

## MOTIVATING FACTORS IN THE ADOPTION OF BETTER CORPORATE GOVERNANCE PRACTICES BY BRAZILIAN COMPANIES

**Oderlene Vieira de Oliveira\***, **Lindenberg Araújo Aragão\*\***, **Vera Maria Rodrigues Ponte\*\*\***, **Marcelle Colares Oliveira\*\*\*\***, **Augusto Marcos Carvalho de Sena\*\*\*\*\***

### Abstract

The present research aims to identify the main motivating factors leading to the adoption of better Corporate Governance practices by Brazilian companies. A set of questionnaires was applied to the members of the APIMEC. Descriptive statistics, probability distributions and hypothesis test were used as analytical techniques. Evidenced showed that among the motivating factors literature depicts as relevant, investigated analysts considered to be the most important the following: professionalization of the company; transparency and relationship with the capital market; perpetuation of the company; addition of value to shareholders; valuation of the company shares; improvement of institutional image; increase of liquidity of company shares; recovery of investors' trust; capital opening; reduction of cost of capital; and improvements in decision-making processes.

**Keywords:** Corporate Governance, Economic Development in Emerging Markets, Capital Market Development

\*Universidade de Fortaleza (UNIFOR)

Endereço: Rua Bento Albuquerque, 2500, Apto 1002, Bloco 3, Cocó, Fortaleza/CE 60190-080

Telefone 85-32651478

E-mail: oderlene@hotmail.com

CPF: 408.138.601-20

\*\*Universidade de Fortaleza (UNIFOR)

\*\*\*Universidade Federal do Ceará (UFC)

\*\*\*\*Universidade de Fortaleza (UNIFOR)

\*\*\*\*\*Universidade de Fortaleza (UNIFOR)

### 1. Introduction

The building blocks of what is understood today as Corporate Governance have been based, fundamentally, on various works published in the 1930s, such as Berle and Means (1932), about the highly dispersed property structure of some open companies in the United States, and Coase (1937) and Williamson (1996), on the so-called Transaction Costs Theory. More recently, Jensen and Meckling (1976), followers of Berle and Means' (1932) and Coase's (1937) contributions, are among the main formulators of Agency Theory, an important theoretical piece in the Corporate Governance area.

In the last fifteen years Corporate Governance studies have been given more attention. Originating in the USA and England, they have been disseminated in many countries. We observe nowadays in Brazil, a growing trend in the number of companies that seek to incorporate good Corporate Governance practices in their activities. According to São Paulo Stock Exchange (Bovespa, 2008), the number of companies

listed in the New Market and in the two Differentiated Corporate Governance Levels listing segments increased around 66% between 2006 and 2007, from 94 to 156 enterprises. It is worth to highlight the fact that in 2001 only 18 companies were registered in those Brazilian listing segments.

A study by La Porta, Lopez de Silanes and Shleifer (1999) revealed that in countries where companies have high protection standards for minority shareholders, their market values are greater. This finding has led to the idea that other benefits coming from Corporate Governance practices, such as increasing of returns over investments, reduction of the exposition of share returns to macroeconomic factors, and low cost of capital, are naturally added to these companies, thus corroborating the argument that investors are more willing to purchase shares from companies that perform the best practices of Corporate Governance (Carvalho, 2003; Vieira; Mendes, 2004; Carvalhal-Da-Silva, 2005; Rogers, 2006; Quental, 2007).

This research was conducted in order to identify the main factors that motivate the adoption of better Corporate Governance practices by Brazilian companies. To fulfill the main objective, an exploratory-descriptive research was conducted, with the application of questionnaires to the members of the Brazilian Association of Professionals and Analysts in Capital Market Investments - APIMEC in the northeastern region of Brazil. Descriptive statistics, probability distributions and hypothesis test were used as analytical techniques.

## **2. Constructive Landmarks of Corporate Governance**

According to Andrade and Rossetti (2006), although Corporate Governance subject, and practices related to it, has been built up since the 1930s, as processes of dispersion of capital and separation of property and management were initiated, it was only in the last two decades that they have received greater public attention.

According to them, during the nineties, some contributions engendered movements such as the great constructive landmarks of Corporate Governance, initiated by actions of Robert Monks, in 1992, who was basically concerned with agency conflicts. Monks was dissatisfied with the way firm's management had been modelled in practice, especially in relation to the ways companies were inclined to give strategic power to hired executives, and not to owners themselves. Monk's critical view has enabled capturing several aspects of everyday lives inside companies. His actions focused on shareholders rights through directly mobilizing them to play an active role inside the corporations, making shareholders participate actively in decision-making processes.

Andrade and Rossetti (2006) also refer to a second constructive landmark: the elaboration of the Cadbury Code, which emerged as a consequence of frequent corporate scandals. The Cadbury Code stands for its pioneering character in strongly pressing influencing groups inside a company to set new proposals ruling the way British corporations had been administrated. Lodi's (2000) narrative gives a clear idea of how administrative councils in British companies worked: "In England, until the end of the 1980s, the 'old boy network' system predominated. The 'old boy network' was also known as directors club and these directors participated in each other's company board of directors, exchanging favors and negotiating interests, and presenting difficulties to minority shareholders and outsiders" (Lodi; 2000, p. 55).

Influenced by these events, the Bank of England elected a commission to elaborate a Code of the Best Practices of Corporate Governance, which together with the London Stock Exchange, The English Accountants' Entities and the Financial Report

Council, under the coordination of Adrian Cadbury, created the Cadbury Report, sort of Code of Best Practices, based on the works of innumerable organizations in Europe and the United States. Released in 1992, it became known as The Cadbury Report Code (Lodi, 2000; Santos, 2004; Borges; Serrão, 2005).

A third constructive and historical landmark of Corporate Governance was the establishment of a multilateral organization, the Organization for Economic Cooperation and Development (OECD). Since late 1990s this organization has been interested in good Corporate Governance practices, because it regards such practices important factors to better structure markets, corporations themselves and nations (Andrade; Rossetti, 2006, p.169). The mission of the group created by OECD was to develop Corporate Governance principles that could help member-countries in their efforts towards evaluation and institutional improvements regarding corporate governance. These principles, approved in 1999, were re-evaluated in 2004, when it was decided the following directions: i) companies must concentrate efforts in coordinating effective administration in order to create conditions for implementing good Corporate Governance practices; ii) companies must protect shareholders' rights; iii) companies must guarantee equal treatment regarding majority and minority shareholders; iv) companies must effort to enhance other parts' expectations; v) firms must guarantee transparency of all relevant information, specially that related to economic-financial results; vi) companies must explicitly define responsibilities of the board of directors.

## **3. Governmental and Private Initiatives: Structuring the Corporate Governance Practices in Brazil**

Starting in the mid 1990s, governmental and institutional initiatives have contributed to the improvement of governance practices in Brazil. An initiative, such as the creation of the Brazilian Institute of Corporate Governance, was of fundamental importance to give credibility to Brazilian markets in different sectors of the economy.

According to the Brazilian Institute of Corporate Governance (Ibgc, 2006b), a first initiative towards the creation of an entity dedicated solely to the quality management of firms in different markets was undertaken by Bengt Hallqvist and João Bosco Lodi, who, in 1995, founded the Brazilian Institute of Board of Directors. Earlier in 1999, this agency was renamed as Brazilian Institute of Corporate Governance, and in May 2009, it released its Code of Best Corporate Governance Practices.

A second initiative towards structuring a company quality management was the creation of the New Market Listing Segment by São Paulo Stock Exchange - BOVESPA. According to Carvalho

(2002), the New Market Listing inaugurated a new phase in the Brazilian stock market by bringing a crucial novelty: a private sector intervention to enhance effective promotion of the stock market. Inspired in the *Neuer Markt* of the German Stock Exchange, the New Market Listing brought a significant change in the Brazilian Stock Exchange functioning.

According to BOVESPA (2007), the New Market Listing was created at the end of the year 2000 with the objective of providing a negotiating environment that could stimulate interests of investors and better promote the listed companies. Due to rather restrictive access rules, BOVESPA created two other lists with Differentiated Corporate Governance Levels.

Another important initiative was the reform of Corporate Law N° 6.404/76, promulgated in 2001 with the edition of Law N° 10.303/01, which represented a sharp advance in regard of the legal protection of minority shareholders. According to Teixeira (2004), the aimed changes towards the development of the Brazilian stock market led to a reduction of inherent conflicts between managers and shareholders, and regarding the latter, especially minority ones.

Carvalho-da-Silva (2005) adds that the main objective behind Corporate Law N° 6.404/76 reform was to increase corporate transparency, which is very important to bust credibility to Brazilian stock market. However, as Carvalho (2002) argues, the intention was to structure the Brazilian legislation mechanisms in order to recognize minority shareholders' rights, leaving a pungent perception that legal reforms far hardly get to modify the Brazilian stock market scenario, mainly due to lobbying and powering of opponent interest groups.

Other than these initiatives, we had a governmental effort, in June of 2002, presenting the Recommendations on Corporate Governance, a document enacted by the Brazilian Securities and Exchange Commission. Publication of this material aimed to provide guidance on issues that could significantly influence the relationship among managers, directors, independent auditors, majority and minority shareholders" (CVM, 2002).

#### **4. Motivating Factors Leading to Adoption of Corporate Governance Practices: Searching the Literature**

The motivation to conduct a certain task is proportional to the benefit it might produce. By analogy, we admit that the decision a company makes to adopt a good Corporate Governance system has a specific motivating factor.

According to Andrade and Rossetti (2006), one of the determining factors towards adoption of a good Corporate Governance practice by a company is a perception that the benefits to be accumulated with

the use of such practice are greater than the cost of its implementation.

One of the main objectives of Corporate Governance is the generation of value to a firm's shareholders. Among the various aspects related to this, the creation of value is one of the most cited beneficial factors related to adoption of good Corporate Governance systems.

There are important academic studies investigating the impact of Corporate Governance practices on an organization's value. Mello (2007) evidenced the direction and intensity of the impacts adoption of good Corporate Governance practices has on the market value of companies. Using Tobin-Q in a replication of the model created by Leal and Carvalho-da-Silva (2005) in a sample of companies listed on São Paulo Stock Exchange – BOVESPA for the 2003-2005 period, the author did not reject the hypotheses that adoption of good Corporate Governance practices has a positive and significant impact on the market value of the investigated sample of Brazilian companies.

Carvalho (2003) conducted a research using an event study methodology to measure the effect of adopting better practices of Corporate Governance over the value of a company shares. This method predicts returns that are expected to accrue to companies after their migration into one of the Differentiated Corporate Governance Levels of BOVESPA. Then, the after migration is compared with the returns registered in fact in the pre-migration phase. The evidence showed that migration produced a positive effect over the value of a company shares.

Bridger (2006) investigated the impact of voluntary entrance into one of the three listing segments of BOVESPA: Level 1, Level 2 and the New Market Listing Segment. The results showed that the entrance into the New Market Listing was the most significant factor in determining the market value of companies.

A major part of finance literature points that adoption of good Corporate Governance practices is significantly related to reductions of capital cost. The Brazilian Institute of Corporate Governance (CG) states, in its Code of Best Practices, that the objective of CG is to increase the company market value by improving its performance and facilitating its access to lower price capital. According to BOVESPA (2007), reduction of capital cost by a company committed to better Corporate Governance practices would be a consequence of its greater credibility, and this in turn, would be a reason for boosting investors' willingness and trust in regard the reputation of the company, with the result of elevating the price of its shares.

Stulz (1999) shows evidence in countries with weak legal protection, where agency problems are present and costs associated to informational asymmetry are high. In these conditions he shows that investors discount the price of a company shares as a

way of compensation. This happens as consequence of the globalization process, and if it occurs with accelerated technological advances, it may result in close monitoring over managers, shareholders and capital suppliers.

Goulart (2003) explains that in a globalized environment there is a natural trend for capital flowing into companies that adopt better CG practices, and therefore, enjoy higher acceptance in the market, implying reasonable levels of investor protection and high disclosure standards. As a result, there might be reduction in capital cost and easier and stabilized access in financial markets.

On the other hand, Carvalho (2003), Rogers (2006) and Quental (2007) investigated the correlation between the use of better Corporate Governance practices and the liquidity of company shares. Using event study methodology, the authors analyzed the effects of migration to Differentiated Corporate Governance Levels at BOVESPA finding that migration positive and significantly affected liquidity, leaving businesses less exposed to external risks.

Concerning share volatility, Vieira and Mendes (2004) performed a comparative study considering companies listed in São Paulo Stock Exchange Corporate Governance Index - IGC and organizations listed in other indexes (IBRx50 and IBRx100), evidencing that IGC enterprises presented greater scrutiny when they accumulate negative returns, i.e., IGC firm shares behaved steadily as facing low trends.

On other front, Cicogna (2007) studied whether or not companies operating in Differentiated Corporate Governance Levels had greater access to credit when compared to companies participating in the traditional market. The empirical results pointed out that the former had greater access to credit than the latter.

The image of an organization also constitutes an important motivating factor related to better Corporate Governance practices. Nardi and Nakao (2006) investigated whether adhesion to BOVESPA Differentiated Segments would cause any impact on the institutional image of these companies. The results pointed out that companies listed in the Differentiated Segments got significant improvements in image, that is, they had a positive image spread on the minds of their interest members (shareholders and stakeholders). The companies listed on BOVESPA Differentiated Segments, therefore, accrued greater benefits from their institutional image as compared with non-listed companies (Bovespa, 2007).

We have shown numerous studies investigating the impacts of adoption of better Corporate Governance practices on company characteristics that are important to shareholders, stakeholders, and society as a whole. However, rarely we find studies that try to specify the motivations that lead companies adopting these practices. One exception is a study conducted by the Brazilian Institute of Corporate

Governance (IBCG) (2006), where it was shown that for 15 Brazilian companies under family control, among the main five motivations to adopt best practices of Corporate Governance, the most often mentioned was 'desire to perpetuate the business model' (IBGC, 2006a). Thus, the adoption of good Corporate Governance practices had its main effect on the operating continuity of the companies, making them less dependent on the command of specific individuals and reducing the importance of performing executive tasks. The other four motivations were implementation of a definitive strategic plan; market value addition to shareholder; increasing number of shareholder and creditors; improvements of company's image abroad, a feature that deals with entrance of strategic partners and foreign investors.

Another motivating factor pointed out by the same research (IBGC, 2006a) was the enabling of leadership succession process involving directors with accumulated experience. According to Bernhoeft and Galo (2003), succession is a process that cannot be seen only with regard to a company share control, or as a simple business matter. It involves dedication and prudence so that the choice could lead to a smooth continuity for a company operation. Owing to this, Santos (2007) affirms that implementing governance rules and setting apart what is in the best interests of the company and family is very important to keep business going well, even in the absence of its founder.

Professionalization of management was another factor highlighted by the Brazilian Institute of Corporate Governance research (IBGC, 2006a). According to Souza (2006), the professionalization of a company and of its executive board of directors is a requirement imposed by markets, due to the needed separation between property and management. According to that author, professionalization also avoids superposition of personal interests from partners, successors and the interests of the company. Caetano (2003) mentions a study conducted by Dom Cabral Foundation, involving the 500 major Brazilian companies in 2001, where evidence showed that around 68% of the firms pointed out professionalization as the main motivating factor in the adoption of formalized models of Corporate Governance.

Recent studies have related transparency to capital cost, so that the lower informational asymmetry is, the lesser capital cost would be (Botsan, 1997; Botsan; Plumlle, 2001; Chen, Chen; Wei, 2003; Francis, Khurana; Pereira, 2007). Other studies associate transparency to company market value, as in Kappler and Love (2002). According to them, the greater transparency appears to be, the greater company market value is. Additionally, as indicated in BOVESPA (2008), companies with good Corporate Governance practices tend to show greater transparency and more quality over the informational

sets delivered to investors, a fact that relates to lesser risk, and, consequently, to reducing levels of capital cost.

Other than the motivating factors already mentioned, IBGC (2006a) also showed the following interesting results related to adoption of better CG practices: i) creation of a meritocratic environment in order to increase talent retention; ii) improvement of relationships among participant shareholders of the control group; iii) offering of greater transparency in the capital market; iv) recovery of investors' trust; v) engendering of greater patrimonial diversification over controlling shareholders; vi) improvement of price-fixing over company shares; vii) promotion of greater harmony among owners, directors and managers; viii) reduction of company shares volatility; ix) improvement on the work of the top

managers in the process of restructuring; and x) improvement of operational performance.

## 5. Methodology

In the process of searching for empirical evidence to give support to the main theoretical constructions developed in this article, an exploratory study was conducted, based upon the bibliographical investigation on Corporate Governance, with a focus on the motivating factors regarding the adoption of better practices. The theoretical support used enabled, initially, the identification of 31 motivating factors, which, after some refinements (elimination of factors with similar meanings), resulted in 25 items, as shown in Figure 1.

1. Perpetuate the company
2. Professionalize the company
3. Reach a meritocratic environment, in order to increase talent retention
4. Improve institutional image
5. Improve relationship between shareholders who are members of the controlling group
6. Guarantee greater transparency and relationship with the capital market
7. Improve the succession process
8. Improve the capititation of resources from creditors and shareholders
9. Enable greater internationalization of company operations
10. Enable the entrance of strategic partners and institutional investors
11. Recover investors' trust
12. Facilitate a better perception of corporate roles by investors
13. Enable a greater patrimonial diversification of controlling shareholders
14. Improve the pricing process of company shares
15. Promote greater harmony among owners, directors and managers
16. Reduce interest conflicts
17. Value company shares
18. Increase liquidity of company shares
19. Reduce capital cost
20. Add value for shareholders
21. Reduce the volatility of company shares
22. Facilitate access to credit
23. Improve decision-making process
24. Improve the work of top managers in the task of re-arranging and improving operational performance
25. Enable capital opening.

**Figure 1.** Motivating Factors in the Adoption of Better Corporate Governance Practices Source: Research data (2008)

The empirical research was conducted in two phases. In the first, we attempted to validate with specialists of the capital market, the motivating factors identified in the literature to further complement the list. The specialists were selected according to the following criteria: i) to have membership with the Brazilian Association of Professionals and Analysts of Capital Market Investments (APIMEC); ii) to have experience of at least five years in the capital market; iii) to be conducting operations at the present in the capital market.

Based on these criteria, five specialists were selected in order to give relevant insight information to better complement the list of motivating factors. We conduct a pre-test of the research instrument that would be adopted in the second phase, and collected the answers from opened and closed questions. The former referred to the identification of the respondents and the indication by them of the motivating factors they evaluate as important (a spontaneous attempt of validating the identified factors in the literature). The latter related to the 25 motivating factors listed with the objective of evaluating them according to their

importance through a Likert scale of 5 points (1. no importance; 5. extreme importance). This scale is widely used in social research works, because it is easy to visualize, apply and analyze. The use of the closed questions set had the objective of validating the motivating factors contemplating a stimulus-based technique.

The application of the pre-test indicated that the research instrument was ready to be implemented in the Brazilian Association of Investment Professionals and Analysts of the Capital Market (APIMEC), and there was no need for adjustments. According to Mattar (1996, p. 113): "Pre-testing is so important to the improvement of a data-gathering instrument that no research should be started unless the instrument had been properly tested."

In the second phase of the empirical research, we searched to know the motivating factors towards adopting better Corporate Governance practices by Brazilian companies via application of a questionnaire to analysts of the capital market. In this selection, a requisite was that members of the Brazilian Association of Investment Professionals and Analysts of the Capital Market (APIMEC) were from the northeastern region of the country. The preference for the regional agency was due to availability of its members and their interest in supporting the research.

The validated questionnaire was plugged on a webpage to which the respondents could have access and an invitation letter with a link was sent to them via e-mail. The questionnaires were applied in the first four months of 2008, during meetings with analysts and conducted with the support of the

Brazilian Association of Investment Professionals and Analysts of the Capital Market (APIMEC) in the northeastern region of Brazil. The regional agency held a total number of 110 associates that attended the criteria defined in the research. Thus, the questionnaires were sent to 110 associates, out of who 71 provided answers, corresponding to a 65% rate of response.

The collected data was verified, codified and stored in a SPSS software. Descriptive statistics were used to calculate central tendency (arithmetic averages) and dispersion measures (frequency distributions and standard-deviations). For identifying the normal properties of the motivating factors variable, the Gaussian normal distribution was used. (Stevenson, 1981).

## 6. Results and Assessments

After the data treatment and use of basic descriptive statistics, a ranking of the motivating factors on adoption of better Corporate Governance practices by Brazilian companies was elaborated. (see Table 1). Close observation shows that the averages of each investigated factor scores above 3.6. Therefore, we can conclude that all 25 elected factors considered by the selected analysts and professionals of the northeast's capital market are motivating elements in the companies' decisions towards adopting good practices of Corporate Governance. Thus, the present study validates the results presented in the literature on Corporate Governance.

**Table 1.** Ranking of Motivating Factors

Ranking	Factor	Motivation	Average	Standard Deviation
1 <sup>a</sup>	F2	Professionalize the company	4,73	0,533
2 <sup>a</sup>	F6	Guarantee better transparency and relationship with the capital market	4,69	0,550
3 <sup>a</sup>	F1	Perpetuate the company	4,58	0,690
4 <sup>a</sup>	F20	Add value to shareholders	4,54	0,629
5 <sup>a</sup>	F17	Value company shares	4,51	0,734
6 <sup>a</sup>	F4	Improve institutional image	4,48	0,673
7 <sup>a</sup>	F18	Increase liquidity of company shares	4,42	0,768
8 <sup>a</sup>	F11	Recover investors' trust	4,34	0,894
9 <sup>a</sup>	F25	Enable capital opening	4,31	0,729
10 <sup>a</sup>	F19	Reduce capital cost	4,30	0,868
11 <sup>a</sup>	F23	Improve decision-making process	4,28	0,740
12 <sup>a</sup>	F3	Reach a meritocratic environment, in order to increase talent retention	4,23	0,796
13 <sup>a</sup>	F5	Improve relationship between shareholders which are members of the controlling group	4,23	0,796
14 <sup>a</sup>	F8	Increase the capitation of resources from creditors and shareholders	4,23	0,778
15 <sup>a</sup>	F14	Improve the pricing process of company shares	4,20	0,804

Table 1 continued

16 <sup>a</sup>	F7	Improve the succession process	4,18	0,780
17 <sup>a</sup>	F12	Enable a better perception of corporate roles by investors	4,15	0,786
18 <sup>a</sup>	F15	Promote better harmony among owners, directors and managers	4,13	0,809
19 <sup>a</sup>	F24	Improve the of top managers in the task of re-arranging and improving operational performance	4,11	0,747
20 <sup>a</sup>	F16	Reduce interest conflicts	4,08	0,937
21 <sup>a</sup>	F10	Enable the entrance of strategic partners and institutional investors	4,08	0,858
22 <sup>a</sup>	F22	Facilitate access to credit	3,97	0,828
23 <sup>a</sup>	F9	Enable greater internationalization of company operations	3,96	0,869
24 <sup>a</sup>	F21	Reduce volatility of company shares	3,90	0,943
25 <sup>a</sup>	F13	Enable greater patrimonial diversification for controlling shareholders	3,65	0,943

Source: Research data (2008).

In order to give emphasis to factors with higher degree of relevance concerning the motivations in the adoption of good Corporate Governance practices by Brazilian companies, normal distribution was assumed as support for the analysis of the behavior of

the scores attributed to the factors, adopting as the cutting point the amount of 4.27, obtained from the application of the following calculating technique: average of the average + 1 standard deviation. This is illustrated in Table 2.

Table 2. Definition of Cutting Point

Average of the Average	4,2512	425,12
Standard Deviation *	0,247940638	2,479406
Variance **	0,06147456	6,147456
Average of the Average + 1 Standard Deviation	4,499140638	4,275994

Source: Research data. (2008)

\* calculates the standard deviation based on total population.

\*\* considers that its arguments are valid for the whole population

The application of the referred technique suggests eleven motivating factors with a higher degree of importance:

F1 – Perpetuate the company; F2 – Professionalize the company; F4 – Improve institutional image; F6 – Guarantee greater transparency and relationship with the capital market; F23 – Improve decision making process; F11 – Recover investors' trust; F17 – Value company shares; F18 – Increase liquidity of company shares; F19 – Reduce capital cost; F20 – Add value to shareholders; and F25 – Enable capital opening.

In order to validate the presented result, the factors have been distributed into two groups, the first with the above eleven items, and the second with the remaining 14 factors. A hypothesis test was conducted to evaluate the importance of these two groups of factors, checking for the equality of their respective population means. Using the sample averages and standard deviations, the test-statistics, using the t-distribution with 23 degrees of freedom, which define the rejection of the means' equality is:

$$t_{\text{test}} = [x_{G1} - x_{G2}] / \sqrt{\{[(n_{G1}-1)\sigma_{G1}^2 + (n_{G2}-1)\sigma_{G2}^2] / (n_{G1} + n_{G2} - 2)\} \times (1/n_{G1} + 1/n_{G2})}$$

Where:  $[x_{G1} - x_{G2}]$  is the difference between the sample means of the two groups;  $n_{G1} = 11$  and

$n_{G2} = 14$  are the sizes of the samples in their respective groups; and  $\sigma_{G1}^2$  and  $\sigma_{G2}^2$  are the variances.

The calculation of the test-statistics shown above resulted in a figure of 5.98, indicating the rejection of the hypothesis of equal importance of the factors in the two groups. This way, we can say that, for the levels of significance  $\alpha = 1\%$ ;  $\alpha = 5\%$  and  $\alpha = 10\%$ , there is no evidence towards accepting that the factors of the first group have similar relevance to the ones presented in the second group.

Below, we comment on the factors pointed as the most relevant, i.e., those belonged to the first group analyzed.

**Table 3.** Group I of Motivating Factors with a Greater Degree of Importance

Ranking	Factor	Motivation	Degree of importance	Frequency	%	Average	Standard Deviation
1 <sup>a</sup>	F2	Professionalize the company	Moderate	3	4,2	4,73	,533
			Strong	13	18,3		
			Extreme	55	77,5		
			Total	71	100,0		
2 <sup>a</sup>	F6	Guarantee greater transparency and relationship with the capital market	Moderate	3	4,2	4,69	,550
			Strong	16	22,5		
			Extreme	52	73,3		
			Total	71	100,0		
3 <sup>a</sup>	F1	Perpetuate the company	Moderate	8	11,3	4,58	,690
			Strong	14	19,7		
			Extreme	49	69,0		
			Total	71	100,0		
4 <sup>a</sup>	F20	Add value to shareholders	Moderate	5	7,0	4,54	,629
			Strong	23	32,4		
			Extreme	43	60,6		
			Total	71	100,0		
5 <sup>a</sup>	F17	Value company shares	Weak	2	2,8	4,51	,734
			Moderate	4	5,6		
			Strong	21	29,6		
			Extreme	44	62,0		
			Total	71	100,0		

Source: Research data (2008).

Table 3 above presents the descriptive results of five out of the eleven most important factors in the decision for the adoption of better Corporate Governance practices by Brazilian companies. We observed that such factors obtained very close averages among themselves and they were superior to 4.50 (between strong and extreme importance). The factor **F2** (professionalize the company) presented the greatest degree of importance among all the 25 factors, with 77.5% of the respondents attributing extreme importance to it (concept 5), resulting in the average 4.73. This result reinforces the idea that the adoption of good Corporate Governance practices leads to the professionalization of the company, seen today as a determining factor in the continuity of the business.

The factor F6 (guarantee greater transparency and relationship with the capital market), with 73.3% of concepts 5, was the second greater average (4.69), among the 25 studied factors. We related this result to evidence from studies mentioned in the theoretical review of this research that associate transparency with capital cost, and transparency to company value.

Factor F1 (perpetuate the company) reached the third greatest average: 4.58. This result is in accordance with the Brazilian study mentioned previously, which pointed at the desire to institutionalize and perpetuate the company business model as the factor of greatest motivation in the adoption of good Corporate Governance practices.

The factors F20 (Add value to shareholders) and F17 (Value the shares of the company) obtained fourth and fifth places in the general ranking, with averages 4.54 and 4.51, respectively. The two averages are very close, but it is necessary to point out that factor F20 presents a lesser standard deviation, hinting at a greater consensus among analysts towards that factor. It is important to mention that several empirical researches discuss the existing relationships between Corporate Governance practices, company value and addition of value for shareholders.

Table 4 presents the descriptive results of the other six factors included in the group of eleven most important in the decision for the adoption of better Corporate Governance practices by Brazilian companies.

The highlighted position of F4 (Improve institutional image), with average 4.48, suggests that companies see in the good Corporate Governance practices, and consequently, in the observance of its basic principles (fairness, disclosure, accountability; and compliance), an instrument to improve institutional image.

This understanding corroborates the result of the research mentioned previously, which shows that there is a positive impact in constitutional image, when the best Corporate Governance practices are adopted.

The classification of factor F18 (Increase liquidity of company shares) indicates that the corporate world perceives that the adoption of good



Corporate Governance practices can increase liquidity of shares, according to what is demonstrated by various scientific studies presented in the theoretical review.

The factors F11 (Recover investors' trust) and F25 (Enable capital opening) obtained very similar averages, 4.34 and 4.32, respectively. We expected that F25 would rank better due to studies that stand out benefits brought out by the realization of capital opening.

We didn't expect that factor F11 (Recover investors' trust) has presented better classification than factor F19 (Reduction of capital cost), in view of the great incidence of pronouncements from the most diverse agents of the capital market in favor of the adoption of better Corporate Governance practices as an element of reduction of capital cost. According to literature presented in theoretical review, the reduction of capital cost should be a consequence of greater credibility made possible by the adoption of better Corporate Governance practices.

**Table 4.** Group 2 of Motivating Factors with High Degree of Importance

Ranking	Factor	Motivation	Degree of importance	Frequency	%	Average	Standard Deviation
6 <sup>a</sup>	F4	Improve institutional image	Moderate	7	9,9	4,48	,673
			Strong	23	32,4		
			Extreme	41	57,7		
			Total	71	100,0		
7 <sup>a</sup>	F18	Increase liquidity of company shares	Weak	1	1,4	4,42	,768
			Moderate	9	12,7		
			Strong	20	28,2		
			Extreme	41	57,7		
			Total	71	100,0		
			None	1	1,4		
			Weak	3	4,2		
			Moderate	5	7,0		
8 <sup>a</sup>	F11	Recover investors' trust	Strong	24	33,8	4,34	,894
			Extreme	38	53,6		
			Total	71	100,0		
			Weak	2	2,8		
9 <sup>a</sup>	F25	Enable capital opening	Moderate	5	7,0	4,31	,729
			Strong	33	46,5		
			Extreme	31	43,7		
			Total	71	100,0		
10 <sup>a</sup>	F19	Reduce capital cost	Weak	3	4,2	4,30	,868
			Moderate	10	14,1		
			Strong	21	29,6		
			Extreme	37	52,1		
			Total	71	100,0		
			Weak	2	2,8		
			Moderate	6	8,4		
			Strong	33	46,5		
11 <sup>a</sup>	F23	Improve decision-making process	Extreme	30	42,3	4,28	,740
			Total	71	100,0		
			Weak	2	2,8		
			Moderate	6	8,4		

Source: Research data (2008). Elaborated by the authors.

We were also surprised that factor F23 (Improve decision-making process) has reached position superior to factor F14 (Improve pricing of company shares). We understood that the adoption of good Corporate Governance practices must favor the improvement of the decision-making processes, but we didn't expect that this would be such a relevant motivating factor. We'd like to remember that as mentioned previously quite often the factor F14 (Improve pricing of company shares) has been a subject of theoretical studies that demonstrate the

existence of a positive correlation between the good Corporate Governance and the improvement of the pricing process of company shares.

## 7. Conclusion

The results of the present research indicate that all 25 investigated factors can be considered elements with effective capacity to motivate a company's decision to adopt the good Corporate Governance practices. Below, they are presented in decreasing order of

importance, according to the respective averages of the obtained scores: F2 – Professionalize the company; F6 – Guarantee greater transparency and relationship with the capital market; F1 – Perpetuate the company; F20 – Add value to shareholders; F17 – Value company shares; F4 – Improve institutional image; F18 – Increase liquidity of company shares; F11 – Recover investors' trust; F25 – Enable capital opening; F19 – Reduce capital cost; F23 – Improve decision-making process; F3 – Reach a meritocratic environment in order to increase talent retention; F5 – Improve relationship among shareholders which are members of controlling group; F8 – Increase captation of resources with creditors and shareholders; F14 – Improve pricing process of company shares; F7 – Improve succession process; F12 – Enable a better perception of corporate roles by investors; F15 – Promote greater harmony among proprietors, consultants and managers; F24 – Improve the work of top managers in the task of re-arranging and improving operational performance; F16 – Reduce interest conflicts; F10 – Enable the entrance of strategic partners and institutional investors; F22 – Facilitate access to credit; F9 – Enable greater internationalization of company operations; F21 – Reduce volatility of company shares; and F13 – Enable greater patrimonial diversification for controlling shareholders.

The research also suggests that the first eleven factors, mentioned in the list above, can be considered as possessing a greater degree of relevance, according to applied statistical tests.

Some results of the study were rather surprising. We expected that motivating factors extensively discussed in the media, such as F19 (Reduce capital cost) and F25 (Enable capital opening), would present a better classification in the ranking. Also, we expected a better position for factor F14 (Improve pricing process of company shares), in view of the results of scientific studies which point at a positive correlation between the good governance and the improvement of the pricing process of company shares.

Despite numerous scientific works published in Brazil about Corporate Governance, only one realized by Brazilian Institute of Corporate Governance was directly concerned with company motivations in the adoption of better Corporate Governance practices. The study mentioned comprehends the realization of case studies in fifteen Brazilian companies, investigating several research questions. The work realized by Brazilian Institute of Corporate Governance, like all case studies, presents limitations, and it's not possible to generalize its results. Thus, it is possible to affirm that the present research seeks to complement that study, investigating specifically the motivations to adopt better Corporate Governance practices, with analysts and investment professionals of the capital market. The research findings

corroborate the results of the Brazilian Institute of Corporate Governance.

The developed research presents limitations which can be fixed by means of other studies, and we think it's interesting to put together the views of the analysts and investment professionals associated to the Brazilian Association of the Analysts and Investment Professionals of Capital Market of other regions of Brazil. Despite concerns by researchers about explaining to consulted analysts that the investigation approached Brazilian companies in general, it is possible that some respondents have expressed their opinions based on the reality of northeastern companies. An amplification of the study would certainly fix that problem, as well as enable an evaluation of the differences of perception by analysts regarding the regions where they operate, and we cannot eliminate the possibility of a consensus about the theme nationwide.

We think that to better understand the motivating factors to the adoption of Corporate Governance practices by Brazilian companies it would be interesting develop a research in order to investigate directly to companies, with the application of a questionnaire to the directors of relations with investors of Brazilian companies that have joined the New Market and the Differentiated Corporate Governance listing segments of São Paulo Stock Exchange.

Finally, we suggest, furthermore, the development of studies investigating the motivating factors to the adoption of better corporate governance practices by companies in other countries, which could be done with the collaboration of Association of Certified International Investment Analysts-ACIIA that Brazilian Association of Analysts and Investment Professional of Capital Market is membership. This is an interesting theme that certainly might reinforce the adoption of better Corporate Governance practices, not only by listed companies but by small and medium enterprises as an element to promoting increasing and development of nations.

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