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Corporate Governance Code in Argentina: analysis of the compliance level

Código de Gobierno Societario en la Argentina: análisis del nivel de cumplimiento

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Abstract

A Corporate Governance Code is a set of rules, principles, and recommendations for the behavior and operation, considered as the best practices for the good governance of organizations, in order to improve transparency, disclosure, and accountability. This paper analyzes the degree of compliance with the Corporate Governance Code in Argentina, where the Code is mandatory for companies that make a public offering of their securities. The empirical work is carried out in a sample of 20 national capital companies, excluding the financial sector and the companies that cross-list their values. The analysis of the level of compliance of the code presented by each firm is developed from two perspectives: the self-assessment carried out by the company, according to the principle of comply or explain, and the analysis performed by an external evaluator, based on publicly available information. The results show that the level of compliance is higher from the perspective of self-assessment and for larger companies. The principles of greater compliance, regardless of the size of the company, are those related to related parties and the audit function. In companies with greater capitalization, adherence to the principle of business ethics is also high. The principle referred to remunerate in a fairly and responsibly way presents the lowest compliance in all the studied companies.

Resumen

Un Código de Gobierno Corporativo es un conjunto de normas, principios y recomendaciones de comportamiento y funcionamiento, considerados como las mejores prácticas para el buen gobierno de las organizaciones para mejorar la transparencia, divulgación y rendición de cuentas. En el presente trabajo se analiza el grado de cumplimiento del Código de Gobierno Societario en la Argentina, que es de presentación obligatoria para las empresas que hacen oferta pública de sus títulos. El trabajo empírico se lleva cabo en una muestra de 20 empresas de capitales nacionales, excluyendo al sector financiero y a las compañías que realizan *cross listing* de sus valores. Se determina el nivel de cumplimiento del código presentado por cada firma desde dos perspectivas: la autoevaluación realizada por la propia emisora, según el principio de cumplir o explicar, y el análisis efectuado por un evaluador externo, a partir de la información públicamente disponible. Los resultados muestran que el nivel de cumplimiento es mayor desde la óptica de la autoevaluación, y para las empresas de mayor tamaño. Los principios de mayor cumplimiento, independientemente del tamaño de la compañía, son los referidos a partes relacionadas y a la función de auditoría. En las firmas de mayor capitalización también resulta elevada la adhesión al principio de ética empresarial. El principio referido a remunerar de manera justa y responsable presenta el menor cumplimiento en todas las empresas estudiadas.

Keywords | palabras clave

Corporate Governance Code, comply or explain principle, Argentina, governance, accountability, shareholders, good practices. Código de gobierno corporativo, principio cumplir o explicar, Argentina, gobernanza, rendición de cuentas, accionistas, buenas prácticas.

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1. Introduction and state-of-the-art

The corporate scandals that occurred at the beginning of the century in different countries originated the topic on the Corporate Governance (CG) on the agenda, making the different actors to seek for better governance practices. As a result, a regulatory and legislation process was initiated to prevent financial fraud and administrative corruption, increase the veracity of information, generate credibility and protect stakeholders in general. It should be noted that among the objectives for sustainable development posed by the United Nations is that of “promoting societies that are fair, peaceful and inclusive” (Objective 16). In particular, one of the goals proposed is directly linked to the CG, stating that it seeks to “create, at all levels, effective and transparent institutions that are accountable” (target 16.6) (ONU, 2015).

The objective of this research is to carry out an analysis and measurement of the Corporate Government in Argentina, through the study of the Corporate Governance Code (CGC) presented by companies. A quantitative index of the degree of compliance with the CGC is defined from a comprehensive analysis of the reports submitted by the companies participating in the Argentina securities markets and subject to the Regulation of the Res. 606/12 of the National Securities Commission (CNV), which is based on the principle of complying or explaining. This principle is present in most CG codes of the world (Seidl, Sanderson & Roberts 2013), and it was originally proposed by the Cadbury Committee in the United Kingdom (Committee on the Financial Aspects of Corporate Governance, 1992), and it implies that companies can meet the requirements of the code or explain why they do not meet them, in contrast to the mandatory regimes such as the Sarbanes-Oxley Act of the United States.

The level of compliance with the CGC is studied from two points of view: the one declared by the company, and the one that arises from the documentary analysis of the explanations provided in the CGC. Subsequently, it checks whether there are differences in compliance based on the size of the company, and it describes the principles with greater and lesser adherence and dispersion in the evaluations. The population under study are 42 issuers of national capital shares of the Argentinian stock markets, whose securities are not listed in other markets, excluding the financial sector that is subject to differential regulations. The sample consists of 20 companies, taking the ten largest market capitalization and the ten lowest capitalization.

1.1. Codes of Corporate Governance: the principle of complying with or explaining

A Code of Corporate Governance is a set of rules, principles and recommendations of behavior and functioning considered as the best practices for the good governance of organizations to improve transparency, disclosure and management of accounts (Zattoni & Cuomo, 2008; Fornero, 2007). Codes are based on the doctrinal concepts inherent to the best practices in the field in force at a time to regulate relationships between stakeholders.

The presence of codes becomes relevant when other mechanisms, such as the legal system, the company's policies and rules, control systems, among others, are not

effective. In the absence of other protection mechanisms for shareholders, codes are designed to improve the functioning of the board and the quality of information and accountability (Fornero, 2007).

Zattoni and Cuomo (2008) adhere to this approach, noting that the codes aim to fill the gaps in governance systems, regulating the aspects that create the highest risks to shareholders and are a source of conflict with the managers.

Codes have been developed and evolved before the laws of the matter. They are issued and legitimized by the same State or by stock exchanges, and are implemented by corporate laws, regulations or private compliance structures.

Fornero (2007) indicates that there is some worldwide convergence on the contents and recommendations of the codes on transparency, accountability, independence and board of directors. The emphasis on some issues adapts to each country's economic environment and its main CG problems. It also points out that the existence of a code is more relevant in countries with weak legal systems. A study by Zattoni and Cuomo (2008) found that common law countries are more likely to develop codes than civil law countries, which adopt codes against the risk of losing legitimacy rather than for reasons of efficiency or willingness to improve their practices.

An important number of codes adopt the principle to comply or explain: the organization is not obliged to comply with the postulates stated in the Codes of Good Practice, but if it does not, it must explain why it does not do it. The principle of complying or explaining takes a flexible approach, considering that there is no single form or measure for all organizations, and that, under certain circumstances, organizations may not comply or apply for some recommendations. Its essence is to justify non-compliance for particular cases or special situations (Seidl, Sanderson & Roberts 2012).

The effectiveness of self-regulation initiatives has been discussed in the literature, with mixed results. With regard to non-compliance, Merkl-Davies and Brennan (2007) indicate that silence may be a particular tactic in relation to soft law disclosures, where there is little or no oversight by regulators.

Considering the costs of implementing good governance practices, the level of compliance with the CG code can be conceptually linked to the size of the company, although the empirical evidence is not uniform. Campbell *et al.* (2009) study Polish companies and find that the level of compliance has no statistical relation to the size of the company. 16% of companies comply with 100% of the code. The principle that meets the highest non-compliance is the independence of the board members (74%), followed by the absence of audit and remuneration committees (66%).

Benavides Franco and Mongrut Montalvan (2010) observe that between 2001 (date of the first introduction of the CG code requirement in Colombia) to 2006, 101 companies had issued their CG code, out of which 43 belonged to the non-financial sector. The average level of compliance, measured as the percentage of positive responses relative to the total, was 46% in that period, with a very low positive correlation with the size of the company. The level of compliance with the code has been increasing in Colombian companies, reaching 71% in the period 2008-2014 (Lagos Cortés, Betancourt Ramírez & Gómez Betancourt, 2018). The highest compliance is in the recommendations of the dimension concerning the shareholders' meeting

(81%), while the least accession is presented in the recommendations for dispute resolution (60%).

In Chilean companies, the degree of adoption of corporate governance practices is lower than in Colombia, with 40% for the most liquid at the market liquidity in 2015 (Moraga & Roper, 2018). For both groups of companies, the group of principles with the highest compliance were those related to risk management and control. The trend in code compliance has been slightly positive in the period 2015-2017, increasing by an average of 6% (Torres, Troncoso & Ramírez, 2019).

Briano-Turrent and Poletti-Hughes (2017) build a CG index for the signatures of the major stock indices of Argentina, Brazil, Chile and Mexico, and find that the average value of the index was 64, in the period 2004-2010, with a strong positive ratio with the size of the company. Therefore, considering the conceptual and empirical background, the following hypothesis is proposed:

H1: CGS compliance has an inverse relationship with the company size.

Bianchi *et al.* (2011) find that 85.9% of Italian companies formally comply with the recommendations of the principle of transactions with related parties, but only 32.6% have implemented these recommendations in a way that the authors consider satisfactory. This gap is higher for non-financial and smaller firms.

Luo and Salterio (2014) study the adoption of good practices in Canada and observe that only 7% fully adopt them. The compliance by explanation rather than by adoption applies to practices that have high costs to the company. For those firms very close to full compliance, the principles that are not verified are mostly those related to the independence of the board and its subcommittees (independence of the council president, search and meetings of independent directors from the remuneration and nomination committees).

Shrives and Brennan (2017) analyze 100 UK companies at two points with regulatory change (2004/05 and 2011/12), finding that 43% of companies in 2011/12, and 63% in the previous period do not comply with any of the principles. The analysis shows an increase in the rhetorical strategies employed in the justification of non-compliance, with a preponderance of misleading explanations rather than convincing and meaningful reasoning. Taking into account the background presented, the following hypothesis is made:

H2: The company's self-assessment differs from the results of an evaluation by an external analyst

1.2. CG regulatory framework in Argentina

Argentina has a market of low-development capital like other countries in the region and emerging markets. This market is characterized by concentration of ownership, low liquidity and low level of activity of institutional and intermediary investors and low level of transparency. In this context, the incentives of companies for voluntary

adherence to good practices and CG codes are scarce, causing an adhesion given by the Institutional¹ component (CEF, 2005).

In the public aspect, it was noted that Argentina had lower performance than other countries in the region in terms of institutional CG and formal requirements. Therefore, there is a space to improve the institutional CG, the effective implementation of sanctioning actions and strengthen legal certainty and the protection of minority shareholders' rights (Villegas, 2006).

The regulatory framework in force in Argentina for companies under public offerings includes the General Law on Companies (Law 19550), the Capital Markets Act (Law 26831) and the CNV Norms (2013). This regulatory package establishes the obligation to have an audit committee, composed of at least three board members (administrative board) and whose majority shall be independent. The criteria for the independence of directors and the obligation to submit affidavits regarding the condition of independence are also established. External auditors must also be independent, the related parties are defined and the obligation to report acts and contracts prior approval is established where necessary.

Regarding the CGC, in 2006 the CNV issued a General Resolution 493/06 by which companies that list securities on the stock exchange had to answer a questionnaire of 14 questions related to compliance with the principles underpinning the Corporate Governance. Subsequently, Resolution 516/07(CNV) was issued, approving the CGC of companies authorized to publicly offer the representative shares of their capital share. This resolution establishes the obligation to submit a report on compliance with CG in order to prepare the accounting statements of the entity's exercise in order to be disseminated as a relevant fact. The implementation of the code is discretionary and voluntary, complemented by the methodology of complying or explaining by a report to be prepared by the governing body and to be included as a member of the social report. In 2012, the CNV replaced the annual report to be submitted on Corporate Governance with a more complete report, as set out in the Res. CNV 606/12. This Resolution creates a Corporate Government Code structured on principles and recommendations, with minimum requirements and content to be met by entities authorized to make a public offering of their marketable securities. The nine principles are summarized in Table 1.

1 The institutional dimension, also known as external, is normative. It is represented by the regulatory framework, the legal system and the network of institutions of a country. It is defined by the laws and regulations in force in each country, hence it is mandatory.

Table 1. Contents of the CGC (Res. CNV 606/12)

Principle	Title	N.R.	Content
1	Transparent the relationship between the issuers, the economic group leading and/or integrating it and its related parties	3	Existence of i) authorization regulations of transactions between related parties ii) conflict-of-interest prevention mechanisms; (iii) mechanisms to prevent misuse of privilege information.
2	Lay the foundation for sound management and supervision of the issuer	7	Role of the management body (MB) in the strategic planning, policy of CG and RSE, selection, evaluation, remuneration and succession of frontline managers; management and performance control of the first management line; participation of independent members in the MB (minimum 20%); existence and operation of the appointments committee (non-compulsory committee); selection, training, evaluation and succession of MB members and limits for their participation in other organizations.
3	Endorse an effective policy of identifying, measuring, managing and disseminating business risk	1	Existence of up-to-date comprehensive risk management policies, a risk management committee, indicating the methodology used (COSO, ISO 31000, etc.).
4	Safeguard the financial information with independent audits	1	Independent majority in the Audit Committee (mandatory committee), existence of internal audit function; analysis of the independence of external auditors, a policy of rotation of external auditors.
5	Respect the shareholder rights	6	Existence of regular briefings with shareholders; information mechanisms for investors and website; mechanisms to promote the participation of minority and institutional shareholders; equality between action and vote; mechanisms to protect against takeovers; stock dispersion of min. 20%; transparent dividend policy.
6	Maintaining a direct and responsible bond with the community	1	Existence of publicly accessible website i) with relevant information and communication channel; ii) Social and environmental responsibility balance with independent external auditor verification; iii) adoption of standards (GRI, ISO 26000, etc.).
7	Pay in a fair and responsibly way	1	Existence of remuneration committee, composition and operation; or detail the compliance with these functions within the MB.
8	Encourage business ethics	1	Existence of i) code of business conduct and application to MB, employees, customers, suppliers; ii) mechanisms for receiving complaints confidentially; iii) policies for the management and resolution of complaints
9	Deepen the scope of the code	1	Inclusion of GCC Forecasts in the Social Statute

Note: N.R Refers to the number of recommendations included

Source: Own elaboration

1.3. Analysis and measurement of CG in Argentina

The evolution of the corporate governance concept and the significance that it has acquired in recent years has led to the development of indicators that allow to evaluate and measure the good practices of corporate governance of companies. There are a lot of indicators both commercial, academic and institutional.

The Argentine Stock Exchange has not yet developed an institutional corporate governance index. The measurement history is detailed below. In 2006, the CEF designed the first CG index for Argentina: The Transparency and Dissemination Index (TDI), which aimed to provide a quantitative and objective measure to track the evolution of corporate governance of companies in Argentina. The TDI is based on the public information (from various sources) of each company. Bebczuk (2005) built a CG index for listed companies on the Stock Exchange. It is based on a transparency and dissemination index which is constructed with public information, and in a government index that is completed with business survey information. The response rate of these surveys has been very low. Therefore, the transparency index is considered as the CG measure, given the high correlation with it. At the time of construction, the adoption of the code was voluntary, thus its disadvantage is that it only showed the information that the company wanted to show publicly, generally related to accounting aspects.

IDEA (2010) conducted an analysis of the CNV RG 516/07 in 30 companies, with the aim of analyzing the compliance (proactive adhesion) vs formal (reactive adhesion). Gutierrez and Marcos (2018) analyze a sample of 14 companies from different sectors, including companies in the financial sector and during the period 2013 to 2016, finding that in most analyzed companies the compliance (self-assessed) of the CGC exceeds 70%.

2. Materials and methods

2.1. Design, population and sample

The research approach used is mixed with a descriptive scope, using qualitative tools for the documentary analysis of the CGC presented by the issuer and a subsequent quantitative analysis of the results.

The design of the research is not experimental, since “only phenomena are observed in their natural environment to be analyzed” (Hernández Sampieri *et al.*, 2010, p. 149). As regards the temporal scope, the analysis was carried out on the CGC presented in the financial years ended in 2015/2016. This work analyses secondary data sources, in particular the CGC submitted by companies in the period 2015/2016. The information is available free of charge on the CNV website.

The population under study are the open capital companies that issue shares in the Argentine stock markets, listed in the general panel and which meet certain requirements. Based on a total of 97 listed companies, it was proceeded to exclude: a) those listed in international markets and those regulated by the Central Bank of Argentina (because they are subject to differential regulations of corporate gover-

nance), and b) those that make up the SME panel, even if they may be included as undertakings to be analyzed by their capitalization, because they are not required to submit the CGC. This exclusion procedure is due to evaluate companies that submit information under the same regime, thus eliminating issuers that have variations not because of their behavior, policy or decision, but because they are achieved by a different framework of regulatory regulations compared to the CG. This eliminates institutional variations and analyses only organizations comparable to each other in terms of legislation and way of presenting the information. Therefore, the population is reduced to 42 companies, the sample selected in this study consists of a total of 20 companies: ten companies with the highest market capitalization and ten with the lowest market capitalization on the indicated date.

2.2. Analysis tools

Data analysis is performed in various stages: a first stage of qualitative data analysis and then a quantitative stage of summary results that allows to obtain an index that summarizes the level of compliance of CGC.

First, a documentary analysis of the CGC of each company studied is carried out according to the degree of compliance declared. A value of 0 is assigned if the company declares not to comply with the recommendation; 0.5 if the company declares partial compliance and a value of 1 if the company declares full compliance. For each of the nine principles that make up the CGC, relative compliance is determined according to the following key figure:

$$\text{Relative compliance of the principle}_i = \sum \frac{\text{Compliance and recommendations of the principle}_i}{\text{Number of recommendations of the principle}_i}$$

For example, Principle I is composed of the following recommendations. If an enterprise declares full compliance in Recommendation I.1 (1 point), partial in Recommendation I.2 (0.5 points) and fails to comply with the recommendation I.3 (0 points), the relative compliance ratio would be:

$$\text{Relative compliance of the principle}_i = \sum \frac{1+0.5+0}{3} = 50\%$$

With this declared information, the principles are ordered according to their relative level of compliance, in order to determine the principles with higher and lower declared compliance, disaggregated by size and comparing both groups.

Subsequently, a new analysis of the CGC is carried out, in order to study the consistency between the proposed self-assessment and the justification provided from the point of view of an external analyst who accesses only publicly available information. For this analysis, the Text Review is used, comparing the requirements specified in the CGC principles with the responses of the companies. The degree of compliance is determined by considering: i) whether the company's response is complete and in accordance with the recommendations of the CGC, (ii) if the processes, policies, actions are detailed as requested, and iii) in the cases it applies, the contrast between the responses and the publicly available information outside the CGC. For

example, when analyzing the independence of the directory, the rotation of the auditors, the number of committees, the existence of a website, not only the response of the issuer in its CGC is taken into account but also the public information about it, and the answer given with external evidence is validated.

Similar to the previous stage, its relative level of compliance is calculated for each principle. This new classification is compared to that obtained by self-assessment in order to determine the principles with greater distance between what the company stated and the opinion of an external analyst, through the absolute difference between the two ratings. Scattering within the same principle is measured in terms of the standard deviation.

The next step is to develop a quantitative index that summarizes the level of CGC compliance for each company. A linear index is developed, where the nine principles have the same weight. The linear methodology is chosen to build the index by interpreting the motivation of the Res. CNV 606/12, to establish nine principles with different recommendations, such as the interest of the comptroller's body to give equal importance to each principle of corporate governance. The index is constructed according to the following key figure:

$$\text{Compliance index of the CGC} = \frac{\sum_{i=1}^9 \text{Relative compliance of the principle } i}{9}$$

Thus, if an enterprise has a relative compliance level of 50% in principles I to V, 100% in principles VI to VII and 0% in principle IX, its compliance rate of the CGC will be:

$$\text{Compliance index of CGC} = \frac{0.5 + 0.5 + 0.5 + 0.5 + 0.5 + 1 + 1 + 1 + 0}{9} = 61.1\%$$

This calculation is made considering compliance with each principle both on the basis of the self-assessment of each company and on the analysis of an external analyst.

Differences in the distribution of compliance with the principles and the overall index according to the size of the company, as well as between the self-assessment and the vision of the external analyst, are evaluated by the U Mann-Whitney test (also known as Wilcoxon range sum test), which is a nonparametric test applied to two independent samples.

3. Results

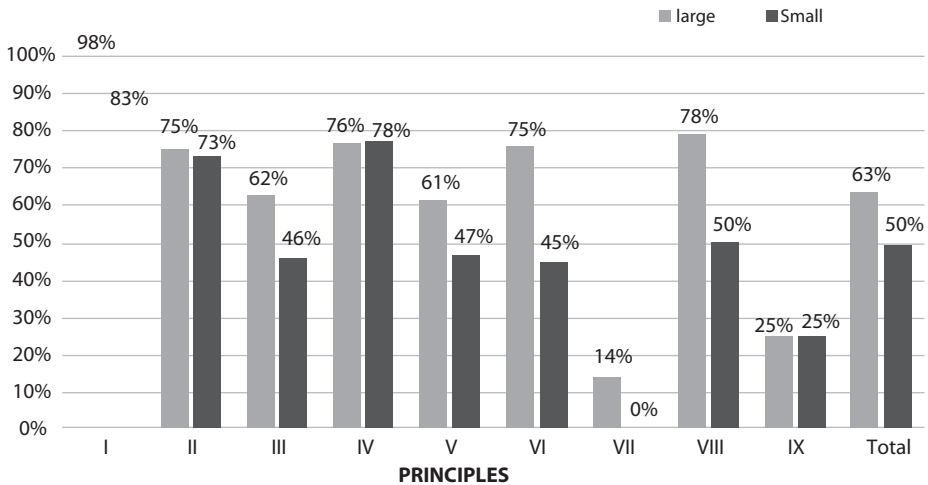
The first section shows the results of the self-assessment carried out by companies, and the degree of self-assigned compliance, obtaining a ranking of met criteria. The following section discusses meeting the criteria from the perspective of an external evaluator, while section 3.3 presents the comparison of both approaches.

3.1. Self-assessment of the report on the degree of compliance with the Corporate Governance Code

As can be seen in Figure 1, self-assessment does not have significant differences between large and small companies in relation to the ranking of compliance with principles. In both groups, the principle of higher compliance is Principle I (Transparent the relationship between the issuer and its related parts) and of lower compliance is the VII (Pay fairly). Principles VI (Maintaining Responsible Community Linkage) and VIII (Encouraging Business Ethics) have the greatest differences in the degree of compliance by business size.

Table 2 presents the average values based on the size, standard error, and p-value of the Mann Whitney test. The degree of self-assigned compliance is statistically higher for larger companies when considering the overall index, as indicated in the H1 scenario. However, in studying compliance in principle, it is noted that this difference is relevant only to principles VI (Maintaining a direct and responsible link with the community) and VIII (Promoting business ethics), hence differences in the level of CGC are not homogeneous between principles.

Figure 1. Self-assessment of the principles of CGC compliance according to company size



Source: Own elaboration

Table 2. Self-assessment of the principles of CGC compliance according to company size

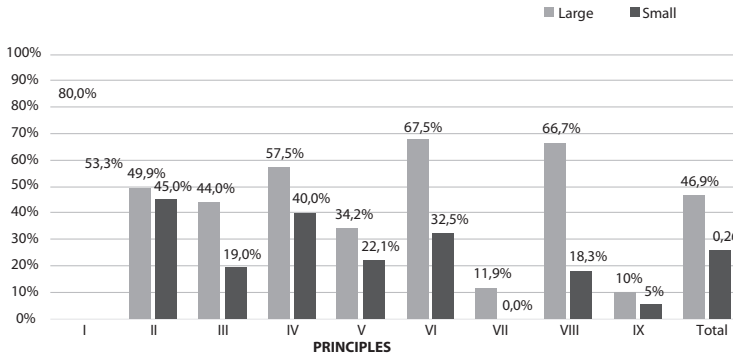
Principle	Small		Large		p-value
	Mean	Standard Dev.	Mean	Standard Dev.	
P1E	83.4%	35.0%	98.3%	5.4%	0.465
P2E	73.4%	9.3%	74.8%	11.1%	0.762
P3E	51.1%	20.3%	62.0%	29.4%	0.387
P4E	77.8%	19.3%	76.6%	13.7%	0.667
P5E	51.9%	11.7%	61.1%	9.7%	0.125
P6E	45.0%	19.7%	75.0%	26.4%	0.016**
P7E	0.0%	0.0%	14.2%	30.1%	0.147
P8E	49.8%	36.0%	78.3%	35.2%	0.051*
P9E	25.0%	26.4%	25.0%	26.4%	1.000
Total-E	49.8%	12.6%	62.7%	8.3%	0.021**

Note: P1E denotes that principle 1 is analyzed according to the company's self-assessment. p-values of Mann-Whitney test are presented. Statistical significance at 5% (***) and 10% (*). Source: Own elaboration

Dispersion in compliance with the principles also differs according to the size of the company. While the principles with the greatest dispersion between large companies are the VIII (Encouraging Business Ethics), VII (Pay fairly and responsibly) and III (Risk Management), in the smaller firms are the VIII principles (Encouraging ethics), I (Economic group and related parts) and IX (Deepen the scope of the code).

3.2. External evaluation of the report on the degree of compliance with the Corporate Governance Code

Figure 2 shows compliance with the external evaluation in principle, and segregated by the company size. Differences are observed between the two groups, while in large companies the principles of higher compliance are the I (Transparent the relationship between the issuer, the economic group that leads and/or integrates and its related parts), VI (Maintaining a direct and responsible relationship with the community) and VIII (Promoting business ethics); on the other hand, small companies mostly fulfill principles I, II (Laying the foundations for a solid administration and supervision of the station) and IV (Safeguarding the integrity of financial information with independent audits). The principle with lower compliance is the IX (Deepen the scope of the code in large firms) and the VII (Pay fairly and responsibly) in the small companies.

Figure 2. External evaluation of the principles of CGC compliance according to company size

Source: Own elaboration.

Table 3 makes it possible to see that the difference in compliance with principles between large and small companies is higher when considering the assessment of an external analyst. While a significant difference is again seen at the general level of compliance, the behavior in principle differs markedly from that seen in Table 2. Only principle II (Lay the foundation for sound management and supervision of the station) and principle IX (Deepen the scope of the code) have similar compliances between the two groups.

Table 3. External evaluation of the principles of CGC compliance according to company size

Principle	Small		Large		p-value
	Mean	Estándar deviation	Mean	Estándar deviation	
P1A	53.4%	34.0%	79.9%	18.9%	0.076*
P2A	45.2%	8.0%	49.9%	9.4%	0.250
P3A	19.0%	13.7%	44.0%	28.4%	0.047**
P4A	40.2%	24.3%	57.6%	15.8%	0.093*
P5A	22.0%	9.2%	34.3%	9.5%	0.012**
P6A	32.5%	20.6%	67.5%	23.7%	0.004***
P7A	0.0%	0.0%	12.0%	25.3%	0.147
P8A	18.4%	35.6%	66.7%	35.0%	0.011**
P9A	5.0%	15.8%	10.0%	21.1%	0.542
Total-A	26.10%	8.6%	46.80%	9.8%	0.001***

Note: P1A denotes that principle 1 is analyzed according to the external analyst's assessment. P-values of the Mann-Whitney test are presented. Statistical significance at 1% (***), 5% (**) and 10% (*). Source of own elaboration.

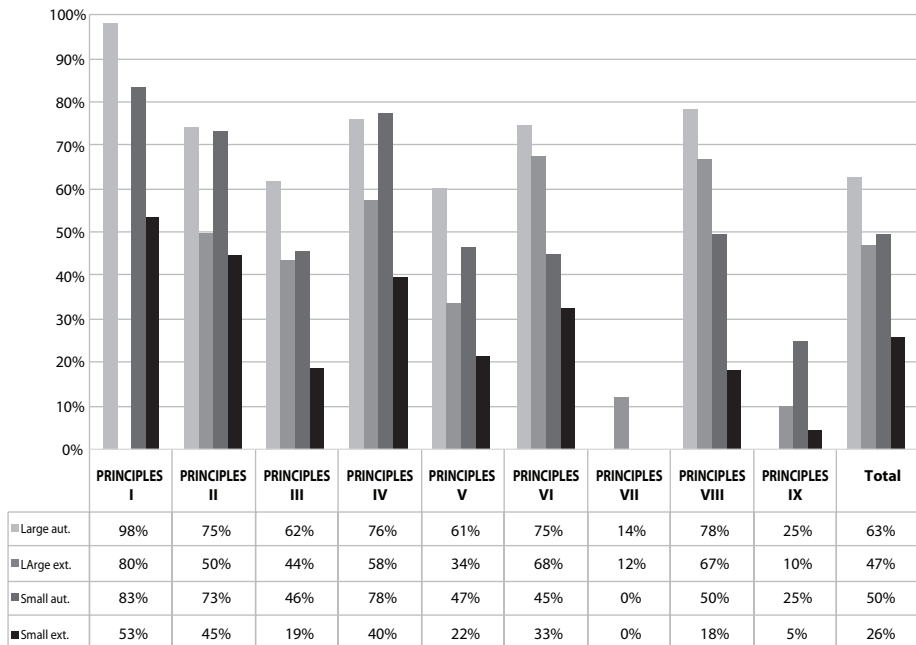
Dispersion in principled compliance under the perspective of the external analyst also differs by company size. While in small companies the most dispersal points are the VIII (Promoting business ethics), I (Economic Group and Related Parts) and IV (Independent Audits), it is observed that the VIII (Promoting Business Ethics), III (Risk Management) and VII (Pay fairly and responsibly) are in the large companies. It is interesting to mention that, for larger companies, the three principles with the greatest dispersion from this perspective are the same as those observed under the company's self-assessment. However, in small firms, the third principle with the greatest dispersion has a change: it is the IX (Deepen the scope of the code) under self-assessment, and the IV (Independent Audits) from the perspective of the external analyst.

In short, the results obtained, both under the company's self-assessment and under an external analyst, show that there is evidence in favor of the H1 hypothesis: compliance with the CGC has an inverse relationship with the size of the company.

3.3. Comparative analysis of assessments

Figure 3 shows the comparison of self-assigned compliance and compliance with the external assessment in principle, and segregated by the company size. The degree of overall compliance is also observed.

Figure 3. Comparison of evaluations of CGC compliance according to the company size



Source: Own elaboration.

Table 4 presents compliance on principle for the entire sample from two perspectives; self-assessment and external analyst. As can be seen, distributions are different for all principles except VI (Maintain a direct and responsible link with the community) and VII (Pay fairly and responsibly). In this way, there is evidence in favor of H2: The company's self-assessment differs from the results of an evaluation by an external analyst.

Table 4. Assessing the principles of CQC compliance according to the company and the external analyst

Principle	Self-assessment		External analyst		P-value
	Mean	Standard devi	Mean	Standard devi	
P1	90.9%	25.5%	66.7%	30.0%	0.0008***
P2	74.1%	10.0%	47.6%	8.8%	0.0000***
P3	56.8%	25.4%	31.5%	25.2%	0.0036***
P4	77.2%	16.3%	48.9%	21.9%	0.0001***
P5	56.7%	11.4%	28.2%	11.1%	0.0000***
P6	60.0%	27.4%	50.0%	28.1%	0.3218
P7	7.1%	21.9%	6.0%	18.5%	0.9172
P8	64.1%	37.6%	42.6%	42.4%	0.0910*
P9	25.0%	25.6%	7.5%	18.3%	0.0196**
Total	56.3%	12.3%	36.5%	13.9%	0.0001***

Note: p-values of the Mann-Whitney test are presented. Statistical significance at 1% (***), 5% (**) and 10% (*). Source: own elaboration.

The characteristics of the principles are then analyzed according to their degree of adherence and their dispersion between assessments.

3.3.1. Principles of greater adherence

In assessing the principles and their level of compliance, it is noted that the principle of greater compliance, both in the evaluation of the company and in the external evaluation is PRINCIPLE I for all companies: Transparent the relationship between the issuer, the economic group that leads and/or integrates and its related parties.

In large companies, it is a principle with a high degree of compliance and agreement between the evaluation of the issuer and the evaluation of the external analyst, with 100% compliance in two of its three recommendations. In small enterprises, the assigned compliance is only 53%, less than the 83% indicated by the issuers in their analyses. The main differences are due to the fact that the issuers consider the recommendations to be fulfilled by the fact that the law is abided by, and do not have complementary actions beyond the current regulations.

Only in the external analyst's assessment, the size of the organization contributes as a differentiator in compliance with the principle: larger companies have better self-evaluations as well as external ones, because large companies in addition to legal recommendations, take complementary actions to transparent relationship

In large companies, **PRINCIPILE VIII: Promoting business ethics** has very good assessments, ranking second, with less difference between the two assessments (11% net). In general, this difference is due to the lack of explanations about the processes and mechanisms for reporting.

In smaller enterprises, smaller self-compliance (fourth principle in the order of self-compliance) is observed, and a greater difference in external evaluation is noted, which results in 18% compliance with the principle, with seven issuers not complying with it, even though five of them self-assess with some degree of compliance. The main differences are due to the reporting of compliance even when they recognize that they do not have mechanisms or processes, or indicate that they do not consider them necessary to implement them.

Compared to the group of large companies, it can be said that size is a differentiating factor (Tables 2 and 3): large companies have codes of conduct with more mechanisms and processes, as well as their outsourcing; while small companies lack of it and they have not yet recognized the need, often justified in its size.

PRINCIPILE IV (Safeguarding the integrity of financial information with independent audits), has a similar own assessment in both samples, placing third for large enterprises and second for small ones. Within this principle, the highest compliance recommendation for all companies is the annual evaluation by the audit committee of external auditors. The lower-compliance recommendation refers to the rotation of the members of the audit committee and the external auditor for all enterprises, along with the existence of an internal audit function for smaller ones.

3.3.2. *Principles of less adherence*

At the opposite end, the principles of least compliance for both examples are:

- **PRINCIPILE VII (Pay in a fair and responsible way):** compliance with the principle is very low, there is no difference between the evaluation made by the external analyst and the self-assessment of the same company. In particular, this principle deals with the existence of the remuneration committee and its functions. It is the only criterion where both assessments do not present any dispersion. The size of the station is not a differentiating factor, as all smaller companies self-assess with non-compliance, agreeing with the external evaluation.
- **PRINCIPILE IX (Deepen the scope of the code):** in both groups of companies it is a principle of low compliance, where companies declare to comply partially only by the fact of submitting the compliance report of the Corporate Government Code established by Resolution CNV 606/12. In addition, they indicate that they do not consider including governance issues in their Social Statute, since they consider that the legislation is sufficient. The external assessment is even smaller, with greater absolute dispersion for small businesses. If percentage variation is measured, the differences between the two assessments are important, especially in small ones: it is the principle of further percentage variation. Comparison between the two groups of companies does not support the assertion that there are differences depending on the size of the organization (Tables 2 and 3).

4. Conclusions and discussion

The overall objective of this work is to analyze the CGC of the companies participating in the Argentinian stock markets and to develop a quantitative index of compliance with it, assessing differences based on the size of the company and the type of evaluation. The results obtained show that there are differences between the index self-assigned by the station and the index assigned by the evaluation of the external analyst. It is interesting to mention that, while overall compliance with the CGC differs according to the size of the undertakings, it is apparent from the analysis that this difference is not homogeneous between principles.

A secondary goal is to determine which aspects have higher and lower compliance. The principles concerning Related Parties (Principle I) and the Audit function (Principle IV) are the one with more compliance without distinction by size. This is based on compliance with legal provisions that also lead to compliance with the Code. In large companies the principle of Business Ethics (Principle VIII) has a high degree of compliance.

The principles of greater compliance support the institutional dimension of the CG, as well as what Fornero (2007) calls a shareholder-centric notion: the CC as a restricted vision, based on the control through regulatory mechanisms: laws, codes of conduct, regulations, code of good practice. The principles of lower compliance are those related to the Remuneration Committee (result that agree with Campbell *et al.*, 2009) and the GS Policy and its inclusion in the statute.

It is concluded that the opinion of an external analyst does not agree with the self-assessment of the stations, which is higher than the external evaluation, indicating that the external analyst performs a more demanding analysis, a result similar to that obtained by Bianchi *et al.* (2011). As Merkl-Davies and Brenann (2007) state, it is sometimes observed that the station is self-assessed as full compliance even if it does not meet or provide explanations. This could be due to the same company being aware of the processes, policies and/or reasons behind its self-assessment. The same is not true of a third party (interested party, investor, control body) that analyses the report: it lacks of internal information to understand and evaluate. These results point to the usefulness of the voluntary contracting of an external auditor of the CGC, who can interact with the company and certify the information presented, as happens on the Lima Stock Exchange. In this way, it would increase confidence in the information presented in the CGC and would work with the protection of all stakeholders.

The study has the following limitations: evaluation carried out only with secondary sources of information, and a small number of companies participating in the capital market. As future lines of research, the sample can be expanded by incorporating more issuers, contacting companies to provide more information and feedback on unexplained issues; analyze public information of the company that responds to points indicated in the report and contact investors to know their perception of the CGC.

The results of this work present a measurement of the Corporate Governance in Argentina, which implies a significant contribution to the comprehensive analysis of government reports in Latin America. In this way, this research is inserted in the topic that analyzes how company managers apply CG codes, which allows to study

the effectiveness of the system to comply or explain. On the other hand, local studies on corporate governance allow capital market control bodies (in Argentina the National Securities Commission) to design mechanisms that promote transparency and accountability, in line with UN Sustainable Development Goals (2015).

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