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## THE FACTORS ENSURING THE OPENNESS OF CORPORATE GOVERNANCE AND INFORMATION TRANSPARENCY IN THE BANKING SYSTEM

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### Kokashvili N. V., Sosanidze M. O. The Factors Ensuring the Openness of Corporate Governance and Information Transparency in the Banking System

*In today's world, corporate governance principles are receiving increasing attention, especially in the post-crisis period after the collapse of many companies and financial markets. In Georgia, the conception of corporate governance is applied across various businesses, particularly in the banking system; however, it still requires methodical and systematic improvement. The research is based on a sample of five well-known commercial banks in Georgia, through which the employees' perspectives on the relationship between five corporate governance variables (accountability, transparency, fairness, discipline, and responsibility) and perceived banking performance were studied. The specific objective of the study was as follows: to assess corporate governance practices in the selected commercial banks, examine perceptions of performance effectiveness, and analyze the impact of corporate governance on perceived outcomes. The analysis of the results showed that corporate governance has a significant impact on the organizational success of companies. Specifically, it is found that accountability, transparency, fairness, discipline, and responsibility play important roles in ensuring the success of commercial banks in the country. According to the study, these five variables significantly contribute to the formation of efficient corporate governance in Georgian commercial banks. The scientific novelty of the work lies in identifying the challenges and prospects of corporate governance in Georgia's banking sector. The practical significance of the study is that the authors' conclusions and recommendations may help improve corporate governance in the country's banking sector.*

**Keywords:** transparency, openness, management, descriptive statistics, corporate governance, accountability, fairness.

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**Кокашвілі Н. В., Сосанідзе М. О. Фактори, що забезпечують відкритість корпоративного управління та інформаційну прозорість у банківській системі**

У сучасному світі принципам корпоративного управління приділяється все більше уваги, особливо в посткризовий період, після закінчення багатьох компаній і фінансових ринків. У Грузії концепція корпоративного управління застосовується в різних сферах бізнесу, зокрема в банківській системі; проте вона все ще потребує методичного та систематичного вдосконалення. Дослідження базується на вибірці п'яти відомих комерційних банків Грузії, за допомогою якої вивчалися погляди працівників на взаємозв'язок між п'ятьма змінними корпоративного управління (підзвітність, прозорість, справедливість, дисципліна та відповідальність) та сприйнятою банківською діяльністю. Конкретна мета дослідження полягала в такому: оцінити практику корпоративного управління у вибраних комерційних банках, дослідити сприйняття ефективності діяльності та проаналізувати вплив корпоративного управління на сприйнятті результати. Аналіз результатів показав, що корпоративне управління має значний вплив на організаційний успіх компаній. Зокрема, було встановлено, що підзвітність, прозорість, справедливість, дисципліна та відповідальність відіграють важливу роль у забезпеченні успіху комерційних банків у країні. Згідно з дослідженням, ці п'ять змінних суттєво сприяють формуванню ефективного корпоративного управління в комерційних банках Грузії. Наукова новизна роботи полягає у визначенні проблем і перспектив корпоративного управління в банківському секторі Грузії. Практичне значення дослідження полягає в тому, що висновки та рекомендації авторів можуть допомогти покращити корпоративне управління в банківському секторі країни.

**Ключові слова:** прозорість, відкритість, управління, описова статистика, корпоративне управління, підзвітність, справедливість.

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The principles of corporate governance are increasingly being paid attention to in the modern world, especially in the period following the collapse of many companies and the crisis failures of international financial markets. In Georgia, the concept of corporate governance is used by various businesses, especially in the banking system, its improvement is one of the main conditions for qualitative changes in the banking system, which is aimed at increasing the sustainability and competitiveness of credit institutions. This is explained by the fact that commercial banks operate at the intersection of the interests of the state, civil society and business.

The problems of corporate governance in the banking system have become the subject of widespread discussion by scientists and specialists. If earlier the dominant role in conflict situations characteristic of the banking business was played by the state (or rather, the banking supervision system), today, when the main emphasis of banking regulation is shifting to the implementation of a risk-based approach, special importance is attached to the study of the peculiarities of the mechanisms of checks and balances in commercial banks.

In recent years, some progress has been observed in corporate governance in Georgian commercial banks.

However, in relation to Georgian banks as a whole, it would be quite reasonable to conclude that

the organization of corporate governance is still at an insufficient level.

There are numerous studies on the topic of the work in both foreign and Georgian scientific economic literature. A review of the existing literature shows that each school or individual scientist has made a great contribution to the development of theoretical issues related to corporate governance. In addition, it is also clear that the research on corporate governance problems in existing works has only a theoretical-empirical character. Individual questions related to the research topic discussed and analyzed by individual scientists. The conclusions and recommendations developed by them are invaluable and provide key guidelines for the development of the concept of corporate governance and the banking system. However, the growing relevance of the issue in our society and the need to implement effective banking business make it urgent to conduct a comprehensive study of the problem of challenges and prospects of corporate governance in the Georgian banking system.

The relevance and discursive nature of the theoretical provisions related to the research question, the practical importance of corporate governance and openness and transparency in the banking system determined the conduct of this study.

In recent years, there has been certain progress in the corporate governance practices of Georgian

commercial banks. However, overall, it can be concluded that the organization of corporate governance in Georgian banks remains insufficiently developed. This is due to the fact that traditions of corporate governance are still not sufficiently evolved either in the non-financial sector or within the banking system. Moreover, ensuring appropriate corporate behavior cannot be achieved solely through legislative norms and the instructions of banking supervisory bodies. Many corporate governance issues are often of financial, economic, or ethical nature.

One of the most important principles of corporate governance is providing stakeholders with reliable information about the company's activities, its strategic prospects, and associated risks. Transparency means openness and the company's willingness to provide clear information to shareholders and other stakeholders. Transparency involves the disclosure of accurate and reliable financial data in the company's annual reports as well as the disclosure of non-financial information.

Disclosure of material aspects of an organization's activities must be accurate and timely so that all investors have access to reliable information reflecting the company's financial, social, and environmental situation. Furthermore, companies must explain and publicize the roles and responsibilities of the board of directors and management to ensure a high level of accountability to shareholders.

High-quality transparency strengthens stakeholders' trust in a company's decision-making and management processes.

The classification of informational transparency characteristics is carried out considering their importance to investors, the requirements of national legislation on regular reporting, and the specifics of information disclosure in Georgia's banking sector, in order to select analytical characteristics that reflect the information transparency of corporate governance. Additionally, the accessibility of analytical data must be taken into account.

**Literature Review.** The information base of the study is diverse and includes information and analytical materials of the Ministry of Finance of Georgia, the National Statistics Agency and other executive authorities. Materials published in monographs and scientific articles by Georgian and foreign authors, periodicals were also used; research conducted independently by the authors.

The level of informational transparency in existing corporate governance reports is assessed based on the following key characteristics:

**Reporting and Public Relations:** refers to the company's regular reporting on its activities through

various mass media channels and the publication of different types of data for the public.

**Mandatory Characteristics:** include information required to be disclosed by law, such as the publication of the company's current charter; provision of information about stakeholders; disclosure of information that may significantly impact the value of the company's securities; annual reports on the company's business and financial activities; and other information related to the company's operations.

**Theoretical background.** From a theoretical point of view, the work is important, because the study develops the methodology and methods of corporate governance of the banking system. The practical significance of the work is expressed in the fact that the conclusions and recommendations developed by the authors will contribute to the improvement of corporate governance of the banking system in Georgia.

Bank management must be transparent to its shareholders, depositors, other stakeholders, and market participants. Transparency aligns with effective and sound corporate governance. The goal of transparency in the corporate governance system is to provide relevant information for evaluating the performance of the bank's board of directors and senior management.

According to Basel Committee practices, banks should disclose the following information annually:

Approaches to selecting board members, taking into account the necessary diversity of skills, experience, and perspectives;

Information regarding the establishment of standing board committees and the number of their meetings.

**Research Methodology** The research methodology is based on the fundamental general philosophical principle of historical and logical unity, a systematic scientific approach. The research used methods of analysis, comparison, survey and in-depth interview.

The results of our research confirm the relationship between corporate governance and its variables. The outcomes, based on the descriptive statistics of dependent and independent variables, are summarized as follows:

- ✦ The mean value for transparency was 3.96, confirming respondents' agreement that transparency is an important factor for perceived effectiveness. According to the t-test, all transparency variables have a p-value of less than 0.05, indicating that their mean values significantly exceed 3.
- ✦ The mean value for accountability was 3.453, also indicating that respondents recognize accountability as an important corporate gover-

nance factor influencing perceived effectiveness. According to the t-test, all accountability variables have a p-value of less than 0.05, except for one variable (the presence of foreign nationals on the board).

- ✦ The mean value for fairness was 3.4567, showing that employees of banking sector organizations consider fairness as one of the key factors influencing perceived effectiveness. According to the t-test, all fairness variables have a p-value of less than 0.05, except for one variable (the absence of questions or disputes regarding the presence of a transparency report by the bank).
- ✦ The mean value for discipline was 3.385, indicating that employees of the banking sector place significant importance on discipline, which affects the perception of performance in the country's commercial banks. According to the t-test, all discipline variables have a p-value of less than 0.05, except for one variable where the p-value was 0.340, meaning that the mean value of all listed variables (except for one) significantly exceeds 3.
- ✦ The mean value for responsibility was 3.345, which shows that based on the conducted t-test for the banking sector, all responsibility variables have a p-value of less than 0.05, confirming that the mean values of all these variables significantly exceed 3.
- ✦ The mean value for perceived performance was 4.137, confirming that the level of perceived performance in Georgia's banking sector is high. The t-test results showed that all perceived performance variables have a p-value of less than 0.05, confirming that the mean values of all these variables significantly exceed 3.

In conclusion, it was revealed that employees of Georgia's banking sector perceive that commercial banks place special emphasis on transparency. Accordingly, the annual report of a commercial bank includes a section reflecting the bank's activities in applying corporate governance principles. Thus, the overall discipline in commercial banks is considered satisfactory.

The significance of the hypotheses between the variables was also analyzed based on the sample data. As a result, all five alternative hypotheses were accepted: there is a significant relationship between the perceived performance of corporate governance in banks and the variables of transparency, accountability, fairness, discipline, and responsibility.

The results obtained from the correlation analysis were used to test the five research hypotheses. Additionally, Pearson's correlation coefficient was calculated between the dependent variable — perceived performance — and all five independent variables, indicating a positive relationship at a 5% significance level.

In conclusion, recommendations were developed to ensure the openness of corporate governance and information transparency in the country's banking system:

**Recommendation 1:** Update information transparency regulations for issuers to include mandatory corporate governance disclosure requirements. This includes:

- ✦ Full harmonization of the «Law on Accounting, Reporting and Auditing» with the «Law on Securities Market» and the Corporate Governance Code for Issuers;
- ✦ Development of standard sets of information to be included in issuers' corporate governance reports;
- ✦ Consideration of eliminating differences between management reports, corporate governance reports, and non-financial disclosures;
- ✦ Integration of disclosure guidelines on environmental, social, and governance (ESG) aspects into mandatory sustainability reporting requirements;
- ✦ Alignment of the Corporate Governance Code for Issuers with the «Law on Accounting, Reporting and Auditing,» specifying relevant legal provisions and eliminating duplicative requirements.

As part of the mandatory disclosure requirements for issuers, the following additional non-financial disclosure requirements could be established:

- ✦ Clear and precise requirements for the disclosure of direct and indirect ownership;
- ✦ Disclosure of relationships and group structures between the company and a larger corporate entity;
- ✦ Shareholder agreements, disproportionate control mechanisms, and shares with multiple voting rights;
- ✦ Full disclosure of board members' profiles, including qualifications, current employment, experience, and committee tenure;
- ✦ Information on the number of board and committee meetings held during the year and the attendance record of each director;
- ✦ Significant factors of projected risk and a statement of «risk appetite» (if available);
- ✦ Remuneration policy (in accordance with the Corporate Governance Code for Issuers);



- ✦ Disclosure of individual-level remuneration information (on a voluntary basis).

**Recommendation 2:** Simplify the requirements of the «Law on Accounting, Reporting, and Auditing» regarding non-financial information disclosure. This specifically includes:

- ✦ Full harmonization of the «Law on Accounting, Reporting, and Auditing» with sector-specific regulatory requirements;
- ✦ Consider transferring the regulation of management reporting to sectoral regulators. For entities without sectoral regulators, SARAS could develop specific non-financial disclosure requirements in the form of guidelines;
- ✦ Consider eliminating differences or harmonizing non-financial information disclosure, management reporting, and corporate reporting;
- ✦ Integration of ESG disclosure guidelines into sustainability (non-financial) reporting requirement
- ✦ Mandating that entities from the list of development sectors and first-category companies publish all required disclosure information on their own websites;
- ✦ Creation of a complete and structured list of information to be included in management reports;
- ✦ Clearer description of information reflected in corporate governance and non-financial disclosure reports;
- ✦ Inclusion of elements from ESG disclosure guidelines in non-financial disclosure reports.

**Recommendation 3:** Develop best practice guidelines for non-financial information disclosure. Based on best case studies for improving non-financial and financial reporting, Georgian businesses should be supported in enhancing their non-financial disclosures. Conclusions drawn after the implementation of the «Law on Accounting, Reporting, and Auditing,» the establishment of BARTA, the adoption of the ESG Guidance, and other similar experiences suggest that SARAS and the National Bank of Georgia should jointly work on developing guidelines for Georgian businesses on how to prepare usable non-financial information. Special attention should be given to developing a clear and purposeful «Management Overview.» Where possible, the assistance of international organizations and donors should be utilized.

**Main results.** Thus, based on the results of the conducted research, the following key recommendations have been formulated regarding the legislative and institutional support for corporate governance in the country's banking system, as well as ensuring the

openness and information transparency of corporate governance in the banking system:

- ✦ The National Bank of Georgia should regularly revise its corporate governance codes;
- ✦ The Capital Market Supervision Department of the National Bank of Georgia should refocus its efforts on ensuring non-financial information disclosure;
- ✦ The role of the stock exchange in supervisory activities related to issuers' financial reporting and corporate governance should be periodically reviewed;
- ✦ Information transparency rules for issuers should be systematically updated, taking into account mandatory corporate governance disclosure requirements;
- ✦ The requirements of the «Law on Accounting, Reporting, and Auditing» regarding non-financial information disclosure should be simplified;
- ✦ Specific guidelines on best practices for non-financial information disclosure should be developed. Based on best practices in improving non-financial and financial reporting, support should be provided to Georgian businesses to enhance their non-financial disclosures.

The analysis of the research results shows that corporate governance has a significant impact on the organizational success of the company. In particular, it was found that accountability, transparency, fairness, discipline and responsibility play a stronger role in ensuring the ultimate success of our country's commercial banks. According to the study, these five variables significantly contribute to the establishment of good corporate governance in Georgian commercial banks. The scientific novelty of the study lies in identifying the challenges and prospects of corporate governance in the Georgian banking sector. ■

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