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Doctoral thesis

Summary

Corporate governance of state-owned enterprises

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DOCTORAL THESIS
Corporate governance of state-owned enterprises
SUMMARY

Economies around the world comprise both private and public sector companies. What varies is the degree or proportion of each category in different countries. The private sector comprises small, medium, and large enterprises, companies whose primary objective is to make a profit. The public sector comprises state-owned enterprises in which the government may hold a controlling interest. From a global perspective, enterprises in which the government directly or indirectly owns more than 50% of the shares are identified as state-owned enterprises. Thus, in this research, we define state-owned enterprises as entities in which the state or an administrative-territorial unit is the sole, majority, or controlling shareholder, having established economic, social, and political objectives. Although state-owned enterprises have been affected by a series of reforms, these types of companies continue to represent an essential part of the economy.

Their role in the economy, in addition to making a profit, is to correct market failures, maintain employment stability, provide essential goods and services (e.g., national defense, national parks, public health, education, utilities) at reasonable costs, to redistribute income, to support economic development and industrialization, or even to stabilize markets that are imperfect or unable to meet critical social needs.

Even if the motivation for state ownership has changed over time, state-owned enterprises have been considered government arm's length instruments. Initially, they were created to operate only in domestic markets, but in the context of globalization, state-owned enterprises are increasingly competing with private companies in global markets. These companies often receive favorable treatment from the state (e.g. reduced financing, government-backed guarantees, direct subsidies, favorable regulatory treatment) and are also exempt from certain regulations (e.g. antitrust or insolvency laws). Consequently, they must demonstrate their trust and credibility in front of the public.

It is believed that good governance of state-owned enterprises not only improves the image and demonstrates the public responsibility of the state, but also contributes to the increase of their performance. For the first time, the concept of corporate governance appeared in the private sector in response to the conflicts of interest between managers and shareholders. It provides the necessary framework for organizational governance. The particularities and complexities of the public sector (mixed objectives, ministries as shareholders in public

companies, multiple types of responsibilities to a large number of stakeholders) demonstrate the need to adapt best practice guidelines (originally) developed for the private sector to the specific context of the public sector. In Romania, the Corporate Governance Code developed by the OECD was transposed into the national regulatory framework through GEO 109/2011 and Law no. 111/2015 regarding the approval of GEO 109/2011. The implementation of corporate governance principles in Romanian state-owned enterprises aims to create a set of rules that facilitate the administration and control of these types of companies. Also, the relations between the state and board members, but also between the board members, shareholders, and other interested parties are established.

Having all these in view, the doctoral thesis named “*Corporate governance of state-owned enterprises*” has the objective to analyze whether (1) the adoption of corporate governance principles influenced the operational performance of Romanian state-owned enterprises and (2) whether the adoption of corporate governance principles influences the opinion of the external auditor. To fulfill the main objective, we set several secondary objectives that we tried to achieve during the research. The secondary objectives are:

- (1) Obtaining an overview of the main theoretical concepts regarding state-owned enterprises and corporate governance; developing a complex and up-to-date theoretical framework;
- (2) Conducting a structured and objective literature review focusing on corporate governance and performance of state-owned enterprises;
- (3) Presenting the theoretical framework of corporate governance applied to state-owned enterprises;
- (4) Obtaining a complex layout that comprises the main characteristics of state-owned enterprises;
- (5) Analyzing the reforms and their effects that affected Romanian state-owned enterprises;
- (6) Analyzing the level of compliance in Romanian state-owned enterprises with the national provisions regarding transparency and corporate governance of state-owned enterprises.

The Ph.D. thesis presents a complex structure and comprises the following parts: an introduction, a list of figures and tables, and the content of the thesis in 5 chapters. The thesis ends with conclusions, personal contributions, research limitations, and future research directions, followed by references and annexes.

The first chapter entitled *The current state of knowledge of corporate governance in state-owned enterprises* includes basic notions regarding corporate governance: the emergence and evolution of the concept, definitions; theories that influence the concept of corporate governance in state-owned enterprises; a study of specific literature regarding corporate governance and performance of state-owned enterprises. The academic literature review was carried out using bibliometric research methods. An objective picture was obtained regarding the specific literature, the main thematic groups in the sphere of governance and performance of state-owned enterprises were identified and we proposed the main future research directions.

The second chapter of the thesis, entitled *State-owned Enterprises: a global approach from the beginning to the everyday stage*, presents the taxonomy of state-owned enterprises, their role in the economy, and the motivation behind holding state ownership. The end of the chapter includes a qualitative study that aims to identify the main characteristics of state-owned enterprises used in the literature. Among the results is a complex map that includes the main characteristics of state-owned enterprises, obtained both from the perspective of researchers and expert groups.

The third chapter is called *The Context and dynamics of state-owned enterprises in Romania*. The objective of this study is to provide a road map on how Romanian state-owned enterprises acted within the decentralization reform. Using qualitative research methods to analyze the national regulatory frameworks, were identified two big restructuring waves of Romanian state-owned enterprises. The results of the research show that the reform of Romanian state-owned enterprises is done gradually and depending on the industry in which it operates.

The fourth chapter, named *Case Study: analyzing the level of corporate governance information disclosed by Romanian state-owned enterprises*, is represented by a quantitative study that aimed to examine the amount of information regarding corporate governance disclosed by state-owned enterprises from Romania through their websites. This study is based on two national regulatory frameworks: OUG no. 109/2011 regarding the corporate governance of state-owned enterprises and Law no. 544/2001 regarding free access to public information. A comparative analysis was carried out using the online information disclosed by Romanian state-owned enterprises on their websites in 2017 and 2021. The results of the analysis indicate a high degree of compliance with the national legislation concerning corporate governance among Romanian state-owned enterprises, owned at the central level, both in 2017 and 2021.

Also, the analysis reveals an increasing level of information disclosed in 2021 compared to 2017. The chapter also includes a presentation of the research methodology, the research tools used and how the sample was determined, and its structure.

The fifth chapter represents the empirical part of the doctoral thesis and is entitled *An empirical study on corporate governance of Romanian state-owned enterprises*. In this chapter, we analyzed the effects of the implementation of corporate governance principles in state-owned enterprises on their performance and external auditors' opinion. To achieve the research objective, we applied the Structural Equation Model (SEM) statistical technique. An analysis was carried out that had two main stages: first, an index was developed to measure the specific elements of corporate governance (DI), and then it was analyzed empirically if there is a significant relation between this index and the companies' performance, respectively the opinion of the external auditor. The mixed results of the Ph.D. thesis are consistent with the results identified in the academic literature. The results of the empirical analysis reveal the fact that the implementation of corporate governance principles in Romanian state-owned enterprises does not influence their operational performance, but produce positive effects on the opinion of the external auditor. According to these results, we can conclude that the main objectives of Romanian state-owned enterprises are social or political, instead of economic objectives. The chapter also includes the motivation and objective of the study, the conceptual framework of the study, the research methodology, and some preliminary conclusions, limitations, and future research directions.

The theoretical and practical contributions of the research were highlighted and detailed at the level of each chapter of the doctoral thesis *Corporate Governance of state-owned enterprises*. The theoretical research is based on an extensive bibliographic study, which includes books and articles published in international databases, official publications, and statistics. The interdisciplinary character of corporate governance also influenced the selection of bibliographic sources that can be classified in the fields of management, public management, human resources management, accounting, strategic management, company management, economics, public policies, finance, and statistics.

The theoretical research comprises an in-depth analysis of the specialized literature that aims to explain the main concepts and prepare the necessary framework to carry out the quantitative research. The main theoretical contributions of the doctoral thesis are: establishing a complex and up-to-date framework regarding the specific concepts used in our research; a systematic presentation of the academic literature focusing on corporate governance of state-owned enterprises; the identification of the main characteristics of state-owned enterprises;

developing a multi-theoretical model that grounds the empirical analysis; the presentation, starting from specific academic literature, of the methodology used for evaluating the effects of corporate governance: formulating the research questions, setting the variables, describing the research methods used.

To carry out practical research regarding the influence of corporate governance on the performance and external auditors' opinion, we studied financial statements, activity reports, declarations of interests of the board members, reports published by public institutions, and other relevant reports. The main practical contributions of the doctoral thesis can be summarized as follows: the presentation of the level of compliance regarding corporate governance requirements among state-owned enterprises from an emerging market, such as Romania; the analysis of state-owned enterprises from the central level - this type of entity is extremely important for former communist countries; the inclusion in our sample of both listed and non-listed state-owned enterprises – companies that were not sufficiently analyzed; the DI developed can be used as a legitimation strategy for state-owned enterprises' representatives.

The doctoral thesis has its limitations:

- The conceptual research has been limited to the term *state-owned enterprises*. However, being the most used term that refers to this type of entity, we consider that the results obtained are relevant.
- Another limitation of the research is the number of state-owned enterprises included in the analysis. This constraint is determined by the level at which these companies operate within the public sector, the sample incorporating only state-owned enterprises that activate at the national level.

Starting from the research limitations presented above, we identified the following future research directions:

- We recommend increasing the sample of state-owned enterprises by including state-owned enterprises that activate at the municipal and local levels.
- In addition to the main requirements of corporate governance and transparency aspects, future research could analyze influential variables linked with the profile of the managers, such as age diversity, gender, education level, and relevant experience. Also, the current quantitative research can be complemented by a qualitative one since studies using qualitative methods have a high value for a deeper understanding of the state-owned enterprise's puzzle and analyzing different data sources (board members' biographies and executive compensation).

- We also recommend the development of performance measures adapted to the particularities of state-owned enterprises. State-owned enterprises have to achieve multiple objectives (social, political, economic) and by applying the performance measures developed for private companies, it is evaluated only one dimension of state-owned enterprises' performance, the economic one. Specific performance metrics that can evaluate at the same time the economic, political, and social dimensions of state-owned enterprises' performance are needed.

As a final conclusion, we consider that the research achieved all the objectives proposed at the beginning of the study, and the results obtained have a valuable contribution for both researchers and practitioners.

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