Transparency and quality of financial disclosures.
The case of Romanian listed companies

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Introduction

This paper addresses the transparency and the quality of financial disclosures of listed companies in an emerging economy (i.e. Romania), in order to shed some light on the particular local context of the country and on its impact on accounting practices. While emerging economies have attracted a lot of attention from an economic perspective recently, less is known about the accountability processes of the entities in such countries. Emerging economies are characterized as countries having informal institutions, lower enforceability, and lower quality of auditing (Peters et al., 2011). The low regulatory and enforcement pressures would impede the transparency and quality of financial disclosures of entities in such countries; research is therefore needed to understand local practices.

On the other hand, there are pressures on emerging-market companies to communicate more transparent and relevant information (Kang, Gray, 2011). For example, norms and regulations have been issued to increase the transparency of companies in order to facilitate the movement of capital within the EU financial market (including the new members which are emerging economies) (Bonsón, Escobar, 2006). Therefore, improvements have been made over the last few years, at least at the regulatory level. There is a growing body of research on emerging economies, but emerging economies do not form a homogeneous group (Chamisa, 2000; Chand, 2005) and findings cannot be generalized. We report in this paper on the case of Romania, a member of the European Union (EU) since 1 January 2007, but which underwent several decades of communism during the second half of the 20th century. In

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a comparison of internet disclosures in Eastern Europe, E. Bonsón and T. Escobar (2006) found that Romania has the lowest disclosure score in the region. We therefore aim in this paper to investigate in more depth the current disclosure practices.

The tradition of secrecy developed during communism and the underdeveloped accounting profession affected the economic landscape of financial reporting after the fall of communism in 1989. Despite this, significant reforms were made during the transition phase in order to improve the financial reporting, including harmonization followed by the adoption of International Accounting Standards\(^1\) (IAS/IFRS) and corporate governance reforms. While countries adopt IAS/IFRS by anticipating specific benefits (Brown, 2011), in many cases emerging economies expect different benefits from those anticipated in the developed ones. Interviews with Romanian professionals suggest that, to some extent, the benefits of transparency, comparability, and „better” information materialized in Romania (Albu, Albu, 2012). On the other hand, Albu et al. (2013a) found that behaviors of Romanian entities vary to a very high extent when they deal locally with IFRS. Therefore, an in-depth investigation is still needed in order to grasp the consequences of the reforms on disclosure practices of Romanian entities.

In this paper we investigate how the Romanian listed companies in the first tier of the Bucharest Stock Exchange (BSE) disclose financial information. We are limited in our research by the sample size, which depends however on the size of BSE. Thus we analyze the reporting practices of the entire population of non-financial entities listed in the first tier of the BSE for the 2012 financial year. Therefore, we would be able to observe the outcome of the reforms conducted in recent years, including IFRS adoption. In order to compensate for the small size of the sample, we assess 50 items related to disclosure, synthesized in two indexes, one for transparency and another one for the quality of the information disclosed. Also, we investigate some factors associated with disclosures by analyzing the correlation with several firm-related factors such as size, type of auditor, growth, leverage, profitability, and the presence of institutional investors and of international sales. The results reveal a medium level of transparency and quality by the companies in our sample, with significant variations between firms and between the sub-scores.

The remainder of this paper is organized as follows: the general issues related to IFRS implementation are summarized based on a literature review, followed by an overview of the accounting reforms in Romania. Research methodology, results and conclusions follow.

\(^1\) The international standards were labeled IAS (International Accounting Standards) before 2001 and IFRS (International Financial Reporting Standards) after 2001. As in other studies, when specific timeframes are discussed, the label appropriate for that time is used in the paper, and when general assertions are made, both labels are used.
1. IFRS implementation – general issues

This paper is related to two streams of literature: one pertaining to the IFRS implementation in emerging economies, and the other one concerning corporate disclosure and transparency.

IAS/IFRS represent high-quality accounting standards, and their application is intended to result in improved comparability, transparency, and quality of the accounting information, among other benefits (Brown, 2011). However, concerns have been expressed with regards to the manner in which these standards are implemented, mainly because local (national and firm) incentives have been outlined to be very important in the application process (Ball et al., 2000; Daske, Gebhardt, 2006; Christensen et al., 2008; Bova, Pereira, 2011).

The extent of the benefits achieved after the IAS/IFRS implementation depends on factors such as the nature of the standards used before adopting IAS/IFRS, the level of compliance with the standards, the regulatory backing for the standards and the level of enforcement (Brown, 2011, p. 270). R. Larson and D. Street (2002) also found that the relationship between accounting and taxation is a serious impediment to IFRS implementation in many European continental countries. Consequently, some countries have features that might hinder proper IAS/IFRS implementation and create ‘an unfavorable environment’ for the standards; such features include the code-law tradition, bank orientation, concentrated ownership, poor shareholder protection, and low regulatory quality of the country (Karampinis, Hevas, 2011).

Besides sharing many of these features, issues such as a low level of financial literacy and limited resources devoted to IAS/IFRS implementation occurring in such emerging economies make their environment unfavorable to this process. However, despite these obstacles, many emerging economies embraced IAS/IFRS in order to improve the quality of financial information, to promote economic development and to attract foreign capital. Prior research (as reviewed by Tarca, 2012) suggests that these benefits were obtained by some emerging economies, but obstacles and difficulties were met.

Benefits and consequences of IAS/IFRS and the related institutional factors were investigated in various countries and environments, under various research methodologies. The literature shows that the issues related to IFRS implementation are complex, and there are significant differences between countries (Chamisa, 2000; Chand, 2005), which calls for additional research in this area.

Corporate disclosure and transparency were identified as important issues in financial reporting, both in general and particularly in emerging economies (Bushman, Smith, 2003; Kang, Gray, 2011). Two issues have been identified as important in conducting transparency and quality disclosure studies: how to measure the level of transparency and disclosure quality, and what the determinants of disclosure practices are.

While the primary goal of financial reporting is to provide high-quality financial reporting information, measuring the level of quality is a difficult and subjective issue. Van Beest et al. (2009) conducted a literature review of studies focused on
accounting quality studies and classified them into four categories: accrual models, value relevance studies, assessment of specific elements in the annual report, and assessment of the qualitative characteristics. For the aim of this research we accept that the assessment of the elements presented in the annual report based on frameworks assessing the quality of reporting are more informative than accrual or value relevance models in order to present a more general depiction of accounting practices. However, these frameworks are more subjective, being based on a list of items to be assessed, but they take directly into consideration a variety of issues related to disclosure.

The Center for International Financial Analysis and Research (CIFAR) developed an index to assess the quality of disclosures based on ninety items to be included in the annual report. However, this index has several shortcomings (Bushman and Smith, 2003), and it is considered to be subjective because of the independence concerns of analysts (Daske, Gebhardt, 2006). Also, data are not available beyond 1995. Bushman et al. (2001) advance this model and propose a framework to assess transparency of disclosures with the following variables: corporate reporting (including measures for financial accounting disclosures, governance disclosures, timeliness of disclosures, accounting policies, credibility of disclosures, and other measures (including the availability of financial statements in English)), information dissemination (penetration in the media, media ownership etc.), and private information acquisition and communication (direct reporting, indirect communication via traders). Other studies (such as Bonsón, Escobar, 2006) analyzed general internet disclosure, comprising both financial information (financial statements), but also other related information (shares, shareholders structure, dividends, environmental and social information, strategy etc.). Therefore, the use of self-constructed indexes (derived from prior research) is a common research practice in disclosure studies.

Besides analyzing the transparency of disclosures (which goes beyond financial statements), other studies focus on accounting disclosures. As such, some authors (van Beest et al., 2009; Chatterjee et al., 2011) start from the qualitative characteristics proposed in the conceptual framework in order to develop frameworks to be used in assessing the quality of financial reporting. For example, van Beest et al. (2009) propose a 21-item index in order to operationalize the qualitative characteristics.

The determinants of quality and transparency in accounting reporting represent another issue widely investigated in prior literature. Various theories were employed in order to conduct research on disclosure: agency theory, legitimacy theory, signaling theory, proprietary cost theory, and benefit-cost theory (Oliveira et al., 2005; Wang et al., 2008; Bova, Pereira, 2011). R.E. Verrecchia (2001) conducts a literature review on disclosure and analyzes various models of disclosure. He recommends information asymmetry reduction as a starting point for „a comprehensive theory of disclosure” (Verrecchia, 2001, p. 97). However, this research is based on papers promoting economics-based research in accounting, in which market efficiency, and to some extent stability, is assumed. For this reason, there are concerns about the suitability of this
approach in studies conducted in emerging economies. For example, M. Wright et al. (2005, p. 2) found that less research in emerging economies embraced this perspective because of the challenges related to weak institutional infrastructure, economic and political instabilities and lack of market-based management skills.

Our research does not embrace a specific theory of disclosure for two reasons. First, because of the complexities associated with disclosure theories, such as one variable pertaining to several theories (Oliveira et al., 2005) and therefore impacting on results interpretation. Second, it is also because of the still unstable Romanian environment (especially from an accounting regulatory point of view). We include in our study some of the determinants mostly employed in prior disclosure studies, such as company size and profitability, type of ownership, foreign listing and ownership, and type of auditors. The previously mentioned theories would lead to the formulation of expectations (hypotheses). As such, agency theory suggests that dispersed ownership and company size lead to increased transparency and compliance. Signaling theory implies that companies performing well will signal this through more disclosure. In analyzing internet disclosure practices in Eastern Europe, E. Bonsón and T. Esco-bar (2006) found that company size, the type of activity (being in the financial sector or not), and the type of auditor (Big 4 or non-Big 4) have a significant influence on the quantity of information disclosed. However, variations may appear between countries regarding the importance of these factors for corporate reporting. We will investigate the impact of these variables on disclosure, but without formulating hypotheses, since this is rather an exploratory study including a small number of companies, limiting the statistical strength of advanced data treatments.

2. Accounting in Romania – an overview

Romanian accounting developed later than in other parts of Europe, mainly after the 1800s, because capitalism developed later (Albu et al., 2011a), as Romanian territories were placed at the junction of great powers and did not enjoy independence before the 19th century. Before the communist period, accounting was influenced by other Continental European schools, mainly by the French, German and Italian ones (Idem). The Body of Expert and Licensed Accountants of Romania (ro. Corpul Contabililor Autorizaţi şi Experţi) was founded in 1921.

After the Second World War, Romania entered under the Soviet influence and the economic model adopted was based on centralization and planning. With regards to accounting, financial statements were not public and only fulfilled the purpose of reporting to the State authorities. C. Nobes and R. Parker (2008, p. 246) notice that “accounting practices in the communist countries of Central and Eastern Europe were

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2 The Body functioned until 1951 when the communists dissolved it. It was then recreated after 1989 and is currently functioning very successfully.
very distinct from, and largely cut off from, those in Western Europe […] this distinctiveness was inevitable in the absence of privately owned enterprises and market-determined prices”. Accounting was reduced to bookkeeping, and a tendency of secrecy developed because of the centralization. These features would influence the accounting system even after the fall of communism.

The fall of communism in 1989 led to major transformations in the economy but also in accounting. Models were needed in order to quickly reform the country’s accounting system. The first model used was the French one, for several reasons: the cultural links between the two countries, the fact that the French model was based on European Directives (as the political aim of Romanian authorities was to become a member of the EU), and the underlying characteristics of the French model were closer to the Romanian situation than others (strong role of the State in the economy, reliance on bank financing, code-law system etc.) (Ionașcu et al., 2007; Albu et al., 2011a).

In the early 1990s this French-based accounting model was implemented by all Romanian entities. The BSE was established in 1995, but remained a less preferred source of finance for entities than the banking system. Romania had in the 1990s a period with serious economic problems, including high inflation rates and difficulties in privatization (Albu, Albu, 2012), which caused a slower economic development than in other parts of Eastern Europe.

In the late 1990s a new accounting reform was started, with Anglo-Saxon influences. One of its aims was to support the development of the capital market. IAS implementation was envisaged for all large entities, via their inclusion in national regulations (not via standards). In addition, since the consulting team came from the United Kingdom, some British influences manifested themselves too.

There were many debates about the suitability of this reform for Romania (King et al., 2001; Nobes, Parker, 2008; Albu et al., 2011b). The factors in favor of this reform were the need to develop the capital markets and to attract foreign investments, and the requirements of the World Bank and of the International Monetary Funds in this direction (King et al., 2001). On the other hand, the fact that IAS (with some carve-outs) were included in the national regulations, along with other requirements (including a chart of accounts and rules for recognition and measurement) and the requirement that all large entities (not only by the listed ones) needed to implement them, generated conceptual difficulties and a low level of compliance (Istrate, 2006; Nobes, Parker, 2008; World Bank, 2008).

The next important stage in the accounting reform was the conformity phase (Ionașcu et al., 2007), caused by accession to the EU in 2007. Consequently, the requirement to apply international standards (IFRS) by banks and listed entities in consolidated financial statements (and starting 2012 in separate financial statements) was in line with the EU requirements, which meant the application of the IFRS as adopted by the EU.

Prior empirical studies on Romania evidence the complexities of the IAS/IFRS implementation process, and underline the variation of practices over time and between
companies. As such, in the first step of IAS implementation (2001–2005), over 1,700 entities were expected to use the national regulations which included IAS, while only 10% of them were listed on the BSE. The lack of demanding users, and the limited IAS knowledge generated difficulties in implementation and a low level of compliance at that time (Ionaşcu et al., 2007; World Bank, 2008; Albu, Albu, 2012). Ionaşcu et al. (2007) found that during this period companies with foreign ownership actually prepared two sets of financial statements, one in accordance with national regulations (again, which included IAS, with some carve-outs) and one in accordance with IAS as issued by the International Accounting Standards Committee (thus proving the appearance of differences between the financial frameworks used to prepare financial reports at that time).

The attitude of companies toward IFRS varied in time. As such, Ionaşcu et al. (2011) found that the first IAS/IFRS adoption for a sample of listed entities spans from 1994 to 2010. Some entities applied international standards before being listed and before having a regulatory obligation, with the aim of attracting foreign investors. Others did not comply with the requirement to apply international standards, even if it was included in national regulations. Gîrbină et al. (2012) found that only 53.84% of the 2010 financial statements of entities listed in the first tier of the BSE were published in accordance with IFRS. Except for some companies which were exempt at that time to apply IFRS for individual purposes (the requirement to apply IFRS in individual financial statements dates from 2012), the others represent cases of non-compliance. Albu et al. (2013a) investigate more in depth this variety of practices and suggest that entities employ various strategies to respond to IFRS application, given the interplay between actors. Therefore, they found that responses range from passive compliance to active resistance and manipulation.

In a study investigating the level of compliance of non-financial listed entities in the first tier of the BSE with the requirements of IFRS 8 – Operating segments, Albu et al. (2013b) found that 53.33% of entities have a medium or high level of compliance. The determinants of the level of compliance are the ownership concentration, the presence of institutional investors and the type of auditors (Big 4 or non-Big 4). These factors demonstrate the presence of powerful actors, with consequences on the level of compliance. Other factors related to the company (such as size, growth, leverage or profitability) were not found as being related to the level of compliance.

Besides these issues related to compliance, the benefits associated with the IFRS implementation in Romania are related to improvements in financial reporting and transparency. As such, Ionaşcu et al. (2011) found that the most important impact of IFRS is an increase of the comparability of accounting information at the international level, and the most important benefit is the relevant information provided to investors. KPMG (2010) also finds that the most important benefit as perceived by companies is a better reported more transparent and comparable information.

However, prior research suggests that emerging economies in general have a low level of disclosure and transparency (for example ISAR, 2008). In Romania, prior
research (such as Răileanu et al., 2011) observes that managers have less incentive to fulfill the provisions related to transparency. Gîrbină et al. (2012) found a low level of transparency regarding the corporate governance information. Of the 53 items of corporate governance disclosures provided by ISAR (2008), Romanian listed entities in the first tier of the BSE disclose between 8 and 34, with a median of 24. The authors also found that Romanian managers tend to disclose a low level of information and only if it is mandatory. Finally, they found that although information is disclosed, at times it is scarce and barely complies with the legal requirements.

Therefore, based on prior research we acknowledge that there is a low level of compliance and transparency of reporting practice by Romanian companies, and that significant differences occur between companies. However, there is a limited understanding of the listed entities as a whole in Romania in terms of disclosure behavior, given that prior research was mostly based on other research methodologies (such as questionnaires or interviews), or targeted specific topics.

### 3. Research design

This paper focuses on the investigation of the level of transparency and quality of the information provided by the listed companies on the BSE. Prior research (Feleagă et al., 2011) suggests that it is more likely that these companies would adopt good financial reporting practices and would disclose more information, out of the entire population of Romanian entities.

The companies analyzed are those listed in the first tier of the BSE, for the information disclosed for the financial year 2012. In 2012, 25 companies were listed in the first tier of the BSE, of which 10 were financial institutions. Because of their particularities, we eliminated these entities from our analyses. Therefore, the sample includes all the 15 non-financial entities listed in the first tier of the BSE. The small size of the sample represents a limitation of the study, which will impede advanced statistical analysis of the data. Also, this is one of the reasons for which we do not advance any hypotheses to be tested. We consider the study more as being an exploratory one, with the aim of presenting a perspective of the disclosure attitudes of the Romanian listed companies. The size of the sample is limited by the institutional Romanian context (i.e., the size of the stock market) and the sample was used as such in prior research on Romania (Gîrbină et al., 2012; Albu et al., 2013b; Feleagă et al., 2011). A small sample size is a feature of other emerging economies (e.g. Bova, Pereira, 2011). We will compensate for the small sample with an in-depth investigation of the transparency and quality of the information disclosed.

In order to assess the level of transparency and the quality of the information disclosed by our sample companies, we computed two main scores, one related to transparency (TRANSP – a transparency score) and another one for the quality of the information (QUALITY – a quality score). These scores are based on a list of items
derived from prior literature. Our research was based on content analysis of annual reports and of other reporting channels (company websites etc.) in order to assess each item on the list for each entity.

The list of items analyzed for transparency was derived from various prior studies (Bushman et al., 2001; Bushman, Smith, 2003; Ionașcu et al., 2011; Gîrbină et al., 2012). Several facets of transparency were investigated, and the following sub-scores were computed:

a) **COMPLY** (level of compliance) – for aspects related to compliance with specific standards (segment reporting, contingent assets and contingent liabilities, events after the reporting period, the reconciliation between profit and loss and taxable profit), changes in accounting policies and their impact, information about estimates and professional judgment, related parties disclosures, transition from local GAAP to IFRS;

b) **VOLUNT FIN** – aspects about voluntary financial reporting (dividends, stock price evolution, financial impact of strategy);

c) **VOLUNT NONFIN** – aspects of voluntary non-financial disclosure (subsidiaries, impact on the environment, intellectual capital, CSR);

d) **GENERAL** – aspects related to the general informational transparency (auditor’s report, reputation of the auditor, type of the audit opinion, annual report in English, a financial calendar, availability of prior annual reports, press releases);

e) **CORP GOV** – aspects related to corporate governance transparency (presentation of corporate governance information, shareholders rights, the existence of a company corporate governance code, the disclosure of the Comply or Explain statement);

f) **PRESENT** – general presentation of information (the quality of the website (design, user friendliness), the language(s) of the website, the quality of documents including financial and non-financial information, details about contact, feedback and information requests).

A list totaling 29 items was derived and analyzed for the transparency score, regrouped into the six categories explained above. For each item, 0 was assigned if the information was not disclosed, 1 was assigned for a minimum of disclosures, and 2 was assigned for a detailed, transparent disclosure. The value of each sub-score is computed as the average of the scores assigned for each items. In the same manner, the value of the transparency score is the average of the six sub-scores.

The second score refers to the quality of the information disclosed. In order to assess the quality, we employ the model proposed by van Beest et al. (2009). The advantage of this model is that it is based on the revised parts of framework as published by the IASB and FASB. They suggest 21 items to capture the qualitative characteristics (RELEVANCE, FAITH REPRES – faithful representation, UNDERSTAND – understandability, COMPARE – comparability, and TIME – timeliness). A 3-point

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3 Verifiability is not assessed in the framework proposed by van Beest et al. (2009).
Likert scale was used in order to assess the quality, using the methodology described by Van Beest et al. (2009)\(^4\). The value of each sub-score for each qualitative characteristic is computed as the average of the scores assigned for each item. In the same manner, the value of the quality score is the average of the sub-scores.

4. Research results

The content analysis of the information disclosed allows us to have a general understanding of disclosure practices of Romanian listed companies. The first issue investigated is the transparency of disclosures. The results obtained for the transparency score and its sub-scores are the following:

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Comply</th>
<th>Volunt fin</th>
<th>Volunt nonfin</th>
<th>General</th>
<th>Corp gov</th>
<th>Presentation</th>
<th>Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>0.036</td>
<td>0.000</td>
<td>0.267</td>
<td>0.071</td>
<td>0.000</td>
<td>0.500</td>
<td>0.282</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.893</td>
<td>2.000</td>
<td>1.950</td>
<td>2.000</td>
<td>2.000</td>
<td>2.000</td>
<td>1.953</td>
</tr>
<tr>
<td>Freq. of minimum</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Freq. of maximum</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Median</td>
<td>1.429</td>
<td>1.333</td>
<td>0.650</td>
<td>1.595</td>
<td>1.417</td>
<td>1.375</td>
<td>1.331</td>
</tr>
<tr>
<td>Mean</td>
<td>1.294</td>
<td>1.380</td>
<td>0.934</td>
<td>1.483</td>
<td>1.283</td>
<td>1.358</td>
<td>1.289</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.527</td>
<td>0.497</td>
<td>0.540</td>
<td>0.516</td>
<td>0.581</td>
<td>0.391</td>
<td>0.394</td>
</tr>
</tbody>
</table>

These results show that the companies in our sample disclose more in terms of general disclosures (auditor’s report, reputation of the auditor, type of the audit opinion, annual report in English, a financial calendar, availability of prior annual reports, press releases), followed by voluntary financial disclosures. Companies disclose more voluntary financial information (stock prices, dividends etc.) than mandatory information. This might be explained by the low value relevance of information included in financial statements and also by the difficulties encountered in applying some IFRS.

Prior research supports these explanations. As such, R. Larson and D. Street (2004) and KPMG (2010) identify a list of standards considered to be difficult to be implemented in Romania and some of them are the same with the items investigated under the compliance sub-score. A. Filip and B. Raffournier (2010) discuss the market inefficiency in Romania and the fact that there is a lack of alternative information sources besides earnings.

\(^4\) Van Beest et al. (2009) use a 5-point Likert scale, but this approached seemed to be difficult to implement in our case. For this reason, and also for comparability with the transparency scores, we employed a 3-point Likert scale.
Another aspect is the low level of voluntary non-financial reporting, which is, however, in line with results in other emerging economies; concerns have thus been expressed about the low level of transparency in these countries (Kang, Gray, 2011).

The results for the quality of the information disclosed are shown in Table 2.

Table 2. Descriptive statistics for quality scores

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Relevance</th>
<th>Faith repres</th>
<th>Understand</th>
<th>Compare</th>
<th>Time</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>0.625</td>
<td>0.700</td>
<td>0.800</td>
<td>0.917</td>
<td>0.000</td>
<td>0.733</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.688</td>
<td>1.800</td>
<td>2.000</td>
<td>1.750</td>
<td>2.000</td>
<td>1.688</td>
</tr>
<tr>
<td>Freq. of minimum</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Freq. of maximum</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Median</td>
<td>1.375</td>
<td>1.200</td>
<td>1.200</td>
<td>1.542</td>
<td>0.000</td>
<td>1.139</td>
</tr>
<tr>
<td>Mean</td>
<td>1.238</td>
<td>1.263</td>
<td>1.197</td>
<td>1.427</td>
<td>0.650</td>
<td>1.155</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.314</td>
<td>0.298</td>
<td>0.284</td>
<td>0.258</td>
<td>0.823</td>
<td>0.313</td>
</tr>
</tbody>
</table>

The most important aspect of the quality of the accounting information disclosed by the entities in our sample is thus comparability, followed by relevance and faithful representation. Comparing the results with those obtained by van Beest et al. (2009) we firstly notice that timeliness has a very small value in our case (mean 0.65), while it has the highest score across the qualitative characteristics in the research conducted by van Beest et al. (2009). Similar, however, to van Beest et al. (2009), faithful representation has higher values than relevance.

Comparing the values for the transparency and quality scores, it appears that Romanian companies disclose information which is more transparent (a mean of 1.289 compared to a mean of 1.155 for quality). Also, it is worth remembering that transparency relates not only to issues of financial reporting, but also to other types of information (voluntary reporting, general presentation), while quality refers mainly to the financial statements. Therefore, based on the values for the two scores, and on the low level of compliance sub-score, we note that companies tend to disclose more outside of financial statements.

The values of the standard deviation reveal the differences between companies in their reporting practices. As previously discussed in the literature review section, disclosures are influenced by various factors, which deserve appropriate investigation. Table 3 presents the factors investigated in our study.

We have also performed correlation tests in order to assess the association between these factors and the levels of disclosure transparency and quality. The Pearson correlation coefficients between the general transparency and quality scores and the firm-level factors are presented in Table 4.
Table 3. Descriptive statistics of firm-based factors used to analyze disclosure practices

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Total assets (ln)</td>
<td>Total assets: Mean 3595177.267 RON Min 107695 RON Max 38144620 RON Ln of total assets: Mean: 13.438 RON Min 11.587 RON Max 17.457 RON</td>
</tr>
<tr>
<td>Growth</td>
<td>Increase or decrease of sales in the last year</td>
<td>33.33% of companies – growth 66.67% of companies – decrease</td>
</tr>
<tr>
<td>Profitability</td>
<td>Profit or loss in the last year</td>
<td>80% of companies – profit 20% of companies – loss</td>
</tr>
<tr>
<td>Leverage</td>
<td>Debt to equity</td>
<td>53.33% of companies – immaterial value of debt 26.67% of companies – small values of debt 20% of companies – high value of debt</td>
</tr>
<tr>
<td>Type of auditor</td>
<td>Big 4 or not</td>
<td>40% of companies – Big 4 auditor 60% of companies – non Big 4 auditor</td>
</tr>
<tr>
<td>Ownership diffusion</td>
<td>Diffused ownership (other shareholders have 25% or more)</td>
<td>26.67% of companies – other shareholders hold less than 25% 73.33% of companies – other shareholders hold more than 25%</td>
</tr>
<tr>
<td>Institutional investors</td>
<td>Presence of institutional investors</td>
<td>60% of companies – have institutional investors 40% of companies – do not have institutional investors</td>
</tr>
<tr>
<td>International sales</td>
<td>Presence of international sales</td>
<td>53.33% of companies – have international sales 20% of companies – do not have international sales 26.67% of companies – do not mention</td>
</tr>
</tbody>
</table>

Table 4. Correlation results between general scores and firm-level factors

<table>
<thead>
<tr>
<th>Variables</th>
<th>Auditor</th>
<th>Size</th>
<th>Growth</th>
<th>Ownership</th>
<th>Institutional investors</th>
<th>Leverage</th>
<th>Profitability</th>
<th>International sales</th>
<th>Transp</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>0.716</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>0.000</td>
<td>0.028</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>-0.431</td>
<td>-0.502</td>
<td>0.107</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional investors</td>
<td>0.111</td>
<td>0.422</td>
<td>0.289</td>
<td>-0.185</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage</td>
<td>0.345</td>
<td>-0.137</td>
<td>-0.239</td>
<td>-0.255</td>
<td>-0.518</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.272</td>
<td>-0.116</td>
<td>0.354</td>
<td>0.075</td>
<td>0.272</td>
<td>-0.423</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International sales</td>
<td>0.389</td>
<td>0.433</td>
<td>-0.067</td>
<td>-0.431</td>
<td>0.324</td>
<td>-0.242</td>
<td>0.079</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Transp</td>
<td>0.346</td>
<td>0.675</td>
<td>0.252</td>
<td>-0.256</td>
<td>0.298</td>
<td>-0.223</td>
<td>-0.095</td>
<td>0.042</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>0.602</td>
<td>0.552</td>
<td>0.201</td>
<td>-0.543</td>
<td>0.495</td>
<td>0.249</td>
<td>0.232</td>
<td>0.432</td>
<td>0.371</td>
<td>1</td>
</tr>
</tbody>
</table>
The results in Table 4 suggest that the level of transparency is positively correlated only with company size, validating, therefore, the basic assumption of the agency theory. On the other hand, the quality of the accounting information is correlated with the type of auditor, company size, the presence of institutional investors, but negatively correlated with ownership concentration. The results related to the quality of financial disclosures, which pertain more to financial statements, are to some extent in line with those obtained by Albu et al. (2013b). In both studies the presence of powerful actors (Big 4 auditors and institutional investors) is positively correlated with better quality disclosures.

Another interesting result is that transparency and quality scores are not correlated, implying that firms do not associate them when they make disclosure decisions. So, although the general scores have comparable mean values (1.289 for transparency and 1.155 for quality), they are not correlated and have different factors associated with entities’ reporting practices. Because the sub-scores illustrate different facets of disclosure, we investigate their correlation with firm-level variables. We present the results in Table 5.

Table 5. Correlation results between transparency sub-scores and firm-level factors

<table>
<thead>
<tr>
<th>Variables</th>
<th>Comply</th>
<th>Volunt fin</th>
<th>Volunt nonfin</th>
<th>General</th>
<th>Corp gov</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor</td>
<td>0.035</td>
<td>0.307</td>
<td>0.237</td>
<td>0.298</td>
<td>0.437</td>
<td>0.283</td>
</tr>
<tr>
<td>Size</td>
<td>0.412</td>
<td>0.517</td>
<td>0.580</td>
<td>0.424</td>
<td>0.582</td>
<td>0.642</td>
</tr>
<tr>
<td>Growth</td>
<td>–0.136</td>
<td>0.177</td>
<td>0.471</td>
<td>0.092</td>
<td>0.441</td>
<td>0.055</td>
</tr>
<tr>
<td>Ownership</td>
<td>–0.397</td>
<td>–0.186</td>
<td>0.016</td>
<td>–0.335</td>
<td>–0.255</td>
<td>0.023</td>
</tr>
<tr>
<td>Institutional investors</td>
<td>0.075</td>
<td>0.024</td>
<td>0.559</td>
<td>0.049</td>
<td>0.493</td>
<td>0.099</td>
</tr>
<tr>
<td>Leverage</td>
<td>–0.073</td>
<td>–0.160</td>
<td>–0.571</td>
<td>0.155</td>
<td>–0.113</td>
<td>–0.298</td>
</tr>
<tr>
<td>Profitability</td>
<td>–0.132</td>
<td>–0.048</td>
<td>–0.106</td>
<td>–0.081</td>
<td>–0.094</td>
<td>0.061</td>
</tr>
<tr>
<td>International sales</td>
<td>–0.046</td>
<td>0.033</td>
<td>0.311</td>
<td>–0.227</td>
<td>0.078</td>
<td>0.029</td>
</tr>
</tbody>
</table>

While the transparency score is correlated only with size (see Table 4), it appears from Table 5 that the sub-scores show different patterns. As such, two sub-scores (compliance and general presentation) are not correlated with any factor, while voluntary non-financial reporting and corporate governance correlate with several variables (company size, growth, institutional investors, and negative correlation with leverage for voluntary non-financial reporting).

The sub-scores of the quality index also display different correlations than the general score. It appears that comparability and timeliness are not correlated with any of the firm-level variables analyzed. Size is positively correlated with the other qualitative characteristics, and the presence of institutional investors is positively correlated with understandability and faithful representation.
Table 6. Correlation results between quality sub-scores and firm-level factors

<table>
<thead>
<tr>
<th>Variables</th>
<th>Relevance</th>
<th>Faith repres</th>
<th>Understand</th>
<th>Compare</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor</td>
<td>0.314</td>
<td>0.293</td>
<td>0.258</td>
<td>–0.197</td>
<td>–0.026</td>
</tr>
<tr>
<td>Size</td>
<td>0.569</td>
<td>0.546</td>
<td>0.702</td>
<td>0.305</td>
<td>0.246</td>
</tr>
<tr>
<td>Growth</td>
<td>–0.117</td>
<td>0.385</td>
<td>0.240</td>
<td>0.009</td>
<td>0.178</td>
</tr>
<tr>
<td>Ownership</td>
<td>–0.180</td>
<td>0.054</td>
<td>–0.199</td>
<td>0.054</td>
<td>0.161</td>
</tr>
<tr>
<td>Institutional</td>
<td>–0.146</td>
<td>0.463</td>
<td>0.510</td>
<td>0.420</td>
<td>0.154</td>
</tr>
<tr>
<td>investors leverages</td>
<td>0.035</td>
<td>–0.201</td>
<td>–0.390</td>
<td>–0.416</td>
<td>–0.425</td>
</tr>
<tr>
<td>Profitability</td>
<td>–0.502</td>
<td>–0.006</td>
<td>0.176</td>
<td>0.299</td>
<td>–0.220</td>
</tr>
<tr>
<td>International</td>
<td>–0.200</td>
<td>–0.243</td>
<td>0.040</td>
<td>–0.075</td>
<td>0.145</td>
</tr>
</tbody>
</table>

Conclusions

This paper answers the calls to reveal local practices in less studied settings, such as emerging economies, in order to capture the results of accounting reforms such as IFRS adoption (Ezzamel, Xiao, 2011; Guerreiro et al., 2012). We investigate the level of transparency and quality of the information provided by the listed companies on the BSE, in an attempt to grasp the influence of local factors influencing accounting practices.

We found that Romanian listed companies have a medium level of transparency and quality of the accounting information (with mean values of 1.289 for transparency and 1.155 for quality, on a 3-point Likert scale, where 0 means no disclosure, 1 limited disclosure, and 2 detailed disclosure). We obtain higher scores for general presentation and voluntary reporting of financial data (information about shares, financial calendar etc.), and for the comparability of the accounting information. Lower scores were obtained for the voluntary reporting of non-financial information and for the timeliness of financial reporting.

We also analyzed the relationship between the transparency and quality scores and several firm-level variables. The most important factor seems to be company size, which is positively correlated with both the transparency and quality scores. Therefore, we confirm for the case of Romania the association between size and better disclosure. Size is one of the most commonly used variables in studies on disclosures, and it was found to be a significant factor in many institutional contexts (Oliveira et al., 2005), and also in disclosure studies on Eastern European countries (Bonsón, Escobar, 2006). Therefore, we interpret that larger entities disclose more because they have more to disclose, they face fewer competitive losses, they have more expertise and can support the costs associated with disclosures.

Another important factor outlined in our study is the presence of institutional investors, which is positively correlated with some transparency sub-scores (voluntary
non-financial reporting and corporate governance disclosures) and with the quality of the accounting information and some sub-scores (understandability and faithful representation). The presence of institutional investors is an important factor to be investigated in the case of emerging economies, because in many cases it is associated with better corporate governance practices and higher transparency (Ertuna, Tukel, 2013). Our results confirm for the case of Romania the importance of institutional investors.

Other factors correlated with disclosure, but with a small number of correlations, are ownership diffusion, profitability, growth, leverage and type of auditor. The presence of international sales is not correlated with any of the scores computed.

We referred to several theories of disclosure without adopting any one in particular to interpret our results, for reasons explained in the methodology part of the paper. However, analyzing the variables investigated, we confirm the importance of both institutional theory and agency theory in analyzing disclosures in emerging economies. As such, based on our analyses we conclude that most of the predictions derived from agency theory (represented by the variables: firm size, leverage, ownership diffusion, profitability) are partially validated in the Romanian setting. Also, we found a significant influence of the presence of institutional investors which, through their isomorphic influences, might be related to institutional theory.

The empirical results illustrate the current disclosure practices of Romanian listed entities. Therefore, they reflect the outcome of the reforms conducted in recent decades. While in the first years after the fall of communism even the publication of a financial statement was considered a transparency action, currently we witness a significant level of voluntary disclosure and also a medium level of transparency. Reforms in terms of corporate governance requirements, IFRS implementation, but also isomorphic pressures (from foreign investors or owners, competition, or auditors) generated these improvements. We identify significant variance in practices, which is in line with the results presented by other studies in the Romanian context (Albu et al., 2013a), which points to the need of a deeper investigation of institutional mechanisms influencing disclosure practices. For example, we found that transparency and quality scores are not correlated with each other, which suggest that an increase in the transparency of the information disclosed by a company does not also imply an increase in the quality of the accounting information disclosed, and vice versa. This result would be surprising for a developed capital market, and it should be interpreted through the institutional features of an emerging economy. The practical implications are threefold. First, investors obtain a general understanding of the disclosures by Romanian listed entities, but also a warning in terms of significant variances between companies. This is particularly interesting since Romania seeks to increase the importance of foreign investments in its economy. Second, preparers might become more aware about the importance of disclosure and about their assessed position in the overall picture. Third, academia and professional bodies should react through improvements in education in order to support regulatory advancements.
Further research is needed in order to develop an understanding of the context of emerging economies. An evolution of the transparency and quality scores over time, the comparison with other countries or the test of other theories related to disclosure (such as legitimacy and signaling theories) might complement the existent results.

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Albu C.N., Albu N., Alexander D. (2013a), When global accounting standards meet the local context – Insights from an emerging economy, „Critical Perspectives on Accounting” (in press), http://dx.doi.org/10.1016/j.cpa.2013.03.005
Summary
This paper addresses the transparency and the quality of financial disclosures of listed entities in the case of an emerging economy (i.e. Romania), in order to shed some light on the particular local context of the country and its impact on accounting practices. We analyze the entire population of non-financial entities listed in the first tier of the Bucharest Stock Exchange for the 2012 financial year. We are limited in our research by the size of the sample, which depends, however, on the small size of the Romanian stock market. In order to compensate for the small size of the sample, we assess 50 items related to disclosure, synthesized in two scores, i.e. transparency and quality. Also, we identify some factors associated with disclosure by investigating the correlation with several firm-related factors. Our results reveal a medium level of transparency and quality of Romanian listed companies, with significant variations between firms and between the sub-scores. The most important factors correlated with disclosure are company size and the presence of institutional investors. The results confirm to some extent most of the basic assumptions of the agency theory and also prove the importance of a new variable for emerging economies, specifically the presence of institutional investors.

Keywords: corporate disclosures, Romania, listed entities, agency theory, transparency, quality of the accounting information.

Streszczenie
Przejrzystość i jakość ujawnień finansowych. Przypadek rumuńskich spółek giełdowych
Artykuł dotyczy przejrzystości i jakości informacji finansowych spółek notowanych na giełdzie w gospodarkach wschodzących (tj. w Rumunii). W opracowaniu przybliżono czytelnikom kontekst lokalny danego kraju i jego wpływ na praktyki księgowych. Autorzy analizują całą populację podmiotów niefinansowych notowanych na giełdzie w Bukareszcie w 2012 roku. Niestety, ze względu na mały rozmiar giełdy w Rumunii, próbę badanych podmiotów jest bardzo mała. Aby zrekompensować niewielki rozmiar próbki, autorzy ocenili 50 elementów związanych z ujawnieniem, syntetyzowane w dwa obszary: przejrzystości i jakości. Autorzy zidentyfikowali także niektóre czynniki związane z ujawnieniem w rezultacie zbadania korelacji z wieloma aspektami dotyczącymi działalności firm. Wyniki badań wskazują na średni poziom przejrzystości i jakości ujawnień rumuńskich spółek giełdowych, ze znacznymi różnicami między firmami oraz między poszczególnymi czynnikami. Najbardziej istotnym dla ujawnień okazała się obecność inwestora zagranicznego oraz wielkość firmy. Wyniki potwierdzają w pewnym zakresie podstawowe założenia wynikające z teorii agencji, a także dowodzą ważności nowych czynników będących efektem wschodzącej gospodarki, np. pojawienia się inwestorów zagranicznych.

Słowa kluczowe: ujawnienia korporacyjne, Rumunia, spółki notowane na giełdzie, teoria agencji, przejrzystość, jakość informacji generowanych przez rachunkowość.