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Corporate Governance in Transition Economies: the Case of Different Countries in the Field of CG.

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Abstract.
Corporate Governance Lessons from Transition Economy Reforms explores a timely topic at the intersection of economics, law, and policy reform. To date, most sophisticated theoretical work on corporate governance has focused on advanced market economies. In developed market economies, a system of corporate governance has been built gradually through centuries, and today it can be defined as a complex mosaic consisting of laws, regulations, politics, public institutions, professional associations and ethics codes. However, in transition economy countries a lot of details of the mosaic are still missing.

1. Corporate governance problem in the economic literature.

The corporate governance problem was first referred to by Berle and Means (1932) as the problem arising out of the separation of ownership and control in large corporations. Given their discretionary power, company managers may use company resources to their own advantage. Investors therefore cannot take their returns of cash flow from the company's projects for granted.[1] There is no such problem in companies with concentrated ownership as large shareholders have both the incentive to be actively involved in monitoring management and to bear the costs, as they reap most of the benefits. However, ownership concentration also reduces capital market liquidity and hence investors' willingness to provide funds to companies in the market.

Dispersed ownership and liquid capital markets can be found in both the United States and the United Kingdom. On the other hand, most European Countries have highly concentrated ownership and relatively illiquid capital markets[2]. La Porta et al. (1997,1998,1999) explain these differences by the differences in investors' legal protection. The legal protection that investors receive determines their readiness to finance companies. The strong legal protection of creditors in German law for example explains the prevailing role of banks in company financing. Highly developed equity and debt markets in the United Kingdom are the result of the strong legal protection of British shareholders and creditors. Conversely, the underdeveloped equity and debt markets in France, Belgium and Italy arise from the low protection of both creditors and shareholders alike.

Appropriate legal protection of investors prevents their rights from being expropriated by managers and is therefore one of the ways of solving the agency problem. In countries with poor legal protection, as is generally the case of continental European countries, investors seek out alternative ways to overcome management. The concentration of ownership and the resulting concentration of voting rights is, according to the proponents of the legal perspective of corporate governance, one example of large investors exercising their power (LaPorta et al., 1999). In companies with concentrated ownership the agency problem takes on a new dimension in the sense of the expropriation of the rights of minority shareholders by the large shareholders.

The large shareholders can make managers act in their interests and at the expense of the company's value, the minority shareholders and other stakeholders in the company. The fear of such expropriation by large shareholders reduces the willingness of the minority shareholders to invest funds in companies and thus has a negative impact on the capital market (LaPorta et al., 1996; Perotti, Modigliani, 1998). This could be

[1] This so-called agency problem represents the heart of the Jensen, Meckling and Coase contractual view of the firm. Hart, Grossman and Moore explain this problem by focusing squarely on the investors' power relative to the insiders. By distinguishing between the contractual and residual control rights that investors have, the authors explain the incapability of the latter to write complete contracts that could determine all the actions and limit the discretion of the managers, also in unpredictable future circumstances.

[2]Thus, there are different systems of corporate governance. Most authors refer to the so-called outsider (USA, UK) and insider (Germany, Japan, Continental Europe) systems of corporate governance.

the main reason underlying the relatively small capital markets in continental European countries and thus the non-active markets for take-overs (Lannoo, 1998). However, the capital markets in the Netherlands, Sweden and Switzerland are an exception.

Different legal frameworks are also the key factor behind differences in the concentration of voting rights in European countries[1] (Becht, 1999). For example, German law permits the use of many legal devices such as preference shares, proxy voting, golden shares, voting trusts etc. that allow shareholders to concentrate their voting rights without concentrating ownership. Consequently, the concentration of ownership in German companies is lower than the concentration of voting power[2]. The same applies to the Netherlands where the concentration of voting rights mainly takes place through so-called administrative offices (De Jong, Kabir, Marra, Roell, 1998). The administrative office holds original shares and votes of the company-issuer and issues non-voting certificates that can be listed on the Stock Exchange. The voting rights are thus concentrated in the hands of the insiders, while ownership remains dispersed. On the other hand, the concentration of voting rights in Belgium mainly takes place through pyramiding. The latter does not necessarily lead to more concentrated ownership, but allows income redistribution and creates the wrong incentives for monitoring.

Debate continues on the most efficient corporate governance system in continental Europe. There probably should be no pyramid structures as they provide the owners with the wrong incentives and reduce the liquidity of capital markets. The latter in fact results from any increase in ownership concentration. The introduction of a mandatory take-over bid once a certain shareholder gains a determined threshold of a company's shares could reduce the direct control by large shareholders. The introduction of the one-share-one-vote principle could reduce the percentage of non-voting shares in a company's stock and cut the liquidity of the capital market. The trade-off between liquidity and control is thus yet to be found.

Corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. Lately, corporate governance has been comprehensively defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers".

2. Defining Corporate Governance.

Shleifer and Vishny (1997) argued that effective corporate governance is established either through a well develop legal framework and an active capital market, or through concentrated ownership. In an extension of this argument, La Porta, et al. (1997 and 1998) argued that in countries with better legal protection of shareholders, financial markets are more developed and firms have greater access to external finance and better opportunities for growth.

In the literature of corporate governance, there is a disagreement about the boundaries of the subject of corporate governance. Depending on their perspective, different authors define corporate governance in different ways. In its narrowest sense, corporate governance can be viewed as a set of arrangements internal to the corporation that define the relationship between the owners and managers of the corporation. An example is the definition by Monks and Minow (2001): corporate governance "…is the relationship among various participants in determining the direction and performance of corporations. The primary participants are (1) the shareholders, (2) the management, and (3) the board of directors." The World Bank defines corporate governance from the two different perspectives. From the standpoint of a corporation, the emphasis is put on the relations between the owners, management board and other stakeholders (the employees, customers, suppliers, investors and

[1]The United Kingdom is an exception as in most companies the ownership is dispersed. Half of the analysed companies in the UK, for example, do not have an owner holding more than 9.9 percent of the voting rights. One of the reasons for that dispersion could be the British Law on Take-overs which requires any shareholder acquiring 30 (or more) percent of shares to make a take-over bid (Becht, Roell, 1999). Roe (1994) claims that the main reason for the low dispersion of ownership rights in the USA lies in the financial institutions' regulations that prevents financial institutions holding large ownership stakes in companies.

[2] Becht (1999) found that the higher voting power concentration in Germany and Belgium resulted in lower liquidity of the companies' stock. On the other hand, this is not the case of the 30 largest German companies forming the DAX that represent 60-70% of the market capitalisation and turnover in shares on German stock markets. The voting right concentration in these companies is not linked to ownership concentration but is obtained through different legal devices. It assures both the appropriate control over management and liquidity of the capital market. Further, the monitor-holders of substantial voting blocks have the right incentive to increase the value of the company they own.

communities). Major significance in corporate governance is given to the board of directors and its ability to attain long-term sustained value by balancing these interests. From a public policy perspective, corporate governance refers to providing for the survival, growth and development of the company and at the same time its accountability in the exercise of power and control over companies. The role of public policy is to discipline companies and, at the same time, to stimulate them to minimize differences between private and social interests. (World Bank, 1999).

3. Developing a corporate governance framework.

The system of corporate governance can vary to a significant degree depending on the mechanisms which the owners of a corporation use to influence the managers (Davis, Useem, 2000). We may single out three different ways that owners maintain control over the work of management: 1) the owners directly influence the corporate strategy and selection of the top management team, 2) the owners delegate their rights to the board but ensure that compensation and other incentives are aligned with share price maximization and 3) the owners rely on the market mechanisms of corporate control, such as a takeover, when due to a decreasing share price new owners take over a company and change to management in order to rehabilitate the company and increase its market value.

In other words, the corporate governance mechanisms can be both internal and external (Table 1). The internal mechanisms of corporate governance include: 1) ownership concentration, 2) board of directors, 3) ways of rewarding managers and 4) multidivisional organizational structure. The external mechanism of corporate governance refers to the market for corporate control, i.e., a group of potential owners attacking the undervalued companies in order to change the ineffective top management team and improve the competitive position of the company (Babic & Janosevic, 2001a).

Table 1. Mechanisms of corporate governance

INTERNAL MECHANISMS:
OWNERSHIP CONCENTRATION
• A relative amount of shares owned by individual owners or institutional investors
BOARD OF DIRECTORS
• Individuals responsible for representing the owners' interests by means of controlling strategic decisions made by the top management
REWARDING MANAGERS
• Using earnings, bonuses and long-term stimuli in order to reconcile managers' and owners' interests
MULTIDIVISIONAL STRUCTURE
• Business division movement in order to control managers' strategic decisions
EXTERNAL MECHANISMS:
MARKET FOR CORPORATE CONTROL
• Take control of an underperforming firm in order to improve the strategic competitiveness

4. Developments in corporate governance in Serbia.

Serbian corporate governance was up to 2000 an area largely unexplored both from the standpoint of its main mechanisms and from comparative law perspective with other European countries. Corporate governance has been, directly or indirectly, the subject of more intensive activity in Serbia over the past few years. Many factors resulted in limited interest in corporate governance reform. Most companies in Serbia are still owner-controlled and not listed on the Belgrade Stock Exchange. From 1869 registered companies, shares of 1062 companies are listed on the national stock exchange, while only 32 companies' shares are subjected to continual trade at the Belgrade Stock Exchange3. Limited interest in corporate governance reform is partly caused by the fact that many of large Serbian companies are still state-controlled. The privatization of the largest state-owned companies is to be finished during the following year. While institutional investors are to play a significant role in the process of corporate governance, their participation in Serbian companies, apart from the Pension and Share fund, are not significant. However, banks play an important role in corporate governance, participating a great deal in corporate financing and delegating their officers in companies' managing and supervisory boards.

In Serbia, like in the most countries of Central and Southeast Europe, significant interventions and reconstructions have been made in corporate and securities legislation last years. Significant progress has been made in promoting private sector development, bringing down inflation, deregulation, improving public administration. The condition of relative disorder and discriminatory regulation, which was encountered in the period of mass privatization in Serbia, has been changing rapidly during the last year. After two years of preparation, in June 2006, the Government of the Republic of Serbia has put into force several laws, which are to regulate in a more efficient way the sphere of corporate governance, financial and accounting management and the activity at the capital market. This package of laws that consists of Law on takeovers, Law on investment funds, Law on accounting and audit and new Law on securities and other financial instruments market, is harmonized with the European standards. The law system in Serbia now regulates corporate sector and capital markets in a consistent way with the comparative regulative of the developed European countries. However, there are opinions that the above laws were adopted too late, at the end of the privatization process, when "strong" domestic and foreign investors had already acquired all the positive effects of buying undervalued Serbian companies. The new Law on economic societies, largely based on EU practice, represents a significant advancement in comparison to the previous Law on enterprises. This law, that makes the regulatory basis for establishing the relation between shareholder and management structure, incorporates issues such as 1) scope, implementation and protection of shareholders rights, 2) structures, obligations and liabilities of the managing bodies, 3) judicial and other forms of protection. The Law on economic societies introduces improvements in the provisions relating to corporate governance, business combinations, corporate form conversion, disclosure requirement, and company liquidation outside bankruptcy. Another enhancement is the possibility of open and closed joint stock companies' existence. The provisions relating to limited liability companies have been simplified.

Along with the improvements in regulative dealing with the operation of companies, the procedures for registration of new companies and filling of companies' documents have been much improved by putting into force the Law on Business Registry in January 2005. Law on securities and other financial instruments market links directly the activity at financial markets with corporate governance elements by including provisions relating to: 1) the obligation of public companies to keep the public informed about the company's activities, 2) the liability to provide true and accurate data in the prospectus and 3) the issue of insider information and their abuse.

A particular progress in regulating corporate governance practice using external mechanisms is made by enacting the Law on takeovers. The importance of this law that regulates takeover bid procedure at Serbian market is particular having in mind that the law is fully harmonized with the Directive on takeover bids (2004/25/EC) adopted by EU parliament and the Council of the EU in April 2004. Key principles of the Law on takeovers are acquired from the Directive and refer to: (a) the equivalent treatment of all the shareholders of an offree company; (b) sufficient time and information that are to enable the holders of the securities of an offeree company to make a proper decision on the bid; (c) the acting of the board of an offeree company in the interests of all the shareholders; (d) a prohibition of creation of false (artificial) markets of the securities of the offeree, offeror or of any other company concerned by the bid; (e) the announcing of a bid by an offeror after ensuring the fulfillment of any type of consideration; (f) non interrupting an offeree company to conduct its affairs during a bid duration.

The new legislation of takeover activity should effect in a higher level of minority shareholders protection and equal status of all the owners in the acquisition process at the Serbian market for corporate control. The Law introduces provisions relating to sell-out and squeeze-out right, the establishment of an equitable price in mandatory bids as well as creation of adequate "playing field" that guarantees the proper information to all the participants in the bid. Putting into force the new legislation should has as a consequence a higher level of market for corporate control transparency as well as the prohibition of manipulation and impact on the target firms shareholders.

Over the last years, a significant number of European countries have adopted (or are prepared to do so) voluntary corporate codes at the national or international level with the aim of better investor interest protection. Along with Serbian government growing concern about regulating corporate governance issues, a Code on corporate governance has been adopted in Serbia at the beginning of 2006. The Code on corporate governance (the Code) is issued by the Serbian Chamber of Commerce, the largest Serbian organization representing more than 120.000 economic entities in a wide range of industries and services.

Table 2. Level of compliance with international standards of corporate governance.

Very high compliance	High compliance	Medium compliance	Low compliance	Very low compliance
(none)	Armenia	Albania	Bosnia and Herzegovina	Azerbaijan
	FYR Macedonia	Bulgaria	Georgia	Belarus
	Hungary	Croatia	Romania	Tajikistan
	Kazakhstan	Czech Rep.	Turkmenistan	Ukraine
	Latvia	Estonia		
	Lithuania	Kyrgyz Rep.		
	Moldova	Serbia and Montenegro		
	Poland	Slovak Rep.		
	Russia	Slovenia		
		Uzbekistan		

5. Corporate governance practices in Bosnia and Herzegovina.
In order to analyze the application of corporate governance principles in Bosnia and Herzegovina, the World Bank, for the first time in the year 2006, made a Report on the Observance of Standards and the Codes (ROSC). An analysis of the following adherence to OECD principles was conducted:
To adhere to certain principles, the assigned grades were "*observed*", "*largely observed*", "*partially observed*", "*materially not observed*" and "*not observed*". The results of the study are represented in the following table:

Table 3. Frequency of Each Category – Compliance with Corporate Governance Principles

	Principles	%
Observed	0	0
Largely observed	4	12,5
Partially observed	22	68,8
Materially not observed	6	18,7
Not observed	0	0
Total	32	100 %

Source : Corporate Governance in FBIH – the results of research in 2011, SEE Business Solution d.o.o. Sarajevo.

For adhering to the majority of principles, Bosnia and Herzegovina received the grade "*partially observed*". For adhering to the principles of the basic stockholders right, the shareholders GMS rights, the principle stakeholder redress, and the creditor rights law and enforcement, B&H received a poorer grade, namely "*largely observed*". The grade "*materially not observed*", B&H received for not adhering to the following principles: the rights of shareholders to participate in fundamental decisions, Board/Managers disclosure of interests, stakeholder disclosure, whistleblower protection, disclosure standards and acting with due diligence, care. In no case did Bosnia and Herzegovina receive the grades "*observed*" or "*not observed*".

6. Application of Corporate Governance Principles by companies in Federation of Bosnia and Herzegovina.
In 2011 the independent consulting firm SEE Business Solutions d.o.o Sarajevo has conducted an analysis of the application of corporate governance principles by companies in Federation of Bosnia and Herzegovina. The study processed 55 joint stock companies. The results according to the analyzed areas were the following: **Firstly,** *The management and supervisory board*. More than 50 % of the analyzed companies the supervisory board consists of only 3 members and only 11% of board company members are independent, while 38 % members are either stockholders or employees in the company. Important to say that in 38 companies the compensations for supervisory board members are fixed and 12 companies don't pay compensation to the board members. Only 8 companies have formed Commissions of the Supervisory/Management board.
Secondly, *Control environment***.** From the 55 analyzed companies, 43 have established a system of internal control, while the position of internal auditor exists in 28 companies. 31 companies have established a risk management system.
Thirdly, *The publications***.** Only 23 company financial reports are available on the web site, which is less than 50% of analyzed companies. Independent auditor's reports can be found at only 21 web sites. Regarding the

publishing of transaction with concerned parties and information on materially significant events, 28 companies publish the information.

Fourthly, *Stockholders' rights and protection***.** The payment of dividends in the past 3 years did have only from 10 companies, while 45 companies did not pay their dividends. From 55 companies that have analyzed, 41 companies stated that they formally incorporate social responsibility through internal documents.

Based on recommendations given in the OECD report from year 2006 and accordance to the newest researches, we can single out some key courses for corporate governance development in Bosnia and Herzegovina:

- The companies should strengthen the supervisory board, increase the number of members, insist upon the independence of members, form commissions for the naming of supervisory board members, as well as define compensation policy for the members of the supervisory board.
- It is necessary for more companies to organize their own control environment in accordance with their own level of risk exposure and to manage risk more intensively
- According to OECD principles, companies should publish all significant information such as financial and business company results, the goals of the company, the ownership structure, data on board members and their compensations, as well as their corporate governance policies
- Greater the protection of interests of minor shareholders. Shareholders very often do not have at their disposal important information on the business of the company and this impedes upon their security
- The access to relevant information has to be simple and timely, and the publishing of data on transactions of connected parties should be strengthened. This research has shown that joint stockholder companies in the Federation of Bosnia and Herzegovina, and the situation being similar in companies in the smaller Bosnian and Herzegovina entity, the Republic of Serbia, have not attained significant improvement in the past few years. The reason for the stated problem can be in the misunderstanding of corporate governance principles and the importance of incorporating good corporate governance practices.

7. Corporate Governance in Albania, regulated by the law and principles.

The corporate governance framework in Albania is essentially regulated by Law no. 9901 approved by the Albanian Parliament on 14 April 2008 on "Entrepreneurs and Commercial Companies", which entered into force on 21 May 2008 and replaced the previous legislation on business organisations in Albania (Laws no. 7632/1992 and no. 7638/1992). The new law regulates individual entrepreneurs and commercial companies. In contrast to the previous company law, the 2008 law also includes the definition of branches and representative offices of foreign companies and details provisions on groups of companies. Companies incorporated under the old regime have a three-year transition period in which to align their organisational structure with the new law. Joint stock companies can be organised under a one- or two-tier system. Under the two-tier system, the General Shareholders Meeting appoints the Supervisory Board. The Managing Board can then be appointed by either the General Shareholders Meeting or the Supervisory Board, as regulated by the company by-laws. The legislative competition in European countries is contributing to attract foreign investments, because there exist a positive correlation between strong law based protection of minority shareholders and foreign investments. Albanian legislation is in the same pace offering this legislative framework; it aims at guaranteeing minority shareholders some basic rights in order to achieve their economic interests and to make safe investments.The new 2008 law has addressed some of the shortcomings highlighted in the assessment and the framework has now improved. Actually by the Albanian Ministry of Economy Trade and Privatization is approved The Corporate Governance Principles for All Unlisted Companies. Very important this code for Albanian companies that are not listed in the TSE in accordance with corporate governance in everyday activities.

8. Capital market in Albania as a important part of corporate governance.

Important is that the corporate governance is more effective if the company is quoted in stock exchange, because the value of company is more real.TSE is inactive and the corporate governance is not effective.In the questionary of 30 companies (large companies, anonymous society in Tirana,Albania) 25 of them tell us that there is no corporate governance in Albania if there TSE is inexistent,5 of them there is no need for corporate governance.But 30 companies tell us that is the time for Stock Exchange. The only organized securities market in Albania is the Tirana Stock Exchange (TSE) founded in 1996. In 2002, the TSE was restructured as a joint stock company with the Ministry of Finance as its exclusive owner, and in 2007 it was licensed by the FSA to conduct stock exchange transactions in Albania. As of today there are no companies listed on the TSE; consequently there are no recorded transactions. Insurance market must abide to certain limitations with respect to investments in real estate and securities. Private pension funds occupy an insignificant position in the institutional investor arena. These entities also invest in treasury bills and bank deposits.Currently there are no investment funds. Yet, a new Law No 10198, dated 10.12.2009 "On Collective Investment Undertakings", aims at developing such institutions The corporate bond market remains undeveloped. The passage of a new law "On

Corporate and Local Government Bonds" aims at fostering the development of the market. Government bonds with a maturity of over 1 year are sold in the primary market through auctions organized by the Bank of Albania. The Government has issued bonds of respectively 2, 3, 5 and 7 year maturities, with variable and fixed interest rates. After their issuance, such bonds are traded on the retail market by licensed entities.

9. Corporate Governance in Romania.

The enterprises from Central and Eastern European countries (including Romania) have a common governance model based on internal control, as a result of the privatization and reorganization process. In this context, the insider - based model could be redefined as a form of organization of firms resulted from buying up control rights by the managers or the employees of ex-enterprises owned by the state during the privatization process, from owning substantial stocks portfolios by insiders in case of the privatization process, or from exerting their interests in the decisions process at the level of the strategic enterprises, when they are still in the state property. The inside control is considered an essential issue because the managers who own an excessive control on the enterprises may act in the detriment of shareholders, employees and other stakeholders, affecting thus the financial results and firm performance. In these circumstances it should be underlined the necessity of getting efficient this system by developing capital markets and banking systems as ways to influence internally or externally the systems of corporate governance for firms in the developing and emerging economies. Inevitably, establishing some adequate mechanisms of corporate governance of privatized enterprises in these countries was difficult in the conditions of the lack of a legal infrastructure, as well as lack of regulations about property rights, demands of accounting-financial reports, firms bankruptcy etc. The structures of firm's governance in European countries in transition were strongly influenced by the objectives of the privatization process, such as political responsibility, legal regulations and the efficiency of the privatization. Taking into consideration the priority of these objectives and political and economic conditions, the privatization process has registered relatively different forms in Central and Eastern European countries. As a result, the corporate governance systems from Central and Eastern European countries are inefficient, as a result of focusing power by the employees, management and as a result of the lack of outside or inside control exerted by the other stakeholders, such as banks, institutional investors, or through active capital markets. Although there are signs that the financial results of privatized firms are in average superior to exstate enterprises, the reorganization is still done in a slow rate, and the process of investing is very low, which will affect long term performances of respective firms. Although the extent of remaining government ownership differs from one country to another, private ownership dominates everywhere. Ownership and control are becoming increasingly concentrated, with the emergence of corporate groupings and significant foreign owners in most countries. As firms grow in size, ownership and control are separated, primarily by the use of a pyramid structure. Most firms in Central and Eastern Europe are still owner-managed, but professional management is becoming more common (Berklof, Pajuste, 2003). In Romania, the companies are characterized by the same general model of corporate governance, the insider - based control of employees and management, but with certain particularities regarding national, economical, social, politic, cultural conditions, where governance forms appeared and developed. The corporate governance of Romanian enterprises and at the same time the trend of their performances can not be analyzed and understood just through the evolution of the reform process, in the context of transition from planned economy to market economy, what determined deep changes in the macroeconomic universe. The main methods of privatization which generated the formation of the private sector in Romania were: MEBO method, mass privatization program or privatization through sales to investors outside the enterprises. The principles of corporate governance imply a series of measures that lead, finally, to the growing of transparency of listed companies, what makes them more attractive. That is why implementing the corporate governance code of OECD has preoccupied the representatives of Stock Exchange from Bucharest for many years. A first step was made in August 2001, when the Bucharest Stock Exchange elaborated a Code of Corporate Governance and introduced a virtual tier, the Plus tier,for the listed companies which wanted to implement the principles of corporate governance. In 2003, it was founded the Institute of Corporate Governance of BVB (Bucharest Stock Exchange) in order to increase the professional standards for managers. The principles of the corporate governance were included in the capital market legislation. But the new capital market law has yet its disadvantages: it is too general, leaving place for interpretations, being implemented just partially the principles of corporate governance. Even in the last years there were registered positive effects regarding the opening of the managers towards the communication with the investors, the expected results regarding the implementation of corporate governance principle did not appeared. Therefore, Bucharest Stock Exchange intends to elaborate in 2008 a new Code of Corporate Governance, more complex and more adapted to the European legislation. Besides the principles of corporate governance or more strict rules regarding the informing of investors, the new code will introduce a new issue for the Romanian market: the concept of independent leadership. Another novelty is the fact that the listed companies can implement voluntary the code, but they should mention it in the yearly report and they have to motivate the rejection/inobservance of some of the stipulations (the principle "comply or explain"). By contrary, the inefficient governance of listed companies influences negatively the economic financial results and their possibilities of future developing taking in consideration the followings:

- the decrease of the rhythm for the restructuring and reorganization;
- following mainly short term purposes of employees and managers, such as rising salaries and other bonuses, stability and protection of work places;
- lack of investments for modernization or developing the productive potential of enterprises;
- excessive mobility of staff as a result of intern conflicts;

Among the most important ways of encroaching upon the rights of shareholders in Romania are the followings: dilution of the shareholders' earnings; transferring profits outside the company; abusive allocation of the profits; delay in offering the dividends; limited access for shareholders to information. The main problem of corporate firms in Romania is the conflict of interests between stakeholders and shareholders which generates misunderstandings between management and shareholders, as well as between shareholders and business partners of the company, typical especially in developing economies, leading to the decrease of long term performances of the companies and even their bankruptcy.

10. Corporate Governance in Macedonia.

The numbers taken from the IFC's Corporate Governance Manual for Macedonian companies and the survey of USAID/Business Environment Activity (BEA) are valid until 2008 and were retrieved from the Central Depositary. The number of Joint Stock Companies at that time was 577 , with total number of shareholders 174 870. Thus , largest type of holders is the domestic individuals (95.64%) , followed by domestic legal entities (2.43%). The foreign individuals form a group of 1.43% and the smallest is the group of foreign legal entities with 0.45% of shares in the Macedonian joint stock companies (IFC , 2008). On the other hand , if we observe the number of shares that are owned by various types of owners we get completely different picture , which confirms the first hypothesis in this study. Hence , more than half (56.68%) of the shares in the Macedonian joint stock companies are owned by the foreign legal entities. This group is followed by domestic legal entities which own 34.23% of all shares in the country, and at the end there are domestic and foreign individual owners who hold in total less than 10% of the shares in the Macedonian joint stock companies (IFC, 2008). The fact that more than half of the shares in the Macedonian joint stock companies are owned by foreign legal entities is connected to the movements in foreign direct investment and thus to the second hypothesis. Furthermore , it is evidence of dispersion of shareholding by domestic owners against concentration of control of foreign entities.

10.1 The Governance Structure of Macedonian Joint Stock Companies.

Two out of five joint stock companies (170) have a one-tier board of directors (board of directors), where all board members meet together to govern the company. Board meetings usually last two and half hours. The executive directors almost always attend board meetings. Most of the non-executive members usually attend, though they may miss a few meetings. Board members frequently ask questions during the meetings and almost always vote. A transportation company operating with 270 full-time employees. There are four members on the supervisory board. They meet four times a year, usually for two hours each time. Nearly all of the board members attend the supervisory board meetings. Overall, 92% of all joint stock companies with one-tier boards of directors have 1 to 3 executive directors. Most have 1 to 3 non-executive directors (49%) or 4 to 7 non-executives (43%). For many companies with a one-tier board, the board has 4 to 7 members (81%). Many supervisory boards in joint stock companies with a two-tier board have three members (37%) or five (22%). In total, 76% of joint stock companies with two- tier boards have at least five members on the supervisory board.

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