

# **TRENDS IN CORPORATE GOVERNANCE PRACTICES AT THE LEVEL OF COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE**

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## **Abstract**

The purpose of this paper is to study the interest given to governance practices in Romania, but also the motivational and non-motivational factors existing in this regard. The research is conducted on a sample of 160 companies listed on the Bucharest Stock Exchange, for the years 2015-2019 (pre-pandemic period) and 2020. Information on the degree of implementation of good practices was obtained by using the Declaration “Apply or Explain”. For a better comparability, the extracted data were divided into 4 categories, namely: the provisions of the Governance Code were observed; they were not respected; they have been partially complied with; section missing.

For each data found, one point was awarded to the corresponding section and zero points to the other sections, then a summary of the total scores obtained for each category was made.

The results of the study indicate that, in general, companies do not give due importance to the recommendations of the Romanian Governance Code, having a rather reserved character due to the costs involved in fulfilling them.

## **Keywords**

corporate governance, listed entities, governance principles, Declaration “Apply or Explain”

## **JEL Classification**

G30, G38

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## **Introduction**

The Covid 19 crisis has severely impacted the economies of many countries, turning the economic environment into a much more insecure one, launching a new challenge for theorists and practitioners around the world.

Reviewing the scientific literature, we noticed that one of the widely held beliefs is that a key factor for a company's survival in times of crisis is good corporate governance,

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which is often overlooked in practice. Thus, taking into account the above, this paper will be built around two objectives, namely:

- Monitoring the dynamics of the use of corporate governance practices at the level of companies listed on the Bucharest Stock Exchange, after the adoption of the Governance Code issued in 2015;

- The impact of the pandemic on the use of governance practices - Pandemic Covid 19 reconfigured the activity at the level of most companies, through this study proposing us to highlight the changes in terms of the importance given to governance practices.

To achieve these goals, we asked three questions, namely:

- In a time of crisis, such as the Covid 19 pandemic, are changes needed in terms of the governance measures generally used?

- If the answer is a positive one, were there any changes in the Romanian governance framework?

- Has the current crisis succeeded in changing the degree of importance that the entities in our country normally attach to these practices?

The structure of the paper will be as follows. Following the introduction, section 1 will examine the most recent and relevant papers of the specialist framework and establish the research hypotheses. Section 2 will describe the research method and sample selection, and section 3 will present the results of the data analysis. Finally, the conclusions will be presented.

## **1. Review of the scientific literature**

Considered essential for the health of an entity, through the efficient management of resources and the reduction of factors that can negatively influence the creation of value for all those involved in the life of a company (Radu, 2012), corporate governance “ensures survival and sustainable success of the organization” (Davies, 2016), which thus becomes “a key engine” for generating value within the corporate sector (Villar, López, Peñas, 2016).

Given the greatness of corporate governance, we believe that we cannot continue this study without a good understanding of this concept. Thus, according to the literature, it refers to:

- “a set of rules by which companies are managed internally and supervised by the board of directors, in order to protect the interests of all participants” (Feleagă, et al., 2011);

- “the quality, transparency and reliability of the relations between shareholders, the Board of Directors, management and employees, which define the authority and responsibility of each in providing sustainable value to all stakeholders” (Adiloğlu, Vuran, 2012);

- a set of mechanisms that interact with each other (internal mechanisms: Board of Directors, shareholders, statutory provisions; external mechanisms: legislative framework, market) (Pirtea, Ceocea, Ionescu, 2014).

The research conducted by Najjar (2012) emphasizes the importance of governance, the author considering it “critical and crucial” especially when a company is going through a financial crisis.

Despite the above, the Covid 19 pandemic highlighted its contingent, fragile nature (Levy, 2021), highlighting some weaknesses such as: gaps in the functioning of the remuneration committee (body set up to support the main governance mechanism, namely the Board of Directors, by providing recommendations on directors remuneration while ensuring compliance with the entity's remuneration rules), which contributed to the loss of millions of jobs; the failure of risk management, determined by the low level of experience and qualification of Board members (Kumar, Rao, 2021).

According to Zattonia and Pugliese (2021), Covid 19 triggered a crisis that differs significantly from previous crises caused by wrong corporate behavior and poor regulation. The two authors believe that government interventions to revive the economy will change both individual incentive systems and monitoring mechanisms, which means that it is unlikely to act in a manner similar to that applied so far. Therefore, “firms must adopt different practices, under different conditions” (Jebran, Chen, 2021). Researchers Ahrensen and Rudolphnn (2006) considers that in order to mitigate the impact of a disaster, the human and social dimensions must also be taken into account. The work of Ltifi and Hichri (2022) shows that the adoption and implementation of social responsibility activities (CSR practices) requires good corporate governance, involving values such as: “integrity / honesty, truth and transparency in actions” (Onea, Tătărușanu, Ciul, Zait, 2013). A similar view to Ahrensen and Rudolphnn is found in the work of Deliu (2020), which emphasizes the need to ensure the stability of human resources and the creation of social responsibility committees; issues that can make stakeholder confidence “a lifeline better than any government crisis grant”. Hwang and colleagues (2021) argue that, compared to CSR practices, ESG practices encompass “a wider range of social values” (E - environmental responsibility, S - social responsibility, G - governance), which during a crisis (such as the Covid 19 pandemic) can minimize the impact of uncertainty by improving the overall business environment of entities (Hwang, Kim, Jung, 2021). In agreement with Jebran and Chen are Gelter and Puaschunder. According to them, all practices used in times of peace and prosperity become harmful when entities go through a collapse. In this case, it is considered more appropriate to adopt measures based on resilient (and not effective) structures, the reappearance of stakeholder models and a much greater significance for nationalism (Gelter, Puaschunder, 2021). Eklund (2021) also came to the same conclusion in his study, in which he tries to draw attention to the fact that: “Sustainability is no longer a subject of conformity or of explanation. It is a requirement that must be met by all businesses, governments, and people around the world”.

We believe that we cannot conclude our research without an overview of the governance measures by which companies have chosen to respond to the Covid crisis, which is why we recall the work done by the OECD (2020) on 37 jurisdictions. Thus, we find that although the entities faced many problems, the legal and regulatory requirements regarding the organization of general meetings continued to be relevant,

using either the extension of the deadline for convening or the possibility of remote participation. The extension of the deadline also applied to the submission of audited financial statements. Another measure was also to suspend the possibility of insolvency claims during the Covid crisis (example: Switzerland, Austria, the Czech Republic, Italy, Spain, Poland, Germany).

Considering all the aspects presented, we appreciate that it is interesting to know the degree of importance that companies in our country give to corporate governance practices in peacetime, but also how they act during a crisis, such as the one caused by Covid 19 pandemic, proposing three hypotheses in this regard:

H0: Corporate governance practices have increased in importance in the pre-pandemic period (2015-2019);

H1A: Covid 19 pandemic has negatively affected the importance of governance practices;

H2A: The Covid 19 pandemic has positively influenced the importance given to governance practices.

## **2. Research methodology**

The purpose of this paper is to study the interest given to corporate governance practices in Romania, both during the period of stability and during a crisis. To achieve the proposed objective, we selected all companies listed on the Bucharest Stock Exchange, which operate in the field of manufacturing (regulated market and Aero market), a total of 160. We chose to study these entities, as the manufacturing industry has a particularly important role in terms of economic development of a country (Mehmood, Hunjra, Chani, 2019)

The analysis period covered the years 2015-2019 and the year 2020. The pre-pandemic period was established according to the year of publication of the latest version of the Romanian Governance Code (2015).

## **3. Results and discussion**

To gather the necessary information, we used the “Apply or Explain” Statement (provided for in the Governance Code issued in 2015), also known as the “Governance Code Compliance Report”, which contains information on the recommendations implemented voluntarily and how to implement them, statement published either on the BVB website or on the entities' websites.

For better comparability, the extracted data were divided into 4 categories, namely:

1. The provisions of the Code have been observed;
2. They were not respected;
3. They have been partially complied with;
4. Missing section.

For each data found, one point was awarded to the corresponding section and zero points to the other sections, then a summary of the total scores obtained for each category was made.

Although the literature has drawn attention to the fact that in a troubled period different corporate governance practices should be adopted, in Romania there have been no changes in this regard, the recommendations of the Governance Code issued in 2015 continue to be applied.

In the present situation, our focus will be on the degree of importance that the Romanian entities gave to these recommendations during the Covid pandemic, compared to the pre-pandemic period.

Although we expect this crisis to have a negative impact on the level of compliance with the requirements of the Code, studying a sample of 160 entities, we found that in 2020, there has been an increase in the number of companies that draw up the Declaration "Apply or Explain".

**Table no. 1. Percentage of companies that make the "Apply or Explain" Declaration**

Number of companies	2015	2016	2017	2018	2019	2020
160	115/160	117/160	123/160	127/160	131/160	138/160
	71,90%	73,10%	76,90%	79,40%	81,90%	86,25%

Source: own processing

Another aspect that we discovered after our study is that the Romanian entities do not use a single declaration model, but different models. However, we noticed a high frequency for 3 of them, which we noted as follows:

- **Type 1** - made in the form of the last revision of the Code;

Structured in 4 sections:

1. Responsibilities of the board - includes 11 principles;
2. Risk management and control system - includes 12 principles;
3. Reward and motivation - includes 1 principle;
4. Relationship with investors - includes 10 principles.

- **Type 2** - which is an abbreviated version of Type 1;

Structured in 4 sections:

1. Responsibilities of the board - includes 5 principles;
2. Risk management and control system - includes 2 principles;
3. Reward and motivation - includes 1 principle;
4. Relationship with investors - includes 6 principles.

- **Type 3** - created after the previous version of the Code.

Structured in 19 principles.

**Table no. 2. Distribution of the number of entities by types of declarations  
in the period 2015-2020**

Statement	2015		2016		2017		2018		2019		2020	
<b>Type 1</b>	15	9%	38	24%	36	23%	39	24%	38	24%	40	25%
<b>Type 2</b>	79	49%	70	44%	76	48%	79	49%	83	52%	80	50%
<b>Type 3</b>	6	4%	2	1%	1	1%	2	1%	3	2%	3	2%
<b>Other types</b>	15	9%	7	4%	10	6%	7	4%	7	4%	8	5%
<b>No statement</b>	45	28%	43	27%	37	23%	33	21%	29	18%	29	18%

Source: own processing

It should be noted that during the pandemic period there were no major changes in the choice of the declaration model (Table no. 2).

Next we will identify the principles that the companies in the manufacturing industry considered to be the most relevant for the good functioning of the activity.

According to Tables no. 3, 4 and 5, the greatest attention paid both during and before the Covid crisis was to:

- Appointment of a Council Secretary responsible for supporting its work (Type 1 - A7);
- Carrying out internal audit either by a structurally separate division within the entity or through an independent entity (Type 1 - B11; Type 2 - B2);
- Participation in general meetings of shareholders and protection of their rights (Type 1 -D4; Type 2 - D4);
- Avoidance of possible conflicts of interest, by informing the Board of the existence of any other professional commitments, as well as of any relationship with a shareholder holding at least 5% of the total voting rights (Type 2 - A2, A3; Type 3 - P15);
- Ensuring equal treatment of holders of financial instruments (Type 3 - P2);
- Existence of a transparent procedure for the appointment of Council members (Type 3 - P9);
- Social and environmental responsibility activities (Type 3 - P18).

As we can see, the highest level of compliance with the provisions of the Code is reached in section D, a section that aims at “Adding value through investor relations”.

On the other hand, in the category of recommendations that recorded the lowest number of affirmative answers we find:

- Providing information on Council evaluation (Type 1 - A8);
- Establishment of a nomination committee, in particular for Premium Category companies (Type 1 - A11);
- Providing information on remuneration policy (Type 1 - C1; Type 3 - P11);
- Establishment of a remuneration committee (Type 3 - P11);
- Organizing at least one meeting / conference call with analysts and investors (Type 2 - D6);

- Dissemination of information relevant to investors, in English (Type 3 - P12);
- Existence of an audit committee and the way in which it carries out its activity (Type 3 - P13);
- Management of the entity under a dual system (Type 3 - P19),  
recommendations that play an important role, especially with regard to stakeholders.

Table no. 3. Total principles met by the companies that draw up type 1 of the Declaration

Principles	2015				2016				2017				2018				2019				2020			
	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section
Section A																								
Total A1	8	5	1	0	19	14	4	0	16	15	4	0	21	14	2	3	21	13	3	0	21	15	4	0
Total A2	6	5	3	0	16	15	6	0	13	16	6	0	19	15	4	0	19	14	4	0	19	15	6	0
Total A3	10	3	0	1	23	14	0	0	22	13	0	0	26	12	0	0	24	13	0	0	26	14	0	0
Total A4	9	2	2	1	19	11	7	0	20	8	7	0	26	7	5	0	23	9	5	0	27	9	4	0
Total A5	11	2	0	1	22	13	1	1	21	13	0	1	24	12	2	0	21	14	1	1	24	15	1	0
Total A6	6	7	0	1	19	17	0	1	19	16	0	0	24	14	0	0	21	16	0	0	26	14	0	0
Total A7	11	2	0	1	28	7	1	1	30	5	0	0	32	6	0	0	29	8	0	0	33	6	1	0
Total A8	2	12	0	0	7	27	2	1	6	26	3	0	21	15	2	0	8	27	0	0	7	29	4	0
Total A9	10	3	0	1	24	11	1	1	22	11	1	1	26	11	0	1	24	12	0	1	25	14	1	0
Total A10	9	3	0	2	25	10	0	2	24	10	0	1	27	10	1	7	24	12	0	1	26	14	0	0
Total A11	2	9	0	2	5	26	1	5	6	22	1	6	7	23	1	7	9	20	1	7	8	24	2	6
Section B																								
Total B1	6	10	0	0	15	21	1	0	15	8	2	0	20	17	1	0	20	15	2	0	21	18	1	0
Total B2	6	10	0	0	12	22	1	2	15	19	0	1	21	16	0	1	21	15	0	1	21	18	1	0
Total B3	4	10	1	1	11	22	2	0	13	20	1	1	17	19	1	1	19	17	0	1	20	19	0	1
Total B4	5	10	0	1	10	23	2	2	12	21	1	1	17	19	1	1	18	18	0	1	19	20	0	1
Total B5	4	11	0	1	11	22	2	2	12	21	1	1	17	19	1	1	18	17	1	1	18	20	1	1
Total B6	4	11	0	1	10	24	1	2	12	21	1	1	16	19	2	1	18	17	1	1	19	19	1	1
Total B7	5	10	0	1	10	22	2	3	12	20	2	1	19	18	0	0	19	17	0	1	19	20	0	1
Total B8	4	11	0	1	10	22	2	3	12	20	2	1	20	17	0	1	20	16	0	1	20	19	0	1
Total B9	12	1	1	2	33	1	1	2	30	3	1	1	34	2	1	1	35	1	0	1	38	1	0	1
Total B10	7	5	3	1	15	18	2	2	14	17	3	1	18	19	0	1	19	17	0	1	20	19	0	1
Total B11	14	0	0	2	28	7	0	2	28	6	0	1	31	5	1	1	29	5	2	1	32	6	1	1
Total B12	7	5	3	1	17	13	5	2	13	16	5	1	20	14	3	1	20	12	4	1	22	13	4	1
Section C																								
Total C1	3	8	4	0	8	22	7	0	9	20	5	1	8	22	7	1	8	21	7	1	13	19	7	1
Section D																								
Total D1	7	1	6	0	15	5	15	2	16	4	15	0	18	4	16	0	18	3	16	0	20	2	11	7
Total D2	6	8	0	0	13	23	1	0	13	21	1	0	14	23	1	0	15	21	0	0	14	24	2	0
Total D3	6	8	0	0	11	24	2	0	11	20	4	0	10	25	3	0	13	22	2	0	14	23	3	0
Total D4	13	0	0	0	34	1	0	2	34	1	0	0	36	2	0	0	36	1	0	0	40	0	0	0
Total D5	9	3	1	1	29	5	1	2	31	3	1	0	32	6	0	0	32	5	0	0	34	5	1	0
Total D6	13	0	0	1	31	3	1	1	31	2	1	1	33	3	1	0	33	2	1	1	36	2	2	0
Total D7	8	6	0	0	24	11	0	1	23	12	0	0	27	10	0	1	29	7	0	1	31	9	0	0
Total D8	9	2	2	1	27	5	3	2	28	4	3	0	28	5	5	0	28	3	6	0	30	5	5	0
Total D9	4	7	5	1	12	19	3	3	11	21	2	1	13	19	4	2	13	18	4	1	13	21	4	2
Total D10	5	6	0	1	14	19	1	3	13	16	3	3	13	20	3	2	13	20	3	1	12	23	4	1

Source: own processing



**Table no. 4. Total principles met by the companies that draw up type 2 of the Declaration**

Principles	2015				2016				2017				2018				2019				2020				
	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	
Section A																									
Total A1	36	38	4	0	42	21	6	0	45	25	5	0	45	25	8	0	47	28	7	0	48	25	7	0	0
Total A2	60	18	0	0	60	9	0	0	62	13	0	0	63	14	1	0	67	15	0	0	66	14	0	0	0
Total A3	61	17	0	0	61	8	0	0	66	9	0	0	68	8	0	2	72	8	0	2	73	7	0	0	0
Total A4	25	43	10	0	27	32	10	0	30	36	9	0	28	35	13	2	30	35	15	2	32	35	13	0	0
Total A5	49	16	9	4	47	15	3	4	48	16	6	5	57	11	2	8	53	13	3	13	51	15	6	8	0
Section B																									
Total B1	29	49	0	0	27	42	0	0	34	41	0	0	39	38	0	1	37	45	0	0	35	44	1	0	0
Total B2	48	27	3	0	48	18	2	1	53	19	2	1	58	17	2	1	58	21	3	0	58	18	4	0	0
Section C																									
Total C1	24	45	8	1	28	27	12	2	36	26	11	2	39	23	13	3	44	27	9	2	48	24	7	1	1
Section D																									
Total D1	13	21	44	0	13	16	40	0	16	17	42	0	18	18	40	2	18	18	45	1	17	14	49	0	0
Total D2	15	53	9	1	16	45	6	2	8	50	4	3	17	49	8	4	16	56	7	3	20	52	4	4	4
Total D3	15	56	5	2	13	49	6	2	15	54	2	4	17	53	4	4	17	55	6	4	19	53	4	4	4
Total D4	74	2	1	1	67	0	0	2	72	0	0	3	74	0	1	3	79	0	0	3	76	0	0	4	4
Total D5	14	16	47	1	8	15	44	2	13	12	47	3	14	14	47	3	14	14	51	3	13	11	52	4	4
Total D6	6	68	2	2	5	59	3	2	7	61	3	4	9	62	3	4	11	64	4	3	9	62	5	4	4

Source: own processing

Table no. 5. Total principles met by the companies that draw up type 3 of the Declaration

Principles	2015				2016				2017				2018				2019				2020				
	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	respect	don't respect	partially respect	missing section	
Total P1	1	1	4	0	0	0	2	0	0	0	1	0	0	0	1	1	0	1	1	1	0	1	1	1	0
Total P2	5	0	1	0	2	0	0	0	1	0	0	0	2	0	0	0	3	0	0	0	2	0	1	0	
Total P3	4	0	2	0	0	0	2	0	0	0	1	0	0	0	2	0	1	0	2	0	2	0	1	0	
Total P4	2	0	4	0	0	0	2	0	0	0	1	0	0	0	2	0	1	0	2	0	1	0	2	0	
Total P5	2	0	4	0	0	0	2	0	0	0	1	0	0	0	2	0	1	0	2	0	1	0	2	0	
Total P6	5	0	0	1	0	1	0	1	1	0	0	1	1	0	0	1	2	0	0	1	2	0	0	1	
Total P7	4	1	0	1	1	0	0	1	0	0	0	1	0	1	0	1	1	0	1	2	1	0	0	0	
Total P8	1	3	2	0	0	2	0	0	0	1	0	0	0	1	1	0	1	1	1	0	1	1	1	0	
Total P9	6	0	0	0	1	1	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	0	0	
Total P10	1	5	0	0	0	2	0	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	0	
Total P11	0	2	4	0	0	1	1	0	0	1	0	0	0	1	1	0	0	1	2	0	0	1	2	0	
Total P12	0	2	4	0	0	0	2	0	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	
Total P13	0	2	4	0	0	0	2	0	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	
Total P14	4	2	0	0	0	2	0	0	0	1	0	0	0	2	0	0	1	2	0	0	1	2	0	0	
Total P15	6	0	0	0	1	1	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	0	0	
Total P16	3	3	0	0	1	1	0	0	0	1	0	0	0	2	0	0	1	2	0	0	1	2	0	0	
Total P17	2	4	0	0	1	1	0	0	0	1	0	0	0	2	0	0	0	3	0	0	0	3	0	0	
Total P18	5	1	0	0	2	0	0	0	1	0	0	0	2	0	0	0	2	1	0	0	2	1	0	0	
Total P19	0	6	0	0	0	2	0	0	0	1	0	0	0	2	0	0	1	2	0	0	1	2	0	0	

Source: own processing

Analyzing the selected sample, according to types 1, 2 and 3 of the Declaration (Table no. 6), we found that the degree of implementation of the governance principles within the Romanian companies is quite low; the most frequently offered explanation for the far too high costs involved in accomplish them.

**Table no. 6. Level of compliance of entities with the principles of the Code**

	2015	2016	2017	2018	2019	2020
<b>Type 1</b>	48,04%	46,98%	49,59%	55,43%	55,50%	56,47%
<b>Type 2</b>	42,41%	47,14%	47,46%	49,37%	48,45%	50,45%
<b>Type 3</b>	44,74%	23,68%	26,32%	23,68%	38,60%	40,35%

*Source:* own processing

However, during the studied period, there is a slight increase in the importance that Romanian entities attach to good governance practices.

To our surprise, the highest values are recorded during the Covid pandemic, which indicates a better awareness of the significance of these practices for the success of a business.

Thus, based on the results obtained, hypotheses H0 and H2A are accepted.

### Conclusions

In our attempt to better understand the level of Romanian companies in terms of governance practices adopted during the Covid pandemic, we considered it imperative to begin the study by examining the most recent and relevant works of the framework, through which we found that “firms must adopt different practices, under different conditions” (Jebran, Chen, 2021).

Despite the fact that the literature has drawn attention to this aspect, in Romania there have been no changes in this regard, the recommendations of the Governance Code issued in 2015 continue to be applied.

After we have succeeded in analyzing the first objective of the work, our mission was to study the degree of importance that Romanian entities gave to good practices during the Covid pandemic period, while making a comparison with the pre-pandemic period. Thus, we analysed a sample of 160 companies listed on the Bucharest Stock Exchange, societies operating in the field of manufacturing. The analysis period covered the years 2015-2019 (pre-pandemic period) and 2020. The results of the analysis indicate that Romanian companies do not give due importance to the recommendations of the Code. However, we are pleased to note that the highest level of compliance in recent years has been recorded during the pandemic.

One solution we have identified for overcoming this difficult period may be to create a system of governance focused on the involvement and motivation of all parties involved in the life of an entity, which will encourage individual and organizational performance.

The main limitation of the research was the small size of the time series analyzed, due to unavailability of data. Thus, as future study directions, we intend to use a longer number of years, but also to make a comparison between the effects that governance measures had on

the performance of entities before and during the crisis, while drawing a parallel with other companies from different industries.

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