

INFORMATIONAL TRANSPARENCY OF LISTED AND NON-LISTED COMPANIES

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***Abstract.** Transparency regarding the economic and financial information of economic entities is a necessary condition for substantiating stakeholders decisions, but it is sometimes viewed as a way of compromising the image of the company, especially if that information is not favorable. Therefore, companies' attitude towards transparency of information is different. Transparency is not limited to the availability of information, but also to its veracity and fidelity. Information on the activity of listed companies is addressed to a broader and more dispersed stakeholder group than that of non-listed companies and therefore there are special regulations on transparency of information. The present paper analyzes comparatively the transparency of information of listed and non-listed economic entities, and research results show that listed companies are more transparent than non-listed companies, but they do not yet have enough of an openness for transparency as the information needs of the stakeholders would require.*

Keywords: transparency, listed and non-listed companies, financial and non-financial reporting, stakeholders

JEL classification: M41, M42

Introduction

Transparency requirements are a concretization of the accounting information function. Improving this function is a major direction of action for accounting practice, because “higher transparency is associated with a higher level of accounting quality” (Gros & Wallek, 2015).

The rigidity of transparency rules depends primarily on the categories of users of information, stakeholders, how they interact with society. The more an enterprise is economically and socially important various interested parties, the more it needs to prove accountability, transparency and rigor in financial reporting.

Transparency practices are key elements in winning investor confidence and have an essential contribution to the success of fundraising operations through the capital market. “International capital markets seek to achieve investor confidence through corporate governance mechanisms. Transparency and disclosure is one of the most important aspects of corporate governance which becomes more important every single day as global business applications spread all over the world and information needs of owners, investors, creditors and other interest groups to businesses increase.” (Esendemirli & Saygili, 2014).

Transparency is linked, on the one hand, to the amount of information communicated (apparent transparency), but also to the quality of financial-accounting information, to its accuracy, to the faithful image it builds on the state of society (transparency in essence). This fact is also specified by Mancini & Lamboglia (2017), with other terms: “The transparency level is assessed by the following dimensions: formal transparency - evaluated only through the existence or the nonexistence of the information on the public organisation website - quality transparency and full transparency.”

Due to the role that listed companies have in the economic market, given the actors involved in this category - the investors - and their information needs, the complex, transparent and continuous communication required of the listed companies compared with the unlisted companies is justified. Transparency and communication are the basic principles for a functioning capital market.

Transparency for unlisted companies could be related to the correct information of

stakeholders (employees, clients, suppliers, creditors), but not regulated by law, it is missing or is made by informal, less costly, inaccessible to the public and the information transmitted is selective, depending on the interest of the reporting entity.

Research Methodology

The purpose of this paper is to analyze the level of transparency in the financial and non-financial communication of entities listed on BSE, taking into account the legislation in force and the users' needs for such information. The issues that have been deepened relate to the importance and usefulness of promoting transparency and openness policies to investors, financial and non-financial reporting by listed and unlisted companies, the role of the audit in protecting investors' interests.

In order to achieve the objective, we have analyzed and centralized studies and articles published on this topic in the specialty literature, also taking into account the specific regulations.

Our scientific approach is based on an approach that combines qualitative and quantitative research, trying to capture the theoretical valences and the practical challenges posed by transparency, especially in the case of listed companies, but also in the case of unlisted companies.

Because this field is rapidly evolving, we have also used communicates and other information available on the Internet.

Through case study, we will analyze in terms of 'yes or no' the extent to which the listed companies comply with the transparency requirements, have made public or not certain information. For this we took over the data gathered by BSE specialists and published on the website <http://www.rocapmarketmodern.ro/>, on the basis of which we have formed categories and made an analysis regarding the degree of transparency of listed companies on the BSE regulated market.

Chapter 1. Financial and Non-Financial Reports of listed and non-listed companies

It is natural for the reporting rules to be different for listed and non-listed companies because each category has specific economic needs and objectives different from one another and legislation has to pursue and adapt to these issues. We refer first of all to the main recipients of reporting according to which society will disseminate the information. Other differences are shown in Table 1.

Comparison of listed companies - unlisted companies in terms of reporting

Table 1

	Listed companies	Non-listed companies
Main Recipients of reporting	Investors	State
Annual reporting	According to IFRS Public	According to national regulations Confidential
Half-yearly reporting	Mandatory Public	Mandatory for a turnover exceeding 220.000 lei Confidential
Quarterly reporting	Mandatory – for companies listed on the regulated market Recommended – for companies listed on the alternative market	–
Audit	Mandatory	Mandatory only for companies who surpass the limits of two of the following three criteria: Total assets: 3.650.000 EUR; net turnover: 7.300.000 EUR; Average number of employees during financial exercise: 50

Source: authors' projection

For non-listed companies, the annual and half-yearly financial statements are confidential in the sense that they are not obliged to publish them in the public interest, and they are forwarded only to the Ministry of Public Finance, whose website will briefly list the main items in the financial statements. Thus, the transparency of unlisted companies comprises only the information

in the table below:

Financial information public for unlisted companies

Table 2

INDICATOR NAMES
Indicators from BALANCE
FIXED ASSETS - TOTAL
MOBILE ASSETS – TOTAL, of which
Stocks (raw resources, materials, production in the process of execution, semi-products, finite products, merchandise etc.)
Receivables
Housing and bank accounts
PAYMENTS IN ADVANCE
DEBTS
REVENUES IN ADVANCE
PROVISIONS
CAPITAL – TOTAL, of which:
Paid subscribed capital
The patrimony of directing
Public patrimony
Indicators from the PROFIT-LOSS ACCOUNT
Net turnover
TOTAL REVENUES
TOTAL EXPENDITURE
Gross profit or loss
-Profit
-Loss
Net profit or loss of financial exercise
-Profit
-Loss
Indicators from INFORMATIVE DATA
Average number of employees
Type of activity according to CAEN classification

(Source: <http://www.mfinante.gov.ro/>)

Listed companies are also subject to the procedures for publishing the above data, but for them transparency refers to a more complex communication, based on relevant, regular and continuous information, in accordance with the highest financial and non-financial reporting standards, needed to substantiate the investment decision of market participants-investors in general, and shareholders in particular. Table 3 highlights the main reports which listed companies have to publish, as it is specified in Listed company's guide – Transparency and communication standards of listed company [11].

Categories of reports for listed companies

Table 3

Periodic reports	Annual	Annual reports - balance - profit and loss account	All documents have to be approved by the general shareholder gathering.
		Grades at financial statements	
		Managers' report	
		Financial audit report	
	Half-yearly	Balance	Do not have to be approved by the general shareholder gathering or audited.
		Profit and loss account	
		Managers' report	
	Quarterly	Balance	Mandatory for companies listed on the regulated market, recommended for companies listed on the alternative market
		Profit and loss account	
Managers' report			
Current reports (information about important events occurring in the issuer's activity that may lead to)	Convocation of the general gathering		
	Decisions of the general gathering		
	Dividend payment information, share value, payment term, ways of dividing		
	Changes in control of the company		
	Fusion/Division projects		
	Disputes involving the issuer		
	Initiation and termination of the dissolution, insolvency, judicial reorganization or bankruptcy		

Source: authors' projection

A study by Girbina et al. (2012) emphasizes that adopting IFRS has had a positive impact on the level of transparency of listed companies, the amount of disclosure being higher.

If these standards bring added transparency to financial reporting, we ask ourselves whether they should not be applied by unlisted entities as well. Albu et al. (2011) investigated the perception of professional accountants about entities that should apply IFRSs on a mandatory basis, depending on their size. 100% of respondents consider that very large enterprises (1000 employees and more) should apply IFRS mandatory, 90% consider that large enterprises (250 - 999 employees) should apply IFRS, and 3% consider that all enterprises in Romania must apply these standards. This latter percentage is not at all convincing, and our explanation is that for smaller, unlisted firms, there are not primarily the right recipients - the investors - for whom such complex situations are to be developed and the cost-benefit ratio is not one motivating the application of these standards.

Chapter 2. The role of audit in ensuring transparency

Legal entities of public interest, whose securities are traded on a regulated market, have the obligation, by law, to audit the annual financial statements drawn up on the basis of IFRS.

The financial audit proves its necessity in listed companies through the demand that exists for this activity, a request that is due to the existence of a conflict of interest between the company, responsible for the disseminated information and the users of such information. Audited information is more credible and more useful in the decision making process for key users, investors.

Auditing has a vital role to play in the smooth functioning of capital markets, promoting transparency and sustaining investor interests. The financial audit ensures transparency in essence, the credibility of the content of financial statements. "The audit committee must be held to a higher level of accountability for the types of transactions that a company is using and insure that transparency of the substance of economic reality is being communicated to the investors." (Lander & Auger, 2008).

Auditing financial statements is also a way of reducing the informational risk, which will also lead to a reduction in the risk premium claimed by investors and, consequently, the reduction of capital costs (Danescu, 2007).

The financial auditor is responsible, beyond the professional service, for the public interest towards all persons who use the information audited in the decision-making process. In order to meet the public interest, the auditor must observe the following fundamental principles, which are valid for all professional accountants: integrity, objectivity, professional competence, confidentiality, professional conduct, respect for technical and professional standards. These principles allow it to carry out its work at the highest standards and to issue an opinion unaffected by unwanted influences in which direct and indirect beneficiaries can have confidence.

When examining the financial statements for the purpose of issuing an opinion, the auditor should check the observance of accounting principles, including the principle of the continuity of methods, the principle of continuity of activity, assuring investors and shareholders that these principles have been respected and thus protecting them from the bankruptcy of the company, in the face of the risk that the evaluation methods will not be changed by the hidden interests of the management. An unreserved opinion improves the image of the company among shareholders and potential investors as it provides reasonable assurance that the financial statements are not vitiated by significant frauds and errors, and the society is trustworthy, not being involved in such negative practices. Guarantees provided by professionals in financial audit are the best business card for winning investor confidence.

An unreserved opinion is of help to investors precisely through the existence of the reverse, of the reserved opinion, of the contrary opinion and of the impossibility of expressing an opinion, otherwise there would be no triage, the unreserved opinions would become a common denominator for all societies and other criteria should be decisive in adopting the decision to invest in a company. In this respect, in a study conducted in 2013, Cordos & Fulop note that following the Enron scandal, auditors have become more careful, more demanding, reserved opinions have appeared more and more in line with reality, and in this way auditors have regained investor confidence. The same study also reveals greater stakeholder confidence in the views expressed by Big 4 auditors, to the detriment of smaller audit firms. All the listed companies analyzed on the FTSE100 received unreserved opinions from the Big 4 auditors, which proves the great rigor and seriousness of the listed companies in the United Kingdom, as opposed to the companies in the selected BVB Category I sample for whose financial statements auditors have often expressed reservations in the 2008-2012 period.

Thus, we note the accountability of the auditors to investors.

Chapter 3. Case study on the communication of listed companies through their own web pages

In the digital age, presence in the online environment through a website is a basic element for any company. This is the simplest way that an investor or potential investor comes into contact with the company. Therefore, it is crucial that all information of public interest be provided in a structured, easily accessible and readable way: company presentation, latest company news, financial reports and other current reports, information on General Shareholders' Meetings, etc. Developing a section dedicated to investor relations, both in Romanian and English, increases the chances for investors to get acquainted with an issuer and make an investment decision.

In order to evaluate and improve the transparency and communication of listed companies with investors, the Bucharest Stock Exchange conducted a study on the information provided by listed companies through their own web pages. Thus, aspects related to the presence or non-existence of a section for Investor Relations (IR), both in Romanian and English, have been identified to mention that the company is listed on the stock exchange, the existence or absence of information on the share price of the company, inclusion of a separate section dedicated to Corporate Governance on the website. In addition to the quantitative aspects, we have highlighted the strengths of online communication as well as the issues that should be improved. The results of the study are reproduced in Appendix 1 - White Paper on the Communication of listed Companies.

Synthesizing, the results are as shown in table 4:

Criteria met by listed companies

Table 4

Number of met criteria	Number of companies	Percent
0-1	10	12.05%
2	21	25.30%
3	19	22.89%
4	24	28.92%
5	9	10.84%
Total	83	100.00%

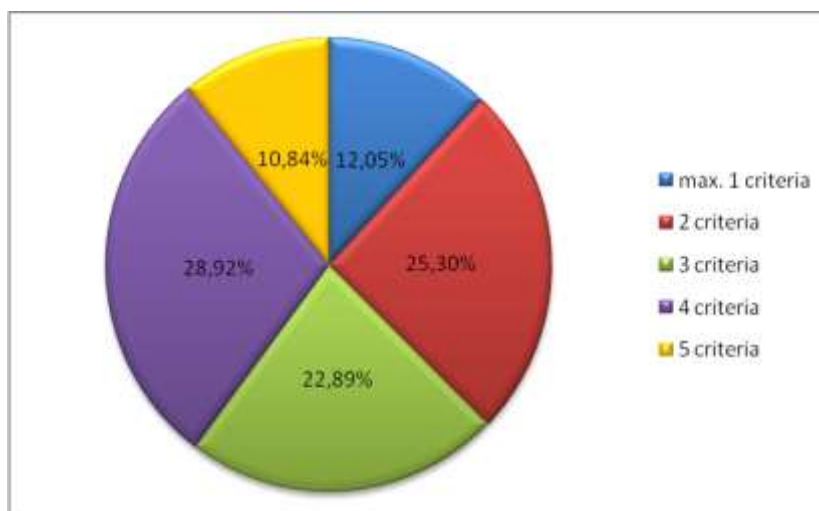


Figure 1. Graphic representation of the number of criteria met by listed companies

Source: Authors' projection

In figure 1, it is noticed that about one quarter of the listed companies meet 2, 3 or 4 criteria, and the extremes - 1 criterion and 5 criteria - are reached by fewer companies, 12.05% and 10.84% respectively, resulting in an average of 3 criteria observed by the companies analyzed. There are variations in the information communicated by entities, even within the same entity, there are areas with higher transparency and areas with lower transparency.

If the degree of transparency of listed companies on the regulated market of the BSE, considered as a reference, is medium, we ask ourselves to what extent the companies listed in the other categories communicate with the investors. In this context we should not be surprised why resource owners are reluctant to invest on the capital market.

From a vertical analysis of the figures in Annex 1, we have 82 companies (98.80%) that have published on their own website a section for the relationship with Romanian investors and 55 companies (66.27%) who have also published information for investors in English. 58 companies (69.88%) refer to their listing on their own website, and only 11 (13.25%) offer information about the share price. 43 companies (51.81%) have published a section on corporate governance.

If it was found that the goal of transparency is not reached with satisfactory quotas, as noted also by the European Commission who has sent to Romania a reasoned opinion on the non-application of the European rules on the transparency of regulated markets, BSE announced the launch of a new reporting system for companies listed on the regulated market, called the Information System for Issuers Reporting (ISIR). We welcome the initiative of the BSE to standardize reporting through the new ISIR platform, given that the strengths and weaknesses identified by BSE specialists reveal a mess of reporting and, as a result, a lack of comparability.

According to the BSE press release, ISIR offers issuers a mechanism at the highest international standards for fast and effective public disclosure of reports and advertisements to investors. The platform aims to standardize the reporting format to ensure comparability and increase market transparency by providing a secure and reliable communications system for publishing and distributing issuer reports. By launching the ISIR platform, BSE will provide a

dedicated news channel for listed companies to communicate with the market in a fast, transparent and reliable way.

Analyzing the websites of a few companies not listed on the stock exchange, we have noticed that financial and non-financial information for investors, but which may be of interest to other categories of users, is totally lacking. This is understandable in the context in which their goal is not to attract funds through the capital market, some starting and part remaining family business, even if the turnover, the number of employees and the total assets in the last years places them among large entities.

Financing through the capital market is a less-used option in Romania, as in most continental European states where bank financing is dominant. In the Anglo-Saxon countries, the stock market plays a more important role, but overall, in Europe, the capital market only finances about 20% of private initiatives, with bank loans accounting for about 80% of funding methods, while in the US the financing of the companies is made in the proportion of about 80% through the capital market and only 20% through the banking market. Financial education in this respect, both among professional accountants and among business people and the general public, is the most important factor to take into account in changing the perception of the capital market.

Conclusions

Due to the role that listed companies have in the economic market, given the actors involved in this category - the investors - and their information needs, the complex, transparent and continuous communication required of the listed companies compared with the unlisted companies is justified. Listed companies should not hide behind the concept of confidential information in order to hide important, relevant information but prove fair-play in dealing with investors. But practically, transparency for listed companies is only related to reporting obligations set by law, but also at a more superficial level, as the study has noted numerous shortcomings in the form, not to mention the content of the report. The stock exchange should introduce clear media procedures so that they are accessible to all those interested. In this regard, it is important to recall the Bucharest Stock Exchange's effort to create a functioning capital market through the transparency survey conducted among the listed companies by launching a new reporting platform. In addition, companies should develop their own policies on the transmission of non-financial information, not just the requirements of the law, even if discretion, also called confidentiality, is the fundamental, natural accountant's attitude, and involves a prudent approach to financial and non-financial information. Transparency and communication are the basic principles for a functioning capital market.

Auditing has a vital role to play in the smooth functioning of capital markets, promoting transparency and sustaining investor interests. The information audited is more credible and more useful in the decision making process. An unreserved opinion improves the image of the company among shareholders and potential investors as it provides reasonable assurance that the financial statements are not vitiated by significant frauds and errors, and society is trustworthy, not being involved in such negative practices. Guarantees provided by professionals in the audit are the best business card for winning investor confidence.

We also consider of a great help for investors what the Corporate Governance Code of the Bucharest Stock Exchange requires entities traded on the regulated market of BSE to promote, at least once a year, meetings with financial analysts, brokers, rating agencies and other market specialists, in order to present financial analyzes, relevant to the investment decision, because the statutory audit ensures the credibility of the financial statements but does not interpret the figures.

This present research contributes to the development of theory and to improvement of economic practice, being a starting point for deepening the issue of transparency. We propose to continue to pursue the practical evolution of the measures taken by listed companies to inform investors, to further and more thoroughly analyze more detailed and concrete aspects of transparency, relating not only to form, but also to content.

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Annex 1 – The White Book of listed entities’ communication

Nr. crt. (Company)	IR page Romanian	IR page English	Mentions on BSE listing	Information on share price	Corporate Governance sections	Total met criteria
1	1	1	1	1	1	5
2	1	1	1	0	1	4
3	1	1	1	1	1	5
4	1	1	1	0	1	4
5	1	1	1	0	1	4
6	1	1	1	0	1	4
7	1	1	1	0	1	4
8	1	1	1	1	1	5
9	1	1	1	1	1	5
10	1	1	1	0	1	4
11	1	1	1	0	1	4
12	1	1	1	0	1	4
13	1	1	1	0	1	4
14	1	1	1	0	1	4
15	1	1	1	1	1	5
16	1	1	1	0	1	4
17	1	1	1	0	1	4
18	1	0	1	0	1	3
19	1	1	1	0	1	4
20	1	1	1	1	1	5
21	1	1	1	1	0	4
22	1	1	1	1	1	5
23	1	1	1	0	1	4
24	1	1	1	1	1	5
25	1	1	1	1	1	5
26	1	1	1	0	0	3
27	1	1	1	0	0	3

28	1	1	1	0	0	3
29	1	1	1	0	1	4
30	1	1	1	0	1	4
31	1	1	1	0	1	4
32	1	1	1	0	1	4
33	1	1	1	0	1	4
34	1	0	1	0	1	3
35	1	1	1	0	1	4
36	1	0	1	0	1	3
37	1	1	1	0	1	4
38	1	1	1	0	1	4
39	1	1	1	0	0	3
40	1	0	1	0	0	2
41	1	0	1	0	0	2
42	1	1	1	0	0	3
43	1	1	1	0	1	4
44	1	0	1	0	0	2
45	1	0	1	0	0	2
46	1	0	1	0	0	2
47	1	0	1	0	0	2
48	1	1	1	0	0	3
49	1	1	0	0	1	3
50	1	1	0	0	1	3
51	1	0	0	0	1	2
52	1	0	0	0	1	2
53	1	1	0	0	1	3
54	1	1	0	0	0	2
55	1	1	0	0	0	2
56	1	1	0	0	0	2
57	1	1	0	0	0	2
58	1	0	0	0	0	1
59	1	1	0	0	0	2
60	1	1	0	0	1	3
61	1	1	0	0	0	2
62	1	1	0	0	0	2
63	1	1	0	0	0	2
64	1	0	1	0	1	3
65	1	1	1	0	0	3
66	1	0	1	0	0	2
67	1	0	1	0	1	3
68	1	0	1	1	0	3
69	1	0	1	0	0	2
70	1	1	1	0	0	3
71	1	0	1	0	0	2
72	1	0	1	0	0	2
73	1	0	0	0	0	1
74	1	0	0	0	0	1
75	1	0	0	0	0	1
76	1	0	0	0	0	1
77	1	0	0	0	0	1
78	1	0	0	0	0	1
79	1	1	1	0	0	3
80	1	1	0	0	0	2
81	1	0	0	0	0	1
82	1	0	0	0	0	1
83	0	0	0	0	0	0
Total	82	55	58	11	43	249
Percent	98,80%	66,27%	69,88%	13,25%	51,81%	