Comply or Explain Principle in the Context of Corporate Governance in Companies Listed at the Warsaw Stock Exchange

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Elżbieta Izabela Szczepankiewicz¹, Joanna Błażyńska², Beata Zaleska³

Abstract:

**Purpose:** The objective of this article is to evaluate to what extent Corporate Governance Statements (CGS) prepared by companies listed on the Warsaw Stock Exchange (GPW) are consistent with Best Practice for GPW Listed Companies.

**Design/Methodology/Approach:** In the first part we applied critical review of subject literature and the monographic method. In the second part, the content analysis method was used, and the basic source material were the CGS for 2018 and 2019. The study group consisted of all WIG20, MWIG40 and sWIG80 companies listed on Warsaw Stock Exchange that submitted their 2018 and 2019 reports (280 reports). The CGS were studied using methods including content analysis, comparative and descriptive analysis, and induction.

**Findings:** The analysed CGS helped to answer the question to what extent GPW listed companies pursue the “comply or explain” principle regarding compliance with corporate governance principles and recommendations specified in Best Practice for GPW. The authors investigated whether and to what extent Best Practice is applied and whether the disclosures are useful for the stakeholders. The results indicate that the examined companies follow different approaches to the corporate governance reporting obligations.

**Practical Implications:** Indicating the gap between the expected and the actual scope of disclosures regarding the corporate governance in CGS, which are the primary source of non-financial information for a listed company.

**Originality/value:** The study leads to a general conclusion that the imperfect scope of the reported corporate governance information, as well as the quality and usefulness of the disclosures, consists both in the alignment between Best Practice for GPW Listed Companies and currently applicable regulations in Poland, and in the way, companies choose to follow the said document. The study fills a research gap in non-financial disclosures in annual reports. The paper also indicates directions for further study.

**Keywords:** Corporate Governance Statements, non-financial information, non-financial reporting, “comply or explain”, Best Practice for GPW Listed Companies.

**JEL classification:** M41, M42, D81.

**Paper Type:** Research article.

¹Prof., Poznań University of Economics and Business, Institute of Accounting and Financial Management, Poland, e-mail: elzbieta.szczepankiewicz@ue.poznan.pl
²Prof., same as in 1, e-mail: joanna.blawynska@ue.poznan.pl;
³Dr. Beata Zaleska, Koszalin University of Technology, Department of Finance, Faculty of Economic Sciences, Koszalin, e-mail: b.zaleska@tlen.pl;
1. Introduction

Corporate governance (CG) is an essential means to increase confidence in the market and in business integrity, which stimulates the growth of the capital market and improves access to equity for long-term investments (ASX, 2007; OECD, 2019). Confidence in the capital market, its stability and improved investor security require both a legal order and professional management of and supervision over listed companies. The status of a listed company has certain consequences. It denotes prestige and ensures publicity for the brand. And above all, it gives better access to equity, which allows for more optimized business risk distribution. The theory and practice of CG focus primarily on how non-financial information can help stakeholders make better business decisions.

Several attempts at codification have been taken as well. Hence, several initiatives in the form of norms, principles, guidelines and standards intended to assist entities in non-financial reporting in general, and CG reporting in particular. The quality of the legal and regulatory framework is an important foundation for the implementation of transparency and social responsibility principles. Such a framework must be consistent with the rule of law in supporting effective supervision and law enforcement in listed companies (OECD, 2019). CG takes the form of 'best practice' in public companies. For a listed company, the application of CG principles is an indispensable element of building its position and maintaining good relations with stakeholders. The objective of CG is to create tools supporting effective management, effective supervision, respect for shareholders’ rights and transparent communication between the company and the market (GPW, 2020). CG is the art of managing and controlling an organization by balancing the needs of different stakeholders (Junej, 2015). Adherence to CG principles has a significant impact on the company's performance and stakeholder relations. It builds trust in the company. In contrast, full or partial disregard for the CG code may be considered by stakeholders as a significant investment risk.

According to Directive 2013/34/EU, “Activity Reports” of listed companies must contain a separate “CG Statement” (CGS), which contains information on a CG code (whether obligatory or voluntary), or other best practice in the area of CG that go beyond national regulations. Moreover, Directive 2013/34/EU introduces the “comply or explain” principle (Pizzi, 2020), which obliges the reporting company to disclose and explain in its CGS to what extent it has departed from certain principles of the code. Firstly, this flexible approach is intended to allow the company to depart from the code if such a departure allows for more effective management and, secondly, it helps adjust CG disclosures to the company's size, shareholding structure and industry (Błażyńska, 2019; 2020). The Warsaw Stock Exchange has prepared its own set of CG principles collected in “Best Practice for GPW Listed Companies 2016” (DPS, 2016), further in this study “Best Practice for GPW”. The document applies to companies traded on the GPW's regulated market. The document contains guidelines for the conduct of listed companies. Their objective is to allow the market to
adequately assess the companies. In their turn, international investors can use them to assess the market.

In the paper, the authors present the results of empirical research aimed at answering the following question: to what extent GPW listed companies pursue the “comply or explain” principle regarding compliance with CG principles and recommendations specified in Best Practice for GPW? The authors set out to determine whether and to what extent Best Practice for GPW is applied and whether the disclosures are useful for the stakeholders. The authors used methods including content analysis, comparative and descriptive analysis, and induction.

The structure of the article is as follows:
- presentation of the concept of CG in the literature and review of selected regulations in this regard,
- determination of the scope of CG reporting based on the recommendations and principles presented in Best Practice for GPW,
- study methodology and identification of detailed research problems in line with the paper’s objective,
- presentation of the results of the study,
- as part of the concluding remarks - several generalized conclusions, study limitations and proposed directions for further study.

The study fills a research gap in non-financial disclosures (including information on adherence to best practice in corporate governance) in annual reports of listed companies.

2. The Concept of Corporate Governance

Corporate Governance (CG) is subject to numerous research studies and attracts attention of stakeholders, decision makers, politicians, and business practitioners. In the last decade we have seen many practices in accounting related to non-disclosure of fraudulent acts in listed companies and financial institutions. The examples were seen both among European and American firms. Such practices lead to the economic crisis and bankruptcies which in turn undermined trust in large companies (Andrzejewski and Grabiński, 2016). To ensure trust of investors in public companies, new regulations regarding corporate social responsibility and transparency are being introduced (Aluchna, 2014).

CG has many definitions which leads to a variety of interpretations (Abdullah, 2009). CG can be defined as a system of legal and economic institutions as well as formal and informal rules and operating procedures for companies. CG is intended to establish a balance between the interests of investors, business owners, employees, suppliers, local community, and other actors. As a result, companies may pursue their business goals and their mission fulfil. CG can also be understood as a control and
coordination mechanism of shareholders who cooperate with the corporation’s management team to make sure that the shareholders’ interests are well served. The control and motivation mechanisms are intended to increase the performance of the corporation and protect the interests of shareholders and mitigate risks (Baker and Anderson, 2011). Some authors claim that CG concerns problem solving among collective actions of distributed investors (Becht et al., 2005).

CG is also associated with the concept of corporate social responsibility (CSR) and implementing “good practices” which play a vital role been maintaining good relations between public companies and stakeholders (Freeman 1984; Harrison et al., 2015). CSR includes the responsibility of companies for their decisions concerning human rights abuse, local communities, climate change and fair business practices. Good practices in CG include desired actions of companies aimed at stakeholders, management board, investor relations and remuneration structure for the board members. Good practices usually take a form of recommendations are guidelines and their implementation for the “Comply or Explain” approach to corporate governance. Public companies are obliged to report their compliance or non-compliance for certain rules and regulations and explaining the reasons for non-compliance.

Research on CG concentrates on a variety of topics which share one similarity they concentrate on the impact of disclosing of non-financial information on the relations with companies’ stakeholders. Those relations are analysed from the financial social and moral perspectives. As stated previously, there is a substantial literature on corporate governance, usually covering the following topics, regulatory systems for corporate governments and their evolution (Szczepankiewicz, 2011a; 2011b; 2012a; 2012b), and also the theory of CG (Martynova and Renneboog, 2010; Abid et al., 2014), the impact of CG on financial results and economic development (Abosede et al., 2019; Claessens and Yurtoglu, 2012; Alhares, 2020, Picou and Rubach, 2006), the impact of CG on environmental effectiveness (Akram et al., 2018), the impact of CG model on social issues and disclosure of environmental information for local communities (Mallin et al., 2013), methods of analysis for management procedures and application of “good practices” for comparisons and assessment (Tan, 2018), identifying the framework for disclosure in relation to the companies right for trade secrets and moral responsibilities (Henriques, 2007; Bandusch et al., 2008), measurement approaches for CG (Ganescu and Gangone, 2012), perspectives for development of CG (Aguilera et al., 2019), factors influencing corporate bankruptcy (Abid and Ahmed, 2014) and other areas.

Public companies operating in the European Union where obliged to comply with the CG and the “comply or explain” principle for the first time in 2006 (Directive 2006/46/EC). Originally, the declaration submitted by a company included a description of CG principles including the description of internal control systems, risk management in financial reporting, shareholders and members with qualifying holdings carrying special controlling powers, indicating the restrictions with regard to exercising the voting rights and transfer of ownership, information on stakeholder’s
rights and general meeting, description of conditions for amendments to the statute and the information on the management and the supervisory board. Companies were also obliged to indicate which CG principles were not implemented. Other regulations concerning the disclosure of information in public companies were included in the Directive 2013/34/UE on transparency, Directive 2014/95/UE and the Commission recommendation 2014/208/UE on the quality of CG reporting (‘comply or explain’). Directive 2013/34/EU stipulates that listed companies must include the following information in their Corporate Governance Statements:

– the corporate governance code applicable to the company, or
– the corporate governance code voluntarily followed by the company, or
– corporate governance practices if they go beyond the national law requirements.

The new norms and regulations are intended increase the status of transparency and social responsibility for public companies (ASX, 2007; OECD 2019; GPW 2020). The question arises whether the scope of disclosure for CG satisfies the needs of stakeholders and whether the non-mandatory disclosure will not disclose of only good results and hiding bad outcomes.

Błażyńska (2020) examined whether companies listed on the GPW which declare that they prepare their Non-Financial Statements in accordance with the Polish Financial Reporting Standard (SIN, 2007) report on CG in the area of management (as recommended in the standard), and if so, to what extent. According to the above study, only 14% of the companies examined from 2017 to 2019 approached the area of governance (G) separately in their Non-Financial Statements. Those that did disclosed only selected information on CG (G.2). To conclude, the above study confirmed that the theoretical standard (SIN, 2017) is not translated into practice. Unfortunately, as many as 86% of the surveyed companies refer the report readers to the CGS or Best Practice for GPW, clearly indicating that they do not understand the concept of preparing the Non-Financial Statement (Report). Therefore, not all listed companies that declare to report in keeping with the SIN (in "G.2 Governance") do that. For these reasons, the authors undertook to continue their research on CG disclosures and attempt to assess the practical application of the comply or explain principle based on CGS submitted by GPW listed companies from WIG20, mWIG40 and sWIG80 indices.

3. Data Description

3.1 Study Sample Selection

To determine the extent to which GPW listed companies pursue the comply or explain principle regarding CG as part of the six fundamental principles, recommendations and detailed rules specified in Best Practice for GPW, a representative sample of companies has been selected. For that purpose, 140 CGS from 2019 and 140 CGS from 2018 prepared by all companies from GPW's WIG20, mWIG40 and sWIG80 indices.
indices were analysed. Companies are assigned to the indices based on their market capitalisation and trading volume. The largest 20 companies are included in WIG20. An additional WIG20 criterion is that any given sector (e.g., 100 - Finance) cannot be represented by more than five companies. The following 40 companies form mWIG40, and another 80 companies who are too small for these two indices are assigned to sWIG80. GPW listed companies from WIG20, mWIG40 and sWIG80 indices represent 8 basic sectors of economy (100-800 code). Overall, 35 industries are represented in the study sample (110-830 code). It includes all GPW listed companies from WIG20, mWIG40 and sWIG80 indices as of 4 October 2020. The indices are compiled after the last session in January (annual revision) or in April, July, and October (quarterly adjustment). Table 1-3 presents a detailed breakdown of sectors represented by WIG20, mWIG40 and sWIG80 companies whose reports are analysed in this paper.

**Table 1. WIG20 companies (2020)**

| No. | Name       | Ticker symbol | Sector code – industry code and name       | Portfolio share (%) |
|-----|------------|---------------|---------------------------------------------|---------------------|
| 1.  | CDPROJEKT  | CDR           | 600 – 650 Games                             | 15.61               |
| 2.  | PKOBP      | PKO           | 100 – 110 Banks                             | 11.23               |
| 3.  | KGHM       | KGH           | 300 – 320 Mining                            | 9.63                |
| 4.  | PZU        | PZU           | 100 – 120 Insurance companies               | 8.62                |
| 5.  | PKNORLEN   | PKN           | 200 – 210 Fuels and gas                     | 7.80                |
| 6.  | DINOPL     | DNP           | 600 – 620 Retail networks                   | 6.67                |
| 7.  | PEKAO      | PEO           | 100 – 110 Banks                             | 5.44                |
| 8.  | LPP        | LPP           | 500 – 520 Clothing and cosmetics            | 5.42                |
| 9.  | PGNIG      | PGN           | 200 – 210 Fuels and gas                     | 4.94                |
| 10. | CYFRLSAT   | CPS           | 800 – 810 Telecommunication                 | 4.59                |
| 11. | PLAY       | PLY           | 800 – 810 Telecommunication                 | 3.60                |
| 12. | PGE        | PGE           | 200 – 220 Energy                            | 3.32                |
| 13. | SANPL      | SPL           | 100 – 110 Banks                             | 2.95                |
| 14. | ORANGEPL   | OPL           | 800 – 810 Telecommunication                 | 2.76                |
| 15. | LOTOS      | LTS           | 200 – 210 Fuels and gas                     | 1.78                |
| 16. | TAURONPE   | TPE           | 200 – 220 Energy                            | 1.48                |
| 17. | MBANK      | MBK           | 100 – 110 Banks                             | 1.35                |
| 18. | CCC        | CCC           | 500 – 520 Clothing and cosmetics            | 1.31                |
| 19. | JSW        | JSW           | 300 – 320 Mining                            | 0.78                |
| 20. | ALIOR      | ALR           | 100 – 110 Banks                             | 0.72                |

**Source:** Own elaboration based on GPW data as of 4 October 2020.

An analysis of the data listed in Table 3 indicates that WIG20 companies represent 9 industries from 6 sectors:

- Sector 100 - finance (30% of companies): 5 banks and 1 insurance company,
- Sector 200 - fuels and energy (25% of companies): 3 companies from the fuel and gas industry and 2 energy companies,
- Sector 300 - chemistry and raw materials (10%): 2 mining companies,
- Sector 500 - consumer goods (10%): 2 companies from the clothing and cosmetics industry,
- Sector 600 - trade and services (10% of companies): 1 retail networks and 1 company from the games industry,
- Sector 800 - technologies (15% of companies): 3 telecommunication companies.

Table 2. mWIG40 companies (2020)

| No. | Name            | Ticker symbol | Sector code – industry code and name | Portfolio share (%) |
|-----|-----------------|---------------|--------------------------------------|---------------------|
| 1.  | KETY            | KTY           | 300 – 330 Metallurgy                  | 8.38                |
| 2.  | ING SK          | ING           | 100 – 110 Banks                       | 7.78                |
| 3.  | ASSECOPOL       | ACP           | 800 – 820 Information technology      | 7.17                |
| 4.  | BUDIMEX         | BDX           | 400 – 410 Construction                | 6.03                |
| 5.  | KRUK            | KRU           | 100 – 160 Claims                      | 4.34                |
| 6.  | TSGAMES         | TEN           | 600 – 650 Games                       | 3.93                |
| 7.  | KERNEL          | KER           | 500 – 510 Food and drink              | 3.51                |
| 8.  | INTERCARS       | CAR           | 500 – 540 Automotive industry (incl. parts) | 3.50 |
| 9.  | MERCATOR        | MRC           | 700 – 720 Medical supplies            | 3.34                |
| 10. | MILLENNIUM      | MIL           | 100 – 110 Banks                       | 3.13                |
| 11. | AMREST          | EAT           | 600 – 630 Leisure and relaxation      | 2.62                |
| 12. | LIVECHAT        | LVC           | 800 – 820 Information technology      | 2.48                |
| 13. | ENEA            | ENA           | 200 – 220 Energy                      | 2.43                |
| 14. | GPW             | GPW           | 100 – 130 Capital market              | 2.39                |
| 15. | WIRTUALNA       | WPL           | 600 – 640 Hotels and restaurants      | 2.32                |
| 16. | GTC             | GTC           | 100 – 140 Real estate                 | 2.25                |
| 17. | ASSECOSEE       | ASE           | 800 – 820 Information technology      | 2.24                |
| 18. | HANDLOWY        | BHW           | 100 – 110 Banks                       | 2.24                |
| 19. | GRUPAAZOTY      | ATT           | 300 – 310 Chemistry                   | 2.15                |
| 20. | EUROCASH        | EUR           | 600 – 620 Retail networks             | 2.11                |
| 21. | COMARCH         | CMR           | 800 – 820 Information technology      | 2.08                |
| 22. | 11BIT           | 11B           | 600 – 650 Games                       | 2.01                |
| 23. | BENEFIT         | BFT           | 600 – 630 Leisure and relaxation      | 1.71                |
| 24. | DOMDEV          | DOM           | 100 – 140 Real estate                 | 1.59                |
| 25. | DEVELIA         | DVL           | 100 – 140 Real estate                 | 1.58                |
| 26. | NEUCA           | NEU           | 700 – 740 Distribution of pharmaceuticals | 1.48 |
| 27. | ENERGA          | ENG           | 200 – 220 Energy                      | 1.32                |
| 28. | CIECH           | CIE           | 300 – 310 Chemistry                   | 1.31                |
| 29. | AMICA           | AMC           | 500 – 530 Household goods             | 1.30                |
| 30. | BNPPPL          | BNP           | 100 – 110 Banks                       | 1.28                |
| 31. | PLAYWAY         | PLW           | 600 – 650 Games                       | 1.27                |
| 32. | BIOMEDLUB       | BML           | 700 – 730 Production of pharmaceuticals | 1.26 |
| 33. | DATAWALK        | DAT           | 800 – 820 Information technology      | 1.21                |
| 34. | CLNPHARMA       | CLN           | 700 – 730 Production of pharmaceuticals | 1.17 |
| 35. | XTB             | XTB           | 100 – 130 Capital market              | 1.13                |
| 36. | ECHO            | ECH           | 100 – 140 Real estate                 | 1.09                |
| 37. | FAMUR           | FMF           | 400 – 420 Electrical engineering industry | 0.95 |
| 38. | VRG             | VRG           | 500 – 520 Clothing and cosmetics      | 0.76                |
| 39. | PKPCARGO        | PKP           | 400 – 430 Transport and logistics     | 0.65                |
| 40. | MABIO           | MAB           | 700 – 730 Production of pharmaceuticals | 0.51 |

Source: Own elaboration based on GPW data as of 4 October 2020.
An analysis of the data listed in Table 4 indicates that mWIG40 companies represent 22 industries from 8 sectors:

- Sector 100 - finance (27.5% of companies): 4 banks, 2 capital market companies, 4 real estate companies and 1 company from the claims industry,
- Sector 200 - fuels and energy (5% of companies): 2 power companies,
- Sector 300 - chemistry and raw materials (7.5% of companies): 2 chemical companies and 1 metallurgy company,
- Sector 400 - industrial, construction and assembly production (7.5% of companies): 1 company from the construction industry, 1 company from the electrical engineering industry and 1 company from the transport and logistics industry,
- Sector 500 - consumer goods (10% of companies): 1 company from the food and drink industry, 1 company from the clothing and cosmetics industry, 1 company from the household goods industry and 1 company from the automotive industry,
- Sector 600 - trade and services (17.5% of companies): 1 retail network, 2 companies from the leisure and relaxation industry, 1 company from the hotels and restaurants industry and 3 companies from the games industry,
- Sector 700 - healthcare (12.5% of companies): 1 company from the medical supplies industry, 3 production of pharmaceuticals and 1 distributor of pharmaceuticals,
- Sector 800 - technologies (12.5% of companies): 4 information technology companies.

**Table 3. sWIG80 companies (2020)**

| No. | Name         | Ticker symbol | Sector code – industry code and name                  | Portfolio share (%) |
|-----|--------------|---------------|-------------------------------------------------------|---------------------|
| 1.  | PEP          | PEP           | 200 – 220 Energy                                      | 4.16                |
| 2.  | ASSECOBS     | ABS           | 800 – 820 Information technology                      | 3.56                |
| 3.  | NEWAG        | NWG           | 400 – 420 Electrical engineering industry             | 3.26                |
| 4.  | RYVU         | RVU           | 700 – 750 Biotechnology                               | 3.20                |
| 5.  | SELVITA      | SLV           | 700 – 750 Biotechnology                               | 2.97                |
| 6.  | FORTE        | FTE           | 500 – 530 Household goods                             | 2.93                |
| 7.  | AUTOPARTN    | APR           | 500 – 540 Automotive industry (incl. parts)            | 2.79                |
| 8.  | SNIEZKA      | SKA           | 400 – 410 Construction                                | 2.60                |
| 9.  | MENNICA      | MNC           | 300 – 330 Metallurgy                                  | 2.57                |
| 10. | NETIA        | NET           | 800 – 810 Telecommunication                            | 2.52                |
| 11. | MLPGROUP     | MLG           | 100 – 140 Real estate                                 | 2.50                |
| 12. | APATOR       | APT           | 400 – 420 Electrical engineering industry             | 2.48                |
| 13. | WAWEL        | WWL           | 500 – 510 Food and drink                              | 2.32                |
| 14. | FERRO        | FRO           | 400 – 410 Construction                                | 2.31                |
| 15. | ALUMETAL     | AML           | 300 – 320 Mining                                      | 2.20                |
| 16. | ABPL         | ABE           | 600 – 610 Wholesale trade                             | 2.19                |
| 17. | STALPROD     | STP           | 300 – 330 Metallurgy                                  | 2.18                |
| 18. | ACAUTUGAZ    | ACG           | 500 – 540 Automotive industry (incl. parts)            | 1.91                |
| 19. | SANOK        | SNK           | 500 – 540 Automotive industry (incl. parts)            | 1.86                |
| 20. | STALEXP      | STX           | 400 – 430 Transport and logistics                     | 1.65                |
| No. | Company | Sector | Code | Name | Category |
|-----|---------|--------|------|------|----------|
| 21. | PBKM | Biotechnology | BKM | 700 – 750 | 1.63 |
| 22. | COMP | Information technology | CMP | 800 – 820 | 1.59 |
| 23. | BORYSZEW | Metallurgy | BRS | 300 – 330 | 1.57 |
| 24. | VIGOSYS | Electrical engineering industry | VGO | 400 – 420 | 1.55 |
| 25. | POLICE | Chemistry | PCE | 300 – 310 | 1.43 |
| 26. | OPONEO.PL | E-commerce | OPN | 600 – 660 | 1.34 |
| 27. | AGORA | Hotels and restaurants | AGO | 600 – 640 | 1.32 |
| 28. | VOXEL | Medical supplies | VOX | 700 – 720 | 1.27 |
| 29. | KEGENERA | Energy | KGN | 200 – 220 | 1.25 |
| 30. | BOGDANKA | Mining | LWB | 300 – 320 | 1.24 |
| 31. | ATAL | Real estate | IAT | 100 – 140 | 1.20 |
| 32. | TOYA | Wholesale trade | TOA | 600 – 610 | 1.15 |
| 33. | TIM | Corporate supplies | TIM | 400 – 440 | 1.09 |
| 34. | ENTER | Construction | ENT | 400 – 430 | 1.08 |
| 35. | ZEPAK | Energy | ZEP | 200 – 220 | 1.08 |
| 36. | AMBRA | Food and drink | AMB | 500 – 510 | 1.05 |
| 37. | ASBIS | Wholesale trade | ASB | 600 – 610 | 1.03 |
| 38. | TORPOL | Construction | TOR | 400 – 410 | 1.01 |
| 39. | R22 | New technologies | R22 | 800 – 830 | 0.98 |
| 40. | BIOTON | Production of pharmaceuticals | BIO | 700 – 730 | 0.97 |
| 41. | PHN | Real estate | PHN | 100 – 140 | 0.96 |
| 42. | CIGAMES | Games | CIG | 600 – 650 | 0.90 |
| 43. | ATNGRUPA | Hotels and restaurants | ATG | 600 – 640 | 0.87 |
| 44. | DEBICA | Automotive industry (incl. parts) | DBC | 500 – 540 | 0.87 |
| 45. | MCI | Investments | MCI | 100 – 180 | 0.84 |
| 46. | BOS | Banks | BOS | 100 – 110 | 0.81 |
| 47. | MLSYSTEM | Energy | MLS | 200 – 220 | 0.81 |
| 48. | FCCROKITA | Chemistry | PCR | 300 – 310 | 0.81 |
| 49. | ASTARTA | Food and drink | AST | 500 – 510 | 0.80 |
| 50. | POLIMEXMS | Construction | PXM | 400 – 410 | 0.80 |
| 51. | PEKABEX | Construction | Pbx | 400 – 410 | 0.78 |
| 52. | LENTEX | Construction | LTX | 400 – 410 | 0.76 |
| 53. | KRUSZWICA | Food and drink | KSW | 500 – 510 | 0.74 |
| 54. | MIRBUD | Construction | MRB | 400 – 410 | 0.70 |
| 55. | OAT | Biotechnology | OAT | 700 – 750 | 0.70 |
| 56. | ARCHICOM | Real estate | ARH | 100 – 140 | 0.69 |
| 57. | PGSSOFT | Information technology | PSW | 800 – 820 | 0.69 |
| 58. | INSTALKRR | Construction | INK | 400 – 410 | 0.68 |
| 59. | CORMAY | Production of pharmaceuticals | CRM | 700 – 730 | 0.61 |
| 60. | UNIMOT | Fuels and gas | UNT | 200 – 210 | 0.59 |
| 61. | CPGROUP | Real estate | CPG | 100 – 140 | 0.58 |
| 62. | RAINBOW | Leisure and relaxation | RBW | 600 – 630 | 0.58 |
| 63. | LUBAWA | Clothing and cosmetics | LBW | 500 – 520 | 0.55 |
| 64. | ARCTIC | Wood and paper | ATC | 300 – 360 | 0.50 |
| 65. | WIELTON | Electrical engineering industry | WLT | 400 – 420 | 0.48 |
| 66. | INC | Investments | INC | 100 – 180 | 0.46 |
| 67. | GETINOBLE | Banks | GNB | 100 – 110 | 0.44 |
| 68. | MEDICALG | Medical supplies | MDG | 700 – 720 | 0.44 |
| 69. | ULTGAMES | Games | ULG | 600 – 650 | 0.42 |
| 70. | GRODNO | Corporate supplies | GRN | 400 – 440 | 0.40 |
| 71. | TRAKCJA | Construction | TRK | 400 – 410 | 0.40 |
An analysis of the data listed in Table 5 indicates that sWIG80 companies represent 30 industries from 8 sectors:

- Sector 100 - finance (13.75% of companies): 4 banks, 5 real estate companies and 2 investment companies,
- Sector 200 - fuels and energy (7.5% of companies): 1 company from the fuel and gas industry and 5 power companies,
- Sector 300 - chemistry and raw materials (11.25% of companies): 2 chemical companies, 2 mining companies, 3 metallurgy companies, 1 company from the wood and paper industry and 1 recycling company,
- Sector 400 - industrial, construction and assembly production (22.5% of companies): 9 companies from the construction industry, 4 companies from the electrical engineering industry, 2 companies from the transport and logistics industry, 2 companies from the corporate supplies industry and 1 company from the corporate services industry,
- Sector 500 - consumer goods (15% of companies): 4 companies from the food and drink industry, 3 companies from the clothing and cosmetics industry, 1 company from the household goods industry and 4 companies from the automotive industry,
- Sector 600 - trade and services (12.5% of companies): 3 wholesalers, 1 company from the leisure and relaxation industry, 2 company from the hotels and restaurants industry, 3 companies from the games industry and 1 e-commerce company,
- Sector 700 - healthcare (11.25% of companies): 3 companies from the medical supplies industry, 2 manufacturers of pharmaceuticals and 4 biotechnology companies,
- Sector 800 - technologies (6.25% of companies): 1 telecommunication company, 3 information technology companies and 1 new technology company.

3.2 Analysis of CG Objectives, Principles and Recommendations

Best Practice for GPW is the main document used by the authors to analyse CG reporting. The document provides guidance for public companies, moving from the whole to the part. The whole consists of six basic principles, addressing the most
essential CG issues for public listed companies. Adherence to the principles and recommendations contained in Best Practice for GPW is discretionary in Poland. However, filing a report on adherence to CG principles and recommendations is mandatory. Therefore, public listed companies can choose any of the three following approaches:

- to apply Best Practice for GPW in whole, or
- to disclose and explain why certain principles or recommendations are not complied with, or
- to disclose and explain which principles or recommendations (in the company's opinion) are not applicable.

3.3 Study Questions

Based on a predefined objective and a preliminary sample analysis, the following research questions have been formulated:

1. Research question (RQ1): How many companies apply Best Practice for GPW in whole?
2. Research question (RQ2): How many companies do not apply the recommendations and basic principles?
3. Research question (RQ3): How many companies report that the recommendations or principles are not applicable to them?

4. Research Results

4.1 Companies Applying Best Practice for GPW in whole (RQ1)

In the first stage the authors analysed CGS submitted by 140 companies from the study sample. The goal was to answer research question RQ1: How many companies apply Best Practice for GPW in whole? The analysis of CGS indicates that relatively few companies apply Best Practice for GPW in whole. In 2018 and 2019 only 8 out of 140 companies adhere to all the principles and recommendations specified in Best Practice for GPW. These include:

- 3 WIG20 companies (1 from the “100 Sector”, 1 from the “200 Sector”, 1 from the “500 Sector”);
- 2 mWIG40 companies (1 from the “100 Sector”, 1 from the “600 Sector”);
- 3 mWIG80 companies (1 from the “100 Sector”, 1 from the “500 Sector”, 1 from the “600 sector”).

Table 2 presents the results of research on the number of WIG20, mWIG40 and sWIG80 companies reporting on CG in their annual statements in accordance with the recommendations set out in Best Practice for GPW.
Table 2. Percentage of WIG20, mWIG40 and sWIG80 companies reporting in line with GPW recommendations

| No. | Recommendation No. | Brief overview | % of companies reporting this recommendation | Change (%) |
|-----|--------------------|---------------|---------------------------------------------|------------|
|     |                    |               | 2018 | 2019 |                        |            |
| I.  | Disclosure Policy and Investor Communications |               |      |      |                        |            |
| 1.  | I.R.1              | The company’s position regarding untrue information is disseminated in the media, which may affect its evaluation | 97.8 | 99.29 | + 1.46 | |
| 2.  | I.R.2              | Disclosure of information on sponsorship or charity projects | 88.5 | 90.71 | + 2.42 | |
| 3.  | I.R.3              | Companies should allow investors and analysts to inquire about matters of their interest | 100  | 100  | 0       | |
| 4.  | I.R.4              | Companies should allow investors to review their periodic reports as soon as possible | 100  | 100  | 0       | |
| II. | Management Board and Supervisory Board |               |      |      |                        |            |
| 5.  | II.R.1             | The management board and the supervisory members should be highly qualified and experienced. | 100  | 100  | 0       | |
| 6.  | II.R.2             | Management / Supervisory Board members should be selected so as to ensure versatility and diversity of these bodies | 85.7 | 88.57 | + 3.34 | |
| 7.  | II.R.3             | Functions on the management board should be the main area of the professional activity of management board members | 100  | 100  | 0       | |
| 8.  | II.R.4             | Supervisory board members must be able to devote the time necessary to perform their duties | 100  | 100  | 0       | |
| 9.  | II.R.5             | The company should immediately take steps necessary to ensure substitution or replacement of a supervisory board member who has resigned or is unable to perform his/her duties | 100  | 100  | 0       | |
| 10. | II.R.6             | The supervisory board should take steps to ensure efficient operation of the management board | 100  | 100  | 0       | |
| 11. | II.R.7             | The supervisory board is free to use professional and independent advisory services | 100  | 100  | 0       | |
| III. | Internal systems and functions |               |      |      |                        |            |
| 12. | III.R.1            | The company’s structure should include separate units responsible for the performance of tasks in individual systems or functions | 84.2 | 85.71 | + 1.68 | |
| IV. | General meeting and shareholder relations |               |      |      |                        |            |
| 13. | IV.R.1             | Companies should strive to hold an ordinary general meeting as soon as possible after the publication of the annual report | 97.8 | 98.57 | + 0.73 | |
| 14. | IV.R.2             | Companies should broadcast its General Meetings and enable bilateral real-time communication | 40.0 | 40.00 | 0       | |
| 15. | IV.R.3             | If the securities issued by the company are traded in different countries, corporate events should take place at the same time in all of those countries | 87.1 | 88.57 | + 1.64 | |
| V.  | Conflict of interest and related party transactions |               |      |      |                        |            |
| 16. | V.R.1              | Management / Supervisory Board members should refrain from professional or other activities which might cause a conflict of interest | 100  | 100  | 0       | |
| VI. | Remuneration       |               |      |      |                        |            |
| 17. | VI.R.1             | The remuneration of the company’s officers and key managers should follow the approved remuneration policy | 65.7 | 70.00 | + 6.53 | |
| 18. | VI.R.2             | The remuneration policy should be closely linked to the company’s strategy, its short- and long-term goals, long-term interests and results | 72.8 | 77.86 | + 6.86 | |
| 19. | VI.R.3             | Establishment of a remuneration committee | 80.0 | 81.43 | + 1.79 | |
| 20. | VI.R.4             | Remuneration of Management / Supervisory Board members should be linked to an incentive scheme | 96.4 | 97.14 | + 0.74 | |

Source: Own elaboration.
Table 3 presents the results of research on the number of WIG20, mWIG40 and sWIG80 companies reporting on CG in their annual statements in accordance with the principles set out in Best Practice for GPW.

**Table 3. Percentage of WIG20, mWIG40 and sWIG80 companies reporting in line with Best Practice for GPW**

| No. | Principle No. | Brief overview                                                                 | % of companies reporting this principle in 2018 | % of companies reporting this principle in 2019 | Change (%) |
|-----|---------------|--------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|------------|
| 1.  | I.Z.1.1       | Basic corporate documents                                                      | 95.71                                         | 97.14                                         | + 1.49     |
| 2.  | I.Z.1.2       | Composition of the Management / Supervisory Board                             | 96.43                                         | 97.86                                         | + 1.48     |
| 3.  | I.Z.1.3       | A chart showing the division of duties of the management board                | 75.00                                         | 77.86                                         | + 3.81     |
| 4.  | I.Z.1.4       | Current shareholding structure                                                | 99.29                                         | 100                                           | + 0.72     |
| 5.  | I.Z.1.5       | Current and periodic reports and prospectuses from the last 5 years           | 97.14                                         | 99.29                                         | + 2.21     |
| 6.  | I.Z.1.6       | Calendar of corporate events                                                  | 97.86                                         | 97.86                                         | 0          |
| 7.  | I.Z.1.7       | Information materials concerning strategy and financial results               | 94.29                                         | 94.29                                         | 0          |
| 8.  | I.Z.1.8       | Selected financial data for the last 5 years of business                      | 92.14                                         | 93.57                                         | + 1.55     |
| 9.  | I.Z.1.9       | Information about the planned dividend and the dividend paid out in the last 5 years | 94.29                                         | 95.00                                         | + 0.75     |
| 10. | I.Z.1.10      | Financial projections                                                         | 87.14                                         | 88.57                                         | + 1.64     |
| 11. | I.Z.1.11      | Rules of replacing the entity currently authorised to audit financial statements | 89.29                                         | 90.71                                         | + 1.59     |
| 12. | I.Z.1.12      | Statement on compliance with the CG principles contained in the annual report | 99.29                                         | 99.29                                         | 0          |
| 13. | I.Z.1.13      | Statement on the company's compliance with recommendations and principles     | 97.86                                         | 98.57                                         | + 0.73     |
| 14. | I.Z.1.14      | Materials provided to the General Meeting                                     | 92.86                                         | 95.00                                         | + 2.30     |
| 15. | I.Z.1.15      | Information diversity policies followed by the company                        | 53.57                                         | 60.11                                         | + 6.54     |
| 16. | I.Z.1.16      | Information about the planned General Meeting broadcasts                      | 46.43                                         | 52.14                                         | + 18.76    |
| 17. | I.Z.1.17      | Justification for draft General Meeting resolutions                           | 94.29                                         | 95.00                                         | + 0.75     |
| 18. | I.Z.1.18      | Information about the reasons for cancellation / postponement of a General Meeting: information on changes in the agenda | 97.86                                         | 99.29                                         | + 1.46     |
| 19. | I.Z.1.19      | Shareholders’ questions asked to the management board                         | 90.71                                         | 92.14                                         | + 1.58     |
| 20. | I.Z.1.20      | Audio or video recording of a General Meeting                                 | 39.29                                         | 41.43                                         | + 5.45     |
| 21. | I.Z.1.21      | Contact details of the company’s investor relations officers                  | 99.29                                         | 100                                           | + 0.72     |
| 22. | I.Z.2         | WIG20 and mWIG40 companies should have English-language versions of their websites | 85                                             | 86.43                                         | + 1.68     |
| 23. | II.Z.1        | Division of responsibilities for individual areas among management board members | 71.43                                         | 77.84                                         | + 8.97     |
| 24. | II.Z.2        | The company’s management board members may sit on the management board or supervisory board of unaffiliated companies only upon consent of the supervisory board | 76.43                                         | 77.84                                         | + 1.84     |
| 25. | II.Z.3        | At least two members of the supervisory board should meet the independence criteria | 85.71                                         | 87.14                                         | + 1.67     |
| 26. | II.Z.4        | Annex II to the European Commission Recommendation 2005/162/EC of 15 February 2005 applies to the independence criteria of supervisory board members | 93.57                                         | 95.00                                         | + 1.53     |
| 27. | II.Z.5        | Supervisory board member's statement of compliance with the independence criterion | 95.00                                         | 96.43                                         | + 1.51     |
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|   |   |   |   |
|---|---|---|---|
| 28. | II.Z.6 | Assessment of supervisory board members’ compliance with the independence criteria | 95.71 | 95.71 | 0 |
| 29. | II.Z.7 | Tasks and the operation of supervisory board committees | 81.43 | 82.14 | + 0.77 |
| 30. | II.Z.8 | The chair of the audit committee should meet the independence criteria | 94.29 | 94.29 | 0 |
| 31. | II.Z.9 | The management board should provide the supervisory board with access to information on matters concerning the company | 99.29 | 100 | + 0.72 |
| 32. | II.Z.10 | Supervisory board reports should be presented at the General Meeting | 85.00 | 86.43 | + 1.68 |
| 33. | II.Z.11 | The supervisory board reviews and issues opinions on matters to be decided in General Meeting resolutions | 93.57 | 94.29 | + 0.77 |

### III. Internal Systems and Functions

|   |   |   |   |
|---|---|---|---|
| 34. | III.Z.1 | The management board is responsible for the implementation and maintenance of efficient internal control, risk management, compliance and internal audit systems | 94.29 | 94.29 | 0 |
| 35. | III.Z.2 | Persons responsible for risk management, internal audit and compliance should report directly to the president or another member of the management board | 78.57 | 80.00 | + 1.82 |
| 36. | III.Z.3 | Independence rules defined in generally accepted international standards for the professional practice of internal auditing apply to the person heading the internal audit function | 67.86 | 70.00 | + 3.15 |
| 37. | III.Z.4 | The person heading for internal audit function and the management board should present to the supervisory board their assessment of the systems / functions efficiency (at least once a year) | 79.29 | 80.71 | + 1.79 |
| 38. | III.Z.5 | The supervisory board monitors the efficiency of internal audit, risk management, compliance and internal audit systems | 88.57 | 90.71 | + 2.29 |
| 39. | III.Z.6 | The company should regularly review whether a separate internal audit function / committee needs to be appointed | 93.57 | 95.71 | + 2.29 |

### IV. General Meeting and shareholder relations

|   |   |   |   |
|---|---|---|---|
| 40. | IV.Z.1 | Determination of the date and place of general meetings | 97.14 | 98.57 | + 1.47 |
| 41. | IV.Z.2 | Ensuring general and real-time access to General Meeting broadcasts | 42.14 | 45.00 | + 6.79 |
| 42. | IV.Z.3 | Presence of the media at the General Meeting | 86.43 | 87.14 | + 0.76 |
| 43. | IV.Z.4 | Convening a General Meeting when the management board fails to do it in due time | 97.86 | 98.57 | + 0.73 |
| 44. | IV.Z.5 | Amendments of the general meeting rules should take effect at the earliest at the next General Meeting | 97.86 | 97.86 | 0 |
| 45. | IV.Z.6 | The company should strive to ensure that the cancellation, postponement or interruption of a General Meeting does not prevent or limit the exercise of the shareholders’ rights to participate in the general meeting | 97.14 | 97.86 | + 0.74 |
| 46. | IV.Z.7 | General meeting proceedings may be interrupted only in special circumstances | 97.86 | 98.57 | + 0.73 |
| 47. | IV.Z.8 | A resolution of the general meeting announcing a break should clearly state the date and time of resuming the meeting | 97.86 | 98.57 | + 0.73 |
| 48. | IV.Z.9 | Draft resolutions of the general meeting should contain a justification, if it helps shareholders to make a well informed decision | 91.43 | 92.14 | + 0.78 |
| 49. | IV.Z.10 | Any exercise of the rights of shareholders or the way in which they exercise their rights must not hinder the proper functioning of the company bodies | 99.29 | 100 | + 0.72 |
| 50. | IV.Z.11 | Members of the management board and the supervisory board should participate in a General Meeting if their presence is necessary to answer questions asked during the meeting | 97.86 | 98.57 | + 0.73 |
| 51. | IV.Z.12 | The management board should present to participants of an ordinary General Meeting the financial results of the company and other relevant information contained in the financial statements to be approved by the general meeting | 95.71 | 96.43 | + 0.75 |
|   | IV.Z.13 | The management board should answer the shareholder’s request for information about the company or notify him/her about its refusal to respond within 30 days | 97.86 | 97.86 | 0 |
|---|---------|---------------------------------------------------------------------------------------------------------------------------------|-------|-------|---|
| 53. | IV.Z.14 | Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of determination of the shareholder rights resulting from such events | 100   | 100   | 0 |
| 54. | IV.Z.15 | A General Meeting resolution concerning a pre-emptive issue of rights should specify the issue price or the mechanism of its determination or authorise the competent governing body to determine the price prior to the subscription right record date within the timeframe necessary for investors to make decisions | 100   | 100   | 0 |
| 55. | IV.Z.16 | The dividend record date and the dividend payment date should be more than 15 business days apart | 99.29 | 99.29 | 0 |
| 56. | IV.Z.17 | A General Meeting resolution concerning a conditional dividend payment may only contain such conditions that may be fulfilled before the dividend record date | 99.29 | 100   | + 0.72 |
| 57. | IV.Z.18 | A general meeting resolution to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the stock exchange | 97.14 | 98.57 | + 1.47 |

### V. Conflict of interest and related party transactions

|   | V.Z.1  | No shareholder should have preference over other shareholders in transactions concluded by the company with shareholders or their related parties | 99.29 | 100   | + 0.72 |
|---|--------|---------------------------------------------------------------------------------------------------------------------------------|-------|-------|---|
| 59. | V.Z.2  | Management / supervisory board members should notify the management board or the supervisory board, respectively, of any conflict of interest which has arisen or may arise, and should refrain from voting on a resolution on a matter in which a conflict of interest may arise | 99.29 | 99.29 | 0 |
| 60. | V.Z.3  | Management / supervisory board members must not accept any benefits which might affect their impartiality and objectivism in making decisions | 100   | 100   | 0 |
| 61. | V.Z.4  | Where a member of the management board or the supervisory board concludes that a decision of the management board or the supervisory board, respectively, is against the interest of the company, he or she may request that his/her view on the matter is recorded in the minutes of the meeting | 99.29 | 100   | + 0.72 |
| 62. | V.Z.5  | Before the company concludes a material agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board’s approval for the transaction | 92.86 | 93.57 | + 0.76 |
| 63. | V.Z.6  | In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise | 85.71 | 86.43 | + 0.84 |

### VI. Remuneration

|   | VI.Z.1 | Incentive schemes should be constructed in a way necessary to tie the level of remuneration of the management board members and key managers to the actual long-term financial standing of the company and long-term shareholder value growth, as well as the company’s stability | 86.43 | 88.57 | + 2.48 |
|---|--------|---------------------------------------------------------------------------------------------------------------------------------|-------|-------|---|
| 65. | VI.Z.2 | To link the remuneration of the management board members and key managers to the company’s long-term business and financial goals, the period between the allocation of options or other instruments linked to the company’s shares under the incentive scheme and their exercisability should be no less than two years | 67.86 | 70.71 | + 4.20 |
| 66. | VI.Z.3 | The remuneration of the supervisory board members should not be linked to options or other derivatives or any other variable | 93.57 | 95.00 | + 1.53 |
Quite importantly, in the analysed CGS almost all WIG20, MWIG40 and sWIG80 companies declare that they want to implement all recommendations and principles specified in Best Practice for GPW.

4.2 Non-Application of the Basic Principles and Recommendations (RQ3)

In the second stage the authors analysed CGS submitted by 140 companies from the study sample to answer research question RQ3: How many companies do not apply the recommendations and basic principles? An analysis of the companies’ internal documents suggests that they reported non-application of 11 out of 20 recommendations from Best Practice for GPW. This means that as many as 55% of the recommendations were not applied, according to the CGS. Details are presented in Table 4.

Table 4. Recommendations not applied by WIG20, mWIG40 and sWIG80 companies

| No. | Recommendation                  | WIG20 | MWIG40 | sWIG80 | Number of companies in 2019 | % of companies in 2019 | % of companies in 2018 | Ranking (10 positions) in 2019 | % of companies in 2018 |
|-----|---------------------------------|-------|--------|--------|-----------------------------|------------------------|------------------------|-----------------------------|------------------------|
| I.  | Disclosure Policy and Investor Communications |
| 1   | I.R.1                           | -     | -      | 1      | 1                           | 0.71                   | 10                     | 2.14                        | 2.14                   |
| 2   | I.R.2                           | 1     | 4      | 8      | 13                          | 9.29                   | 7                      | 11.43                       | 11.43                  |
| 3   | I.R.3                           | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 4   | I.R.4                           | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| II. | Management Board and Supervisory Board |
| 5   | II.R.1                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 6   | II.R.2                          | 1     | 4      | 11     | 16                          | 11.43                  | 6                      | 14.29                       | 14.29                  |
| 7   | II.R.3                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 8   | II.R.4                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 9   | II.R.5                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 10  | II.R.6                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| 11  | II.R.7                          | -     | -      | -      | -                           | -                      | -                      | -                           | -                      |
| III.| Internal Systems and Functions |
| 12  | III.R.1                         | 1     | 3      | 16     | 20                          | 14.29                  | 5                      | 15.71                       | 15.71                  |
| IV. | General Meeting and Shareholder Relations |
| 13  | IV.R.1                          | -     | 1      | 1      | 2                           | 1.43                   | 9                      | 2.14                        | 2.14                   |
| 14  | IV.R.2                          | 12    | 23     | 49     | 84                          | 60.00                  | 1                      | 60.00                       | 60.00                  |
An analysis of the results presented in Table 4 indicates that the following recommendations were most often waived by the examined GPW companies (20% or more):

- IV.R.2 (60% of the study sample) – this recommendation states that the company should broadcast its General Meetings and enable bilateral real-time communication with the shareholders;
- VI.R.1 (30% of the study sample) – this recommendation states that the company should follow a clearly defined policy with regard to the remuneration of its officers and key managers;
- VI.R.2 (22% of the study sample) – this recommendation defines remuneration policy attributes.

The following section presents detailed explanations of GPW companies from the study sample who chose not to apply certain recommendations. Recommendations not followed by fewer than 20% of the companies are not included. As mentioned above, as many 60% of the companies do not follow recommendation IV.R.2. The companies explain that shareholders can usually watch real-time broadcasts of General Meetings. In some CGS, Management Boards declare that they are positively disposed towards enabling real-time remote participation in General Meetings in the future. Many companies report the risk of possible technical problems that may affect the course of a General Meeting and raise concerns about the legality of its resolutions. Some companies asked their shareholders to update Articles of Association and General Meeting Rules to include provisions enabling organisation of General Meetings in keeping with recommendation IV.R.2, but the shareholders did not accept the proposal. Yet other companies declared that their shareholders had not reported the need for remote access to General Meetings as proposed in recommendation IV.R.2.

A further analysis indicates that 30% of the companies do not apply recommendation VI.R.1, and 22% do not apply recommendation VI.R.2. These companies declared not to have a remuneration policy for its officers and key managers. Nevertheless, further to the amendment to the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies introduced in October 2019, companies intend to vote on a resolution on such a remuneration policy at the General Meeting 2020. The said amendment brings the Act...
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in line with Regulation EU 017/1129). Table 5 presents those recommendations from Best Practice for GPW that are not applied by at least 20% of GPW listed companies.

**Table 5. Recommendations not applied by at least 20% of the companies**

| No. of principles | % of companies that do not apply this recommendation | Change (%) |
|-------------------|-----------------------------------------------------|------------|
|                   | 2019 | 2018 | 2019/2018 |
| IV. General Meeting and Shareholder Relations | | | |
| IV.R.2. | 60.00 | 68.57 | 12.50 |
| VI. Remuneration | | | |
| VI.R.1. | 30.00 | 34.29 | 12.52 |
| VI.R.2. | 22.14 | 27.14 | 18.43 |

**Source:** Own elaboration.

Subsequently the authors analysed non-application of detailed principles defined in Best Practice for GPW by companies from WIG20, mWIG40 and sWIG80 indices. The analysis of the CGS showed that 10 out of 67 detailed principles were not applied. The results are presented in Table 6.

**Table 6. Non-application of detailed principles by WIG20, mWIG40 and sWIG80 companies**

| No. | Principle | WIG20 | mWIG40 | sWIG80 | Number of companies 2019 | % of companies 2019 | Ranking (10 positions) 2019 | % of companies 2018 |
|-----|-----------|-------|--------|-------|--------------------------|------------------|--------------------------|------------------|
| I. Disclosure Policy and Investor Communications |
| 1. | I.Z.1.1 | - | - | 4 | 4 | 2.86 | 4.29 |
| 2. | I.Z.1.2 | - | - | 3 | 3 | 2.14 | 3.57 |
| 3. | I.Z.1.3 | 3 | 5 | 23 | 31 | 22.14 | 8 | 25.00 |
| 4. | I.Z.1.4 | - | - | - | - | - | - | 0.71 |
| 5. | I.Z.1.5 | - | - | 1 | 1 | 0.71 | 3.57 |
| 6. | I.Z.1.6 | - | - | 3 | 3 | 2.14 | 2.14 |
| 7. | I.Z.1.7 | - | 2 | 6 | 8 | 5.71 | 5.71 |
| 8. | I.Z.1.8 | - | 2 | 7 | 9 | 6.43 | 7.86 |
| 9. | I.Z.1.9 | - | 1 | 6 | 7 | 5.00 | 5.71 |
| 10. | I.Z.1.10 | 1 | 2 | 13 | 16 | 11.43 | 12.86 |
| 11. | I.Z.1.11 | - | 1 | 12 | 13 | 9.29 | 10.71 |
| 12. | I.Z.1.12 | - | - | 1 | 1 | 0.71 | 0.71 |
| 13. | I.Z.1.13 | - | - | 2 | 2 | 1.43 | 2.14 |
| 14. | I.Z.1.14 | - | 1 | 6 | 7 | 5.00 | 7.14 |
| 15. | I.Z.1.15 | 1 | 11 | 43 | 55 | 39.29 | 5 | 46.43 |
| 16. | I.Z.1.16 | 1 | 17 | 49 | 67 | 47.86 | 3 | 53.57 |
| 17. | I.Z.1.17 | 1 | 1 | 5 | 7 | 5.00 | 5.71 |
| 18. | I.Z.1.18 | - | - | 1 | 1 | 0.71 | 2.14 |
| 19. | I.Z.1.19 | 1 | 1 | 9 | 11 | 7.86 | 9.29 |
| 20. | I.Z.1.20 | 4 | 19 | 59 | 82 | 58.57 | 1 | 60.71 |
| 21. | I.Z.1.21 | - | - | - | - | - | - | 0.71 |
| 22. | I.Z.2 | - | 2 | 17 | 19 | 13.57 | 15.00 | |
| II. Management Board and Supervisory Board |
| 23. | II.Z.1 | 2 | 5 | 24 | 31 | 22.14 | 8 | 28.57 |
| 24. | II.Z.2 | 1 | 8 | 22 | 31 | 22.14 | 8 | 23.57 |
| 25. | II.Z.3 | 1 | 1 | 16 | 18 | 12.86 | 14.29 |
| 26. | II.Z.4 | - | 1 | 6 | 7 | 5.00 | 6.43 |
An analysis of the results presented in Table 6 indicates that the following principles were most often waived by the examined GPW companies (20% or more):

- **I.Z.1.20** (58.6% of the study sample) – this principle is about audio/video recording of the General Meeting for the investors' use;
- **IV.Z.2** (55% of the study sample) – this principle is about providing shareholders with unlimited access to real-time broadcasts of General Meetings;

Source: Own elaboration.
- I.Z.1.16 (47.8% of the study sample) – this principle is about informing the investors about planned General Meeting broadcasts;
- VI.Z.4 (41.4% of the study sample) – this principle is about presenting a report on the remuneration policy in the activity report;
- I.Z.1.15 (39.1% of the study sample) – this principle is about informing the investors about diversity policies in place;
- III.Z.3 (30% of the study sample) – this principle is about ensuring independence of the person in charge of the internal audit function and other internal audit personnel;
- VI.Z.2 (29.3% of the study sample) – this principle is about the need to combine the remuneration of officers and key managers with long-term business and financial objectives of the company;
- I.Z.1.3 (22.1% of the study sample) – this principle is about informing the investors about the division of the duties and responsibilities of management board members;
- II.Z.1 (22.1% of the study sample) – this principle is about a chart describing the internal division of responsibilities for individual areas of the company’s activity among management board members;
- III.Z.2 (20% of the study sample) – this principle defines reporting lines of persons in charge of risk management, internal audit and compliance;

The data presented in Table 7 shows that for only one basic principle (V. Conflict of Interest and Related Party Transactions) non-application of detailed rules (V.Z.1 - V.Z.6) by companies from the study sample was below 20%. The following section presents detailed explanations of GPW companies from the study sample who chose not to apply certain detailed rules. Rules not followed by fewer than 20% of the companies are not included. As remarked above, regarding basic principle IV (General Meeting and Shareholder Relations), as many as 55% of the GPW listed companies do not apply principle IV.Z.2. This is usually related to the non-application of recommendation IV.R.2 which promotes remote participation in General Meetings. In the companies' opinion the non-application of principle IV.Z.4 does not cause any concerns because: (1) shareholders can usually participate in General Meetings directly or by proxy and (2) promptly (usually within 24 hours) after the end of the General Meeting companies publish current reports containing the resolutions passed, voting results and details of protests (if any) and responses given to shareholders during the General Meeting.

As many as 47.8% of the companies from the study sample do not apply principle I.Z.16, which means that they do not announce the planned General Meeting broadcasts. The explanations provided in CGS indicate that to some extent this is a consequence of the non-application of principle IV.Z.2 (see Table 12). Other reasons for non-application of principle IV.Z.16 include: (1) insufficient technical infrastructure necessary for audio/video broadcasts of General Meetings, (2) concerns about publication of the images of General Meeting participants who do not qualify
as public persons, (3) related risk and expenses, (4) current shareholding structure and (5) lack of interest among the shareholders.

At the same time, 58.6% of the companies from the study sample do not make audio or video recordings of their General Meetings. Some companies post audio recordings of the General Meeting on their websites, but do not post video recordings. The underlying reasons include lower cost of audio recording and legal protection of the image of General Meeting participants. Information on General Meeting resolutions is published in current reports and/or posted on the companies’ websites. In the opinion of the companies, non-application of principle I.Z.1.20 does not adversely affect the reliability of the companies' information policy or the completeness of material information made available to the shareholders.

As many, as 39.1% of the companies from the study sample do not apply detailed principle I.Z.15. The companies explain that they have not developed a formal diversity policy with respect to the company’s authorities, for example due to the specific nature of the company's operations and the need to attract associates with specialist knowledge. According to the companies, the decisive criteria in selecting the associates are their qualifications and professional experience, regardless of non-substantial criteria such as age or gender. Therefore, the application of a diversity policy is not always possible or beneficial.

At the same time, some companies declare that: (1) principle I.Z.1.15 is applied in other processes (including recruitment) and diversity in terms of gender, education, age and professional experience is taken into account. They also declare that diversity and equal opportunities are important competitive advantages, (2) the principles of equal treatment and non-discrimination are part of the personnel policy and (3) selection procedures regarding prospective officers are free of anything that could be considered discriminatory towards certain groups of people.

As regards basic principle I. Disclosure Policy and Investor Communications, 22.1% of the companies from the study sample report not to apply principle I.Z.1.3. The companies explain this by referring to the principle of collegiality, which, in their opinion, is one of the operating principles of the management board. In the opinion of the companies, a rigid division of duties and responsibilities between Management Board members is ineffective and may be counterproductive. Regarding basic principle II (Management Board and Supervisory Board), 22.1% of the companies from the study sample have chosen not to apply principle II.Z.1, which is a consequence of non-application of principle I.Z.1.3. Importantly, both principle I.Z.1.3 and principle II.Z.1 refer to the internal division of responsibility for different business areas. 22.1% companies declare not to apply either of these two principles. The reasons for not applying principle II.Z.1 are like those about principle I.Z.1.3.

Regarding basic principle III (Internal Systems and Functions) 20% of the companies from the study sample do not apply principle III.Z.2. Generally, the principle is waived
because the companies either directly report that they do not have separate risk management, internal audit and compliance systems, or the systems are in place but "are not of a centralised nature". Hence the persons in charge of those systems do not directly report to the president or another member of the management board, as the principle would require. As many, as 30% of the GPW listed companies do not apply principle III.Z.3. Some companies have not fully separated their internal audit and compliance functions, while others have a separated only the Audit Committee or use integrated management systems.

Regarding basic principle VI (Remuneration), 29.3% of the companies from the analysed sample do not apply principle VI.Z.2, which requires that the remuneration of management board members and key managers should be linked to the company's long-term business and financial objectives, and that the period between the granting of options or other share-related instruments in an incentive scheme and the possibility of exercising those instruments should be at least 2 years. The explanation of the reason for deviating from the rule is the same in all cases - the companies do not operate any incentive schemes based on options or other share-related instruments. As many, as 41.4% of the GPW listed companies do not apply principle VI.Z.4. The companies do not apply it because they do not have a formal remuneration policy for their officers and key managers. In the opinion of some companies, it may be detrimental to the company's interests to publish information on the terms and actual amount of remuneration payable of each management board member, broken down into fixed and variable components, alongside with key parameters affecting the variable components as well as the rules for payment of severance pay and other on termination benefits (irrespective of the legal form of employment), separately for the company and each entity in the capital group. The companies are reluctant to disclose such detailed information on the terms and amount of remuneration, because in their opinion such details are classified, should remain confidential from the point of view of the companies' interests, and at the same time its disclosure could infringe on legitimate interests of management board members, including their right to privacy. Table 7 lists the detailed rules which are not applied by at least 20% of GPW listed companies.

Table 7. Content of principles defined in Best Practice for GPW that are not applied by companies from WIG20, mWIG40 and sWIG80 indices.

| No. of principles | % of companies | Change (%) 2019/2018 |
|-------------------|----------------|----------------------|
| **I. Disclosure Policy and Investor Communications** | | |
| I.Z.1.3           | 22.14          | 25.00                | 11.44 |
| I.Z.1.15          | 39.29          | 46.43                | 15.48 |
| I.Z.1.16          | 47.86          | 53.57                | 10.66 |
| I.Z.1.20          | 58.57          | 60.71                | 3.53  |
| **II. Management Board and Supervisory Board** | | |
| II.Z.1            | 22.14          | 28.57                | 22.50 |
| II.Z.1            | 22.14          | 23.57                | 6.07  |
| **III. Internal Systems and Functions** | | |
In 2019, an analysis of adherence to the comply or explain rule by GPW listed companies indicates three main deviations from the recommendations and rules specified included in Best Practice for GPW. These deviations are related to: (1) broadcasts of General Meetings and bilateral real-time communication, (2) introduction of a formal diversity policy applicable to the company’s governing bodies and key managers and (3) introduction of a formal remuneration policy applicable to the company’s governing bodies and key managers.

With regard to the recommendations and principles related to General Meeting broadcasts and real-time bilateral communication, it should be pointed out that the practice of conducting General Meetings using electronic means of communication is not very common (60% of companies departed from recommendation IV.R.2). An analysis of 140 CGS from 2019 indicates three different approaches to this particular matter: (1) companies do not broadcast the General Meeting for fear of the associated risks, (2) companies did offer real-time General Meeting broadcasts to their shareholders, but the offer was rejected and (3) the shareholders did not report their interest in or need for General Meetings to be held in this way. With regard to the first issue, the companies reported organizational and technical problems which could disturb the course of the General Meeting. Subsequently this could be a basis for challenging the adopted resolutions. Broadcasting the General Meeting proceedings on the company’s website is rather expensive. Furthermore, such broadcasts involve publication of the images of General Meeting participants who do not qualify as public persons. The companies declared that if General Meeting broadcasts by means of electronic communication become more popular and a significant number of shareholders are interested, they will consider this possibility.

It is reasonable to assume that the situation will change in response to the COVID-19 pandemic. In the face of the growing threat posed by COVID-19, companies not only reorganize their internal work, but also develop new ways of communication with stakeholders. The impact of COVID-19 on the organization of General Meetings will most likely be investigated by researchers. As many 39.1% of the companies do not have a formal diversity policy that considers aspects such as gender, educational background, age, or professional experience. Therefore, the companies have not defined diversity policy objectives and ways to achieve them in the reporting period. The need to attract employees with specific knowledge or skills does not seem to be a valid reason not why a diversity policy should not be developed.
The authors' research shows some companies (for instance 41.4% of companies that do not apply principle VI.Z.4 rule) clearly do not want to publish information on remuneration of the company's officers and key managers, citing the right to privacy and corporate secrecy as a reason. Counter arguments to this approach are not easy to find, since companies claim that the lack of a formal remuneration policy is important from the perspective of their interests.

4.3 Recommendations and Principles not Applicable to Listed Companies (RQ3)

In the third stage the authors analysed CGS submitted by 140 companies from the study sample to answer research question RQ3: How many companies report that the recommendations or principles are not applicable? Based on the analysis of CGS the authors identified the scope of recommendations and principles considered as not applicable by the companies from the study sample. The number of those recommendations and principles is relatively low. GPW listed companies do not apply 8 out of 67 detailed principles and 4 out of 20 recommendations (Table 8).

Table 8. Recommendations and principles that are not applicable to WIG20, mWIG40 and sWIG80 companies

| No. | Principle / Recommendation | WIG20 | mWIG40 | sWIG80 | Number of companies in 2019 | % of companies | Change (% 2019/2018) |
|-----|---------------------------|-------|--------|--------|-----------------------------|---------------|---------------------|
| I. Disclosure Policy and Investor Communications | | | | | | | |
| 1. | I.R.2 | 1 | 2 | - | 3 | 2.14 | 4.29 | 50.00 |
| 2. | I.Z.1.10 | 2 | 4 | 3 | 9 | 6.43 | 7.14 | 10.00 |
| 3. | I.Z.2 | - | 1 | 2 | 3 | 2.14 | 3.57 | 40.00 |
| III. Internal Systems and Functions | | | | | | | |
| 4. | III.Z.6 | 4 | 3 | - | 7 | 5.00 | 5.00 | 0.00 |
| IV. General Meeting and Shareholder Relations | | | | | | | |
| 5. | IV.R.2 | 1 | 2 | - | 3 | 2.14 | 3.57 | 40.00 |
| 6. | IV.R.3 | - | 6 | 1 | 7 | 5.00 | 7.14 | 30.00 |
| 7. | IV.Z.2 | - | 2 | 1 | 3 | 2.14 | 4.29 | 50.00 |
| 8. | IV.Z.4 | - | - | 1 | 1 | 1.43 | 2.86 | 50.00 |
| 9. | IV.Z.18 | - | - | 1 | 1 | 1.43 | 3.57 | 60.00 |
| VI. Remuneration | | | | | | | |
| 10. | VI.R.3 | 1 | 1 | - | 2 | 1.43 | 4.29 | 67.00 |
| 11. | VI.Z.1 | 1 | 1 | - | 2 | 1.43 | 3.57 | 60.00 |
| 12. | VI.Z.2 | 1 | 2 | - | 3 | 2.14 | 4.29 | 50.00 |

Source: Own elaboration.

In 2019, an analysis of the results presented in Table 8 indicates that not more than 5% of GPW listed companies consider one or more recommendations to be not applicable, including the following:

- I.R.2 (2.14% of the study sample) – this recommendation is about inclusion of information on sponsorship or charity projects in the annual activity report;
- IV.R.2 (2.14% of the study sample) – this recommendation states that the company should broadcast its General Meetings and enable bilateral real-time communication with the shareholders;
- IV.R.3 (5% of the study sample) – this recommendation is about relations with shareholders where securities issued by the company are traded in different countries. If so, they should be issued on the same dates in all those countries.
- VI.R.3 (1.43% of the study sample) – this recommendation states that the company’s Supervisory Board should form a remuneration committee.

The following section presents detailed explanations of GPW companies from the study sample who chose not to apply the above recommendations.

- I.R.2 - the companies do not pursue sponsorship, charity or other similar activities;
- IV.R.2 – this recommendation is not applicable due to the shareholding structure; shareholders do not report the need for remote participation in general meetings;
- IV.R.3 – securities are not traded in different countries;
- VI.R.3 – no remuneration committee has been established.

A further analysis of the results presented in Table 13 indicates that not more than 6.5% of GPW listed companies consider one or more detailed principles to be not applicable, including the following:

- I.Z.1.10 (6.43% of the study sample) – this principle states that financial projections should be made available to investors;
- I.Z.2 (2.14% of the study sample) – this principle states that WIG20 and mWIG40 companies should publish English-language company information on their websites;
- III.Z.6 (5% of the study sample) – this principle addresses information about audit committee and internal audit function;
- IV.Z.2 (2.14% of the study sample) – this principle is about providing shareholders with unlimited access to real-time broadcasts of General Meetings;
- IV.Z.4 (1.43% of the study sample) – this principle is about convening a General Meeting when the management board fails to do it in due time;
- V.Z.18 (1.43% of the study sample) – this principle is about general meeting resolutions to split the nominal value of the company's shares;
- VI.Z.1 (1.43% of the study sample) – this principle states that incentive schemes in the remuneration policy for the company's officers and key managers should be linked to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company’s stability.
- VI.Z.2 (1.43% of the study sample) – this principle is about the need to combine the remuneration of officers and key managers with long-term business and financial objectives of the company;
The following section presents detailed explanations of GPW companies from the study sample who chose not to apply the detailed principles listed in Table 13.

- I.Z.1.10. – the companies do not publish financial projections,
- I.Z.2. – the companies do not have English-language versions of their websites (obligatory for WIG20 and mWIG40 companies),
- III.Z.6. – the companies do not have an internal audit unit,
- IV.Z.2 - given the current shareholding structure, it is not reasonable to ensure real-time broadcasts of General Meetings,
- IV.Z.4. – the company is not bound by the Polish companies laws,
- IV.Z.18 – general meeting resolutions to split the nominal value of the company's shares should not result in a nominal value below PLN 0.50; the nominal value of the company in question is in fact lower, but in the company's opinion it does not affect the accuracy of its stock valuation,
- VI.Z.1 – the company has not implemented any incentive schemes,
- VI.Z.2 – the remuneration of officers and key managers are not linked with long-term business and financial objectives of the company.

5. Conclusions

Many authors emphasize that the transparency principle is essential in a global and democratic world. Others claim that the principle is controversial because it may infringe on corporate secrecy (Braendle and Noll, 2005; Baume and Papadopoulos, 2018). They point out that companies do not want to fully disclose everything that concerns their internal activities affairs, operations, and capabilities (Braendle and Noll, 2005; Chowdhury, 2005; Christensen et al., 2014; Christensen and Cornelissen, 2015; Baume and Papadopoulos, 2018). These authors ask whether full application of the transparency principle is feasible when non-disclosure of information can be justified on the grounds of trade secrets. Will the 'comply or explain' principle introduced to the CG report (Commission Recommendation, 2014) achieve the goal of restoring confidence in the reporting of listed companies and encourage them to become more socially responsible? Or, on the contrary, will it only serve to reinforce the primacy of shareholders or will lead to the avoidance of actual responsibility for the company's actions and decisions? Or perhaps will it eventually trigger a more heated debate on problems related to the lack of confidence in companies (Lewis and Weigert, 1985; Gambetta (ed.), 2000; Dublink, 2007; Picou and Rubach, 2006)?

In our paper we formulated a research problem, an objective, and the main study question, divided into 3 specific questions. We set out to answer the following question: to what extent GPW listed companies pursue the comply or explain principle regarding compliance with CG principles and recommendations specified in Best Practice for GPW? To conclude our research, it can be reasonably assumed that the results indicate that WIG20, mWIG40 and sWIG80 companies listed on the GPW follow different approaches to their CG reporting obligations. All the analysed
companies declared that their CGS are made in accordance with Best Practice for GPW Listed Companies 2016. After verification of the CGS (for all WIG20, mWIG40 and sWIG80 companies) in Section 4, the following conclusions were made:

1. At this stage, the study results do not show any relationship between the heterogeneity levels of CG reporting and the sectors represented by the WIG20, mWIG40 and sWIG80 companies.
2. Investors (shareholders) are generally not interested in promoting the practice of conducting General Meetings using electronic means of communication.
3. A half of the companies clearly do not want to publish information on remuneration of the company's officers and key managers, citing the right to privacy and corporate secrecy as a reason.
4. A relatively small number of companies from the study group attempted to disclose non-financial information in new areas specified in the regulations described in Section 3 of this study. These areas of information are relevant for assessing the CG efficiency, such as diversity, environmental, social, and labour aspects, and effective management of internal systems and functions, including the internal audit obligation.

To indicate directions for further the authors, wish to remark that the present study analyses all CGS submitted by WIG20, mWIG40 and sWIG80 companies for 2018 and 2019 alone. Therefore, it is advisable to continue this research after the publication of the statements for 2020 and 2021. A comparative study of the scope of the Statements from the period 2018-2021 may yield interesting results and lead to conclusions about changing stakeholder expectations and even changes in the level of confidence in the reporting of listed companies. The present study is limited by the fact that potentially available secondary archive data from other authors writing about CGS of Polish listed companies was not included because no such sources had been found. Inclusion of such additional data could confirm the overall accuracy of our empirical results since perceptual data is strongly correlated with objective metrics. Therefore, this study encourages further research directions. Long-term research in this area can lead to a better understanding of the dynamic change in the scope and quality of CG reporting among listed companies.

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