



Consistency of corporate governance statements with the Corporate Governance Code provisions. The case of Romanian oil market

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Abstract: *The purpose of corporate governance is to achieve a responsible and value-oriented control of a company. The corporate governance provisions promote and strengthen the confidence of current and future shareholders, creditors, employees, business partners and the general public in national and international markets. For the resilience of financial markets but also for sustainable economic development it is crucial as a governance practice of companies listed on financial markets to be enshrined in the current corporate governance codes' provisions. Therefore, the approaches of this research bring to the public's attention the conformity of the corporate governance declarations of companies from oil industry that trade shares on the Bucharest Stock Exchange. The results show that, in 2019, the analyzed companies register a high level of compliance with the provisions of the Corporate Governance Code applicable on the Romanian financial market.*

Keywords: *corporate governance conformity; Code of Corporate Governance; Bucharest Stock Exchange; oil industry; capital market*

JEL Classification: G34, O16

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1. INTRODUCTION

The provisions expressed in the corporate governance codes have evolved significantly over the last two decades. We observed an accelerated growth in the importance of corporate governance while an increase in the preeminence of business ethics. Previous studies show that there are several factors that could have an impact on ethics in the application of a corporate governance code, including: ownership models, dominant view of the company's role in a society, cultural and societal norms, socio-economic and political priorities. We recognize that these factors involve the reporting of corporate governance practices, a growing field with an impact on increasing the transparency of the corporate governance system applied by companies but also in providing new arguments for improving the decision-making processes of all users of integrated information, both financial and non-financial.

Based on the awareness of the importance of integrated reporting transparency, one of the recommendations taken at international, European and national level has focused on increasing information transparency, in particular regarding the disclosure of corporate governance information (Merino et al., 2020). Many countries have issued corporate governance codes, and the provisions of these codes, which classify corporate governance as “good”, undoubtedly contribute to increasing transparency (Madhani, 2009).

It is proven that good corporate governance practices lead to an increase in the transparency in company reporting and in the investors' confidence in the company's image. Thus, the adoption of corporate governance practices of companies listed on a capital market in accordance with the corporate governance code has become a widely researched topic in recent decades. In multiple researches, the degree of compliance with the corporate governance codes of the management declarations of the companies listed on the Romanian capital market is studied (Dănescu & Popa, 2020; Deliu, 2020; Gîrbină et al., 2012; Fülöp, 2012, etc.), demonstrating an evolution of the level of compliance, over time. Other research demonstrates the influence of corporate governance on financial performance in the case of Romanian companies (Pintea et al., 2020; Achim et al., 2015; Pintea & Fülöp, 2015; etc.).

Important oil deposits are exploited from Romania and oil industry companies are occupying an essential place in the Romanian economy. Given the negative effects that the exploitation of oil fields has on the environment, it has been found that, in general, companies in this industry tend to adopt and report voluntarily corporate governance practices, including several actions of social responsibility and sustainable and environmental reporting (Popescu, 2019; Carini et al., 2018).

The purpose of this study is to assess the evolution of the degree of compliance with the Corporate Governance Code (hereinafter referred to as CGC) applicable to companies in the oil industry that are listed on the Romanian capital market, from the moment of implementation of CGC (2016) until 2019.

2. BACKGROUND

As a result of the financial scandals reported since the 1990s, European countries have begun to develop corporate governance codes that differ in terms of compliance mechanisms and range from non-mandatory practice recommendations (voluntary disclosure of information on



corporate governance practices) to mandatory provisions that entail criminal sanctions for non-application in practice (Goncharov et al., 2006).

In Romania, companies that trade shares on the capital market are required to provide information on corporate governance practices.

The Bucharest Stock Exchange (BSE) has developed, over time, a set of corporate governance principles in accordance with national and European legislation. Thus, in 2015, in order to align with the European norms on corporate governance of companies listed in Romania, BSE issued a Corporate Governance Code (applicable from January 2016), which contains a set of 40, respectively 41 principles and recommendations to which companies listed on the Romanian capital market must answer (BSE, 2015). CGC is applicable to listed companies in the main segment, which contains two types of categories: Premium Tier and Standard Tier. Companies in the Premium Tier must meet all 41 provisions that CGC provides, and companies in the Standard Tier must meet 40 provisions.

The purpose of the CGC is to stimulate transparency and trust in the financial reporting of companies trading shares on the Romanian capital market, thus creating an “internationally attractive capital market” (BSE, 2015).

According to the CGC, companies must include a corporate governance statement in a separate section of the annual reports, detailing any changes in governance during the year, along with a self-assessment of compliance with the CGC provisions. Thus, the corporate governance statement operates according to the "Apply or explain" principle and consists of four sections:

- Section A: principles regarding the responsibilities of the Board of Directors and the Supervisory Board - contains a number of 11 general provisions that must be observed by companies listed in the Premium Tier, respectively 10 general provisions that must be observed by companies listed in the Standard Tier;
- Section B: principles regarding the risk management system and internal control - contains a number of 12 general provisions that must be observed by listed companies;
- Section C: principles of fair reward and motivation - contains a provision that must be observed by listed companies;
- Section D: principles on value added through the relationship with investors - contains a number of 10 general provisions that must be observed by listed companies.

The compliance with the CGC applicable until 2015 in the case of the companies that made up the BET XT stock index was studied but with the help of a score function (Spătăcean & Ghiorghita, 2012). In the study conducted by Albu & Girbina in 2015, using the scoring method, the compliance level of all companies listed on the Romanian capital market is determined. A more recent study statistically analyzed the level of compliance of companies listed on the BSE, determining the level of compliance according to each section of the CGC (Bogdana & Dumitrescu, 2020).

3. DATA AND RESEARCH METHODOLOGY

The companies we included in the study are part of the Romanian oil industry, being represented by:

- **SC CONPET SA:** company that ensures the transport of crude oil on the Romanian territory (CAEN Code: 4950 Transport by pipelines); company listed on the Bucharest Stock Exchange in the Premium Tier, since 2013, with the COTE symbol.
- **SC OMV PETROM SA:** the largest oil and gas producer in South-Eastern Europe (CAEN Code: 0610 Extraction of crude oil); company listed on the Bucharest Stock Exchange in the Premium Tier, since 2001, with the symbol SNP.
- **SC ROMPETROL WELL SERVICES SA:** is a company that manufactures products resulting from crude oil (CAEN Code: 0910 Service activities ancillary to the extraction of crude oil and natural gas); the company is listed on the Bucharest Stock Exchange in the Standard Tier, starting with 2003, with the PTR symbol.
- **SC ROMPETROL RAFINARE SA:** has as main object the manufacture of products obtained from crude oil processing (CAEN Code 1920); the company is listed on the Bucharest Stock Exchange in the Standard Tier, starting with 2003, with the RRC symbol.
- **SC PETROLEXPORTIMPORT SA:** is a company that sells petroleum products (CAEN code: 4671 Wholesale of solid, liquid and gaseous fuels and derived products); the company is listed on the Bucharest Stock Exchange in the Standard Tier, starting with 2001, with the PEI symbol.

The analyzed companies are listed on the main segment, two companies are part of the Premium Tier (COTE and SNP) and the other three are part of the Standard Tier (PTR, RRC and PEI).

In order to test the degree of compliance of the companies, we identified if there are documents attesting their applicability of the Corporate Governance Code. We accessed the financial information reported to BSE, from where we extracted the annual reports of the analyzed companies, which contain the corporate governance statement. We corroborated this information with that found on the company's web pages.

Previous studies confirm that the scoring method is useful for calculating a degree of compliance for non-financial information. Based on this premise and on the analysis of the corporate governance statements of the companies included in the study, we gave a score from 1 to 3, gradually for the way of detailing the presentation of each provision in the CGC.

Summarizing the scores awarded, by applying the scoring method, we established the degree of compliance of each company analyzed (CGC_{conf}), as follows:

$$CGC_{conf} = \frac{\text{Achieved score}}{\text{Maximum achievable score}} \times 100$$

where:

Achieved score = the sum of the scores awarded following the analysis of corporate governance statements;

Maximum achievable score = the sum of the maximum achievable scores (123 points for companies listed in the Premium Tier and 120 points for companies listed in the Standard Tier).



Therefore, in order to determine the average degree of compliance of the listed oil market, we calculated the conformity level for each Tier of listed entities within the oil field. Then, we used the arithmetic mean of the results to determine the oil market corporate governance compliance level.

The mathematical model used can be computed as:

$$CGC_{conf_{oil\ market}} = \frac{\frac{\sum_{i=1}^{41} P\ Tier}{n} + \frac{\sum_{i=1}^{40} S\ Tier}{m}}{n + m}$$

Where:

$CGC_{conf_{oil\ market}}$ = degree of conformity on the analyzed market

n = number of entities in the Premium Tier

$\frac{\sum_{i=1}^{41} P\ Tier}{n}$ = degree of conformity of companies in the Premium Tier

m = number of entities within the Standard Tier

$\frac{\sum_{i=1}^{40} S\ Tier}{m}$ = degree of conformity of companies in the Standard Tier

We established the degree of compliance with the Corporate Governance Code according to the model illustrated in Table 1:

Table 1 – Level of compliance with the Corporate Governance Code

Conformity level	Very low conformity	Low conformity	Medium conformity	High conformity
Percentage	< 25%	25% - 50%	50% - 75%	> 75%

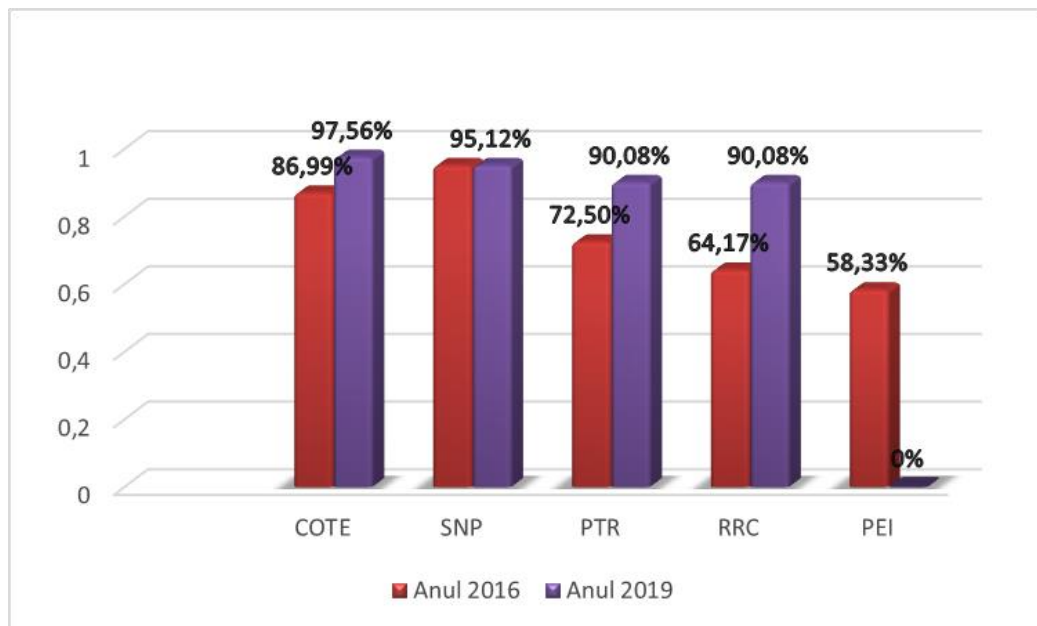
Source: authors' projection using professional rationing

In order to observe the evolution of the degree of compliance from the moment of implementation of the CGC until now, we performed calculations for the years 2016 and 2019.

4. RESEARCH RESULTS

The corporate governance statements were evaluated for the years 2016 and 2019. The scores given for each provision are from 1 to 3 (where 1 means non-compliance and 3 means compliance). In 2016, five companies in the oil industry were listed on BSE. In 2019, only four of them were listed. The PEI company was delisted following the declaration of bankruptcy. Thus, calculations regarding the compliance with CGC for this company could be performed only for 2016.

Figure 1 comparatively illustrates the degree of compliance determined for each company. We found a positive evolution of CGC compliance for the analyzed companies. However, we did not observe an increase in corporate governance compliance degree for SNP.

Figure 1 - Evolution of the degree of compliance with CGC for the analyzed companies

Source: authors' projection

Figure 1 and Table 2 show that only the companies that are listed in the Premium Tier recorded a high degree of compliance (as mentioned in Table 1) in the first reporting year according to the CGC, respectively COTE a degree of compliance of 86.99 %, and SNP a degree of compliance of 95.12%.

Table 2 - Degree of compliance with CGC of the analyzed companies

Entity	Conformity degree 2016	Conformity level 2016	Conformity degree 2019	Conformity degree evolution 2019/2016	Conformity level 2019
COTE	86,99%	high	97,56%	1,12	high
SNP	95,12%	high	95,12%	1	high
PTR	72,50%	medium	90,08%	1,41	high
RRC	64,17%	medium	90,08%	1,25	high
PEI	58,33%	medium	N/A	N/A	N/A

Source: authors' projection

In the case of companies in the Standard Tier, we note that in 2016, they registered a medium level of compliance. We observed that the PEI company registers a medium level of compliance with the Corporate Governance Code, registering a percentage that is close to the minimum value of the interval chosen for the assessment of medium level of compliance (58.33%).

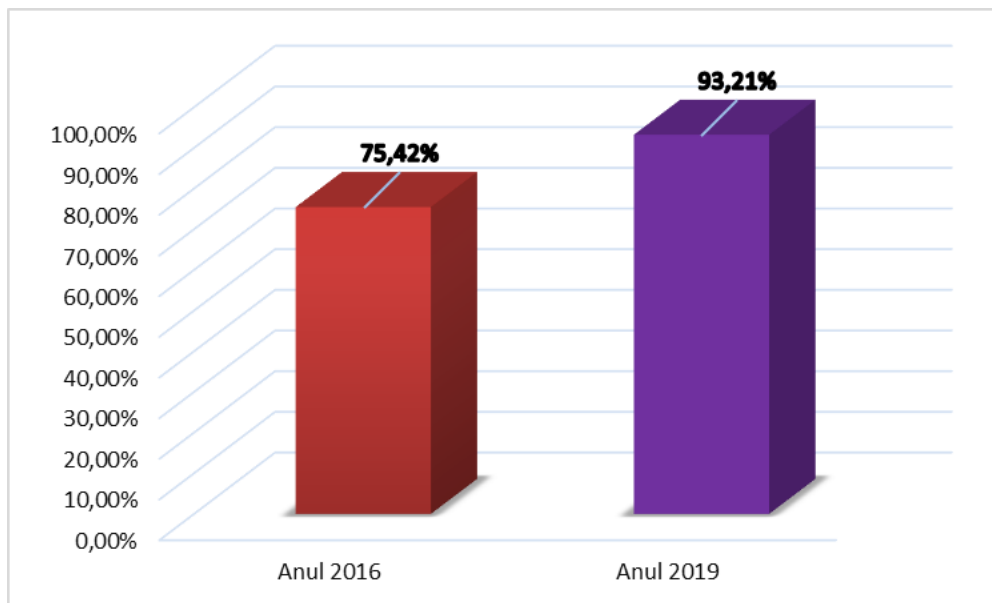
In 2019, the analyzed companies tend to comply with several provisions of the CGC, with the exception of the SNP company, which maintained its degree of compliance with corporate governance statements at the level of 95.12%.

In 2019, compared to 2016, companies tend to register a higher level of compliance with the CGC. Thus, we note that, in 2019, compared to 2016, the company COTE registers an increase



of the degree of compliance by 12%, and the company RRC registers an increase of the degree of compliance by 25%. A significant increase in the degree of compliance of 41% we find in the case of PTR, in 2019, compared to the year of CGC, respectively 2016. Compliance with CGC remains unchanged in the case of SNP, which registers a high level of compliance.

Figure 2 - Evolution of the compliance degree with the CGC on the oil market



Source: authors' projection

At oil industry level, we notice that the degree of compliance of corporate governance statements with the CGC increased to the level of 93.21% in 2019, compared to 2016 when a degree of 75.42% was registered.

5. CONCLUSIONS

Corporate governance practices, in the case of companies in the oil industry that are listed on the Romanian capital market, have evolved positively in recent years. The analyzed companies registered an increase of the consistency of the corporate management statements with the provisions of the CGC. According to the results obtained with the help of the scoring method, at market level, in 2019, the compliance increased by over 23% compared to 2016.

In the future, we intend to extend the study to other companies listed in other sectors of activity.

6. ACKNOWLEDGEMENTS

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