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Corporate Governance Status of the IT Companies Listed on the Bucharest Stock Exchange

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Abstract. *The paper presents the corporate governance status for the information technology (IT) companies listed on the Bucharest Stock Exchange for 2022, the most recent year for which the companies' annual reports are available. The paper is part of the authors' research series which focuses on SMEs from the Romanian IT sector, as one of the most dynamic sectors with growth perspectives nationally. Corporate governance is essential for the business success and sustainability of any company. It provides a framework made of principles, processes and practices for a company to be directed and controlled. In general, it covers aspects of efficiency and accountability for the board of directors, shareholders, management, statutory committees and control systems. For listed companies, these aspects are complemented by regulatory compliance, disclosure and transparency, as well as stakeholders' engagement. The research is based on a content analysis supplied by Bucharest Stock Exchange, the reports of the IT listed companies and local and international financial institutions. The corporate governance status of the listed companies and the sector overall is determined by using the provisions of the Bucharest Stock Exchange Corporate Governance Codes for the main market and junior SMEs market (called AeRO) and analyzing, through a binary analysis, the annual comply or explain statements of the listed companies. Results show that IT listed companies on the Bucharest Stock Exchange comply with the majority of the provisions of the Corporate Governance Code, even though certain gaps need to be addressed.*

Keywords: capital markets, SMEs, technology, corporate governance, Romania.

Introduction

Bucharest Stock Exchange is the public equity exchange in Romania, which operates an equity trading platform, a clearing and settlement business and a central counterparty which is in process of authorization. With a domestic market capitalization of EUR 43bn (as of end of December 2023), it ranks third in Central and Eastern Europe, after Warsaw and Vienna exchanges, while in terms of equity daily average turnover, of EUR 20m at the end of 2023, Bucharest Stock Exchange is in the same league as Budapest and Prague exchanges. As of September 2020, Bucharest Stock Exchange is classified as an emerging market by FTSE Russell.

For the success and the sustainability of a company, good corporate governance is a prerequisite. In September 2015, Bucharest Stock Exchanged launched the revised version of its Corporate Governance Code for the main market, based on a comply or explain approach. "At the center of this Code are access to information for investors and protection of shareholders' rights" (Bucharest Stock Exchange, 2015). Listed companies on the main market are obliged to report on the compliance of the Code annually, by including a specific section for the comply or explain statement in their annual report. The statement is a self-assessment of how the company complies

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with the Code's provisions and, in case of non-compliance or partially compliance, to provide explanatory information. Any change in the corporate governance compliance status compared to the annual statement should be reported by the listed company when the event occurs, throughout the year, through a current report. The Corporate Governance Code for the main market was launched together with a Compedium of corporate governance practices and a Manual for reporting on corporate governance. The Corporate Governance Code for the main market became effective as of 2016. The same year became effective the new Corporate Governance Code for the AeRO market, with more restrained and lighter principles, suitable for smaller-sized companies like the ones listed on AeRO. Based on the same comply or explain statement, but on a voluntary reporting mechanism, the AeRO Corporate Governance Code was reviewed in January 2022. The Codes for both markets are structured on four sections, covering board responsibilities, internal control systems, remuneration and investor relations.

At the end of 2023, 13 companies with shares from the ICT (information, communication and technology) sector (Romanian CAEN classification) had their shares listed on the Bucharest Stock Exchange, 12 belonging to the IT services subsector (Romanian 62 class CAEN classification) and 1 from the cinema, video and TV production subsector (Romanian 59 class CAEN classification). These 12 companies from the IT services subsector are subject to the analysis in the present paper.

Therefore, in recent years, the emphasis on corporate governance has significantly increased, with regulatory bodies worldwide continuously refining guidelines to promote transparency and accountability. The implementation of the revised Corporate Governance Code by the Bucharest Stock Exchange underscores a commitment to fostering an environment conducive to robust governance practices. By requiring listed companies to adhere to a comply or explain approach, the Code ensures that stakeholders have access to critical information necessary for informed decision-making. Moreover, the mandatory annual reporting on compliance serves as a mechanism for companies to evaluate and enhance their governance structures continually. However, it is essential to recognize that effective corporate governance is not solely about regulatory compliance; it is about fostering a culture of integrity, ethics, and responsible stewardship that permeates every facet of an organization's operations. As such, while regulatory frameworks provide a necessary foundation, companies must go beyond mere adherence to cultivate a governance ethos that drives long-term value creation and sustains investor trust.

Literature review

Corporate governance framework for listed companies

The corporate governance concept results from entire centuries of transformation of the corporate systems, starting with the management of group relations between communities, continuing to the legal status of an entity by incorporation, and to their growing impact on society. But all these somehow centered around how ownership and control evolved. This is a good reason why public (listed) companies make the focus of corporate governance definitions.

"Corporate governance essentially has three elements defining corporate purpose, balancing interests, and measuring performance" (Clarke 2023). "Good governance has always been intuitively associated not just with soundly run but with commercially successful companies as well" (Clarke 2023). In the latest years there has been in focus an extended definition of the corporate governance, which, in addition to shareholders, puts the internal and external stakeholders as influence factors of the governance process. Mastrodascio (2022) presents the approach to value creation comparatively in the shareholders and stakeholders' approach.

Table 1 Shareholders' and Stakeholders' approach to value creation, as per Mastrodascio (2022)

	Shareholders' Approach	***Stakeholders' Approach***
Features	The purpose is the maximisation of shareholders' wealth through productive, allocative and dynamic efficiency. The measurement parameter is the market value.	The company must be a socially responsible entity that pursues the interests of all stakeholders.
Advantages	Market value is a measurable goal. As the market value increases, the *stakeholders* (non-shareholders) will also benefit from it.	*Stakeholders* are more incentivized to create value in the long run.
Disadvantages	Management takes advantage of information asymmetries, which makes its actions partly undetectable and unquestionable. Agency problems can lead to an underinvestment while pursuing short-term performance can hinder long-term projects.	There is a lack of distinct purposes. The *principal-agent problem* can be worsened by the fact that numerous interests (of all stakeholders) are involved and very hard to satisfy all.

Source: Mastrodascio (2022).

"Managing shareholder and stakeholder value requires a deep understanding of what the latter means, as its scope and definition can be diverse and carry different value points for different people. Transparency is necessary for managers to pursue their multiple goals for stakeholder value, since these can be in conflict with the shareholder value which is a corporation's fundamental premise. Disclosure and measurement practices are important for this purpose, as they identify and clarify what people are likely to value most" (Asaoka 2022). Indeed, navigating the difficulties of shareholder and stakeholder value necessitates a nuanced comprehension of the varying perspectives and priorities within these groups. While shareholders typically focus on financial returns, stakeholders encompass a broader spectrum of interests, including employees, customers, communities, and the environment. Recognizing this diversity is paramount for managers seeking to balance competing interests effectively. Transparency serves as a cornerstone in this endeavour, facilitating open communication and accountability while mitigating conflicts between different value propositions. Through robust disclosure and measurement practices, managers can not only identify but also prioritize the aspects of value that are most salient to stakeholders, thereby fostering a more inclusive and sustainable approach to value creation.

OECD has been the global reference for good corporate governance principles and a promoter of best practices in the field. Issued in 1999, the OECD Principles rapidly became an international reference for corporate governance. The Principles were revised in 2004, 2015 and 2023. Since 2015 edition, they were endorsed by G20 and are known as G20/OECD Principles of Corporate Governance. OECD (2023) mentioned in the preamble of the current version of the Principles that these "reflect a strong desire from all OECD and G20 Members to see the Principles offer guidance on companies' sustainability and resilience, and will help companies manage environmental and social risks, with insights on disclosure, the roles and rights of shareholders as well as stakeholders and the responsibilities of company boards".

European Commission states in its 2014 *Recommendation on the quality of corporate governance reporting ('comply or explain')* that "an effective corporate governance framework is of key importance to society, as well-run companies are likely to be more competitive and more sustainable in the long term. Good corporate governance is first and foremost the responsibility of the company concerned, and rules at European and national level are in place to ensure that certain standards are respected. These include legislation and soft law, namely national corporate governance codes." Moreover "corporate governance codes aim to establish principles for good corporate governance in listed companies in Europe based on transparency, accountability and a long-term perspective. They provide standards and best practice for companies, enabling them to perform better and therefore contribute to fostering growth, stability and long-term investment." For the Romanian capital market comes the OECD (2022) recommendation to work on improving corporate governance standards and the quality of disclosure made by listed companies.

Methodology

This paper makes use of a quantitative and descriptive methodological approach. The authors employed content analysis to examine primary data extracted from the comply or explain statements with the Bucharest Stock Exchange Corporate Governance Code, as provided by listed companies in their annual report and published on Bucharest Stock Exchange website. The latest annual reports made available by the listed companies and analyzed by the present paper are the ones for 2022. The authors' analysis uses binary analysis to assess the compliance of a listed company with the recommendations in the Corporate Governance Code. For compliance with one recommendation of the Code, the listed company is scored 1, while for no compliance or partially compliance it is scored 0.

The subject of this study is made of the 12 IT companies listed on the Bucharest Stock Exchange, the purpose being to compare compliance between companies and between the group of companies listed on the main market with the one listed on the AeRO market. The objective of this analysis is to identify potential recommendations for improving their compliance with the Corporate Governance Codes.

The data analysis was performed in Microsoft Excel software.

Results and discussions

There are 12 companies listed on the Bucharest Stock Exchange from the IT sectors and these are the subject of the present paper, as presented in Table 2:

Table 2. IT SMEs listed on Bucharest Stock Exchange as of Feb 2024

No.	Company	Listing market segment	Start trading date	Market of listing at Apr 2023 (availability of the 2022 annual report)
1	Bittnet Systems	Main market	3 Jun 2020	Main market
		AeRO	15 Apr 2015	
2	2B Intelligent Soft	AeRO	16 Mar 2022	AeRO
3	2Performant Network	AeRO	9 Dec 2020	AeRO
4	Arctic Stream	AeRO	29 Jul 2021	AeRO
5	AROBS Transilvania Software	Main market	25 Sep 2023	AeRO
		AeRO	6 Dec 2021	
6	Ascendia	AeRO	7 Jul 2016	AeRO
7	Connections Consult	AeRO	29 Sep 2021	AeRO
8	Firebyte Games	AeRO	6 Apr 2021	AeRO
9	Gocab Software	AeRO	9 Dec 2021	AeRO

No.	Company	Listing market segment	Start trading date	Market of listing at Apr 2023 (availability of the 2022 annual report)
10	Life is Hard	AeRO	8 Dec 2015	AeRO
11	Safetech Innovations	Main market	6 Feb 2023	Main market
		AeRO	29 Ian 2021	
12	Softbinator Technologies	AeRO	17 Dec 2021	AeRO

Source: Bucharest Stock Exchange, www.bvb.ro, and authors' view.

Of the 12 companies representing the IT sector, as of February 2024, 3 companies are listed on the main market and 9 on the AeRO market. Nevertheless, for paper analysis purpose, there will be considered their listing status as of April 2023, this being the reference date when the annual report for 2022, including the comply or explain statement with the Bucharest Stock Exchange Corporate Governance Code, was made available. Consequently, will be analyzed 2 companies listed on the main market and 10 on the AeRO market.

The Bucharest Stock Exchange Corporate Governance Codes for main market and AeRO provide "a set of principles and recommendations for listed companies" and their goal is "to improve confidence in the listed companies by promoting positive developments in the corporate governance of these companies. Good corporate governance is a powerful tool for enhancing the market competitiveness" (Bucharest Stock Exchange 2015). The structure of the Codes is presented in Figure 1.

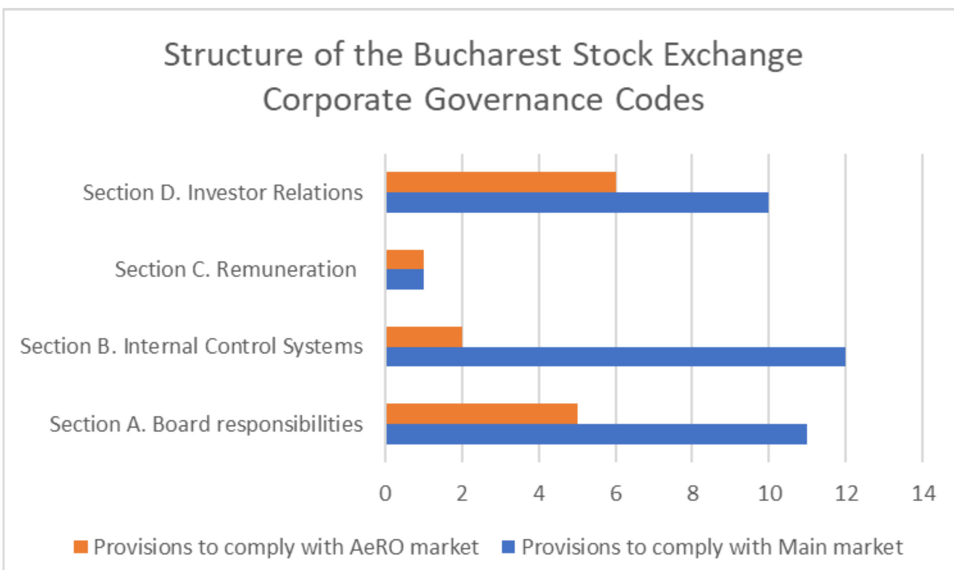

Figure 1. Structure of the Bucharest Stock Exchange Corporate Governance Codes

Source: www.bvb.ro.

By analyzing Figure 1, can be seen that the number of recommendations made by the Codes, for each of the sections, are significantly higher for the main market listed companies compared to the AeRO market listed companies. This comes naturally when considering the fact that the main market is a listing and trading place for sizeable and mature companies, while AeRO

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is for junior SMEs. Due to this difference in maturity of the listed companies, the substance or requirements made by the recommendations of the Code are also lighter in the case of AeRO.

Section A of the main market Code, on board responsibilities, cover aspects on: the existence of an internal regulation for the Board, existence of provisions on conflict of interest, Board size of at least 5 members, the majority of them to be non-executive, with at least one or two independent board members depending if the listing tier is standard or premium, informing the Board on all professional commitments and engagements, informing the Board on the relationship with a shareholder who holds shares representing more than 5% of all voting rights, appointment of a Board secretary, existence of a Board evaluation policy and disclosure in the comply or explain statement if such evaluation took place, disclosure on the number of meetings and activities of the Boards and statutory committees, disclosure of the number of independent board members, exitance of a nomination committee for premium tier listed companies. In case of the AeRO Corporate Governance Code, the recommendations summarize only the existence of an internal regulation for the Board, with provisions on conflict of interest, disclosure of all professional commitments and engagements, informing the Board on all professional commitments and engagements, informing the Board on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights, disclosure in the comply or explain statement if such evaluation took place, what the cooperation with the authorized advisor should consist in.

Section B of the main market Corporate Governance Code covers aspects of risk management and internal control systems. Recommendations cover the setting up of an audit committee with at least one independent non-executive member and with a majority of members having adequate qualifications, the chair to be independent non-executive member, the committee to assess annually the internal control systems (internal audit, risk management and internal control), to monitor and to review conflict of interest in related party transactions, to evaluate the efficiency of the internal control and risk management system and to monitor the standards of internal auditing, to inform the Board on its activity, no preference to a shareholder regarding "transactions and agreements made by the company with shareholders and their related parties" (Bucharest Stock Exchange, 2015), existence of a Board policy for transactions of the company, equal or more 5% of corporate assets, with other companies in close relations and approval by the Board of such transactions, the internal audit function to be a distinct internal entity or to be externalized to a third party provider. In case of the AeRO Corporate Governance Code, the recommendations resume only to existence of a Board policy for transactions of the company, equal or more 5% of corporate assets, with other companies in close relations and approval by the Board of such transactions, and to the internal audit function to be a distinct internal entity or to be externalized to an independent third-party provider.

Section C of the main market Corporate Governance Code refer to "fair rewards and motivation" (Bucharest Stock Exchange, 2015) covering aspects of the existence of a remuneration policy for board members and top management, to be published on the corporate website and to be disclosed in the annual report how this policy was implemented throughout the year. For the AeRO Code, this section covers the disclosure of the annual report of the total revenues of the board members and CEO, as well as the value of bonuses and variable remuneration, together with the principles for calculating the remuneration.

Section D of the main market Corporate Governance Code is about "building value through investors' relations" (Bucharest Stock Exchange, 2015) and cover aspects on having a dedicated investor relations function, a dedicated investor relations section on the corporate website with information in Romanian and English, existence of a dividend policy approved by the Board, existence of a forecast policy, existence of the rules for the general meeting of shareholders which should not restrict participation and rights expression, participation of the external auditors at the general meeting of shareholders when their report is presented, to present to the annual general meeting of shareholders of the evaluation of the internal control systems, granting financial professionals and journalists access to the general meeting of shareholders, the content of the quarterly and half yearly financial reports, organization of at least two meetings with investors during a year, existence of a sponsorship or CSR policy. For the AeRO market, section D translates into recommendation for compliance with the exitance in Romanian and English of an investor relation website section, the existence of a dividend and forecast policy, structure of financial reports and availability in Romanian and English, setting up the date and the place of the general meeting of shareholders in such a way to allow participation of as many shareholders as possible, organization of one meeting with investors during a year.

Of the 12 IT listed companies analyzed, 1 company listed on AeRO market did not provide comply or explain statement in the annual report. The compliance ratio per type of market is presented in Figure 2.

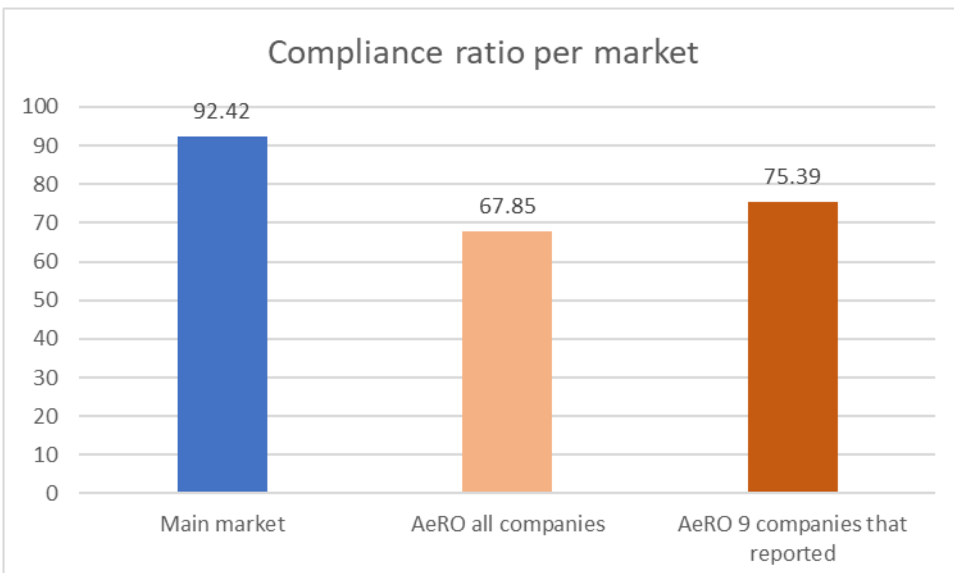

Figure 2. Compliance ratio with the Corporate Governance Code recommendations by type of market, for IT companies listed on the Bucharest Stock Exchange

Source: www.bvb.ro.

In Figure 2 can be observed that the compliance ratio with the Corporate Governance Code provisions for the companies listed on main market (companies listed on main market comply with 92.42% of the recommendations) is 24.57 points up than the AeRO market overall. If for the AeRO market are considered only the companies which included a comply or explain statement with the Corporate Governance Code in their annual 2022 report, than the difference to main market lowers to 17.03 points. The degree of corporate governance compliance is directly influenced by the maturity of the company and its governance structure, on one side, but also by the different range of investors acting in the two markets. On the main market are acting different range of institutional investors and retail investors, while on AeRO market only retail investors are acting. The more sophisticated the investors are, the more demanding are in terms of disclosure and quality of reporting, and the more the listed companies use their reporting, including the comply or explain statement, as a dynamic tool to communicate with investors. As per Aluchna (2018), "compliance may add to the investor relations or transparency standards stipulated by law and may play a role of corporate governance mechanism based on the public information disclosed to investors".

As companies listed on the AeRO market comply with the least number of recommendations of the Corporate Governance Code, in Figure 3 are ranked the recommendations of the Code which are most not complied with by the IT companies listed on AeRO.

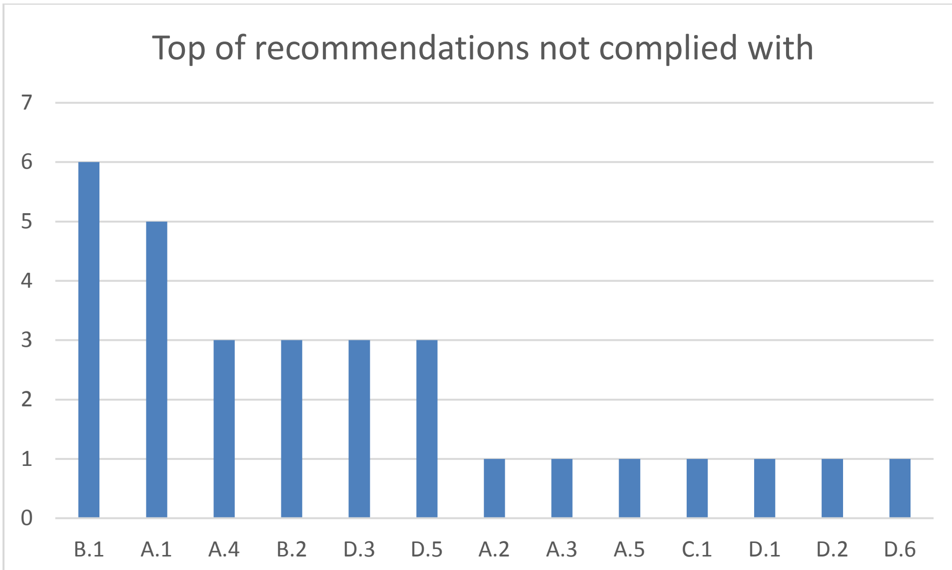

Figure 3. Top of Corporate Governance Code recommendations which are most not complied with, by number of IT companies listed on AeRO

Source: www.bvb.ro.

As per Figure 3, recommendation B.1 is in top, not being complied with by 6 companies. It provides that "the Board shall adopt a policy so that any transaction of the company with a subsidiary representing 5% or more of the net assets of the company, according to its most recent financial reporting, is approved by the Board" (Bucharest Stock Exchange, 2015). The non-compliance explanations of the companies refer to the fact that the company does not have such a policy, or such a policy is under preparation, or that the company has no subsidiaries. B.2, also from the Code's section on internal control systems, has 3 companies which do not comply with it. The recommendation states that "audit is performed by a separate organizational structure (internal audit department) within the company or by the services of an independent third party, which reports to the Board, and within the company will report directly to the General Manager" (Bucharest Stock Exchange, 2015). The non-compliance explanations of the companies are in the area of either not having an internal audit function, or that the internal audit is performed by the chief financial officer.

With 5 companies not complying with is the A.1 recommendation, providing that the "issuer has an internal regulation of the Board that includes terms of reference regarding the Board and key management functions of the company. The management of conflict of interest at Board level is also dealt with in the Board regulation" (Bucharest Stock Exchange, 2015). Companies' explanations for non-compliance reside in the area of either working to develop such a regulation, or that the company is run by a sole director. From the same Code's section on board responsibilities, recommendation A.4 is not complied with by 3 companies. It provides that "the annual report shall inform whether there has been an assessment of the Board under the direction of the President, which shall contain also the number of its meetings" (Bucharest Stock Exchange, 2015). The non-compliance explanations provided by the companies are either on working towards adopting the Code's recommendation or that it is run by a sole director.

The ranking is completed by two provisions of the investor relations section of the Code, D.3, on the existence of a forecast policy which is published on the corporate website, and D.5, on the availability of financial reports both in Romanian and English. The companies explaining on non-compliance, for D.3 state that either a forecast policy does not exist, or business impact factors are analyzed but not within the framework given by a policy, while for D.5 the companies explain on posting the financial reports only in Romanian.

The limitations of the present research are both quantitative and qualitative. The quantitative ones derive from the small dimension of the IT sector represented on the Bucharest Stock Exchange, the present paper covering all 12 IT companies listed on the stock exchange. Considering the big size of the Romanian IT sector, the pool of listed companies is not entirely representative for the sector.

The qualitative limitation comes from the absence of a market survey among the IT listed companies on their corporate governance practices and strategy, but it would be difficult to realize due to the confidential character of such information. The results of such a survey can be beneficial both to the listed companies, to know how to improve their compliance and market reporting practices, but also to the stock exchange, to know how to understand the needs of the listed companies in terms of corporate governance framework and support services for aligning to the provisions of its Corporate Governance Code.

Future research directions include a dedicated corporate governance analysis of not-listed companies from the IT sector, and extended analysis to other industrial sectors in Romania which are represented on the Bucharest Stock Exchange.

Conclusion

The authors explored the comply or explain statements with the Bucharest Stock Exchange Corporate Governance Codes for the 12 Romanian IT companies listed on Bucharest Stock Exchange, both on main market and on the junior SMEs market called AeRO. The purpose was to assess the corporate governance landscape for the IT listed sector in a period when transformational market forces, like technology developments, environment degradation and resources scarcity, put lots of pressure on the Board accountability and the sustainable development of a company.

The results of the research show that the IT listed companies from the main market have a high degree of compliance with the dedicated Bucharest Stock Exchange Corporate Governance Code and the conclusion is that they have effective corporate governance practices in place and they're likelihood to adhering to governance best practices is high.

When looking at the IT listed companies from the AeRO market, the result shows that they have an overall partial compliance with the dedicated Bucharest Stock Exchange Corporate Governance Code. They follow the majority of the Code's recommendations (75.39% of the recommendation), but there is still room for attention and improvement on internal control systems, board structure and regulation, and availability of financial reports also in English. In a capital market where the size of local institutional investors is growing and expected to be allowed by legislation to invest also on the AeRO market, it is important for companies to address identified gaps for reporting in English. Also, it is important for companies to realize where does a Board stands in their path of future growth, to be able to close the gaps for Board structure and regulation. To be able to close the gap on internal control systems, companies need to see above the bureaucracy of the functions and the tasks, and to realize that internal control systems play a crucial role in providing mechanisms to ensure effective management, transparency and accountability for a company.

On the other hand, Bucharest Stock Exchange, as the business owner of the Corporate Governance Codes, together with the think tanks focusing on listed companies and SMEs in general could provide training and more support to companies on closing their corporate governance gaps.

It is essential to acknowledge that corporate governance is a dynamic framework, necessitating continuous monitoring and adaptation to evolving standards. Therefore, both stock exchanges and listed companies must engage in perpetual self-assessment and improvement processes to ensure alignment with evolving governance norms, ultimately fostering sustainable growth and value creation in the market.

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