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## THE COMPARATIVE ANALYSIS OF SOME EASTERN EUROPEAN CORPORATE GOVERNANCE STANDARDS AFTER THE GLOBAL CRISIS

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### ABSTRACT

**T**he aim of this paperwork is to present a set of comparative corporate governance (CG) standards in some Eastern European countries including: Bulgaria, Romania, and Hungary, plus 2012 CG practices for microfinance institutions. There are strengths and weaknesses in these codes or practices which will be identified in this paperwork.

Therefore, this paper not only identifies different points in latest corporate governance standard principles and systems in the above three (3) countries, but also provides with a summary of evaluation of current corporate governance systems in these above countries which may enable relevant organizations in re-evaluating their current ones. Last but not least, it aims to illustrate a limited comparative set of standards of Eastern European corporate governance, and give proper recommendations to relevant governments and institutions toward a sustainable practices in business life.

**Key words:** corporate governance standards, board structure, code of best practice, financial crisis, corporate scandals, market manipulation, internal audit

*JEL Classification:* G00, G3, G30

## 1. INTRODUCTION

The nature of the environment in which contemporary businesses function is systemic which is described in corporate governance practices or codes.

The Bulgarian 2012 Code for Corporate Governance mentioned corporate governance is understood as the relations between the boards, shareholders, and stakeholders of the company. Over years, the Code has been effective in public companies. In the light of different views on Corporate Governance and Company Acts, which are among interests of many organizations, after financial crisis 2007-2009, this paper mainly concentrates on analysis of Code of Best Practices for Corporate Governance in selected Eastern European countries and separates it from the analysis of relevant Company Act and Accounting regulations, which can be used as reference for further scopes, although Codes complement the legislation. Despite of trying to select an easy-reading writing style, there is still some academic words need to be explained in further.

This paper is organized as following. The first (1<sup>st</sup>) session is introduction. Next, second (2<sup>nd</sup>) session provides research literature review, which gives us a summary of what has been done in this field, and some theories in corporate governance and manipulation. The third (3<sup>rd</sup>) session handles with empirical research findings and performing a comparative analysis among different Codes.

And final (4<sup>th</sup>) session turns to the conclusion and policy suggestion. Last but not least, a reference and web resources are introduced for further research and analysis. At last, there are exhibit session which covers some summary of this paper's analysis and comparison. And a glossary notes is provided with information for reference.

## 2. RESEARCH LITERATURE REVIEW

Many researches so far are done in the corporate governance area in Europe. Hopt, Klaus J., and Leyens, Patrick C., (2004) pointed recent development trend in Europe Corporate Governance is specialized rules for listed companies and indicate growing convergence in internal control mechanisms independent of board structure. EU (2002) also issues the Code of Best practices and the 2006 Directive requires that each listed company should publish an annual corporate governance statement to what extent the company can comply with that code. Among its key principles is the separation of roles between the CEO and the Chairman as it stated "The Chairman and CEO roles should be separate and the CEO should not immediately become Chairman of either a unitary or a supervisory board". Noia, Carmine Di., (2009) at ECIIA Conference shows after the crisis 2009 in Europe, there is no definition of shareholder due to national jealousy of company law; no harmonization of record date; and no shareholder identification. And OECD (2009) confirmed that the financial crisis can be an attribute to failures and weaknesses in corporate governance system, including risk management system and executives salaries. After crisis 2007-2008, Erkens, David., Hung, Mingyi., and Matos, Pedro., (2010), found out that during crisis, firms with more independent boards raised more equity capital, which partially caused them to experience worse stock returns. Last but not least, AFG 2010 Corporate Governance (CG) Code, France, stated the European code should be completed so that basic CG guidelines were defined to encourage best CG practices in every field for all listed companies in European Economic Area. Furthermore, Exhibit 6 shows us different parties and components, internal and external, should be involved in a policy or system of corporate governance.

Last but not least, Ezzine and Olivero (2013) mentioned in a research of French firms, effective governance mechanisms enhance the ability of firms to absorb a stock market crisis. Their results also suggest that stronger corporate governance practices should improve the visibility of the firm by the market. Berger et al (2013) suggest that defaults in some US banks are strongly influenced by a bank's ownership structure: high shareholdings of lower-level management, such as vice presidents, increase default risk significantly. In contrast, shareholdings of outside directors and chief officers (managers with a "chief officer" position, such as the CEO, CFO, etc.) do not have a direct impact on the probability of failure.

But, what are the common limited Eastern European corporate governance standards?

## **Theory of Corporate Governance, Scandal and Market Manipulation**

### **Theory of manipulation**

Different ownership structure affects manipulation. In dispersed ownership regime, manager may have incentives to do some stock market manipulation. Stock market manipulation will include the inflating or deflating of price of a security in the stock exchange; hence, most of manipulation is illegal. The people involved in manipulation transaction could be investors, brokers, dealers or management.

### **Theory of corporate governance and financial crisis**

After the financial crisis 1998 and G7 meeting, World Bank said corporate governance involves a set of relationships between a company's management, its board, its shareholders and its stakeholders. Moreover, it is only part of the larger economic context such as macroeconomic policies and the degree of competition in product markets. The Bulgaria Code for CG 2012 pointed CG is closely linked to the effective functioning of capital markets. Modern corporate governance practices contribute to global sustainable development and growth of national economies. The 2012 Code for Microfinance Institutions presents the functions of governance are including, but not limited to : to uphold the organization's goals and mission and see that they are implemented , and to ensure that the organization has the necessary human and financial resources to operate effectively.

### **Research methodology**

First of all, we perform a comparative analysis of Eastern European corporate governance principles in each of two (2) different groups including: 1) Eastern European representative Corporate Governance group, here, we select two countries: Romania and Hungary which have many modifications in their history of issuing corporate governance principles; and 2) Relatively good Corporate governance group including Bulgaria Code 2012 and 2012 Code for Microfinance institutions;

We also use international standards of corporate governance for reference such as: ADB and OECD's corporate governance principles as reference.

After that, we make a suggestion on what so-called common corporate governance principles (limited) for Eastern Europe which is aiming to create a basic background for relevant corporations interesting in corporate governance subject. Additionally, it can be considered as the recommendation to relevant countries' government and other relevant organizations for public policy and necessary evaluation. For a summary of our standards, see Exhibit sessions and the below table D.3.

### 3. EMPIRICAL FINDINGS

In complex conditions in which the interests and needs of different stakeholders are in conflict, there is a need for a systemic framework for a company's development. It is a framework that will guide businesses in managing interconnections of multiple and diversified elements in their internal and external environments. This corporate governance framework uses sustainable development as a concept that could successfully be adapted into strategic management theory and practice.

#### **A- Findings on Corporate governance issues after financial crisis, corporate scandals and market manipulation**

There are several popular issues including: there still lacks of the appraisal of the role of the legal division or compliance officer in the company which contributes to the bad results on the corporate performance and scandals.

We can point it out another CG issue. It is, the lack of respecting code of ethics and code of conduct in a few big and medium companies leading to the violation of auditing, accounting profession and ethical standards and audit independence.

#### **B- Findings on Ways of Manipulation during Corporate Scandals**

Several Manipulation Techniques found out during corporate scandals involve, but not limited to:

##### **B.1 – The manipulation techniques in the income statement:**

In this case, the managers of company use accounting practice to transfer some profit that over shareholder's expectation to the next fiscal year. Or, the firm management might manipulate the income report while using company money for their own purposes. For example, in case of a Pennsylvania soft drink company, Le Nature, the management might manipulate and overstate company revenue to increase external financing (up to \$800 million) and receive more benefits.

##### **B.2 - The manipulation techniques in both the income statement and balance sheet:**

If a firm creates false financial reports, it might affect very bad on auditing quality and creates manipulation. For example, one decade ago, the electronic giant Olympus made false and misleading accounting reports for its auditor, then it has to pay \$7 million fine.

##### **B.3 - The manipulation techniques relevant to international accounting practice code:**

We can see two (2) below different popular accounting rules on treatment "impairment" term which may mislead the company.

In IFRs: Impairment is recorded when an asset's carrying amount exceeds the higher of the asset's value-in-use (**discounted present value of the asset's expected future cash flows**) and fair value less costs to sell.

And in GAAPs: Impairment is recorded when an asset's carrying amount exceeds the **expected future cash flows** to be derived from the asset on an undiscounted basis.

#### **B.4 - Other manipulation techniques net belong to above classifications:**

Manipulation can happen when the company management leaks insider information to outsiders such as their close friends or investors which make these people earn a lot of money and in turn, they will receive money later from outsiders. For example, in the case of KPMR Southern California, a partner violated accounting profession and ethical standards when leaking information about quarterly earnings to his friends and receive \$50,000 back.

#### **C- Actions on Preventing or Controlling negative manipulation**

Necessary actions to prevent or control negative market manipulation are, but not limited to, enhancing internal system and mechanisms, building code of ethics and increasing internal control or internal audit (IA) mechanisms.

#### **D- Findings on Construction of a Limited Common Eastern European Corporate Governance standards**

These findings will be shown in a detailed analysis of a model indicated in the later sessions.

#### **<D.1> - Group 1 – Eastern Europe representative corporate governance standards analysis**

##### **In Romania**

The 2008 Code provides accurate, concise, easily understandable information that could be implemented and monitored by Bucharest Stock Exchange.

One of its main characteristics is enhancing the roles of the board of directors, especially in approving firms' strategic, operational and financial plans.

Among its advantages include the interaction between the company and shareholders. The company needs to facilitate the participation of shareholders in general meeting.

It is a good point in the Code that the firm sets an adequate structure handling matters with investors.

In general, the 2008 Code has a "comply and explain" style giving guidelines for the relevant companies to take into action. But it would be better to clarify roles of CEO, Chair and compliance officer.

**Table 1 – The Bucharest 2008 Corporate Governance code (a short summary evaluation)**

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Composed of NEDs, independent directors;	BD evaluate performance , if any; meet at least twice a year;	Provides BD with information on insider dealing or market manipulation; approve the audit plan; monitor the objectivity of the EA;	<u>Not mentioned clearly in the Code;</u>	
Nomination committee	May be mainly independent directors; composed of NEDs, independent directors;	BD evaluate performance , if any;	Lead the process for BD/director appointment; evaluate balance of skill, knowledge and experience of BD;	<u>Not mentioned clearly in the Code;</u>	Understood from the Code
Compensation or Remuneration committee	Members from BD;	BD evaluate performance , if any;	Formulate remuneration policy, internal regulations;	<u>Not mentioned clearly in the Code;</u>	Understood from the Code
CEO	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
The Chair	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Compliance officer	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Board of Directors	Meet at least once a quarter; Keep confidential documents and information acquired in the performance of their duties;	Encourage dialogue with shareholders;	Functions and duties set in CG framework; monitor firm development activities; direct/indirect remuneration disclosed in annual report;	Ensure sustainable development of firm; Protect the general interests of shareholders;	
Executive director	A balance of EDs and NEDs;	Encourage dialogue with shareholders;	direct/indirect remuneration disclosed in annual report;	<u>Not mentioned clearly in the Code;</u>	Understood from the Code
Non-executive director	Independent; not serve on board more than 3 terms;	A balance of EDs and NEDs;	Not keep business relationship with the firm which influence their judgement;	<u>Not mentioned clearly in the Code;</u>	
(Senior) Independent director	<u>Not mentioned clearly in the Code;</u>	A balance of EDs and independent NEDs;	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
CFO/Finance Director	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	

Management team	Keep confidential documents and information acquired in the performance of their duties;	BD responsible for MGT; can be a 2 tier MGT and control system (Board of managers and Board of directors);	Functions and duties set in CG framework; direct/indirect remuneration disclosed in annual report; propose BD procedure for internal handling and disclosure to 3 <sup>rd</sup> parties;	<u>Not mentioned clearly in the Code;</u>	
Supervisory board	<u>Not mentioned clearly in the Code</u>	Refer Code articles on 2 tier MGT system to S.B;	Establish consultative committees on topics chosen by board;	<u>Not mentioned clearly in the Code;</u>	
Internal control	BD meet at least twice a year on financial reporting, RM and IC;	Consult with BD for transactions with related parties;	Board set strict rules in IC, financial reporting and RM;	<u>Not mentioned clearly in the Code;</u>	
Internal audit	BD meet at least twice a year on financial reporting, RM and IC;	Provides BD with information on insider dealing or market manipulation;	BD has close collaboration;	<u>Not mentioned clearly in the Code;</u>	
External audit	BD meet at least twice a year on financial reporting, RM and IC;	NEDs not be employee of external auditor;	BD has close collaboration; selected by AC and recommended to BD;	<u>Not mentioned clearly in the Code;</u>	
Disclosure and transparency	Clear, transparent CG framework;	disclose remuneration policy in CG charter;	CG chapter mentioned in annual report; list of director candidates published on website;	<u>Not mentioned clearly in the Code;</u>	
Shareholders and Minority Stockholder	<u>Not mentioned clearly in the Code;</u>	Equitable treatment of share holders;	Effective and active communication policy;	<u>Not mentioned clearly in the Code;</u>	
Accountability	AC assist BD in monitoring reliability of financial information;	Nominated persons trained specifically, periodical basis;	Firm nominate a person handling matters with investors;	<u>Not mentioned clearly in the Code;</u>	
Leadership	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Functioned by board; comparing results achieved with those planned;	<u>Not mentioned clearly in the Code;</u>	Understood from the Code
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties. Smaller listed companies can ignore some provisions.				

## **In Hungary**

The Budapest CG Recommendations (CGR) 2008 provides recommendations and suggestion and is an addition to relevant legislation.

A detailed description of general meeting (GM) is shown in the Code. (see Exhibit 1).

Different from Romania Code, the 2008 Code recommends the Chairman invite anybody to represent at GM and join in discussion.

Besides, it pays attention to SB roles. For example, a person held previously a position in MGT board should not be elected to SB.

In short summary, Strengths of the Budapest 2008 Code are, but not limited to, analyzing roles of SB such as remuneration guidelines formulated by managing body should be accessed by SB although the Code does not clarify roles of CFO well.

## **Comparison between Romania and the Hungary Corporate governance standards**

It is in the 2008 Romania Code that the firm needs to ensure shareholders' access to meeting relevant information.

While, the 2008 Budapest Code take into account of Gm and suggest the firm may use audio recording at GM to prepare minutes.

Another advantage in the Romania 2008 Code is the nominated persons trained specifically, periodical basis for handling matters with investors.

On the contrary, the Hungarian Code illustrates decision-making process of managing body, such as: all the members of MB have opportunity to express their views on relevant issues.

Another strong feature of the Bucharest Code is pointing roles of BD in evaluating the adequacy of firm organizational, administrative and accounting structure. While Budapest Code suggests SB is informed by BD if they receive offer of executive MGT in another company not in firm group.

## **The 1<sup>st</sup> Establishment of a so-called Limited Eastern European Representative Corporate Governance standards**

With the selection of Romania and Hungary as two European countries (limited) which represent in the construction of general corporate governance principles and standards, we build the below table with the following criteria:

Firstly, it includes contents that enable firm to encounter corporate governance issues after the corporate scandals and financial crisis. It also functions as a summary of general corporate governance standards from these two European representative countries.

Therefore, we use the term "Limited Eastern European Representative Corporate governance standards" to represent for the common criteria. The term "limited" here means the criteria mentioned below is better in the light of the author's appraisal, which is considered in the context that the financial crisis and the corporate scandals caused many errors in the system of Corporate Governance in Europe. It is also constructed in the way that being the better understandable criteria.



**Table 2 – A summary of A Limited Eastern European Representative Corporate Governance general standards**

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	Provides BD with information on insider dealing or market manipulation; approve the audit plan; monitor the objectivity of the EA;	Review annual audit schedule;
CEO and The Chair	Responsibilities separated or by the same person;;	The Chair prepares agenda and proposals at least 5 days before meeting with SB;
Corporate Secretary	N/A (for further research and implementation)	N/A (for further research and implementation)
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors	Roles and duties set in CG framework; update skills and improve knowledge of firm activities;	Meet at regular intervals, adopt decisions; Avoid insider dealing or market manipulation of securities;
Independent director	A balance of EDs and independent NEDs;	Have no significant relationship with the co. and executive MGT;
Supervisory board to the Management	Board has effective capacity to supervise;	N/A (for further research and implementation)
Supervisory to the Board of Directors	IC body consult with BD for transactions with related parties; Sufficient size;	Establish consultative committees on topics chosen by board;
Internal control	Consider proportion b.t quantity and quality of RM and IC resources and efficiency expected;	Facilitate the preparation of internal and external reporting of adequate quality;
Internal audit	Report directly to AC; report on RM, IC, governance functions once annually;	Provide deficiencies information that may have significant effect on firm performance in report;
External audit	Cooperate with IA; may audit an event with significant bearing on operation;	BD meet at least twice a year on financial reporting, RM and IC;
Disclosure and transparency	CG chapter mentioned in annual report;	Formal and transparent appointment of directors;
Shareholders	could nominate executive officer and SB member;	Establish an effective and active communication policy with share holders;
Employee	Avoid insider dealing or market manipulation of securities; NEDs not be employee;	N/A (for further research and implementation)
The corporation as a whole entity (enterprise)	Integrate economic, social and environmental concerns in business;	Adopt a clear, transparent CG framework defined in CG charter/regulation;

## <C.2> -Group 2 – Relative Good Corporate governance group analysis

### **Bulgaria Code for Corporate Governance 2012 analysis:**

The code complements the Bulgaria legislation and instructs companies on how to apply CG principles and practices.

Good recommendations involved in the 2010 Code include, but not limited to, explain executive management involving Board of Director and MGT board members. Also, it suggests corporate board explain reasons for not adopting or non-compliance with CG.

Besides, it explains more one-tier governance structure (with Board of Directors controlling) and two-tier structure (including SB oversight and MGT Board carrying MGT functions).

A minor point is not clarifying the roles of CEO.

For a summary on corporate governance factors, please refer to the Exhibit 2.

### **2012 Corporate Governance for Microfinance Institutions (MFI) analysis:**

This is the code for MFI which include banks, non-bank financial institution, credit union, NGO.

One of its advantages is the commitment to social goals and targets of Board.

Different from the Bulgarian Code, here, the Code encourages BD seek in-depth information about social performance through market research.

Generally, The Code strengthens roles of board. For example, According to the code, when joining the Board, directors need to sign code of conduct and a form of conflict of interest.

On the other hand, it still needs to clarify the value, consistency and reliability of indicators used in balanced scorecard or social scorecard.

Please see the Exhibit 4 for more information.

### **Comparison**

The 2012 Bulgaria Code mentions several good points such as: any conflict of interest disclosed to BD. (see Exhibit 2). It also mentions BD remuneration based on contribution and responsibilities, and the ability to retain qualified BD members. Among its different points includes the role of MGT board in a two-tier system, in developing RM and IA policy.

The 2012 Code for MFI emphasizes the role of board and suggests a balance between board and management. Besides, it clarifies the duty of board is management succession. Therefore, based on above analysis, here we try to build a set of common standards.

### **The 1<sup>st</sup> Establishment of a so-called relatively Good Corporate Governance standards**

This following table is built with the consideration of comparative analysis of three (3) selected above countries.

**Table 3 – A relatively Good Corporate Governance standards**

<b>Subjects or parties</b>	<b>Main quality factors</b>	<b>Sub quality factors</b>
Audit committee	25% of board are independent; meet IA regularly;	Accordance with operation; AC assist BD;
CEO and The Chair	CEO guide board in framing key policy decision, ensure board has adequate financial/operation information with sufficient time before meetings;	Define clearly role of CEO vs. board; CEO structure materials for board meeting to focus on policy and strategy issues;
Corporate Secretary	Prepare minutes for board/committee meetings;	Keep detailed firm records;
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors	Continued professional training BD; sufficient time for tasks; Prevent any real or potential conflict of interest;	Familiarize with basic legal and financial issues related to their tasks; develop board policy manual;
Independent director	Remuneration depend on individual participation in meetings;	Not member of MGT;
Supervisory board to the Management	N/A (for further research and implementation)	Cooperate with MGT board in 2 tier system, on business plans;
Supervisory to the Board of Directors	Oversee and control executive MGT;	Prevent any real or potential conflict of interest;
Internal control	Depend on Quality of information;	
Internal audit	Communicate with AC; expertise in accounting and finance;	Direct reporting line to AC;
External audit	At least once a year meet with AC to discuss IC;	Selected based on rotation principle; information of EA posted on web;
Disclosure and transparency	Equal access to shareholder, stakeholders, investors and not allow for any abuse of insider trading;	Transparent election of BD members; financial reports in 3 years posted on web;
Shareholders	GM elect and remove BD; have access to company remuneration policy;	Access to information about transaction with related parties;
Employee	CEO build a strong staff team;	CEO ensure interests of shareholders, stakeholders and employee represented;
The corporation as a whole entity	N/A (for further research and implementation)	Wider areas of check, balance, and delegation of authority;

### **D.3- The 1<sup>st</sup> Establishment of a so-called European Limited Comparative Corporate Governance standards**

#### **Comparison of corporate governance standards between <D.1> and <D.2> group**

Before we come to set up a set of general limited standards of corporate governance, we need to review the standards combined in the previous two (2) groups

The advantages of Eastern European Representative Corporate Governance standards are, but not limited to, roles of internal control and internal audit.

On the contrary, the relative Good Corporate Governance Group standards define one-tier and two-tier governance system and describe roles of SB.

#### **A so-called Eastern European Limited Comparative Corporate Governance Set of standards**

Based on the 1<sup>st</sup> Establishment of a so-called relative Good Corporate Governance standards and The 1<sup>st</sup> Establishment of an Eastern European Representative Corporate Governance standards (above establishments), we consider to build comparative standards for a limited Eastern European Corporate Governance system.

**Table 4 - The Eastern European Limited Comparative Corporate Governance standards**

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	25% of board are independent; meet IA regularly;	Review annual audit schedule; Assign to IA execution of monitoring activity in IA strategy, IA charter and manual;
Nominating committee	At least once a year evaluate chairman and members of MB;	Deal with adequacy of HR and MGT succession;
Numeration or Compensation Committee	Have a charter; determine compensation for CEO and senior MGT;	Formulate remuneration guidelines and benchmark;
CEO and The Chair	Responsibilities separated; Define clearly role of CEO vs. board; Chair discuss key issues with CEO;	The Chair prepares agenda and proposals at least 5 days before meeting with SB; Board Chair interact regularly with CEO;
CFO	Attend SB meeting with CEO;	Attend board meetings with CEO;
Corporate Secretary	Prepare minutes for board/committee meetings;	Keep detailed firm records;
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors or Management Board	Act in a professional and diligent manner; develop board policy manual; 7 to 9 members;	Prevent any real or potential conflict of interest; higher level of board involvement with MGT; Limit MGT participation to CEO;
Independent director	Have no significant relationship with the co. and executive MGT;	Not member of MGT;
Supervisory board to the Management	Receive report from MGT board on IA and RM system in 2 tier system;	BD supervise business and financial plans;
Supervisory to the Board of Directors	Oversee and control executive MGT;	Sufficient size; promote effective and appropriate operation of IC environment;
Internal control	Depend on Quality of information;	Facilitate the preparation of internal and external reporting of adequate quality;
Internal audit	Provide deficiencies information that may have significant effect on firm performance in report;	Report directly to AC; report on RM, IC, governance functions once annually;
External audit	Selected based on rotation principle;	At least once a year meet with AC to discuss IC;
Disclosure and transparency	Equal access to shareholder, stakeholders, investors and not allow for any abuse of insider trading;	Transparent process of nomination of SB;
Shareholders	GM elect and remove BD; have access to company remuneration policy;	could nominate executive officer and SB member;
Stakeholders	Promote at least one annual meeting with analysts, brokers, rating agencies, market experts providing analyses for investors;	The firm nominates a person trained specifically for handling matters with investors; CG framework recognize legal rights of stakeholders;
Employee	CEO build a strong staff team;	CG ensure effective interaction with the co.'s stakeholders;
Accountability	BD establish guidelines for relationship with investors;	Each director inform BD conflicts of interest;

Leadership	CEO ensure interests of shareholders, stakeholders and employee represented;	Functioned by BD and SB;
The corporation as a whole entity	Have CG report showing viewpoints considered when evaluating work of SB, MB, executive MGT;	Integrate economic, social and environmental concerns in business; Wider areas of check, balance, and delegation of authority;
The Code	CG framework encourage active cooperation b.t corporations and stakeholders in creating wealth, jobs;	Board approve code of ethics;

(Note: source are based on corporate governance standards of group <D.1> and <D.2> and the appraisal of these standards)

One element of the above content is the *competitive advantage*. It is a sustainable approach to CG and management which are built on non-material factors such as people, social capital (values, motivations, relationships), organisation and management (organisational culture, management systems) and intangible assets (knowledge, regulations). This element can be part of a differentiation strategy when a company aims to stand out as socially sensitive and stakeholders friendly which may be appreciated by the customers and workers.

#### 4. CONCLUSIONS

The concept presented in this research paper is founded on previous researches and latest governance practices which could provide guidelines of implementing the principles of sustainable corporate governance into businesses and encourage management practices. Sustainable corporate governance and sustainable management, hence, might become concepts in many kinds of companies which may find useful when confronted with complexity and instability of their environment.

Among several key corporate governance issues is the setting of a compensation policy, and therefore, a sound organization of compensation and remuneration committee. As we see from Exhibit 10, though guidelines for compensation pay out are referred to, the operation of remuneration committee may be differently organized to achieve sound results (see our above analysis and table). The Bucharest Code 2008 pointed the role of directors of taking decisions in the interests of the company.

On the other hand, the Budapest Code emphasizes role of BD or Managing body in overseeing of the efficiency and effectiveness of CG. And the Bulgaria Code clarifies BD need to allocate tasks and obligations properly among members. Besides, the Microfinance Institution Code also suggests board try to manage not to govern.

In consideration of corporate governance issues analyzed in the previous sessions, we proposed the main and sub quality factors in this paper **a set of general corporate governance standards** in a limited Eastern European model with selected countries. It has some implications for further research and proper recommendations to relevant government and organizations.

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## Glossary and Notes

AGM	Annual General Meeting, (and GM, in which can be facilitated by Internet tools)
AFG	Association Francaise de la Gestion financiere
CGB	Corporate Governance Board
GM	General Meeting (see above) or Shareholders' Meeting
AGM	Annual General Meeting
CG	Corporate Governance
DG	Directorates Governance
SB	Supervisory Board
BD	Board of Directors
SGB	Supreme Governing Body (SB and BD)
CGB	Central Governing Body (SB and BD)
CEO	Chief Executive Officer, or Chief Executive
CFO	Chief Financial Officer, or Finance Director
MB	Management Board
AC	Audit Committee
CNC	Compensation or Numeration Committee
NC	Nominating Committee
SEC	The Securities and Exchange Commission
MGT	Management
BM	Board Meeting
AR	Annual Report
IA	Internal Audit
RM	Risk Management
IC	Internal Control



**Exhibit**

**Exhibit 1 – Evaluation of 2008 Hungary CGR**

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Review annual audit schedule; At least 3 members; financial /accounting background;	Assign to IA execution of monitoring activity in IA strategy, IA charter and manual;	Be informed by BD if they receive offer of executive MGT in another company not in firm group; may cover RM, IA and IC;	<u>Not mentioned clearly in the Code;</u>	
Nomination committee	At least once a year evaluate chairman and members of MB;	At least 3 members; assist to select CEO, SB, MB; independent;	Be informed by BD if they receive offer of executive MGT in another company not in firm group;	Ensure SB and MB members posses adequate qualification/experience to perform duties;	
Compensation or Remuneration committee	Formulate remuneration guidelines and benchmark;	At least 3 members; NEDs; independent;	Support the company in remuneration which exposed to conflicts of interests;	<u>Not mentioned clearly in the Code;</u>	
CEO	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	May specify additional audit tasks;	<u>Not mentioned clearly in the Code;</u>	
The Chair	Elected from board;	Familiar with firm operation;	The chairman of GM responsible for smooth execution of GM;	Compliance with Hungarian laws and BSE regulations;	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Responsibilities separated; or by the same person;	<u>Not mentioned clearly in the Code;</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Compliance officer	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Board of Directors	Sufficient size; from 5 to 11 members;	Called managing body;	Supervise business and financial plans; discuss SB and set firm objectives; identify major risk areas;	<u>Not mentioned clearly in the Code;</u>	
Executive director	Managing body re-evaluate executive MGT;	Join in managing body;	GM vote for executive officers; maintain IC system;	<u>Not mentioned clearly in the Code;</u>	
Non-executive director	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Join in managing body;	<u>Not mentioned clearly in the Code;</u>	
Independent director	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Have no significant relationship with the co. and executive MGT;	<u>Not mentioned clearly in the Code;</u>	

CFO	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	
Management team (Board)	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Follow procedures and processes;	<u>Not mentioned clearly in the Code;</u>	
Supervisory board	Follow procedures and processes; meet regularly with managing body; from 3 to 15 members;	Represent at GM to answer questions; Sufficient size;	Opinion on items or decisions on GM meeting agenda; GM vote for each candidate; BD inform SB achievement of firm objectives;	<u>Not mentioned clearly in the Code;</u>	
Internal control	Head of IA prepare IC schedule;	Managing body sets a reliable IC system & principles;	BD define RM guidelines and IC mechanisms in place; appropriate responses to vital operational/business financial/other risks;	Comply with legal requirements; enable firm to operate efficiently;	
Internal audit	Head of IA report to SB or managing body;	Provide deficiencies information that may have significant effect on firm performance in report;	Report directly to AC; report on RM, IC, governance functions once annually; examine suitability of IC for managing risks; evaluate RM system;	<u>Not mentioned clearly in the Code;</u>	
External audit	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Cooperate with IA; may audit an event with significant bearing on operation;	<u>Not mentioned clearly in the Code;</u>	
Disclosure and transparency	Guidelines cover firm objectives, ownership structure;	Guidelines cover operational and business results;	Establish IR department to communicate with shareholders;	<u>Not mentioned clearly in the Code;</u>	
Shareholders and Minority Stockholder		Electronic voting if participating shareholders > 25;	Firm inform GM on website; could nominate executive officer and SB member;	<u>Not mentioned clearly in the Code;</u>	
Accountability	Disclose community relationship strategies;	Disclose ethical guidelines, environmental protection;	Firm financial reports follow IFRs guidelines;	<u>Not mentioned clearly in the Code;</u>	
Leadership	<u>Not mentioned clearly in the Code;</u>	<u>Not mentioned clearly in the Code;</u>	Functioned by BD and SB;	<u>Not mentioned clearly in the Code;</u>	Understood from the code;
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties. Either dual-board or single board can be successful with intensive interaction.				

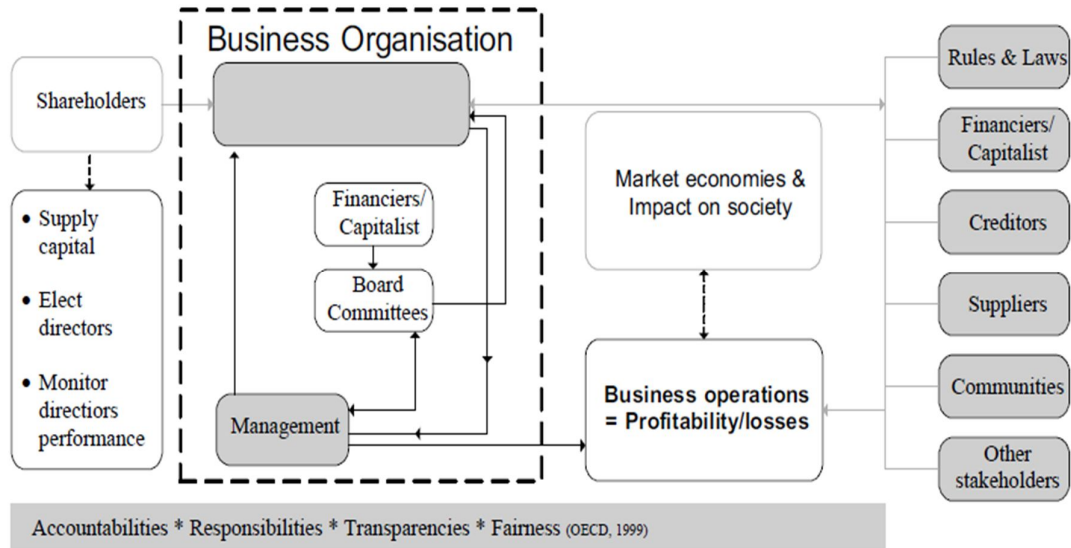
Exhibit 2 – Evaluation of Bulgaria Code of CG 2012

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	<u>Not mentioned clearly in the Code</u>	Accordance with operation;	GM elect AC; AC assist BD;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CEO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
The Chair	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Chairman of BD be independent director;	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Board of Directors	Controlling; Represent the co.; follow prof.ethical code of conduct;	accountable, loyal, responsible, transparent, independent, duty of care;	Set vision, goals, strategies; proper functioning of financial and information system;	in the best interests of shareholders;	In one-tier system;
Executive/Representative director	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Non-executive director	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Independent director	<u>Not mentioned clearly in the Code</u>	Remuneration depend on individual participation in meetings;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CFO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Management team	MGT functions;	Represent the co.;	Implement co. strategy; evaluated by SB;	Effective performance of firm;	Called MGT board in two tier system;

Supervisory for the board	Oversight; impartiality; at least one with financial competence; independent;	Represent the co.; appoint MGT board; continued prof. training;	Give directions for MGT board in two tier system; remuneration based on individual participation in meetings and contribution;	In the best interest of co. and shareholders;	
Supervisory for the managers	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Internal control	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Firm develop IC system to manage risks;	<u>Not mentioned clearly in the Code</u>	
Internal or statutory audit	<u>Not mentioned clearly in the Code</u>	SB give guidance to MGT board on IA and RM system;	BD ensure proper function of IA and RM;	<u>Not mentioned clearly in the Code</u>	
External audit	information of EA posted on web;	Selected based on rotation principle;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	Transparent election of BD members;	BD define disclosure policy;	Firm post on web information about compliance with the Code;	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	Access to information about transaction with related parties;	GM approve BD remuneration amount; participation of all encouraged;	GM elect and remove BD; have access to company remuneration policy;	<u>Not mentioned clearly in the Code</u>	
Accountability	Firm identify stakeholders those interest in its activities;	Conflicts of interest disclosed to SB;	BD establish guidelines for relationship with investors;	<u>Not mentioned clearly in the Code</u>	
Leadership	<u>Not mentioned clearly from the Code</u>	<u>Not mentioned clearly in the Code</u>	By BD , or by MGT and SB in 2 tier system;	<u>Not mentioned clearly in the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

**Exhibit 3 – Corporate governance parties**

(Source: Loh Leong Hua & Ragayah Haji Matzin, *Corporate Governance: Theory and some insights into the Malaysian Practice*, 2007)



**Exhibit 4 – Evaluation of 2012 Code for Microfinance Institutions**

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Independent, not include membership from MGT;	25% of board are independent; meet IA regularly;	Have a charter; may confer with CEO or CFO if any matters in auditing;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Deal with adequacy of HR and MGT succession;	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	<u>Not mentioned clearly in the Code</u>	25% of board are independent;	Have a charter; determine compensation for CEO and senior MGT;	<u>Not mentioned clearly in the Code</u>	
CEO	Attend SB meeting with CFO;	Define clearly role of CEO vs. board;	Formalize CEO's annual review process; included in board with senior MGT; guide and support board activities;	<u>Not mentioned clearly in the Code</u>	
The Chair	Discuss key issues with CEO;	Chair meeting of board after agenda with CEO;	Lead board; evaluate the effectiveness of board members;	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	Leadership to the board;	Board Chair interact regularly with CEO;	<u>Not mentioned clearly in the Code</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	Keep detailed firm records;	Prepare minutes for board/committee meetings;	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	

Board of Directors	Ethical standards; avoid making inadequate information decision; objectivity, personal integrity, loyalty;	Ensure adequate resource to achieve mission; prepare and attend meetings; independent;	Develop/Approve strategic direction; understand firm strengths and weaknesses; avoid interrelated transactions, insider lending;	Act in the interest of the co. as a whole;	
Executive director	Executive committee assist the board roles;	Executive committee meet b.t board meetings;	Have executive committee, a middle ground b.t board and MGT;	<u>Not mentioned clearly in the Code</u>	
Non-executive director	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Independent director	<u>Not mentioned clearly in the Code</u>	Not member of MGT;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CFO	<u>Not mentioned clearly in the Code</u>	Attend SB meeting with CEO;	Attend board meetings with CEO;	<u>Not mentioned clearly in the Code</u>	
Management team (Board)	<u>Not mentioned clearly in the Code</u>	higher level of board involvement with MGT;	Limit MGT participation to CEO;	<u>Not mentioned clearly in the Code</u>	
Supervisory board	<u>Not mentioned clearly in the Code</u>	Made up of independently appointed directors;	Involved in a dual board structure in EU with senior MGT	<u>Not mentioned clearly in the Code</u>	
Internal control	<u>Not mentioned clearly in the Code</u>	Depend on Quality of information;	EA discuss on IC;	<u>Not mentioned clearly in the Code</u>	
Internal audit	Direct reporting line to AC;	Communicate with AC; expertise in accounting and finance;	Reports to board;	<u>Not mentioned clearly in the Code</u>	
External audit	<u>Not mentioned clearly in the Code</u>	Communicate with AC; board appoint EA;	At least once a year meet with AC to discuss IC;	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	<u>Not mentioned clearly in the Code</u>	Board receive monthly or quarterly financial /operating reports;	Board transparent about conflict of interest;	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	<u>Not mentioned clearly in the Code</u>	External factor of CG;	May have a long term perspective, retain value in the co.;	<u>Not mentioned clearly in the Code</u>	
Accountability	<u>Not mentioned clearly in the Code</u>	Co. charter or shareholder agreement;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Leadership	A leadership development plan aim at employee with strong growth potential;	CEO ensure interests of shareholders, stakeholders and employee represented;	Act by chair and CEO; board identify times when major changes needed;	<u>Not mentioned clearly in the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties. Either dual-board or single board can be successful with intensive interaction.				