CORPORATE TRANSPARENCY AND DISCLOSURE: METRICS OF MACEDONIAN JOINT STOCK COMPANIES

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Abstract: The disclosure and transparency of joint stock companies is fostering safe and sound governing of joint stock companies and reduces the risks of corporate crises and scandals.

The purpose of the research is to identify the transparency level of the Macedonian listed companies that are obligated to comply with the Corporate Governance Code of the Macedonian Stock Exchange, according to 20 indicators related to the publication of information on the company's website and in their annual reports. The study adopts a mixed methods approach, combining qualitative and quantitative techniques. Qualitative component involved collecting and examination of data for 20 corporate governance indicators obtained from reliable sources. Quantitative analysis entailed assessing and scoring each indicator based on predefined criteria, followed by statistical processing and graphical representation of the results using Microsoft Excel.

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The research has shown that the average transparency level of analysed joint stock companies belongs to the “good” level. Considering the findings, the study provides recommendations aimed to enhance the transparency practices of Macedonian joint stock companies.

Key words: corporate governance, transparency, listed joint stock companies, transparency level

JEL: K22, C81, C38, G38

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1. Introduction

Transparency and disclosure (T&D) become a *conditio sine qua non* in contemporary business. A series of events has contributed to the growing attention on corporate governance elevating it to a central issue that is now widely discussed in corporate boardrooms, academic meetings, and policy circles worldwide. During the wave of financial crises around the world, from US and Europe to North East and Southeast Asia, corporate governance (CG) has emerged as a critical issue not just at the national level, but also within regional and international forums. In the aftermath of these events, not only has the phrase corporate governance become more of a household term, but researchers, the corporate world, and policymakers everywhere recognize the potential macroeconomic, distributional and long-term consequences of weak corporate governance systems (Claessens & Yurtoglu, 2012). The main objective of corporate governance is to protect the shareholders’ interest by pursuing the management to govern the firm in the direction which is favourable for shareholders (Mohamad et al., 2020). Therefore, the information users such as investors, rulers, academics, creditors, workforces, customers and other stakeholders increasingly demand more transparent and reliable information (Ratnayake & Rajakulanajagam 2022). Mckinsey (2002) found that over 60% of investors are depending on good corporate governance practices as a key factor in decision-making. Therefore, transparency must be a fundamental factor of a corporate governance system.

This paper explores the various dimensions of corporate governance within firms by examining extensive literature that highlights its importance and impact. The rest of the study is organized as follows: In the second section, the authors present a review of the relevant literature and brief analysis of the legal framework regarding the transparency of the joint stock companies. Third, the data and the methodology are presented. Fourth, the main results of the study are discussed. In the final section, the conclusion of the paper is given.

2. Literature review

Corporate transparency is known as one of the pillars of a good corporate governance system (Aras & Crowther, 2008). According to Rastogi and Srivastava (2010) corporate governance ensures the proper functioning of the company in terms of disclosing financial information, insurance of the company against any potential fraud, thus safeguarding the interests of both existing and potential investors. Consequently, corporate governance plays a vital role in creating a corporate culture of consciousness, transparency, and openness. Therefore, corporate transparency is recognized as a key element of corporate governance because it provides facts in relation to capital allocation, financial performance and monitoring and corporate transactions which are indeed for an effective decision making (Ratnayake & Rajakulanajagam, 2022).

The most famous definition was given for corporate transparency as availability of firm specific information to those outside publicly traded firms and viewed as the joint output of multi-faceted systems whose components collectively produce, gather, validate and disseminate information to market participants (Bushman et al., 2004). Transparency is a business enterprise’s most significant untapped competitive benefit (Gorsht, 2014) since it increases customer pride or value, client enchantment, and competitive position, i.e., transparent agencies are covered by clients, while those that are less transparent are not (Singh, Islam, Ahmed & Amran, 2019). One of the expected benefits of transparency for shareholders is increased share liquidity i.e. higher firm disclosure, higher overall liquidity of the share (Farvaqueet al., 2011).

The significance of transparency is increasing day by day, as stakeholders and investors begin to strongly request quality information about the company activities (Bhimavarapu & Rastogi, 2021) as a result of many corporate failures which had been experienced even under good governance, especially in 2008, when many companies fell down as a result of the global financial crisis. The presentation of financial statements in a more transparent and user-readable format by an organization helps in building investor‘s trust and attracts higher attention. Transparency also leads to increased market capitalization and has a competitive edge through enhancement of the public value of the firm.

The OECD Principles of Corporate Governance play a leading role in shaping and promoting good corporate governance practices globally. These principles highlighted the influence of the principle of transparency and disclosure in section IV, which states that timely and accurate disclosure on all material matters regarding the corporation, including the financial situation, performance, sustainability, ownership, and governance of the company is essential (OECD Principles of Corporate Governance, 2023). OECD Principles of Corporate Governance emphasized that easily accessible, user friendly, timely and cost-efficient access to information is the only acceptable way for informing all stakeholders. One of the meeting criteria solutions for better transparency level is setting up a comprehensive website. According to Yasan (2019), in the UK and German company law, setting up a website and publishing relevant information is considered one of the most important requirements of the corporate governance principle. The leading role of OECD Principles of Corporate Governance is confirmed in the analysis of Bosakova, Kubicek and Strouhal (2019), where they came to a conclusion that the code contents and approaches regarding the disclosure and transparency of the 11 developing and emerging countries is well covered and has a high level of compliance with OECD principles.

On the ground in Europe there are a lot of organisations and networks whose aim is to promote the corporate governance among EU members companies such as: the European Corporate Governance Institute, European Confederation of Directors' Associations etc. They accept by acclamation the principle of accountability and transparency as: "frequently voluntarily disclose more information than required by law as a means of gaining the confidence and commitment of investors and other external stakeholders" (IFC & EcoDa, 2015). The role of the EU as a stimulator of corporate transparency is undoubted, especially in the adoption of a numerous acts such as: The Shareholder Rights Directives, Directive regarding the encouragement of long-term shareholder engagement, Directive regarding the use of digital tools and processes in company law, Transparency Directive, Directive on corporate sustainability due diligence, Directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, etc.

Many studies highlight the significance of corporate transparency and good governance policies of the firm on a firm's financial performance in both developed and developing countries. A part of them confirmed the positive relationship between the corporate transparency and the financial performance of the firms. For example, the study conducted by Mohammed Osman Gani et al. (2021) confirmed that corporate transparency is positively related to performance, enhancing managerial accounting measurements. Therefore, corporate transparency is an essential tool towards maintaining a competitive advantage and enhancing a company's financial performance. Similarly, Amman et. al. (2011) investigate the relation between firm-level corporate governance and firm value based on a large and previously unused dataset from Governance Metrics International (GMI) comprising 6,663 firms' annual observations from 22 developed countries over the period from 2003 to 2007. They found a strong and positive relation between firm-level corporate governance and firm valuation. In addition to these results is the study of Abed Al-Nasser Abdallah and Ahmad K. Ismail (2017) who found that the positive relationship between governance quality and firm performance is maintained and is stronger at low levels of concentrated ownership. Rink (2020) posited that transparency significantly improves company performance and increases financial liquidity.

The approaches of reactive and proactive transparency in the public sphere, where the proactive approach means deliberation of information by initiative of the information holder, without a request being filed (Darbishire, 2010), starts to be recognized among the companies. Today, transparency is taking on a new meaning of more comprehensive and proactive disclosures instead of the release of corporate governance details or policies in a 'reactive' fashion (Fung, 2014).

The requirement to include a corporate governance statement in the annual management report of listed joint stock companies in North Macedonia, as stipulated in Article 20 of the Directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, was transposed into national legislation through the 2020 Amendment to the Law on Trade Companies. The Corporate Governance Code (hereafter abbreviated as CGC) as a soft law mechanism was introduced by the Securities and Exchange Commission and the MSE, with the support of the EBRD in October 2021. This code has demonstrated an unwavering commitment for promoting good corporate governance and strengthening the confidence of stakeholders in the securities market. From a market perspective, the CGC serves as a development tool by advancing business transparency and improving shareholder protection through more flexible and efficient corporate governance systems. Among the list of benefits of the implementation of the CGC are increased openness of companies to the public, a proper balance between management bodies and shareholders, and the overcoming of information asymmetry between management and other stakeholders (Gjorgjioska, et al., 2024)

The level of the corporate governance and transparency in the Republic of North Macedonia have been an object of analysis in only a few studies. Arsov (2012) conducted a survey on 29 Macedonian listed companies based on the companies' websites, but also on the documents they have made available through the Stock exchange's website, which is mandatory for them. The results were rather disappointing. Namely, the overall calculated transparency and disclosure (T&D) score is 35 which is at the lower end of the respective scores calculated as averages for the six continents one decade ago. To follow the improvement of the corporate governance practices by companies that should apply it, MSE issued two annual reports on the compliance of listed companies with the CGC in 2023 and 2022. The main shortcoming of the reports is that, as stated at the outset, the data were collected from listed companies based solely on their responses to the Corporate Governance Questionnaire, thus in analysing these responses, the assessment relied on the companies' self-reported compliance with specific provisions of the Code (MSE, 2024).

Considering the fact of limited studies on these issues in North Macedonia, our study aims to fill the gap in the literature review by conducting an examination of the transparency level of listed companies that are obliged to comply with CGC.

3. Data and Methodology

The prerequisites for listed companies that are obligated to comply with this code are specified in the Listing Rules of the MSE and the list of the companies is published on the website of the MSE every year. The structure of the questionnaire which listed companies should respond to is given in the Manual for the Application of the CGC of the MSE. For the purposes of this paper, data is taken from relevant segments (sub-sections 7.1, 7.2 and 7.3.) of Corporate Governance Questionnaires of analysed 26 companies that are obliged to comply with CGC, their annual reports for operation in 2023 (at the time of writing the paper they were the latest released) and the content of their websites.

A descriptive statistical analysis of these companies was conducted according to the listing subsegment they are listed, industry sector they are operating and their governance system. The fulfilment of the requirements for reactive transparency of the listed companies on the MSE in 2023 was measured according to 20 indicators, following the segments of the Governance Questionnaires. The first indicator relates to sub-section 7.1, indicators 2–11 relate to the publication of information on the company's website (sub-section 7.2), while indicators 12–20 pertain to the disclosure of mandatory information in the annual report (sub-section 7.3). The indicators include:

1. Published Annual Report and audited financial statements, as well as other mandatory information related to the Company's business operations, financial condition and ownership structure on the Company's website.
2. Special section on the Company's website (published information describing the rights attached to each class of shares, Company's Statute and other internal acts).
3. Published internal acts that regulate the manner of proposing agenda items, asking questions and proposing decisions by shareholders.
4. Published Shareholders' Assembly decisions and shareholders Questions and Answers for a period of at least five years.
5. Published details, email address and telephone number of the person appointed to contact shareholders.
6. Published internal acts that determine powers and responsibilities of the Supervisory and Management Boards/Board of Directors.
7. Published Supervisory Board profile on the Company's website.
8. Published Rules of Procedure for each Committee of the Supervisory Board/ Board of Directors.
9. Published Code of Ethics of the Company.
10. Published a procedure for protected reporting by a whistleblower.
11. Internal acts that address its responsibility for the environment and social issues.
12. The number of held meetings of the Supervisory Board/ Board of Directors and attendance by the members of the Board.
13. Activities undertaken to achieve gender representation in the Supervisory and Management Boards/the Board of Directors.
14. The succession plan of the Supervisory Board/ Board of Directors.

15. The composition of the Committees of the Supervisory Board/ Board of Directors, the number of meetings and the attendance of the Committee members.
16. Data on the remuneration of individual members of the Supervisory and Management Boards/ Board of Directors.
17. Data regarding membership in other management bodies of other companies of the members of the Management Board/Board of Directors.
18. The name of the external auditor and details of any other services that the external auditor provides to the company.
19. A summary of the communication with stakeholders undertaken during the year.
20. Information on environmental issues and issues of public interest.

The measurement was carried out individually for each indicator and for each listed company, followed by an assessment of the average transparency level of the analysed companies. Companies received a maximum of 5 points for full compliance with each individual indicator, partial compliance awarded 2.5 points, while no points were given in cases of non-compliance.

The methodology used to measure active transparency of institutions by the Center for civil communications (2022) was used for assessing the level of transparency. The final ranking of the listed companies was based on the degree (percentage) of fulfilment of obligations, which was obtained as the ratio between the number of points awarded and the total number of possible points. Here, 0 is the lowest rank, and 100 is the highest. The transparency level is divided into five groups, depending on the degree of fulfilment of obligations. Listed companies with 80 - 100% fulfilment are ranked in the "very good" group, those with 60 - 80% in the "good" group, companies with 40 - 60% fulfilment are ranked in the "average" group, with 20 - 40% fulfilment - in the "poor" group, and with 0 - 20% - in the "very poor" transparency group.

To draw a general conclusion about the transparency level of companies, the results are presented according to different parameters, while the individual results for each analysed company, as annexes to this research, can be made available to interested business entities. The graphs and tables generated by the application Microsoft Excel enable clear visualization and presentation of the results.

4. **Results and discussion**

The number of companies that are obligated to report on compliance with the Code is 26, or 30% of the total number of listed joint stock companies (Macedonian Stock Exchange, Report on the compliance of the listed companies with the CGC in 2023). Their number by listing segments is presented in the Table 1:

Table 1
Total number of companies required to report compliance with the Code, categorized by listing segment

	Super Listing	**Exchange Listing**	**Mandatory Listing**
Total Number of companies that are required to report compliance with the Code	**1**	**15**	**10**

Source: (Macedonian Stock Exchange)

This means that around 38% of the analysed companies are in the mandatory listing segment, while around 58% are in the exchange listing segment. Out of the companies analysed, 11 (42%) have a one-tier governance system, while 15 (58%) have a two-tier governance system.

Specifically, out of the 15 companies that fall under the stock exchange listing, 7 have a one-tier governance system, while 8 have a two-tier governance system. Out of the 10 companies that fall under the mandatory listing, 4 have a one-tier system and 6 have a two-tier system. The company that falls under the super listing has a two-tier governance system. Figure 1 shows the activities performed by these companies.

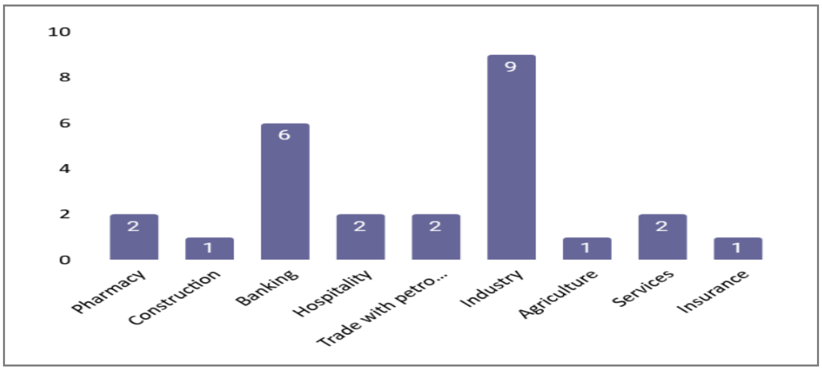

Figure 1. Number of companies by sector
Source: (authors' compilation from data published by MSE)

Figure 1 shows that the largest number of companies analysed (about 35%) belong to the industrial sector, followed by banking companies (23%), and the remaining companies are distributed across various sectors: pharmacy, catering, trade of oil derivatives, services, construction, agriculture and insurance.

The relationship between the number of companies by sector, listing segments and type of governance system is presented in the following Figure:

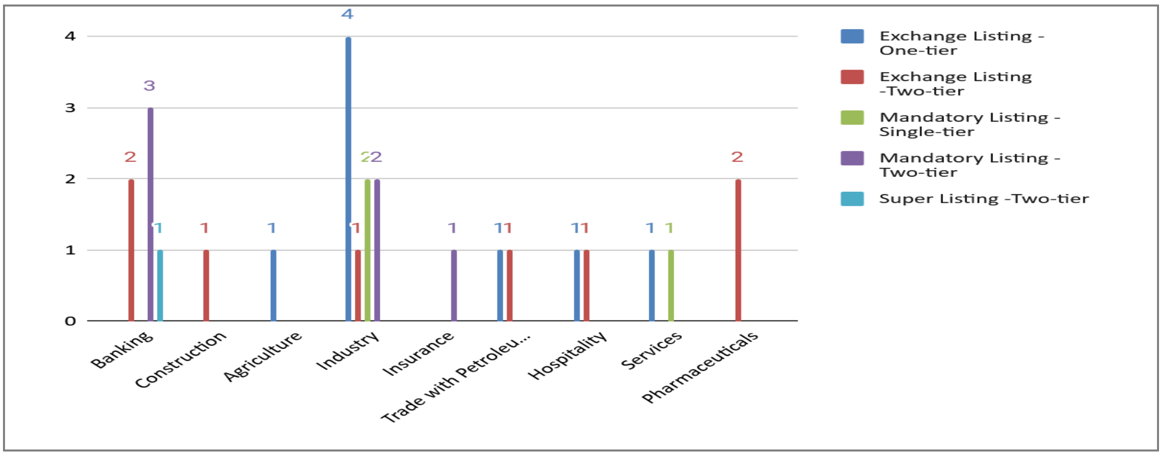

Figure 2. Distribution of companies by industry, listing segment, and governance system

Source: (authors' compilation from data published by MSE and web sites of listed companies on MSE)

The average fulfilment of obligations by individual indicators of both groups together is presented in Figure 3:

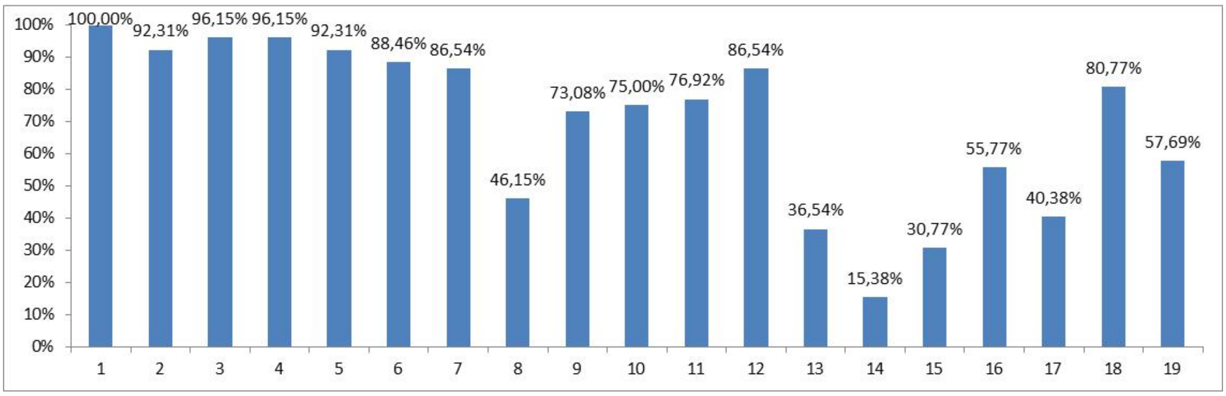

Figure 3. Average fulfilment of the transparency obligations measured by each indicator

Source: (authors' calculation)

From Figure 3, it can be concluded that the lowest percentage of fulfilment of obligations by listed companies is in the following areas: Publishing data on the succession plan of the Supervisory Board/ Board of Directors in their Annual Report (15.38%), Publishing data about the composition of the Committees of the Supervisory Board/ Board of Directors, the number of meetings and the attendance of the Committee members in its Annual Report (30.77%) and publishing data on activities undertaken to achieve gender representation in the Supervisory and Management Boards/Board of Directors (36.54%). While, the highest percentage of fulfilment of obligations by listed companies is in the following areas: publishing Annual Report and audited financial statements, as well as other mandatory information related to the Company's business operations, financial condition and ownership structure on the Company's website (100%); publishing internal acts that regulate the manner of proposing agenda items, asking questions and proposing decisions by shareholders on the Company's website (96.15%); publishing on the Company's website Shareholders' Assembly decisions and shareholders questions and answers for a period of at least five years (96.15%); availability of information describing the rights contained in each type and class of shares, as well as publication of the statute and other internal acts regulating the rights of shareholders on the Company's website (92.31%), and publishing details, email address and telephone number of the person appointed to contact shareholders on the Company's website (92.31%). The high transparency level for certain indicators is largely due to the requirements of the Law on Trade Companies, whose non-compliance is subject to misdemeanour sanctions.

The average fulfilment of all obligations is 71%. However, as illustrated in Figure 3, the average level of obligation fulfilment in sub-section 7.1 is 100%, indicating full compliance. In sub-section 7.2 (indicators 2–11), the average fulfilment rate is 82%, reflecting a generally high level of information disclosure on company websites. In contrast, the lowest average is observed in sub-section 7.3 (indicators 12–20), with a fulfilment rate of only 54.49%, suggesting significant room for improvement in the disclosure of mandatory information within annual reports. In contrast, the Report on the compliance of listed companies with the CGC in 2023 issued by MSE shows that the average compliance of companies with obligation for transparency and disclosure is 86%, the average fulfilment of the indicators related to publication of information on the Company's website (sub-section 7.2) is 62% and average fulfilment of the indicators related to the incorporation of information in the Annual Report (sub-section 7.3) is 81%. The discrepancies in the results arise from differences in the data sources used. Unlike the MSE report, which relies solely on information provided by companies through the "comply or explain" principle in their questionnaires, this paper cross-verified those responses with the content published in each company's annual reports or on their official websites. The results of the indicators 2-11 (sub-section 7.2), show that only one indicator percentage is lower than 50%, while in areas 12-20 (sub-section 7.3), four indicators have a percentage lower than 50%.

The representation of listed companies in the sub-levels of transparency is presented in the following figures:

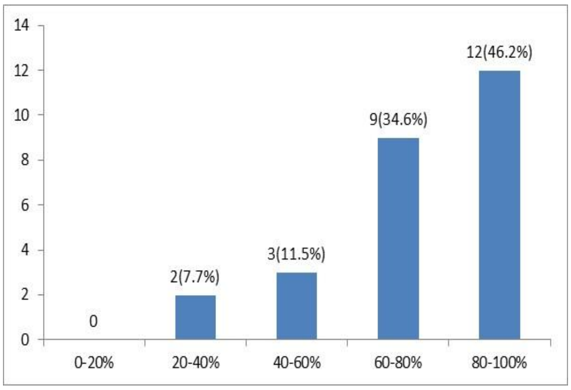

Figure 4. Representation of listed companies in the sub-levels of transparency
Source: (authors' calculation)

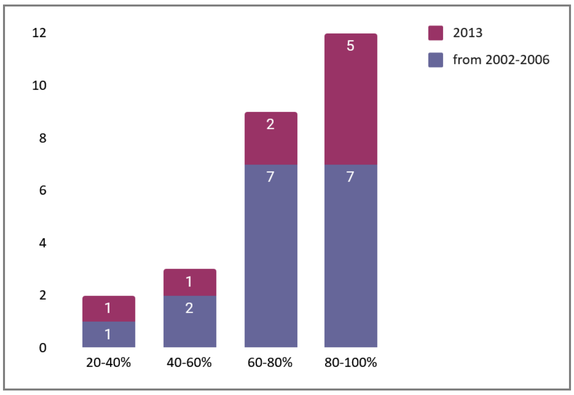

Figure 5. Representation of listed Companies by years of listing on the Macedonian Stock Exchange in each transparency levels
Source: (authors' calculation)

The average transparency of listed companies with respect to these indicators is 73%, which may be interpreted as a percentage of the reactive transparency of listed companies in North Macedonia. 12 out of 26 analysed companies belong in the "very good" transparency level category (46.2%), 9 (34.6%) of the companies belong in the "good" level of transparency, i.e. 80,7% of the companies have reached the best two transparency levels, and neither of the companies have a "very poor" transparency level.

Based on the previously conducted descriptive statistics of listed companies, several analyses were performed to determine which types of listed companies (classified by governance system, listing sub-segments, sector, etc.) belong into each transparency level.

Figure 6 presents the representation of listed companies by sector in each transparency level:

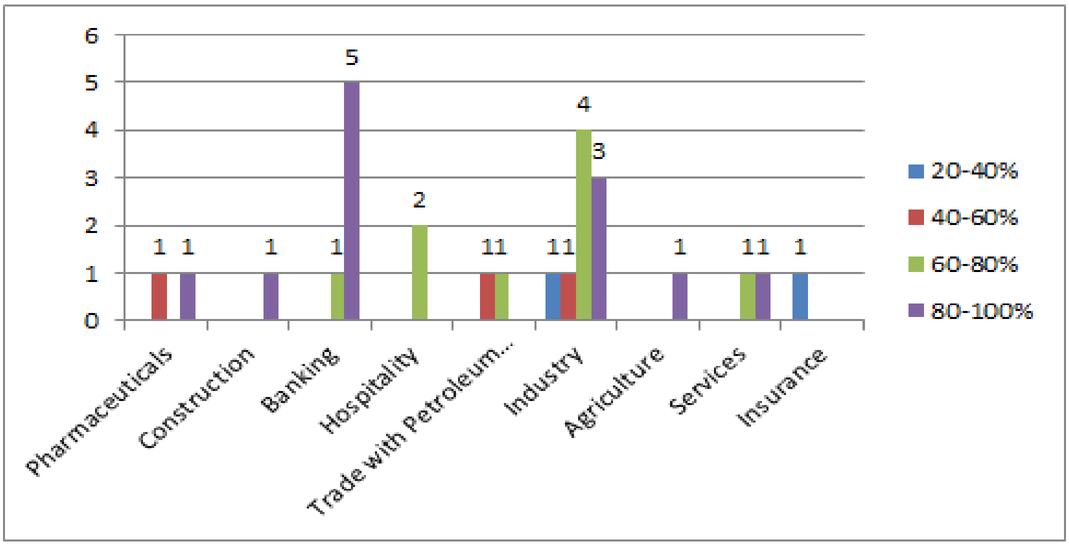

Figure 6. Representation of listed companies by sector in each transparency level
Source: (authors' calculation)

From Figure 6 can be concluded that out of the six banking institutions, five belong to the highest transparency level, one company from the construction industry belongs to the highest transparency level and one company from agriculture belongs to the highest transparency level. The average transparency level of analysed banks is higher than other sectors since banks have an additional obligation in accordance with Central's banking requirements. A positive side must be stressed out that none of the analysed companies belong in the lowest transparency level, while only one (insurance) company falls into the 20-40% level. In the service sector, one company belongs to the "good" transparency level, one to the "very good" level. In the industrial sector, one company is in the "weak" level, one in the "average" level, four in the "good" level and three in the "very good" transparency level. In the oil derivatives trade sector, one company is at the "average" level, while the other is at the "good" transparency level.

The following graphs present the representation of listed companies by listing sub-segments and the transparency levels:

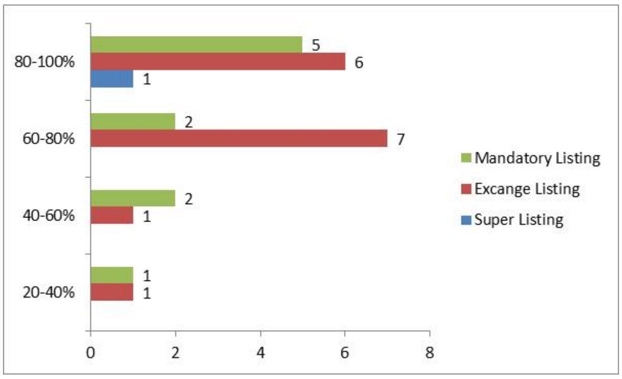

Figure 7. Representation of listed companies by listing sub segments and the transparency levels
Source: (authors' calculation)

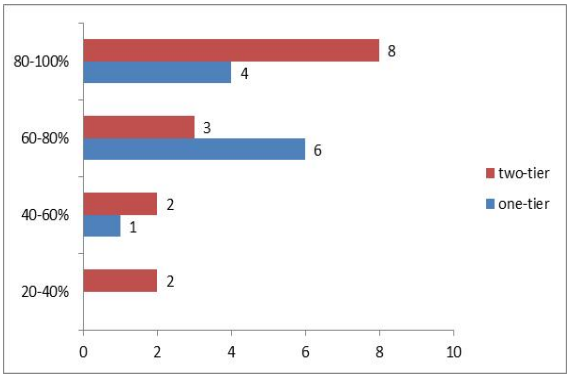

Figure 8. Representation of listed companies by governance system at different transparency levels
Source: (authors' calculation)

Figure 7 shows that the listed companies that fall into the highest transparency level are almost evenly distributed, i.e. 5 are in mandatory (50% of the total that are in mandatory), 6 in stock exchange (40% of the total that are in stock exchange), and 1 (out of 1) in super listing sub-segments. The sub-listing segment has not had a significant impact on the transparency level of companies. Due to the low number of companies representing super listing, any conclusions drawn would lack reliability.

From Figure 8 can be seen that 8 listed companies that fall into the highest transparency level have a two-tier (53% of the total with a two-tier), and 4 have a one-tier (36% of the total with a one-tier) board.

Figure 9 presents the representation of listed companies combined by governance system and sub-listing segments in each transparency level, and Figure 10 presents representation of companies with most liquid, most traded and highest share growth by transparency level:

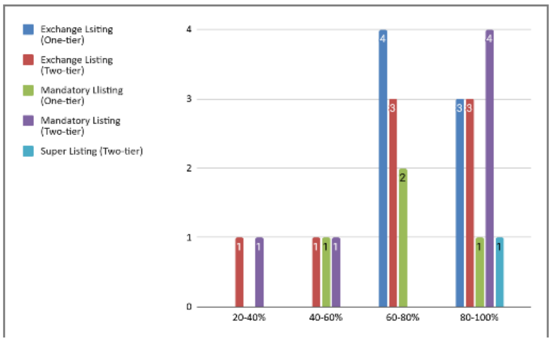

Figure 9. Representation of listed companies combined by governance system and sub-listing segments categorized by transparency level
Source: (authors' calculation)

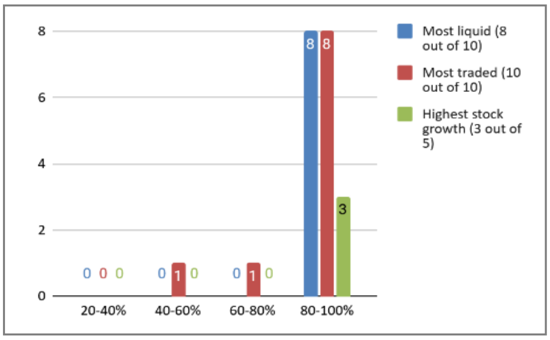

Figure 10. Representation of companies with the most liquid, most traded and highest share growth categorized by transparency levels
Source: (authors' calculation)

Figure 9 shows that the highest level of transparency is most commonly associated with the following categories: stock exchange-listed companies with a one-tier management system (43% of such companies), stock exchange-listed companies with a two-tier management system (38%), mandatory-listed companies with a one-tier system (25%), mandatory-listed companies with a two-tier system (67%), and super-listed companies with a two-tier system (represented by one company).

Based on cross-tabulation of the data from the MSE website-specifically the lists of the most liquid, most traded companies and those with the highest share price growth-with the assessed transparency levels of each analysed company, Figure 10 reveals the following: all 8 analysed companies that appear on the list of the 10 most liquid and 80% of most traded companies demonstrate the highest level of transparency. All 3 analysed companies among the 5 with the highest stock price growth also exhibit the highest transparency level (the other 2 most liquid companies and 2 with highest stock price growth do not have an obligation to comply with the CGC). The results confirmed that these companies fully meet the transparency requirements set by the CGC. The strong transparency practices observed among the most liquid, most traded and listed companies with the highest stock price growth should serve as motivation for other companies aiming to be included in top-tier rankings.

Conclusions

The benefits of corporate transparency for both the companies and investors are well known, thus the latest reforms in corporate governance emphasized the importance of transparency.

The results of the research based on comprehensive analysis of the transparency level of all joint-stock companies that are obligated to report on compliance with the CGC by cross-verifying the answers on the Questionnaires and the content published in each company’s annual reports or on their official website, have shown that the average fulfilment of all obligations is 71%. The obligations of the first group indicators related to publication of information on the Company's website (sub-section 7.2) shows an average fulfilment in 2023 of 82% and indicators related to the incorporation of information in the Annual Report (sub-section) shows fulfilment of an average 54,49%. The best scores of transparency by all analysed companies are shown in points 1, 3 and 4 of the Questionnaire

(100%, 96.15% and 96.15% respectively) that are in the domain of mandatory transparency-stipulated obligations with Law on trade companies. The lowest percentage of obligations fulfilled by listed companies are shown in the points 14, 15 and 13 of the Questionnaire (15.38%, 30.77% and 36.54% respectively).

The average transparency level of all analysed companies for all indicators is 73%, which means that the Macedonian companies can be categorized in companies with "good level" of transparency and almost half of analysed companies belong in "very good" transparency level.

The crossed analysis showed that the best score of transparency by industry or sector was reached by the banking institutions. A conclusion may be drawn that the governance system of the companies, the sub-listing segment and the time lapsed since the companies were listed on the MSE have no significant influence on the transparency level.

A limitation of the research that must be emphasized is that the CGC is currently mandatory only for listed companies that meet certain criteria and according to the North Macedonia 2024 Report, the Code should apply to all listed companies (European Commission, 2024). The mandatory implementation of the Code across all listed companies will enable more comprehensive assessments of transparency in future research.

Strengthening the quality of disclosed information would enhance access to qualitative data and support a more proactive approach to corporate transparency. Accordingly, the following recommendations are proposed:

- A standardized template for annual reports should be introduced to ensure consistency and comprehensive coverage of all required elements from the Corporate Governance Questionnaire;
- Listed companies should place greater emphasis on providing comprehensive explanations related to data disclosure in their annual reports;
- The use of the "Not Applicable" option in the Questionnaire should be clearly defined to prevent misuse, particularly in cases where companies may attempt to avoid certain obligations;
- Minimum web design standards should be implemented for corporate websites, specifically regarding the presentation and accessibility of transparency-related information.

The managing bodies have the final authority on what information is disclosed and how it is made publicly available. Transparency should not be viewed merely as a compliance tool - it must be recognized as a strategic asset.

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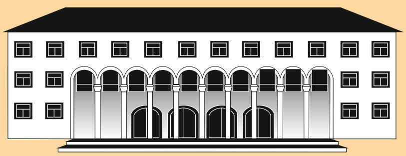

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CONTENTS