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Aspects Concerning Corporate Governance in the Danube Region Countries

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Abstract: This study provides a comprehensive analysis of corporate governance practices across countries in the Danube region. Corporate governance frameworks vary significantly within this region due to diverse economic, legal, and cultural influences. The analysis examines the implementation of key corporate governance principles, including transparency and disclosure, board accountability, and shareholder rights. Countries like Austria and Germany adhere to a dual-board system, separating management and oversight roles, while others, such as Bulgaria and Romania, primarily employ a unitary board structure. The findings underscore progress made in aligning with international governance standards, driven by integration into the European Union and global economic pressures. Challenges persist, including corruption risks, political interference, and uneven enforcement of regulations, particularly in countries undergoing economic transition. The study highlights the ongoing need for reforms to enhance corporate governance effectiveness, promote investor confidence, and sustain economic development in the Danube region.

Keywords: corporate governance; challenges; effects; economic development

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1. Introduction

Corporate governance is a central element in the way companies are run and controlled in the Danube region states, reflecting their economic, legislative and cultural diversity. In recent decades, these states have made significant progress in aligning with international corporate governance standards, under the influence and pressure of European Union integration and economic globalization. The detailed analysis of how each country applies the principles of corporate governance provides a clear insight into the evolution and challenges encountered in this regard.

In these analyses, we will explore the specific corporate governance models adopted in Austria, Bulgaria, Croatia, the Czech Republic, Germany, Hungary, Romania, Slovakia and Slovenia. We will examine the implementation of fundamental principles such as transparency and disclosure of information, board accountability and the protection of shareholder rights in each national context. We will also assess the progress and difficulties encountered in the application of these principles, highlighting the need for continuous reforms to strengthen robust and effective corporate governance.

Through this detailed analysis, we will shed light on the critical aspects influencing the business and investment climate in the Danube region, highlighting both the successes achieved and the remaining challenges that require attention and action in the near future.

2. Corporate Governance Analysis in Danube Countries

2.1. Overview

Corporate governance (CG) is crucial for ensuring transparency, accountability, and efficiency in organizations. Over the past decade, numerous studies have explored the necessity and role of corporate governance, yielding diverse opinions.

Michelberger in Corporate Governance Effects on Firm Performance: a Literature Review analyzed empirical research on the impact of corporate governance on firm performance. Results indicated no consistent impact, suggesting the need for larger samples and longer study periods to yield conclusive results (Michelberger, 2016, p. 86).

Review by Li, Terjesen and Umans in Corporate Governance in Entrepreneurial Firms: a Systematic Review and Research Agenda highlighted the fragmented nature of corporate governance research in entrepreneurial firms and emphasized the need to explore interactions between governance mechanisms and firm outcomes (Li, Terjesen & Umans, 2018, p. 66).

Naciti, Cesaroni, and Pulejo in Corporate Governance and Sustainability: a Review of the Existing Literature found that corporate governance and sustainability literature has evolved from conceptual discussions to more strategic and practical studies, emphasizing board composition and corporate social responsibility (CSR) (Naciti, Cesaroni & Pulejo, 2021, p. 12).

In A Longitudinal Study of the Implementation of the Corporate Governance Code in a Developing Country, Mahadeo and Soobaroyen investigated the implementation of corporate governance codes in Mauritius. The study revealed initial significant engagement with the codes, which plateaued over time, highlighting the need for continuous enforcement (Mahadeo & Soobaroyen, 2016, p. 746).

Singh and Pillai in Corporate Governance in Small and Medium Enterprises: a Review discussed the benefits and challenges of implementing corporate governance in SMEs, suggesting the need for tailored governance mechanisms suitable for smaller enterprises (Singh & Pillai, 2021, p. 36).

Based on the synthesized literature, it is evident that corporate governance plays a critical role in enhancing transparency, accountability, and sustainability in organizations. However, the effectiveness of governance mechanisms can vary significantly across different contexts and organizational sizes. In developing countries and smaller enterprises, there is a need for more tailored governance frameworks that address specific challenges and leverage local strengths. Additionally, continuous enforcement and adaptation of governance codes are essential to maintain their relevance and effectiveness.

The analysis of corporate governance in the countries of the Danube region can vary significantly depending on the traditions, legislation and economic practices specific to each country. I will try to give an overview based on the information available until the beginning of 2022 for each individual country:

1. Austria: Corporate governance in Austria is based on detailed legislation and compliance with European standards. There is a significant concern for board transparency and accountability.

2. Bulgaria: Bulgaria has improved its corporate governance rules in recent years, according to EU standards, but challenges remain related to corruption and the effective implementation of legislation.

3. Croatia: In Croatia, corporate governance is regulated by European legislation, with an emphasis on transparency and accountability. There are initiatives to improve shareholder participation.

4. Czech Republic: The Czech Republic has a detailed legislative framework for corporate governance, with a focus on board independence and financial reporting transparency.

5. Germany: Germany is characterized by a dual system of corporate governance, with a supervisory board and a board of directors, ensuring strong involvement of large shareholders.

6. Hungary: Hungary has improved corporate governance regulations, but more efforts are needed to ensure board independence and transparency.

7. Romania: In Romania, corporate governance has improved significantly in recent years, with the implementation of strict rules and the promotion of transparency and accountability.

8. Slovakia: Slovakia has a legislative framework for corporate governance, but there are challenges in implementing it and promoting international standards.

9. Slovenia: Slovenia has adopted strict rules for corporate governance, according to European standards, with a focus on transparency and the protection of shareholders' rights.

As for other countries in the Danube region (Bosnia and Herzegovina, Moldova, Montenegro, Serbia, Ukraine), the level of development of corporate governance can vary and is often influenced by the stage of economic development, national regulations and the implementation of international practices.

2.2. The Implementation of Corporate Governance Principles in the Danube Region Countries

The implementation of corporate governance principles in each of the analyzed states in the Danube region may vary depending on the specifics of national legislation, market practices and the level of compliance with international standards. We will look at each major principle of corporate governance and how it is applied in the respective states.

Austria

Transparency: Austria has a well-developed corporate governance code that imposes high standards of transparency on listed companies (Zapodeanu, Kolozsi & Durgheul, 2010, p. 348).

Accountability: Boards of directors are responsible for accurate and complete reporting of financial information.

Protection of shareholder rights: There are strict rules to protect the rights of minority shareholders.

Board effectiveness: Emphasis is placed on the competence and independence of board members.

Business Ethics and Integrity: The Code includes guidelines for ethical business conduct.

Bulgaria

Transparency: The Bulgarian Corporate Governance Code encourages transparency in financial reporting, but there are still challenges in implementation (Zapodeanu, Kolozsi & Durgheu, 2010, p. 348).

Accountability: Boards are accountable for their decisions, but enforcement is variable.

Protection of shareholder rights: Shareholders' rights are protected by law, but practice may vary.

Board efficiency: There are initiatives to increase board efficiency, but implementation is uneven.

Business ethics and integrity: Business ethics are encouraged, but challenges remain.

Croatia

Transparency: Emphasis is placed on transparent reporting, with clear rules for listed companies (Zapodeanu, Kolozsi & Durgheu. 2010, p. 348).

Accountability: Boards of directors are responsible for their decisions and for proper reporting.

Protection of shareholder rights: The rights of shareholders are well protected by legislation.

Board efficiency: There are rules to ensure the competence and independence of boards.

Business Ethics and Integrity: The Code promotes ethical behavior and business integrity.

Czech Republic

Transparency: Emphasis is placed on transparency in financial reporting (Zapodeanu, Kolozsi & Durgheu. 2010, p. 348).

Accountability: Boards are accountable for their decisions and actions.

Protection of shareholder rights: The rights of shareholders are well protected by clear rules.

Board efficiency: Emphasis is placed on the competence and independence of board members.

Ethics and integrity in business: Ethics and integrity in business are promoted.

Germany

Transparency: Germany has very high standards of transparency in financial reporting (Zapodeanu, Kolozsi & Durgheu, 2010, p. 349).

Accountability: Boards are responsible and accountable for their actions.

Protection of shareholder rights: There are strict rules to protect the rights of shareholders.

Board efficiency: There is a strong emphasis on competence and independence.

Ethics and Business Integrity: The Code includes detailed guidelines for ethical conduct.

Hungary

Transparency: Transparency in financial reporting is encouraged, but there are challenges in implementation (Zapodeanu, Kolozsi & Durgheu, 2010, p. 349).

Accountability: Councils are accountable for their decisions, but enforcement can be inconsistent.

Protection of shareholder rights: There are rules to protect the rights of shareholders.

Board effectiveness: Competence and independence are promoted, but implementation is variable.

Ethics and Business Integrity: The Code includes guidelines for ethical behavior.

Romania

Transparency: Transparency is emphasized, but enforcement is uneven (Zapodeanu, Kolozsi & Durgheu, 2010, p. 349).

Accountability: Councils are accountable, but enforcement can be affected by corruption.

Protection of shareholder rights: Shareholders' rights are protected, but implementation can be problematic.

Board effectiveness: Competence and independence are encouraged, but implementation is variable.

Business ethics and integrity: Business ethics are being promoted, but challenges remain.

Although Romania has made significant progress in adopting corporate governance principles, there are still important challenges:

Corruption: Corruption remains a major problem affecting investor confidence and the effectiveness of corporate governance.

Institutional capacity: The limited capacity of institutions to effectively implement and monitor corporate governance rules can affect their consistent application.

Corporate Culture: There is a continuous need to change the corporate culture to fully accept and implement the principles of corporate governance.

Slovakia

Transparency: Emphasis is placed on transparency in financial reporting (Zapodeanu, Kolozsi & Durgheu. 2010, p. 349).

Accountability: Councils are accountable for their decisions.

Protection of shareholder rights: The rights of shareholders are well protected.

Efficiency of the board of directors: The competence and independence of the board members is promoted.

Ethics and Business Integrity: The Code includes guidelines for ethical conduct.

Slovenia

Transparency: Emphasis is placed on transparency and fair reporting (Zapodeanu, Kolozsi & Durgheu, 2010, p. 349).

Accountability: Councils are accountable for their actions.

Protection of shareholder rights: There are clear rules to protect shareholder rights.

Board efficiency: Emphasis is placed on competence and independence.

Business Ethics and Integrity: The Code promotes business ethics and integrity.

Serbia

Transparency: Transparency is encouraged, but implementation is variable (Proroković, 2019, p. 348).

Accountability: Councils are accountable for their decisions, but enforcement is variable.

Protection of shareholder rights: Shareholders' rights are protected by law, but enforcement may vary.

Board effectiveness: Competence and independence are promoted, but implementation is uneven.

Business ethics and integrity: Business ethics are encouraged, but challenges remain.

Bosnia and Herzegovina

Transparency: The corporate governance code encourages transparency, but enforcement is variable (Zapodeanu, Kolozsi & Durgheu, 2010, p. 348).

Accountability: Councils are accountable for their decisions, but enforcement is variable.

Protection of shareholder rights: Shareholders' rights are protected by law, but enforcement may vary.

Board effectiveness: Competence and independence are promoted, but implementation is uneven.

Business ethics and integrity: Business ethics are encouraged, but challenges remain.

Montenegro

Transparency: Transparency is encouraged, but implementation is variable (Zapodeanu, Kolozsi & Durgheu. 2010, p. 348).

Accountability: Councils are accountable for their decisions, but enforcement is variable.

Protection of shareholder rights: Shareholders' rights are protected by law, but enforcement may vary.

Board effectiveness: Competence and independence are promoted, but implementation is uneven.

Business ethics and integrity: Business ethics are encouraged, but challenges remain.

Moldova

Transparency: Transparency is encouraged, but implementation is uneven (Zapodeanu, Kolozsi & Durgheu, 2010, p. 349).

Accountability: Councils are accountable for their decisions, but enforcement can be inconsistent.

Protection of shareholder rights: Shareholders' rights are protected by law, but enforcement may vary.

Board effectiveness: Competence and independence are promoted, but implementation is variable.

Ethics and Business Integrity: The Code includes guidelines for ethical behavior, but enforcement is uneven.

Ukraine

Transparency: Transparency is encouraged, but implementation is variable (Fylypenko, Makoukh & Savchenko, 2014, p. 349).

Accountability: Councils are accountable for their decisions, but enforcement is variable.

Protection of shareholder rights: Shareholders' rights are protected by law, but enforcement may vary.

Board effectiveness: Competence and independence are promoted, but implementation is uneven.

Business ethics and integrity: Business ethics are encouraged, but challenges remain.

3. The Models of Corporate Governance Implemented in the Danube Region Countries

The corporate governance models adopted by each country in the Danube region reflect specific historical, economic and cultural influences. These patterns are essential to understanding how companies are run and controlled in each state. I will examine the main corporate governance models used in each of the countries mentioned.

Austria uses a dualist governance model, similar to Germany, with a supervisory board (Aufsichtsrat) and a board of directors (Vorstand). The supervisory board monitors and advises the board of directors, which is responsible for the operational management of the company. This model promotes the clear separation of management and supervisory functions.

Bulgaria uses a monist corporate governance model, where there is a single board of directors that performs both supervisory and management functions. Although Bulgaria has adopted regulations that promote transparency and accountability, effective implementation remains a challenge.

Croatia has adopted a dualist model of corporate governance, similar to that of Austria and Germany. The supervisory board monitors the activity of the board of directors, ensuring a clear separation between operational management and supervision.

Czech Republic allows companies to choose between the dualist and monist model. Most large companies opt for the dualist model, which offers tighter control and more effective monitoring through the supervisory board.

Germany is known for using the dualist model, with a strong supervisory board monitoring the board of directors. This model ensures a balance between management and control, promoting transparency and accountability.

Hungary uses a mixed model, allowing companies to choose between the monist and dualist model. In practice, many companies opt for the dualist model to ensure tighter oversight and a clear separation of management and control functions.

Romania mainly adopts the monist model, where the board of directors is responsible for both oversight and operational management. However, there are initiatives to strengthen transparency and accountability within this model.

Slovakia uses the dualist model of corporate governance, similar to that of Germany and Austria. The supervisory board has an important role in monitoring the board of directors, ensuring a clear separation between management and supervision.

Slovenia has adopted the dualist model, where the supervisory board has an essential role in monitoring the activity of the board of directors. This model promotes transparency and accountability in the management of companies.

In Bosnia and Herzegovina, Moldova, Montenegro, Serbia and Ukraine the monist model is most commonly used, with a single board of directors responsible for both oversight and management. Effective implementation of corporate governance principles can vary, with significant challenges to transparency and accountability.

From this analysis we can see that the models of corporate governance used in the Danube region countries are the monist model and the dualist model. In the following part we will determinate the advantages and disadvantages of each of these models.

The Dualistic Model

Advantages:

- Protection of shareholders' rights: The dualist model ensures independent and effective supervision of the company's activities, thus protecting the rights of minority shareholders;
- More rigorous monitoring: By having a dedicated supervisory board, more rigorous monitoring of management activities and strategic decisions can be achieved.

Disadvantages:

- Administrative complexity and higher costs: Implementing and managing a dualist system can be more complex and expensive than monist models. Constant communication and coordination between the two bodies is necessary;
- Rigidity in adaptability: Sometimes, strict separation of functions can prevent flexibility in making quick decisions and managing environmental changes.

The Monist Model

Benefits:

- Efficiency in decision-making: The monist model can be more efficient in quick decision-making because there is no need for consultation between two separate bodies;
- Simplified implementation: It is often easier to implement and manage than a dual system, which can reduce administrative costs.

Disadvantages:

- Potential conflicts of interest: Integration of management and supervisory functions may lead to conflicts of interest between management and supervisory roles;
- Increased risk of abuse: There is a greater risk that power will be concentrated in the hands of a single decision-making group, thereby reducing independent oversight.

Table 1. Comparison of Corporate Governance Models

Aspect	**Unitary Model (One-Tier System)**	**Dualist Model (Two-Tier System)**
Structure	Single board of directors	Supervisory board and management board
Responsibilities	Board members combine supervisory and management roles	Separate functions of supervision and management
Flexibility	Suitable for smaller and medium-sized companies	Suitable for large and complex companies
Control and Decision	Direct control over daily operations	Clear separation of control and strategic decisions

4. Challenges in Implementing Corporate Governance in the Danube Region Countries

1. Regulatory Inconsistency and Enforcement

Issue: Variations in regulatory frameworks and inconsistent enforcement across countries create a fragmented corporate governance landscape. For example in Romania, while the legal framework exists, enforcement is often hindered by corruption and limited institutional capacity (Zapodeanu, et. al, 2010, p. 351) and in Serbia, frameworks for accountability exist, but practical application is mixed, with varying degrees of adherence among companies (Proroković, 2019, p. 186).

2. Cultural and Historical Factors

Issue: Deep-rooted cultural and historical business practices can resist modern corporate governance reforms. For example the traditional keiretsu system in Japan, characterized by cross-shareholding among conglomerates, illustrates how historical practices can impact governance reforms (Okamoto, 2024, p. 196). Similar issues are observed in countries like Hungary, where historical practices affect the implementation of modern governance mechanisms (Michelberger, 2016, p. 89).

3. Limited Resources and Institutional Capacity

Issue: Many countries in the Danube region face challenges related to limited resources and institutional capacities necessary for effective governance implementation. For example in Romania and Moldova, institutional capacity constraints impede the effective enforcement of governance principles (Zapodeanu, et. al, 2010, p. 352). Similar issues are noted in Serbia, where varying levels of institutional capacity impact the consistency of governance practices (Proroković, 2019, p. 188).

4. Economic and Political Instability

Issue: Economic and political instability can undermine corporate governance reforms and create an environment where enforcement is challenging. For example political instability in countries like Ukraine affects the stability and predictability of governance frameworks (Fylypenko, et. al, 2014, p. 138). Also economic challenges in Bosnia and Herzegovina limit the ability to implement and sustain comprehensive governance reforms (Zapodeanu, Kolozsi & Durgheu. 2010, p. 351).

5. Corporate Culture and Resistance to Change

Issue: Resistance to change within corporate culture can hinder the adoption of new governance practices. For example in Hungary, entrenched corporate cultures resist changes necessary for modern governance practices, leading to inconsistent implementation (Zapodeanu, et. al, 2010, p. 352). Also Romania faces similar challenges where cultural resistance within firms impacts the adoption of transparent and accountable governance practices (Michelberger, 2016, p. 92).

5. Conclusions

The necessity and role of corporate governance have been widely acknowledged in the literature. While there are variations in implementation and effectiveness, the overarching consensus is that robust corporate governance frameworks are indispensable for fostering sustainable and ethical business practices. Future research should focus on refining governance models to suit diverse organizational and regional contexts, ensuring their practical applicability and long-term impact.

Every country in the Danube region has made progress in implementing corporate governance principles, but there are still challenges and room for continuous improvement. States with more mature corporate governance legislation and practices, such as Austria, Germany and Slovenia, have been able to more effectively implement the principles of transparency, accountability and protection of shareholder rights. In contrast, economically developing states such as Bulgaria, Hungary and Slovakia face challenges in implementing these principles, but are making efforts to align their practices with international standards. Most states in the region have adopted corporate governance rules and standards that are aligned with European and international legislation. This reflects efforts to increase transparency, improve oversight and protect shareholder rights, which is crucial for attracting foreign investment and the sustainable development of their economies. Despite the alignment to the standards, there is significant variability in how these principles are implemented in practice. More economically and institutionally developed states, such as Austria and Germany, have more mature systems of corporate governance and more effective enforcement of regulations. Conversely, states with economies in transition and weaker infrastructures, such as Bulgaria and Romania, face challenges in effectively enforcing legislation and strengthening corporate governance culture.

Corporate governance models in the Danube region vary between the dualist model and the monist model, each with its own advantages and challenges. Countries with strong legal and economic traditions, such as Germany, Austria and Slovenia, tend to adopt the dualist model, which provides a clear separation between management and supervision. On the other hand, economically developing countries such as Bulgaria, Romania and the countries of the former Yugoslavia more often use the monist model, although there are trends to adapt and improve this model to ensure more effective corporate governance.

All the states in the Danube region need continuous efforts to improve corporate governance, including by strengthening the independence of boards of directors, strengthening transparency and improving the active participation of shareholders in decision-making processes. These reforms are essential to ensure sustainable economic development and promote investor confidence in their capital markets.

In conclusion, although there are significant variations in corporate governance models and practices in the Danube region states, the general trend is that most of them are taking significant steps to adhere to international standards, although challenges remain and require continued efforts to ensure a good governance robust and efficient corporate.

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