Chapter 3

Economic Transition and the Corporate Governance Implementation

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Additional information is available at the end of the chapter

http://dx.doi.org/10.5772/intechopen.70533

Abstract

In Slovakia, the privatization of the state property in the beginning of the 1990s created a need for the corporate governance implementation. The aim of this chapter is to evaluate the level of implementation of corporate governance in Slovakia after more than 25 years since starting the transition from a centrally planned to a market economy, including a legal framework for its implementation. To support our analysis, we explored a relationship between the level of the corporate governance implementation and economic results of corporations. For this purpose, we reviewed annual reports for year 2015 by 27 corporations listed on the Bratislava Stock Exchange. The average profit of the evaluated corporations was approaching 21 million EUR, and the average assets value was at 1.2 billion EUR. Using the scoring method devised by us for this purpose, the average score of the annual report evaluation reached 2.59 points out of maximum 5 points. Finally, we tested a hypothesis that improving the level of corporate governance implementation may contribute to profitability and assets value of corporations.

Keywords: corporate governance, principles, implementation, transition, privatization

1. Introduction

In the academic literature as well as at the regulatory level, there are various definitions of the corporate governance. A governance in general is dealing with strategy development for directing a group of people and deciding on roles of its members [1]. According to the OECD, corporate governance involves a set of relationships among company's management, its board, shareholders, and other stakeholders. Corporate governance also provides a structure through which objectives of company are set, and means of attaining those objectives and performance

monitoring are determined. The purpose of corporate governance is to help build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, and business integrity [2]. Corporate governance deals with the way suppliers of finance to corporations assure themselves of getting a return on their investment [3]. Corporate governance system is a combination of mechanisms which ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (principals). Such stakeholders may cover shareholders, creditors, suppliers, clients, employees, and other parties with whom the firm conducts its business [4]. Corporate governance represents the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated [5]. Knapik explains that it is an internal structure of rules governing the distribution of rights and responsibilities among the actors inside the corporation as well as outside of it. Corporate governance increases the market value of a corporation and the benefits for its shareholders [6]. In our opinion, corporate governance can be defined as a control system for transactions of a specific nature, namely for contractual relations arising between corporate capital owners and corporate managers in result of investing into corporate capital. Property owners are seeking a profitable allocation for their available resources, where managers are possessing professional competences. A contract arises between the capital owners and corporate managers that can be broken by one or both parties under imperfect competition conditions. In order to ensure desirable performance under these contracts, a concept of corporate governance has been devised [7].

It is a prerequisite for the corporate governance implementation that some corporate capital exists. The first joint stock companies emerged in the seventeenth century. However, by the mid of the nineteenth century, companies were mostly directed and controlled by their owners. In 1855, the Limited Liability Act was adopted in the United Kingdom that introduced the concept of limited liability of the shareholders. This resulted in increasing profitability of companies. Management as a profession emerged and the capital ownership was detached from the company management [8]. These matters are the source of essential problems in the current corporate governance.

After the regime change in Slovakia, the transition and namely privatization of the state property in the beginning of the 1990s created a need for the corporate governance implementation. The aim of this chapter is to evaluate the level of implementing corporate governance in Slovakia after more than 25 years since starting the transition from a centrally planned to a market economy, including a legal framework for its implementation, as well as to explore an expected relationship between the level of the corporate governance implementation and economic results of corporations.

2. Economic transition and privatization in Slovakia

Economic transition from the centrally planned to a market economy at the beginning of 1990s started by one-shot price liberalization, followed by further rapid liberalization steps including abandoning of wage regulation, introduction of internal convertibility of the currency,

privatization, liberalization of foreign trade (for more details see for example [9–11]), and, in later stages, building of market institutions [12]. The privatization in Slovakia took the form of restitution, the large-scale privatization, and the small-scale privatization. In January 1991, the Bratislava Stock Exchange was founded. The large-scale privatization took place in two phases: the first one in years 1991–1993 and the second one in years 1993–1996. The first phase of the so-called coupon or voucher privatization started with preparing the list of privatized companies. Slovak citizens were granted coupon books with 100 investment points in return for 1000 Kčs (Czechoslovak crown, currency unit in the former Czechoslovakia). Citizens investors were able to purchase directly company stocks or vest their investment points in so-called investment privatization funds (IPFs). As they were lacking any knowledge on investing, IPFs were preferred. These funds obtained 6.1 billion investment points representing 71% out of the total number [13].

In Slovakia, a method of rapid transformation, so-called "shock therapy," was applied. It was believed that a rapid transformation of property rights would automatically lead to the creation of market regulation mechanism and law enforcement. This method combined the property rights reform with the creation of the financial market of Anglo-Saxon model. At the same time, the German model of universal banks, i.e., the combination of credit and investment banking (concentrated model of corporate governance) was adopted. However, the absence of regulation authorities turned to be a problem in the privatization and in the financial market creation. For example, minority shareholders were not always sufficiently protected [14]. The transformation should have started with effective regulation and law enforcement, not with privatization.

3. National corporate governance code

The first national code of best practises for corporate governance was published by the committee chaired by A. Cadbury in 1992 in the UK. In 1999, the OECD published the corporate governance principles. The principles were revised in 2004 and 2015.

> *"The Principles themselves are evolutionary in nature and are reviewed in light of significant changes in circumstances in order to maintain their role as leading instrument for policy making in the area of corporate governance" [2].*

The latest review is a response to the international financial and economic crises as well as to challenges of the global economy. The principles are nonbinding, they seek to identify objectives and suggest various means for achieving them. The above document contains six main principles each of which is supplemented by number of supporting sub-principles. The principles are presented in six chapters. In the following text, we indicate only a very brief description of the principles. Due to the large number of changes, we emphasize the most important ones marking them as "new."

I. Ensuring the basis for an effective corporate governance framework (transparent and fair markets, efficient allocation of resources, clearly defined split of powers among authorities, new: independency and accountability of supervision, regulatory, and enforcement authorities).

II. The rights and equitable treatment of shareholders and key ownership functions (shareholders' rights such as the right to secure methods of ownership registration, convey or transfer shares, obtain information on the corporation, participate and vote in the general shareholder meetings, elect and remote members of the board, share in the profits; equitable treatment of shareholders; disclosure of capital structure and control arrangements, new: making use of information and communication technologies at general meetings such as electronic voting and vote confirmation systems, ability to vote in person or in absentia, disclosure of remuneration of board members and key executives).

III. Institutional investors, stock markets, and other intermediaries as a new principle replacing the previous third principle requiring equal treatment of shareholders (institutional investors acting in a fiduciary capacity, conflicts of interests minimization concerning analysts, brokers or rating agencies, fair and efficient price discovery at stock markets).

IV. The role of stakeholders in corporate governance (active cooperation between corporations and stakeholders, especially creditors, bank and insurance companies; the rights of stakeholders established by law or by contractual relations; access to information on a timely and regular basis for stakeholders; effective redress for violation of rights).

V. Disclosure and transparency (disclosure on financial and operating results of a company, on company objectives, share ownership, remuneration, related party transactions, foreseeable risk factors, responsibilities of the CEO and/or Chair, new: nonfinancial reporting).

VI. The responsibilities of the board (functions of the board such as guiding corporate strategy, major plans of action, annual budges etc.; selecting, compensating, or replacing key executives, ensuring the integrity of accounting and financial reporting systems, new: responsibility of the board for oversight of the risk management system, tax planning, and internal audit).

Among the most significant changes of the OECD principles in its latest revision, there is the introduction of enforceability together with sanctions in case of incompliance with the principles. Such sanctions by government authorities are included in the first chapter that describes corporate governance framework, transparency, fairness, and effective allocation of resources. In this chapter, new references are also made to the accountability of supervising bodies, respecting human rights, environment protection, as well as to the need for a cross-border cooperation and information exchange among government authorities in different countries in the case of cross-border ownership. As far as the structure of principles is concerned, the third principle—formerly titled "The Equitable Treatment of Shareholders"—has been fundamentally changed. In the new revision, the third chapter aims at discouraging the conflict of interests that may concern analysts, brokers, rating agencies, or other persons. The next important change relates to the obligation to disclose not only financial but also nonfinancial information. Company websites serve as the best medium for this purpose. In our opinion, another significant change is the responsibility of the board for overseeing the risk management system, tax planning, and internal audit.

http://dx.doi.org/10.5772/intechopen.70533

The OECD principles may be adopted not only by corporations listed on stock markets but also by other companies, including smaller enterprises. For them, adopting and implementing corporate governance principles may improve their reputation, their position in supplier-customer relations, as well as their access to external financial resources.

The OECD principles have become a basis for creating national codes of good corporate governance in many developed countries. According to the OECD, there is no single model for a good corporate governance [2]. The adjustment to local legal, economic, and cultural conditions is therefore necessary. While the EU member states prefer nonbinding corporate governance principles, in the U.S. mandatory rules prevail. Following the year 2000, corporate scandals in the U.S. were revealed such as accounting fraud in Enron and WorldCom. They led to enacting the Sarbanes-Oxley Act in 2002 defining responsibilities of corporation's board of directors and introducing criminal penalties for certain misconducts.

The creation of the national corporate governance code for Slovakia reflects very closely the development concerning corporate governance in the rest of the world. Already, the first Slovak code published in 2002 referred back to the OEDC 1999 principles. This code was incorporated into the Bratislava Stock Exchange rules for shares admission to the listed market. In 2004, the Bratislava Stock Exchange initiated establishing an association that would monitor international developments in the field of corporate governance, update the national code, and promote the implementation of principals by corporations. Foundation of the Central European Corporate Governance Association (CECGA) in 2004 was an important step from the institutional point of view. Following the publication of revised OEDC Principles in 2004 as well as the changes of the relevant legislation in Slovakia[1], the CECGA in cooperation with other institutions such as the National Bank of Slovakia, the Slovak Banking Association, the Ministry of Finance of the Slovak Republic, the Ministry of Economy of the Slovak Republic, and the Ministry of Justice of the Slovak Republic elaborated the new corporate governance code for Slovakia, setting benchmarks to internal company relationships and environmental matters. It came into effect in 2008 and was applicable to all companies whose securities were admitted to trading on the Bratislava Stock Exchange regulated market [15]. The code was structured according to the OECD principles; however, the principle of ensuring the basis for an efficient corporate governance framework was emphasized as an underlining principle of the code.

The approval of G20/OECD principals' revision in 2015 represents the next milestone of the Slovak national code development. The second Slovak code revision was coordinated by a Steering Committee that met for the first time in February 2016, comprising representatives of five institutions (CECGA, the Bratislava Stock Exchange, the Ministry of Economy of the Slovak Republic, the Ministry of Justice of the Slovak Republic, and the University

[1]This legislation encompasses mainly: Act No. 460/1992 – Constitution of the Slovak Republic; Act No. 513/1991 – Commercial Code; Act No. 40/1964 – Civil Code; Act No. 365/2004 Z. z. – Act on Equal Treatment in Particular Areas and on Protection against Discrimination; Act No. 300/2005 – Criminal Code, Act No. 540/2007 Coll. on Auditors, Audit and Audit Supervision; Act No. 483/2001 Coll. on Banks; Stock Exchange Act No. 429/2002 Coll.; Act No. 566/2001Coll. on Securities and Investment Services; Act No. 7/2005 Coll. on Bankruptcy and Restructuring; Act No. 431/2002 Coll. on Accounting; Act No. 311/2001 – Labor Code.

of Economics in Bratislava). A tutor responsible for review was appointed to each of the six chapters of the code: they were:

- the Ministry of Economy of the Slovak Republic as a tutor for both the ensuring the basis for an effective corporate governance framework (chapter 1) and the role of stakeholders in corporate governance (chapter 4),
- the Ministry of Justice of the Slovak Republic as a tutor for both the rights and equitable treatment of shareholders and key ownership functions (chapter 2) as well as the responsibilities of the board (chapter 6),
- the Ministry of Finance of the Slovak Republic as a tutor for both the institutional investors, stock markets, and other intermediaries (chapter 3) as well as the disclosure and transparency (chapter 5).

The remaining members of the Steering Committee gave recommendations on the draft. Further consultation with specialists and representatives of companies aimed at simplification and readability of the text. Repeatedly revised code was introduced to the public in October 2016 during the 19th European Corporate Governance Conference. Apart from the OECD 2015 Principles, the revised code incorporates also the EU Commission Recommendations on the quality of corporate governance reporting on the "comply or explain" basis (2014/208/EU), on the regime for the remuneration of directors of listed companies (2009/385/EC), on the role of nonexecutive directors of listed companies and on the committees of the board (2005/162/EC) as well as the recommendation fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC). In the field of transparency and information disclosure, the relevant EU legal framework is regarded by incorporating the binding Directive 2013/34/EU and nonbinding Commission Recommendation 2014/208/EU. The Directive 2013/34/EU on the annual financial statements, consolidated financial statements, and related reports of certain types of undertakings refers to the corporate governance in recital 4:

> *"Annual financial statements pursue various objectives and do not merely provide information for investors in capital markets but also give an account of past transactions and enhance corporate governance. Union accounting legislation needs to strike an appropriate balance between the interests of the addressees of financial statements and the interest of undertakings in not being unduly burdened with reporting requirements" [16].*

Undertakings referred to in the directive (i.e., public-interest entities such as undertakings, whose transferable securities are admitted to trading on a regulated market, credit institutions, and insurance undertakings) shall include a corporate governance statement in their management report. That statement shall under Art. 20 (1)(a) contains a reference to the:

- corporate governance code to which the undertaking is subject,
- the corporate governance code which the undertaking may have voluntarily decided to apply,
- all relevant information about the corporate governance practices applied over and above the requirements of national law.

If an undertaking departs from a corporate governance code, Art. 20 (1)(b) of the directive requires an explanation as to which parts of the corporate governance code it departs from and the reasons for doing so. Where an undertaking decides not to refer to any provisions of a corporate governance code, it shall explain reasons for not doing so. Furthermore, the corporate governance statement shall include a description of the main features of the undertaking's internal control and risk management systems as well as the composition and operation of the administrative, management, and supervisory bodies and their committees. Article 20 (1)(b) of the directive refers to the key principle of corporate governance in the EU, namely the "comply or explain" principle that explained in more detail in the Commission Recommendation 2014/208/EU. The aim of this recommendation is to provide guidance for member states and their companies on corporate governance reporting.

> *"It is recommended that, where applicable, corporate governance codes make a clear distinction between the parts of the code which cannot be derogated from, the parts which apply on a 'comply or explain' basis and those which apply on a purely voluntary basis" [17].*

Companies should describe how they have applied corporate governance code in order to inform shareholders, investors, and other stakeholders. The information should be easily accessible and available on companies' websites.

Article 20 (1)(b) of the Directive 2013/34/EU requires listed companies to provide explanations in case of departure from the recommendations of the code to which they are subject to or which they have voluntarily decided to apply. The explanation of departure from an individual corporate governance code recommendation should specify:

- in what manner a company departed from a recommendation,
- the reasons for the departure,
- how the decision to depart from the recommendation was taken within the company,
- where the departure is limited in time, when the company envisages complying with a particular recommendation,
- where applicable, a measure taken instead of compliance and how that measure achieves the underlying objective of the specific recommendation or of the code as a whole, or how it contributes to the good corporate governance of the company.

The corporate governance code for Slovakia implements the "comply or explain" approach. Therefore, it was necessary to clearly differentiate the principles that are regulated by laws in Slovakia from the rest of the text. The code is intended not only for listed companies but also for other companies interested in its implementation. The code regulates internal as well as external relationships of companies on basis of fairness, openness, and accountability. Disclosure, within the limits given by the position of a company among competitors, is a basis for trust between a company and those, who contribute to its success such as shareholders, employees, creditors, suppliers, customers, or other stakeholders [18]. Companies should comply with the code since January 1, 2017, and report according to the code since 2018.

Apart from the code, an important corporate governance regulation in Slovakia is represented by the Act No. 431/2002 Coll. on Accounting as well as Act No. 540/2007 Coll. on Auditors, Audit, and Audit Supervision. The Act on Accounting in its § 20 imposes an obligation to corporation listed on regulated markets to support their annual reports with a statement on corporate governance. The annual report should further include an information on the capital structure, rights attached to all series and classes of shares, restrictions of voting rights, shareholders with special rights including the description of these rights, rules for appointing and withdrawing board members, and powers of the board, particularly the right to decide on issuing or buying back shares and so on.

4. Evaluation of the corporate governance implementation and its impact on economic results of corporations

Regular evaluation of the corporate governance implementation in Slovakia is carried out by the CECGA based on publicly available information, primarily on the quality of the annual reports of corporations. Surveys on corporate government disclosure for the years 2011–2014 are available to the public. The association monitors the quality of information on corporate governance, the compliance with the § 20 of the Law No. 431/2002 on Accounting as well as with the corporate governance code for Slovakia. In 2014, the survey covered 66 companies listed and traded on the Bratislava Stock Exchange. Companies with capital listed in the multilateral trading system were excluded from the survey because according to the Stock Exchange Act No. 429/2002, the disclosure obligation does not apply to them. The evaluation criteria included [18, 19]:

- Presence of disclosed annual report in the Central Register of Regulated Information (CERI), in the Register of Financial Statements (RUZ) and on the company's website (according to § 34 of the Stock Exchange Act, companies are required to publish an annual financial report including the annual report as well as information on corporate governance no later than 4 months after the end of the financial year).
- Availability of information on the company's website (in accordance with § 23d of the Accounting Act as well as with the principle IV of the code).
- Scope and quality of information in the corporate governance statement (according to the Accounting Act, the annual report of a company has to include a statement on corporate governance).
- Information about board members of the company including their qualifications, selection process, and independence (this obligation is imposed by § 20, paragraph 6 of the Accounting Act as well as by the principle IV of the code).
- Disclosure on remuneration of directors and the supervisory board according to the principle IV of the code.
- Information on risk management as recommended by the principle IV of the code.

- Information on the existence, composition and activities of the Audit Committee (companies whose securities are trade on a regulated market are required to establish an audit committee according to § 19 of the Accounting Act; this committee does not have to be set up separately if the supervisory board carries out its normal activities).
- Information on the existence, composition, and operation of the Remuneration Committee (according to principle V of the code, the establishment of this committee is recommended).
- Information on the existence, composition, and activities of the Nomination Committee (similarly, the establishment of the nomination committee is recommended by principle V of the code).
- Additional criteria such as information on rotation of auditor, board members elected by employees, independent board members, and gender diversity.

The survey results show positive changes compared to previous year in several areas. The number of companies disclosing their annual report in all of the available platforms (e.g., CERI, RUZ, and on the company's website) increased from 1 in 2013 to 39 in 2014. Annual report or annual financial report was quickly and easily available on website for 76% of companies. The share of companies without available corporate governance statement or with a statement providing no relevant information fell from 60 to 42%. However, the share of companies with comprehensive explanation of each item, and deviation from the code decreased slightly from 22 to 20%. As far as disclosure of information on board members is concerned, the decrease by three percentage points to 13% in the share of companies that do not provide any information can be observed. However, this percentage is still very high. The disclosure on remuneration is an area that most companies (71%) have carefully protected. The share of companies providing sufficient information about risk management, ex-ante risk, and risk quantification slightly increased, making 23% in total. Finally, a growing number of companies that inform on the establishment of the Audit Committee were observed.

For our research, we, however, performed our own review of annual reports for year 2015 by 27 corporations listed on the Bratislava Stock Exchange. We selected corporations that met two criteria: they had been listed since 2010 and were not in liquidation. We evaluated the following criteria:

- **Bankruptcy** or restructuring: no bankruptcy or restructuring proposal/no problems = 1 point, warning = 0.5 points, serious problems = 0 points;
- **Enforced debt collection**: no proceeding = 1 point, warning = 0.5 points, serious problems = 0 points;
- **Debts on taxes or insurance**: no debts registered = 1 point, warning = 0.5 points, serious problems = 0 points;
- **Risk rate**: average of the variables bankruptcy, enforced debt collection, debts on taxes or insurance;

- **Annual report format**: annual report disclosed in a format enabling easy search of information = 1 point, annual report disclosed in a 20 (1)(b) format not enabling easy search of information = 0 points;
- **Information on corporate governance**: annual report includes information on corporate governance = 1 point, annual report does not include information on corporate governance = 0 points;
- **Reference to the code**: annual report makes reference to the corporate governance code, evaluation within the interval < 0–1>, lower evaluation granted where the company made reference to invalid code or the title of the code was not indicated properly;
- **The "comply or explain" principle**: the company respects the "comply or explain" principle, evaluation within the interval < 0–1>, lower evaluation granted where this requirement was not respected sufficiently;
- **Annual report evaluation**: sum of variables Risk rate, Annual report format, Information on corporate governance, Reference to the code, The "comply or explain" principle.

For the purpose of quantitative analysis, we considered also the following variables:

- **Profit or loss**: profit (+) or loss (−) of a company in EUR;
- **Assets**: total value of company assets in EUR;
- **Number of employees**: coefficient was added according to the applicable interval: <1–2 > = 1; <3–4 > = 2; <5–9 > = 3; <10–19 > = 4; <20–24 > = 5; <25–49 > = 6; <50–99 > = 7; <100–149 > = 8; <150–199 > = 9; <200–249 > = 10; <250–499 > = 11; <500–999 > = 12; <1000–1999 > = 13; <2000–2999 > = 14; <3000–3999 > = 15;
- **Profit or loss/number of employees**: profit or loss of a company divided by the number of employees' coefficient;
- **Assets/number of employees**: total value of company assets divided by the number of employees' coefficient.

Data were obtained from publicly available databases [20–23] and official companies' websites. **Table 1** comprises the descriptive statistics of our survey.

The average profit of the evaluated corporations was approaching 21 million EUR and the average assets value was at 1.2 billion EUR. The average score of the annual report evaluation reached 2.59 points out of maximum 5 points. It is important to pay attention to the skewness according to which most of variables were negatively skewed. It means that the value of variables for the majority of corporations is lower than the mean. Negative skewness value can be observed for the variables of number of employees, annual report evaluation as well as all variables compounded in the annual report evaluation variable (e.g., risk rate, annual report format, information on corporate governance, reference to the code, the "comply or explain" principle). We interpret this as an insufficient corporate governance implementation. In our opinion, the reason behind is the insufficiently developed Slovak capital market that does not motivate corporations to improve performance against the principles and increase transparency.

http://dx.doi.org/10.5772/intechopen.70533

Variable	Mean	Standard Error	Skewness	Kurtosis	Count
Profit or loss	20637480.33	46955078.05	2.67	6.56	27
Assets	1209156473.22	3068741581.81	3.14	9.22	27
Number of employees	9.22	3.66	−0.21	−0.4	27
Profit or loss/number of employees	1548612.31	3246777.11	2.67	6.92	27
Assets/number of employees	85789446.69	205263945.77	3.04	8.69	27
Bankruptcy	0.89	0.32	−2.62	5.27	27
Enforced debt collection	1.00	0.00			27
Debts on taxes or insurance	0.81	0.28	−1.25	0.74	27
Risk rate	0.90	0.16	−1.56	1.61	27
Annual report format	0.67	0.48	−0.75	−1.56	27
Information on corporate governance	0.74	0.45	−1.16	−0.70	27
Reference to the code	0.64	0.45	−0.65	−1.52	27
The "comply or explain" principle	0.54	0.47	−0.12	−1.99	27
Annual report evaluation	2.59	1.38	−0.67	−0.80	27

Table 1. Descriptive statistics of the survey on Slovak corporations.

High value of skewness can be observed for both variables of profit or loss and total assets. It means that few observations with very high value of variables exist. The validity of the results of quantitative analysis is negatively influenced by this fact. Therefore, we decided to proceed with the graphical regression analysis and with the figure showing the number of observations (histogram).

Figure 1 illustrates polynomial regression between the annual report evaluation reflecting the level of the corporate governance implementation and the profit or loss of a corporation divided by the number of employees' coefficient. We tested a hypothesis that the level of corporate governance principles implementation should have impact on corporation profitability.

Based on our results (correlation coefficient R = 0.1828 and p-value = 0.3614), we were not able to confirm the hypothesis. The main reason is the existence of extreme observations that were indicated also by the skewness results. Thus, we were not able to confirm the existence of relationship between a good implementation of corporate governance principles and the profitability of corporations, even when not taking into account three corporations with extreme values of variables. Therefore, we interpreted values of isolated variables using a histogram. The histograms show the standard normal distribution of observations. The majority of corporations under evaluation reached a relatively low value of the variable profit or loss/number of employees (within the interval from 0 to 2,000,000 EUR) and higher value of the annual report evaluation. The three corporations with extreme values of variables reached high values for both variables (e.g., the profit or loss/number of employees and the annual report

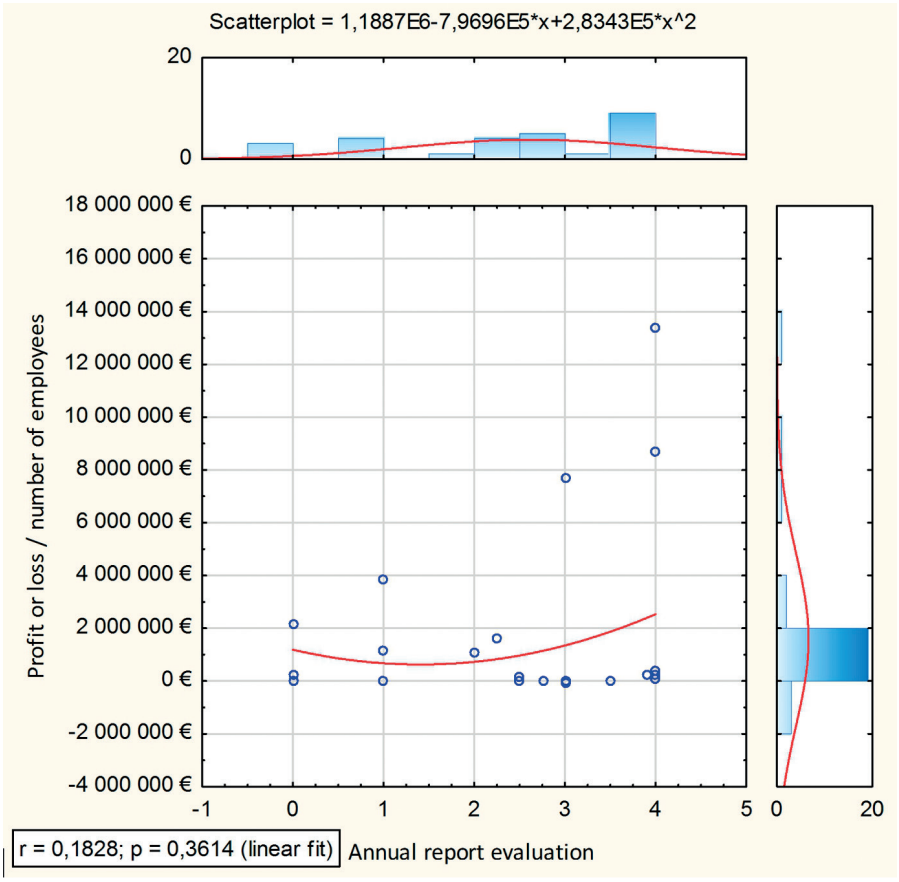

Figure 1. Scatterplot with histograms of profit or loss/number of employees against annual report evaluation.

evaluation). At the same time, no corporation with a high level of the profit or loss/number of employees' variable had a low value for the annual report evaluation variable. Therefore, we assume that larger corporations pay more attention to corporate governance implementation.

Results of the polynomial regression between the variables assets/number of employees and annual report evaluation as well as of the analysis of the two variables based on histogram (**Figure 2**) are very similar. We identified only two corporations with extreme values of variables. These extreme observations reduced both the correlation coefficient and the p-value and negatively influenced the validity of the results of quantitative analyses. The hypothesis that the level of corporate governance principles implementation should have impact on assets value was not confirmed for Slovak corporations. However, we have to add that, in the literature on corporate governance, a strong and significant positive relationship between good corporate governance (such as higher investor protection and lower managerial entrenchment) and firm value (measured by the Tobin's Q Ratio calculated as the market value of a

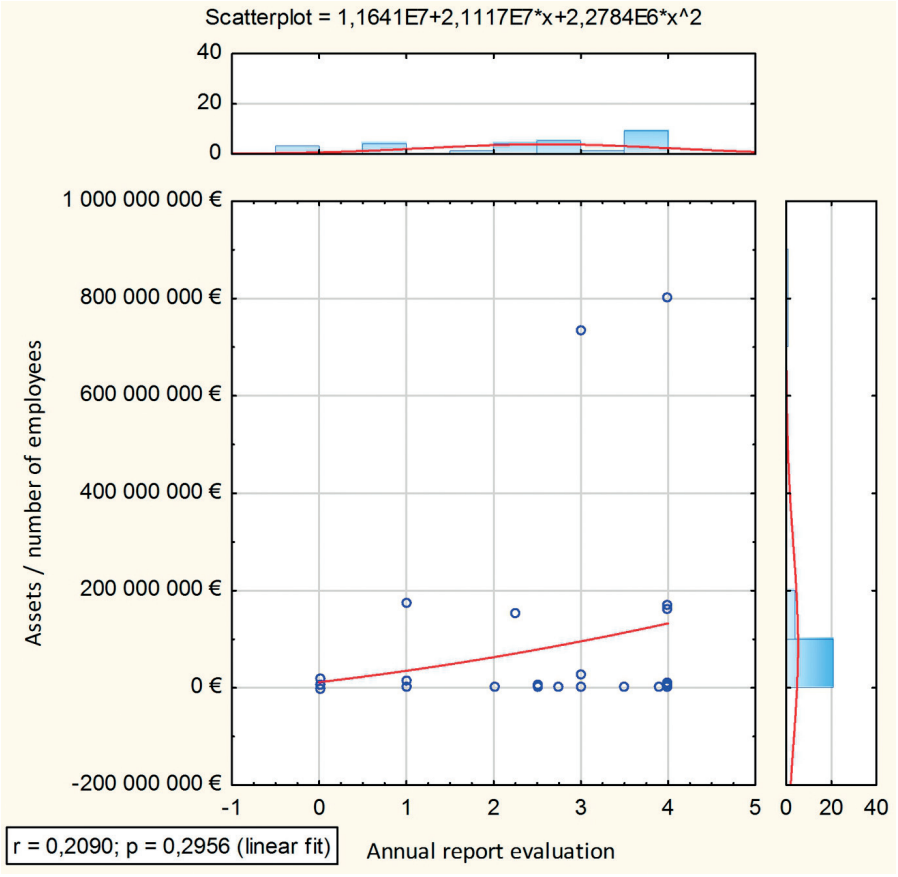

Figure 2. Scatterplot with histograms of assets/number of employees against annual report evaluation.

company divided by the replacement value of the firm's assets) was shown within the context of the Middle East and North Africa (MENA) region [24].

5. Conclusion

After the long period of centrally planned economy, Slovakia changed its economic system and started to establish a market economy. State-owned property was privatized and private property, as a prerequisite for the corporate governance implementation, was established. Despite efforts to implement a model of corporate governance based on financing by capital markets, a model based on credit financing was pushed through. The situation persists, and the Slovak capital market is still underdeveloped. Our aim was to evaluate the level of implementation of corporate governance in Slovakia after more than 25 years since starting the transition from a

centrally planned to a market economy, including a legal framework for its implementation as well as to explore the relationship between the level of the corporate governance implementation and economic results of corporations. We evaluated the level of corporate governance implementation on the basis of publicly available databases, annual reports, annual financial reports, and companies' websites. Our evaluation shows insufficient corporate governance implementation by corporation listed at the Bratislava Stock Exchange. Further, we were not able to confirm our hypothesis that good corporate governance has positive impact on corporation profitability and assets value. There was no observable statistical correlation between the economic performance of corporations and the level of corporate governance implementation. We interpret our results by an assertion that in Slovak conditions, benefits of the corporate governance implementation need not directly and immediately manifest themselves in increased profits or increased value of assets. However, it should be borne in mind that a correlation between adherence to corporate governance principles and economic performance may still exist but it was overridden by inefficiency of underdeveloped Slovak capital market. It could be worthwhile to test the hypothesis in conditions of efficient markets. Nevertheless, we assume that larger corporations pay more attention to corporate governance implementation.

Acknowledgements

This paper is a part of a research project of the Ministry of Education, Family and Sports of the Slovak Republic VEGA (in the period 2017–2019) No. 1/0897/17: "The Importance of European Energy Union Project for Strategic Interests of This Grouping in the Context of the Enhancement of Competitiveness of the Slovak Republic."

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