THE ENHANCEMENT OF A MORE TRANSPARENT ROMANIAN BUSINESS ENVIRONMENT AND ITS BENEFITS

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ABSTRACT
Corruption represents a concerning issue worldwide where profit-seeking firms along with rent-seeking bureaucrats perceived it as the easiest and quickest method to wealth and prosperity. Oftentimes the sheer definition of corruption is debated and contested being justified by cultural norms and historical traditions. Insufficient academic and popular writings seem to adequately articulate the benefits of transparent business and administrative behavior, where the anti-corruption discussion in the Romanian context seems to be limited only to legal aspects. In the following paper we intend to analysis the Romanian companies' transparency level and to facilitate a development strategy build upon a long-term, reputable perspective, which in turn would enable a healthier development of the Romanian business and administrative society.

KEYWORDS: *Corruption, Anti-corruption, Transparency, Business Environment, Romania*

JEL CLASSIFICATION: *G3,M2, E6*

CORRUPTION AND THE CONCEPT OF CORPORATE TRANSPARENCY

In the aftermath of the global financial crisis which affected almost the entire world, confidence in the free market system has diminished considerably especially in Europe. A consequence of this was politicians' and civil society's demands of having a tighter control and a stricter regulation over the economy and business. Integrity in business is closely linked to the fight against corruption. Research on corruption represents an important area of focus of modern public administration, which measures the negative impact corruption has on the eco-social and economic system of a country or a region and attempts to identify its causes and perpetuation. A survey of the research literature leads to the possible categorization of corruption causes along four directions:

- Political and judicial (Leite & Weidmann, 1999);
- Historical and cultural (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999); (Treisman, 2000);
- Economic and poverty driven (Dreher, 2003); (Treisman, 2000); (Wei, 2001);
- The size of the public sector and compensation of employees (Tanzi, 1998); (Treisman, 2000); (Van Rijckeghem & Weder, 1997); (Otahal, 2007);

In general it can be stated that corruption is caused in most cases by the selfish nature of people, and is facilitated by excessive and poorly managed governmental regulations and the participation of government in the economy. Corruption is defined by Transparency International as being an "abuse of entrusted power used for personal reasons" (Alistar et al., 2013). Corruption can be

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classified into three types, depending on the amount of money involved and the sector where it happens. These are (Alistar et al., 2013):

- Main corruption occurs when high representatives of the government and business distort policies and the central functioning of the state allowing leaders to obtain personal benefits at the expense of the public good;
- Petty corruption refers to daily abuses made by public officials at a small and medium scale in the course of their interactions with citizens, which often materialize in obtaining goods and services such as health, education, law enforcement or other institutions;
- Political corruption refers to the manipulation of politicians, institutions and rules of procedure in allocating resources and funding by those who have decision-making power and abuse their position in order to sustain their power and status.

In a globalized world, companies and organizations are looking to maintain business lines that were in one way or another affected by the global financial crisis. Unfortunately, various research and reports indicate the fact that corporate transparency is not yet sufficiently developed. For instance, the majority of organizations don’t make public their commitments on combating corruption and fraud.

Denis Thompson wrote in 1993 an article called “Mediated Corruption: The Case of the Keating Five,” in which he defined corruption as “a situation in which the private interests distort the public objectives using government influence without the approval of democratic process” (Thompson, 1993). He gives three general principles upon which is to be judged if a society, an institution, or individual behavior is corrupt or not, and/or the level of corruption: generality, autonomy, and transparency. Generality refers to the lack of discrimination regardless of wealth, race, origin or sex; autonomy refers to behavior and treatment based on objective, relevant merits; and transparency assumes that all behavior can be publicly justified. Naturally, this and many other corruption theories are limited in terms of their applicability given the different geography, culture, and historical context.

Governments across the globe and throughout history have struggled with and fought against corruption to limit its negative impact on the efficiency and prosperity. Corruption prevents producing economic resources and the facilitation of their transfer. On the long term it has the effect of demotivating people towards working effectively, investing, innovating and saving money (Vaduva, 2013).

The concept of “corporate transparency” represents an answer and one possible solution factor to corruption problems. It suggests an idea of openness, honesty and visibility that a company has towards its stakeholders: shareholders, employees, customers, suppliers, and authorities (Coşpănaru et al., 2013). Standard and Poor’s defines corporate transparency in the GAMMA methodology (Governance, Accountability, Management Metrics & Analysis) referring to it as it follows: “Corporate Transparency is an attitude that those at the top of a business choose to display to all other players on the market and without expressing respect and responsibility to do things by the book.” (Standard & Poor’s, 2008).

Transparency should not be confused with marketing and communications, which even if provide information about the company, do not meet simultaneously all the aspects mentioned earlier. Most of the time, marketing and public relations is focused on emphasizing the positive aspects to be shared without mentioning any of the less comfortable ones.

The benefits of corporate transparency

Christine Legarde, the managing director of IMF declared: “The success of future economy will stand on the following principles: greater openness to the global community and the world in general, a stronger relationship, inclusion with an emphasis on tolerance, respect and fairness to one another, a greater responsibility in order to bring real economic value and not destroy it.” Looking at the benefits that corporate transparency can offer, it is important to mention that the company, stakeholders, and also citizens can gain benefits from it (see figure 1).

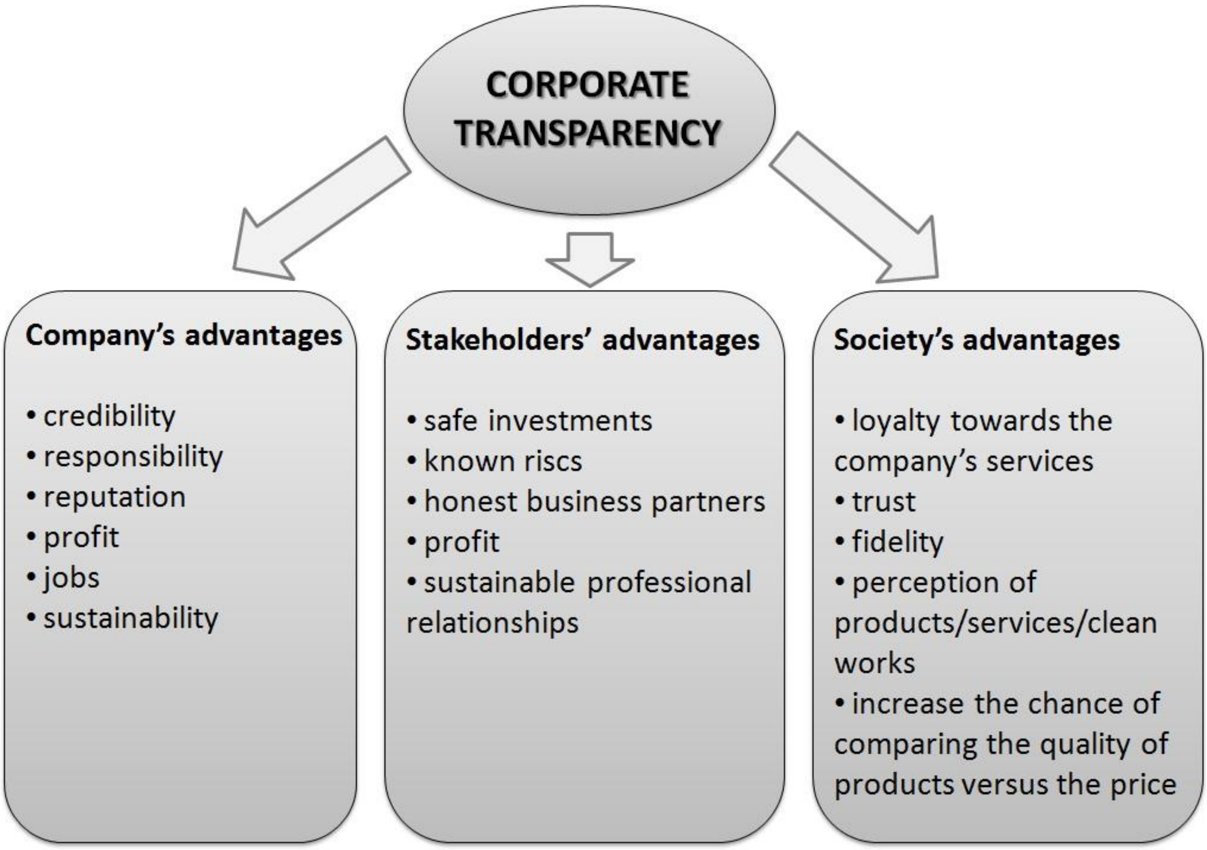

Figure 1. Corporate Transparency's advantages
Source: adapted from (Coș pănaru et al., 2013)

First of all, by adopting corporate transparency companies will benefit from an increase in credibility and accountability among stakeholders, reporting clear and complete information. Corporate transparency instills confidence among employees and a reputation founded on openness, and also due to its transparency, the company will attract those people (employees and partners) that are more willing to comply with the ethical standards of the company. Also, employees will feel they are part of a family. For multinationals, subsidiaries' transparency in each country they operate in will provide greater efficiency toward monitoring the company's impact on local economic development. Transparency creates profits and jobs taking up the role of an economic engine of society by supporting free markets and entrepreneurship (Coşpănaru et al., 2013).
Secondly, stakeholders will know better their potential business partner and will thus gain confidence in the company. If a company hides its debts, investors cannot estimate the degree of exposure to the risk of bankruptcy; therefore they will be reluctant towards the company. It is good to know that before making any kind of investments, those seeking to do business in a certain country or region, will evaluate the local climate in order to observe the degree at which the business environment is being impacted. Transparency diminishes such risks and uncertainties, as well as opportunities for corruption and bribe. Engaging in bribery creates instability for the companies and presents ever-growing reputational and financial risks (E&Y & Transparency International, 2011). For example, a whole business environment is shaped by having and especially putting into practice a code of ethics through which the organization expresses its commitment to

behave responsibly and transparently towards other persons or organizations it comes in contact with. It also creates lasting professional relationships. Where there are cases of fraud in a company caused by an employee or manager, that company's image will suffer, both in the eyes of other stakeholders and in the ones of the company. If there were transparent mechanisms reporting financial statements together with notification of the employees who would have known the situation and also a real control on behalf of the shareholders, the scandal could not have reached such a large scale.

In the era of Facebook and YouTube, any violations of civil rights or the existence of irregularities or compromising information about a company will bring immediate negative publicity and loss of credibility to the companies involved.

The challenges of corporate transparency

Like any other concept, corporate transparency is not flawless. By analyzing the big picture one can easily discover there are some challenges a company will have to face by adopting such a concept. Looking at the challenges a certain company might face in the process of adopting corporate transparency, the following are important to be mentioned: company privacy data and potential securities problems of information: by making public a large quantity of information, there are risks related to various information about the interest of the organization. There are risk factors targeting security leak due to both technology and human capital (Market Watch, 2012). These kinds of leaks can be both external (online attacks) and internal (software vulnerabilities, employees' behavior), the fear of having business secrets disclosed, event that will then lead to a better informed competition and may generate company's loss of competitive advantage and using inside information to unilaterally increase profit at the expense of the company and public interest. The concept of inside information "means any information of a precise nature that has not been made public, relating, directly or indirectly, and which, if it were made public, would be likely to have a significant effect on the share price of goods and services provided by the company" (Harris, 2003). Inside transactions are those transactions that violate the principles of transparency and completeness of the information, where the information was not made available to all investors in order to obtain an unfair advantage by a particular investor.

Conditions that foster corporate transparency

In order for a company to implement corporate transparency that will pay off there must be a few important conditions that should be met. First of all, the following question must be instilled in a manager's mind from the very starting point of the business: What do others want to know about the company? This information is essential in order to improve a company's performance, meanwhile aiming towards the credibility and sustainability others want to see. The following three steps must be taken in order to achieve the stated goal (Coşpănaru et al., 2013):

- Identifying significant stakeholders and their expectations;
- Understanding the type of commitment or relationship that exists between the company and each of the stakeholders;
- Identifying relevant information for each stakeholder and reporting it.

Misinformation or incomplete information of the customers can cause serious concerns towards the organization, not just in financial terms. The same thing applies for the selective information tactic.

The following figure will clarify what a company should consider when it decides it wants to improve performance and recognize the difference between selective and total transparency.

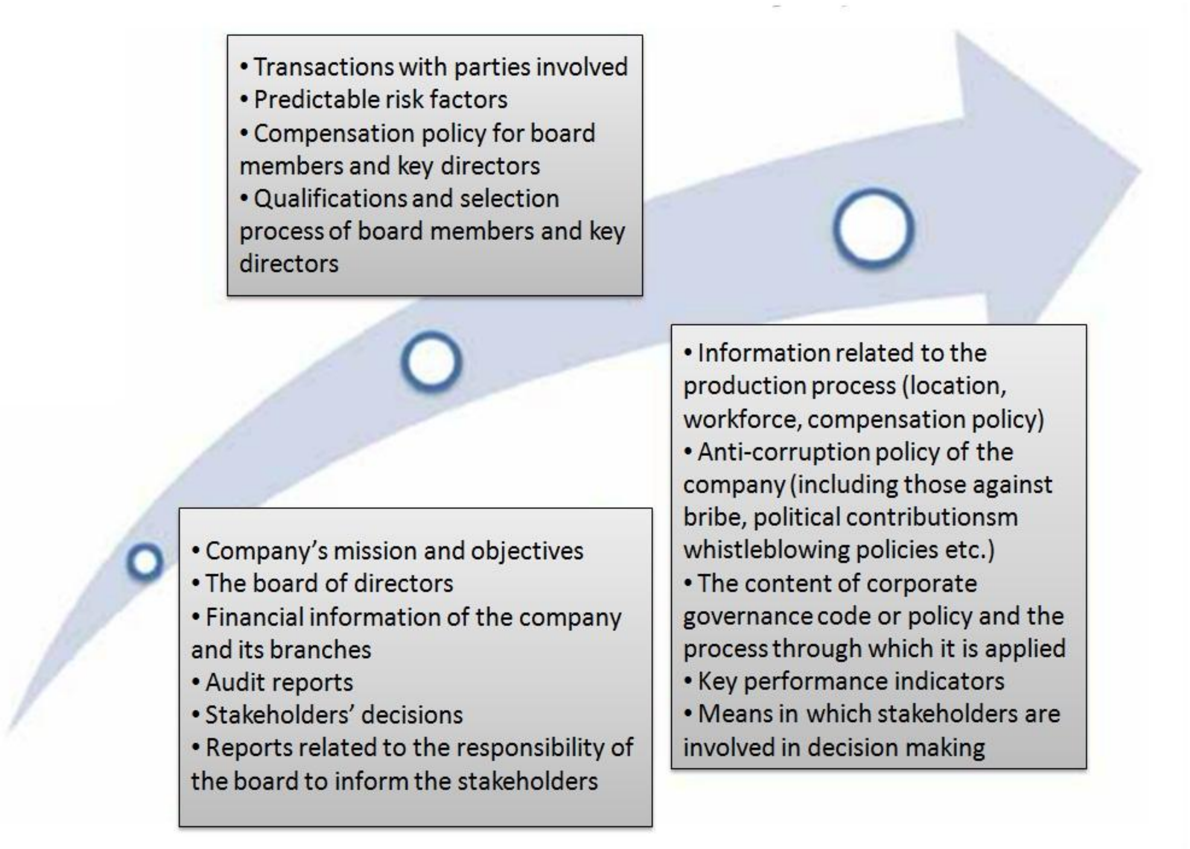

Figure 2. The information that report transition from selective transparency to a total one
Source: adapted from (Coşpănaru et al., 2013)

Last but not least, it should be noted that stakeholders expect a proactive attitude from companies in terms of transparency so it is desirable that the company provides a larger range of information, an action that starts from within the organization. Such a goal is achieved using means and formulations made available to the public, and not only through marketing campaigns.

The role of corporate governance in ensuring corporate transparency

As we have noted earlier, corporate transparency is an attitude that is being decided and shaped by those at the top of the company. It can be stated that corporate transparency starts as an element of policy and then permeates the corporation as a cultural force, its impact and effectiveness depending on the way it is emphasized by the leadership of the company, and the tools and procedures that are being established and imposed. Therefore, the assurance of corporate transparency is a responsibility that starts with the highest authority in a corporation, and that is the board of directors closely followed by top management.

While this is an extensive area, we refrain here to the proposition that the number one step that those in charge with corporate governance can take in order to promote a culture of corporate transparency is the assurance of transparency on the process of corporate governance itself. Thus some research suggests (Bhat, Hope, & Kang, 2006) that governance transparency, which can be interpreted as capturing the intensity of governance disclosures used by outside investors to hold officers and directors accountable (Bushman, Piotroski, & Smith, 2004), can be positively associated with the accuracy with which sophisticated market participants in the person of stock analysts are able to forecast the performance of companies. And considering that predictability is a fundamental factor for business confidence, which in turn impacts business development, this is an

important finding. The same study suggests that governance transparency may be more important in an environment with a weak legal enforcement, a category where Romania likely ranks high.
Governance transparency can be measured by the extent to which governance disclosures are being made by the company, including disclosures related to: major shareholders, management, board, director and officer remuneration and director and officer shareholdings. Governance transparency is an important part of corporate transparency, which can also be defined as the widespread availability of firm-specific information to those outside the firm (Bushman et al., 2004).

INTEGRITY IN THE ROMANIAN BUSINESS ENVIRONMENT

In order to implement corporate transparency in Romanian companies, one needs to evaluate the present level of integrity they possess. A study realized in 2011 by Transparency International offers an image over the level of integrity in the Romanian business environment. The purpose of the study consisted in finding out if in the Romanian economic sector one can talk about a coherent and consistent trend companies have when it comes to fighting corruption and developing a culture of integrity and not just a declarative level of commitment.

Methodology employed

The research took place over four months, from August to November 2011 on a sample that gathered 631 companies operating in Romania. These 631 companies were placed on 81 specialized sectors in order to emphasize diversity. They covered all eight regions of development Romania has and the research focused on three main directions (Alistar, Ducu, Sădeanu, & Coşpănaru, 2011): a research conducted on companies' websites regarding the transparency and ethics management systems and the level of compliance these organizations publicly have regarding their responsibilities, a complex questionnaire whose role was to capture the existence and functional state of the instruments that form the ethics and compliance systems of the companies and on the third part, international trends regarding ethics and compliance management, as well as social responsibility were taken into account.

The results that were obtained

The main results of the research were the following:

- From the 631 companies on the sample, only 117 (18,5%) had a code published on their website, whether it was a code of ethics, a code of conduct or just a statement about company's values;
- Out of the 81 markets, 39 do not contain even a company with a code of ethics on its website;
- 70% of the companies surveyed said that they do not have a department of ethics and compliance;
- 80% of the companies surveyed said that they do not have an ethics committee or council;
- To the question of whether there have been ethics training programs in the companies they represent or not, respondents opted equally for the two answers.

Looking at the results mentioned above and taking into consideration the level of integrity the Romanian companies have, we have conducted a research regarding ethics in business in Romanian small and medium companies. The research took place last summer, during the period of May 27th – June 26th 2014 and it involved a questionnaire to which 412 companies answered.
On a scale from 1 to 7 (1 – strongly disagree, 7 – strongly agree) the respondents said the following:

- 40% said that they strongly disagree (1) with the affirmation that ethics in business is a useful concept only to give good image;

- 42% said that they strongly disagree (1) with the affirmation that ethical values are irrelevant to the business model;
- 34% said that they agree (4) with affirmation that when you will act according to the law, you will not fail from a ethical perspective;
- 36% said that they strongly disagree (1) with the affirmation that the main concern of the manager of a company is primarily to make a profit and being ethic comes in secondly;
- 37% said that they agree (4) with the affirmation that a good business man is a successful business man;
- 28% said that they partially agree (3) with the affirmation that business decisions involve a realistic economic attitude and not a moral philosophy;
- 45% said that they strongly disagree (1) with the affirmation that moral values are irrelevant for the business environment;
- 58% said that they strongly disagree (1) with the affirmation that has success in business should not worry about the moral issues;
- 35% said that they almost strongly disagree (2) with the affirmation that a common manager of a company usually has two ethical standards: one for his private life and one for his professional life;
- 36% said that they agree (4) with the affirmation that in the business world it is hard to make ethical decisions, due to the high competitive pressure;
- 48% said that they agree (4) with the affirmation that healthy ethics are profitable on the long term.

TRANSPARENCY INTERNATIONAL – ROMANIA'S RECOMMANDATIONS

Subsequently to analyzing the level of integrity in the Romanian business environment, we support the following recommendations for the Romanian companies who want to adopt a corporate transparency in order to benefit from the advantages that this concept provides to both employees, stakeholders and citizens are the following (Coşpănaru et al., 2013):

- Developing clear and transparent internal policies and procedures applicable to the whole process of the company's activities;
- Providing trainings on transparency for the employees;
- Publication of financial and audit reports;
- Implementation and continuous updating of the company's website where all the information of interest should be posted for the external environment of the company. It will be preferable to be translated into other languages of international circulation;
- Involvement of stakeholders in a real dialogue from which valuable information should be provided on both sides, developing responsibility in order to improve business performance;
- The public assumption of errors and mistakes as part of the process of improving company's provided services;
- Communication of potential risks that the company may have with future partnerships and the strategies to mitigating and combating these risks.

In a world where corruption is omnipresent, corporate transparency represents the solution for a healthier and efficient business environment. Even if the level of corruption is still high in Romania, the concept of being ethical and transparent is starting to develop. Because of this, corporate transparency should and could help Romanian companies to develop because of the benefits that it offers both employees, stakeholders and even the citizens. A few of the recommendations proposed involve developing clear and transparent internal policies and procedures applicable to the whole process of the company's activities, offer training on transparency for the employees and communicating potential risks that the company could face by developing new partnerships.

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