Transparency and Disclosure Practices in Selected Post-Transition Economies

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Abstract
The paper uses the methodology introduced by Standard & Poor's to assess the level of transparency and disclosure exercised by the recently privatized companies from three Balkan countries: Croatia, Serbia and Macedonia. The procedure involves a thorough examination of the corporate websites to check for the presence of a list of 98 disclosure items. The results show that although the disclosure practices are gradually being improved, they still lag behind those of the older market economies. Additionally, the companies from the financial sector score considerably better than the average and the disclosure of management and governance data are the weakest point in each of the analysed countries. Companies with large shareholders owning sizable stakes are less prone to disclose. Preparation and publishing of classical annual reports is a rare practice and the companies seem to be more comfortable with disclosing data which are already made publicly available through other institutions. We find the reasons for this behaviour in the lack of relevance of the stock market information for the future of the companies and their management, which, in turn, has negative consequences for the development of the same stock markets.
Keywords: corporate governance, transparency, disclosure, post-transition, privatization, Macedonia, Serbia, Croatia.

1. Introduction

High quality corporate transparency coupled with a timely and relevant disclosure is widely accepted as one of the pillars of good corporate governance. The theory of efficient capital markets suggests that investors need to have all the relevant information to be able to make appropriate conclusions regarding the future of the company. Transparency is beneficial for the company for its impact on company valuation, cost of capital, access to external financing, etc. The society also benefits from higher transparency because of its positive impact on the capital market development, the system of corporate governance, the results of the companies, etc. On the other hand, company insiders have both legitimate and private reasons to believe that not everything should be disclosed to the public. They strive to protect their own positions, but also the position of the company vis-à-vis its competitors. At the same time, the authorities in each country and at supranational level try to find the appropriate enforcement mechanisms to provide the desired degree of visibility of the corporations.

These issues are gaining increasing attention in the former transitional economies and numerous authors have contributed toward the clarification of the specifics of transparency and corporate governance in this setting (Berglöf & Pajuste, 2005; Djankov & Murrell, 2002; Filatotchev et al., 2003; Megginson & Netter, 2001;). The reasons for this are manifold. First, these countries have undergone a very rapid transformation of their economic systems, introducing new forms of ownership the functioning of which has been burdened by the lack of experience and institutions. Second, the process of ownership transformation in many cases resulted in deficiencies (insider ownership, dominant investment funds ownership, ownership by state-owned banks, etc.), which were the cause of numerous corporate governance problems. Third, most of these economies (especially those in Central and Eastern Europe) have soon entered a process of association with the European Union which presumed the acceptance of a set of European directives and codes in the area of corporate governance.

In this paper, our focus is on the countries that emerged from the former Yugoslav federation, i.e. on three of them: Croatia, Serbia and Macedonia. The economies of these countries followed a path similar to that described above. They have undergone a transition from the so-called social ownership toward private ownership of the companies' assets and the companies in these countries have in most cases gained a corporate form after the privatisation. However, the legal transformation was one thing, but there was still a long way ahead toward a full mindset changeover. There has been a lack of knowledge and experience regarding the extent to which the companies should open themselves to the public. At the same time, various regulations have been adopted to compensate for the lack of transparency. Two decades later, as sizable amount of knowledge regarding the roles and competencies of the various corporate stakeholders has been accumulated, we want to address the issue of transparency, i.e. to measure the extent to which these companies have accepted the customary corporate governance principles. For this purpose, we have used a procedure developed by Standard & Poor's which determines the overall transparency score for a company using a checklist of items considered as standard disclosure elements. We have applied this method to a sample of Croatian, Serbian and Macedonian companies using the information available on the companies' websites. We consider this approach appropriate, since web-based disclosure has largely replaced traditional publishing of materials and it has vastly improved shareholders' access to material information. On the basis of this survey, we try to develop certain conclusions about the possible reasons for the estimated transparency levels and their possible consequences.

The first section of the paper provides an insight into the existing research with an emphasis on the perceived benefits and costs of transparency and disclosure (TD). In the second part we review the techniques suggested by various authors for measuring the otherways non-quantifiable attribute of transparency. In the third section we describe in detail the design of our survey and the results of the assessment are given in the next section. Furthermore, we try to identify the possible causes of the perceived state with respect to the corporate governance features in the region, while the last section contains the most important findings of the analysis.

2. Why do companies (not) disclose?

The textbooks on corporate governance extensively defend the view that more is better when transparency is concerned. They quote numerous studies which provide evidence that companies with superior disclosure practices obtain higher market valuations, they have a wider range of financing opportunities, lower cost of capital, etc. (Botosan, 2006; Frost et al., 2005; Hail, 2002; La Porta et al., 2002; Verrecchia, 2001; among others). On the other hand, they also advocate measures that the governments should undertake in order to improve the companies' disclosure practices. Obviously, these two assertions are controversial. Namely, if the benefits of transparency are so obvious, why do we need enforcement measures?

A large body of research available today shows that there are benefits, but also costs from increased transparency. Even the ignorant reader would comprehend that the companies have secrets and not everything should be subject to disclosure. Also, the benefits from the point of view of the society are not necessarily seen the same way by the companies themselves, so that we can discern firm-specific and market-wide costs and benefits of firms' reporting and disclosure (Leuz and Wysocki, 2008). The real issue here is how to provide the optimal measure, i.e. to enforce a level of transparency that will both be beneficial to the investors, but also the least harmful to the companies. In addition, it is necessary to understand that there are different types of information which could be subject to disclosure, i.e. information related to either the company finances or to its management (Bushman et al., 2004). An interesting contribution is made by Beattie et al. (2004) who stress the importance of the narrative part of the annual reports, thus making a clear distinction from the general line of research which mostly deals with the formal financial and non-financial disclosures.

Starting from the value maximization proposition, the prevailing line of thought is that disclosure is beneficial from the point of view of company valuation, although these findings are based on different grounds: lower investors' uncertainty (Durnev and Kim, 2005; Hail, 2002; Healy et al., 1999) increased market interest (Lang et al., 2012), better protection of investor rights (La Porta et al., 2002; Östberg, 2006); lower cost of capital (Botosan, 2006; Frost et al., 2005), etc. On the other hand, a recent research on a sample of Australian companies showed no relationship between the quality and sustainability of a firm's transparency and its default risk, i.e. its cost of external financing (James-Overheu & Cotter, 2009). In order to better utilize the overall social benefits from transparency, some authors suggest and support the implementation of mandatory disclosure requirements (Admati and Pfleiderer, 1998; Berglöf et al., 2005; Östberg, 2006)

However, as mentioned before, it is impossible to ignore the fact that the companies disclosing more to their shareholders also disclose themselves more to the views of their competitors and other potential users of that information. Enhanced transparency creates unsolicited pressure on the managers whose work is monitored more closely by the market (Hermalin and Weisbach, 2007), the controlling shareholders lose their informational advantage and thus the appeal of their position weakens (Berglöf et al., 2005), and it also increases the costs to the initial owners in case of a future sale of the business (Verrecchia, 2001).

3. Measuring transparency

In order to assess the sufficiency and impact of the level of transparency, the researchers need specific quantitative measures. The lack of such a measure was also one of the common problems in many of the abovementioned studies. The attempt to measure this, predominantly qualitative attribute, opens a number of issues.

First, it is necessary to determine whether total corporate transparency should be taken into account or only the so-called "voluntary" transparency. Namely, a part of corporate disclosure is a result of mandatory requirements. Although it is beneficial to the general public, it is not an indication of the company's awareness or willingness to disclose. Therefore, a number of researchers have focused only on voluntary transparency, broadly defined as the level of transparency beyond the mandatory level. In recent years, this kind of research was based on the information available on corporate websites.

Second, the measurement is complicated by the fact that the notion of transparency has been modified in the recent past as a result of the widespread use of internet. On one hand, it has lowered the cost of disclosure, since it is no longer needed to print expensive reports or mail the necessary information to the shareholders. The current and prospective shareholders do not need to visit the company or even contact it to obtain the information required. Also, a vast amount of information is concomitantly made available on the internet by other providers such as stock exchanges, security market regulators, financial service providers, etc., which has an ambiguous impact on the incentive of the companies to disclose information.[1] The aggregate impact of all these changes on transparency is assumed to be positive and a great deal of the research today concentrates on web-based disclosure (Berglöf et al., 2005; Xiao et al., 2002).

However, the most crucial problem is related to the method of measuring something which is not directly quantifiable and consists of multiple components of diferring nature. There are two general approaches to this issue. The first approach is based on subjective valuation, where the opinions of experts organized in panels are collected. The second approach is more objective, since transparency is measured through a set of criteria or units of information made available in the annual reports and similar documents.

An example for the first approach is the procedure used by the Association for Investment and Management Research (AIMR) (currently CFA Institute) in the period between 1979 and 1996. AIMR used to create committees of experts for a number of industries to develop a report called *Annual Review of Corporate Reporting Practices*. These experts were asked to select representative companies for each industry and to evaluate their levels of transparency using a set of criteria. The results were afterwards summarized by industry and generalized for the economy. Besides its limitations, this survey provided a useful quantification of the companies' behaviour related to transparency and disclosure, but unfortunately it was abandoned by AIMR in 1997. This source of information has been used, for example, by Botosan and Plumlee (2000).

An example of the second approach is the Standard and Poor's study that examines the transparency and disclosure practices of many companies (Patel, S. and G. Dallas, 2002). The study uses a methodology mostly based on the examination of the companies' annual reports and a checklist of items related to three broad areas of disclosure: ownership structure, financial matters and board and management composition and processes. Each of these three categories is further subdivided into a total of 98 disclosure items and the company is given a point for the presence of each item in the reports.[2] The total number of points for a company represents the particular company's score and provides a basis for comparisons among companies, countries and regions, but they have also served as useful inputs in numerous studies (Aksu and Kosedag, 2006, and Durnev and Kim, 2005 for a robustness check). A similar scoring system is used by the IFC (International Financial Corporation), but they develop an overall corporate governance scorecard in which transparency is only one of the components. The quality of TD is measured on the basis of a set of nine questions, such as: does the company use an internationally recognized accounting system, is the company risk management system discussed in its annual report, are all the investors equally treated in terms of availability of information, etc. Unlike the S&P system, the questions are given different weights.

In order to assess the impact of voluntary disclosure on the cost of capital, Hail (2002) uses a system of measurement of the voluntary disclosure levels of the Swiss firms. This system is based on a study conducted by the Swiss Banking Institute and here voluntary disclosure is divided into three categories: 1) Background and non-financial information, 2) Trend analysis and management discussion and risk, and 3) Value-based and projected information. The goal of the assessment is to determine the amount of data other than the mandatory items disclosed by the companies. This technique is similar to the S&P approach. The disclosure scores derived from this assessment are used as an independent variable in the regression equation for the determinants of the cost of capital.

Credit Lyonnais Securities Asia (CLSA) is another institution providing assessment of the quality of corporate governance. It issues its annual Corporate Governance Watch which represents a survey of corporate governance in the Asian countries. It examines hundreds of listed companies across the Asia-Pacific markets, to produce a comprehensive assessment of corporate governance performance, issues and trends in this part of the world. The survey involves collecting answers on more than 50 questions grouped into several categories such as: managerial discipline, transparency, board independence, accountability, responsibility, minority shareholder protection and social awareness. Durnev and Kim (2005) use these scores in their study on the determinants of the quality of corporate governance.

Berglöf and Pajuste (2005) use the information disclosed on company websites to construct a WebDisclosure Index as a measure of voluntary disclosure, but also on the basis of the information contained in the companies' annual reports, they construct another - ARDisclosure Index to evaluate the implementation of mandatory disclosure.

[1] On one hand, the companies have less incentive to hide the information which is already available, but on the other hand, they might find it not necessary to disclose information that has already been made public.

[2] A more detailed description of the procedure can be found in Patel & Dallas (2002).

4. Survey design and data

In this paper, we have used the abovementioned scoring methodology developed by Standard & Poor's. The procedure involves a thorough inspection of the companies' annual reports in order to measure the level at which the companies provide the public with the information necessary to make sensible investment decisions and exercise effective corporate governance. This information is divided into three areas: Ownership, Financial disclosure and Board and management.

The first section – Ownership disclosure measures the availability of information about the company's ownership structure, types of shares issued, names of the dominant shareholders, shareholders rights and voting mechanisms, etc. The area of Financial disclosure is related to the availability of financial information, such as the publication of financial statements, accounting policies, auditors' reports, efficiency indicators, financial forecasts, investment plans, etc. The last section – Board and management assesses the extent to which the public is provided with information about the names of board members, their backgrounds, the existence and the members of board committees, details about the remuneration of the board members, information about the executive managers, etc.

As the initial S&P study was made at the turn of the century and the matters related to transparency have changed since then, we have made some adjustments to the original format of the survey. First, we have relied exclusively on corporate websites as a source of information. We found this acceptable, since the companies in this region, most of which emerged from the former socialist enterprises, have never developed a tradition of publishing printed annual reports and/or contacting their shareholders directly. As their development as corporations coincided with the growth of the internet, they have found the company website as the most appropriate and sufficient place for disseminating all the information relevant to their investors. Also, the number of companies producing annual reports in their classical format is not very high. The availability of the electronic format makes it even less likely that they will ever begin doing so. Therefore, we have used a broader definition and accepted as valid annual reports all the published reports containing information additional to the pure financial statements and the accompanying notes. We have also used as acceptable the information provided elsewhere on the website and not only in the investor relation sections if it were easily traceable and accessible for website visitors.

In order to better portray the corporate transparency in the region, we have based our research on a sample including companies from three countries: Croatia, Serbia and Macedonia. The common past as a part of former Yugoslavia and of the same economic system is what makes the comparison among these three markets relevant. They all began their economic transition from the same starting point, they all suffered economic and noneconomic turbulences in the past two decades and the mentalities of their people are very similar. One important difference among them is the fact that Croatia became a member of the European Union on 1.7.2013 and its regulations have been harmonized with the EU legislation, while the other two countries are at the very beginning of their EU accession process.

The process of privatization has to a large extent shaped the systems of corporate governance in the transition economies. In the three analyzed countries, these processes had a number of similarities. They all began with a system of workers' self-management and social ownership of the companies' assets. The privatization process in Croatia was implemented through several stages. Most of the privatization was done on a case-by-case basis, while the free distribution of vouchers using privatization and investment funds as intermediaries was limited to a short period. This resulted in an ownership structure in which there are two main groups of owners: large domestic shareholders ("tycoons") and the state and quasi-state funds (privatization funds, pension funds, etc.) (Račić & Cvijanović, 2005).

The privatization in Serbia was overburdened by the political turmoil that the country was going through in the nineties and the early years of the last decade. The international sanctions to the country, the NATO intervention and the assassination of the prime minister created a very unfavourable environment for the economic reforms. Therefore, after several waves of privatization, most of the economy is in private hands, although a number of companies could not survive the transition years and the role of the foreign investors in the privatization process was very low. The privatization was done on a paid basis, through auctions and public tenders, resulting in a more concentrated ownership than a voucher scheme would have generated.

In Macedonia, which also suffered from the political turbulence in the region, the privatization process did not bring the expected benefits in terms of financial inflows into the country and accelerated economic development. The first wave of privatization which took part when Macedonia was still a part of former Yugoslavia, left a very inconvenient legacy of large ownership stakes already in the hands of company insiders. This had a very negative influence on the overall privatization process, since the most attractive companies were already dominantly privatized, thus they could not attract any foreign capital nor provide financial inflows from the further privatization. This situation, coupled with the new, insider-friendly model of privatization, resulted in an ownership structure largely dominated by managers and employees. The second wave of privatization led to a further concentration of ownership, which altogether resulted in a specific corporate governance system (Arsov, 2005).

Our sample includes companies traded on the national stock exchanges. We could not restrict ourselves only to listed companies, since the definition of a listed company varies widely among these markets. The final sample consists of 49 Macedonian listed companies, 43 Croatian companies (from the official market) and 42 Serbian companies (prime and standard listing and ordinary market), accounting for a total of 134 companies. The sample might seem small, but these companies represent considerable portions of the total turnover with shares in the respective stock markets, as shown in table 2 below. For these companies we have reviewed their websites in detail, to fill in the checklist based on the S&P design. We consider the availability of this information as an indicator of the voluntary transparency and the awareness of the companies to disclose information to the public, as opposed to the mandatory disclosures made on other institutional websites (SECs, stock exchanges, etc.). The analysis was done in the second half of 2013.

The sample includes all the largest joint-stock companies in the respective markets. Therefore, the sample might be biased toward presenting a better picture of the TD situation since the larger and more globalized companies are expected to have a more contemporary attitude towards disclosing relevant information. We consider this bias not very relevant, since the original S&P study also uses companies included in some global stock market indices, i.e. companies with higher market capitalizations and stock liquidity.

5. Results of the survey

The overall TD scores by country and area of disclosure are given in Table 1. The scores indicate that the companies in Croatia have developed the highest sense for the significance of transparency compared to the remaining two peers. Another conclusion is that in all these countries the companies are most transparent in the area of financial disclosure. This outcome is to some extent unexpected since finance related information is usually considered the most confidential and sensitive to possible abuse. However, this can be explained by the mandatory use of IFRS in all the three countries (which automatically adds several points to the score in this area) and also by the stock exchanges' requirements for regular submission of financial reports which are made available on the exchanges' websites.

Also, all three countries have fared worst in the area of disclosing information about the companies' management and board structures and the related committees. Under our opinion, the reason for this outcome has more to do with the managers' lack of awareness of the relevance of this information or with the lack of items to disclose (e.g. there are no committees), than with the intention to hide anything.

Table 1. Transparency and disclosure scores

AREA OF DISCLOSURE	CROATIA	SERBIA	MACEDONIA
Ownership structure and investor rights	40	41	29
Financial transparency	51	41	37
Board process and structure	15	9	10
COMPOSITE SCORE (weighted average)	**35**	**30**	**25**
Highest score by company	68	58	58
Lowest score	0	0	0
Lowest non-zero score	21	8	2
Median	37	30	27
Standard deviation from the mean	9.5	12	14.5
Average stake owned by top 3 shareholders	64.9%	69.5%	55.2%
Market value of shares owned by legal persons	49.0%	73.0%	83.8%

It would be very useful to compare these scores with those from other countries in Europe and elsewhere. For this purpose, we can only use the S&P study from 2001. The composite scores are only comparable to the score for Latin America (31), but they are much lower than the average European score of 58 at that time.[1]

We saw that by groups of questions, the highest score is achieved in the area of financial disclosure. Financial transparency is also the item with the highest score in the S&P rankings, ranging between 54 in Emerging Asia and 77 in USA or 81 for UK alone. The ownership transparency score is between 29 and 41 (higher than Latin America and Asia in 2001, while Europe has an average score of 46). All the three countries score very low in the field of board and management structure and processes (not more than 15), compared to the average score for Europe of 51. When interpreting these results, we must always have in mind that the S&P study was done more than a decade ago, so that the respective scores could even be higher today.

In addition, we have made another comparison. Since the overall transparency scores can be blurred due to the

[1] One should note that the S&P study is based on a sample of companies included in the Standard & Poor's Global 1200 index and companies in the S&P/IFCI emerging markets indices and was later extended to include companies from the S&P/TOPIX 150 index in Japan.

involvement and the possible counterbalancing among the numerous items, we have chosen 7 specific items to look for in the companies' websites.[1] We consider these items to be appropriate indicators of corporate willingness (and awareness of the need) to disclose. These items were marked as *available* or *not available* on the basis of their presence in the websites, but also if they were reasonably accessible in the documents published there (e.g. annual reports). In addition to the items selected from the S&P's list, we have included two others: investor relations section and annual reports. The investor relations departments are a rather new part in the companies' structures in this region. For this purpose, we did not strictly look for the presence of an IR section in the company website, but we have accepted as such all the cases in which the investor related information was available and reasonably accessible. The inclusion of the annual reports is based on the assumption that their preparation represents the company's dedication to share additional information to its shareholders. The number of classical annual reports is rather small, but we have counted all the reports containing information additional to the pure financial statements and auditors' reports.

Table 2. Key transparency indicators

	Croatia	Serbia	Macedonia
Investor Relations section on the website	65%	90%	64%
Annual Report on the website	53%	40%	39%
Annual Report in English	33%	12%	23%
Reproduced Corporate Governance Code	35%	24%	9%
Articles of Association/Statute on website	14%	29%	11%
Reproduction of the Auditors' Report	93%	90%	82%
Management compensation information	35%	26%	20%
Number of analyzed companies	**43**	**42**	**49**
Pctg. of market turnover with shares in 2012 represented by analyzed companies	**68%**	**38%**	**45%**

The results of this review are presented in table 2 as percentages from the total number of analyzed companies. We will briefly go through the most interesting findings.

About two thirds the Macedonian companies have an investor relations section, but it is more disappointing to know that a vast majority of the companies does not have an investor relations department of any size. The Macedonian Stock Exchange (MSE) had to make it mandatory for them to appoint a contact-person for their shareholders and provide the person's name on the MSE website. On the other hand, it is obvious that the Croatian and Serbian companies show much more awareness in this regard.

The percentage of companies preparing annual reports is similar in all three countries. However, these reports rarely have the PR content common for this type of documents, but they most often include only financial statements and very little overview and analysis of corporate strategy and the business sector. The number of companies providing this information in English is even smaller, indicating their disregard of foreign investors.

Corporate governance codes and company statutes are rarely made available, while the percentages illustrating disclosure of managerial compensation should be taken with reserve, since in more than 90% of the cases, the companies reveal only the total annual figures for the boards as a whole with no specific information by person.

Here are some additional conclusions to complement our analysis:

1) The companies differ widely among themselves in terms of how much they disclose. The highest achieved scores are 58 in Macedonia and Serbia and 68 in Croatia. Also, a number of companies have a score of 0, i.e. their websites contain no investor-related information at all.
2) In all three countries, the banks have higher average scores than the rest of the sample. The most striking difference is found in Macedonia (39 for banks to 25 average TD score), but a similar pattern repeats in Croatia and Serbia. This applies to the scores by area of disclosure, as well. The most likely explanation for this might be the fact that the banks are already used to preparing and disclosing more information, due to their more stringent regulation and supervision.
3) We have also examined the ownership structure of the analyzed companies in terms of their dominant owners, the participation of foreign investors in their ownership structures and the aggregate ownership stake of the first three shareholders. We did not find any specific relationship between the share of foreign investors and the TD score, although it is evident that among the top ten companies by their TD score in Macedonia, there are 8 with a significant (more than 15%)

1 Namely, the original S&P list includes some items which might not be very relevant for this region. For instance, *the number of authorized, but not issued shares* in a region with no common practice to issue shares or to create such opportunities in advance is not really a useful indicator; also the numbers of preferred shares issued is not very relevant since such issues are very rare, etc.

foreign ownership, and in Croatia this figure is 4.[1] However, we have found a strong negative correlation between the size of the stake of the largest shareholder and the TD score ranging between -0.17 and -0.20 and also in Croatia and Serbia there is a negative correlation between the TD score and the total ownership share of the three largest shareholders (in Macedonia there is no data available for this calculation). A possible explanation for this would be that the larger the share of the dominant shareholder, the less he finds it important to disclose information to the general public or the less pressure he feels to do so.

4) Another interesting finding from this comparison is the similarity between the distribution of the scores by area of disclosure in the case of the analyzed countries and the S&P study. This tells us that regardless of the overall levels of transparency, the companies around the world have similar attitudes toward disclosing particular types of information. Therefore, any action toward increasing the TD levels could use a fairly unified set of measures.

6 Probable causes for and consequences of the current TD levels

The above sections brought us to the conclusion that the transparency levels of the companies in the analyzed countries lag behind those registered in other parts of the world. One can easily relate this to the post-transition period, but here we would like to point at some additional issues.

As mentioned above, a company should be more transparent if:

- It is interested in increasing its market valuation;
- It intends to raise additional capital through the capital market (stocks or bonds);
- It wants to lower its cost of capital for future investments;
- Its CEOs or the dominant shareholders are not afraid of losing their positions.

Let's go factor by factor and check if they are relevant for the continental transition economies.

According to the Anglo-Saxon model of corporate governance, the primary goal of the company is the maximization of its market value. The companies from continental Europe differ to some extent with respect to this, while for the companies in the former transition economies, this is rarely if ever mentioned as a company objective. There are several reasons for that: first, the capital markets in these countries, with rare exceptions, are rather illiquid, so that the share price levels in these markets are not recognized as reliable indicators of the intrinsic value of the companies; second, insiders have gained substantial and even controlling ownership positions in many companies, so they have used various illicit practices to extract fortunes from these companies, thus showing little interest in the market values of their holdings; third, the CEOs' compensations are not linked to the market value of their shares, etc.

Issuing stocks or bonds to raise additional capital has not become a common practice in the observed countries and especially in Macedonia. The numbers of IPOs and SEOs are negligible. The relatively low amounts of additional capital needed by the companies make such issues costly. Banks represent a rare exception as they have raised additional capital to fulfill the changing capital adequacy requirements, but most often through private placements.

The basic components of the weighted average cost of capital (WACC) used in investment decision making are the cost of debt and the cost of equity. In an inefficient and illiquid market, the calculated cost of equity could only be a weak approximation of the shareholders' required rate of return. The cost of debt reduces to the interest rate on bank loans. Most of the analyses are based on proxies, rather than the specific companies' conditions and market-based data. Under such circumstances, the WACC and the pressure to lower it lose their appeal.

In a number of listed and publicly traded companies (as shown above), the CEOs (insiders) hold significant, but not dominant equity positions and often take the role of company founders. They fear that revealing too much information would make their positions more vulnerable to outside interferences. This explains their conformity with the lack of market interest for their companies.

The lower level of transparency has both its internal and external consequences. From the point of view of the society, it has a large negative impact on the efficiency and the development of the capital market; it creates deficiencies in the system of corporate governance; the foreign portfolio investors are absent and the foreign currency inflows from this source are insufficient, etc. This is definitely one of the explanations for the illiquid stock markets in these countries, the persistence of the bank-centered systems in which the commercial banks can have a strong impact on the levels of investment and the destiny of particular companies, the stability of the corporate elites, etc. This creates a vicious circle and unless there is an external element to break it, it has a tendency to sustain itself indefinitely.

[1] The cause-effect relationship here is unclear without further investigation, i.e. whether the greater transparency has attracted more foreign investors or their higher ownership participation has stimulated higher degree of disclosure.

7 Conclusion

We have applied the procedure developed by Standard & Poor's on a sample of 134 joint-stock companies from Croatia, Serbia and Macedonia to assess the current situation related to corporate transparency and disclosure among the recently privatized former socialist enterprises.

The overall and partial transparency and disclosure scores reveal that although significant steps forward have been made during the last two decades in the transformation of the employee-owned enterprises into real joint-stock companies, there is still a lot of space for improvement. The TD scores of the analyzed companies lag behind those shown in the exemplar 2001 S&P survey. The scores by area show a similar pattern, but the analyzed companies score especially weakly in the area of board and management. On average, in all three countries banks are considerably more transparent than all the other sectors. We have also found a negative correlation between the ownership stake of the dominant owner and the level of transparency exhibited.

Almost all of the Croatian companies maintain some kind of investor relations section on their websites, while the same applies to only one half of the Macedonian companies. Printed annual reports are out of favour, but between 40 and 50% of the companies prepare some kind of analysis of their operations and discuss the corporate strategy. The percentage of companies addressing foreign investors is even lower, while they seem to be quite comfortable with regards to disclosing their financial data.

We locate most of the reasons for this lack of transparency in the deficit of institutions needed for the proper functioning of a market economy. Highly concentrated stock ownership, insider ownership, illiquid stock markets and the inconsequential feed-back information they provide, almost completely neglect the possible benefits of higher transparency.

While we can conclude that the companies are generally moving into the right direction, we also suggest acceleration of this movement. The substandard levels of transparency have a negative impact on the stock market, the corporate governance, the inflow of foreign portfolio investments, etc. There is yet a lot to be done to increase the awareness and the accountability of the managers if not for the benefits of the companies they run, then for the wider social benefits the higher degree of transparency is expected to provide.

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