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# The Determinants of the Financial Reporting Quality: Empirical Evidence for Romania

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## Abstract

*The issue of the financial reporting quality has aroused the interest of several researchers whose views converge on the idea that it can be influenced both by factors related to the internal environment of the company, the corporate governance system, the activity of auditors and not only, and also by macroeconomic factors, such as the legal and political system of a country or community or certain accounting/ tax policies. The objective of the research is to highlight, starting from a model validated by Iatridis (2011) for companies in the United Kingdom, the way in which microeconomic factors influence the financial reporting quality of Romanian companies listed on the Bucharest Stock Exchange. The analysis is carried out for the 2013-2019 period. The results indicate that the companies that produce high quality financial reports are large and generally have a high operating cash flow rate, relatively low provisions and disclose more information. Also, these companies are audited predominantly by auditors who are not part of the BIG 4 group.*

***Key words:*** *financial reporting quality; qualitative characteristics; determinants of financial reporting quality; conservatism;*

***JEL Classification:*** *G30; M41*

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## Introduction

The accounting literature is abundant with papers aiming to measure the quality of financial and accounting information, the quality of results and overall financial reporting (i.e., accounting quality), while also focusing on the many factors impacting it. The relevance and intensity of the influence of these factors differ, however, from one economic space to another, the identification of their action being a necessary step, which can contribute to the efficiency of communication on the capital market.

The paper investigates the dimension of identifying and evaluating the influence of different factors on the quality of financial information reported in the Romanian economic space, completing the existing literature. By reporting to the information specific to Romanian companies listed on the Bucharest Stock Exchange, analyzed over a time horizon of 7 financial years (2013-2019), the contribution of some factors (indicators) on the quality of financial reporting was analyzed. The factors considered were either *built on the basis of accounting data* or *characteristic of the organization of the company* or *specific to the business environment of which it is part.*

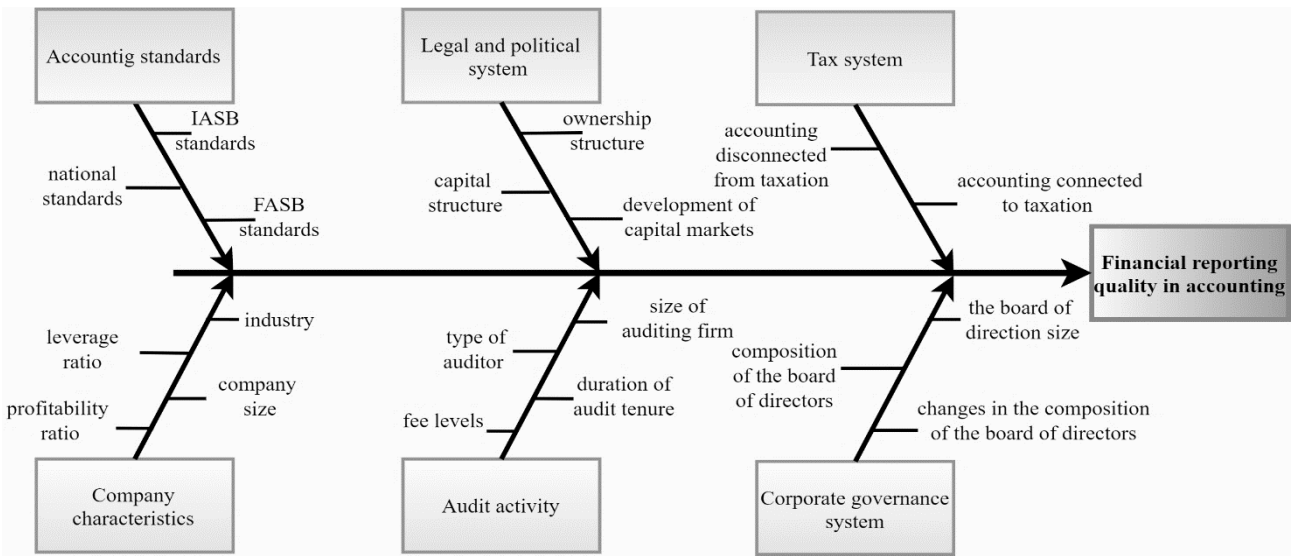
The results indicate that companies that have a high level of financial reporting quality are higher and, implicitly, more visible on the market, have a higher operating cash flow rate, have relatively low values of provisions, present more information, and are audited by an auditor outside the Big 4 group.

The content of the article is structured in three sections: the first part is a review of the literature, from the perspective of factors that may influence the quality of financial information, the second part reveals the methodological approach and the third part presents the results and discussions. The paper ends with the presentation of the main conclusions drawn from the analysis.

## 1. Factors with a significant influence on the quality of financial information

The quality in accounting can be seen both from a microeconomic perspective, as it is influenced by factors that relate to the conduct of business in the company, the corporate governance system, and the auditors' activity, and from a macroeconomic perspective, seeing as there are many factors outside the company that most often concern the legal and political system of a country or community (such as with the European Community) or certain accounting/ tax policies valid therein. The main factors, internal and external, with an influence on the quality of financial information, results and financial reporting as a whole are captured in ***Figure no. 1***.

***Figure no. 1. The determinants of quality in accounting***




*Source: Authors' processing after Soderstrom and Sun, 2007, p. 688; Dechow, Ge and Schrand, 2010*

Of the aforementioned factors, the most frequently analyzed is the one referring to the use of *accounting standards*, particularly the International Financial Reporting Standards issued by IASB. The accounting literature in the last decade comprises a variety of studies that focus on different aspects of IFRS implementation in numerous countries, including Romania. Although it may be seen as the most important external factor, Soderstrom and Sun (2007, p. 688) state that, in reality, the conversion to IFRS and implicitly the use of a unique set of accounting standards may not necessarily help increase the level of financial reporting quality for every firm and country due to certain additional factors that relate to the legal, political and tax systems in the respective country, as well as factors that relate to the actual financial reporting. Givoly et al (2014, p. 6) also posit that in reality, the quality of information provided to users is not just a product of international accounting standards. This is impacted by the incentives of those who draft the financial statements, of managers, who in their turn are dependent on political, social and legal forces and their interaction. Soderstrom and Sun (2007, p. 690) illustrate one first influence of the *legal system* from the perspective of its regulating role that enables the development or enforcement of the regulatory framework. This role is particularly important when considering financial reporting quality following the adoption of International Financial Reporting Standards or, as applicable, after getting national accounting standards in line with European Directives, as is the case for many states, including Romania. The authors also point out that the influence of the legal system can be acutely experienced when considering the two types of legal systems, namely the one governed by common law (as is the case in Anglo-Saxon countries) where the manner for determining accounting standards derive from the requirements of investors instead of the government, and accounting standards are largely determined by private organizations (FASB, IASB), and the one governed by Roman law, which allows governments to control how laws are established and interpreted.

The fact that in Anglo-Saxon countries accounting standards are developed in accordance with the investors' requirements by specialized bodies can be seen as one of the reasons why the accounting literature deems these superior in terms of quality and transparency (as is the case of IFRS described in the literature a high-quality accounting standards (Dimitropoulos *et al.*, 2013; Palea, 2013; Ball, 2016).

Regarding the influence exerted by the *tax system*, it should be noted that in countries where accounting is connected to taxation (as is the case of Romania, described in the literature as partially connected to taxation - Cuzdriorean, 2011), where fiscal administration bodies and banks are still the primary recipients of accounting information, managers are concerned with achieving certain tax goals to the detriment of drawing capital from the market, thus choosing to apply accounting methods that result in diminished profits. Accounting methods that are conducive to increasing profits are preferred by highly leveraged companies, by those promoting a dividend granting policy, as well as by companies where managers' remuneration is conditional upon the size of earnings or where managers have share ownership (Tulvinschi, 2017, p. 112). We can conclude that during periods when the taxation burden is deemed too heavy, there is an ever-growing tendency to reduce it and, implicitly, to manipulate earnings, which has a direct impact on financial reporting quality (Lin, Lu and Zhang, 2012; Kapoutsou, Tzovas and Chalevas, 2015; Sousa, Gonçalves Góis and Viseu, 2019).

The category of internal factors includes determinants of the financial reporting quality regarding *company characteristics* (aspects regarding the leverage ratio, profitability ratio, industry etc.), *audit activity* (auditor's nature, type of auditor, size of auditing firm, duration of audit tenure, or fee levels) and the *corporate governance system* (where we distinguish factors such as the composition of the board of directors, size of the board, changes occurring within the board, etc.).

The company characteristics entail factors such as: industry, company size, capital structure, investment level, leverage ratio, profitability/cost-effectiveness ratio (Cohen, 2003; Dechow, Ge and Schrand, 2010; Iatridis, 2011; Fathi, 2013).

As for the *industry* in which the company operates, Inchausti (1997, p. 56) presents some assumptions on its role with respect to the quantity and quality of information provided to users. Aside from mandatory information, there is a possibility for firms to offer additional data specific of the industry they operate in. Moreover, the author posits that companies in the same industry tend to provide users with information that is very similar in nature, thus aiming to respect a uniform information

submission policy. In close connection, Fathi (2013, p. 321) posits, without referencing information quality, that a company pertaining to a certain industry could be seen as an explanatory factor for the presentation of financial information. The example provided by the author refers to companies in the manufacturing industry, which are required to provide information regarding competition, product differentiation, increasing demand, demand volatility, and risks.

As for *company size*, the results obtained by Iatridis (2011, pp. 91-92) indicate that the companies presenting high quality financial reports are generally large and have market visibility. The author posits that improving the quality of financial reports appears to be positively correlated with company size, liquidity and stock exchange listing, which would mean that large and visible companies are inclined to provide high quality financial information. Concurrently, according to the author, the trend of small and recently listed companies would be to consolidate their financial reporting quality in order to show that future financial performances will improve, and thus to attract new investors. Dechow et al (2010, p. 86) state that company size can be seen as a significant indicator of the type of visibility that influences estimated political costs. Inchausti (1997, p. 53) states that large companies are expected to present a much larger volume of information, because the assumption is that the need for financing is much higher for large companies than for small ones. Consequently, there will be several potential conflicts between owners, lenders and managers, and the provision of information can be used in order to reduce agency costs and informational asymmetry between the company and current and potential investors. Given that the amount of information and its quality do not have the same meaning, the presentation of information, in particular the provision of more information to users, can be viewed with reluctance by users. The study conducted by Rahman & Hasan (2019, p. 15) presents a significant relation between company size and the quality of financial information. The authors believe that large companies are inclined to present more quality information, because unlike small companies, they are more investor-centered.

The *structure of the capital* and, in close connection, *the leverage ratio* are also factors of an internal nature that influence the financial reporting quality. The use of debt in the capital structure varies from one country to another, from one industry to another and at the same time from one company to another, depending on the financing needs of a company, as well as the desire and ability of shareholders to provide funds to a company (Ahmad and Alrabba, 2017, p. 498). In the accounting literature, capital structure is frequently correlated with the issue of informational asymmetry, as well as with the agency theory. To this end, Soderstrom & Sun (2007, 693) assert that shareholders and lenders use different methods to reduce informational asymmetry. When investors resort to stock exchanges for placing capital, they rely on the financial reports of a company and expend resources to obtain this information. Sun (2006, p. 2) posits that capital market investors reduce informational asymmetry by requesting extensive public information, while banks reduce it via private communication with managers, such as regular meetings with loan officers. Consequently, financial reporting is expected to be more useful for companies that depend on capital financing. Lin & Lee (2016, p. 145,157) state that the theory of traditional capital structure suggests that determining an optimal capital structure is achieved by balancing the costs and benefits associated with different degrees of financial leverage. Lin & Lee (2016, p. 157) posit that companies having high levels of financial reporting quality tend to adopt the equity financing method, an idea also supported by Soderstrom & Sun (2007, p. 693) who have identified a lower level of returns quality in countries where company financing is made predominantly via banks.

One of the factors directly impacting accounting quality, with an emphasis on the quality of results, is the *profitability* of the entity. A profitable company could provide users with more information in order to consolidate the credibility of reported results and to enhance its reputation. In other words, companies tend to communicate information more often when the result is positive, and low financial performances become grounds for earnings management (Fathi, 2013). Managers that fail to maintain steady profits or contribute to increasing the profits could resort to earnings management and misrepresenting the financial performance of the company in order to ensure their continued tenure (Summers and Sweeney, 1998, p. 136). The agency theory suggests that managers of highly profitable firms will use detailed information to obtain personal benefits. Consequently, they will disclose such information in order to preserve their

position and contracts. The signaling theory[1] assumes that owners will be interested in offering "good news" to the market in order to avoid their stock being underestimated. According to the political process theory[2] high profit companies will be more interested to disclose more information in order to justify their profit rates (Inchausti, 1997, p. 54). The results obtained by Sun & Rath (2009, p. 1119) suggest that company size and return on assets (ROA) play a major part in determining the direction of earnings manipulation. Using the case of Australian companies, the authors state that small companies with low levels of return on assets have much higher chances of resorting to earnings manipulation techniques. Iatridis (2011) states that it is to be expected for company profitability and high financial reporting quality to be correlated, as this can be seen as a rational choice on behalf of the management.

The public interest role of audit means that a community of people and institutions rely on the quality of an auditor's or audit company's activity. A high quality audit will contribute to the orderly functioning of markets by improving the integrity and efficiency of financial statements (European Parliament and European Union Council, 2014, l. 1). As we can also see in the EU Regulation no. 537/2014, auditors are assigned a very important role in the social sphere, as they ensure the objectivity, transparency and reliability of the financial reports provided to the public. The most frequently encountered quality determinants focusing on the audit activity entail factors such as: *the type of auditor*, *duration of tenure* and, in the same vein, *auditor rotation* and *fees charged by auditors*. The accounting literature places these factors first and foremost in the category of audit quality determinants, starting in this sense on the assumption that a quality audit is implicitly conducive to high-quality financial reporting.

The auditor's membership in the Big N[3] group is seen in the literature as a sign of the quality of the audit activity. To this end, DeAngelo (1981, pp. 189–190) and Sirois et al. (2016, p. 113) argue that the size of the audit firm is a proxy for quality (auditor independence). For a large auditor, each client is important because failing to act to meet the requirements of a particular client would jeopardize his or her reputation. On the contrary, an audit firm with a single client can conclude that it has more to gain by meeting that client's requirements and reporting in an erroneous manner than if it is thorough and risks being fired. Francis (2004, p. 352) argues that the audit performed by members of Big 4 does not mean an implicit superiority in terms of quality, but that the audits of Big 4 companies as a group will be, on average, of better quality than those of other (smaller) accounting firms.

The results obtained by Lopes (2018) suggest that there is a relation between the quality of audit and earnings management. According to the author, the level of earnings management is significantly lower in companies reaching out to Big 4 audit companies, compared to companies using a non-Big 4 audit company. A study on the perceived quality of audit in terms of the preparers of the financial statements, the users of audit reports and the auditors conducted by Gray & Ratzinger (2010, p. 344) reveals that stakeholders believe that large and multinational companies should use the services of a Big 4 auditor, due to the latter's expertise (in this case the assumption is that all Big 4 companies interpret standards in the same manner, significantly diminishing the probability of errors occurring for this reason). Other types of companies can resort to non-Big 4 auditors, as study results suggest that smaller audit companies will provide the same quality audit as the 4 major companies.

[1] The theory describes the behavior when two parties (persons or organisations) have access to different information. Typically, one party (the sender) has to choose if and how to communicate the respective information, while the other party (the recipient) has to choose how to construe the signal (Connelly *et al.*, 2011).

[2] Also known as the "theory of political opportunities", the political process theory provides an explanation for the conditions, thought process and actions that make social movement successful in reaching its goals. According to this theory, the political opportunities for change first have to be present before a movement can achieve its goals (Crossman, 2019).

[3] We are using the generic Big N name as the literature highlights that before 1989 the group was known as the Big 8, from 1989 to 1997 it was known as the Big 6, then it became the Big 5 between 1998 and 2001; then, after the 2002 crash of the Arthur Andersen company, the final name that remained was the Big 4 (Wootton, Tonge and Wolk, 1994; Bamber and Iyer, 2002; Ferguson and Stokes, 2002; Krishnan, 2003; Francis, 2004, p. 346; Francis, Michas and Yu, 2013; Eshleman and Guo, 2014)

We can thus conclude that hiring a Big 4 member for completing the audit mission is most often seen as a plus in the accounting literature in terms of audit quality and implicitly overall quality. However, we cannot state that quality audit ca be correlated exclusively with company auditing by Big 4 auditors, as there are papers such as those by Chang, Cheng and Reichelt, 2010; Lawrence, Minutti-Meza and Zhang, 2011; Alves, 2013; Chen, Elemes and Lobo, 2018, which present conflicting results suggesting that not only Big 4 members provide quality services, thus casting doubt over this Big 4 supremacy "myth". Chen et al (2018, p. 1) state that because the clients' demand can be determined more by their tax goals rather than their financial reporting quality goals, and seeing as their structure is less optimized for providing audit services at low costs, the four major auditors may be less incentivized than non-Big 4 auditors to improve the quality of financial reporting in private companies.

Chu et al (2018, p. 528) introduce the issue of *duration of an auditor's tenure***.** In their opinion, as the company auditor has an essential part in certifying the reported book values, one obvious question is if the auditor's tenure – which helps the auditor acquire specific knowledge of the company and to conduct efficient audit examinations – has a positive or negative effect on financial reporting quality. The duration of the audit tenure is a delicate matter, a double-edged sword. On the one hand we can state that an extended duration of an auditor's tenure helps the latter acquire solid knowledge about the audited entity, being able to more easily discover errors, discrepancies and instances of attempted fraud. On the other hand, increasing the dependency on that client as a result of wishing not to lose the contract, particularly when contracts with large, famous and financially potent companies are under discussion, could lead to compromising the quality of the audit service.

Using two proxies for financial reporting quality and a sample of Big 6 clients that are similar in terms of size and industry, Johnson et al (2002, p. 637) ascertain that a relatively short tenure of around two to four years is associated with low quality financial reports. Moreover, the authors did not find proof regarding the association between low quality in financial reports and audit tenures exercised over extended periods of time of 9 years or more.

In order to analyze the influence of corporate governance on the financial reporting quality, we considered it relevant to start from one of the most well-known and used definitions of the term (Napier and Shah, 2015), respectively the one presented in the Cadbury report in 1992, according to which the corporate governance system is: *„the system via which companies are led and controlled".* Boards of directors are in charge of governing their companies, and the role assigned to shareholders in the governance is to appoint the directors and auditors and to make sure there is an adequate governance structure. The responsibilities of the board of directors include the stability of strategic goals, monitoring their enforcement, supervising the management of business and reporting results to the shareholders (Alzoubi, 2012, p. 249). According to the agency theory*, the characteristics of the board of directors* (characteristics such as size, composition, independence and number of tenure years, etc.) may affect the quantity and quality of financial information provided by the company (Fathi, 2013, p. 321). Also, in close connection with the role assigned to the board of directors, the accounting literature pays attention to the characteristics of *auditing committees* which, pursuant to Directive 2006/43/EC, should mandatorily exist in public interest institutions.

As for the *size of the board of directors*, which is one of the most frequently analyzed factor alongside board composition and independence, there are conflicting results on the influence exercised by this factor. On the one hand, the literature presents a negative relation (the larger the board, the lower the financial reporting quality drops); on the other hand, there is also a positive influence (the belief being that a larger board is comprised of members with different specializations, concerned with providing such knowledge and skills to the company in order to please the shareholders). For instance, Xie, Davidson III and DaDalt, 2003; Bradbury, Mak and Tan, 2006; Fathi, 2013; Htay, Mohd Said and Salman, 2013; Zona, Zattoni and Minichilli, 2013; Chakroun and Hussainey, 2014; Akeju and Babatunde, 2017; Al-Shaer, Salama and Toms, 2017 have identified a positive relation between board size and financial reporting quality. These results imply that better quality of annual reports could be achieved by increasing the size of the board (Htay, Mohd Said and Salman, 2013, p. 242). Xie et al (2003, p. 300) posit that a larger board could be better for preventing earnings management compared to a smaller board, because larger boards may include several independent directors with solid corporate and financial expertise. The authors prove that

there is a significant negative connection between large board of directors and the level of discretionary accruals and suggest that a larger number of experienced directors helps prevent earnings management.

Alternatively, authors such as Kao and Chen, 2004; Abdul Rahman and Haneem Mohamed Ali, 2006; Byard, Li and Weintrop, 2006; Cheng, 2008 presented evidence certifying that there is a significant negative relation between board size and financial reporting quality, suggesting that in the case of small boards there is a higher possibility of obtaining quality financial reports. One explanation in this regard was provided by Kao & Chen (2004, p. 98) and Fathi (2013, p. 321), who state that the large size of boards of directors contribute in increasing communication and coordination deficiencies, and also reduces the directors' capacity to supervise the management.

The influences to be considered, aside from those regarding the characteristics of the board of directors (composition, structure, independence of members) focus on the *changes* occurring in the composition thereof (changing one or several members) and in the executive management (by changing the CEO, the CFO, etc.). Seeing as the literature presents examples where the change occurring in the management of a company may lead to earnings management in such company (particularly via provisions under the so-called "big-bath" provisioning scheme), it is important that we mention the consequences of the changes occurring in the management of a company in terms of company performance, as well as on the reporting quality thereof.

Pourcieu (1993, pp. 321-322) states that each change to the management team is unique and occurs as a result of a variety of circumstances. It is also a known fact that new managers try to accuse those previously in charge of poor performances, allowing the new management team to take credit for improved performances. Jones (2011, p. 33) asserts that when the management of a company changes, the new management tends to blame former managers for all the poor results. The so-called "big bath" technique is adopted, via which poor results will be made to appear even poorer, allowing the new managers to get started from a low baseline and enhance future results.

Denis & Denis (1995, pp. 1029-1030) have demonstrated that when the board of directors, aiming for shareholder wealth maximization, decides to remove underperforming managers and appointing suitable substitutes, this change will bring about significant improvements in the performance of a company. However, this solution proves useless in two cases. Firstly, managers can voluntarily resign from underperforming companies, perhaps to avoid lawsuits filed by shareholders. Secondly, the boards of directors in corporations may replace the managers of underperforming companies, even though the managers are not responsible for the poor performance. Thus, neither of these scenarios is necessarily about a management change geared towards improving performances. To this effect, Gois (2009, p. 7) states that the accounting literature centered on changing the CEO is primarily used to understand this change as an internal control mechanism and that it is typically associated with a low level of company performance. Francis et al (2008, p. 112) have ascertained that companies with a low level of results' quality are more susceptible to hiring new executive officers with better reputations compared to previous directors. Nevertheless, Geiger & North (2006, p. 781) state that the CFO has a substantial control over the financial results a company reports, and following their study they ascertained that discretionary accruals dropped significantly after appointing a new CFO, without such a change also entailing the appointment of a new CEO. Huson & Malatesta (2004, pp. 241-243) find that the performance of a company is at a low level before changing the management, thus indicating that boards of directors "reward" managers' poor performance by replacing them.

The *audit committee* is a subcommittee of the board of directors, providing an easier mean of official communication between the board of directors, the internal monitoring system and the external auditor. In fact, the audit committee fulfills management supervisory roles in terms of audit, financial reporting, internal control and risk management within organizations, ergo it is expected to protect the shareholders' interest (Alves, 2013, p. 147). The board of directors delegates the responsibility to the audit committee to enhance the relevance and reliability of presented financial information, and these can be seen as a monitoring mechanism that leads to increasing the quality of information flow between shareholders and managers (Fathi, 2013, p. 323). Tavierne (2019) states that organizing such a committee for a company is a mean of proving transparency, ethical financial behavior and proper business management. The results obtained

in the accounting literature regarding the influence exercised by the existence of such a committee, the size, compositions and quality thereof, as well as other elements such as members' independence on the quality of financial reporting lead to different opinions. The results obtained by Rainsbury et al (2009) indicate that there is no significant association between the quality of an audit committee and the financial reporting quality, and Bajra & Cadez (2018, p. 161) argue, on the one hand, that only the official existence of an audit committee is negatively associated with the quality of financial reporting. On the other hand, the authors analyzed the impact of the audit committee's competencies on monitoring the effectiveness and quality of financial reporting in a sample of listed companies in the main European Union stock exchanges, finding that these competencies are positively associated with the financial reporting quality. Similarly, Alves (2013, p. 158) concludes, based on the study undertaken for Portuguese companies, that the existence of an audit committee and the external audit do not independently limit earnings management, but only these two taken together lead to a reduction in earnings management, which implies a high level of financial reporting quality. Felo et al (2003, p. 1) have analyzed the relation between two characteristics of the audit committee (*composition* – estimated function of members' expertise and independence – and *size of the audit committee*) and the financial reporting quality; their conclusion was that there is a positive connection between the percentage of audit committee members with accounting or financial management expertise, the size of the audit committee and financial reporting quality, and that concurrently the independence of the committee does not influence the financial reporting quality. The results obtained by Pomeroy & Thornton (2008, p. 1) following their meta-analysis, contrary to the results obtained by Felo et al (2003), identify the independence of the audit committee as the most frequently selected metric for audit committee quality, which contributes in fact in enhancing the quality of financial reporting. Kusnadi et al (2016, p. 197) confirm that having a „mix of knowledge" in terms of accounting, taxation and management in audit committees is likely to lead to an increase in financial reporting quality.

Another category of factors that influence the quality in accounting is related to the socio-cultural environment. Hofstede defines culture as "the collective programming of the mind distinguishing the members of one group of people from others". The author states that this determines the identity of a group of people the same way that personality determines an individual's identity, and the word itself is reserved for nations, while the term "subculture" is used for an organization, profession or family (Hofstede, 1980, p. 24). As stated by the author, the national culture of any country can be described using four dimensions: *power distance*, *individualism*, *avoidance of uncertainty* and *masculinity*. Starting from the dimensions proposed by Hofstede, Gray (1988) postulates the existence of an *accounting subculture* and presents, in turn, the following four cultural dimensions: *professionalism versus statutory control; uniformity versus flexibility*; *conservatism versus optimism;* and *discretion versus transparency*.

The first dimension, *professionalism versus statutory control,* was proposed in a context where accountants have the possibility to adopt independent attitudes and exercise their individual professional judgements to a greater or lesser extent across the world. Strongly correlated to this is also the matter of the extent to which the accounting profession should be subject to public regulation or to regulation by professional associations. The second dimension, *uniformity versus flexibility*, was proposed because attitudes towards uniformity, coherence or comparability have always been seen as universal principles in this domain (Tanaka, 2014) and are to this date incorporated as qualitative characteristics of accounting information worldwide, which is why this dimension can still be deemed significant. The *discretion versus transparency* dimension stems from management and accounting alike, on account of the influence of leadership on the quantity of information made available to users. It would also appear that discretion is tightly connected to conservatism, to the effect that both values entail a caution approach to financial reporting, with discretion being connected to reporting and conservatism to measurement (Gray, 1988, p. 11). The last dimension, *conservatism versus optimism,* can be deemed a significant dimension of the book value, as conservatism is thought of as the oldest and probably the most wide-spread principle of accounting evaluation. Gray (1988, p. 10) sees conservatism in measurement as a fundamental attitude of accountants across the world. Moreover, it fluctuates for each country, ranging from a highly conservative approach in Continental-European countries to a much less conservative attitude specific of Anglo-Saxon countries.

Following the analysis of the literature, a mixture of influences exerted by different factors can be identified, without there being universally valid results, which provides support for further analysis of the determinants of the financial reporting quality.

Thus, starting from the informational landmarks identified in the literature, we aimed to test the following hypotheses:

**H1:** *A series of factors, such as return on assets (ROA), leverage ratio (TLSSFU), cash flow rate (OCF), size of the company (LNA), equity need (ECN), debt capital need (DCN), earnings variation (ΔE), the provisions/ total debt ratio (Prov/ TL), the provisions/ assets ratio (Prov/ A) and, respectively, conservatism (Fconserv), significantly influence the financial reporting quality*.

**H2:** *A number of factors, such as the amount of information presented (PC), the change in the management team (MC), the number of shares (SH), the type of auditor (AU), the industry (I) and the auditor's years of tenure (AUyears), significantly influences the financial reporting quality*.

## 2. Research methodology

The study aims to analyze the level of financial reporting quality for Romanian companies from the perspective of its determinants. The analysis includes a total of 58 companies listed on the Bucharest Stock Exchange (BSE) on the Standard and Premium tier. From a total of 83 listed companies registered in 2020 we excluded some companies as follows:

12 financial institutions, financial investment institutions, mutual funds and other similar financial entities;

13 companies for which it was not possible to collect data for the analysed period.

The data for the analyzed variables were manually collected from the individual financial statements of companies, reported in accordance with IFRS. The time frame considered for regressions pertained to the 2013-2019 period. We opted for this time interval, as 2012 is the first year when companies listed on the Bucharest Stock Exchange prepared their financial reports in line with IFRS and, at the time of data collection, we identified a series of adjustments that would significantly impact the assessment of financial reporting quality using the proposed index. Our primary source of data collection was the *www.bvb.ro* website, and in some cases (either on account of data unavailability on *www.bvb.ro*, or to ensure the confirmation of certain data) we accessed the websites of the analyzed companies. For each year, we considered all 58 companies, thus totaling 406 observations.

To test the working hypotheses, the study classifies Romanian companies in the sample based on the quality of annual reports in *companies with a high level of financial reporting quality* and *companies with a low level*. The separation of financial reports in this study into the two categories was based on a quality assessment tool that would evaluate the financial reporting quality using the fundamental and enhancing qualitative characteristics proposed by van Beest, Braam and Boelens (2009). The classification proposed by Iatridis (2011) is based on the examination of financial statements of companies using a check list proposed by the Investor Relations Society (IRS) which considers items that are similar to those used by van Beest, Braam and Boelens. The instrument proposed by the authors and used as such in this research is an index comprising 21 items, grouped into five sections: two for relevance and faithful representation – fundamental qualitative characteristics and three for understandability, comparability and timeliness – enhancing qualitative characteristics and was validated in the case of Romanian companies by Ciocan & Georgescu (2019). No separate items were created for the fourth enhancing qualitative characteristic proposed by the IASB Conceptual Framework, i.e. verifiability, as Van Beest, Braam and Boelens (2009) included it in the measurement tool as a sub-position of faithful representation. Each item is evaluated using a five values scale that allows us to examine the extent to which the financial reports meet each of the qualitative characteristics. Based on the assigned values, we calculated a score that comprises both **fundamental** and **enhancing** qualitative characteristics, the first weighing 67%, its components being considered by the Conceptual Framework as the most important in relation to the quality of financial reporting. Financial reporting quality, as a dependent (explanatory) variable, takes the form of a dummy variable used for logistic regression and which:

- takes the value 1 for high quality annual reports – for cases where the calculated score, comprising both fundamental and enhancing qualitative

characteristics, has values comprised in the [3,5] interval.

- takes the value 0 for low quality annual reports – for cases where the calculated score has values comprised in the [1,3] value, the value 3 being deemed in the two cases as the intermediate point on the scale of values used to assess quality.

Considering the proposed dependent variable, the study implements a series of logit models, via which the explanatory variables are strictly accounting ones (the equations (1), (2) and (3)), followed by logit models via which the explanatory variables are a mixture of general attributes specific of the company [the equations (4) and (5)]. The study targets the 2013-2019 period, and the proposed equations start from the models proposed by Iatridis (2011) – equations (1), (4) – to which we add a series of new variables that target the use of provisions, in their capacity of instruments for risks assessment and the opinion of external auditors regarding conservatism compliance.

The proposed equations are as follows:

$$AQ_{i;t} = \beta_0 + \beta_1 ROA_{i;t} + \beta_2 MVBV_{i;t} + \beta_3 TLSSFU_{i;t} + \beta_4 OCF_{i;t} + \beta_5 LNA_{i;t} + \beta_6 ECN_{i;t} + \beta_7 DCN_{i;t} + \beta_8 \Delta E_{i;t} + \varepsilon_{i;t} \quad (1)$$

Where:

| | |
|---|---|
| **AQi;t** (*accounting quality)* | is a dummy variable that takes the value 1 for high quality annual reports and the value 0 for low quality annual reports |
| **ROAi;t** (*return on assets*) | is the return on assets ratio calculated as the net income before extraordinary items scaled by total assets |
| **MVBVi,t** (*market value to book value*) | is the market value scaled by book value of the share. |
| **TLSSFU**$_{i;t}$ (*total liability scaled by shareholder funds*) | represents total liabilities scaled by shareholders' funds, |
| **OCF**$_{i;t}$ (*operational cash flow rate*) | is operating cash flows scaled by total assets, |
| **LNA**$_{i;}$ (*logaritm of total assets for company size*) | is the log of total assets, |
| **ECN**$_{i;t}$ (*equity capital needs*) | is a dummy variable indicating company equity capital needs. Takes the value 1 for companies needing equity and the value 0 otherwise. To determine this need we consider **the working capital** (calculated as equity – net non-current assets) which, if negative, indicates the need for equity. |
| **DCN**$_{i;t}$ (*debt capital needs*) | is a dummy variable indicating company debt capital needs. Takes the value 1 for companies needing debt capital and the value 0 otherwise. To determine this need we consider **the debt working capital** (calculated as debt capital – net non-current assets) which, if negative, indicates the need for non-equity capital. |
| **ΔE**$_{i;t}$ (earnings) | is the change in net income before extraordinary items |
| $\beta_{0,1,2,3}$ | regression coefficients |
| $\varepsilon_{i;t}$ | random variable, error |
| i | company |
| t | year |

$$AQ_{i;t} = \beta_0 + \beta_1 ROA_{i;t} + \beta_2 TLSFU_{i;t} + \beta_3 OCF_{i;t} + \beta_4 LNA_{i;t} + \beta_5 ECN_{i;t} + \beta_6 DCN_{i;t} + \beta_7 \Delta E_{i;t} + \varepsilon_{i;t} \quad (2)$$

As a number of share price information could not be collected, equation 2 excluded the variable MVBV (market value scaled by book value). The two equations (1) and (2) were tested and included in **Table no. 2**, being considered as a starting point for the construction of equation (3), presented below, ***equation underlying the testing of hypotheses.***

$$AQ_{i;t} = \beta_0 + \beta_1 ROA_{i;t} + \beta_2 TLSFU_{i;t} + \beta_3 OCF_{i;t} + \beta_4 LNA_{i;t} + \beta_5 ECN_{i;t} + \beta_6 DCN_{i;t} + \beta_7 \Delta E_{;t} + \beta_8 Pro/TL_{i;t} + \beta_9 Prov/A_{i;t} + \beta_{10} Fconserv_{i;t} + \varepsilon_{i;t} \quad (3)$$

Where:

| | |
|---|---|
| **Prov/TL$_{i;t}$** (*provisions scaled by total liability*) | represents provisions scaled by total debt |
| **Prov/A$_{i;t}$** (*provisions scaled by total assets*) | represents provisions scaled by assets |
| **Fconserv$_{i;t}$** (*follow conservatism*) | is a dummy variable indicating the auditors' opinion regarding the compliance with conservatism, which takes the value 1 when there is compliance (the audit opinion is unqualified and there are not presented reasons for they're not able to present an unqualified opinion, or cases where the presented reasons do not imply violation of conservatism) and takes the value 0 otherwise. |

All other variables in eq. (3) are defined as in eq. (1). According to the model proposed by Huțanu (căs. Toma), 2016 in her doctoral thesis, we considered that there is compliance with conservatism in the case of companies that obtained an *unqualified opinion* in their audit reports and in the case of other types of opinions whose presented reasons do not concern aspects related to violation of conservatism (i.e., concerns regarding recognizing/ supplementing provisions or adjustments etc.). In order to construct equation (5) necessary for testing the H2 hypothesis, we consider the following equation involving factors related to the company and the business environment in general:

$$AQ_{i;t} = \beta_0 + \beta_1 TV_{i;t} + \beta_2 PC_{i;t} + \beta_3 MC_{i;t} + \beta_4 D_{i;t} + \beta_5 SH_{i;t} + \beta_6 AU_{i;t} + \beta_7 I_{i;t} + \varepsilon_{i;t} \quad (4)$$

Where:

| | |
|---|---|
| **AQi;t** (*accounting quality)* | is a dummy variable that takes the value 1 for high quality annual reports and the value 0 for low quality annual reports |
| **TV$_{i;t}$** ( *trading volume*) | is the volume of traded shares reported to total shares |
| **PC$_{i;t}$** (*page count*) | is a logarithm of the number of pages of the annual report |
| **MC$_{i;t}$** (*management change*) | is a dummy variable indicating changes to the company management. Takes the value 1 when there were changes in the management structure during the analyzed year and the value 0 otherwise, |
| **D$_{i;t}$** (*days with no-zero volume*) | is the number of days with a volume of transactions other than zero in the analyzed period reported to the total number of trading days |
| **SH$_{i;t}$** (*outstanding shares*) | is a logarithm of the total number of shares |
| AUi;t (*auditing company)* | is a dummy variable indicating the auditor and takes the value 1 when a company is audited by a Big-4 auditor and the value 0 otherwise |
| **I$_i$** (*industry*) | is a dummy variable for the industry, encoded according to NACE rev. 2 |
| **$\beta_{0,1,2,3}$** | regression coefficients |
| **$\varepsilon_{i;t}$** | random variable, error |
| **i** | company |
| **t** | year |

$$AQ_{i;t} = \beta_0 + \beta_1 PC_{i;t} + \beta_2 MC_{i;t} + \beta_3 SH_{i;t} + \beta_4 AU_{i;t} + \beta_5 I_{i;t} + \beta_6 AUyears_{i;t} + \varepsilon_{i;t} \quad (5)$$

Where:

| | |
|---|---|
| AUyears$_{i;t}$ (*audit years*) | represents the auditor's years of tenure |

Due to the small number of observations, the variables TV (volume of traded shares reported to total shares) and D (number of days with a volume of transactions other than zero in the analyzed period reported to the total number of trading days) were excluded from analysis, equation 5 being proposed. Equation (4) proposed by Iatridis (2011) is the basis for the construction of equation 5.

## 3. Results and discussions

Table no. 1 presents the descriptive statistics for the analyzed company sample as follows: *panel A* comprises the mean and standard deviation for the analyzed indicators in high-quality financial reports, and *panel B* presents the same information for low quality financial reports

The descriptive statistic highlights the fact that Romanian companies providing users with ***high-quality financial reports*** are of large sizes (LNA) and have a large number of issued shares (SH), they present higher variations in earnings (ΔE) and need financing via equity capital and/or debt capital (ECN and DCN). Also, they have higher rates of returns on assets (ROA) and rates of operational cash-flow (OCF) which indicates that these companies prepare and submit to the public such reports in order to illustrate the management's capacity to efficiently manage the company assets and to draw in new investors. This fact consolidates the assumption that these companies are more inclined to provide reports of a superior quality. Regarding the compliance with conservatism principle, we note that high values for provisions (scaled by total assets – Prov/A) are registered in companies providing low quality financial reports, compliance with conservatism being a characteristic found in both types of companies, prevailingly in those preparing high quality financial reports.

Regarding variables related to the business environment and company in general, descriptive statistics show that companies with a high level of financial reporting quality include a higher number of pages (PC) in their annual reports and show changes in the management team (MC). At the same time, it can be noticed that the probability that these companies will be audited by a Big 4 auditor is higher than in the case of companies with a lower level of quality and that the tenure of the auditors is shorter.

The extent to which these differences can be considered statistically significant is analyzed through the logit models proposed in equations (3) and (5).

**Table no. 1. Descriptive statistics**

| Variables | Panel A<br>High level of financial reporting quality | | Panel B<br>Low level of financial reporting quality | |
|---|---|---|---|---|
| | Mean | Std. Deviation | Mean | Std. Deviation |
| ROA | 0.0430 | 0.1811 | 0.0061 | 0.0998 |
| TLSSFU | 0.8253 | 8.2919 | -0.9297 | 5.7646 |
| OCF | 0.0571 | 0.0932 | -0.0021 | 0.1731 |
| ECN | 0.4518 | 0.4985 | 0.3524 | 0.4800 |
| DCN | 0.2691 | 0.4442 | 0.2190 | 0.4156 |
| ΔE | 13.0602 | 167.6545 | 6.9138 | 71.2141 |
| PC | 2.0991 | 0.1387 | 1.9649 | 0.1098 |
| SH | 8.1728 | 0.9836 | 7.7005 | 0.7671 |
| Fconserv | 0.8771 | 0.3289 | 0.8190 | 0.3868 |
| MC | 0.4884 | 0.5007 | 0.3619 | 0.4829 |
| LNA | 19.4417 | 1.5859 | 18.1221 | 0.9984 |
| Prov/TL | 0.1759 | 1.5875 | 0.1231 | 0.2032 |
| Prov/A | 0.0265 | 0.0831 | 0.0884 | 0.2176 |
| AU | 0.3654 | 0.4824 | 0.0667 | 0.2506 |
| AUyears | 4.8173 | 3.7162 | 5.0571 | 2.9444 |
| I | 3.0000 | 1.9044 | 2.9333 | 1.5459 |

*Source: Own processing in SPSS 23.00*

Tables no. 2 and no. 3 present two models for the probability that companies with a high level of financial reporting quality will be significantly different from those with a low level, from the perspective of influencing factors. The first model includes all the variables, both those proposed by Iatridis (2011) and the newly introduced ones, likely to influence the financial reporting quality. When a model includes irrelevant variables, the coefficient estimates are inefficient (Maddala and Lahiri, 1992, p. 181) and therefore the

original model was reduced to include only significant variables. The second model includes only variables that have been identified to be significant in the estimation process.

**Table no. 2. High quality annual reports and factors strictly related to accounting**

| Variables | B (sig) | Exp (B) | Variables | B (sig) | Exp (B) |
|---|---|---|---|---|---|
| **Factors strictly related to accounting** | | | | | |
| **Model 1** | | | **Model 2** | | |
| **Equation 1** | | | | | |
| **ROA** | 4.267* (0.055) | 71.330 | | | |
| **MVBV** | -.015 (.337) | .985 | | | |
| **TLSSFU** | .064 (.370) | 1.066 | | | |
| **OCF** | 3.555 (.153) | 35.002 | | | |
| **LNA** | .908*** (.000) | 2.480 | | | |
| **ECN** | -.077 (.874) | .926 | | | |
| **DCN** | -.637 (.283) | .529 | | | |
| **ΔE** | -.003 (0.28) | .997 | | | |
| **Constant** | -15.779 | .000 | | | |
| **No. of observations** | **270** | | | | |
| **Nagelkerke R Square** | **0.367** | | | | |
| **Cox & Snell R Square** | **0.249** | | | | |
| **Hosmer & Lemeshow test** | **0.599** | | | | |
| **Equation 2** | | | | | |
| **ROA** | .855 (.316) | 2.352 | | | |
| **TLSSFU** | .055 * (.102) | 1.057 | | | |
| **OCF** | 3.496** (0.021) | 32.992 | | | |
| **LNA** | .761*** (.000) | 2.141 | | | |
| **ECN** | -.122 (.758) | .885 | | | |
| **DCN** | -.231 (.597) | .794 | | | |
| **ΔE** | -.001 (.342) | .999 | | | |
| **Constant** | -13.071 | .000 | | | |
| **No. of observations** | **402** | | | | |
| **Nagelkerke R Square** | **.278** | | | | |
| **Cox & Snell R Square** | **.189** | | | | |
| **Hosmer & Lemeshow test** | **.179** | | | | |
| **Equation 3** | | | **Equation of significant factors of model 1** | | |
| **ROA** | .806 (.356) | 2.238 | | | |
| **TLSSFU** | .046 (.145) | 1.047 | | | |
| **OCF** | 4.200* (0.11) | 66.658 | OCF | 3.931*** (.009) | 50.974 |
| **LNA** | .885*** (.000) | 2.424 | LnTA | .918*** (.000) | 2.505 |
| **ECN** | -.055* (.894) | .946 | | | |
| **DCN** | -.491 (.302) | .612 | | | |
| **ΔE** | -.001 (.485) | .999 | | | |
| **Pro/TL** | .151 (.276) | 1.163 | | | |
| **Prov/A** | -6.989*** (.000) | .001 | Prov/A | -5.986*** (.000) | .003 |
| **Fconserv** | -.026 (.953) | .974 | | | |
| **Constant** | -14.959 | .000 | Constant | -16.007 | .000 |
| **No. of observations** | **402** | | **No. of observations** | **406** | |
| **Nagelkerke R Square** | **.369** | | **Nagelkerke R Square** | **.345** | |
| **Cox & Snell R Square** | **.250** | | **Cox & Snell R Square** | **.235** | |
| **Hosmer & Lemeshow test** | **.160** | | **Hosmer & Lemeshow test** | **.000** | |

*** p<0,01, ** p <0.05, * p <0.1.*

*Source: own processing in SPSS 23.00*

***Note.*** *Equation (1) is the model proposed by Iatridis (2011). Equation (2) refers to the same model proposed by the author from which the MVBV indicator was excluded because data could not be collected for the whole sample. Equation (3) is the model adapted by introducing variables concerning the use of provisions (Prov/ TL, Prov/ A) and the opinion of auditors on compliance with conservatism (Fconserv). The equation of significant factors of model 1 is the reduced version of the adapted model and includes only the significant variables identified following the testing of equation (3).*

In order to interpret the results of the logistic regression regarding the influence of the factors strictly related to accounting, we will take into account the results obtained for eq. (2) and (3) of **Table no. 2**, which is the first proposed model. The testing of eq. (1) indicated, within the limits of the available observations, that the influence of increasing company value (MVBV) on the degree of quality of financial reporting was not statistically significant. Both model 1 and model 2 have explanatory power (Nagelkerke R Square: 0.369 and 0.345; Cox & Snell R Square: 0.250 and 0.235). The Hosmer-Lemshow test indicates a compatibility of the two models, and the value for the second model (0.000) is significantly better compared to the first extended model (0.160).

Of the first series of tested equations [eq. (1), (2), (3)], *which entail variables strictly related to accounting,* there are three major factors in the first tested model with an acceptable significance level: two proposed and validated by Iatridis (2011) and a newly introduced one centered on conservatism compliance.

The first factor that was validated in the case of Romanian companies listed on the Bucharest Stock Exchange was *the company size* (LNA). The coefficient sign is positive, as it also resulted from Iatridis' study (2011, p. 91), meaning that companies with a high level of financial reporting quality are distinguished from those with a lower level of quality by size, the former being larger and more visible on the stock market. Company size also influences the management's decisions and actions, and it also dictates how the company is managed, monitored by financial analysts, investors and stock market authorities. In the case of companies listed on the Bucharest Stock Exchange, we can see a different management system in large companies, where the company management most often also includes a Board of Supervisors in addition to the Board of Directors, the latter being subordinate to the former.

The second factor, validated in the case of both Romanian and British companies, is the rate of operating cash flow, which indicates that companies presenting a high level of financial reporting quality prepare and submit to the public such reports in order to illustrate the management's capacity to efficiently manage the cash flow.

**Table no. 3. High quality annual reports and factors related to business and company in general**

| Variables | B (sig) | Exp (B) | Variables | B (sig) | Exp (B) |
|---|---|---|---|---|---|
| **Factors related to the business and company in general** | | | | | |
| **Model 1** | | | **Model 2** | | |
| **Equation 5** | | | **Equation of significant factors of model 1** | | |
| **PC** | 7.347 (.000) | 1551.030 | PC | 8.425 (.000) | 4557.925 |
| **MC** | -.196 (.485) | .822 | | | |
| **AU** | -1.596 (.001) | .203 | AU | -1.632 (.000) | .196 |
| **AUyears** | -.021 (.550) | .979 | | | |
| **NACE encoding** | | | | | |
| **Extractive industry** | -1.351 (1.000) | .259 | | | |
| **Manufacturing industry** | -19.950 (.999) | .000 | | | |
| **Production and supply of electricity and heat, gas, hot water and air conditioning** | -2.124 (1.000) | .120 | | | |
| **Constructions** | -20.091 (.999) | .000 | | | |
| **Wholesale and retail trade** | -21.208 (.999) | .000 | | | |
| **Transport and storage** | -.662 (1.000) | .516 | | | |
| **Hotels and restaurants** | -19.645 (.999) | .000 | | | |
| **SH** | .114 (.527) | 1.121 | | | |
| **Constant** | 6680 | 796.606 | Constant | -14.700 | .000 |
| **No. of observation** | **405** | | **No. of observation** | **405** | |
| **Nagelkerke R Square** | **.398** | | **Nagelkerke R Square** | **.332** | |
| **Cox & Snell R Square** | **.271** | | **Cox & Snell R Square** | **.227** | |
| **Hosmer & Lemeshow test** | **.679** | | **Hosmer & Lemeshow test** | **.462** | |

**** p<0,01, ** p <0.05, * p <0.1.*

*Source: Own processing in SPSS 23.00*

***Note.*** *Equation (5) is the model adapted, after Iatridis (2011), by excluding variables from the original model (for which there was insufficient data) and introducing the variable for the duration of the auditor's tenure (AUyears). The equation of significant factors of model 1 is the reduced version of the adapted model and includes only the significant variables identified following the testing of equation (5).*

As far as the indicators we proposed are concerned, we can notice that ,of the two rates deemed relevant for the analysis of provisions (Dicu and Mardiros, 2015, p. 44), the one that influences the financial reporting quality is the provisions scaled by total assets ratio (Prov/A). In the analyzed case it registers a negative value, thus indicating that companies with a high level of financial reporting quality presented relatively low values of provisions, compared to companies producing low quality financial reports. In other words, financial reporting quality decreases as the value of provisions scaled by total assets increases.

Of the second series of tested equations [eq. (4), (5)] – **Table no. 3**, *entailing variables related to the business environment and the company in general,* we can note that companies having a higher level of financial reporting quality produce more quantitatively significant information than companies with a low level of quality, a hypothesis that is not verified in Iatridis (2011). Also, in this case, both models have explanatory power (Nagelkerke R Square: 0.398 and 0.332; Cox & Snell R Square: 0.271 and 0.227). The Hosmer-Lemshow test indicates compatibility of the two models, and the value for the second model (.462) is significantly better compared to the first extended model (.679).

If in the case analyzed by Iatridis (2011) the audit activity performed by a Big 4 member proved to be associated with companies having a high level of financial reporting, the results obtained for Romanian companies run contrary, i.e., that auditing of annual reports by a Big 4 member is associated with companies producing low quality annual reports, the AU (auditor) indicator registering a negative value.

## 4. Conclusions

The study aimed to identify the extent to which the considered factors influence the level of financial reporting quality, for Romanian companies listed on the Bucharest Stock Exchange. The results indicate that a high level of quality of financial reporting is obtained under the action of factors (indicators) *built on accounting data*, *characteristic of the organization of the company* or *specific to the business environment* of which it is part.

Following the classification of the companies that form the analyzed sample, depending on the qualitative level of annual reports, specific influences exerted by the three categories of factors can be noticed. Firms with a high level of financial reporting quality are distinguished from those with a low level by size (size is measured by the assets held by the entity under analysis), the former being larger, visible on the stock market, monitored by financial analysts, investors and stock market authorities. A high level of operational cash flow rate suggests that companies with a high degree of quality seek to capture through reporting the ability of management to effectively manage treasury. Given the uncertain role of the use of provisions in obtaining unfair benefits (by exaggerating estimates and recognizing oversized provisions), it was observed that firms with a high level of financial reporting had relatively low values in provisions, compared to companies that present low quality financial reports.

In terms of differences in business and company in general, the results indicate that firms with a high financial reporting quality level provide significantly more quantitative information than firms with a low level of financial reporting quality and that, unlike the accounting literature which often indicates otherwise, a Big 4 member's audit of annual reports is associated with firms that submit low-quality annual reports.

This research has a series of limitations. Firstly, seeing as the study focuses on a sample of companies from a single country, i.e., Romania, it was not possible to approach the external factors described. Secondly, for a series of internal factors and variables presented in the study proposed by Iatridis (2011) we were unable to collect data corresponding to the 2013-2015 period for a large number of companies, thus leading to numerous missing records and their omission from the final analysis. The elimination of these limits represents future research directions.

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