Corporate governance, the perception of corporate governance and the connection to firm performance; Evidence from Romania

ABSTRACT

This article employs an in-depth study of Romania to offer evidence not previously available for this country on the relationship between corporate governance and different metrics of firm performance (Tobin's Q, price/sales, P/E and stock return) for exchange-listed companies. We construct two corporate governance indices: the Reported Corporate Governance Index (RCGI) developed by survey at company level, and the Perceived Corporate Governance (PCG), reflecting the perception of company corporate governance by active investors on the Romanian capital market.. The econometric investigations lead to the following findings. First, corporate governance is negatively correlated with contemporaneous firm performance for Romanian companies; Management and the Board of Directors (sub-index 4) and Auditing (sub-index 5) are both significant risk factors that decrease firm performance as reflected by Tobin's Q. Also, a 1-point increase in the overall RCGI predicts a 2.2 decrease in price/sales ratio. Second, the perceived corporate governance as reflected by PCG is positively related to Tobin's Q; a 10 point increase in the investors' perception of corporate governance produces a 0.098 increase in the firm performance. Third, no statistically significant relationship is found between PCG and P/E or the contemporaneous stock return which implies that there doesn't seem to be a corporate governance premium on the Romanian stock market and good CG stocks are neither overvalued nor have higher stock returns. Fourth, company size is positively correlated with both corporate governance metrics and with firm performance. Fifth, the inclusion of a company in the first category of the Bucharest Stock Exchange has the largest correlation coefficient with the corporate governance index (RCGI), which is not surprising since the inclusion itself is directly related to complying with some CG conditions.

In light of the above results, we conclude that RCGI is biased towards poor performers and this leads to weak and sometimes counter-intuitive results. On the contrary, PCG rates CG practices as seen by the market, it cannot be manipulated at company level and unilateral retraction is not possible, therefore reflecting the "normal" positive relationship between company corporate governance and its performance.

We conduct robustness checks by considering alternate dependent variables (price/sales for Tobin's Q) and an extensive set of control variables, which provide consistent results and increase our confidence in the performance-governance relationships.

This paper adds to the existing literature by proposing two alternative CG metrics and contrasting the explanatory power of company-reported CG as compared to investor-perceived CG, which may be a useful direction of research for other countries, leading to the development of a global theory of corporate governance.

1. Introduction

The late 1990s and early 2000s corporate scandals brought attention on the subject of dysfunctional corporate governance mechanisms and their impact on firm performance. But, as the following section shows, to this date the literature offers inconclusive results with respect to the effect of corporate governance on firm and/or stock performance. This article employs an in-depth study of Romania to offer evidence on the relationship between corporate governance (reported and perceived) and different metrics of firm performance for exchange-listed companies.

1.1. CG: the evolution of a concept

The dominant view in economics on the definition of corporate governance is that this term refers to "the way suppliers of finance assure themselves of getting a return on their investment" (Shleifer and Vishny, 1997). Or, by the definition of the International Chamber of Finance "corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations".

The starting point for academic research in the field of corporate governance is attributed to the seminal work of Berle and Means ("The modern corporation and private property", 1932) which documented the separation of ownership and control in the United States and concluded that shareholder dispersion creates substantial managerial discretion which can be abused (Tirole, 2006). Subsequently, a number of studies on the subject have enriched the financial literature but it seems that it was in the 1990s and 2000s that corporate governance has attracted a significant level of attention.

First, recognizing the importance of good corporate governance mechanisms for companies and investors, various study groups such as the Cadbury and Greenbury committees in the United Kingdom and the Vienot committee in France and institutional investors such as CalPERs in the United States started enunciating corporate governance codes of best practices.

But it was after the late 1990s and early 2000s corporate scandals (related to massive manipulations of the balance sheets and accounting fraud e.g. Enron, WorldCom, Metallgesellschaft, Bremer Vulkan, ABB, and Parmalat among others, to auditing practices e.g. Banco Español de Credito, or, as it is more popularly known, Banesto, or to human rights violation e.g. Suez) that the financial literature abounded with studies on topics related to various dysfunctional corporate governance mechanisms and their impact on firm performance. It was at that moment that the importance of corporate governance became dramatically clear. This series of corporate meltdowns, frauds and other catastrophes led to the destruction of billions of dollars of shareholder wealth, the loss of thousands of jobs, criminal investigation of dozens of executives and record-breaking bankruptcy filings (Monks and Minow, 2008).

At this point, corporate governance became a central topic of interest. The term was mentioned for the first time in the US President's annual State of the Union address and rating agencies such as Moody's or S&P announced they would factor corporate governance in their future analyses. At the same time, the US Congress enacted the Sarbanes-Oxley Act (SOX) on July 30, 2002. The act specifically targets corporate governance reform and has created a reporting system that now makes corporate governance more transparent to the public. SOX requires firms to disclose annually the structure, composition, and size of its board and whether it has adopted a code of

ethics for its senior financial officers in its Form 10-K. As a proof of the positive impact of corporate governance codes on corporate performance, Switzer (2007) studies the effects of Sarbanes-Oxley compliance for Canadian small-cap firms and concludes that firms subject to Sarbanes-Oxley experienced an incremental increase in market valuation ranging between 15.7% and 34%.

Additionally, both the New York Stock Exchange (NYSE), and the National Association of Securities Dealers (NASDAQ) have corporate governance rules regarding the role and authority of independent directors (Lander, 2004).

Subsequently, other countries in the developed as well as in emerging markets established or adapted a version of these codes for their own companies. Supra-national authorities like the OECD and the World Bank did not remain passive and developed their own set of standard principles and recommendations.

Codes contain provisions regarding composition of boards of directors, reporting practices (auditor governance, financial reporting), executive compensation, shareholders voting, or antitakeover defenses. According to Tirole (2006), as of 2004 fifty countries had their own code of governance, emanating from regulators, investor associations, the industry itself, or supranational organizations. However, there is currently considerable variation in corporate governance systems across countries (Maher and Andersson, 1999; Dallas, 2004; Solomon and Solomon, 2004; Shleifer and Vishny, 1997) and across firms within a country (Brown and Caylor, 2006; Klapper and Love, 2004).

Some examples of recent country codes of good governance found around the globe are: Cadbury Report (1992) and its successor The Combined Code (2003) for UK, The Bouton Report (2002) for France, The Conference Board (2003) for the US, The CVM Code (2002) for Brazil, the CG Code (2002) for Russia, and the CG Committee (2001) for Singapore (Coombes and Wong, 2004).

For Romanian companies, the Bucharest Stock Exchange Corporate Governance Code (CGC) from 2008 replaced the BSE Corporate Governance Code adopted in 2001. Under the new Code, the issuers are obliged to include in their Annual Report, starting with the fiscal year 2009, the Corporate Governance Compliance Statement (the "comply or explain" statement). Under this rule, any listed firm unwilling to comply with the code's recommendations must issue an explicit declaration in their annual financial accounts each year and explain its decision to the investment public. The 2009 Code contains eleven articles or chapters, in the following manner : Corporate governance framework, The share- & other financial instruments holders' rights, The role and duties of the Board, Composition of the Board, Appointment of Directors, Remuneration of Directors, Transparency, financial reporting, internal control and risk management, Conflicts of interests and related parties' transactions, Treatment of corporate information, Corporate social responsibility, and Management and control systems.

The remainder of the paper is organized as follows. The next section takes a large overview of the literature with its two research directions.

Section 3 explains the construction of the two CG indices, the data employed in the study, and also discusses the methodology. Section 4 presents the results on the relation between the two governance metrics and firm/stock performance. Section 5 concludes with a summary.

1.   Related literature: two research directions

Studies on the relationship between corporate governance and corporate performance can be divided into two distinct categories. On the one hand, there are those researchers that focused on specific features of corporate governance and on relating corporate performance to **a particular aspect of corporate governance**. On the other hand, there are those studies which investigate the relationship between a firm's **overall corporate governance mechanisms** and its corporate performance.

2.1 Accounting performance versus Market performance

First and foremost, we should explain what is meant by **firm performance** in the context of corporate governance and its impact. Specifically, research studies consider either **accounting or operating performance** of the company, either **market performance** as represented by the change in market value or in the stock price[1]. If the assessment of the latter is rather straightforward for exchange-listed firms, in order to assess accounting performance different researchers have employed different financial ratios. For example, Bauer et al. (2004) use Net-Profit-Margin (NPM) and Return-on-Equity (ROE) as proxies for firm performance while Cornet et al. (2008) use (EBIT - Discretionary Accruals)/Assets as the measure of unmanaged performance because. They argue that the more commonly employed EBIT/Assets can be manipulated by managers through their assumptions concerning accruals (e.g., sales and accounts receivable) as well as the treatment of depreciation and amortization. Claessens, Ueda and Yafeh (2010) use a cash flow measure to proxy for earnings, defined as Net Income before Extraordinary Items and Preferred Dividends + Interest Expense on Debt + Depreciation and Amortization. Although they acknowledge that this measure can be susceptible to tax and other driven accounting adjustments hiding the true performance of a firm, they argue that some adjustments are legitimate (e.g., tax credits for R&D expenditures or future losses). Januszewski et al. (2002) use EBITDA to measure economic performance, Othman et al. (2009) employ ROI (return on investment) and EPS (earnings per share) as performance measures that relate to shareholders' wealth, while Souza et al. (2007) use ROS (return on sales). To measure the operational performance of Japanese manufacturing firms, Sueyoshi et al. (2009) use a single output and three inputs. The output is measured by total revenue for each firm while inputs are the cost of goods sold, the total number of employees, and the book value of plant and equipment. Other researchers have used the well-known ROA or ROE (or both) to measure accounting performance. Amongst them we encounter Ke et al. (1999), Klein (1998) and Core et al. (1999), Shrader et al. (1997), Lo (2003), Anderson and Reeb (2003), Brown and Caylor (2005) or Basu et al. (2007). Another often encountered indicator of performance in the literature which relates corporate governance to corporate performance is the so-called Tobin's Q. Among others, Mehran (1995), Yermack (1996), Beiner et al. (2004), Cremers and Nair (2005), Black et al. (2006) and Switzer (2007) use Tobin's Q as an indicator of performance. Of course, other studies use a combination of the aforementioned performance measures to investigate the impact of corporate governance (e.g. Omran, 2009). Despite its broad use in the corporate governance literature, very recently the use of Tobin's Q as a proxy for firm performance has been criticized by Dybvig and Warachka (2010). They highlight two conflicting implications of better operating efficiency on Tobin's Q: first, better operating efficiency can decrease Tobin's Q by mitigating

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[1] For the remainder of this study we consider both concepts when we refer to firm performance, unless specifically noted otherwise.

underinvestment; second, better operating efficiency can increase Tobin's Q by improving cost discipline. Therefore, despite improved firm performance, Dybvig and Warachka (2010) conclude that the net impact of better operating efficiency on Tobin's Q is ambiguous since its impact depends on the relative importance of scale decisions versus cost discipline. This is why they propose two separate measures of operating efficiency that proxy for firm performance (denoted Ry and Rc respectively) which are based on revenue (Ry = Revenue/Capital) and costs (Rc = Costs/Capital). Overall, the empirical results of this study suggest that better governance improves firm performance as represented by Ry, while the impact of corporate governance on cost discipline is not significant.

2.2. The first direction: the relationship between corporate performance and particular aspects of corporate governance

The vast majority of papers in the financial literature on corporate governance can be included in **the first category** delineated in the beginning, as they focus on relating corporate performance to a particular aspect of corporate governance. Among them, some investigate the impact of **institutional ownership** on company performance with mixed overall results. The hypothesis to be proven is that large institutional investors have the opportunity, resources, and ability to monitor, discipline, and influence managers. For example, McConnell and Servaes (1990), Smith (1996), and Hartzell and Starks (2003) find evidence that corporate monitoring by institutional can force managers to focus more on corporate performance and less on opportunistic or self-serving behavior with positive consequences on firm performance. Boubakria et al. (2005) use a sample of 230 privatized firms headquartered in 32 developing countries and, with regard to corporate governance variables, find that the control relinquishment by the government and the extent of legal protection are important determinants of the performance changes. In particular, control relinquishment by the government yields higher profitability, efficiency and output changes after privatization. Patibandla (2006) studies the Indian market and shows that an increasing presence of foreign institutional investors has a positive effect on corporate performance in terms of profitability, while Indian firms that depend on government financial institutions for external finance show decline in performance. Other researchers of the topic reach conclusions that combine the two divergent findings. More recently, Omran (2009) analyzes a sample of 52 newly privatized Egyptian firms and shows that ownership concentration and ownership identity, in particular foreign investors, prove to have a positive impact on firm performance, while employee ownership concentration has a negative one. On the contrary, Estrin and Rosevear (1999) use a sample of 150 Ukrainian enterprises and find no evidence that private ownership, or any particular dominant private owner, is associated with improved economic performance at the enterprise level. Januszewski et al. (2002) find that productivity growth is higher for firms under control of a strong ultimate owner, but not when the ultimate owner is a financial institution (a group that consisted almost exclusively of German banks and insurance firms in our sample period). Mueller and Peev (2007) investigate CEE countries and find that companies with bank owners had higher returns on investment, while companies with non-bank financial institutions as shareholders showed the opposite results; therefore there is an effective monitoring role of banks in mitigating agency problems in CEE. They conclude that companies under control by a foreign owner have relatively better investment performance than the average firm in the sample, and six of the ten best-performing companies were foreign controlled. Finally, Sueyoshi et al. (2010) investigate Japanese manufacturing companies and

find that stable shareholding is an important aspect of traditional Japanese corporate governance, but the stable shareholding enhances their operational performance only when the ratio of shares held by stable shareholders is more than 61.21%. Moreover, the same study shows that foreign investment enhances the operational performance of Japanese firms until the ratio of shares held by foreign shareholders becomes 19.49%.

Another body of the literature analyses the influence of **director and executive officer stock and/or option ownership**. For example, Mehran (1995) finds that firm performance is positively related to the percentage of equity held by managers and to the percentage of compensation that is equity based. Also, Fich and Shivdasani (2006) using Fortune 1000 companies find that firms with director stock option plans are relatively more profitable as measured by using operating return on assets, return on sales and asset turnover as proxies for profitability. More recently, Basu et al. (2007) investigate the association between top executive compensation and the effectiveness of corporate governance mechanisms for Japanese firms and find that greater stock ownership by the board is associated with higher top executive income. Overall, they find that top executive compensation decreases as the corporate governance structures become stronger. They also find that the excess pay related to ownership and monitoring variables is negatively associated with subsequent accounting performance, but no association between this excess pay and subsequent stock returns is encountered.

Perhaps the most investigated aspect of corporate governance is the **board of directors** and how its different **characteristics** impact corporate performance. Among others, Brickley, Coles, and Terry (1994), Byrd and Hickman (1992), Rosenstein and Wyatt (1990) find better stock returns and operating performance when **outside directors** hold a significant percentage of board seats. Black et al. (2006) find that Korean firms with 50% outside directors have better operating performance and higher share price, after controlling for other corporate governance variables. Omran (2009) also concludes that the higher proportion of outside directors and the change in the board composition following privatization have a positive effect on firm performance.

Regarding the **board size**, Jensen (1993) or Yermack (1996) conclude that small boards are more effective in monitoring a CEO's actions and can consequently better serve shareholders' interests. Othman et al. (2009) also find that board size and board composition play an important role in influencing shareholders' wealth in small listed Malaysian companies, while they conclude that there is no relationship between the directors' remuneration and firm financial performance.

Also, the **CEO/Chair duality** is another corporate governance characteristic that has long been investigated. Jensen (1993) argues that the CEO/Chair duality concentrates power in the CEO's position, potentially allowing for more management discretion. In addition, the dual office structure also permits the CEO to effectively control information available to other board members and thus may impede effective monitoring. Judge et al. (2003) study the board structure–firm performance relationship within Russia and find a negative relationship between ''informal'' CEO duality and firm performance. **CEO's political connections** are also a topic of debate in the financial literature, especially for emerging and developing markets. Fan et al. (2007) notice that almost 27% of the CEOs in a sample of 790 newly partially privatized firms in China are former or current government bureaucrats. They estimate that firms with politically connected CEOs underperform those without politically connected CEOs by almost 18% based on three-year post-IPO stock returns and have poorer three-year post-IPO earnings growth, sales growth, and change in returns on sales. The negative effect of the CEO's political ties also show up in the first-day stock return, the same study concludes. On the contrary, Bebchuk et al. (2004) show that only corporate governance practices associated with **shareholder rights** and **takeover defences** affect the performance of U.S. firms.

2.3. The second direction: the relationship between corporate performance and the overall corporate governance practices

However, according to Boehren and Oedegaard (2003), relating corporate performance to a particular aspect of corporate governance may not capture the true relationship unless that specific aspect is controlled for other aspects of governance. This is why more recently researchers began to analyse firms' corporate governance over several dimensions and investigate the connections between the overall corporate governance practices of a company and its performance. These are the studies that make up **the second category** which we have delineated before. Similar to the first category, results of studies in the second category are also mixed. To assess a firm's overall corporate governance practices, researchers can either **construct their own corporate governance index** or make **use of publicly available corporate governance ratings** provided by different international institutions.

2.3.1. Relating corporate performance to publicly available corporate governance ratings

We first discuss the **main metrics for corporate governance ratings**[2] made available by different providers before going forward to review the most important research studies on this topic and their conclusions. The most commonly used services that provide metrics that rank the quality of a firm's corporate governance system are the institutional shareholder services (ISS), Standard and Poor's (S&P, discontinued 2005), Governance Metric International (GMI), and The Corporate Library (TCL). The ISS includes a composite of 225 variables based on 61 rating criteria across eight governance topics. It rates the corporate governance of over 5200 U.S. companies and 2300 international companies and provides a corporate governance quotient (CGQ) based on a percentage scale. The eight major and distinct sub-categories are as follows: (1) Board Characteristics, (2) Anti-Takeover Provisions, (3) Executive and Director Compensation, (4) Qualitative Factors, (5) Auditor and Audit Committee related, (6) Charter/Bylaws, (7) Director and Management Ownership, and (8) Director Education. The S&P includes four categories and it provides scores on a range from 1 to 10, and the GMI includes 600 variables based on seven categories. It provides scores based on a range from 1 to 10 and provides ratings for nearly 3400 U.S. and international companies. Finally, the TCL includes approximately 120 variables based on six categories, provides letter scores ranging from an A to an F and provides ratings for over 2000 U.S. companies.

Among researchers that use **governance ratings from public providers**, Bauer et al. (2008) employ a unique data set provided by Governance Metrics International, which rates firms using six different corporate governance dimensions, and analyse whether Japanese firms with many governance provisions have a better corporate performance than firms with few governance provisions. Employing an overall index, they find that well-governed firms significantly outperform poorly governed firms by up to 15% a year. However, they find that not all categories

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[2] From Epps, R.W., S.J. Cereola, (2008), "Do institutional shareholder services (ISS) corporate governance ratings reflect a company's operating performance?", Critical Perspectives on Accounting 19, 1135–1148;

affect corporate performance. More specifically, governance provisions that deal with financial disclosure, shareholder rights, and remuneration do affect stock price performance, while the impact of provisions that deal with board accountability, market for control, and corporate behaviour is limited.

Bhagat and Bolton (2008) consider seven different governance measures and find that better governance as measured by the GIM and BCF indices, stock ownership of board members, and CEO-Chair separation is significantly positively correlated with better contemporaneous and subsequent operating performance, but none of the governance measures are correlated with future stock market performance.

Epps and Cereola (2008) examine the relation between the actual corporate governance rating received by a firm and the firm's performance during the years 2002–2004. They use the institutional shareholder services (ISS) corporate governance quotient (CGQ) rating of a firm's corporate governance structure and analyse this rating in relation to the firm's operating performance as represented by return on assets (ROA) and return on equity (ROE). They do not find statistical evidence suggesting that the firms' operating performance is related to the firms' ISS corporate governance rating.

Black (2001) examines the relationship between corporate governance behaviour and market value for a sample of 21 Russian firms by using corporate governance rankings developed by a Russian investment bank and reports that corporate governance behaviour has a powerful effect on market value in a country where legal and cultural constraints on corporate behaviour are weak.

Bauer et al. (2004) use Deminor Corporate Governance Ratings for companies included in the FTSE Eurotop 300 and their results show a positive relationship between corporate governance and firm valuation, but a negative relationship between governance standards and earnings based performance ratios.

In another study, Klapper and Love (2004) employ an index of corporate governance rankings for 495 firms across 25 emerging markets and 18 sectors calculated by Credit Lyonnais Securities Asia (CLSA) and find that better corporate governance is highly correlated with better operating performance and market valuation for the analysed emerging markets.

2.3.2. Relating corporate performance to self-constructed corporate governance indices

Finally, some researchers have **constructed their own governance indexes** in order to measure a firm's corporate governance over several dimensions. For example, Drobetz et al. (2004) construct a survey-based broad corporate governance rating (CGR) for German public firms and document a positive relationship between governance practices and firm valuation. They also find evidence that expected stock returns are negatively correlated with firm-level corporate governance, if dividend yields are used as proxies for the cost of capital. The study documents that an investment strategy that bought high CGR firms and shorted low CGR firms earned abnormal returns of around 12% on an annual basis during the sample period.

Gompers et al. (2003) construct a "Governance Index" to proxy for the level of shareholder rights at about 1500 large firms during the 1990s. They estimate that an investment strategy that bought firms in the lowest decile of the index (strongest rights) and sold firms in the highest decile of the index (weakest rights) would have earned abnormal returns of 8.5 percent per year during the sample period. Their conclusion is that firms with stronger shareholder rights had higher firm

value, higher profits, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions.

Lastly, Black et al. (2006) construct a corporate governance index (*KCGI*, 0~100) for 515 Korean companies based on a 2001 Korea Stock Exchange survey and find evidence consistent with a causal relationship between an overall governance index and higher share prices.

As providers of governance ratings do not currently cover many emerging and transition markets, researchers should focus on assessing corporate governance practices of companies from these markets (a challenging task for markets with weak legal systems that neglect or don't encourage good corporate governance mechanisms) and subsequently relating companies' corporate governance mechanisms to future accounting and/or market performance. Country-level studies on the effects and consequences of sets of complementary governance mechanisms are especially needed for the development of a global theory of comparative corporate governance.

Finally, we should mention that researchers have also been preoccupied with the relationship between a country's financial structure and legal system and corporate governance practices of companies operating in its territory. For example, Anderson and Gupta (2009) examine whether and how a country's financial structure and its legal system impact a firm's corporate governance structure and consequently its market performance. Using a sample of 1736 unique firms representing 22 countries, they find that the joint effect of a country's financial structure and legal system does matter when explaining the relationship between performance and the overall level of corporate governance in a given country. In other words, their findings indicate that firm-level corporate governance varies across different combinations of financial structure and legal systems which in turn exerts differential influence on the market performance of firms in host countries.

2. Data and Methodology

We remind that we construct two corporate governance indices: the Reported Corporate Governance Index (RCGI) developed at company level, and the index of Perceived Corporate Governance (PCG) constructed based on active investors' perception.

2.1. The Reported Corporate Governance Index

In order to examine the relationship between corporate governance, expected returns, and other performance metrics for Romanian listed companies, we have obtained a broad measure which quantifies firm-specific corporate governance we first construct a so-called Reported Corporate Governance Index (RCGI) based on a 2011 survey of corporate governance practices among listed companies supplemented by hand collection of data (the index covers 21 companies). Annex 1 shows the questionnaire employed in the study – the original Romanian version together with its English translation.

We have identified relevant governance structures to proxy for firm-specific corporate governance risk. Together, the full set of proxies is assumed to indicate the governance quality of the respective firm. This represents the first attempt to assign corporate governance ratings for Romanian exchange-listed companies. We follow Drobetz et al. (2004) and we gather 30 governance proxies divided into five categories (with 6 elements in each category – see Annex 1): (1) corporate governance commitment, (2) shareholders' rights, (3) transparency, (4)

management and supervisory board matters, and (5) reporting and audit of the annual financial statements. Table 1 is a correspondence table with the abbreviations used for the five sub-indices for the remainder of the paper. Of the 30 proxies included in our corporate governance rating, the majority represents recommendations of the Bucharest Stock Exchange 2009 governance code.

The construction of the index was straightforward: we have assigned the 30 governance proxies to the 5 categories (or sub-indices), for a maximum score of 20% for each sub-index (100% overall). We therefore combine elements into sub-indices, and combine sub-indices into an overall index (RCGI) in a manner similar to Black et al. (2006), as follows. To compute multi-element sub-indices, we sum a firm's score on the elements of a sub-index, divide by the number of elements, and multiply this ratio by 0.2. Thus, each sub-index has a value between 0 and 0.2. Finally, we define RCGI [0, 1] as the sum of the five sub-indices where better-governed firms have higher scores.

Table 1: Correspondence table

RCGI Sub-index complete name	RCGI Sub-index shortened name
Corporate Governance Commitment	Commitment
Shareholders' rights	Rights
Transparency	Transparency
Management and supervisory board	Management
Reporting and Audit Of the Annual Financial Statements	Auditing

The survey was sent to all BSE listed companies (via fax, email or on the purposely constructed web-platform: www.guvernanta-corporativa.ase.ro). On the platform, each company had received its own username and password which it used to log in and answer the corporate governance questionnaire. Despite the different ways used to reach the companies, the response rate was rather poor (6 of 88 approached companies responded the survey), which made the hand collection of data necessary in order to construct the RCGI. We thus collect the necessary data for 15 blue-chip companies listed on BSE, for a total number of 21 Tier 1 and Tier 2 companies for which the RCGI was estimated. The reliability of the responses/hand collection of data should be high because all information was extracted/ verified by studying the answers provided to the BSE corporate governance code and other information publicly released on the stock exchange's website.

Table 2 shows the contribution of each governance element to the construction of RCGI for all companies included in the analysis.

The mean value for RCGI is 0.75; the minimum is 0.38, and the maximum is 0.98. Figure 1 shows the histogram of RCGI. The distribution is skewed to the left (skewness coefficient -0.80). Table 3 provides a correlation matrix for RCGI and each of its five sub-indices. With a few (insignificant) exceptions, all correlations are positive and generally statistical significant.

Table 2: RCGI and its sub-indices

Company (symbol)	Commitment (20%)	Rights (20%)	Transparency (20%)	Management (20%)	Auditing (20%)	RCGI
ALR	1	1	1.00	0.78	0.40	0.84
ATB	0.75	1	0.77	0.83	1.00	0.87
AZO	1	0.9	1.00	0.67	0.20	0.75
BCC	1	1	0.85	1.00	1.00	0.97
BIO	1	0.9	0.85	0.72	0.00	0.69
BRD	0.25	1	0.92	0.78	1.00	0.79
BRK	0.25	0.8	0.46	0.78	1.00	0.66
CMP	1	1	0.85	0.67	1.00	0.90
DAFR	1	1	0.92	0.67	0.80	0.88
IMP	0.25	1	1.00	0.78	0.40	0.69
OIL	0.5	0.9	0.85	0.67	1.00	0.78
OLT	0.25	0.9	0.92	0.56	0.20	0.57
PTR	0.25	1	0.23	0.44	0.00	0.39
RPH	1	0.8	0.92	0.72	0.60	0.81
RRC	0.25	1	0.38	0.44	0.20	0.46
SCD	0.75	1	0.62	0.78	0.20	0.67
SIF1	1	1	1.00	0.89	1.00	0.98
SIF4	0.75	1	0.92	0.83	1.00	0.90
SNP	1	1	0.92	0.72	1.00	0.93
SOCP	0	1	0.38	0.50	0.00	0.38
TEL	1	0.9	1.00	0.61	1.00	0.90
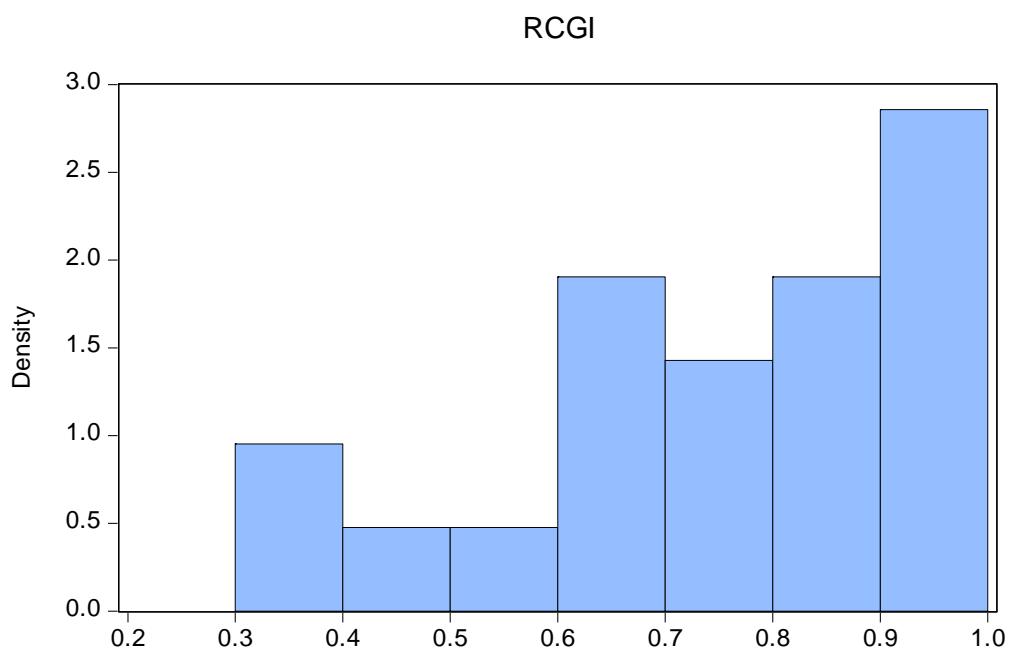
RCGI

Figure 1: Distribution of the Reported Corporate Governance Index, RCGI

Table 3: Correlation Matrix for RCGI and its 5 Sub-indices

	AUDITING	COMMITMENT	RCGI	RIGHTS	MANAGEMENT	TRANSPARENCY
AUDITING	1.00E+06	3.42E-01***	7.92E-01*	-5.10E-03	5.77E-01*	4.26E-01**
COMMITMENT	3.42E-01***	1.00E+06	7.88E-01*	-2.91E-02	4.79E-01**	6.19E-01*
RCGI	7.92E-01*	7.88E-01*	1.00E+06	5.53E-02	7.54E-01*	7.80E-01*
RIGHTS	-5.10E-03	-2.91E-02	5.53E-02	1.00E+06	7.09E-02*	-6.19E-02
MANAGEMENT	5.77E-01*	4.79E-01**	7.54E-01*	7.09E-02	1.00E+06	5.35E-01*
TRANSPARENCY	4.26E-01**	6.19E-01*	7.80E-01*	-6.19E-02	5.35E-01*	1.00E+06

*significant at 1%
**significant at 5%
***significant at 10%

2.2.   The index of Perceived Corporate Governance

A parallel investigation pursued in this research refers to the relationship between firm performance (accounting and market) and corporate governance as perceived by investors (therefore subjective). We hypothesize that it could not be the reality of a company's CG practices, but rather the investors' view of reality that affect stock prices and hence market valuations. In order to asses this "perception" of CG by investors, we have distributed a much simpler questionnaire to active investors on the Romanian capital market, clients of brokerage companies or consultancy firms authorized by the Romanian Securities and Exchange Commission, managers of portfolios, representatives of listed companies and investment funds and other professional in the financial market (members of the CFA Society of Romania, members of the Romanian Capital Market Investors Association etc.). The main way through which we tried to reach the respondents has been the same as in the case of the listed companies, i.e. the web platform specifically developed to serve the scope of this research. After registering on the platform, the respondents were only asked to select the companies with the best corporate governance practices (in their opinion), respectively the worse practices (from a total of 85 exchange listed companies). From the centralization of their responses we have constructed an index of perceived corporate governance for the 85 companies - the Perceived Corporate Governance (PCG) - which was computed straightforward for each company as the difference between positive votes and negative votes. We have eliminated the answers that obviously did not serve the scope of our study (e.g. answers that indicated all the companies as having good/poor CG, or that indicated a company as having both good and bad CG practices, etc.) and re-sampled our respondents in order to better reflect the Romanian capital market investor structure. Finally, we have collected 87 valid answers used to construct the Perceived Corporate Governance. Annex 2 shows the positive and negative votes, as well as the final PCG for each of the 85 companies included in the study. Figure 2 shows the histogram of PCG where a normal distribution curve is superimposed. The mean value for PCG is -2.48, the median is -3; the minimum is -22, and the maximum is 35. The distribution is skewed to the right (skewness coefficient 1.86).
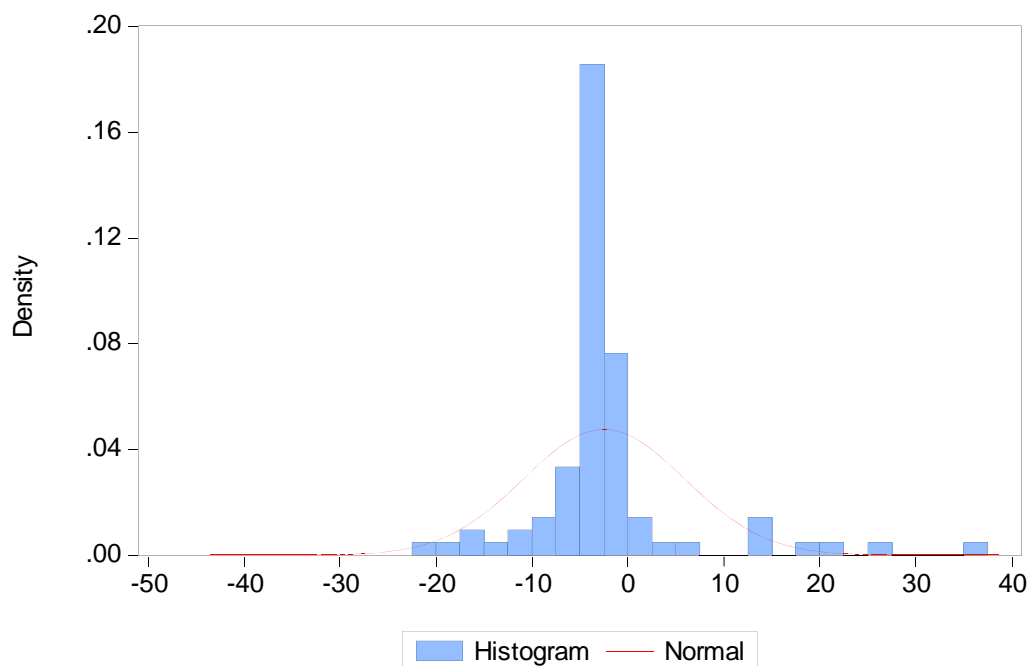
Figure 2: Distribution of the Perceived Corporate Governance Index, PCG

2.3.   Financial data

The dependent variable

We follow Black et al. (2006) and use Tobin's q, estimated as the market value of assets divided by the book value of assets (as in the StockGround database), as our principal measure of firm market value. We run robustness checks with one alternative measure, price/sales ratio.

The control variables

For the necessary control variables used in the econometric estimations we take balance sheet and income statement data, as well as stock market and share ownership data provided by the company Smart Trade Consult (a Romanian SEC authorized Consultancy Company). Data for the 85 companies covers a six years period, i.e. 2006-2011 and we therefore have a maximum of 510 observations for each financial variable. Extensive control variables, made possible by our data provider, are strength of our study.

Similar to Black et al. we employ the following control variables:

Firm size. As the size of the company could affect both Tobin's Q and corporate governance, we include ln(assets) as a control variable.

Ln(years listed). Older firms could differ from younger firms both in Tobin's q and governance practices. We therefore include ln(years listed) as another control variable.

Firm leverage. Leverage can affect both Tobin's q and a firm's governance practices. We use debt/market value of equity as our measure of leverage.

Growth prospects. A firm's growth prospects should affect Tobin's q and may affect its governance practices. We control for growth prospects with sales growth over the last year (2010–2011).

Liquidity. Share prices may be higher for firms with more easily traded shares. We control for ease of trading with share turnover, defined as (shares traded during 2011)/tradeable shares.

Perceived corporate governance (PCG). We also include the self-constructed index of Perceived Corporate Governance as a control variable. The subjective index could predict firm value because management attitudes influence investor beliefs about management quality, or because it proxies for governance elements that were omitted from RCGI (Black et al, 2006).

Table 4 defines and provides basic information for each financial variable included in the study.

Table 4: Financial data

Variable	Description
Tobin's Q	market value of assets divided by the book value of assets
Book-to-market	Book Value of equity divided by market capitalization
Size	natural log of market capitalization
5 year return	market capitalization at t divided by market capitalization at t-4, minus 1
5 year equity growth	book value of equity at t divided by book value of equity at t-4, minus 1
5 year asset growth	total assets at t divided by total assets at t-4, minus 1
P/E	market capitalization at t divided by the sum of net earnings for the last 4 trimesters
Liquidity	Average daily number of traded shares divided by the total number of shares
Leverage	Total Debt/Equity
Ln(yearslisted)	The natural log of the number of years since listing
Ln(assets)	The natural log of total assets
Sales growth	Sales at t divided by sales at t-1, minus 1

Table 5 provides summary statistics for selected indicators. The sample mean for Tobin's Q is 1.06, which indicates that the stocks seem to be overvalued on the BSE as the market values of companies are more expensive than the replacement costs of their assets (the overvaluation is more observable from the mean P/E value of 41).

Table 5: Descriptive statistics for selected financial indicators

	LIQUIDITY	DEBT/ EQUITY	LN (ASSETS)	LN(YEARS LISTED)	P/ BV	P/E	P/ SALES	SALES GROWTH	TOBIN'S Q
Mean	9.29E-04	1.39E+06	1.91E+06	2.19E+06	1.15E+06	4.11E+06	1.04E+06	3.42E-01	1.06E+06
Median	4.21E-04	4.18E-01	1.88E+06	2.31E+06	7.02E-01	1.11E+06	5.78E-01	2.48E-02	8.86E-01
Maximum	1.70E-02	1.58E+06	2.84E+06	2.55E+06	2.29E+06	2.89E+06	1.04E+06	2.42E+06	8.10E+06
Minimum	1.78E-06	-9.67E+06	1.57E+06	4.24E-01	-2.47E+06	-4.33E+06	1.40E-02	-9.15E-01	9.94E-02
Std. Dev.	1.42E-03	9.08E+06	1.79E+06	4.16E-01	2.14E+06	1.83E+06	1.38E+06	1.69E+06	7.77E-01
Obs.	474	499	506	510	487	487	430	446	487

Next, we compute correlations and average statistics for the RCGI and a set of firm specific financial data as of January 2011: book-to-market ratio, firm size, Tobin's Q, past five-year stock return, past five-year equity growth, past five-year assets growth, 1st category inclusion and P/E (see Table 6). The "poor CG" portfolio comprises the five companies with the lowest RCGI values while the "good CG" portfolio is formed with the top five companies with the highest RCGI. These results are descriptive and are intended to provide some background for the analyses in the following sections.

Table 6: Correlations and average statistics for RCGI and financial ratios (2011)

	Correlation with RCGI	Poor CG portfolio (average)	Good CG portfolio (average)	Difference (Good-Poor)
BM	0.07	1.00	1.88	0.88
Size	0.22	4.81	36.92	32.12
Q	-0.21	0.95	0.81	-0.15
5Y Return	0.04	-0.08	-0.60	-0.52
5Y EQ Growth	0.12	0.18	0.78	0.59
5Y Assets Growth	0.07	0.64	0.80	0.16
1st category inclusion	0.34	0.50	0.80	0.30
P/E	0.04	4.42	5.10	0.68

None of the correlations in column 1 of Table 6 are statistically significant at the 5% level. As in Gompers et. al (2003), the 1st category inclusion has the largest correlation coefficient with the corporate governance index, since the inclusion itself is directly related to some CG conditions.

Company size also seems to be positively correlated with CG performance. The estimation of the correlation between RCGI and B/M, Q and P/E as of 2011 gives inconclusive or even counterintuitive results. However, when using a longer term approach and 6 year averages (the whole data sample), the expected relationships emerge (see Table 7).

Table 7: Correlation between Firm specific ratios and RCGI: 2006-2011

	Correlation with RCGI
Size	0.38**
B/M	0.04
P/E	0.18
Q	0.08

* * significant at 5%

Overall, it appears that larger firms have put in place better CG practices and that a good CG mechanism could also be positively related to higher valuations. When considering the five sub-categories of the CG index, the relationships appear more clear (see Table 8). Company size is the only indicator positively correlated with all five sub-indices, while the relationship between different firm or stock performance measures and CG sub-indices are more often negative rather than positive, suggesting that better governed companies actually have a return and operating discount on the Romanian stock market. The following econometric investigations will help confirm these insights.

Table 8: Correlation between Firm specific ratios and the five RCGI sub-indices: 2011

	Commitment (20%)	Rights (20%)	Transparency (20%)	Management (20%)	Auditing (20%)
BM	-0.28	-0.19	0.14	-0.23	-0.22
Size	0.11	0.21	0.18	0.05	0.26
Q	0.11	0.03	-0.17	-0.14	-0.44
5Y Return	0.21	-0.56	0.14	-0.01	-0.07
5Y EQ Growth	-0.25	-0.22	0.13	-0.24	-0.23
5Y Assets Growth	-0.27	-0.20	0.12	-0.24	-0.23
1st Category	0.05	-0.36	0.48	0.43	0.25
P/E	-0.03	-0.19	0.09	-0.08	0.19

2.4. Methodology

As mentioned before, for our dependent variable we use alternatively Tobin's Q and price/sales ratio as a robustness check when RCGI (or its five sub-indices taken together or individually) is the explanatory variable, while we also use the market return and the P/E ratio as the dependent variable when the subjective PCG is used as a risk factor. We are therefore interested in whether good corporate governance practices (as reflected by RCGI and PCG) are contemporaneously related to a better firm performance (as reflected by Tobin's Q) and whether the market (the

perception of investors reflected in PCG) puts a premium on good corporate performance in the form of higher P/E ratios and/ or market returns.

In a first analysis, we thus follow the common practice of using Tobin's Q as our dependent variable and proceed to investigating the explanatory power of corporate governance features; our models are therefore specified in the following manner (the control variables are progressively added to the regressions, until the model reaches the form in (1)):

$$TOBINQ_{it} = a + b_1 RCGI_{it} + (b_2 Ln(assets)_{it} + b_3 Ln(yearslisted)_{it} +$$
$$+ b_4 SalesGrowth_{it} + b_5 ICGS_{it} + b_6 Liquidity_{it}) + \varepsilon_{it}$$

(1)

Next, we regress Tobin's q on each of the five sub-indices, included both one at a time in separate regressions and all together as in (2). To control for omitted variables problem which arises from this method we add for each sub-index a Reduced Index that equals (RCGI – indicated sub-index).

$$TOBINQ_{it} = a + (b_1 \text{Commitment}_{it} + b_2 \text{Rights}_{it} +$$
$$+ b_3 \text{Transparency}_{it} + b_4 \text{Management}_{it} + b_5 Auditing)_{it} + \varepsilon_{it}$$

(2)

Finally, the contemporaneous relationship between the index of perceived corporate governance (PCG) – the independent variable and Tobin's q, P/E ratio and the stock market return (alternate independent variables) is tested as in (1), where PCG replaces RCGI. The same set of control variables is employed.

3. Empirical results

3.1. Corporate Governance and Firm Value: OLS Results for RCGI

In Table 9, we regress Tobin's q against RCGI and control variables (equations (1) to (6)). We progressively add additional control variables in regressions. RCGI is statistically significant only when all control variables are included together, in eq. 7 (-0.23 significant at 5%). Adding control variables does not change the negative sign of the coefficient on RCGI.

Robustness checks.

In Table 9, regressions 7–8 show that these results are robust if we use price/sales ratio as the dependent variable instead of Tobin's q. A 1-point increase in RCGI predicts a 2.2 decrease in price/sales ratio. Therefore, we can report that corporate governance is negatively correlated with contemporaneous firm performance for Romanian companies.

Table 9. OLS results for RCGI with Different Dependent and Control Variables.

	Tobin's q						P/Sales	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RCGI	-0.3997	-0.4385	-0.4188	-0.4110	-0.4018	-0.2303***	-0.7637	-2.2072
Ln(assets)		0.0252	0.0363	0.0365	0.0304	-0.0357		-0.1532**
Ln(years listed)			-0.4721***	-0.4738	-0.4434	-0.0301		0.8244
Debt/Equity				-0.0008	-0.0054	-0.0037*		0.0545
Sales Growth					0.0039	0.2684**		3.7879*
PCG					-0.4018	0.0058		0.0395
Liquidity						-0.4498*		5.7952

*significant at 1%
**significant at 5%
***significant at 10%

Results for RCGI Sub-indices

Table 10 contains our OLS results for the five sub-indices. In robustness checks (not shown), we obtain similar results with price/sales as dependent variables. In Panel A, we regress Tobin's q on each of our five sub-indices included one at a time in separate regressions (equations 1-5), in each case replacing RCGI: the management and the board (sub-index 4) and auditing (sub-index 5) are both significant risk factors that decrease firm performance as reflected by Tobin's Q.

In Panel B Equation 1 includes all five sub-indices in a single regression, underlining that Auditing is the strongest of the five sub-indices, having a consistent negative effect on the dependent variable.

Table 10: OLS Results for the five RCGI Sub-indices

	Tobin's q				
PANEL A					
	(1)	(2)	(3)	(4)	(5)
Commitment	0.098376				

Rights		0.131993			
Transparency			-0.238370		
Management				-0.316567*	
Auditing					-0.349979*
PANEL B					
	(1)				
Commitment	0.349932				
Rights	0.058267				
Transparency	-0.340688				
Management	0.280239				
Auditing	-0.426919**				

*significant at 1%

**significant at 5%

***significant at 10%

3.2. Corporate Governance and Firm Value: OLS Results for PCG

Next, we regress again Tobin's q (equation 1-2 in Table 11), but also the P/E ratio (eq. 3-4) and the stock market return (eq. 5-6) against the index of perceived corporate governance - PCG and the same set of control variables employed in the previous estimations. PCG is positive and statistically significant when it alone is used to explain Tobin's Q. This time a 10 point increase in the investors' perception of corporate governance produces a 0.098 increase in the firm performance. No statistically significant relationship is found between PCG and P/E or the contemporaneous stock return which implies that there doesn't seem to be a corporate governance premium on the Romanian stock market and good CG stocks are neither overvalued nor have higher stock returns. Nonetheless, we must again draw attention that we only have cross-sectional data for PCG (and RCGI) and thus causal relationships cannot be tested. If an increase in PCG is reflected with a lag in firm performance metrics we could not see it from our data. A follow-up work should estimate the CG metrics for subsequent time-periods and estimate panel models (with lagged explanatory variables).

Table 11: OLS results for PCG with Different Dependent and Control Variables.

	Tobin's q		P/E		Return	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
PCG	0.009838*	0.012910	-0.013528	0.983258	-0.007763	-0.033125
Ln(assets)		0.034399***		-7.943889		0.223188***
Ln(years listed)		-0.176327		15.72154		0.156419
Debt/Equity		0.004046*		0.038798		0.002010
Sales Growth		0.265521		102.8489		0.168068
Liquidity		0.853035		-18.90497		-0.157073

*significant at 1%

**significant at 5%

***significant at 10%

4. Summary and conclusions

This article employs an in-depth study of Romania to offer evidence not previously available for this country on the relationship between corporate governance and different metrics of firm performance for exchange-listed companies.

We make additional contributions to the literature.

First, we construct two corporate governance indices: the Reported Corporate Governance Index (RCGI) was developed based on a 2011 survey of corporate governance practices among listed companies supplemented by hand collection of data (the index covers 21 companies), and the Perceived Corporate Governance (PCG), an index of "perceived" corporate governance constructed by collecting questionnaire answers from 87 active investors on the Romanian capital market (this index is estimated for 85 listed companies). The two indices represent the first metrics of corporate governance for Romania.

Second, we construct a wide database containing financial ratios for Romanian companies (annual ratios for a six years period, i.e. 2006-2011) which are not publicly available and are scarce or even inexistent in the previous literature.

Third, we report for the first time actual statistics on the relationship between corporate governance and performance: perhaps counterintuitive, we report that corporate governance is negatively correlated with contemporaneous firm performance for Romanian companies and the Management and the Board of Directors (sub-index 4) and Auditing (sub-index 5) are both significant risk factors that decrease firm performance as reflected by Tobin's Q. In addition, a 1-point increase in the overall RCGI predicts a 2.2 decrease in price/sales ratio. The subjective index of perceived corporate governance - PCG is positive and statistically significant when it alone is used to explain Tobin's Q. This time a 10 point increase in the investors' perception of corporate governance produces a 0.098 increase in the firm performance. No statistically significant relationship is found between PCG and P/E or the contemporaneous stock return which implies that there doesn't seem to be a corporate governance premium on the Romanian stock market and good CG stocks are neither overvalued nor have higher stock returns. Other results show that company size seems to be positively correlated with both corporate governance metrics and with firm performance and also that the inclusion of a company in the first category of the Bucharest Stock Exchange has the largest correlation coefficient with the corporate governance index, since the inclusion itself is directly related to complying with some CG conditions.

We conduct robustness checks by considering alternate dependent variables (price/sales for Tobin's Q) and an extensive set of control variables, which provide consistent results and increase our confidence in the performance-governance relationships. We acknowledge as a weakness of this research that, despite these extensive control variables firm heterogeneity that is not captured by our control set could correlate with both Tobin's q and RCGI and therefore affect the results. One response to this risk is to use panel data in a firm-fixed-effects model (Black et. Al, 2006), which could not be implemented because we have only cross-sectional data on both RCGI and PCG (both indices are constructed in 2011). For the same reason we could only estimate contemporaneous relationships between corporate governance and performance, therefore we have no estimations on causality (or antecedence) between the variables.

Overall, our results are in line with other studies which found there is no connection between corporate governance ratings and firm performance/valuation (i.e Epps and Cereola, 2008 for the S&P500 companies), and contrary to others (Black, 2001 for Russia, Bauer et al., 2004 for companies included in the FTSE Eurotop 300 or Klapper and Love, 2004 for 25 emerging markets). However, as mentioned earlier, a global theory of corporate governance is still in a developing stage and studies which cover countries more prone to comparison with Romania (i.e. countries from the former Eastern European communist block) are still to be accomplished.

The negative relationship between the company reported index RCGI and firm performance (Tobin Q) and the positive relationship between the index reflecting investors' perception PCG and the same metric of firm performance (therefore suggesting a peculiar negative relation between the two CG indices) can be interpreted in the following way: our proposed scorecard assessing the companies CG mechanism, as the Bucharest Stock Exchange CG Code (used by us to supplement companies' answers and construct RCGI), are to a certain limit opened to interpretation; at the same time, managers with poor performance lately (reflected in Tobin Q and other metrics) are more motivated (and subjected to pressure by stockholders) to do anything to improve the image of the company, including interpreting questions in their favor (first, they are more prone to participate in the survey and to answer the voluntary BSE code and second, they participate in these surveys only to answer as much "Yes" as they can, therefore contributing to a high and "unfair" RCGI for their company); concomitantly, the companies which achieved a better operating performance have not the same incentives to participate to these surveys or to artificially create for themselves a better image by trying to score a higher RCGI. For these reasons, we expect that RCGI could be biased towards poor performers (companies with small Tobin Q) which report for themselves artificially high CG scores, while the index assigned by the market (investors) grades CG practices more realistically and therefore PCG reflects the "normal" positive relationship between company corporate governance and its performance. Other strongpoints of PCG that make it the better CG metric in our opinion consist in its broadness (85 companies comprised in the index as compared to only 21 in RCGI) and the fact that companies' participation was not voluntary (the entire list with the 85 companies was given to investors who were then asked to rate assign ratings). Consequently no unilateral retraction from this analysis of companies that didn't feel confident in their image was possible, so PCG is not based on a biased sample, as opposed to RCGI.

The current legislative environment on the Romanian equity market (i.e. a new and stricter CG Code, media scrutiny etc.) could raise the activism of institutional and individual investors and draw more attention to governance provisions; thus, we might expect to see some changing relationships between CG metrics and at least market valuations (P/E ratio) as investors begin to purposely search for good CG companies for inclusion in their portfolios.

Finally, we notice after performing an in-depth analysis of the related literature that, while the first direction of studies is extensively covered in the literature (but even here some markets are not yet looked at), the second one still needs investigation, especially for emerging and transition markets. We find that for countries which are not covered by public providers of governance ratings, academic studies on the relationship between corporate governance and firm performance lack almost entirely. These are usually countries with weak legal systems which neglect the subject of corporate governance and with companies and executives most likely reluctant to assist an academic endeavor which attempts to evaluate corporate governance practices and to construct

governance indices. Consequently, a research attempt in this direction could prove to be a challenging task. Still, such studies are essential for the development of a global theory of corporate governance, as governance mechanisms and the institutional environment in which they are embedded are strongly influenced by forces developed at the national level, and for this reason it is difficult to extend the result of a one country study to other national setting (Zattoni and Van Ees, 2012). The current research attempts to fill some of the gap in this area in the case of Romania.

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Annexes

Annex 1a (in Romanian): Fisa de punctaj pentru guvernanta corporativa a firmelor romanesti© 2011 – Constructia RCGI

COMPANIA:

Gradul de indeplinire al fiecarui punct este semnalat prin marcarea campului corespunzator ("x")

			Indeplinire		
			1	**0,5**	**0**
			da	**partial**	**nu**
I. Angajamentul privind guvernanta corporativa (20%)					
I.1		Compania a adoptat principii de guvernanta corporativa bazate pe "Codul de Guvernanta Corporativa al Bursei de Valori Bucuresti" sau alt cod? (rec.1)			
I.2		Principiile de guvernanta corporativa adoptate pot fi usor consultate de catre orice actionar intr-o forma actualizata (de exemplu, sunt publicate si ulterior actualizate pe pagina de internet a companiei)?			
I.3		Codul adoptat contine si o clauza care sa se refere in mod explicit la aderarea companiei la cele mai bune si noi practici in domeniul guvernantei corporative?			
I.4		Abaterile de la Codul adoptat sunt publicate cel putin in cadrul raportului anual al administratorilor (rec. 3) sau pe pagina de internet a companiei?			
I.5		A fost desemnat un membru executiv neutru care sa fie insarcinat cu implementarea si respectarea principiilor enuntate in Codul adoptat?			
I.6		Raportul membrului executiv referitor la guvernanta corporativa este discutat periodic in cadrul Consiliului de administratie?			
II. Drepturile actionarilor(20%)					

II.1		Detinatorii aceleeasi clase de actiuni au drepturi egale si orice modificare a drepturilor conferite a fost facuta cu aprobarea actionarilor direct afectati? (rec.4) (exemplu: plata dividendelor incepe in acelasi timp catre toti actionarii? Documentele suplimentare solicitate pentru plata dividendelor au fost aprobate de AGA?)			
II.2		A depus societatea toate diligentele in vederea exercitarii dreptului de vot al actionarilor in absenta, prin procura speciala (rec.7)?			
II.3		Actionarii pot urmari Adunarea Generala pe internet?			
II.4		Actionarii pot vota in cadrul Adunarii Generale utilizand internetul?			
II.5		Societatea a creat o sectiune usor identificabila si accesibila pe pagina web care contine informatii complete privind participarea la AGA, exercitarea drepturilor de vot, agenda AGA, modele de procura speciala, calendar financiar, propunerile tuturor actionarilor si alte informatii relevante (rec.8)?			
II.6		Societatea a creat o structura organizatorica adecvata pentru relatia cu investitorii, iar personalul desemnat a urmat cursuri de specializare (rec.9)?			
III. Transparenta (20%)					
III.1		Sunt toti investitotii, analistii financiari sau brokerii informati in mod egal (Fair Disclosure)?			
III.2		Informarile sunt disponibile atat in limba romana cat si engleza, cat si prin intermediul internetului?			
III.3		Sunt organizate intalniri periodice si nediscriminatorii cu analistii financiari, in scopul prezentarii elementelor financiare, relevante deciziei investitionale (rec.26)?			
III.4		Sunt analizate in mod detaliat deviatiile de la tintele de performanta sau strategice publicate anterior (rec. 13 c)?			
III.5		Informatiile relevante publicate pe terte piete (de catre companie sau grupul din care face parte) in virtutea cerintelor de raportare existente sunt de asemenea publicate fara intarziere si in Romania?			
III.6		Este publicat si actualizat in permanenta un calendar financiar?			
IV. Management si Consiliu de administratie (20%)					
IV.1		Consiliul de administratie intocmeste un raport anual privind guvernanta corporativa (rec. 13 f)?			

IV.2		Exista criterii de calificare pentru membrii consilului de administratie, precum experienta in afaceri, vechime, experienta internationala, etc ? (rec. 18)			
IV.3		Compensatiile variabile ale managementului si ale membrilor consiliului de administratie sunt legate de performanta pe termen lung (relativa, creare de valoare, profitul economic, etc) (principiul XI)?			
IV.4		Exista un comitet de nominalizare a noilor membrii pentru Consiliul de administratie (rec. 21), format in majoritate de administratori independenti (principiul X)?			
IV.5		Sunt publicate compensatiile salariale sau de alta natura, fixe sau variabile, pentru fiecare membru al consiliului de administratie si a celui executiv, cel putin in cadrul Raportului Anual, precum si politica de remunerare in cadrul Codului de guvernanta adoptat (rec.24)?			
IV.6		Sunt dezvaluite potentialele conflicte de interese catre Consiliul de administratie (rec. 33) si Adunarea Generala (exemplu: tranzactii intre companie si oricare dintre membrii Consiliului sau firme controlate de acestia, imprumuturi catre membrii Consiliului sau firme controlate de catre acestia, functii de conducere in companii concurente)?			
V. Raportare si Audit al situatiilor financiare (20%)					
V.1		Raportarile financiare anuale si interimare sunt pregatite si conform IFRS, si diseminate in mod periodic? (rec. 25)			
V.2		Raportarile financiare anuale si interimare sunt pregatite si diseminate si in limba engleza? (rec. 25)			
V.3		Este independenta un criteriu important in selectarea auditorului (rec. 32)?			
V.4		Consiliul de administratie stabileste un nivel adecvat pentru comisioanele de audit?			
V.5		Exista un comitet de audit si este acesta condus de o persoana diferita de presedintele Consiliului de administratie?			
V.6		Consiliul de administratie a mandat auditorul sa raporteze deviatiile de la Codul de Guvernanta Corporativa adoptat?			

COMPANY:

The degree of fulfillment of every single question is being determined by marking the applicable field in column 1 ("x")

Criterion			Fulfillment		
			1	**0,5**	**0**
			yes	partially	no
I. Corporate Governance-Commitment (20%)					
I.1		Does the company have its own specific corporate governance principles based on the "BSE's Corporate Governance Code" or another code? (rec.36)			
I.2		Are these principles based on the Code easily available to all stakeholders (e.g. via internet) in an up-to-date version?			
I.3		Does the Code contain a clause that specifically expresses the commitment of the company to adhere to the best practices of Corporate Governance?			
I.4		Are all non-compliances of the Code regularly published at least in the Annual Board's Report (rec. 38) or on the company's webpage?			
I.5		Is there any independent board member in charge with implementing and respecting the principles mentioned in the Code?			
I.6		Is the report on Corporate Governance periodically discussed and analyzed by the Board?			
II. Shareholders' rights (20%)					
II.1		The holders of identical-class shares have equal rights and any modification of the voting rights has occurred with the approval of the shareholder directly affected by the change?(rec.1)			

II.2		Can voting be delegated?(rec.4)			
II.3		The GS Meeting can be watched on the internet?			
II.4		Shareholders can cast their vote using internet?			
II.5		The company has created an easily identifiable section on its webpage where shareholders have access to all the necessary information for the General Shareholders' Meeting?			
II.6		The company has employed a person in charge with investors relation and who has been trained accordingly? (rec.6)?			

III. Transparency (20%)

III.1		All the investors, brokers and analysts are equally informed?			
III.2		All the announcements made by the company are available on the internet, both in Romanian and English?			
III.3		Are there any periodical meetings with financial analysts?			
III.4		All deviations from performance or strategic targets are analyzed in detail and explanations are offered?			
III.5		All information published on other markets by the company or the group is immediately published in Romania as well?			
III.6		Is there a financial calendar that is both available to the public and relevant?			

IV.1		Does the Board provide a report regarding Corporate Governance (rec. 10 f)?			
IV.2		Are there any qualification criteria for the members of the board? (rec. 17)?			
IV.3		Are the variable compensations of the board tied to long term performance of the company? (principle XI)			
IV.4		Is there a nominating committee for new board members, with a majority of independent members?			
IV.5		Are all compensation - fixed or variable, made available to the public, for each member of the board?			

IV.6		Are any potential conflicts of interest immediately disclosed to the Board and the General Shareholders Meeting?			
V. Reporting and Audit of the Annual Financial Statements (20%)					
V.1		Are the Reports prepared according to IAS?			
V.2		Financial reports are prepared and disseminated in English also? (rec.25)			
V.3		Is sufficient independence an important criterion for the selection of the auditors?			
V.4		Does the Supervisory Board set an appropriate level for the auditing fee?			
V.5		Is there an auditing committee headed by someone else than the chairman of the Board?			
V.6		The Board has mandated the auditor to report deviations from the adopted Corporate Governance Code?			

Annex 2: Construction of the Perceived Corporate Governance for Romanian exchange-listed companies

Company (symbol)	Positive votes	Negative votes	Difference = PCG
ALR	7	9	-2
ALT	2	12	-10
ALU	1	7	-6
AMO	0	15	-15
APC	0	5	-5
ARM	0	4	-4
ARS	0	5	-5
ART	0	5	-5
ARTE	#N/A	#N/A	#N/A
ATB	8	3	5
AUTT	0	6	-6
AZO	5	10	-5
BCC	4	2	2
BCM	0	3	-3
BIO	8	4	4
BRCR	1	2	-1
BRD	39	4	35
BRK	6	6	0
BRM	1	4	-3
BVB	19	6	13
CAOR	#N/A	#N/A	#N/A
CBC	0	5	-5
CEON	0	4	-4
CGC	0	6	-6
CMCM	0	3	-3
CMF	0	2	-2
CMP	1	2	-1
CMVX	0	5	-5
COFI	0	5	-5
COMI	1	5	-4
CONFM	0	2	-2
COS	0	5	-5
COTR	0	4	-4
DAFR	3	10	-7
ECT	0	3	-3

EFO	0	4	**-4**
ELGS	0	8	**-8**
ELJ	1	3	**-2**
ELMA	1	2	**-1**
ENP	0	3	**-3**
EPT	0	5	**-5**
FLAO	0	4	**-4**
FP	25	4	**21**
IMP	0	5	**-5**
INOX	0	4	**-4**
MECF	0	4	**-4**
MEF	0	3	**-3**
MJM	0	4	**-4**
MPN	0	3	**-3**
OIL	0	10	**-10**
OLT	1	12	**-11**
PEI	0	6	**-6**
PPL	1	4	**-3**
PREH	0	3	**-3**
PTR	2	5	**-3**
PTRO	2	4	**-2**
RMAH	1	2	**-1**
ROCE	0	4	**-4**
RPH	1	3	**-2**
RRC	1	6	**-5**
RTRA	#N/A	#N/A	**#N/A**
SCD	5	4	**1**
SEVE	0	3	**-3**
SIF1	5	23	**-18**
SIF2	9	20	**-11**
SIF3	4	26	**-22**
SIF4	3	20	**-17**
SIF5	6	23	**-17**
SNO	0	5	**-5**
SNP	32	5	**27**
SOCP	1	3	**-2**
SPCU	0	3	**-3**
SRT	0	3	**-3**
STIB	#N/A	#N/A	**#N/A**
STZ	0	5	**-5**
TBM	2	3	**-1**

TEHO	1	4	**-3**
TEL	15	2	**13**
TGN	18	4	**14**
TLV	20	2	**18**
TRP	2	3	**-1**
TUFE	1	3	**-2**
UAM	0	4	**-4**
UNISEM	0	3	**-3**
UPET	1	3	**-2**
UZT	1	3	**-2**
VESY	1	7	**-6**
VNC	1	3	**-2**
ZIM	2	8	**-6**