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

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### **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.

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## **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 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.	INGB 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



21.	PBKM	BKM	700 – 750 Biotechnology	1.63
22.	COMP	CMP	800 – 820 Information technology	1.59
23.	BORYSZEW	BRS	300 – 330 Metallurgy	1.57
24.	VIGOSYS	VGO	400 – 420 Electrical engineering industry	1.55
25.	POLICE	PCE	300 – 310 Chemistry	1.43
26.	OPONEO.PL	OPN	600 – 660 E-commerce	1.34
27.	AGORA	AGO	600 – 640 Hotels and restaurants	1.32
28.	VOXEL	VOX	700 – 720 Medical supplies	1.27
29.	KOGENEREA	KGN	200 – 220 Energy	1.25
30.	BOGDANKA	LWB	300 – 320 Mining	1.24
31.	ATAL	1AT	100 – 140 Real estate	1.20
32.	TOYA	TOA	600 – 610 Wholesale trade	1.15
33.	TIM	TIM	400 – 440 Corporate supplies	1.09
34.	ENTER	ENT	400 – 430 Transport and logistics	1.08
35.	ZEPAK	ZEP	200 – 220 Energy	1.08
36.	AMBRA	AMB	500 – 510 Food and drink	1.05
37.	ASBIS	ASB	600 – 610 Wholesale trade	1.03
38.	TORPOL	TOR	400 – 410 Construction	1.01
39.	R22	R22	800 – 830 New technologies	0.98
40.	BIOTON	BIO	700 – 730 Production of pharmaceuticals	0.97
41.	PHN	PHN	100 – 140 Real estate	0.96
42.	CIGAMES	CIG	600 – 650 Games	0.90
43.	ATNGRUPA	ATG	600 – 640 Hotels and restaurants	0.87
44.	DEBICA	DBC	500 – 540 Automotive industry (incl. parts)	0.87
45.	MCI	MCI	100 – 180 Investments	0.84
46.	BOS	BOS	100 – 110 Banks	0.81
47.	MLSYSTEM	MLS	200 – 220 Energy	0.81
48.	PCCROKITA	PCR	300 – 310 Chemistry	0.81
49.	ASTARTA	AST	500 – 510 Food and drink	0.80
50.	POLIMEXMS	PXM	400 – 410 Construction	0.80
51.	PEKABEX	PBX	400 – 410 Construction	0.78
52.	LENTEX	LTX	400 – 410 Construction	0.76
53.	KRUSZWICA	KSW	500 – 510 Food and drink	0.74
54.	MIRBUD	MRB	400 – 410 Construction	0.70
55.	OAT	OAT	700 – 750 Biotechnology	0.70
56.	ARCHICOM	ARH	100 – 140 Real estate	0.69
57.	PGSSOFT	PSW	800 – 820 Information technology	0.69
58.	INSTALKRK	INK	400 – 410 Construction	0.68
59.	CORMAY	CRM	700 – 730 Production of pharmaceuticals	0.61
60.	UNIMOT	UNT	200 – 210 Fuels and gas	0.59
61.	CPGROUP	CPG	100 – 140 Real estate	0.58
62.	RAINBOW	RBW	600 – 630 Leisure and relaxation	0.58
63.	LUBAWA	LBW	500 – 520 Clothing and cosmetics	0.55
64.	ARCTIC	ATC	300 – 360 Wood and paper	0.50
65.	WIELTON	WLT	400 – 420 Electrical engineering industry	0.48
66.	INC	INC	100 – 180 Investments	0.46
67.	GETINOBLE	GNB	100 – 110 Banks	0.44
68.	MEDICALG	MDG	700 – 720 Medical supplies	0.44
69.	ULTGAMES	ULG	600 – 650 Games	0.42
70.	GRODNO	GRN	400 – 440 Corporate supplies	0.40
71.	TRAKCJA	TRK	400 – 410 Construction	0.40

72.	GETIN	GTN	100 – 110 Banks	0.39
73.	GLCOSMED	GLC	500 – 520 Clothing and cosmetics	0.37
74.	INTERAOLT	IRL	200 – 220 Energy	0.37
75.	AIRWAY	AWM	700 – 720 Medical supplies	0.27
76.	BOOMBIT	BBT	600 – 650 Games	0.23
77.	HARPER	HRP	500 – 520 Clothing and cosmetics	0.22
78.	EKOEXPORT	EEEX	300 – 370 Recycling	0.21
79.	WPRKSERV	WSE	400 – 450 Corporate services	0.17
80.	IDEABANK	IDA	100 – 110 Banks	0.16

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

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.	Recomm endation No.	Brief overview	% of companies reporting this recommendation		Change (%)
			2018	2019	
<b>I. Disclosure Policy and Investor Communications</b>					
1.	I.R.1	The company's position regarding untrue information is disseminated in the media, which may affect its evaluation	97.8 6	99.29	+ 1.46
2.	I.R.2	Disclosure of information on sponsorship or charity projects	88.5 7	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
<b>II. Management Board and Supervisory Board</b>					
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 1	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
<b>III. Internal systems and functions</b>					
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 9	85.71	+ 1.68
<b>IV. General meeting and shareholder relations</b>					
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 6	98.57	+ 0.73
14.	IV.R. 2	Companies should broadcast its General Meetings and enable bilateral real-time communication	40.0 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 4	88.57	+ 1.64
<b>V. Conflict of interest and related party transactions</b>					
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
<b>VI. Remuneration</b>					
17.	VI.R. 1	The remuneration of the company's officers and key managers should follow the approved remuneration policy	65.7 1	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 6	77,86	+ 6.86
19.	VI.R. 3	Establishment of a remuneration committee	80.0 0	81.43	+ 1.79
20.	VI.R. 4	Remuneration of Management / Supervisory Board members should be linked to an incentive scheme	96.4 3	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		Change (%)
			2018	2019	
<b>I. Disclosure policy and investor communications</b>					
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
<b>II. Management Board and Supervisory Board</b>					
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	+ 0.87
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
<b>III. Internal Systems and Functions</b>					
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	+ 2.42
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
<b>IV. General Meeting and shareholder relations</b>					
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

52.	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
<b>V. Conflict of interest and related party transactions</b>					
58.	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
<b>VI. Remuneration</b>					
64.	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

		components, and neither should it be linked to the company's results			
67.	VLZ.4	In this activity report, the company should report on the remuneration policy including at least the following: <ul style="list-style-type: none"> <li>- overview of the remuneration system,</li> <li>- information about the terms and amounts of remuneration of management board members,</li> <li>- information about non-financial remuneration components due to each management board member and key manager;</li> <li>- significant amendments of the remuneration policy in the last financial year or information about their absence;</li> <li>- assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability</li> </ul>	53.57	58.57	+ 9.33

*Source: Own elaboration.*

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	Ranking (10 positions) in 2019	% of companies in 2018
<b>I. Disclosure Policy and Investor Communications</b>								
1.	I.R.1	-	-	1	<b>1</b>	0.71	10	2.14
2.	I.R.2	1	4	8	<b>13</b>	9.29	7	11.43
3.	I.R.3	-	-	-	-	-	-	-
4.	I.R.4	-	-	-	-	-	-	-
<b>II. Management Board and Supervisory Board</b>								
5.	II.R.1	-	-	-	-	-	-	-
6.	II.R.2	1	4	11	<b>16</b>	11.43	6	14.29
7.	II.R.3	-	-	-	-	-	-	-
8.	II.R.4	-	-	-	-	-	-	-
9.	II.R.5	-	-	-	-	-	-	-
10.	II.R.6	-	-	-	-	-	-	-
11.	II.R.7	-	-	-	-	-	-	-
<b>III. Internal Systems and Functions</b>								
12.	III.R.1	1	3	16	<b>20</b>	14.29	5	15.71
<b>IV. General Meeting and Shareholder Relations</b>								
13.	IV.R.1	-	1	1	<b>2</b>	1.43	9	2.14
14.	IV.R.2	12	23	49	<b>84</b>	<b>60.00</b>	<b>1</b>	<b>60.00</b>



15.	IV.R.3	-	1	15	<b>16</b>	11.43	6	12.86
<b>V. Conflict of Interest and Related Party Transactions</b>								
16.	V.R.1	-	-	-	-	-	-	-
<b>VI. Remuneration</b>								
17.	VI.R.1	4	8	30	<b>42</b>	<b>30.00</b>	<b>2</b>	<b>34.29</b>
18.	VI.R.2	2	7	22	<b>31</b>	<b>22.14</b>	<b>3</b>	<b>27.14</b>
19.	VI.R.3	3	4	19	<b>26</b>	18.57	4	20.00
20.	VI.R.4	1	1	2	<b>4</b>	2.86	8	3.57

*Source: Own elaboration.*

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

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	
<b>IV. General Meeting and Shareholder Relations</b>			
IV.R.2.	60.00	68.57	12.50
<b>VI. Remuneration</b>			
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
<b>I. Disclosure Policy and Investor Communications</b>								
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	<b>22.14</b>	<b>8</b>	<b>25.00</b>
4.	I.Z.1.4	-	-	-	-	-		0.71
5.	I.Z.1.5	-	-	1	1	0.71		2.86
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	<b>39.29</b>	<b>5</b>	<b>46.43</b>
16.	I.Z.1.16	1	17	49	67	<b>47.86</b>	<b>3</b>	<b>53.57</b>
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	<b>58.57</b>	<b>1</b>	<b>60.71</b>
21.	I.Z.1.21	-	-	-	-	-		0.71
22.	I.Z.2	-	2	17	19	13.57		15.00
<b>II. Management Board and Supervisory Board</b>								
23.	II.Z.1	2	5	24	31	<b>22.14</b>	<b>8</b>	<b>28.57</b>
24.	II.Z.2	1	8	22	31	<b>22.14</b>	<b>8</b>	<b>23.57</b>
25.	II.Z.3	1	1	16	18	12.86		14.29
26.	II.Z.4	-	1	6	7	5.00		6.43

27.	II.Z.5	-	1	4	5	3.57		5.00
28.	II.Z.6	-	-	6	6	4.29		4.29
29.	II.Z.7	4	7	14	25	17.86		18.57
30.	II.Z.8	1	2	5	8	5.71		5.71
31.	II.Z.9	-	-	-	-	-		0.71
32.	II.Z.10	1	6	12	19	13.57		15.00
33.	II.Z.11	-	1	7	8	5.71		6.43
<b>III. Internal Systems and Functions</b>								
34.	III.Z.1	-	3	5	8	5.71		5.71
35.	III.Z.2	1	7	20	28	<b>20.00</b>	<b>9</b>	<b>21.43</b>
36.	III.Z.3	1	11	30	42	<b>30.00</b>	<b>6</b>	<b>32.14</b>
37.	III.Z.4	-	8	19	27	19.29		20.71
38.	III.Z.5	1	3	9	13	9.29		11.43
39.	III.Z.6	-	2	4	6	4.29		6.43
<b>IV. General Meeting and Shareholder Relations</b>								
40.	IV.Z.1	-	-	2	2	1.43		2.86
41.	IV.Z.2	5	18	54	77	<b>55.00</b>	<b>2</b>	<b>57.86</b>
42.	IV.Z.3	1	2	15	18	12.86		13.57
43.	IV.Z.4	-	1	1	2	1.43		2.14
44.	IV.Z.5	-	1	2	3	2.14		2.14
45.	IV.Z.6	-	-	3	3	2.14		2.86
46.	IV.Z.7	-	2	-	2	1.43		2.14
47.	IV.Z.8	-	1	1	2	1.43		2.14
48.	IV.Z.9	1	3	7	11	7.86		8.57
49.	IV.Z.10	-	-	-	-	-		0.71
50.	IV.Z.11	-	2	-	2	1.43		2.14
51.	IV.Z.12	-	2	3	5	3.57		4.29
52.	IV.Z.13	-	2	1	3	2.14		2.14
53.	IV.Z.14	-	-	-	-	-		-
54.	IV.Z.15	-	-	-	-	-		-
55.	IV.Z.16	-	-	1	1	0.71		0.71
56.	IV.Z.17	-	-	-	-	-		0.71
57.	IV.Z.18	-	-	2	2	1.43		2.86
<b>V. Conflict of Interest and Related Party Transactions</b>								
58.	V.Z.1	-	-	-	-	-		0.71
59.	V.Z.2	1	-	-	1	0.71		0.71
60.	V.Z.3	-	-	-	-	-		-
61.	V.Z.4	-	-	-	-	-		0.71
62.	V.Z.5	1	3	5	9	6.43		7.14
63.	V.Z.6	3	11	5	19	13.57		14.29
<b>VI. Remuneration</b>								
64.	VI.Z.1	1	4	11	16	11.43		13.57
65.	VI.Z.2	6	13	22	41	<b>29.29</b>	<b>7</b>	<b>32.14</b>
66.	VI.Z.3	-	2	5	7	5.00		6.43
67.	VI.Z.4	3	14	41	58	<b>41.43</b>	<b>4</b>	<b>46.43</b>

*Source: Own elaboration.*

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;

- 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
	2019	2018	
<b>I. Disclosure Policy and Investor Communications</b>			
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
<b>II. Management Board and Supervisory Board</b>			
II.Z.1	22.14	28.57	22.50
II.Z.1	22.14	23.57	6.07
<b>III. Internal Systems and Functions</b>			

III.Z.2	20.00	21.43	6.67
III.Z.3.	30.00	32.14	6.66
<b>IV. General Meeting and Shareholder Relations</b>			
IV.Z.2	55.00	57.86	4.95
<b>VI. Remuneration</b>			
VI.Z.2	29.29	32.14	6.69
VI.Z.4.	41.43	46.43	10.77

*Source: Own elaboration.*

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
						2019	2018	
<b>I. Disclosure Policy and Investor Communications</b>								
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
<b>III. Internal Systems and Functions</b>								
4.	III.Z.6	4	3	-	7	5.00	5.00	0.00
<b>IV. General Meeting and Shareholder Relations</b>								
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
<b>VI. Remuneration</b>								
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;



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- 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

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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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