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Importance of Corporate Governance in Socially Responsible Behaviour of Enterprises

Hussam Musa, Zdenka Musová and
Lenka Debnárová

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Abstract

Many organisations have already realised that if they want to be successful, they must have a sense of responsibility not only for their business activities, but also for the whole society. That approach is entirely consistent with the basic idea of the concept of corporate social responsibility (CSR). In the economic area of the CSR concept, corporate governance plays an important role. Based on the OECD definition, corporate governance (CG) is a system by which business corporations are directed and controlled. The chapter provides the first comprehensive survey of corporate governance, the way to estimate the level of CG to individual companies on the Slovak capital market through our own corporate governance index. In analytical part of this chapter, we investigate disclosure of corporate governance in selected enterprises in Slovakia for the period 2011–2015 and on the basis of this information we prepare a corporate governance index. The corporate governance index helps assess the level of compliance with CG principles in companies whose securities are listed on the Bratislava Stock Exchange. The chapter fulfils a need for advancing knowledge on corporate governance and provides a practical framework for responsible behaviour of shareholders and managers in socially responsible enterprises.

Keywords: corporate social responsibility, corporate governance, corporate governance index, Bratislava Stock Exchange, Slovakia, survey

1. Theoretical background

Responsibility in business again come to the fore and the current period is one of the factors that can significantly contribute to achieving stability and sustainable growth in the global economic environment. Enterprises should build their position on the principles of transparency and

integrated approach to sustainable products and services, and the active cooperation of all stakeholders contribute to the overall well-being of society and the entire planet.

Responsible behaviour is not a one-off or short-term matter; it has to be a long-term consistent business philosophy. It often involves radical changes in the thinking of owners, managers and employees of companies, who apart from their own corporate interests and needs and wishes of customers also factor in long-term interests of the society.

Modern history of corporate social responsibility (CSR) began in the 1950s with the first definition by CSR theorists Bowen [1] who perceived it as obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society. Other authors supported this idea, elaborated it and supplemented it with additional dimensions [2–6]. In the 1980s, various alternative conceptions of social responsibility developed and commitments of companies widened in relation to all stakeholders [7–9].

Social responsibility is based on the triple-bottom-line which comprises '3P': profit–people–planet. It is a philosophy in business which says that overall performance of a company should be measured by its combined contribution (1) to the economic prosperity, (2) to the quality of the environment and (3) to the social capital [10–13]. Based on the triple-bottom-line, there are three basic areas of the responsible behaviour of companies – economic, social and environmental. Each of them includes various activities from which company can choose based on its specialisation and stakeholders' requirements. In the economic field, CSR emphasis on transparency in the business and building good relations with stakeholders who can influence economic activity of the company, especially with the customers, suppliers, shareholders, investors and business partners [14].

Corporate governance (CG) also plays an important role in the economic area of the CSR concept, particularly in relation to shareholders and employees. Corporate governance has become a significant factor in managing organisations in the current global and complex environment. In order to understand CG, it is important to highlight its definition. There is no single accepted definition for corporate governance but it can be defined as a set of processes and structures for controlling and directing an organisation. It constitutes a set of rules, which governs the relationships between management, shareholders and stakeholders [15]. The term "corporate governance" has a clear origin from a Greek word "kyberman" meaning to steer, guide or govern. From a Greek word, it moved to Latin, where it was known as "gubernare" and the French version of "governor". It could also mean the process of decision-making and the process by which decisions may be implemented [16].

Corporate governance includes all types of firms and its definitions could extend to cover all of the economic and non-economic activities. Literatures in CG provide some form of meaning on governance, but fall short in its precise meaning of governance. Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return to their investment [17]. Roubíček [18] states that the term corporate governance can also be understood as an inner organisation of a company, that is, the structure of competency of the advisory board and the board of directors and relations between shareholders and the

management. According to Mallin [19] optimal management of a trading company means protecting its creativity, freedom and flexibility and ensuring its continuous ability to create wealth and welfare which is essential to the civil society. Authority is the brain of the company cultivating executive to share the values with all shareholders and other parties involved. Klírová [20] considers the assessment of business performance the main function of CG from wider perspective than executive, that is, taking into consideration interests of all parties legitimately involved, and in this way influencing the creation of business strategy by its activity and its implementation with the aim of satisfying these interests. OECD's [21] definition characterises the basis of CG very well – the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. Monks and Minow [22] also support this idea and define corporate governance as relations between different parties during influencing the governance and performance of companies, while shareholders and management are the primary parties and employees, customers, suppliers, creditors and other interest groups are the secondary. According to Mallin [19], the objective of corporate governance is to ensure that the firm is managed in the best interest of shareholders and other stakeholders of the company. CG supports transparency and accountability, which are key attributes for investors for the proper management of the company.

The objective of creating and improving the corporate governance of companies is the development of best practice based on the principles of good processed into a wide variety of policies and codes. The first formulation of the CG principles was in 1992, when Sir Adrian Cadbury, a member of the Institute of Directors, wrote the Cadbury Code of Best Practice of Great Britain, in which he emphasises the principles of information openness, fairness and responsibility in the terms of CG [23]. Later, in 1999 OECD composed basic principles of management and governance. As a result of various accounting scandals at the end of the millennium, European Commission issued Action Plan: European company law and corporate governance – a modern legal framework for more engaged shareholders and sustainable companies in 2003. At the same time The US Government accepted Sarbanes-Oxley Act with the aim to increase investors' protection by enhancing demands on the accuracy and correctness of published financial documents. OECD has updated the original principles in 2004 and added a separated principle laid down by the national regulator, which should promote transparent and efficient market, comply with the laws and clearly define the division of responsibilities among different supervisory, regulatory and law enforcement institutions. OECD principles became the basis for the creation of national codes of corporate governance in the most developed countries of the world. OECD updated and composed new G20/OECD principles of corporate governance with the aim to increase the confidence of companies and investors in the capital market in September 2015 in Ankara [24].

In Slovakia, Central European Corporate Governance Association (CECGA) has yet again initiated and achieved the revision of the National Code of Corporate Governance in cooperation with the representatives of Public Administration (the respective ministries) and the Bratislava Stock Exchange in 2016 [25]. The foundation for this revision was, besides the new

G20/OECD principles, the recommendations of the European Commission for the area of corporate governance (CG) related to independent members of the organisations' bodies, remuneration and reporting (recommendations No. 2004/913/ES, 2005/162/ES, 2009/385/ES and 2014/208/EU). The Guidelines of the UNO on human rights of 2011 were also taken into consideration.

Corporate governance is becoming more difficult with the growing globalisation. Results of inappropriate governance in (not only multinational) companies came out mainly during the crisis and fully influenced not only companies themselves, but also the global economy. The failure of using CG principles, insufficient transparency and information asymmetry were also the reasons for the negative development. Information asymmetry or the imperfection of information is considered as one of the reasons for the failure of the market mechanism and the price system in allocating production sources. Stiglitz [26] defines it as a situation in which various information are available for different people (or market entities). In this context the information asymmetry emerges not only between managers and shareholders, but also between investors and all stakeholders of the company. Each group follows its own interests with the aim to maximise its own benefit which is the main motive for the information asymmetry formation. One of the ways to eliminate information asymmetry is responsible implementation of corporate governance principles, which many authors of foreign studies confirm [27–29].

Level of adherence to corporate governance principles can also indicate the development of capital market and business environment of a country. Implementation of CG principles has probably positive impact on a variety of corporate management's areas [9, 16–17, 31]. Mallin [19] and Claessens and Yurtoglu [32] summarise these positive impacts as follows:

- better access of the company to the external funding sources. Access to the funding sources stimulates higher investments, higher growth and the creation of new jobs;
- lowering the costs of capital and related higher company valuation; company's attractiveness for investors will increase which leads to growth and higher employment;
- improvement of operational performance thanks to better source allocation and more effective governance which creates wealth in general;
- better relations with all company's stakeholders – responsible implementation of CG principles can generally minimise the occurrence of financial crises which imply economic and social costs.

2. Data and methods

The chapter aims to investigate disclosure of information on corporate governance in companies whose securities are listed on the Bratislava Stock Exchange and on the basis on this information to compile own corporate governance index, through which it is possible to assess the level of compliance with corporate governance principles in these companies in Slovakia for the period 2011–2015.

	2011	2012	2013	2014	2015
The number of shares issuers	87	92	84	47	48
The number of bonds issuers	11	11	11	13	11
The number of issuers of shares and also bonds	6	6	7	6	6
Total number of issuers	104	109	102	66*	65*

*The issuer does not have information disclosure obligations to receive a security for trading on a multilateral trading system. For this reason, we have excluded companies in the multilateral trading system.

Table 1. The number of shares issuers and bonds issuers.

The subject of our research was companies whose securities are listed on the Bratislava Stock Exchange over the period 2011–2015. There were registered 87 share issuers and 11 issuers of bonds in 2011, according to data from the National Bank of Slovakia. The total number of companies in 2011 was 104 due to the fact that some companies issue shares and also bonds. The total number of issuers in 2012 was 109 companies and in 2013 was 102 companies. The issuer on the Bratislava Stock Exchange does not have information disclosure obligations to receive a security for trading on a multilateral trading system. For this reason, we have excluded companies on the Multilateral Trading Facility. There were 66 companies in 2014 and 65 companies in 2015. The number of companies which quote their shares and bonds is in **Table 1**.

We obtained the information from the companies' annual financial reports which are available in the Central Register of Regulated Information (hereinafter "CERI"), the Register of Financial Statements (hereinafter "RUZ") and on the companies' websites. We researched the disclosure in the Register of Financial Statements for 2013. The amendment to the Accounting Act No. 431/2002, as subsequently amended (hereinafter "Accounting Act"), which entered into force on 1 January 2014, introduces a new obligation for issuers to publish the annual financial report in RUZ pursuant to § 23, paragraph 2 of this Act. The Act on Stock Exchange No. 429/2002, as subsequently amended (hereinafter "the Act on Stock Exchange"), has been amended as well. According to § 45, paragraph 1 of this Act, the issuer is required to provide regulated information in CERI of the National Bank of Slovakia. This legal obligation is fulfilled when the issuer has entered regulated information in RUZ. For this reason, we have extended our evaluation to include information disclosure in RUZ.

We have compiled our own corporate governance index in order to complete for an overall assessment of the level of corporate governance in individual companies. Authors of foreign studies [27–30] also used a corporate governance index in determining the level of corporate governance, but often without specifically indicating its method. In our case, we could not take over one of the models, but we have compiled own index suited to the Slovak capital market standards and disclosure by companies. This index uses ordinal measures of various evaluative criteria. The criteria were as follows:

- a. disclosure of the current annual report in Central Register of Regulated Information,
- b. disclosure of the current annual report in Register of Financial Statements,
- c. disclosure of the current annual report on the companies' websites,
- d. the scope and clarity of the information about corporate governance in annual report according to § 20 of the Accounting Act,
- e. the scope, clarity and quality of information in the corporate governance statement,
- f. information about board members, such as names, experience, responsibility and functions,
- g. information about the structure and amount of remuneration for individual members of the board,
- h. information about risk management, defined predictable risks and risk quantification,
- i. information about the establishment and activities of an Audit Committee, or the failure to establish one,
- j. information about the establishment and activities of a Remuneration Committee or the failure to establish one and
- k. information about the establishment and activities of a Nomination Committee or the failure to establish one.

During the evaluation of corporate governance criteria there were several problems and limitations. Legislation in force does not require the company to disclose information on the website of the company. Obligations for companies that were the subject of the survey are to disclose information for the current accounting period in CERI or RUZ. In order to appreciate the efforts of the company to inform stakeholders through the website, corporate governance index also took account of this fact. The company, which released information in CERI, RUZ and on its website also, reached the highest score in that category. Assessment of the level and quality of information in the Statement on Corporate Governance was another criterion. Particular of the Statement on Corporate Governance are specified in § 20 of the Accounting Act. Some companies in structuring the Statement on Corporate Governance followed the legal requirements, but the content of the information was insufficient. Other companies used the statement forms prepared by Central European Corporate Governance Association (CECGA). Due to the objective assessment of the quality of information in the statement we did not evaluate the structure of statements on corporate governance, but the quality of the information, that is, whether the company said only general information or comprehensively and concisely explain each point of statement, together with deviations from the Code. The obligation to establish an audit committee is required by § 19 of the Accounting Act. Based on this legal requirement, the entity does not have an audit committee if its supervisory board performs the activities of the audit committee or the parent company has established a committee. The assessment of whether the company has established or has not established audit committee would not provide us an objective assessment. Therefore, we evaluated a comprehensive

disclosure of the audit committee – information on the establishment of the Committee, the explanation if the committee is not established, description of activities and results of the work of the committee during the reporting period. We did the same with the other two committees.

We have compiled corporate governance index for each reporting company with aim to estimate levels of corporate governance. The corporate governance index consists of the criteria, which are to be assessed by ordinal character based on their importance. Weightings are assigned to each criterion and are determined on the basis the expert estimation and theoretically supported by Saaty’s method of determining the weights. The Saaty’s method compares pairs and evaluation is entered into a matrix $S = (s_{ij})$ in the following way:

$$(s_{ij}) = \begin{cases} 1 - i \text{ and } j \text{ are equivalent} \\ 2 - i \text{ is slightly preferred over } j \\ 5 - i \text{ is strongly preferred over } j \\ 7 - i \text{ is very strongly preferred over } j \\ 9 - i \text{ is absolutely preferred over } j \end{cases} \quad (1)$$

The values 2, 4, 6 and 8 are the intermediate stage evaluation. For ease of calculation used method of least squares logarithmic:

$$F = \sum_{i=1}^k \sum_{j>i} (\ln s_{ij} - (\ln v_i - \ln v_j))^2 \rightarrow \min \quad (2)$$

Conditions for validity: $\sum_{i=1}^k v_i = 1$.

The solution is the geometric mean of the row of the matrix S:

$$v_i = \frac{\left[\prod_{j=1}^k s_{ij} \right]^{1/k}}{\sum_{i=1}^k \left[\prod_{j=1}^k s_{ij} \right]^{1/k}} \quad (3)$$

where $i = 1, \dots, k$.

To an objective assessment of the importance of each criterion in corporate governance index criteria, we assigned weights by expert estimate that are as follows:

$$\begin{aligned} \text{CG index} = & 0.095*(a + b + c) + 0.079*d + 0.159*e + 0.079*f + 0.079*g + 0.079*h \\ & + 0.079*i + 0.079*j + 0.079*k \end{aligned} \quad (4)$$

Individual assessment criteria were given a score and assigned a weight according to their degree of importance. We set the value of coefficients based on expert estimation and supported by Saaty’s method of determining the weights. We identified through expert estimation that

criterion “the scope, clarity and quality of information in corporate governance statement” as the most important criterion in the index. Other important criteria with lower value of the coefficient were: “disclosure of the current annual report in CERI”, “disclosure of the current annual report in RUZ” and “disclosure of the current annual report on the companies’ websites”. Other criteria were the same coefficients with respect to their significance in comparison with the mentioned higher ranked criteria in the index. Each monitored company was scored using a weighted sum of the evaluated criteria. This allowed corporate governance comparisons across companies. We have compiled Saaty’s matrix, which is shown in **Tables 2** and **3**, which is evaluated 11 criteria in the index and their importance in pairwise comparisons.

	a	b	c	d	e	f	g	h	i	j	k
A	1	1	1	2	0.33	2	2	2	2	2	2
B	1	1	1	2	0.33	2	2	2	2	2	2
C	1	1	1	2	0.33	2	2	2	2	2	2
D	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
E	3	3	3	3	1	3	3	3	3	3	3
F	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
G	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
H	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
I	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
J	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1
K	0.5	0.5	0.5	1	0.33	1	1	1	1	1	1

Table 2. Saaty’s matrix.

Category	Percentage	Rank
Disclosure of the current annual report in CERI	11.5	2
Disclosure of the current annual report in RUZ	11.5	2
Disclosure of the current annual report on the companies’ websites	11.5	2
Quality of information in the corporate governance statement	6.1	5
Information about board members	22.9	1
Information about the structure and amount of remuneration	6.1	5
Audit Committee	6.1	5
Nomination Committee	6.1	5
Remuneration Committee	6.1	5
Information about risk management	6.1	5

Table 3. Weighting of each index criteria based on Saaty’s method.

Corporate governance index with weights set through Saaty's method is as follows:

$$\begin{aligned} \text{CG index} = & 0.115*(a + b + c) + 0.061*d + 0.229*e + 0.061*f + 0.061*g + 0.061*h \\ & + 0.061*i + 0.061*j + 0.061*k. \end{aligned} \quad (5)$$

3. Results

Aiming to emphasise the importance of applying the principles of corporate governance also in the regulated Slovak market, we carried out a research in the period of 2011–2015 in companies, whose securities are listed on the Bratislava Stock Exchange. Outcomes of the research then became the foundation for creating corporate governance index which is the determining indicator of the level of adherence to corporate governance principles in Slovakia.

3.1. Disclosure of information in the context of corporate governance

One of the basic governance framework in Slovakia is the framework on disclosure and transparency. It is in the interest of the companies eliminate information asymmetry, which occurs mainly between managers, shareholders, investors and other stakeholders.

According to § 34 of the Act on Stock Exchange, as subsequently amended, the companies that issue securities are required to publish the Annual Financial Report, which shall include information on corporate governance, no later than 4 months after the end of the financial year. During the reporting period, there were companies that failed to meet this legal obligation and did not publish the information in CERI, RUZ and even on their website. In annual comparison 2011–2013, the proportion of these companies remained almost unchanged (25 companies) and in 2013 the number dropped by only one company. After the exclusion of companies without information obligations, we noticed a significant decreased in the number of companies that did not disclose information in CERI, in RUZ and on company's website either.

In 2011 there were 23 companies (about 22%) that disclosed the current annual financial report in CERI or on the website. In 2011 and 2013, researched companies preferred disclosure in CERI. Inverse trend was recorded in 2012, which was dominated by disclosure of documents on the company website. We appreciate the on-year increase in the proportion of companies that published documents in CERI and on their website also. This share decreased from 53.8% in 2011 to 24.6% companies in 2015. This fact indicates the effort to inform all stakeholders on the part of most companies in Slovakia, which in the long term can contribute to the improvement of transparency in the Slovak capital market.

During the evaluation of the transparency in 2013 we took into account the disclosure in RUZ, for example, companies can disclose information in CERI, on their website and in RUZ. The share of companies, that disclose documents in 2 of 3 options, was at 67.6%, that is, 69 companies. The companies preferred to publish documents in CERI before in RUZ. In the year 2013, only eight companies published annual reports in RUZ. For the mentioned period, we noticed only one company that published the documents in CERI, on the website and in RUZ.

	2011	2012	2013	2014	2015
No information is published in CERI, in RUZ and on company's website either	25	25	24	0	2
Annual report is published in one of the three options (CERI, RUZ, company's website)	23	8	8	6	4
Annual report is published in two of the three options (CERI, RUZ, company's website)	56	76	69	21	16
Annual report is published in CERI, RUZ, company's website	0*	0*	1	39	43

*Companies have an obligation to publish information in RUZ since 2015.

Table 4. Disclosure of information (the annual report).

During the monitored years 2014–2015, we did not list companies that do not have the information obligation (Multilateral Trading Facility). Interesting is the growing trend of companies that have published information in CERI, RUZ and even on their website. The number of companies mentioned was 43 (66.2%) for 2015 (**Table 4**).

3.2. Content of the annual report and the statement of compliance with corporate governance

The annual financial report includes the annual report, financial statements and the statement of the financial statements' fairness made by the issuer's executives. According to § 20 of the Accounting Act, the annual report includes the Statement on Corporate Governance as well. Nevertheless, there are still a large percentage of companies that in their annual report did not mention any information about corporate governance. As shown in **Table 5**, trying to inform shareholders and investors was apparent mainly in 2012, when 64 companies disclose basic information on corporate governance through their annual reports and companies also provided comprehensive information. The share of companies reporting minimum basic information in their annual report was 54.8% in 2011 and increased to 61.5% in 2015.

The most important area of our research was to evaluate the content of the Statement on Corporate Governance. Companies can write their statement based on the requirements of the Accounting Act or use the statement form for the Statement on Corporal Governance Code drafted by CECGA, which allows companies to comprehensively inform on the level of implementation of the corporate governance principles. Some companies wrote the statement, which contained only a reference to the internal company materials, the laws or information were general. We conclude that these companies consider drafting the statement on corporate governance as a formal matter (**Table 6**).

	2011	2012	2013	2014	2015
No information about CG	47	39	53	31	25
It contains partial information on CG	43	64	27	20	22
It contains information on CG and compliance with the Code	14	6	22	15	18

Table 5. Content of the annual report.

	2011	2012	2013	2014	2015
No specific information on CG	57	61	68	28	30
The statement contains a brief explanation of each item	40	28	12	25	25
The statement contains an explanation of each item and the reason for deviation from compliance with the Code	7	20	22	13	10

Table 6. Statement on corporate governance.

3.3. Composition and remuneration of board members

According to the Code, Principle IV, paragraph 5, the company discloses information about its board members, including their qualifications, selection process and their independence. This obligation is also imposed by the Accounting Act, § 20, paragraph 6. Based on the recommendations of the Code and the Accounting Act, we evaluated the disclosure of information about the board members. The negative fact is that there are still companies which do not even publish basic information on the composition of their boards. The number of these companies was at 27 in 2011, increased to 33 companies in 2013 and then in 2015 the mentioned companies were only 10 (**Table 7**).

In context with the identified failures in corporate governance we also included in the survey information on the remuneration of board members. The disclosure on remuneration of board members is still an area that most companies have carefully protected. As can be seen from **Table 8**, about 60% of companies did not disclose at least cumulative data and no further information on the remuneration of board members.

Some companies paid remuneration to board members despite losses shown during the reporting period. This may encourage managers to take a higher risk and thus adversely affect the performance of the company. The risk of moral hazard for a member of a board who is not punished for their failure is very high. The method of adjustment of remuneration

	2011	2012	2013	2014	2015
No information	27	31	33	9	10
Only the names of board members	64	64	57	46	43
Published the names of board members, together with the qualifications, roles and responsibilities and managerial posts	13	14	12	11	12

Table 7. Composition of board members.

	2011	2012	2013	2014	2015
No information	61	63	65	47	51
Cumulative data about remuneration	34	39	32	15	10
Disclosed the amount of remuneration of board members and managers of the company or remuneration disclosed for individual boards of the company	9	7	5	4	4

Table 8. Remuneration of board members.

	2011	2012	2013	2014	2015
No specific information	72	82	69	43	38
Basic information about risk management and defined predictable risks	16	10	11	8	8
Comprehensive information about risk management and risk quantification	16	17	22	15	19

Table 9. Information on risk management.

and incentive system in companies has a significant impact on risk management and for this reason we took into account information about risk management in the survey. Risk management methods, defined predictable risks and in some cases the quantification of risks is very valuable information for shareholders and potential investors. The Code, Principle IV, also recommends disclosure of information on ex-ante risks to the extent that is necessary to fully inform investors about serious and predictable risks associated with the company. Favourable results were observed in the proportion of companies providing sufficient information about risk management as well as predictable risks. The proportion of companies increased from 15.38% (16 companies) in 2011 to 29.23% (19 companies) in 2015. According to the Accounting Act § 20, the company has to describe the risk management systems in its annual report. However, the most of monitored companies did not state any or insufficient information on risk management. The number of the companies is shown in **Table 9**.

3.4. Audit, remuneration and nomination committees

Other criteria that were included in the survey related to the area of establishment of committees as recommended by the Code. The Audit Committee should make proposals and recommendations on the performance of internal control and external audit. According to § 19 of the Accounting Act, an audit committee is mandatory for companies that issue securities on a regulated market. The Audit Committee does not have to be set up separately if the supervisory board carries out activities normally done by this committee. It is surprising, that despite the legal obligation, approximately 50% of companies did not provide information on the Audit Committee in its annual report during the years 2011–2013. On the positive side, the share of these companies fell to 38.46% in 2015. Clearly disclosed information on the establishment and functioning of an Audit Committee during the reporting period had only 19, 13, 17 and 8 companies (**Table 10**).

	2011	2012	2013	2014	2015
No information	51	55	50	31	25
Information on whether the committee was or was not established (reasons why it was not established)	34	41	35	27	32
It is established, a description of the activities of the committee and the results of its activities	19	13	17	8	8

Table 10. Audit committee.

	2011	2012	2013	2014	2015
No information	88	87	80	53	51
Information on whether the committee was or was not established (reasons why it was not established)	12	18	17	10	10
It is established, a description of the activities of the committee and the results of its activities	4	4	5	3	4

Table 11. Remuneration committee.

	2011	2012	2013	2014	2015
No information	91	92	85	58	56
Information on whether the committee was or was not established (reasons why it was not established)	12	16	16	8	7
It is established, a description of the activities of the committee and the results of its activities	1	1	1	0	2

Table 12. Nomination committee.

According to principle V of the Code, it is recommended to establish other committees in companies as well: The Remuneration and Nomination Committees. In general, the survey results in evaluation of these two committees are not favourable but after considering the annual comparison, slight tendency to improve the disclosure was noted.

Approximately four (modus) of the companies did not provide any information on the Remuneration Committee, whose main role is to propose and make recommendations on the remuneration of board members and management. The Remuneration Committee was set up in 8 banking and insurance companies. Approximately 80% of companies do not disclosure information about the Remuneration Committee (**Table 11**).

Even less attention is paid to the Nomination committee. Most of the companies (approximately 85% of the companies) do not report on whether the Nomination Committee was or was not established. Over the period 2011–2013, only one company set up the Nomination Committee and two companies in 2015. The number of the companies is shown in **Table 12**.

3.5. The number of board member, proportion of women and employees on Companies' boards

One of the principles of corporate governance, the responsibilities of the board, is closely related to the issue of gender equality. According to this principle the board should ensure the strategic management of the company, the effective monitoring of management and should act responsibly towards both society and shareholders. These activities may be determined by many factors and one of them is gender equality. European Commission claims that the progress in gender equality can have the following positive impacts [33]:

- improved company performance: companies with higher share of women at top levels can deliver strong organisational and financial performance;

- better quality of decision-making: a more diverse board of directors can contribute to better performance because decisions are based on evaluating more alternatives;
- improved corporate governance and ethics: the quality of corporate governance and ethical behaviour can be higher in companies with a high share of women on boards;
- better use of the talent pool: 60% of university graduates in Europe are women. Systematically including suitable candidates of both sex ensures that new board members are selected from the very best candidates, both male and female.

Due to the last argument of the European Commission, we decided to assess what the percentage of women directors and supervisory boards of companies on the Slovak regulated market for the period 2011–2015. **Table 13** presents the percentage of the share of women in the total number of directors and the supervisory board.

We appreciate the rising median value, which was in 2011 at 17%, increased at 22% in 2013 and in the last surveyed year 2015 was at 17%. The average representation of women increased year on year 2012/2013 from 23 to 24%, while the average in the EU-28 was lower at 18%. Among the companies were some that did not have any woman on the board or supervisory board. The percentage of these companies decreased from 62.5% in 2011 to 55.4% in 2015. Women on board of directors were not represented in 65 companies in 2011 and 2013 and in 70 companies in 2012. The number of these companies was twice more compared with companies without the representation of women on the supervisory boards. The number of companies which did not have representation of women on the supervisory board was 36 in 2011, 32 in 2013 and 29 in 2015. The percentage of these companies increased from 34.6% in 2011 to 44.6% in 2015. The average number of women on boards of directors was around 0.44 and average number of women on supervisory board oscillated around one women. Women were represented on the supervisory boards more frequently than on boards of directors.

The number of members of the boards and supervisory board has an impact on the effectiveness of these authorities, the company's performance and the degree of information asymmetry [29]. For the years 2011–2015, we found out how many members were in the board and the supervisory board of the companies on the Slovak regulated market. The results are available in **Tables 14** and **15**.

Median and mode number of directors for the whole period was three members and the same conclusion was also in the number of supervisory boards members. Companies thus meet the

	2011	2012	2013	2014	2015
Median	17%	20%	22%	16.67%	16.67%
Modus	0%	0%	0%	0%	0%
Average	23%	23%	24%	20.74%	22.55%
Standard deviation	20.02%	21%	21.05%	19.56%	21.24%
The number of companies with no female representation	24	29	26	19	19

Table 13. Proportion of women on companies' boards.

	2011	2012	2013	2014	2015
Median	3	3	3	3	3
Modus	3	3	3	3	3
Average	3.5	3.34	3.38	3.53	3.22
Standard deviation	1.4	1.48	1.56	1.59	1.52

Table 14. The number of members of the board.

	2011	2012	2013	2014	2015
Median	3	3	3	3	3
Modus	3	3	3	3	3
Average	3.81	3.72	3.57	3.91	3.63
Standard deviation	1.56	1.43	1.57	2.93	1.1

Table 15. The number of members of the supervisory board.

legal obligation (the Commercial Code no. 513/1991, § 200) about a minimum number of members of the supervisory board.

3.6. Corporate governance index

We evaluated the level of corporate governance using the corporate governance index. **Table 16** shows the basic characteristics of corporate governance index for the period 2011–2015. Corporate governance index reached a minimum value at 0 and maximum at 1.63 for whole reporting period. Companies achieved an average value of the index from 0.48 points to 0.66 points. Standard deviation of the mean had a growing tendency, from 0.38 in 2011 to 0.42 points in 2013 and then the value dropped to 0.46 points in 2015. Distribution asymmetry is evident from the value of skewness and kurtosis parameters. A positive value of skewness indicates to us that the mean is greater than the median – most of the values of the index are lower than the mean. We found out that there were higher proportions of companies with

	N	Min	Max	Median	Modus	Mean	Std. Deviation	Skewness		Kurtosis	
								Stat.	Std. E	Stat.	Std. E
CG Index 2011	104	0.00	1.38	0.4275	0.00	0.4847	0.38007	0.405	0.237	-0.738	0.469
CG Index 2012	109	0.00	1.38	0.4270	0.00	0.5094	0.39455	0.332	0.231	-0.838	0.459
CG Index 2013	102	0.00	1.38	0.4270	0.00	0.5072	0.42421	0.420	0.239	-1.01	0.474
CG Index 2014	66	0.10	1.47	0.6335	0.348	0.6548	0.33109	0.357	0.295	-0.721	0.582
CG Index 2015	65	0.00	1.63	0.5230	0.443	0.6624	0.34098	0.604	0.297	-0.127	0.586

Table 16. Descriptive statistics of corporate governance index.

below-average value of corporate governance index. Approximately 20% of companies in each reference year did not disclose information in the right form or information not disclosed at all. Therefore, we could not prepare corporate governance index for these companies. Based on the negative values of the kurtosis there were confirmed a platykurtic distribution. We can conclude that the incidence of extreme value is less frequent compared to the normal distribution for the period 2011–2015.

The main benefit of CG index creation is seen in the fact that on the basis of our proposed procedure, the level of corporate governance in selected companies in Slovakia has been estimated for the very first time. With our help, the CECGA thus achieved a detailed picture of the level of information which is available for public in these enterprises, and at the same time it obtained an overview of which enterprises appear to be the best in this field. This enables a year-to-year comparison, or an estimate, of how the trend develops in time. Awarding the best companies by Central European Corporate Governance Association for 2012, 2013, 2014 and 2015 based on our index have an impact on the visibility of corporate governance topics in Slovakia and increase the motivation of companies to report quality information on compliance with corporate governance principles.

4. Conclusions

Adverse long-term development in the Slovak capital market has significantly strengthened the position of commercial banks in the financial market. Companies tend to preferentially provide information to commercial banks as opposed to publicly inform potential investors about the company. From on-year comparison it was apparent slight increase in awareness and the quality of the reported information on corporate governance. The most significant changes were observed in evaluating the disclosure of information in the share of companies that their annual report is published in CERI, RUZ and on company's website.

Positive changes occurred also in the establishment of committees and availability of information on their activities, as well as in the evaluation of risk management. The survey has revealed us areas where there was a decrease in the level of reporting. We evaluated negatively disclosure the Statement on Corporate Governance and content of the information in this statement. The share of companies that did not have the Statement on Corporate Governance or information in the Statement was not sufficient exceeded approximately 50% during selected years. The negative trend was also identified in the increase of the share of companies that not disclosed enough information about board members and their remuneration. The percentage of these companies increased from 58.7 in 2011 to 78.5 in 2015. It is important to notice that there are still companies that rely on outdated Unified Code or develop their own code. The positive finding is that the number of such companies decreased.

Based on the presented results of the survey, we compiled the corporate governance index for each company which securities are listed on the Bratislava Stock Exchange. The Central Europe Corporate Governance Association now uses our proposed methodology and compile and publish the ranking of the companies in context their CG principles implementation every year.

Outputs of the survey have expanded our knowledge of corporate governance in Slovakia and showed significant weaknesses in compliance with fundamental legal obligations by companies. A positive fact is we indicate the efforts by companies of at least some disclosure of information on corporate governance. We expect that the activities of the CECGA and annual awarding the best companies based on our compiled index, will increase interest in the topic of corporate governance, help to raise awareness and attract the attention of a wider audience.

Author details

Hussam Musa, Zdenka Musová* and Lenka Debnárová

*Address all correspondence to: zdenka.musova@umb.sk

Faculty of Economics, Matej Bel University in Banská Bystrica, Banská Bystrica, Slovakia

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