

Corporate governance in emerging economy and their impact on enterprise performance: A Case of Croatia

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Abstract

This paper explores the implementation of corporate governance principles in emerging economy and its impact on enterprise performance. After almost 15 years of privatisation process, it is to expect some changes in governance and better performing of privatised and new start-up enterprises. Hence, research is based on enterprise performance in the industries of Croatia compared to some European average indicators of corporate governance. The aim of the research is to prove the awareness of importance of corporate governance principles in global market, especially in enterprises of transitional economies where competitiveness in today's global economy is more difficult. Recently, accountability and transparency have become the key factor not only for shareholders but also for investors, buyers, suppliers, and other stakeholders. The research started with questioning the implementation of corporate governance principles in Croatia and by means of indicators identifying the degree of corporate governance development. However, the main question is related to impact of corporate governance on enterprise's performance especially from the efficiency point. The research is based on statistical data and data gathered by means of questionnaire addressed to independent members. Analytical and statistical techniques are used. The results suggest that implementation of corporate governance principles on enterprises' performance in a transition country show the similar results as in developed countries. In the last 15 years of privatisation in Croatia, some positive changes have been evident and enterprises, which have implemented corporate governance principles, have successful performance. As there are many factors that have an impact on enterprise performance, it is hard to express the influence of corporate governance indicators quantitatively. However, there is an indirect qualitative impact of corporate governance on enterprises' performance, which is the same in emerging countries as in the others.

Key words: corporate governance, accountability and transparency, enterprise performance, indicators

1. Introduction

Principles for Corporate Governance published in 1999 by the Organisation for Economic Cooperation & Developments (OECD) are widely used as a benchmark for policy makers, investors, corporations and other stakeholders. The principles represent common corporate governance standards and good practice, and thus have intention to provoke corporate governance debate internationally. It is particularly interesting to explore adoption of corporate governance principles in emerging countries. In majority of Central and East European countries, privatisation process started at early 1990s and since then it has been implemented through different models. As a consequence there are different structures of ownership especially from qualitative side.

Croatian model of privatisation enable employees to acquire the shares (maximum equity share at 50 per cent, and rest is to be sold) based on estimated net book value with a discount. The acquirer had to pay only the first instalments or five percent of the total purchase price. This created an interim unfavourable cash-flow situation for the enterprises, i.e., there was no continuing obligation to pay the reminder of the purchase price for the discounted shares. To overcome this, the revised Privatisation Law specifically provides that if three consecutive instalment payments are missed, then the purchase contract will terminate without notice. The same Law extends the payment period to 20 years.

Today, in Croatia privatisation process is almost completely finished but in the course of the last 15 years, various groups of private enterprises can be differentiated from those with one majority owner (domestic or foreign), to enterprises with mixed ownership (domestic, foreign, state, local government, ex employees) with different stakes, to public companies in the ownership of state or local government. Nowadays there are 68,981 enterprises in Croatia of which 94.7 per cent are small enterprises, 3.9 per cent are medium and 1.4 per cent large. The ownership structure is as follows: 96,6 per cent are private companies (of which 94.4 per cent are start-ups and 2.2 per cent privatised), 1.2 per cent are state owned, 1.5 per cent in mixed ownership (state and private) and 0.7 per cent of others (cooperatives)¹. With regard that industry consists almost from small enterprises, comparing with total number they are low percentage of them (only 0.5 per cent) who are on the stock market. But considering number of large enterprises, a quarter of them who are large are on stock market. They are committed on quarterly disclose, and one of them implement corporate governance. The principles of corporate governance are also characteristic mark of the democracy and emerging countries that change their social system are ready to adjust to all requirements the developed countries are established.

According to performance, corporate governance rules establish responsibilities, disclosure and transparency as one of the main principles. Emphasize is put on timely and accurate disclosure about financial situation, performance, ownership and governance of the company. According to responsibility first and foremost governance of companies reflects interests of shareholders. In addition, corporate governance principles support the role of stakeholders too. This is in accordance to social responsibility behaviour but companies are still not ready enough to pursue socially responsible policies. Companies should be responsible for its wider

¹ Computed from statistical data of Agency for Payments Croatia, 2004.

impact to society. Although, corporate governance framework recognizes the rights of stakeholders, there is still not overwhelming evidence that a company's share price is affected by contribution of social responsibility. Corporate social responsibility (CSR) can only become meaningful if the financial markets reward it. But, in emerging countries where capital market is not developed, share prices are mostly based on financial results and performance.

Second, to meet disclosure and transparency principles means to develop performance measurement and management. Financial information should be audited and prepared according to accounting principles, but beside financial performance there is much more need for non-financial information include in disclosure. Non-financial indicators are still not widely used and it is much harder to collect and analyse them. Financial measures have long been used to evaluate performance for the benefit of shareholders, lenders, creditors, and statutory authorities. They are used for analysing short-term performance, but for analysing long-term strategies achievements, implementation of more broadly based on set of performance measures is more useful. Increased complexity of performing more and more emphasized the need to use other criteria in evaluating social responsibility governing.

Although there is a wide range of research on corporate governance, there are just few who do research into their impact on enterprises performance, especially in emerging countries. Thus, this research has an aim to analyse corporate governance principles used in the companies of transition economy, and additionally to stress the benefit on performance. Paper is focused on applicability of corporate governance indicators in Croatian enterprises and the influence of their performance. Governance contribution to enterprises performance is analysed through environment situation in Croatia caused by privatisation, board attributes and disclosure. Moreover, qualitative assessment of corporate governance impact on performance is separately analysed.

2. Corporate governance overview

Corporate governance is a key element in improving economic efficiency and growth as well as enhancing investor confidence (OECD Principles, 2004). Good corporate governance should provide proper incentives for the owners and management to pursue objectives that are in the interests of enterprise. Its rises when power of management tends to be a threat for owners. Thus, in the beginning OECD defines corporate governance as a "system by which business corporations are directed and controlled", or as "all the organizational mechanisms, which have the effect of bounding the power and of influencing the decisions of the managers. In order words, the mechanisms "govern" their behaviour and define their discretionary space" (Charreaux, 1997). More broadly with regard to society, we could define corporate governance as a relationship of a company to society. After so many scandals in last few years, corporate governance started to be a tool for discovering smart from dumb choices, i.e. "it is the structure that is intended to make sure that the right questions get asked and that checks and balances are in place to make sure that the answers reflect what is best for the creation of long- term, sustainable value." (Monks and Minow, 2004). Therefore, the possible conflicts of interests between patrimony of the owners and other stakeholders could appear. For that reason corporate governance codes address a wide range of structural and behaviour elements such as accountability, shareholders and stakeholder rights, disclosure and transparency, internal control and audit.

In the last six years since the first announcement of OECD (1999) corporate governance principles, many countries in Europe have adopted codes. Effective corporate governance is particularly important during times of restructuring, i.e. in the early transition period. New owners and management has to decide upon a strategy of an enterprise. In transition countries that means mayor change in organisational structures, products solutions, behaviour in managing. Thus restructuring has due to path-dependency long-term implications for the industry and its competitiveness (Klaus.E.Meyer, 2003) A great improvement is recognized through some research in discrepancy between code recommendations and corporate governance standards in practice. (Maier, 2005; Albert-Roulhac, 2005). Most research has focused on a few key indicators, particularly to independence of directors, board, audit committee and transparency of remuneration. In general, company's governance framework is increasingly considered very important not only from the shareholders and stakeholders side but also from the social, environmental and ethical aspects, especially after so many scandals in last few years.

Although there are respectively growing literature linking corporate governance and enterprises performance, there is also a diversity of results which could be explained by differences in research approaching to some crucial factors, i.e. nature of enterprise, performance measurement development, methodology, structure of boards etc. In spite of that, common conclusions suggest that corporate governance has an indirect effect on enterprises' performance. (Zahra and Pearce,1989; Maassen,1999). There are many variables, external and internal, which have influence on corporate performance. The external refer to type of industry, legislation, financial and accounting system, develop of capital market, stakeholders, political view and from the aspects of transitional countries, some social heritage from the past period. The internal refer to organisation managing issues, type of boards- two ore one tiers, structure of boards, their knowledge, adopted rules, and from perspective of transition country and enterprise performance they are many privatisation's omissions which has influence on behaviour of directors, independence of Managerial and Supervisory Board, etc. Analyses done by Dalton and Daily (1999) conclude that there is no clear evidence of a substantive relationship between board composition and financial performance, irrespective of the type of performance indicators, the size of the firm or the manner in which board structure is measured. Performance measurement is linked with corporate governance and is the product of a given society, as Pesqueux (2004) says it is a "production of a social game which has to be understood". Performance measurement and evaluation systems are being changed parallel simultaneously with contemporary developments of market economy. In such circumstances faced with the principles of new social era of capitalism emerging countries have to adjust their attitude and behaviour.

3. Methodology and objectives

The aim of the research was to investigate the awareness of importance of corporate governance principles and the way they could affect enterprises performance. In order to meet that, descriptive analysis and statistics were applied. To conduct the survey two kinds of sources were collected. First source was data from official published information for companies listed on Stock Exchange, which are committed to send quarterly and annually financial statements report to Croatian Security Exchange Commission. Sample represents 50 per cent of total number of listed joint stock companies in Croatia from the period of 1999 to 2004. They are

mostly large companies with majority ownership (over 51 per cent) and some of them are with mixed ownership (no one more than 50 per cent). The second source was a questionnaire with 30 questions needed for additional data concerning implementation of some corporate indicators and performance measurement. The answers to questionnaire have been statistically elaborated according to 25 enterprises that responded.

For analysing governance contribution to enterprises performance three main variables with appropriate indicators are used:

- 1) *environment of emerging economy* (privatisation process and law requirements, social, political and economic development;
- 2) *board attributes* (board size and structure, composition of the board, board role etc.)
- 3) *disclose level* (financial information, remuneration, code of ethics)

Some of indicators are compared with European countries that are developing corporate governance from year to year. Period from 1999 to 2004 is used for some financial indicators computed from Croatian stock market data-base (ROA, ROE) and confirmation of corporate governance impact to financial aspects of performance.

The aim of the research was to explore situation in Croatia concerning corporate governance, analyse the development degree and create some conclusions about impact of corporate governance on enterprises performance. Hence, the main hypothesis is place as follow:

Ho: Implementation of corporate governance in emerging countries could have an impact on the increase of accountability and transparency and in whole improve better enterprise performing.

After 15 years from privatisation it is to be expected that the most of enterprises is adjusted with some market principles in economy and that private ownership will improve enterprises performance. Although, there is no clear evidence of significant effect of privatisation on performance, it is fairly true that privatisation tend to improve performance (Shirley and Walsh, 2000) and is strongly associated with more enterprise restructuring (Djankov and Murrel, 2000). Furthermore, the differences in privatisation process resulted in different mixed owners across countries in transition. Djankov and Murrel (2000) suggest that differences between owners are of great economic importance. They grouped owners in three categories: traditional state ownership and diffuse individual owner which has no significant effects, then insiders, outsiders, workers, banks and commercialised state ownership, and third group managers, individual ownership, investment funds and foreigners who are the most effective group. This third group with majority of ownership are used in sample regarding their presents in market and their commitment to implement corporate governance principles.

4. Survey results

4. 1. Corporate Governance environment in Croatia

After privatisation process started in 1991, interest in corporate governance has been raising parallel to the growth in private sector. Improvement in corporate governance is seen through better access to capital, promoting efficient performance and development, transparency compared to European requirements and rules and

accountability. In consideration to corporate governance there is also some important issues to be mentioned, primarily related to the history of social ownership and all aspects of adjustments in transition period. Privatisation process was undergone according to the model, which was severely criticized in public and because of that partly caused inefficient industry sector. The weak side of privatisation model was that some enterprises are privatised without inflow of new capital and ex managers begun new owners without investing their own money. A consequence was inadequate composition of boards and in many cases performance was unproductive and inefficient. In Croatia managing of enterprises is regulated by Company Act following German law, while the Securities Law are regulated mostly against Anglo-American securities market legislation. Now, Croatia is in the process of reviewing all legislatives according Directives of the European Union.

Croatian system of boards is two-tier. Supervisory Board is responsible for monitoring enterprise leadership and thus could investigate all record keeping and documentation, cash etc. regarding business performance. Top Management (called Managerial Board or Board of Directors) are committed to inform Supervisory Board about business policies, profitability, income statement, liquidity etc. at least once a year. Guiding corporate strategy and corporate performance including interests of stakeholders is not the function of Supervisory Board. The emphasis is on monitoring performance through financial data and that is the main difference between Board of Directors and Supervisory Board. Supervisory Board members chosen by the owner have in many cases only formal role of monitoring and their influence on enterprise performance is disputable. In the case of mixed ownership or small shareholder ownership, members of Supervisory Board are chosen at the basis of skill and they are more accountable for efficiency performance of enterprise (Vitezić, 2003). In public enterprises Supervisory Board is selected upon party representation. Managerial Board main role is responsibility for running business affairs, i.e. business politics, profitable performance and others affairs. It consists of several members and one of them is chairman, usually owner. They are confirmed by Supervisory Board and could be hired or fired by them. But the role of Managerial Board is stronger especially in the cases where the Supervisory Board is only a formal body and has not much influence to the enterprises decision- making process (stated owned enterprises). Comparing to the recent literature on the subject (Nadler, 2004) there are different types of boards: passive, certifying, engaged, intervening and operating. Operating makes key decisions that other directors and managers then implements, and this kind of board is the most similar to the one exist in Croatia. They are responsible for business policies of the enterprise and in the case include the one main owner if he is the only one. The tendency should be on high performance board, which will be competent, coordinated, collegial and focused on an unambiguous goal.

With changing from social to market oriented economy many believed that these changes would help enterprises to gain competitive advantages and therefore contribute in increasing national efficiency. Privatisation is based on the premise that it will improve enterprises performance and help countries grow. But the effects are different on aggregate or micro level and depend on industry structure. In a cross-country aggregate study, Sachs, Zinnes and Eilat (2000, Vol.III) state that privatisation does not by itself increase GDP growth, but they suggest that a positive effect is present when privatisation is accompanied by in-depth institutional reforms. Applicable to Croatian economy, inflation rate is low and decreasing from 6.2 per cent in 2000 to 2.1 in 2004. and GDP rate vary from 2.9 per cent in 2000. to 5.6 in 2002. decreasing to 3.3 per cent in 2004. It is obvious that institutional reforms but

also more important stabilization, industry restructuring, financial discipline and new investment are prerequisite for increasing of macroeconomic indicators. Additionally, privatisation force enterprises restructuring and therefore is accompanied with changes in management, corporate governance and organisation structure.

4.2. Corporate governance indicators

In this research corporate governance indicators are considered through some attributes of boards, particularly their structure, size, independence, internationalisation, diversity, frequency of meetings and others. Disclosure is investigated through existing information especially about board members, remuneration disclosure and adoption of ethics code. The results are as follows:

Board structure

In Croatia companies have two-tier system (as in Germany, Austria, France, etc. – in fact, only 23 per cent in Europe) comprising a Supervisory board of outside members close to the owners, and a separate Managerial Board of executive directors. The two boards meet separately with strictly defined accountability under the law.

Concerning board internationalisation, in Europe boards are more domestic with only 16 per cent of non-national directors, than the companies themselves. Contrary to the surveyed companies, the percentage of foreign members (one or few) in Supervisory or Managerial board is higher (20.8 per cent) in Croatia.

Average ages of boards are in 68 per cent up to 45 year if the majority ownership is foreign, and in the rest of 31.8 per cent of enterprises are from 25 and 35 years. In domestic enterprises there are 82 per cent of them up to 45. Board member's average age in Europe is 55 years. On average, directors have been 5.6 years on the same board what are little over than in Croatia (around 5 years).

In the European board, the number of women increases from 6 to 7 per cent. In Croatia this percentage is much lower and is less than 1 per cent in Supervisory board. Only in Managerial board, women contribute with over 10 per cent.

Board size

The number of board size could not be considered as a factor, which determines efficient performance or has crucial impact to performance. There are a few reasons for explanation of this statement. First, board size is commonly determined by national law or listing requirements. Second, it is mostly based on the enterprise size and sector and therefore considered "appropriate". Third, the knowledge of each member is very important for the efficiency of board decision-making. The emphasize is on effective board no matter of size, which means that board should be of sufficient size and the balance of skills and experience is up to the requirements of the business. Analysis made by Maier (2005) shows the huge difference in board size in the world. The smallest average size is in New Zealand (7.2) and the largest one in Austria (18.1) and Germany (22.8). The largest range is found in Japan (47) where board size varies between 3 and 50 members.

In Croatia the average board (Supervisory) size is five and in accordance to the law minimum size is 3 and maximum 21 members depending on equity amount. Croatia average is still lower than the minimum size in Germany (8) and Austria (6) who has the same two-tier model. This could be explained by the size of enterprises and structure of owners. In Croatia 95 per cent of total enterprises are small, mostly with no obligations to have supervisory board. Middle sized and large enterprises

contribute with rest five per cent and in majority have one or few owners. In some research made by Čengić (2001) it is confirmed that chair persons of boards (Supervisory and Management) with domestic owners are in the most cases long term employees or managers of these firms from the period before privatisation process started. Additionally, they have essential influence on processes relating to the structure of Supervisory or Managerial board.

Independence of board

Croatian board name Supervisory board is not independent related to the law requirements and German model of two-tire board structure. For example, in research made by Maier (2005), mean percentage independence per board was in Germany the lowest, only 1.5 and the highest in Switzerland 81.3. In the countries that implemented German model, national law require the supervisory board to consist of shareholders', and workers' representatives, which therefore cannot be considered independent.

Considering separation of chairman and CEO, two-tire board structure ensures the separation of roles. With regard that Croatia has the same model of boards, there are chairperson of Supervisory board who is elected from the members of the board. The member of the Supervisory board could not be at the same time a member of Managerial board.

Audit committee

Beginning of the 2001, after starting accounting scandals, the role of audit committee has come under close scrutiny. The audit committee responsibilities are to monitor and review the integrity of enterprise financial statements, its internal financial controls, the external auditor's independence and objectivity and the effectiveness of the audit process as a whole. Hence, the independence of audit committee is very important for its effectiveness. The independence of the audit committee is 64.5 per cent and varies considerably from minimum 4 per cent of companies with a majority independent audit committee in Japan to over 95 per cent in UK, Netherlands, Canada, USA, Ireland and Luxembourg (Maier, 2005). In Croatia according the results of questionnaire, very few companies have audit committee, exactly 20 per cent of them. Their number varies, but in average are 2 members and their independence is somewhere disputable. The survey of Albert-Roulhac and Breen (2005) reveals that committee chairmen are not independent in 52 percent of European companies.

Disclosure

In addition to all information company should include in disclosure, the remuneration policy pay attention to shareholders and others, particularly because of the relation with enterprise performance. Remuneration also should motivate members of boards to run the company successfully, but remuneration level should be determinate with contribution to the efficiency growth. Croatian enterprises mostly (80 per cent of them) not disclose information on the remuneration of Supervisory or Managerial board members. This is regarded as good practice and from the survey of 24 countries in the world (Maier, 2005), the average of disclose is 84 per cent.

Comparing the frequency of board meetings with remuneration, the average compensation per board meeting in Europe is 7,301 EURO per 2005. (Albert-Roulhac, and Breen, 2005). In Croatia Company Law defines frequency of board meetings. Supervisory board is committed to have quarterly meetings or at least semi-

yearly. The average meetings as result from questionnaire are 6. (5.8 times). The average in Europe countries who has two-tier board are 6.7 meetings and is notable that unitary board has more frequent meetings (9.3) comparing with two-tire, but also is evident continues slight increase. (Albert-Roulhac, and Breen, 2005)

When looking for good governance practice, the implementation of code of ethics is highly supported. In recent years a number governmental and private initiatives have focused on the need to reduce corruption, bribery, fraud etc. and urged a need to improve standards of corporate governance ethics, transparency and integrity. In Europe in average 73 per cent of companies have a meaningful code of ethics, and Croatian enterprises are not much below that (70 per cent). However, existing code of ethics if not strictly implement could not protect against all illegal doings.

Table1: Corporate governance indicators in Croatia and Europe

<i>Indicator(Attributes)</i>	<i>Croatia</i>	<i>Europe (average)</i>
<i>I Board structure</i>		
1. two-tier	100%	23%
2. unitary system, two boards (executive and non-executive)	-	77%
3. board committees	- audit committee - 20% of companies	- audit committee- 94% of companies - remuneration committee- 94 % of companies - nomination committee- 71% of companies - committees of ethics- 22% of companies
4. frequency of board meetings	5.8 per annum	8.7 per annum
<i>II Composition of boards</i>		
1. number of members	5	12.5
2. internationalisation	20%	16%
3. diversity	5 % women	7.3% women
4. ages	up to 45 year	55 year
<i>III Disclosure</i>		
1. remuneration disclose	20%	94%
2. code of ethics	70%	73%

Source: Compiled from survey for Croatia; EIRIS data (Maier,2005); Albert-Roulhac, and Breen (2005)

The results of the survey show that only three quarters of the investigated Croatian enterprises know about corporate governance indicators, but also 33 per cent of enterprises, which are on the stock market have Code of corporate governance. Recent changes in the Company Law commit Managerial and Supervisory board to give each year a statement of corporate code conduct. When some regulatory body compose a context of Code, it is to be expected higher percentage of enterprises to

implement it. Today this is only up to each enterprise and its need and knowledge of corporate governance indicators for performance efficiency growth. The most of companies (73 per cent) maintain corporate governance principles and give them very big importance especially for partner creditworthiness assessment or itself evaluation.

4.3. Corporate governance impact to enterprises performance

The above-mentioned board attributes provide information that may have influence on enterprise performance, but it is difficult to obtain its quantitative confirmation. Beside that one, they are many others variables internal and external, which have impact on governance and enterprise performance. Considering environment there are different stakeholders' interests, legal and social requirements, industry structure, economy growth, globalisation need, politics and others, where each of them have some dimension in assessment of enterprise performance. Regardless of that, there is no doubt that corporate governance principles have positive impact on performance. Enterprises that have developed codes (codes of conduct and codes of ethics) and disclose information about governance together with information about operation and financial results in annual report have much higher credibility and validity. Particularly, in meeting stakeholders' expectation corporate governance and ethics have become important issues for listed companies.

From the survey based on sample of 25 enterprises, 70 per cent have code of ethics, but only 33 per cent code of corporate governance, which they have individually established. All of them who adopted governance code, considered that adoption of corporate governance contribute in decrease of costs and have influence on increase of efficiency. They have all been profitable longer than 5 years. On the same time they have develop measurement system especially financial reporting and disclose in their reports corporate governance indicators. Accountability of board members in context of corporate governance is estimated very high. Implementation of corporate governance principles increases their creditworthiness and has positive impact on partners and other stakeholders' assessment of performance.

Answers on the questions concerning impact of corporate governance (CG) to performance are estimated and results are the following:

Table 2: Qualitative assessment of corporate governance impact on performance

Attributes	Average (%)
1. Adoption of CG	33%
2. CG contribute to increasing costs and efficiency growth	75%
3. Performing with income	75%
4. Profit longer than 5 years	40%
5. Performing with loss	25%
6. Accountability of board members	43% very good 43% good 14% weak
7. Impact of CG on financial reporting	47% very good 47% good 6% weak
8. Reporting of environment	67% yes 33% no
9. Impact of CG on creditworthiness	47% very high

	33% high 20% low
10. Importance of the partner CG	46% very high 27% high 27% low

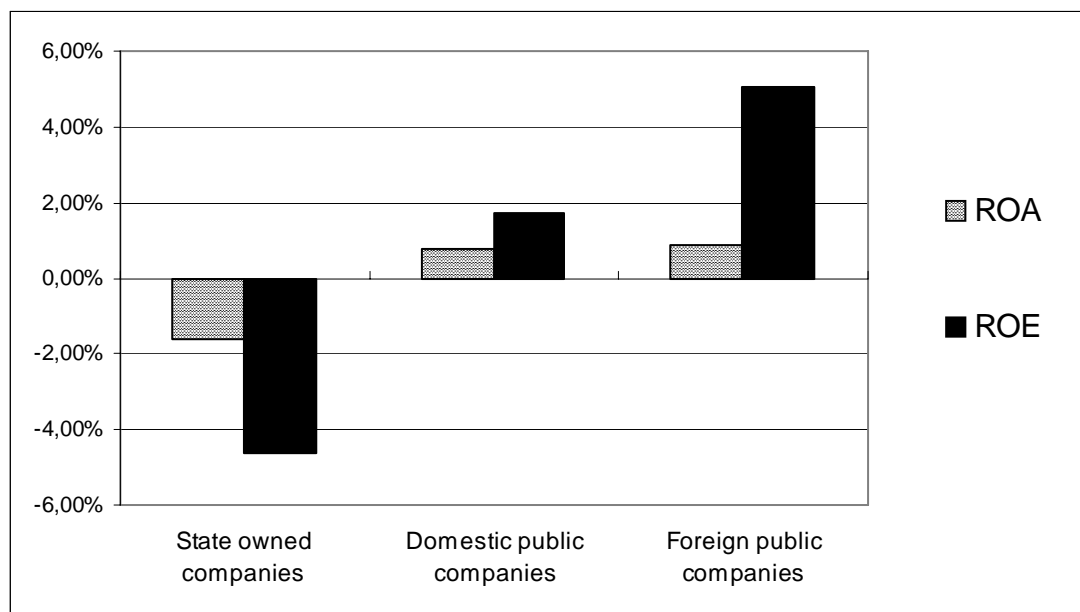
Source: Survey for Croatia

All of them have developed performance measurement on the level adjustable mostly for financial reporting. Financial, mostly accounting measures are still widely used to assess performance of enterprises, confirmed also in the previous survey (Vitezić, 2004). Accounting measures are focused on results, thus allowing measurement of crucial enterprises objectives e.g. profitability and long-term financial strength. At the same time this enables management to assess and control complex organization activities. Of course, measures and measurement system must reflect the context to which they are applied, but also have to be changed according to environment circumstances. In Croatia there are evident some progress in using performance measures, which are to be dynamic to reflect changes in internal and external environment and changes in priorities and objectives. Especially, because some priorities emphasized in privatisation are different than in self-managing social system.

When choosing measures the focus must be on things that are really important, i.e. shareholders interest that depends on enterprise vision, mission and strategy and they are under control of owners. Hence, the most used indicators are ones, which explain profitability, liquidity and leverage, like ROA, ROE, EBIT, EBITDA, current and quick ratio, debt ratio and others. Beside financial indicators, other operative and qualitative indicators are starting to be used more especially in large enterprises. The heterogeneity and complexity of the real world demand some non-financial and intangible metrics. In the so-called knowledge economy entrepreneurs, owners, managers, and other stakeholders should be aware of the importance of their own knowledge as well of the knowledge of their business partners and of other stakeholders. Kaplan and Norton (1992) emphasized that “financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, employees, processes, technology and innovation.” The composition of the board and their size are important for the enterprise financial performance. Daily and Dalton (1993) found a significant relationship between three aspects of boards of directors (number and proportion of outside non-management directors and board size) and three indicators of financial performance (ROE, ROA, price-earning ratio P/E). Thus, one of the interesting points in the survey was to investigate financial effects through some indicators (ROA, ROE) in consideration of ownership and management.

Based on sample of 125 enterprises, which are listed on market, 35 per cent of them have profitable business performance in last five years (from 1999 to 2004). From that number 80 per cent are domestic, 14 per cent foreign owner and 5 per cent state ownership. Return on assets and return on equity are higher then in enterprises where is domestic owner. Average ROA is higher on foreign ownership (0.87 per cent) then domestic (0.77 per cent) and the same tendency has average ROE (5.06 per cent on foreign and 1.72 per cent on domestic ownership). Almost three times higher ROE on foreign companies could be explained by relatively low invested equity. In many cases (63 per cent) enterprises started to perform positive (with income) after acquisition and 50 per cent of them are acquired by foreign owner.

Figure 1 – ROA and ROE in period 1999 – 2004 (average)



Source: Computed from Security exchange commission data-base in period 1999 to 2004

This research based on case of emerging economy confirms that there is no significantly different conclusion about corporate governance contribution to enterprise performance as researchers suggested in previous surveys. (Zahra and Pearce, 1989; Massen 1999; Kakabadse and Kakabadse, 2001). There is no universal association between board attributes, board roles and enterprise performance because of a number of shortcomings and different interpretations of some board attributes and roles in consideration of national legislative and other environment circumstances. On Croatian example is also confirmed and over-focus on the financial dimensions of enterprise performance with lower attention to operational and social dimension of performing. Moreover, a summary of framework used in this research with limitation of some attributes, which could not be investigated, confirm that there are not much difference between European average and Croatian boards attributes. It is also confirmed that some impact of corporate governance on performance is evident through better financial indicators, but there is still low possibility to identify quantitative contributions of other contextual variables, such social, cultural, political and economic structures of emerging country which without no doubts have an impact to enterprises performance.

Conclusion

Corporate governance plays a key role in a recent time and is a subject of a number of many research because of duty which enterprises have to carry to their stakeholders. The OECD document highlights the increased importance governance issues have attained around the world. The renewed focus on governance and recent

OECD principles (2004) represent a new challenge to policymakers and business leaders in emerging markets and transition economies. Hence, this paper provides an analytical view for understanding how corporate governance is implemented and how can corporate performance affect economic growth in transition country. It is to be mentioned that globalisation of financial markets has brought some contribution to balancing of requirements that market impose, and therefore diminish differences in view of governance implementation which exist among advanced and emerging market economies. Nevertheless, sociological and cultural differences in emerging economies, in addition to many others (economy development, knowledge) are still limiting factors in comprehensive approach, especially when compared to developed economies.

From the case of Croatia it could be concluded that in the last 15 years of privatisation, some positive changes have been evident in managing enterprises. Based on research it could be suggested that enterprises, which have implemented corporate governance principles have successful performance. It is hard to measure the extent to which board and other corporate indicators contribute in performance of each enterprise. In addition, quantitative impacts of some other variables to be considered are significant. Through financial indicators, which show increasing tendency in enterprises which implement governance principles is confirmed a positive impact of corporate governance to enterprises performance. Thus, could be concluded that corporate governance has, at least, the same indirect effect on enterprises' performance in emerging country as in the others.

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