RESEARCH REGARDING SOUND CORPORATE GOVERANCE PRACTICES IN INVESTORS RELATION – CASE OF SMT AERO ISSUERS LISTED ON BUCHAREST STOCK EXCHANGE

Ioan Ovidiu SPĂTĂCEAN[1*],
Crina Mihaela PUNGEA

[1] *Faculty of Economics and Law, ED1 Department – Economic Sciences, University of Medicine, Pharmacy, Sciences and Technology "George Emil Palade" from Targu Mures, Gh. Marinescu Street, no. 38, Targu Mures, 540139, Romania*

Rezumat: *Studiul de caz subliniază importanţa unei conduite post listare în consonanţă cu aşteptările investitorilor prin cercetarea statistică a impactului în piaţă a unui grad de conformare ridicat. În acest fel, se urmăreşte dacă abordarea proactivă şi calitatea culturii organizaţionale pot constitui piloni strategici ai companiilor cotate pe piaţa AeRO a Bursei de Valori Bucureşti în relaţie cu piaţa de capital. Principala constatare bazată pe metodologia regresiei arată că există o relaţie pozitivă şi semnificativă statistic între scorul privind calitatea guvernanţei corporative şi relaţia cu investitorii, respectiv scorul de lichiditate. Coeficientului de regresie obţinut susţine ipoteza conform căreia comportamentul investiţional manifestat pe piaţă, exprimat prin valoarea tranzacţionată, poate fi explicat în proporţie de 46% de calitatea guvernanţei corporative şi a interacţiunii cu investitorii susţinute de către emitenţi.*

Cuvinte cheie: *practici de guvernanţă corporativă, relaţia cu investitorii, scor de guvernanţă, comportament investiţional*

Abstract: *The case study highlights the importance of post-listing conduct in line with investor expectations through statistical research on the market impact of high compliance. In this way, it explores whether a proactive approach and the quality of organisational culture can be strategic pillars for companies listed on AeRO market administered by Bucharest Stock Exchange in relation to the capital market. The main finding based on the regression methodology shows that there is a positive and statistically significant relationship between the corporate governance quality score and investor relations, i.e. the liquidity score. The regression coefficient obtained supports the hypothesis that 46% of the investment behaviour manifested in the market, expressed by the value traded, can be explained by the quality of corporate governance and investor interaction supported by issuers.*

Keywords: *corporate governnace practices, investors' relation, governnace score, investment behaviour*

JEL Classification: M41, M42, G41

_____
* *Corresponding author: Spătăcean Ioan Ovidiu*
e-mail: ovidiu.spatacean@umfst.ro

1   INTRODUCTION

A well-rounded corporate culture in the internal structures of listed companies and good practices in the relationship with investors become decisive for a successful path in the capital market and for the integrity of the issuer notoriety. A market presence governed by consistent and frequent communication tends to attract investor interest, with a direct impact on the share trading price. Easier access to finance, the primary motivation of listed companies, depends equally on the quality of organizational governance and the proactive approach of capital providers.

The early stage of the study focuses on the qualitative assessment of non-financial information provided by issuers as a lever of retention and articulation of investor interest. The second part of the case study starts from the premise that the market becomes a receiver of corporate stimuli, with the aim of identifying the extent to which the market can be considered a barometer of the quality of the corporate culture and the relationship with investors promoted by issuers.

2   DEFINING THE RESEARCH PROBLEM

2.1. Sample selection and data description

For the study, a sample of 27 listed companies was selected, which fully define the structure of the stock index of the Multilateral Trading System, BET-AeRo.

For the purpose of qualitatively assessing corporate governance and investor relations, data and information of a non-financial nature were collected from corporate governance statements embedded in issuers' annual reports as of December 31, 2021. Equally, the web sections dedicated to investor relations were analyzed. The verification of the web pages of the issuers was carried out during the period 01.04.-25.04.2022.

For this study, an important point of reference was the set of corporate governance principles adopted by BVB for the AeRo market. By virtue of a more transparent market, the Corporate Governance Principles of BVB propose to investors new valences, comprising 4 dimensions of good practices in the organizational culture, targeting the responsibilities of the Board of Directors, the Internal Control System, Fair Rewards and Investor Relations.

Offering a perspective on proactivity in the relationship with investors, the structure of the Vektor indicator published by the Romanian Association of Investor Relations (ARIR) for companies listed on the BVB regulated market was the starting point in assessing the relationship with investors. Compiled for the first time in 2019, the VEKTOR score centralizes 15 criteria relevant to corporate governance and investor communication. Overall, they can be considered best practices in dealing with the financial community.

In order to investigate to what extent good governance and communication practices impact the liquidity of issuers' shares in the market, the central variable of the second part of the study was the average value of transactions for each issuer in the first 4 months of 2022.

2.2. Data processing

Starting from the directions already established for the post-listing conduct, stipulated in the BVB's set of principles and in the Vektor ARIR criteria, the qualitative evaluation of the 27

companies was carried out through the elaboration of a matrix of the evaluation. Having as purpose the awarding of a score per company and constituting the evaluation filter, the matrix includes 19 analysis criteria. They are segregated into two main sections with complementary functions: (1) corporate governance and (2) investor relations. Each criterion has associated a score according to applicability, the total score that a company can get is in the range of 0 (poor result) -10 (excellent result).

The first section addresses assumptions related to the internal structures of companies that can have a significant influence on investment behavior, emphasizing the importance of an internal control system or a structure of management bodies to ensure the fulfillment of responsibilities. The adoption of policies on dividends, remuneration or forecasts as their own system for appropriating directorates-general for action also become defining criteria for section (1) of the proposed matrix.

The second section alternately extrapolates the initial criteria, following how information and documents specific to corporate governance are made available to the investor public. Equally, proactively addressing investors through conferences with investors, organising their own events or publishing sustainability reports are key criteria for the assessment.

The same principle was applied to the liquidity criterion. The liquidity score was granted according to the ranges of the average value traded, as a whole, on the AeRo market, having as a reference point the month of December 2021.

Regression methods are commonly found in the research of a possible causal relationship between different characteristics of companies. For example, a recent study of 70 companies on the BVB regulated market evaluates the Vektor score for the years 2019 and 2020 in relation to the ROA performance indicator (Mihail et al, 2021)

In order to concretize the final objective of the research, namely to identify the extent to which the good organizational practices and the relationship with the financial community are reflected in the liquidity of the shares, the same data processing technique was approached. For this purpose, the following linear regression model has been estimated:

$$V_{it} = b_0 + b_1 \text{ Scor GC\&IR}$$

According to the proposed model, the dependent variable is the score given according to the average value of transactions (Vit), while the independent variable is represented by the score on corporate governance and investor relations, for each "i" issuer, over analyzed period "t".

3   PRESENTING THE RESEARCH FINDINGS

Classical theories in finance have as their main starting point the axiom of capital market efficiency in an attempt to give an ontological meaning to investment activity. In addition to the allocation component, in support of this hypothesis, account shall be taken, in particular, of the information factor. Equally, it relies on reason and risk aversion as defining theoretical features of investors in the capital market. However, the practice sheds light on certain behaviors

observed on the capital market that tend to cancel out the theoretical premises, and, in this case, the information component demonstrates its essential role.

In order to identify the extent to which the good organizational and relationship practices with the financial community are reflected in the liquidity of the companies' shares, the same score-based valuation methodology was approached.

The ranking of companies according to the liquidity score in association with the score on corporate governance and investor relations is presented in the following table:

Table 1 – Corelation analysis between liquidity score and CG & IR score

Issuer	Avaerage trading values (lei)	Liquidity Score *based on average trading values*	CG&IR Score *based on valuation matrix*
AROBS	878,136.78	6	6.50
ROC1	324,920.08	6	8.15
HAI	210,639.29	5	8.80
SAFE	209,051.37	5	7.80
HUNT	109,160.47	5	7.10
NRF	108,949.89	5	7.90
MILK	98,544.73	4	7.25
AG	97,923.61	4	7.55
SMTL	96,514.15	4	7.40
CODE	62,495.70	4	8.40
AST	59,163.16	4	5.40
LIH	42,558.81	4	8.50
FRB	33,930.15	3	6.00
BONA	28,017.53	3	4.00
2P	27,871.25	3	8.90
ALW	23,360.63	2	5.95
AAB	17,280.07	2	6.60
CC	15,096.27	1	5.90
MACO	14,184.78	1	4.75
MAMA	14,158.22	1	5.35
ADISS	12,947.93	1	5.00
REIT	9,524.21	1	5.35
ELZY	9,140.21	1	3.75
CAB	7,212.11	1	4.25
BIOW	6,613.65	1	6.75
CLAIM	6,562.77	1	4.25
LCSI	6,103.60	1	0.50

Source: authors' projection

The most liquid companies in terms of traded value have a degree of compliance with the principles of corporate governance and investor relations of approximately 80%. The exception to the ranking is the issuer AROBS Transilvania Software SA, whose difference in score is justified, on the one hand, by the recent listing on the stock exchange (06.12.2021), and on the other hand, by the innovative character and growth potential of the business that maintain the interest of shareholders without additional efforts.

The possible causal relationship between post-listing conduct and the liquidity of shares issued by an issuer has been examined on the basis of linear regression. For this study, the

selected dependent variable was the score given according to the average transaction value, while the independent variable was represented by the CG&IR score, with the "i" index nominating each issuer individually. The results of the proposed regression model are presented in the following table:

Table 2 – Statistic determinants and empirical results

Regression Statistics	
Multiple R	0.675496286
R Square	0.456295232
Adjusted R Square	0.434547041
Standard Error	1.334215007
Observations	27

ANOVA

	df	SS	MS	F	Significance F
Regression	1	37.34860973	37.34861	20.98084	0.00011054
Residual	25	44.50324213	1.78013		
Total	26	81.85185185			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.958246278	0.886005457	-1.08154	0.289782	-2.78300867	0.866516	-2.78301	0.866516
X Variable 1	0.62405623	0.136242412	4.580484	0.000111	0.34345973	0.904653	0.34346	0.904653

Source: authors' projection

The descriptive statistical tables represented above summarizes the results of the regression model applied to the scoring ranges for corporate governance and the relationship with investors, on the one hand, respectively the share liquidity score, on the other hand – in order to identify possible effects of post-listing conduct on the trading session of the shares issued by the sampled companies.

An overall verification of the statistical significance of the proposed model is nuanced by the F test (F-statistic test, table ANOVA). With an F-Sig value below 1% (assumed risk threshold), the model demonstrates statistical significance, rejecting the assumption of nullity regarding the relationship between communication with the investor public and the performance in the capital market of companies. Therefore, the independent variable influences the dependent variable, and the results are statistically significant in terms of supporting the hypothesis.

The previously obtained result is also confirmed by the regression coefficient (R- square). The change in the liquidity of a company's stock is influenced by 46% of the quality of corporate governance and the way issuers relate to investors.

Furthermore, it is found that the CG&IR score has a positive and statistically significant influence, at a level below 1% (p value = 0.0001), on the exponent liquidity variable of the

AeRO trading stock prices. The size of the regression coefficient obtained implies an increase of 0.624 points in the liquidity score, if the CG&IR score improves by 1 point and the other factors remain constant.

4 CONCLUSIONS

Overall, the results of the proposed regression model statistically support the hypothesis of a positive causal relationship between the quality of the corporate culture promoted by issuers, respectively the proactive approach of investors and the liquidity of the shares issued by companies listed on the AeRo market managed by the BSE.

Therefore, the appropriation of well-defined communication strategies in the context of quarterly voluntary reporting, the implementation of sound remuneration policies, dividend forecasts and distributions, or the increase of ESG's responsibility in non-financial reporting to investors could be a priority direction of strengthening the attractiveness of companies listed on the AeRO market, with a direct impact on liquidity on the market.

Bibliography:

Achim, M-V., Borlea, S-N.; Mare, **C.** (2016). Corporate governance and business performance: Evidence for the Romanian economy. *Journal of Business Economics and Management*, 17:3, 458-474, https://doi.org/10.3846/16111699.2013.834841

Mihail, B.A.; Dumitrescu, D. et. Al. (2021). The Role of Investor Relations and Good Corporate Governance on Firm performance in the Case of the Companies Listed on the Bucharest Stock Exchange, *Journal of Risk and Financial Management*, 14(12), 569; https://doi.org/10.3390/jrfm14120569

AeRO BSE monthly report - December 2021. https://www.bvb.ro/info/Rapoarte/Lunare/SMT_Decembrie2020.pdf

BSE monthly report - December 2021. https://www.bvb.ro/press/2022/BVB_Raport%20lunar%20decembrie%202021.pdf

BSE – AeRO Corpoaret Governance Code . CG principles for AeRO listed issuers 19122014.pdf (bvb.ro) https://ir-romania.ro/vektor-aero/ https://ir-romania.ro/vektor-2022/