

Do Specific Corporate Governance Attributes Contribute to the Quality of Financial Reporting? Evidence from Romania

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Abstract—The academic arena proves that one of the most important functions that corporate governance can attain is assuring the quality of the financial reporting process. This research aims to investigate the correlation between specific corporate governance attributes and the quality of financial reporting process across the Romanian entities listed on the Bucharest Stock Exchange. The sample consists of 50 non-financial companies analyzed through a period of three years: 2011, 2012 and 2013. In order to measure the quality of financial reporting, two accrual models were implemented, namely Dechow *et al.* (1995) model and Kothari *et al.* (2005) model. The main finding of this study reveals that in the case of Romanian listed entities, the Board independence (BI) makes its unique contribution in influencing the quality of the financial reporting process. In terms of control variables, the firm size has an important influence in shaping the financial reporting quality.

Index Terms—Corporate governance, financial reporting, accruals, Romania.

I. INTRODUCTION

The main objective of financial reporting is to provide high quality information through the financial reporting process in which concerns economic entities, information which finds its utility in underlying economic decisions [1]. Moreover, one of the most important functions of corporate governance is to ensure the quality of the financial reporting process [2]. Thus, the prior studies provide evidence of divergent findings in terms of correlation between the quality of financial reporting and specific corporate governance attributes.

Although both FASB (Financial Accounting Standard Board) and IASB (International Accounting Standard Board) highlight the importance of high quality financial reports, one of the core-issue persistent in previous accounting literature is represented by the manner of operating and evaluating this quality. Due to its contextual specific, an empirical evaluation of the quality of financial reporting is implacably influenced by a series of preferences among a wide range of constituents [3]-[6].

At the level of accounting literature, a series of factors that

influence the quality of financial reporting were dignified. Among those, the most frequent ones are governance, accounting profession, economic factors, international influences and culture [7]-[15].

Corporate governance is perceived as an important constituent of firms' healthiness, especially in emerging economies, due to the fact that these countries do not have an institutional infrastructure established for a long period of time. Since this research has been conducted in an emerging economy, namely Romania, a brief introduction into the Romanian's Corporate Governance Code is introduced in the following paragraph.

The Bucharest Stock Exchange Code of Corporate Governance was implemented in order to subscribe to the international guidelines of good practices and it addresses a series of particular features related to corporate governance, such as corporate governance structures, shareholders' rights, the Board composition, transparency, financial reporting, internal control and risk management. Although the Code embraces a wide area of corporate governance aspects, its adoption by the listed companies is made on a voluntary basis, fact that leads to the assertion that the corporate governance rules elaborated by the Bucharest Stock Exchange are neither legally binding, nor mandatory.

In Romania, one of the emerging economies across the European Union, the adoption of the International Financial Reporting Standards (IFRS) represents quite a novelty process in comparison with the other member states. Namely, prior becoming a member of the European Union in 2008, Romania started its demarche into the adoption of IFRS.

The first step into IFRS convergence was represented by the regulations applied to the companies traded on a financial regulated market which stipulated that from 2007, entities preparing consolidated financial statements and listed on the Bucharest Stock Exchange have to prepare their financial statements in accordance with IFRS. Recently, by issuing the law OMFP 881/2012, the Romanian regulator enlarged the area of IFRS application in Romania. Under this light, companies which are traded on a regulated market are obliged to prepare their individual financial statements in accordance with IFRS starting with their 2012 financial exercise.

The present research aims to investigate the correlation between specific corporate governance attributes and the quality of financial reporting process across the Romanian entities listed on the Bucharest Stock Exchange. This paper is organized as it follows: Section II provides a brief presentation of the existing literature that captures the aim of this study, Section III is dedicated to the presentation of

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research's methodology, while Section IV, Section V and Section VI present the findings, interpretation of the regression output, introducing as well the limitations of this research and the drawing of the relevant conclusions.

II. LITERATURE REVIEW

Although the academic literature that captures the influence of corporate governance mechanisms on the quality of financial reporting has developed on an extensive manner, the empirical output of these undertaken researches is mixed. For example, studies that examine the Board's characteristics upon financial reporting present divergent results. Some of these researches reveal that a Board composed of more independent members is associated with a higher quality of financial reporting [16], [17], other studies indicate on a lower manner the fact that the Board's independence has a significant impact on the quality of financial reporting [18], [19].

Another stream in the literature is associated with the investigation of the manner in which the manager's remuneration influences financial reporting. As well as in the case of the Board independence, the results are miscellaneous. On the one hand, some studies dignified a negative association between manager's capital incentives and the quality of financial reporting [20]-[22]; on the other hand, other researches revealed no association at all between these two aspects [23], [24], while other studies indicate a positive association [25], [19].

The first empirical evidence to support the association between the quality of financial reporting and corporate governance is attributed to Wright [25]. This study indicates a significant correlation between two aspects of financial reporting's quality and the Board composition, in particular the directors serving the audit committee. The results emphasise that two features of the audit committee's members, namely composition and the features of shares possessed by audit committee's members are the dominant characteristics of corporate governance useful in explaining the cross-sectional differences related to the quality of financial reporting.

Moreover, a wide stream of literature focused on the audit committees' independence, mainly centred on the association between audit committees' independence and the improved efficiency of the financial reporting process. Predominantly, these researches revealed that a higher independence of audit committees is positively associated with an improved monitoring of the process of financial reporting [16], [26]-[30].

A wide area of researches has been conducted on the association between countries, industry and the quality of financial reporting [31]-[34]. Still, reference [18] indicated in his research that the towering characteristics of corporate governance tenable in explaining the sectional differences at the level of financial reporting quality are represented by the composition and the features of audit committee's possession of shares in that particular entity.

Reference [35] documents the presence of an association between the credibility of the financial reporting system and

the quality of the corporate governance mechanism. In accordance, companies characterized by a reduced number of directors and a higher percentage of external directors (outside directors) show a decreased predilection for fraudulent managerial behaviour.

However, it is not possible for the Board to be entirely composed of independent members, reason why [36] stated that the relation between the level of Board independence and the quality of financial information should not be a linear function, but a concave nonlinear function.

When taking into account the manner of operating the quality of financial reporting, it can be noticed at the academic arena the major preference for employing the discretionary accounting accruals (accrual models) as a substitute for the quality of financial reporting. According to this approach, a higher level of discretionary accruals signals a higher distance between economic performance and the results presented in financial reports. Hence, the higher the accounting manipulation is, the lower the level of financial information quality is.

The recent review of accounting literature [19] concludes that the existing literature provided feeble evidence on the causal relation between corporate governance and the quality of financial reporting, reason why it becomes absolutely necessary to adopt an approach which is properly underlined on the endogenous issue and which is able to provide a clear evidence of causality.

Since the causality between financial reporting quality and corporate governance attributes underlines on the endogenous shelter of the reporting entity, the following sections of this research aim to provide an answer to the research's question, namely whether specific corporate governance attributes contribute to the quality of financial reporting exposed by Romanian entities listed on the Bucharest Stock Exchange.

III. RESEARCH DESIGN

This section introduces the research's hypothesis, the selection criterion adopted in the sampling process, as well as the logistic regression model which aims to assess the correlation between the quality of financial reporting at the level of Romanian listed entities and specific corporate governance attributes.

IV. HYPOTHESES DEVELOPMENT

The aim of this research is to investigate the correlation between specific corporate governance attributes and the quality of financial reporting process across the Romanian entities listed on the Bucharest Stock Exchange. The sample consists of 50 non-financial companies analyzed through a period of three years: 2011, 2012 and 2013. These years were chosen due to the fact that the year 2012 represents the year in which the Romanian listed entities had to prepare their individual financial statements in accordance with IFRS, on the one hand, and the years 2011 and 2013 represent the period prior and post IFRS adoption, on the other hand. Taking the major objective of this study into account, the

following research hypotheses were settled:

- Hypothesis 1: There is a significant association between board size and financial reporting quality.
- Hypothesis 2: There is a significant relation between board independence and the quality of financial reporting process.
- Hypothesis 3: There is a significant association between CEO duality and financial reporting quality.
- Hypothesis 4: There is a significant association between institutional ownership and financial reporting quality.
- Hypothesis 5: There is a significant relation between managerial ownership and the quality of financial reporting process.
- Hypothesis 6: There is a significant correlation between external audit firm and financial reporting quality.
- Hypothesis 7: There is a significant relation between the existence of an audit committee and the quality of financial reporting process.

V. SAMPLE SELECTION

This research aims to provide an investigation of financial reporting quality at the level of entities listed on the Bucharest Stock Exchange, prior and post the adoption of the International Financial Reporting Standards for the individual financial statements. The year 2012 represents the year in which Romanian entities listed on the regulated market had to prepare their individual financial statements in accordance with the International Financial Reporting Standards.

Due to the fact that the analysis aims to capture the quality *ante* and *post* the adoption of IFRS for individual financial statements, this analysis is conducted on a three-year period of time, namely between 2011 and 2013. The year 2011 has been chosen as the year prior to the one in which entities had to prepare their individual financial statements in accordance to IFRS, and the year 2013 represents the second year of reporting accordingly IFRS requirements.

The sample consists of companies listed on the Bucharest Stock Exchange, the primary market, compiling both tier I and tier II, which publish their individual financial statements in accordance to IFRS. Thus, a few restrictions are required for this study, as it follows:

- Companies present their financial statements for the year 2012 according to the International Financial Reporting Standards – IFRS 1;
- Companies operating in the financial sector (both banks and insurance companies) were eliminated from the study, due to homogeneity considerations - these financial institutions have specific reporting regulations considering their activity, on the one hand, and they present higher assets, fact which would alter the research results` significance, on the other hand);
- Companies have to be listed on the Bucharest Stock Exchange in all the three analyzed years, namely 2011, 2012 and 2013.

After implementing the above-mentioned restrictions, the final sample consists of 50 companies listed on the Bucharest Stock Exchange. In order to collect the data for this research, the annual reports of the companies were consulted, as well as official publication from the Bucharest Stock Exchange and

entities` sites. Table I presented below captures the sample industrial structure:

TABLE I: SAMPLE INDUSTRIAL STRUCTURE

Industry*	Number of entities	Percentage	Exchange Segment
Mining and quarrying	2	4%	Bucharest Stock Exchange
Manufacturing	32	64%	
Electricity, gas, steam and air conditioning supply	1	2%	
Construction	3	6%	Primary Market
Wholesale and retail trade; repair of motor vehicles and motorcycles	4	8%	
Transportation and storage	4	8%	Companies listed in each of the three years: 2011, 2012 and 2013
Accommodation and food service activities	4	8%	
TOTAL entities	50	100%	

* Nomenclature of economic activities - NACE codes revised.

VI. THE LOGISTIC REGRESSION MODEL

The following regression model was used in order to test whether there is an association between the quality of financial reporting and corporate governance attributes in case of Romanian listed companies. The dependent variable of the following regression is represented by the quality of the financial reporting (noted Q_{fin}), which is described later in this section.

$$Q_{fin} = \beta_0 + \beta_1 BS_{it} + \beta_2 BIND_{it} + \beta_3 CD_{it} + \beta_4 IO_{it} + \beta_5 MO_{it} + \beta_6 EA_{it} + \beta_7 AC_{it} + \beta_8 \sum \text{CONTROLS}_{it} + \beta_i$$

The independent variables are represented by) Board Size (BS), Board Independence (BIND), CEO duality (CD), Institutional Ownership (IO), Managerial Ownership (MO), External Auditor (EA) and Audit Committee Existence (AC), while firm size (SIZE), business complexity (CM), financial leverage (LEV) and industry (IND) are designed as controls. These variables are described as it follows:

- BS = number of Board members of firm i in year t ;
- BIND = the composition of non-executives in the Board of Directors in form of percentage;
- CD was dichotomous and operated as 1 if the position of Chairman and Chief Executive Officer was occupied by the same person and 0 otherwise;
- IO was measured through the percentage of shares owned by institutions in relation to the company's issued capital, namely the total shares of firm i in year t belonged to banks, insurances, financial institutions, holding companies and governmental institutions;
- MO was computed as the number of shares owned by managers in relation to the company's issued capital;
- EA was dichotomous in nature and the size of audit firm (Big Four or non-Big Four) was used as a proxy for audit quality. Further, this variable equals 1 if the external auditor is Big four and 0 otherwise;

- AC was defined as a dummy variable: it equals 1 if the company has an audit committee, otherwise it equals 0;
- CONTROLS = Control variables, specifically:
 - 1) Firms size (SIZE): natural logarithm of firm i in year t ;
 - 2) Business complexity (CM) was defined by dividing the sum of total accounts receivable and inventories to total assets;
 - 3) Financial leverage (LEV) was measured as the ratio of debt to total assets;
 - 4) Industry (IND) represents the industry in which the company operates;
- β_i : error term.

In order to assess the quality of financial reporting, two accrual models were adopted, namely Dechow *et al.* (1995) model and Kothari *et al.* (2005) model.

The first model - The Modified Jones Model (Dechow *et al.*, 1995) represents the accrual model used in order to measure the quality of financial reporting. Thus, discretionary accruals represent the difference between total accruals and non-discretionary accruals; total accruals are determined as difference between operating income and cash flows from operations. In the Jones' modified model, non-discretionary accruals are the predicted (or expected) portion of total accruals.

The Modified Jones Model (Dechow *et al.*, 1995) is presented below:

$$\frac{TA_t}{A_{t-1}} = a_1 \frac{1}{A_{t-1}} + a_2 \frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} + a_3 \frac{PPE_t}{A_{t-1}} + \varepsilon_t$$

where

- TA = total accruals (Net Income-Cash flow from operations);
- A = total assets;
- ΔREV = changes in revenue;
- ΔREC = changes in net receivables;
- PPE = gross property, plant and equipment;
- t represents the year;
- ε : unexpected portion of total accruals for sample firm i for year t .
- The discretionary accruals are represented by the residuals ε from this equation.

The dependent variable of the regression model - represented by the quality of financial reporting (Qfin) - is measured through the residuals of the modified Jones model suggested by Dechow *et al.* (1995). Accruals quality is measured as the standard deviation of a firm's residuals. A higher magnitude of cross-sectional *absolute discretionary accruals* indicates a greater level of earnings management, or *lower accounting quality*. A larger standard deviation of the firm's residuals indicates poorer accruals quality, or lower accounting quality.

The second accrual model used in order to generate the discretionary accruals, suggested by Kothari *et al.* (2005) is presented below:

$$ACCR_{i,t} = \beta_1 + \beta_2 \Delta REV_{i,t} + \beta_3 GPPE_{i,t} + \beta_4$$

$ROA_{i,t} + \varepsilon_{i,t}$, all the variables are divided by $TA_{i,t-1}$,

where

- $ACCR$: total accruals for sample firm i for year t (Net Income-Cash flow from operations);
- TA : total assets for sample firm i for year $t-1$;
- ΔREV : changes in net revenues for sample firm i for year t ;
- $GPPE$: gross property, plant and equipment for sample firm i for year t ;
- ROA : return on assets for sample firm i for year t , determined by dividing the company's annual earnings (net income) by its total assets;
- ε : unexpected portion of total accruals for sample firm i for year t .
- The discretionary accruals are represented by the residuals ε , i , t from this equation.

VII. RESULTS

A. Descriptive Statistics

In order to measure the quality of financial reporting, two accrual models were implemented, namely Dechow *et al.* (1995) model and Kothari *et al.* (2005) model. In both models, accruals quality is measured as the standard deviation of a firm's residuals. Kothari *et al.* (2005) model was implemented in order to check the robustness of the results.

When analyzing the data exposed in Table II presented below, it can be noticed, that, on average, the discretionary accruals are negative, estimated at $-7.8E-18$ when using Dechow *et al.* Model (1995). When analyzing the standard deviation corresponding to this model utilized in order to assess the financial reporting quality, it appears that, due to the fact that the standard deviation is smaller in the Dechow Model (0.315), this model reflects a higher accounting quality, accordingly, capturing an improved quality of the financial reporting process.

TABLE II: VARIABLES' DESCRIPTIVE STATISTICS

Variables	Mean	Median	St.Dev	Min	Max
Qfin (Dechow <i>et al.</i> Model, 1995)	-7.8E-18	-0.022	0.315	-0.597	2.261
BS	4.76	5	1.7	1	9
BIND	0.63	0.66	0.14	0.22	0.85
CD	0.4	0	0.49	0	1
IO	0.58	0.63	0.26	0	0.97
MO	0.11	0	0.21	0	0.76
EA	0.33	0	0.47	0	1
AC	0.47	0	0.5	0	1
SIZE	19.11	19.01	1.54	16.3	24.38
CM	0.33	0.31	0.21	0.01	0.85
LEV	0.23	0.17	0.2	0	1.03

When analyzing the descriptive statistics corresponding to the independent variables of the logistic model (see Table II above), the results indicate that, at the level of Romanian listed entities, the Board is composed, on average, of 5 members (4.76 as it can be noticed in Table II), with 63% independent members. Moreover, 40% of the analyzed entities are characterized by the fact that the position of Chairman and Chief Executive Officer is occupied by the

same person.

Another relevant aspect exposed in Table II presented above refers to the fact that, on average, 58% of the entities are owned by institutional shareholders. Thus, on average, only 11% of entities are characterized by a managerial ownership.

However, only 47% of the Romanian listed entities have established an audit committee, while only 33% of the studied

companies are audited by an external audit firm.

B. Variable Correlation

Fig. 1 presents the correlation between the variables used in the regression model which aimed to capture the correlation between the financial reporting quality and specific corporate governance attributes.

	<i>Qfin - DECHOW et al. (1995)</i>	<i>BS</i>	<i>BI</i>	<i>CD</i>	<i>IO</i>	<i>MO</i>	<i>AC</i>	<i>EA</i>	<i>SIZE</i>	<i>CM</i>	<i>LEV</i>
<i>Qfin - DECHOW et al. (1995)</i>	1										
<i>BS</i>	-0.07	1									
<i>BI</i>	-0.04	-0.01	1								
<i>CD</i>	-0.01	0.30	-0.07	1							
<i>IO</i>	-0.12	0.07	-0.04	-0.17	1						
<i>MO</i>	0.10	-0.08	0.12	-0.03	-0.70	1					
<i>AC</i>	-0.16	0.14	-0.06	-0.04	0.34	-0.21	1				
<i>EA</i>	-0.19	0.23	-0.16	-0.13	0.18	-0.12	0.25	1			
<i>SIZE</i>	-0.31	0.33	-0.21	0.04	0.25	-0.21	0.40	0.52	1		
<i>CM</i>	0.09	-0.13	0.17	0.00	-0.26	0.17	0.09	-0.19	-0.27	1	
<i>LEV</i>	-0.06	-0.06	0.09	0.01	-0.29	0.11	0.03	0.02	0.04	0.57	1

Fig. 1. Pearson correlation matrix (2011-2013).

	<i>Qfin - Dechow et al. (1995)</i>	<i>BS</i>	<i>BI</i>	<i>CD</i>	<i>IO</i>	<i>MO</i>	<i>AC</i>	<i>EA</i>	<i>SIZE</i>	<i>CM</i>	<i>LE</i>
<i>Qfin - Dechow et al. (1995)</i>	1										
<i>BS</i>	0.24	1									
<i>BI</i>	-0.32	-0.02	1								
<i>CD</i>	0.23	0.41	-0.06	1							
<i>IO</i>	0.05	0.04	-0.03	-0.16	1						
<i>MO</i>	-0.04	-0.10	0.08	0.01	-0.72	1					
<i>AC</i>	0.06	0.12	-0.01	-0.01	0.29	-0.17	1				
<i>EA</i>	-0.02	0.24	-0.10	-0.04	0.18	-0.14	0.24	1			
<i>SIZE</i>	0.32	0.31	-0.21	0.03	0.23	-0.19	0.36	0.51	1		
<i>CM</i>	-0.06	-0.08	0.18	0.04	-0.26	0.18	0.06	-0.20	-0.28	1	
<i>LE</i>	0.01	-0.07	0.12	0.02	-0.32	0.07	-0.05	-0.03	-0.02	0.59	1

Fig. 2. Pearson correlation matrix (year 2012).

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	10	1.832644637	0.183264464	1.953623403	0.042926521
Residual	139	13.03923797	0.093807467		
Total	149	14.8718826			

Fig. 3. Anova results regression 2011-2013.

According to the results presented in Fig. 1 (exposed above), there is a strong correlation between *EA* and *SIZE* (0.52), as well as between *LEV* and *CM* (0.57). There is a medium correlation between *IO* and *AC* of 0.34, and between firm *SIZE* and *BS* of 0.33, on the one hand, and *AC* of 0.40, on the other hand. However, the correlation between *Qfin* and Board independence is negative (-0.04), signalling that entities having independent members in their Boards present negative discretionary accruals; still, entities characterized by a managerial ownership present positive discretionary accruals, the correlation between *Qfin* and *MO* being of 0.10.

However, the correlations between *Qfin* and the other specific corporate governance characteristics are small, the highest correlation being between *Qfin* and firm *SIZE* of -0.31 according to the first model (Dechow *et al.* Model) and of -0.24 according to the second model (Kothari *et al.* Model). Thus, none of the six research hypotheses are being validated at this stage of analysis.

Still, when analyzing the dataset per each year (see Fig. 2 presented below), the results indicate that there is a medium correlation between the financial reporting quality and Board independence (-0.32 in 2012, the first year of the IFRS

adoption for the individual financial statements).

VIII. REGRESSION OUTPUT

This section introduces the regression output, analyzed through a period of three years (2011, 2012 and 2013). Dechow *et al.* (1995) Model was implemented in order to assess the quality of the financial reporting process in the case of Romanian listed entities.

TABLE III: REGRESSION SUMMARY OUTPUT – DECHOW *ET AL.* (1995) MODEL

	2011	2012	2013
Regression Statistics			
Multiple <i>R</i>	0.72	0.52	0.48
<i>R</i> Square	0.52	0.27	0.23
Adjusted <i>R</i> Square	0.40	0.08	0.04
Standard Error	0.40	0.19	0.07
Observations	50	50	50

According to the results presented in Table III, it appears that the explanatory power of the logistic model is the highest in 2011 (Adjusted *R* Square 0.40), 52% of the variation in the quality of financial reporting being explained by the corporate governance attributes in this year. Still, the explanatory power of the model is not satisfying in 2012 and 2013 (see Adjusted *R* Square in Table III presented above).

As it can be noticed in Table IV presented above, according to the *R* Square coefficient, corresponding to Dechow *et al.* (1995) Model, 12% of the variation of financial reporting quality is explained by the variation of the independent variables, namely the selected corporate governance attributes in the analyzed period 2011-2013. The explanatory power of the logistic model in the three years is small, the corresponding Adjusted *R* Square being 0.06. Thus, the regression results do not present a high statistical relevance.

TABLE IV: REGRESSION SUMMARY OUTPUT 2011-2013 – DECHOW *ET AL.* (1995) MODEL

Regression Statistics	2011-2013
Multiple <i>R</i>	0.35
<i>R</i> Square	0.12
Adjusted <i>R</i> Square	0.06
Standard Error	0.31
Observations	150

Table V presented above captures the regression output for the year 2011 when assessing the financial reporting quality through Dechow *et al.* Model. (1995). The results indicate that the Board independence (BI) makes its unique contribution in influencing the quality of the financial reporting process in the year 2011, validating Hypothesis 2. In terms of control variables, the firm size has an important relevance in shaping the financial reporting quality.

TABLE V: REGRESSION OUTPUT 2011- DECHOW *ET AL.* MODEL (1995)

	Coefficients	t-Stat	p-value
Intercept	4.55	4.44	0.00
BS	0.03	0.71	0.48
BIND	-0.50	-1.10	0.28
CD	-0.15	-1.15	0.26
IO	-0.18	-0.53	0.60
MO	0.09	0.21	0.83
EA	0.00	-0.01	0.99
AC	-0.02	-0.15	0.88
SIZE	-0.22	-4.23	0.00
CM	0.19	0.47	0.64
LEV	-0.17	-0.46	0.65

Fig. 3 presented above captures the ANOVA results for the analyzed period 2011-2013. Since the test statistic ($F=1.95$) is larger than the critical value ($F = 1.83$), it can be stated that there is a statistically significant difference among the population means. The *p* value corresponding to $F = 1.953$ is 0.043, meaning that the test statistics is significant at this level.

TABLE VI: REGRESSION OUTPUT 2011-2013- DECHOW *ET AL.* MODEL (1995)

	Coefficients	t-Stat	p-value
Intercept	1.28	2.86	0.00
BS	0.01	0.74	0.46
BIND	-0.29	-1.47	0.14
CD	-0.03	-0.47	0.64
IO	-0.04	-0.28	0.78
MO	0.03	0.16	0.87
EA	-0.02	-0.37	0.71
AC	-0.03	-0.53	0.60
SIZE	-0.06	-2.58	0.01
CM	0.11	0.66	0.51
LEV	-0.12	-0.75	0.46

The regression output for the period 2011-2013 exposed in Table VI presented above indicates that the variable Board Independence (BI) makes its unique contribution in influencing the quality of the financial reporting process across the Romanian listed companies. Moreover, the control variable, firm size (SIZE) is statistically significant in explaining the financial reporting quality of the companies listed on the Bucharest Stock Exchange in 2011-2013.

IX. LIMITATIONS OF THIS RESEARCH

This research presents a series of drawbacks. First of all, the sample consists only of 50 entities, analyzed through a period of three years 2011, 2012 and 2013, compiling a number of 150 observations.

Second of all, the regression results are not statistical significant, proving that the model does not fit the data, fact that leads to an improvement of the model. Moreover, when assessing the quality of financial reporting, an indirect measure was adopted, namely the accrual model. Still, the robustness of the findings was realized by using two models of accruals which capture the measuring of financial reporting quality.

X. CONCLUSIONS AND FURTHER RESEARCH

The academic arena proves that one of the most important functions that corporate governance can attain is assuring the quality of the financial reporting process. This research aims to investigate the correlation between specific corporate

governance attributes and the quality of financial reporting process across the Romanian entities listed on the Bucharest Stock Exchange.

The sample consists of 50 companies listed on the Bucharest Stock Exchange, the primary market, compiling both tier I and tier II, which publish their individual financial statements in accordance with IFRS starting with 2012. The analyzed period is 2011-2013, fact which leads to a number of 150 observations.

In order to measure the quality of financial reporting, two accrual models were implemented, namely Dechow *et al.* (1995) model and Kothari *et al.* (2005) model. The corporate governance attributes which represent the independent variables of the regression model are represented by Board size, Board independence, CEO duality, institutional ownership, managerial ownership, audit committee existence and external audit firm. The control variables are firm size, business complexity and financial leverage.

After implementing the logistic regression model, the major finding of this research reveals that in the case of Romanian listed entities, the Board independence makes its unique contribution in influencing the quality of the financial reporting process. In terms of control variables, the firm size has an important influence in shaping the financial reporting quality.

As for further research directions, the regression model should be improved in order to better fit the data/ variables, through integrating explanatory variables related to corporate governance mosaic which aim to capture the influence on the financial reporting process.

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