Accounting and Management Information Systems
Vol. 14, No. 4, pp.770-790, 2015

Corporate governance transparency and board independence: the case of four European emerging countries

Ruxandra-Adriana Mateescu [a1]
[a] *Bucharest University of Economic Studies, Romania*

Abstract: This paper investigates the influence that an independently structured board exerts over implementing sound financial and non-financial disclosure mechanisms (especially regarding corporate governance mechanisms) in listed companies from four European emerging countries (Estonia, Poland, Hungary and Romania). Previous studies have shown that they usually trust more public disclosed information than the internal reports they have access to. This study brings evidence that in most cases the companies in the sample comply with the independence requirements. Regarding the boards' size, larger companies appoint more directors and larger audit committees. Finally, the study demonstrates that companies with larger audit committees disclose more financial and non-financial information.

Keywords: transparency, corporate governance, emerging countries, board independence, audit committee

JEL Codes: G32, G34

1. Introduction

Corporate governance is an extremely rich field of study, placed at the crossroads of finance, accounting, management, law. This is the reason why it is a wide field for research, generating a variety of research problems and themes. Moreover, these problems are addressed by researchers using a variety of research approaches.

[1] *Corresponding author*: Ruxandra Mateescu, Ph D student at the Bucharest University of Economic Studies, email address: ruxandra.mateescu@yahoo.com

The concept of Corporate Governance has aroused in the early ’70 in the United States, after a series of economic scandals and failures that have led to the lost of the owners’ confidence in the managers’ ability of leading the great corporations (Cheffins, 2012). Later, in order to avoid a backdrop of corporate governance scandals and fraudulent accounting practices, worldwide corporate governance regulators have considered necessary to introduce stronger corporate governance regulations in order to restore investors’ confidence in financial markets (Maier, 2005).

Maasen (2002) noticed that business failures and excessive directors’ pay have put pressures on corporate boards to become more independently structured. One of the most eloquent examples are the Sarbanes Oxley Act in the United States and the Cadbury Report in the UK, which have drawn the attention over a large number of corporate governance issues, but the most frequently discussed topics were related to the boards’ composition and duties. The American authorities mentioned the necessity for the listed companies to have a majority of independent directors and to implement a code of business conduct for the directors as to improve the corporate governance mechanisms.

A large body of research is dedicated to the importance an independent board in building a sound corporate governance system (Armstrong *et al.*, 2013; Jesover & Kirkpatrick, 2005; Feleaga *et al.*, 2011; Ho & Wong, 2001; Bianchi *et al.*, 2011; Klein, 2002; Patelli & Prencipe, 2007). These studies have brought into focus that independent directors often rely on publicly disclosed information, this being the reason why there is an increasing care in improving the disclosure process. Prior findings show that the boards’ composition regarding its members’ independence is very heterogeneous among developed countries. Moreover, their influence over the companies’ transparency has been recently investigated. It has become of a great interest studying this subject into the emerging countries, given that they are considered as the engine of sustainable economic growth.

This paper investigates the influence that an independently structured board exerts over implementing sound financial and non-financial disclosure mechanisms (especially regarding corporate governance mechanisms) in listed companies from four European emerging countries (Estonia, Poland, Hungary and Romania). The study was conducted over 51 companies listed in the first tier of four European emerging countries’ stock exchange.

More specifically, I investigate the association between the composition and independence of the boards and the companies’ size, the presence of institutional investors, and the type of ownership. Moreover, I also investigate the association between the companies’ board independence and the amount of voluntary information regarding corporate governance issues disclosed by the companies in the sample.

Results show that most companies comply with the independence requirements, but there are disparities regarding the boards' dimension and also there are companies that do not appoint an audit committee. Regarding ors influencing the appointment of the boards, neither the presence of institutional investors nor a diffused ownership is associated with an increase in the number of independent directors, even though prior studies conducted in developed countries indicated a positive connection between them. Larger companies appoint a larger number of independent and non-independent directors and also in larger companies audit committees are consisting of a larger number of members. A bigger audit committee (but not necessarily a more independent one) is positively associated with the disclosure of financial and non-financial information.

These results might be of interest for academics investigating the complex context of emerging economies, for preparers, in order to understand better the consequences of corporate governance practices and of disclosures, for investors (especially institutional investors) interested in the corporate governance and disclosures in the region.

The paper is structured as follows: the literature review provides and overview of the literature in the area of research in order to set the conceptual foundation for the current study. The research methodology and findings are presented and discussed, followed by the conclusions.

2. Literature review

2.1 Board members independence in European emerging countries

In the late years, there has been a continuous growing concern regarding the board members independence issues. Sustaining the corporate governance recommendations improving process worldwide authorities have been making, Mallin *et al.* (2005) sustain the importance of ensuring the right balance between executive and non-executive directors, especially the necessity of independent non-executive directors in preventing certain directors becoming too influent, and also the importance of a rigorous and transparent board members' recruitment process in order to ensure the appointment of the best professionals. Regarding the meaning of *independence,* there are many opinions, but the most common is the one cited by Mallin *et al.* (2005), who state that non-executive independent directors should be independent from management and should not have any business relationship that could affect their professional judgement.

Regarding the importance that companies offer to an independent board, prior studies (Bianchi *et al.* 2011, Maier, 2005, Feleaga *et al.*, 2011) show significant differences between the boards composition across countries, given that besides the practice variations, the independence requirements comprised in the national corporate governance codes are quite different. For example, while in Switzerland the average percentage of independent directors is 81.3% of the total numbers of directors, in Germany only 1.5% of the directors are independent. While in Japan, audit committees have only 4% independent members, other companies from countries like Holland, Luxembourg and some Anglo-Saxon countries with wide experience in corporate governance, like the UK, the US and Canada prefer to appoint up to 95% independent members inside their boards.

The results obtained by Bianchi *et al.* (2011) show that in Italy the average number of independent directors if of 4.1 per board, meaning that they represent the majority in companies' boards. Feleaga *et al.* (2011) have conducted a similar study in Romania. Results show that only 27% of the listed companies have boards with a majority of independent members.

Even though, as I explained above, the Anglo-Saxon countries have a wider experience in implementing best practices regarding the corporate governance, the European authorities could not have remained passive to the last years' corporate governance practices improving process. In 2003, the European Commission has launched the Communication 284 (COM-284), referring to three main pillars, one of them prescribing recommendations for modernising the board of directors. The member countries of the European Union have endorsed the corporate governance best practices comprised in the COM-284 into national corporate governance codes. Even though European emerging countries have delayed this endorsement process, Romania being the first of them in implementing a national corporate governance code in 2000, they are making sustained efforts in implementing the best corporate governance recommendations. One important proof is that they have become aware of the importance independence has in sustaining a sound corporate governance mechanism and has introduced special requirements regarding this issue. As I previously mentioned, independence requirements regarding listed companies' board members are quite different, the reasons driving this whole process deserving to be thoroughly studied.

Table 1 contains the independence requirements comprised in five European emerging countries' corporate governance codes, namely Estonia, Poland, Hungary and Romania, given that they have developed corporate governance codes in quite similar contexts, all being ex-communist countries that have recently become members of the European Union.

Table 1. Requirements for the independence of board members

Country	One-tier or two-tier approach	Independence requirements	Committees requirements
Estonia	Two-tier approach	More than half of the Supervisory Board should be formed of independent members	Even though there are not requirements regarding the committees' members' independence, the Supervisory Board members are required to act independently and in the best interest of the company and its shareholders.
Poland	Two-tier approach	Each member of the Supervisory Board should form independent decisions, but only at least two of them should comply with all independence requirements.	Code refers to the Commission Recommendation of 15 February 2005, which encourages companies to create within the Supervisory Board committees regarding the audit, the remuneration and the management nomination. Committees should have a sufficient number of independent members
Hungary	Option between one-tier and two-tier approach	"The number of non-executive members shall be determined in a way that ensures that their views and decisions may have a considerable effect on the decisions of the Managing Body passed as a board."(The Hungarian Corporate Law). Also, it should have a sufficient number of independent members	Each committee should have at least 3 members. Nomination Committee- the majority of members should be independent Remuneration committee-all members are required to be non-executive and the majority should be independent
Romania	Option between one-tier and two-tier approach	The company should ensure a balance between executive and non-executive members. The company should also have sufficient independent members	Regarding the Audit, Remuneration and Nomination Committees, they are required to have only non-executive members and a sufficient number of independent members

1.2 The importance of institutional investors in appointing independent directors

In the last 30 years, the institutional investments have become more and more important. 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 *et al.*, 2005, Malinowska & Gad, 2013; 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.

Prior studies (Kirkpatrick & Jesover, 2005; Gillan & Starks, 2000; Maassen, 2002; Scott, 2011) identify many 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 (Gillan & Starks, 2003).

Investigating the institutional investors' direct influence, Scott (2011) suggests that they are able to improve the research and development procedures, but also the remuneration policies. Kirkpatrick and Jesover (2005), Maassen (2002), Gillan and Starks (2000) find that their area of influence is higher, including influence on the companies' strategic decisions, like investments, asset sale, managers' remuneration, the board composition, by increasing the number of independent members. Regarding this last issue, Gillan and Starks (2000) suggest that the third most common proxy proposal concerns the increase in the boards' independence but most important in the committees' members independence.

Researchers have not only studied the institutional investors' habit in appointing independent board members, but have given the deserved importance to all the other investors' categories. Prior results (Mallin, 2006; Romano, 2001) are convergent regarding the investors' opinion that a good corporate governance system always includes a majority of independent directors. In this respect, Pisano and Lapore (2012) bring into discussion that, especially in the case of a company's diffused ownership, a very useful mechanism that helps reducing the managers' discretionary space and the informational asymmetry proved to be the appointment of independent board members, which can often serve as an alternative to the disclosure of financial data.

1.3 The boards' independence and their influence over companies' transparency

Even though directors have access to internal information, such as budgeting data and internal reports, managers are usually reluctant to disclosing information that is detrimental to their interests. Consequently, independent directors rely on public information, given that in the last years corporate governance regulations have developed detailed disclosure requirements (Armstrong *et al.*, 2013). This is the reason why independent directors tend to improve the companies' transparency level. Moreover, Jesover and Kirkpatrick (2005) suggest that independent board members have the power and necessary expertise to watch and improve the companies' disclosure practices, making them more accountable towards all the stakeholders.

Regarding the transparency issues and the way independent directors influence the companies' disclosure practices, the literature is very rich, bringing into focus a lot of interesting results (Armstrong *et al.*, 2013; Feleaga *et al.*, 2011; Ho & Wong, 2001; Bianchi *et al.*, 2011; Klein, 2002; Patelli & Prencipe, 2007).

Bianchi *et al.* (2011) mention that several studies have shown that companies where a larger number of independent directors were appointed were much more compliant with the corporate governance codes, including with the disclosure requirements. Armstrong *et al.* (2013) and Klein (2002) find a positive relation between the percentage of independent directors and the accounting quality, including the financial reporting practices. Another result of their empirical study has shown that, along with the increase with 18% of the independent directors' number, there was a decrease of 6% in the companies' informational asymmetry. Two other studies conducted into other different periods stand for the results of Armstrong *et al.*. Klein (2002) and Patelli and Prencipe (2007) have conducted independent studies, which have also shown that a larger number of independent directors positively influence the reduction the informational asymmetry and additionally some agency problems.

Sustaining these results, Ho and Wong (2001) find a strong positive connection between the existence of an audit committee and the amount of information disclosed by the company. In addition, Bianchi *et al.* (2011) show that companies where the audit committees consist of more independent members are more compliant with their corporate governance codes.

Another positive influence independent directors have in the companies' disclosure practices is the increase in the managements' tendency to disclose high quality forecasts, very close to those presented by analysts (Armstrong *et al.*, 2013). The last but not the least, Haye (2013) cites a few studies that have demonstrated that companies with higher independent boards are usually more willing to pay dividends than the other companies. That is why it is expectable to seize a positive connection between the number of independent directors and the amount of information disclosed, regarding the companies' dividend policies.

3. Methodology

3.1 Sample description and data sources

The sample consists of 51 companies, listed in the first tier of four European emerging counties, namely Estonia, Poland, Hungary and Romania. Thirteen of them are listed in the Main List of the Tallinn Stock Exchange, fourteen are listed in the first tier of the Warsaw Stock Exchange, seven on the Equities Prime Market of the Budapest Stock Exchange and seventeen are listed in the first tier of the Bucharest Stock Exchange. In order to ensure the homogeneity, I excluded from the sample the banks, the insurance companies and the other financial companies.

Financial and non-financial data used in the study were collected in 2013, for the financial year ended 31st December 2012 from the Stock Exchanges' websites, from the companies' sites and from the companies' annual reports and corporate governance reports.

3.2 Variables description

As previously mentioned, great differences arise when it comes to the companies' approach to directors' independence. According to Maier (2005), while in Switzerland the average percentage of independent directors is 81, 3% of the total numbers of directors, some other European countries do not look at independence in the same way, as an example being the case of German companies where only 1, 5% of the directors are independent. It is of a great interest understanding how important do investors from the five European emerging countries believe an independent board has in optimising the corporate governance practices and mechanisms and in guaranteeing a company's sustainable growth. Another research subject is the boards' dimension, given that Girbina *et al.* (2012) mention that the board's ability to control and monitor the companies' managers is strongly connected to its dimension. In this respect, the first part of the empirical study is dedicated to the study of the boards' and audit committees' dimension and independence, in order to investigate the similarities and disparities between the importance companies give to the presence of independent directors. The study implies the use of four variables, namely BoardDim, BoardInd, AuditDim, AuditInd, their measurement being presented in Appendix A1.

In order to investigate ors associated with these disparities, the second part of the study aims to research whether the companies' size, the presence of institutional investors or a diffused ownership are associated with a higher proportion of independent directors in companies' boards. As mentioned before, in the last years the presence of independent directors in worldwide companies' boards has become of a great importance in the view of actual and potential investors. Prior studies (Armstrong *et al.*, 2013; Gillan & Starks, 2000; Jesover & Kirkpatrick, 2005) find that institutional investors, who have the financial power and the professional experience and expertise to improve the corporate governance practices in the companies they invest in, usually are willing to appoint independent boards in order to reduce the agency problems and the informational asymmetry they face. Pisano and Lepore (2012) also find that when a company's ownership diffusion is high, a larger number of independent directors help defeat the agency problems and better inform the investors about the company's financial position and performance. In this respect, I will use three other variables, namely Institutional, OwnershipD and Assets, whose measurement is presented in Appendix A1.

Finally, the third part of my empirical study is dedicated to the research of the association between the companies' board independence and the amount of voluntary information regarding corporate governance issues disclosed by them. Armstrong *et al.* (2013) suggest that even though independent directors have access to internal reports and information, they are more willing to base their decisions on public information disclosed by the companies.

First of all, I investigate whether companies with more independent directors disclose more financial forecasts and analysis, given that Armstrong *et al.* (2013) have already found this association in a different institutional context. In this respect, I will use two variables, FinInf and FinPlans, whose measurement is presented in Appendix A1.

Secondly, given that Haye (2013) found that companies with more independent directors usually are more willing to pay dividends. It is expectable to find a positive relation between the number of independent directors and the amount of information companies disclose regarding their dividend policy. In this respect, I will use another variable, Dividend, whose measurement can be found in Appendix A1. Another transparency variable which is analysed is CSR, which measure the amount of information disclosed by the company regarding its social responsibility actions and plans. The variable has also been analysed by Girbina *et al.* (2012), given that CSR practices and disclosures could bring a lot of advantages for the companies, such as attracting favourable financing conditions, encouraging innovation through a better understanding of stakeholder needs or future risks and many others.

Finally, given that independent directors are supposed to have the mission of best informing all the stakeholders of a company, I investigate whether the disclosure of the General Meeting resolutions or the companies' bylaws are influenced by the presence of a large number of independent directors. In this respect, I will introduce another two variables, namely Bylaws and GMRes, which have also been studied into prior studies (Berglof & Pajuste, 2005; Girbina *et al.*, 2012), the variables used in the last one being inspired from the ISAR (Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting) benchmark of good practices in corporate governance disclosure.

3.3 Results and analysis

3.3.1 Boards' size and independence

Regarding the sample as a whole, even though the emerging countries have recently begun the European corporate governance recommendations implementing process, companies seem to have understood the importance of an audit committee, given that each of them has an average of 7.43 members, of which 49% are independent. The large number of boards' members suggests that companies have become aware of the idea suggested by Girbina *et al.* (2012), that that the board's ability to control and monitor the companies' managers is strongly connected to its dimension.

Looking at the national sub-samples, it is quite obvious that there are great differences between companies' boards' dimensions, sustaining the idea introduced by Maier (2005) that there are great disparities between worldwide companies regarding their number of independent and non-independent members. The author brings into discussion the case of Germany, where only 1.5% of the directors are independent, while in Switzerland the average percentage is of about 81%. Considering these percentages, the four emerging countries seem to have understood the importance of an independent board and have appointed 68% independent members into their supervisory boards. The quite high values of the standard deviations (3.79 and 2.81) lead to the idea that there are differences between the boards' dimension and independence among the four countries.

Analysing the four sub-samples, Hungarian companies have appointed the largest boards, with an average of 12.71, but that the standard deviation is 6.63 suggests that there are great differences between companies in the sub-sample. Estonian companies seem to have the lowest number of directors, with an average of 5.4 directors, out of which 2.4 (44%) are independent. Taking into account that the Estonian corporate governance code requires the presence of a majority of independent members in the companies' boards, it is obvious that there are companies which do not comply with this requirement. Though, it is noticeably that companies offer a large amount of information regarding their board members' independence.

Hungary is the country with most independent boards, given that the average number of appointed independent members is of 8.14 out of 12.71 members. On the other side, Poland is the country with the less independent boards (37.27%) but, unlike the case of Estonia, their national corporate governance code only requires the presence of at least two independent members.

Table 2. Descriptive statistics for BoardDim, BoardInd, AuditDim and AuditInd

Country	Observations	Minimum	Maximum	Average	Standard deviation
Boards' dimension(BoardDim)					
Estonia	13	3	9	5,39	1,5
Poland	14	5	12	7,86	2,41
Hungary	7	4	22	12,71	6,63
Romania	17	5	14	6,47	2,29
Entire sample	**51**	**3**	**22**	**7,43**	**3,79**
Number of boards' independent members(BoardInd)					
Estonia	13	0	4	2,39	1,19
Poland	14	0	5	2,93	1,77
Hungary	7	0	5	8,14	3,98
Romania	17	0	8	3,24	2,08
Entire sample	**51**	**0**	**14**	**3,61**	**2,81**

Country	Observations	Minimum	Maximum	Average	Standard deviation
Audit committees' dimension(AuditDim)					
Estonia	12	1	3	2,25	0,62
Poland	13	2	5	3,62	0,96
Hungary	6	3	5	3,33	0,82
Romania	9	2	4	3	0,5
Entire sample	**40**	**1**	**5**	**3,02**	**0,92**
Number of audit committees' independent members(AuditInd)					
Estonia	12	0	3	1,67	0,78
Poland	13	0	5	2	1,41
Hungary	6	3	5	3	0,63
Romania	9	1	3	2	0,87
Entire sample	**40**	**0**	**5**	**2,05**	**1,08**

Given that the four corporate governance national codes suggest that each company's audit committee should have sufficient independent members (Hungary being the only one who requires a majority of them), companies seem to have complied with this recommendation, being aware of the importance the presence of independent members have. It must be underlined that only 40 of the 51 companies in the whole sample have chosen to appoint an audit committee. Analysing the 40 companies, the average size of an audit committee is of 3.02 members, 2.05 of them being independent. Given that the standard deviations equal around 1, it is necessary to study the causes of these differences.

First of all, it is noticeable that, even though in Hungary, Poland and Estonia only one company per each country's sub-sample has chosen not to appoint an audit committee, in Romania almost half of the companies (eight out of seventeen) do not have an audit committee or offer no information at all regarding this issue, even though the Romanian corporate governance code recommends constituting it. This result supports the ones obtained by Girbina *et al.* (2012) which show that 36% of the listed companies have not set up an audit committee. There is also very difficult to assess the audit committees' members, as companies are reluctant to giving this kind of information to the stakeholders, sustaining the idea of Feleaga *et al.* (2011).

For the rest of the companies, the audit committee is generally comprised of 3 members, out of which 2 are independent. The low values of the standard deviation show that companies which have chosen to appoint an audit committee have quite the same number of independent and non-independent members, regardless of the companies' size or the boards' size.

Estonian audit committees have an average of 2.25 members, out of which 71% are independent. The small values of the standard deviation, like in the case of Romania, show that companies usually choose to appoint a 2 or 3-members audit committee, even though as I previously mentioned, boards' dimensions are quite different among companies.

Hungarian and Polish companies have the same average number of members in the audit committee, mentioning that Hungarian audit committees are the most independent ones in the whole sample, with 90% independent members. A possible reason may be that the Hungarian corporate governance regulations are the only ones that require the presence of a majority of independent members, while the other ones advise the companies to appoint a *sufficient* number of independent members (See Table 1).

Viewing the sample as a whole, the results are quite optimistic. Usually, companies in these four emerging countries appoint a 3-members audit committee, two of them being independent. These results show that companies are usually compliant with the national audit committees' independence requirements. Regarding the emerging countries' preoccupation in implementing the independence best practices, this study's results show that even though they have recently begun the corporate governance practices improving process, companies in these countries have appointed audit committees with an average percentage of 68% independent directors, in accordance with the results obtained by Bianchi *et al.* (2011) which have concluded that the majority of Italian listed companies have appointed audit committees consisting of a majority of independent members.

3.3.2 The influence of firm-level variables over the boards' dimension and independence

As I previously mentioned, given the big differences between the size and the composition of the companies' boards and audit committees, the study investigates whether three important firm-level variables, namely the company's size, the percentage of institutional investors and the ownership diffusion, are associated with the appointment of a certain number of independent or non-independent directors by the companies in our sample.

Table 3. Pearson correlation matrix regarding the relation between firm-level variables and the boards' and audit committees' size and composition

Variables	BoardDim	BoardInd	AuditDim	AuditInd	Assets	Institutional	OwnershipD
BoardDim	**1**						
BoardInd	**0,836*** **	**1**					
AuditDim	**0,428*** **	**0,297***	**1**				
AuditInd	**0,306***	**0,446*** **	**0,436*** **	**1**			
Assets	**0,520*** **	**0,273***	**0,534*** **	0,011	**1**		
Institutional	-0,186	0,008	-0,014	0,102	-0,100	**1**	
OwnershipD	-0,079	-0,121	0,059	-0,078	0,048	0,202	**1**

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

As described above, the companies' size (namely the total assets value) is the only studied firm-level variable which significantly influences the boards' size and independence, but also the number of directors in the companies' audit committees. It seems that the larger companies are the only ones who became aware of the idea introduced by Girbina *et al.* (2012), that a larger board has a greater ability to control and monitor the companies' managers.

Even though previous studies, conducted especially in developed countries (Armstrong *et al.*, 2013; Gillan & Starks, 2000, Jesover & Kirkpatrick, 2005) have demonstrated that the institutional investors usually are willing to appoint more independent boards of directors in the companies they invest in, the present research shows that in these four European emerging countries there is no positive relation between the percentage of institutional investors in a company and the board's size or independence.

Finally, contradicting the results obtained by Pisano and Lapore (2012) which suggest that usually companies with a larger number of investors have a larger number of independent board members, our study shows no significant relationship between the ownership diffusion and the boards' and audit committees' size or independence.

3.3.3 Independent directors' influence over the disclosure of voluntary information

As described before, the last part of the empirical study is dedicated to the study of the influence independent directors have in the corporate governance information disclosure practices.

Table 4. Pearson correlation matrix regarding the relation between boards' size and independence and corporate governance transparency

Variables	BoardDim	BoardInd	AuditDim	FinInf	FinPlans	CSR	Dividend	Bylaws	GMRes
BoardDim	**1**								
BoardInd	**0,802*** **	**1**							
AuditInd	**0,377*** **	**0,507*** **	**0,735*** **						
FinInf	-0,002	-0,064	**0,280** **	**1**					
FinPlans	-0,037	-0,057	**0,279** **	**0,611*** **	**1**				
CSR	**0,238* **	0,143	0,190	**0,334** **	**0,429*** **	**1**			
Dividend	0,007	-0,044	**0,288** **	**0,409*** **	**0,298** **	**0,430*** **	**1**		
Bylaws	0,081	-0,017	**0,292** **	**0,316** **	**0,452*** **	**0,571*** **	**0,502*** **	**1**	
GMRes	0,085	**0,243* **	0,150	0,130	0,123	**0,236* **	0,177	**0,260* **	**1**

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

Regarding the corporate governance information disclosure, the Pearson correlation results show that in the four emerging countries larger boards only have a significant correlation with the corporate social responsibility information disclosure. In companies with a large number of independent directors, there seems to be a tendency to disclose to all the stakeholders the resolutions made at the General Meetings, concerning the future of the companies, ensuring them of the continuous care for making the best decisions for the companies' sustainable growth.

Though, it's the audit committees' size which has the most significant positive association with the disclosure process, supporting the opinion of Ho and Wong (2001) which show that there is a strong positive connection between the existence of an audit committee and the amount of information disclosed by the company.

Deloitte's corporate governance specialists argue that among the responsibilities of an audit committee (http://www.corpgov.deloitte.com) there are disclosure ones, namely reviewing the financial statements and other types of reports and other news releases before their public disclosure. This could be an explanation for the positive relation between the size of the audit committee and the information disclosed regarding the company's financial results and plans, also taking into account that according to Girbina *et al.* (2012), the greater the number of directors is, the greater their power in monitoring and controlling the management is.

Next, given the importance audit committees in these four European emerging countries have in the disclosure process, I investigate what types of information the companies with the most independent audit committees are willing to disclose. I divided the companies which have appointed an audit committee into two subsamples, namely the companies whose audit committees' independence is higher than 50% and the ones whose audit committees have less than 50% independent members. The results are presented in the table below:

Table 5. Audit committees' independence sub-samples descriptive statistics

Variable	Observations	Minimum	Maximum	Mean	Std. deviation
Panel A: Companies with audit committees' independence>=50% (31 companies, of which 11 from Estonia, 7 from Poland, 6 from Hungary and 7 from Romania)					
FinInf	31	0.000	2.000	1.710	0.529
FinPlans	31	0.000	2.000	1.484	0.724
CSR	31	0.000	2.000	1.452	0.850
Dividend	31	0.000	2.000	1.129	0.846
Bylaws	31	0.000	2.000	1.645	0.608
GMRes	31	0.000	2.000	1.677	0.599
Panel B: Companies with audit committees' independence<50% (9 companies, of which 1 from Estonia, 5 from Poland and 2 from Romania)					
FinInf	9	1.000	2.000	1.889	0.333
FinPlans	9	1.000	2.000	1.667	0.500
CSR	9	1.000	2.000	1.667	0.500
Dividend	9	1.000	2.000	1.556	0.527
Bylaws	9	2.000	2.000	2.000	0.000
GMRes	9	0.000	2.000	1.667	0.707

Bianchi *et al.* (2011) found that companies where the audit committees consist of more independent members are more compliant with their corporate governance codes. Taking into account that the corporate governance codes also have a separate section regarding disclosure recommendations, it is possible that companies with a large number of independent members in their audit committee disclose a larger amount of information, being more transparent. Armstrong *et al.* (2013) sustain the idea of Bianchi *et al.* (2011) concluding that a company's information asymmetry decreases when a company increases its number of independent members in the audit committee. It is also important to discover which type of information more independent companies are willing to disclose.

Regarding the information companies are willing to disclose, the financial results and the companies' bylaws are, by far, the most disclosed ones. Even though the information regarding their dividend policies are the less disclosed, the average score is quite good, meaning that they are aware of the importance investors and other stakeholders give to this type of information.

Taking into account our two sub-samples, looking at the average values of the transparency variables, it seems that companies with the less independent audit committees are willing to disclose more information than other companies. It is obvious that these results contradict the ones obtained in developed countries, meaning that the audit committees' dimension is much more important than their members' independence in building a sound corporate governance mechanism inside companies.

Conclusions

The topic of corporate governance best practices has been highly discussed and represented the subject of many studies conducted worldwide. By far, one of the most important themes, which have been subject to legal changes, is the independence of board members. Previous studies show that independent directors are usually willing to improve the information disclosure practices, making information for the stakeholders much more trustful.

The aim of this paper was to investigate the extent to which four European emerging countries, namely Estonia, Hungary, Poland and Romania have endorsed into their national corporate governance codes the best practices regarding the boards' independence and ors associated with these practices.

Regarding the boards' dimension, the four European emerging countries have appointed boards with an average of 7.43 directors, of which 3.61 of them are independent. The largest boards are the Hungarian ones, with an average of 12.71 members of which 8.14 independent, while the lowest number of members are in the Estonian companies, with an average of 5.39 directors.

Talking about the appointment of audit committees, Romania is the only country where 8 of 17 companies have chosen not to follow this corporate governance recommendation. The other companies have appointed audit committees with 3.02 members, of which 2.05 are independent.

Regarding or influencing the appointment of the boards, neither the presence of institutional investors nor a diffused ownership is positively associated with increase in the number of independent directors, even though prior studies conducted in developed countries have discovered a positive connection between them. Moreover, I find that larger companies appoint larger number of independent and non-independent directors and also that in larger companies audit committees have a larger number of members.

Finally, in what concerns the influence independent members have over disclosure best practices implementation, I find a positive association between the size of the audit committee (but not necessarily the level of independence) and the disclosure of financial and non-financial information.

The results obtained after this study contribute to the understanding of corporate governance practices in the region and of the associated organizational factors. Moreover, I find differences in how corporate governance principles are applied by the companies in emerging countries compared to those in developed countries. These results need to be deepened by future studies, in order to investigate which are the factors with a significant influence on the decision to appoint independent directors. Moreover, alternative ways of improving the existing corporate governance mechanisms deserve further investigation.

Acknowledgement

An earlier draft of this paper was presented at the AMIS 2015 international conference, held in Bucharest, Romania, on June 10- 11 2015. I thank reviewers and participants for their feedback.

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Appendix A1: Variables description and measurement

Variable	Description
Panel A: Independence variables	
BoardDim	The number of a board's directors
BoardInd	The number of independent members of a company's board
AuditDim	The number of directors of an audit committee
AuditInd	The number of independent directors in an audit committee
Panel B: Firm-level variables	
Assets	Natural logarithm of a company's total assets value
Institutional	The percentage held in a company's equity by institutional investors
OwnershipD	The percentage held in a company's equity by its major shareholder
Panel C: Transparency variables	
GMRes	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
FinInf	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
FinPlans	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
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