CORPORATE GOVERNANCE IN DEVELOPING ECONOMIES: CASE STUDY OF A ROMANIAN TEXTILE COMPANY

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Abstract: *This article explores corporate governance issues like ownership structure, gender diversity accountability, risk management and internal audit at managerial level of a textile company listed on the Bucharest stock exchange. For this reason, secondary data was used as information collection tool. Results of the study underline the conclusion that, corporate governance is being implemented in companies belonging to the textile industry of Romania although correlated with some weaknesses. Analyzed documents confirm that the chosen textile company is trying to implement various accepted corporate governance policies, to stay competitive. The manufacturing processes were constantly improved involving a variety of techniques, with the purpose for diminishing environmental negative impact by eliminating waste. The board of directors as well as the top-management has a good understanding of the responsibilities for each member in order to ensure good corporate governance. The lack of a trade union could be the causative factor of wage inequality and loss of a stronger worker voice. Although the result of external constraints, we identified a process for constant enhancement of corporate governance in the company. The implementation of the code of corporate governance contributed to improvement in performance especially share value. Future research directions aimed extending the sample by selecting several other companies from different industries, for comparison.*

Key words: *corporate governance, textile industry, ownership structure, accountability, director's remuneration, risk management, internal audit.*

1. INTRODUCTION

Despite the fact that, in Europe, the textile industry is relatively robust and competitive due to innovation, the textile industry from Romania was weakened by the financial crisis. An important aspect that was revealed was the shortcoming in corporate governance. Because the costs of governance standards implementation are at the beginning higher than the benefits, a lower operating performance will follow discouraging the management. The term of corporate governance, can be defined as "the system by which companies are directed and controlled" [1]. There is a degree of comprehensiveness and detail-richness around the definition offered by the OECD "corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders, offering at the same time ways of monitoring performance [2]. Seven elements of corporate governance like discipline, transparency, independence, accountability, responsibility, fairness and social responsibility are important. The definition of the ownership structure refers primarily on the equity allocation. This process is determined by the investments or number of votes of the different shareholders or equity owners. Hence corporate governance must ensure transparency, it realizes that through internal and external mechanisms such as board composition [3], the shaping of responsibilities and the establishing of board of directors functions, and immoral activities are limited. Simon, Evans and Pruzan (2013) state that accountability is concerned with analyzing of an existing correlation between the performances of the company compared to the established goals and objectives publically available [4]. A vivid discussion on the subject of corporate governance is caused by the topic of board director's direct and indirect remuneration. The framework presented predominantly in the literature regarding company's risks consists of: political, economic, financial and operational risks [5], sometimes tailored after the country's and companies environmental conditions. The main problem encountered in companies is the agency problem that can be solved through an audit allowing the protection of the investor's interest [6].

2. RESEARCH METHOLODLGY

In order to verify corporate governance principles, financial position and performance in textile companies the case study method was chosen providing in depth insides into the annual activities of the company based on data gathered from the financial statements between 2003 and 2014, which are available on the site of the Bucharest Stock Exchange (www.bvb.ro).

3. CORPORATE GOVERNANCE IN A TEXTILE COMPANY

Conted S.A. is a joint stock company listed and traded on the stock category II of the Bucharest Stock Exchange with legal personality from the city of Dorohoi, registered in 1991, although it existed since 1-st December 1963, therefore having an experience of over 40 years in the textile and garment industry.

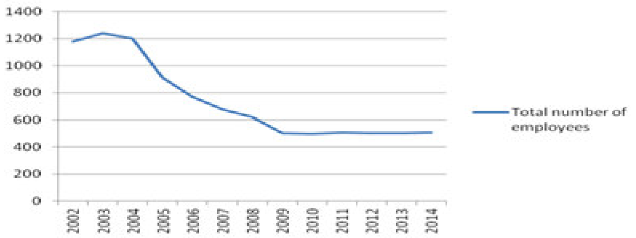

Fig. 1: *Evolution of total numbers of employees.*
Source: own elaboration based on financial statements of the Bucharest Stock Exchange

The main activity is the production and distribution of textiles, employing 505 people in 2014. In the above figure, one can distinguish the evolution of the employees in numbers from the year 2002 (1179 employees) to 2014 (505 employees). Financial constraints, migration and industry evolution can explain the drastic decline of ca. 43%. The used production system is the lohn system [7], [8]. They are producing garments for women, men and children, focusing on both domestic market (in 2013 - 12,363,711 lei) and foreign market. EU countries like France and Italy play the main role. In the future the company wants to open its own shop and facilitate the distribution of its products diminishing legislative and exchange risk through a flexible buying form adjusted to different market conditions and forward contracts. Garments imported from France, Italy, Spain and Turkey will be used for the own collection. Export in 2013 was ca. 33.83% percentage of turnover. In 2009 and 2010, the company registered the largest exports share of 61.47% and 57.07%. Since 2011, domestic sales have exceeded exports. The capital of the company was 2,284,360.06 RON in 2013, fully subscribed worth 9.53 RON / share, granting equal rights to shareholders for each share. For several years the Romanian company managed shares most profitable in terms of percentage, on the Stock Exchange.

Unfortunately financial profitability measured by several indicators recorded a negative evolution, to the level of the year before: Sales revenues in 2013 - 21.299.967 and 19.231.926 - 2014 and Gross Profit was 3.195.651in 2013 and 1.977.526 in 2014. This situation will definitely influence the assessment of each management option in terms of economic therefore cost criteria. Because the monthly production capacity is about 18.000 coats and 12.000 trousers, the company managed a vast portfolio composed of the following customers: Again Textile Team LLC Brasov, SC Formen's LLC, S.C., Esprit, Patrizia Pepe, Mazonetto, Kim Otto, and Piere Cardin. Covering an international perspective of the fashion industry, the studying of fashion trends is a necessity that can offer the possibility of creating new patterns according to different age or gender characteristics [9]. The focus on corporate governance issues grew with the number of important clients.

In the year 2013 the number of personnel was 502 people. Regarding the level of education, it shows a different pattern in a number of respects in comparison with the situation before 2005, the year the quota system for the imports of textiles was abolished [10]. Only 21 employees have higher education, which is a normal percentage taking into account the field of activity of the company. A number of 142 persons of the total employees of the company are unskilled workers, on account of the existing market gap of qualified personnel in textiles. This is the case for engineers, mechanics but as well for confectioners. They have graduated from secondary schools, and vocational schools. A number of 76 people have a minimum qualification in the textile industry in which they perform their activity. Consequently, the company tries to ensure quality through a training period of 2-3 months, helping them to adapt better to the workplace. Sometimes it is a risky decision because the company must provide the minimum wage for them. Interestingly the company does not mention the existence of worker unions in recent years, which suggests a limited involvement of the workers in the process of change and transition [11]. In 2005 the percentage of workers joining at that time, existing union was 30%.

Evaluation of the company's activity regarding the risks management reveal that activities regarding assessments on risk related to capital, exchange risk, liquidity and cash flow risk, risk of price reduction, risk of lohn system, political and legislative risk, risk of losing some markets, and operational risks, take regular place. From the risks within the company mentioned before, the liquidity risk is minimal. The management developed risk maps and tried to establish an importance ranking. On today's highly competitive market specialization of the workforce is required. Difficulties in attracting qualified personnel are high risks that affect negatively the daily activities performance.

In order to be able to correctly evaluate for instance the impact of the companies' activity on the environment, a constant monitoring of the delivery and storage of waste, in partnership with specialized companies like S.C. Pandora Prod S.R.L. Focşani, or S.C. Roxy Textil S.R.L for textiles, paper and cardboard, or plastics, was organized. Striving to improve the overall situation of the company is the Board of Directors. It is responsible for examining and approving the strategic plan, the company's operational, financial, and corporate structure assuring a balance between business continuity and shareholder expectations. In order to verify the adopted research questions we will further examine other corporate governance issues. To reduce unnecessary costs some equipment is for sale.

In accordance with the Law no. 31/1990, SC Conted S.A. Dorohoi, is administered under a unitary system. For an audit, the establishment of the remuneration of directors, managers, staff, or the nomination of candidates for different management positions the board of directors may create advisory committees. This advisory committee assists the board of directors in the establishment of internal rules. The current board of directors is composed of three members, elected in 2011 for a mandate of 4 years. Non-executive directors are also been elected and between administrators there is no agreement, understanding or family connection. The first two persons mentioned in the table below highlighting some important board members characteristics like age, gender, education and experience were members together with Tudor Ioana, an economist, 52 years old, with an experience of 35 years since 2005. The majority of the board members fall under the age bracket of 58-64 years old, their education is primarily based on engineering. It is important that at the level of board women are represented. Although the situation in the company concerning the number of women as members in the board is aligned with the general situation of Romanian companies, the commitment towards gender diversity must be more present in companies belonging to the textile and garment industry not only because female workforce is predominant but also due to their active involvement in business activities and not least because of the female customers.

Table 2: *Composition of the board*

Name	Age	Profile	Experience in Years
Popa M.	62	engineer - profile technology and textile chemistry	36
Negreanu V.	64	economist - the economy specialty industry	36
Pujin N.	58	engineer-profile technology and textile chemistry	21

Source: own elaboration based on financial statements of the company on the Bucharest Stock Exchange

The individuals that claim ownership of the company's capital are Manole Popa, Negreanu Valeria and Pujin Nelu. Manole Popa participates with a percentage of 25.53%, followed by Pujin Nelu with 20.25% and then Negreanu Valeria with a percentage of 10.00%. The CEO has the power to take decisions regarding the company's management in order to ensure and maintain economic efficiency and manage the business-relations with third parties. One of the most important tasks are the selection, hiring and firing of employees, also leading the negotiation of the collective labor agreement but also individual contracts of employment;

4. CONCLUSIONS

This study was established with an aim to identify some aspects of corporate governance at company level of the Romanian textile industry, about implementation of corporate governance codes as whole and also about ownership structure, accountability, risk management and internal audit. Regarding ownership structure we agree that the board of directors is being informed about all the significant company matters. This situation is a result of a clearly defined management structure, especially regarding functions of the board and management members and their commitment with corporate governance practices. No data was available on board of directors' remuneration or compensation package. Therefore we could not give a detailed answer if financial gain is based on financial performance and efficiency of the company. Results revealed that there is an internal audit which is being reviewed by external audit controlling the accuracy of financial information considered within the internal audit. The management proved to have appropriate knowledge on managing risks, by using forward contracts and their impact on performance of the organization. Financial performance including accounting practices is also fairly presented. Still there is a need for more gender sensitivity for all the parties involved in the industry

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