders. Transparency is clearly linked to the debate about governance reform, as it embodies one of the core principles corporate governance.

A proof of the great importance of transparency in ensuring a good corporate governance system is the increasing concern of OECD (The Organization of Economic Cooperation and Development) for implementing best disclosure practices. Its corporate governance principles have a separate section concerning transparency and disclosure principles, along with five other sections regarding different problems concerning shareholders, stakeholders and the board of directors.

The increasing importance of transparency and detailed disclosures have encouraged researchers worldwide to conduct studies in order to assess the existing practices regarding disclosure and the factors that influence companies in disclosing certain information, but also by their findings to improve the disclosure process and the transparency level. Glaum *et al*. (2013) suggest the fact that financial reporting is an important component of corporate governance that reduces informational asymmetry between a company's management and its stakeholders.
The authors also suggest the fact that more transparent information helps the capital-market participants to better assess management's decision-making

processes. Berglof and Pajuste (2005) draw the attention on the fact that more transparent companies help their investors become more aware of their activity and performance, reducing in this way the cost of capital and increasing the company's market value, but they also bring into discussion the so-called *trade-offs* a company makes when deciding the amount of information disclosed. Even though a transparent companies are usually attracting more financial resources through stock markets (Ertuna & Tukel, 2013; Berglof & Pajuste, 2005), there is also a great disadvantage, namely the fact that competitors have access to more information.

This is the reason why sometimes companies are reluctant to disclosing voluntary information and the result is an increase in the concern of worldwide authorities regarding the financial and non-financial transparency.

Bonson and Escobar (2006) suggest the fact that many international authorities, such as IASB, FASB, ICAEW and CICA have given an increased importance to implementing best practices regarding the disclosure of corporate information by internet, given that it provides the companies the possibilities of disclosing a large amount of financial and non-financial data. At the beginning of internet disclosure, companies only complied with the legal requirements; nowadays they are aware of the fact that disclosing more quantitative and qualitative information help the company obtain competitive advantages.

Given that in the last years the emerging countries have been considered the engine of economic growth, there has also been an increase in the number of studies conducted in these countries regarding the transparency level and the factors that influence companies in disclosing certain information to the stakeholders.

Beglof and Pajuste (2005) have conducted several studies in Central and European countries and the results showed that there are many disparities between countries regarding their disclosure levels, which conducted to the idea that there are many factors influencing the companies' transparency levels. For example, Estonian and Czech companies are more transparent than their national regulations require, being aware of the great advantages a company could obtain from having a good level of transparency, while Polish and Lithuanian companies seem to disclose less information than required. The study conducted by Kowalewski *et al*. (2007) tend to contradict the results obtained by Berglof and Pajuste (2005), sustaining the fact that Polish companies have a good level of corporate governance disclosure, reflecting the existence of good corporate governance practices in informing the shareholders. Girbina *et al*. (2012) have also conducted a study concerning Romanian companies' level of disclosure and the results have shown that managers usually are not willing to disclose a large amount of information, the level of voluntary information being very low. The authors claim the fact that even though Romania has been among the first emerging countries implementing a corporate governance code, little is known about the mechanisms implemented by each company, given the low transparency level.

Literature suggests that companies' practices are influenced by company-level and country-level factors. In order to investigate that, several theories were employed, such as agency theory (generally related to company-level factors) and institutional theory (generally related to country-level factors). As such, Judge *et al*. (2004) define the institutions as relatively enduring systems of social beliefs and socially organised practices associated with varying functional areas of societal systems (e.g., religion, work, politics, laws, and regulations). However, Francis *et al*. (2011) underline the importance of firm-level incentives in promoting a good corporate governance system that reduces the conflicts of interest that often arise in companies. They also draw the attention on the fact that, in countries with poor institutional structures, these incentives have a more important impact than the country-level regulations.

Judge *et al*. (2004) find that recent international studies have shown that corporate governance practices are more often related to the institutional environment than to the agency problems the companies face. Also, the same authors draw the attention to the fact that most of the studies have been conducted in isolated environments, mostly in Anglo-Saxon countries, suggesting the fact that it has become necessary to study the corporate governance practices and the influence of the institutional environment on these practices in a wider area so to obtain a more accurate image of the connection between them.

One important factor in implementing and promoting a sound corporate governance mechanism is the presence of institutional investors. Especially in the Anglo-Saxon countries, the interest in studying the institutional investors and their influence on the companies they invest in has become extremely important, the proof being the large number of studies conducted in this area.

The institutional investors are generally represented by pension funds, credit institutions, investment funds, insurance companies and many others, whose main purpose is the optimal investment of their clients' funds. They have a fiduciary responsibility of best acting on behalf of their clients in order to maximise their benefits, meaning that not only do they invest on profitable companies, but they invest in companies which will continue having a growing trend of profits (Mallin, 2006; Malinowska & Gad, 2013, Philip Davis, 2002).

In the late '80's, the institutional investors have drawn the public attention by their great interventions in underperforming companies' boards destabilization. Their influence has been very diverse, from releasing Good Practice Guides concerning the boards' structure and composition, executive remuneration, to intense debates concerning Company Laws' reforms. The growth of institutional ownership has lead to optimistic predictions about the separation between ownership and control. The literature (Ertuna & Tukel, 2013; Kirkpatrick & Jesover, 2005; Hryckiewicz, 2009; Malinowska & Gad, 2013) identifies ways in which institutional investors tend to optimize the corporate governance mechanisms. Through their superior financial force, they manage to assume the supplementary costs that arrise when sustaining a new proposal concerning the best corporate governance practices.

In Europe, the studies of the influence institutional investors have on the corporate governance principles are not as many as in the anglo-saxon countries, but the researchers' interest is growing. Ertuna and Tukel (2013) discovered an indirect, but extremely important influence institutional investors have on the quality of the financial statements of the Turkish listed companies. Trying to attract more institutional investors and more capital, the companies in countries with less developed corporate governance principles have enriched their annual reports quality, by increasing the level of voluntary information disclosed, leading to the growth of transparency level. Hryckiewicz (2009) mentions that the institutional investors influence the annual reports' transparency level also in Poland, given that managers become more and more strict about the disclosure of a company's financial position and performance. Albu *et al*. (2013b) suggest that, in Romania, the companies where institutional investors hold an important percentage in the total equity disclose higher quality segment information, offering much more detailed information to the existing and potential investors.

As presented above, the study of corporate governance mechanisms has become of a great importance. Given the great differences that exist between practices implemented in different companies it is important to study which factors mostly influence the implementations of such practices, especially in countries which are just beginning to build a reliable corporate governance system. Does the national legal and business environment have the power to guide this complex process or there are stronger internal factors that require certain corporate governance practices, even though sometimes they do not entirely comply with the national corporate governance regulations?

3. Research methodology

3.1. Sample description and data sources

The analysed sample consists of 51 companies, 17 of them listed in the first tier of the Bucharest Stock Exchange, 14 listed in the first tier of the Warsaw Stock Exchange (WIG 20), 13 listed in the Main List of the Tallinn Stock Exchange and 7 on the Equities Prime Market of the Budapest Stock Exchange. I eliminated from the sample the financial companies, banks, insurance companies in order to insure that the sample is homogeneous. Data was collected for the 2012 financial year, from the following sources of data: annual reports, corporate governance reports, companies' websites, and the Stock Exchanges' websites.

3.2. Analysis of disclosures

I employ a **CGCompliance** index in order to measure how the companies in the sample comply with the national corporate governance codes. The **CGCompliance** index is calculated as follows:

CGCompliance=y/n, where y is the total number of corporate governance requirements with which each company complies, and n is the maximum number of national corporate governance requirements/procedures. This manner of measuring compliance was previously employed in other studies (Arcot *et al*., 2010; Girbina *et al*., 2014).

The second issue analysed is the level of transparency, which is considered one of the most important aims of an efficient corporate governance code. Berglof and Pajuste (2005) measured the level of transparency by two indexes. First of them, the WebDisclosure index measures the level of transparency through the level of voluntary information about corporate governance disclosed on the companies' websites. The second one, ARDisclosure index measures to what extent the companies disclose the mandatory information concerning corporate governance required by the national rules and regulations, such as information about the board composition and their remuneration packages. Kowalewski *et al.* (2007) have also used a transparency and disclosure index (TDI), composed of 3 sub-indexes named Board, Disclosure and Shareholders. Another example is the ISAR benchmark of good practices in corporate governance disclosure developed by the ISAR Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. This benchmark comprises five broad categories of elements: transparency, board and management structure and process, ownership structure and exercise of control rights, corporate responsibility and compliance and auditing. This instrument was used for example by Girbina *et al*. (2012) in the case of Romania.

The **CGTransparency** index would measure to what extent do companies choose to disclose voluntary information regarding their corporate governance practices, both on their website and in their annual report.

The CGTransparency index is calculated as follows:

CGTransparency= (Website+ Annual Report+ CGSection+ Bylaws+ Ownership+ SupervisoryBoard+ Management+ Committees+ GeneralMeeting+ FinancialResults+ FutureStrategy+ Dividends+CSR)/26. I divided the sum of the 13 variables by 26, given that each of them can take values between 0 and 2, the way of calculating these variables and their meaning being presented in Appendix A1.

All these items are derived from prior studies. As such, Girbina *et al*. (2012) have also measured the transparency level concerning the Corporate Social Responsibility, given that reporting sustainability information could bring advantages for the companies, such as differentiating the company in the marketplace based on its corporate responsibility strategy, maintaining a license to operate with the public or specific stakeholders, attracting favourable financing conditions, encouraging innovation through a better understanding of stakeholder needs or future risks and many others.

3.3. Determinants of disclosures

The next part of the empirical study consists in investigating the relationship between the two indicators, **CGCompliance** and **CGTransparency,** with some firm-level indicators, and with some country-level variables. In this manner I can test for the case of the four emerging economies under study the proposition advanced by Judge *et al*. (2004). This refers to the fact that country-level data influence governance practices much more than firm- or even industry-level factors.

I selected the following firm-level variables: assets, profit, type of auditor, type of ownership (diffusion and foreign) and institutional investors.

The size and profitability (reflected by total assets (ln) and profit (ln)) are common firm-level variables in disclosure studies (Morris *et al*., 2012; Bonson & Escobar, 2006; Glaum, 2013; Kowalewski *et al*., 2007). It is expected that larger or the companies with higher performance comply better with the national corporate governance codes or if they tend to disclose more voluntary information than other companies do. According to Morris *et al*.(2012), more profitable companies tend to disclose more information so that investors can assess better the credibility of their reported earnings and they also tend to increase their voluntary disclosures, so is likely that more profitable companies or larger ones have a higher level of corporate governance transparency.

Another factor is the type of auditor (Big 4 or not), which is presented in literature as influencing the level of disclosure. Previous studies (Morris *et al*., 2012; Bonson and Escobar, 2006; Glaum, 2013,) have demonstrated that generally larger audit firms are associated with better financial disclosure and, though they do not intervene in a company's corporate governance practices**,** they could influence the quality of the corporate practices disclosure. That is why it is expectable to seize a connection between the company's auditor and the compliance with the national corporate governance code.

The type of ownership also is reported as influencing disclosure (Francis *et al*, 2011; Ertuna & Tukel, 2013). Francis *et al*. (2011) and Pisano and Lepore (2012) mention the fact that companies with multiple owners are more likely to have asymmetry problems than the more closely held ownership structures. Also, they have previously discussed the fact that in companies with foreign investors the information asymmetry is more likely to be found, given the fact that they find it more costly to be knowledgeable about the company than its local owners, audit being one mean by which annual reports become more credible to the investors. Consequently, I will follow the ownership diffusion as the percentage held by each company's largest owner and presence of foreign ownership.

Finally, I will include another variable related to the presence of institutional investors.

Rouf and Harun (2011) mention the fact that in Bangladesh, the corporate voluntary disclosures are positively associated with higher institutional ownership structure. I do nottake into account the blockholders (especially individuals who invest large amounts into companies) because the aim of this paper is to discover the way institutional investors (who have the financial power but mainly the technical knowledge and experience) improve the corporate governance practices of the companies they invest in. That is the reason why I only took into account the institutional investors who held more than 5% of the companies' shares. It should be mentioned that, for this study, I considered the State Treasury in Poland as an institutional investor, eventhough the opinion of some authors (see Malinowska & Gad, 2013) is that it shouldn't be considered so.

The list of variables and their measurement is presented in Appendix A. The characterization of the sample by these variables is the following:

Table 1. Firm-level variables average values (2012)

Country	Average Profit (Thousands of Euros)	Average value of Total Assets (Thousands of Euros)	Percentage of listed companies audited by a Big 4	Average ownership diffusion	Average foreign investments	Average percentage held in a company by institutional investors
Estonia	10798	232752	100%	42,3%	84,6%	35,9%
Hungary	121474	3225652	75%	39,8%	87,5%	44,5%
Poland	338689	6379716	100%	41,7%	71,4%	35,3%
Romania	74865	1006590	53%	52,4%	29,4%	45%

I include in the study the following country-level variables: rule of law, government effectiveness and regulatory quality. Morris *et al*. (2012) quote a study conducted by LaPorta that has shown the fact that a country's legal system has a great importance in implementing financial reporting best practices. It is also likely that the institutional systemalso influences a country's corporate governance practices. Morris *et al*. (2012) also suggest that in countries where the enforcement of rules is stronger, the corporate disclosure levels are higher.I will use the same variable Morris *et al*. (2012) used, **Rule of Law**, which shows the extent to which citizens abide a country's regulations. It is expectable that companies from countries where the rule of law is higher are more compliant with the national corporate governance codes and also the transparency level is higher. Kowalewski *et al*. (2007) quote the results of a previous study which shows the fact that Poland and Hungary have chosen the strictest regulatory mechanisms in order to protect the investors from the management's abuses and to protect the company from block holders fraud. Given this, it is expectable to find higher compliance and transparency levels among the Polish and Hungarian companies.

On the other hand, Postma and Hermes (2003) define a good governance system as the tradition and institutions by which authority in a country is exercised. Besides the rule of law, they have focused on researching the influence of government effectiveness and regulatory quality in creating and promoting a good corporate governance system. My studyaims to discover whether these two country-level variables (**GOVEF** and **REGQLT**) also influence the companies' compliance with the corporate governance codes and whether the companies are willing to disclose more voluntary information in countries with a stronger and more effective legal system.

The list of variables and their measurement is presented in Appendix A. The characterization of the countries by these variables is the following:

Table 2. General Institutional Environment (2012)

Country	Government Effectiveness	Regulatory Quality	Rule of Law
Romania	-0,31	0,54	0,02
Hungary	0,62	0,97	0,60
Poland	0,66	0,96	0,59
Estonia	0,96	1,40	1,13

Source: http://info.worldbank.org/governance/wgi/index.aspx#reports

4. Results and analysis

The first step of the empirical analysis was to determine the scores for compliance and transparency. The general results for the companies in the sample are the following:

Table 3. Descriptive statistics for CG Compliance and CG Transparency

Country	Observations	Minimum	Maximum	Mean	Std. deviation
CG Compliance					
Estonia	13	0,813	0,988	0,941	0,048
Hungary	6	0,333	0,927	0,725	0,196
Poland	14	0,674	1,000	0,942	0,083
Romania	17	0,451	0,980	0,781	0,156
Entire sample	**51**	**0,333**	**1,000**	**0,858**	**0,152**
CG Transparency					
Estonia	13	0,731	1,000	0,876	0,085
Hungary	6	0,462	0,962	0,736	0,217
Poland	14	0,538	0,962	0,827	0,113
Romania	17	0,154	0,962	0,595	0,214
Entire sample	**51**	**0,154**	**1,000**	**0,750**	**0,198**

Considering the sample as a whole, the results of this study seem to suggest a higher level of compliance than that of transparency, which support the observation that companies rather comply with clear rules than providing voluntary disclosure. These results support the results of other European studies. Since Bianchi *et al.* (2011) concluded that Central European countries (Belgium, Germany) comply in average with 85% of the national corporate governance codes' principles and recommendations, the compliance score of 85.8% for the four emerging countries seems encouraging and also proves for the efforts made in the last years. However, the statistics above lead us to the conclusion that there are differences between the companies in the sample regarding their level of compliance with their national corporate governance codes and the level of transparency.

The statistic above shows the fact that there are important differences between the four countries. The most compliant and transparent companies are in Poland and Estonia with an average over 90% for compliance and over 80% for transparency, supporting the results of the study conducted by Berglof and Pajuste (2005). In contrast, the least compliant and transparent companies are the Hungarian ones, which implement only 72,5% of the corporate governance best practices, and the least transparent are Romanian companies, with a level of transparency of 59.5%, supporting the results obtained by Girbina *et al.* (2012) and rejecting the idea suggested by Kowalewski *et al.* (2007). The higher levels of standard deviation in Romania and Hungary show that there are also higher differences between companies in the same countries regarding the corporate governance compliance.

The following scores were obtained for each of the transparency item analysed:

Table 4. Comparison between average transparency variables by country

Country	Website	Annual Report	CG Section	Bylaws	Ownership	Management	Supervisory Board	Committees	General Meeting	Financial Results	Future Plans	CSR	Dividends
Estonia	1,92	2,00	1,77	2,00	1,77	1,69	1,85	1,23	1,69	1,92	1,69	1,85	1,38
Hungary	2,00	1,71	1,43	1,71	1,43	1,71	1,71	1,00	1,29	1,57	1,43	1,29	0,86
Poland	1,93	2,00	1,64	1,93	1,14	1,71	1,57	1,29	1,79	1,79	1,50	1,71	1,50
Romania	1,76	1,53	1,06	1,06	1,53	1,18	1,24	0,53	1,59	1,35	1,12	0,94	0,47
General	**1,88**	**1,80**	**1,45**	**1,63**	**1,47**	**1,53**	**1,55**	**0,98**	**1,63**	**1,65**	**1,41**	**1,43**	**1,04**

Analysing in more depth the corporate governance disclosure practices, most of the companies comply to a high extent with the recommendation of having a website with information available in English. Most of the companies included in our sample also disclose an annual report in English, making it easier for the stakeholders to know more about the company from this document. Girbina *et al.* (2012) concluded the fact that Romanian companies are usually tempted to disclose general financial information than other type of information.Our study confirms the results obtained by Girbina *et al*., especially in Estonia but it is notable the fact that not all companies are willing to disclose their long-term plans. The majority only disclose one to three years plans, but the information is not very detailed, even though they could importantly influence an investment decision or a positive assessment of the management's business vision.

Divergent results were obtained about the corporate social responsibility disclosure. Even though nowadays reporting sustainability information usually brings advantages for the companies, such as differentiating the company in the marketplace (Girbina *et al*., 2012), companies in Romania and Hungary do not always disclose information regarding their social responsibility strategy or actions. As in the previous discussed cases, Estonia and Poland are much more aware of the fact that a sound social responsibility strategy could ensure the stakeholders of the continuity of the business and their growing added value.

Average scores were obtained by Management, Supervisory Board and Committees variables. Companies usually present scarce information about the management and supervisory activities, sometimes only data required by the corporate governance codes, like the members' names and the managers' professional experience. Rarely do they disclose information regarding the independence of the committees' or the Supervisory Board's members even though the last years' large economic failures have demonstrated the importance of the presence of independence members in a company's Supervisory Board. Girbina *et al*. (2012) mention the fact that the board members' independence is the one that ensures their ability of acting as an effective monitoring mechanism.Companies in Estonia and Poland have thoroughly understood the fact that a greater level of transparency regarding the board's independence gives more confidence to stakeholders and to future investors.

On the other side, the less disclosed information by the companies are the ones regarding the dividend policies adopted by companies' general meetings. Generally companies tend to present only the amounts distributed each year from their profits. Estonia and Poland are still the two countries which disclose more about this issue.Romanian companies disclose only scarce information regarding the dividends distributed, without presenting the general dividend policy. Investors could understand from the last years' dividend policy whether their investment would bring them a satisfying return.

The statistics for the sub-sample of less transparent companies (with transparency score less than the mean) and for the sub-sample of more transparent companies (with transparency score over the mean) are the following:

Table 5. Sub-samples descriptive statistics

	Min	**Max**	**Mean**	**Std. deviation**
Panel A. Less transparent companies (N=18, of which1 from Estonia, 2 from Poland, 3 from Hungary and 12 from Romania)				
CG Compliance	0,333	1,000	0,758	0,184
CG Transparency	0,154	0,731	0,521	0,148
Panel B. Most transparent companies (N=33, of which 12 from Estonia, 12 from Poland, 4 from Hungary and 5 from Romania)				
CG Compliance	0,588	1,000	0,913	0,096
CG Transparency	0,769	1,000	0,874	0,067

As I described before, the most transparent companies are in Estonia and Poland and the less transparent are in Romania. As observed above, the standard deviation between the transparency and compliance level between the companies in the less transparent sub-sample (Panel A) is quite high, showing a much more variation degree among companies.

Trying to discover the reasons explaining these disparities, the next step is to analyse the association between the two scores (CG Compliance and CG Transparency) and the firm-level and country-level variables. The Pearson correlation matrix follows:

Table 6. Pearson correlation matrix

Variables	Institutional	Profit	Assets	Auditor	Fowner	Owndif	Govef	Regqlt	Rule of Law	CGCompliance	CG Transparency
Insitutional	1										
Profit	0,211	1									
Assets	0,080	0,623***	1								
Auditor	0,036	0,266*	0,448**	1							
Fowner	-0,332**	-0,002	0,135	0,232	1						
Ownd	0,259*	0,064	0,133	0,108	-0,341**	1					
Govef	-0,122	0,133	-0,042	0,445***	0,490***	-0,215	1				
Regqlt	-0,111	0,094	-0,097	0,415**	0,483***	-0,207	0,996***	1			
Rule of Law	-0,121	0,187	0,051	0,449***	0,500***	-0,232	0,987***	0,977***	1		
CG Compliance	-0,010	0,272*	0,195	0,447***	0,220	-0,023	0,324**	0,284**	0,306**	1	
CG Transparency	0,040	0,315**	0,405*	0,618***	0,344**	-0,008	0,544***	0,520***	0,541***	0,565***	1

Signifiant correlation coefficients are indicated in bold.
,,*** represent p<0,1, p<0,05, p<0,01*

The results suggest that both compliance and transparency scores are correlated with all country-level variables. This suggests a strong influence of the local institutional context on disclosure practices. In terms of firm-level factors, the compliance score is positively correlated with profitability and the types of auditor, while transparency is correlated to all but institutional investors and ownership diffusion.

Inspite of the opinion of Hryckiewicz (2009), Rouf and Harun (2011), Ertuna and Tukel (2013) that have previously discovered that the institutional investors have the financial power and the technical expertise necessary to propose and implement improving corporate governance practices in other emerging countries, the results of our study do not validate this hypothesis.However, the country-variables are all positively correlated with the CGCompliance and CGTransparency indexes, which supports the opinion of Judge *et al*. (2004) that country-level variables influence companies' corporate governance systems more than their internal variables.

Table 7. OLS regression for CGCompliance and CGTransparency

Factors	CG Compliance	CG Transparency
Institutional	-0,010	0,040
Profit	0,272	0,315
Assets	0,195	**0,405*****
Auditor	0,447	0,618
Fowner	0,220	0,344
Owndif	-0,023	-0,008
Govef	**0,324*****	0,544
Regqlt	**0,284*****	0,520
Rule of Law	**0,306***	**0,541****
F-Value	3,420	6,389
R^2	0,429	0,584
Adjusted R^2	0,303	0,492

Signifiant correlation coefficients are indicated in bold.
,,*** represent p<0,1, p<0,05, p<0,01*

The correlation and regression results show the fact that companies which are more profitable tend to be more compliant with their national corporate governance code. The explanation may come from the fact that higher profitable companies' shareholders are interested in developing a healthy corporate governance system in order to maintain the continuous growth of their company. Even though the company's auditor does not intervene in implementing good corporate governance practices, the research shows that companies who are audited by a Big-4 member are much more compliant with the corporate governance recommendations than other companies are. Ojo (2009) mentions the fact that external auditors and the audit committee have a crucial role in implementing and maintaining a good corporate governance system. According to the same author, this major part comes especially from the discouragement of creative accounting practices and inflation figures, but also from the fact that financial audit encourages management to become more accountable to shareholders. This is the reason why the presence of a Big-4 auditor is positively correlated with the level of compliance, but also with the level of transparency regarding companies' corporate governance practices.

The transparency level concerning a company's corporate governance system is connected to more firm-level variables than the compliance level. The greatest influence is the auditor's size and reputation. Usually, companies audited by a Big-4 member disclose higher-quality financial information but it is likely that these companies are aware of the importance voluntary information disclosure have in attracting investors and building economic environment's confidence.

Higher and more profitable companies usually disclose more corporate governance information. From this respect, our study's results support those obtained by Berglof and Pajuste(2005) who found a positive relationship between the information disclosed and the companies' financial resources. A possible reason may be that they are willing to attract more investors, and to help the existing shareholders to better assess the companies' performance. The fact that the transparency level is positively correlated with the size of the company, namely with the value of its total assets validates the basic assumption of the agencytheory.

Francis *et al*.(2001) claim the fact that in companies with multiple owners there is a greater possibility to have asymmetry problems. Investors which hold small percentages in a company's equity are less interested in promoting a good corporate governance code and in proposing ways of improving the corporate governance system.

The results of our study confirm the hypothesis of Judge *et al*. (2004) that have discovered the fact that usually, companies are influenced by country-level variables in implementing good corporate governance practices. As one can notice from the Pearson correlation table, all three country-level variables (Govef, Regqlt and Rule of Law) influence both the compliance index and the transparency level.

The results of our study support the results obtained by Postma and Hermes (2003) and Morris *et al*. (2012). The positive correlation between the regulatory quality (Regqlt) and the level of compliance and transparency is the proof of the fact that in countries where the quality of the rules and regulations and the effectiveness of the government is higher companies are much more law-abiding. It is normal that in countries where the government effectiveness and the regulatory quality companies trust more the quality of the corporate governance code and comply more with its requirements, including the disclosure ones.Given this, companies are aware of the benefits of implementing their national governance corporate code, being more compliant and more transparent.

One notable result is that the CGCompliance index and the CGTransparency index are correlated,with a confidence interval of 1% even though, as I previously discussed, they are not equally influenced by the same factors.This result sustains the opinion of Adiloglu and Vuran (2012) which claim that, generally, more compliant companies are also more transparent and accountable towards their investors. It seems that companies in European emerging countries are becoming more and more aware of the importance of stock market financing and, therefore, of the accountability towards their investors. They tend to implement most of their national corporate governance codes recommendations and are willing to disclose more about their companies, in order to present the steps they have made towards implementing a good corporate governance system.

5. Conclusions

This paper investigated the main factors that led the implementation of a corporate governance code and which also influence the amount of information managers are willing to disclose regarding the companies' corporate governance mechanism.

The main question was whether the national legal or business environment has the power to guide the implementation of the national corporate governance recommendations or if there are more powerful internal factors that impose the implementation of certain corporate governance practices.

As expected, sustaining the findings of many researchers, the study revealed that there is a strong positive connection between the country-level variables (rule of law, government effectiveness and regulatory quality) and the companies' level of compliance and transparency.From this point of view, Estonian and Polish companies are the ones who implemented most of their national corporate governance recommendations, while Hungarian and Romanian companies are the most reluctant to complying with the corporate governance principles and to disclosing to their stakeholders information regarding their governance mechanisms. Regarding the firm-level variables, larger and more profitable companies tend to be more compliant with the corporate governance recommendations and are also disposed to disclose more voluntary information.

Also, companies audited by a Big-4 have become more aware of the importance of implementing a sound corporate governance system and becoming more accountable to their stakeholders. The study has also shown that in the four emerging countries, the presence of institutional investors does not significantly influence the compliance level or the companies' transparency, strengthening the idea that the legal environment influences the corporate governance mechanisms more than internal factors do.

Regarding the voluntary information, managers are usually willing to disclose financial information and details regarding their internal rules and regulations, including the general meetings resolutions. On the other hand, the managers are reluctant to disclosing the companies' dividend policies and information regarding the boards'members independence, without taking into account the fact that nowadays investors are becoming more and more concerned about these issues.

Though, the results of this study are encouraging. Companies seem to become more aware of the fact that is extremely important to become more accountable and more transparent to their shareholders in order to buildstakeholders' confidence in the companies' governance mechanisms and to strengthen day by day the business environment.

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Appendix A.

Company-level and country-level variables' description

Variable	Description
Panel A: Company-level variables	
CG Transparency	Sum of the following 13 variables divided by 26: Website, Annual Report, CGSection, Bylaws, Ownership, SupervisoryBoard, Management, Committees, GeneralMeeting, FinancialResults, FutureStrategy, Dividends, CSR.
CGCompliance	y/n, where y is the total number of corporate governance requirements with which each company complains, and n is the maximum number of national corporate governance requirements/procedures
Website	Dummy variable, takes the value 0 if the company has no website, 1 if it is only available in the national language and 2 if it is available in English
AnnualReport	Dummy variable, takes the value 0 if the company does not disclose the annual report on its website, 1 if it is only available in the national language and 2 if it is available in English
CGSection	Dummy variable, takes the value 0 if corporate governance information is not available on the company's website, 1 if they can be found in different sections of the website, 2 if the website has a separate corporate governance section
Bylaws	Dummy variable, takes the value 0 if the company does not disclose any of its bylaws, 1 if it discloses the bylaws in the national language and 2 if they are available in English
Ownership	Dummy variable, takes the value 0 if the company does not disclose the name and shares owned by its shareholders, 1 if the company discloses the shareholders aggregated into several categories and 2 if they disclose the name and number of shares of all shareholders with over 5% of the total equity
SupervisoryBoard	Dummy variable, takes the value 0 if the company discloses no information concerning its supervisory board, 1 if they only disclose the name of the supervisory board members and 2 if they disclose the members' names and their independence
Management	Dummy variable, takes the value 0 if the company discloses no information concerning its managers, 1 if they only disclose the name of the managers and 2 if they disclose the members' names and their professional experience
Committees	Dummy variable, takes the value 0 if the company discloses no information about the supervisory board's separate boards, 1 if it only discloses the names of the members or the boards' responsibilities and 2 if it discloses the names of the members, their independence and the boards' responsibilities

GeneralMeeting	Dummy variable, takes the value 0 if the company does not disclose any information about shareholders' meetings, 1 if the general meetings' documents are available only in national language and 2 if the documents are also available in English
FinancialResults	Dummy variable, takes the value 0 if there is no analysis concerning the financial results, 1 if there is available only a brief description of the financial indicators, 2 if there is a wide analysis of them
FutureStrategy	Dummy variable takes the value 0 if there is no information about the future plans, 1 if there are only evasive plans, 2 if the plans are detailed
Dividend	Dummy variable, takes the value 0 if there is no information concerning dividends, 1 if there are only evasive information or just dividend values and 2 if the company discloses its dividend policy
CSR	Dummy variable, takes the value 0 if the company discloses no corporate social responsibility policy, 1 for evasive information and 2 if the company explains widely its CSR policy and campaigns
Institutional	The percentage held in a company's equity by institutional investors
Assets	Natural logarithm of a company's total assets value
Profit	Natural logarithm of a company's profit
Fowner	Dummy variable, equals 1 if a company has got at least one foreig investor, 0 otherwise
Owndif	The percentage held in a company's equity by its major shareholder
Audit	Dummy variable, equals 1 if the company is audited by a Big-4, 0 otherwise
Panel B: Country-level variables	
Govef	The values of the 3 variables are collected from http://info.worldbank.org/governance/wgi/index.aspx#reports The Worlwide Governance Indicators are calculated according to Kaufman *et al*.(2012) methodology (http://info.worldbank.org/governance/wgi/index.aspx#reports)
Regqlt	
Rule of Law	