

IMPACT OF ENFORCEMENT AND CORPORATE GOVERNANCE ATTRIBUTES ON PERFORMANCE

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Abstract

Since 2005, consolidated financial statements of European listed groups have been prepared according to IFRS. Nevertheless, the recent economic crisis on top of financial scandals has highlighted the role of oversight agencies and the importance of corporate governance. The purpose of this study is to look into the impact of corporate governance and the work of the Spanish Securities Exchange Commission (CNMV) on the performance of Spanish listed groups; as well as observing the links between enforcement actions and corporate governance. In a sample of 116 Spanish listed groups during the period 2005-2011 we have applied structural equations model (SEM) for hypothesis testing. The results obtained suggest there is a significant positive relationship between the corporate governance variables and company performance and a significant negative relationship between enforcement and performance. We also identify a significant positive relationship between enforcement action and corporate governance, which validates the theoretical model proposed.

Keywords: Corporate Governance; Performance; Enforcement action; SEM.

JEL Classification: Accounting M410, M480 Accounting and Auditing: Government Policy and Regulation

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1. INTRODUCTION

In recent years, many financial scandals have eroded users' trust in financial reporting and in the good governance of business. The Enron scandal had a major impact on the regulation of the audit profession (DeFond and Francis 2005; Humphrey et al. 2009 and Humphrey et al. 2011), but many other frauds and scandals have also taken place all over the world recently. These corporate scandals have caused a decline in financial reporting credibility, being a catalyst for legislative changes and reforms. The final goal of these new regulations has been to promote better standards for the preparation of financial statements, increase surveillance and to ensure good corporate governance practices which seek to rebuild the trust, transparency and reliability of financial reporting.

The mechanisms of internal control (through better corporate governance practices) and external supervision (i.e. enforcement) offer a dual complementary perspective for control. Firstly, corporate governance (CG) is an internal tool for organizations to monitor relevant decisions that are made within the entity and which affect financial reporting. Secondly, the role of external monitoring or enforcement ensures proper financial information preparation and disclosure (Lisic et al, 2014). Therefore, disclosure of information related to these two kinds of control mechanisms can be viewed by users as valuable input for their decision making process, according to the signaling theory. In addition, this disclosure can also have an impact on business performance either from an accounting

perspective or from a capital market perspective (Garcia-Benau et al. 2013). Business performance stands out indeed as the most relevant and recurring financial indicator of strategic management success. It allows easy comparisons with competitors and is widely used in existing research.

The interest for corporate governance arises from the separation of shareholders (ownership) and managers (control), which gives rise to a conflict of interests (Berle and Means, 1932). Jensen and Meckling (1976) named the subsequent effects as "agency problems" and the well-known agency theory established that these problems stem from agents (managers) seeking their own interests without considering the principals' (owners'). As a result, it has become necessary to implement governance mechanisms that control business actions from the stakeholders' perspective (Sierra et al., 2012). Abdel-Meguid et al. (2013) underscore the importance of strong governance in constraining aggressive financial reporting and Retolaza et al. (2015) look into how to overcome the problems of governance. These mechanisms which include the Board of Directors (BoD) and other committees that are considered in the different CG codes around the world (Aguilera and Cuervo-Cazurra, 2009). The governance structure should set and pursue the objectives of the firm and establish the distribution of responsibilities regarding stakeholders' interests (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and others). It should set the procedures for making decisions within the firm bearing in mind the social context, as well as the regulatory frame and market

environment. Hence, this governance structure is a mechanism for monitoring the policies and decisions of corporations and is aimed to oversee that stakeholders' interests are preserved. The role that corporate governance has to play in a well functioning capital market is still today a hot topic and changes have just been approved (CNMV, 2015).

For the purpose of our research, the concept of enforcement should also be defined. According to the first standard set by the former EU Committee of European Securities Regulators (CESR) (now renamed European Securities and Markets Authority, i.e. ESMA), enforcement is defined as *"the application of a set of mechanisms intended to protect investors and promote market confidence, contributing to the transparency of financial information for the decision-making process of investors. So the application must ensure the following two functions: monitoring compliance with financial information in accordance with the applicable reporting framework and taking appropriate measures in those cases where new infringements are discovered in the course of supervision"* (CESR, 2003).

Note that as a result of the 1606/2002 EU Regulation, since 2005 European listed companies have prepared their consolidated information in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). This European move to support the use of IFRS boosted global IFRS acceptance. In fact, the US Securities and Exchange Commission (SEC) allowed since the end of 2007 foreign companies to file financial statements according to IFRS. Indeed, IFRS are now used by listed companies in at least 55 countries, with other countries planning to adopt them in the near future or planning to realign their national accounting standards with them as these standards improve the quality of financial information (Hoogervost, 2013). In the Brazilian context, Oliveira & Frota (2015) measure the impacts of the final phase of mandatory convergence to IFRS on Brazilian public companies. Their results show that the final stage of mandatory convergence to IFRS has led to significant increases in the most relevant financial indicators.

However, a high quality financial reporting system needs not only a high quality set of standards (i.e., IFRS for consolidated accounts in the case of European listed companies), but also good national enforcement systems to guarantee proper application of IFRS and ensure protection of capital market participants. The European Union coordinates the national enforcement bodies through the ESMA. In the short term, this organization is expected to cover a wider range of functions, especially in the area of auditing supervision (see EU, 2014). National enforcement organizations (i.e., securities commissions) are consequently going to have more responsibilities in the field of financial reporting in the very near future.

In the Spanish context, the capital markets supervision is carried out by the Spanish Securities and Exchange Commission, i.e. the *Comisión Nacional del Mercado de Valores* - i.e., CNMV onwards. It was created in accordance with the 24/1988 Stock Exchange Act, which meant a profound reform in the Spanish financial system.

Acts 37/1998 and 44/2002 have updated that law, establishing a regulatory framework that is line with the European Union's. The objective of the CNMV is to ensure transparency in the Spanish stock market and proper share price formation. Hence, the CNMV supervises the financial information filed by listed companies. If accounting anomalies are detected, the CNMV requires the company to provide further detail or issue new documents in full compliance with the financial reporting regulatory framework.

Therefore, the purpose of this paper is to analyze the effects of corporate governance and the external supervision carried out by the CNMV on business performance, both from an accounting standpoint, i.e. profitability (measured in terms of return on assets, ROA), and from the point of view of the market (as measured by Tobin's q and the Market to Book ratio).

The methodological approach used in this study is SEM (Structural Equation Modeling), also called "covariance structure analysis", which is a novelty in the financial reporting field of research even though it has largely been used in the marketing field of research (Ramirez et al, 2013, Diamantopoulos et al, 2008, Gudergan et al, 2008). This methodology has also been applied in a very recent paper on enforcement and IFRS in a multicountry study (Glaum, et al. 2013) and in the field of ethics and auditing (Sweeney et al. 2013). SEM is a confirmatory technique to check whether a particular theoretical model is valid. Examples of this technique are factor analysis, regression and path analysis (Hair et al., 2010, Ringle et al. 2013).

The most important contribution of this article is the proposal of a theoretical model on business performance, enforcement action and corporate governance, which is confirmed with a rather new methodological approach in the accounting field as SEM. Enforcement and corporate governance initiatives are the mechanisms which are being reinforced in the current debate so as to restore credibility in the capital markets (EU, 2014 and CNMV, 2015), while firms do continue to have business performance as one of their strategic objectives.

The structure of this paper is as follows. Continuing this brief introduction which emphasizes the originality and timeliness of our research, the second section of the paper sets the theoretical framework (from both the agency theory and regulatory perspective) and presents a review of the existing literature in this field. The next section describes the methodological approach and the sample. In the fourth section, the results obtained are discussed. Finally, conclusions are drawn and ideas are presented for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Agency Theory

In the agency theory, the separation between owners and managers can cause a conflict of interests, because the owners want to maximize the value for the shareholders, while the managers tend to be biased towards short term objectives with an opportunistic behavior (Faleye et al, 2013).

High dispersion of share ownership in firms may discourage minority shareholders from watching over managers (Fama and Jensen, 1983a and 1983b). The corporate board is a tool that companies use in order to supervise the management of the firm as a way to reduce agency problems (Shleifer and Vishny 1997).

The field of research on the relationships between corporate governance variables and corporate performance has been prolific, as the companies' objective to maximize profit and value creation is important under a strategic management approach. The most commonly analyzed variables regarding internal control mechanisms in the context of corporate performance are the size and independence of corporate boards (Beiner et al., 2004, Guest, 2009, De Andrés, 2005, Yermack, 1996; Eisenberg et al. 1998, Pearce and Zahra 1992, Faleye et al., 2013).

Many studies have looked into how the role of different corporate governance instruments or characteristics can have an impact on the performance of the firm (La Porta et al. 1998; Young et al. 2008).

Good corporate governance has a positive impact on the performance of organizations (Claessen et al., 2002). Donaldson (2003) finds evidence that good corporate governance enhances confidence and liquidity in the markets and acts positively on investors, as Gompers et al. (2003) argue that good corporate governance increases the value and profitability of organizations. In a study on American banks, Peni et al. (2012) suggest that entities with strong corporate governance mechanisms achieve greater financial performance in spite of the effect of the recent financial crisis. Greater board monitoring has been found to be valuable in more transparent firms and costly in more opaque firms (Faleye et al., 2011).

Following existing research, our corporate governance construct, initially took into consideration the following variables: size of the board, board activity, independence of the board members, capital on the board and CEO duality. Nevertheless, after carrying out the factorial exploratory analysis, board activity and duality could not be included in the CG construct. Next, we explain the variables included in the construct according to the literature reviewed.

2.2. Board size

Boards act as a governance and control mechanism that protects shareholders interests from self-serving managers (Jensen and Meckling, 1976; Fama, 1980; Fama, and Jensen, 1983). In the last twenty years, many papers look into the effects of contractual relations between the agent and the principal, under the agency theory. Most of the recent work in this field has an empirical approach on different attributes of corporate governance and its influence on certain variables, such as the value of the company (Adams and Mehran, 2008).

The number of directors on the board is a critical factor that influences the performance of a company. For instance, Zahra and Pearce (1989), highlight the importance of board size in regard to efficiency of corporate governance. Many studies have shown a positive relationship between the size

of the board and the results obtained (see for instance, Juras and Hinson, 2008, or Rashid and Islam, 2013), Kyereboah-Coleman and Biekpe (2006) find a positive relationship between board size and the value of a firm and similarly Beiner et al. (2006); find out a positive relationship between board size and corporate performance.

However, Di Pietra et al., (2008) find limited evidence that board size has a substantial impact on the market valuation, except in small and medium enterprises and in some specific industry sectors. In fact, some authors find that this relationship only holds up to a certain size, because if higher, this positive relationship tends to disappear. In this sense, Yermack (1996) examines a sample of large US firms and finds a strong negative effect of board size on Tobin's q, concluding that boards seem to be too big. Adams and Mehran (2008) suggest that board size restrictions in the banking sector can be counterproductive.

2.3. Independent members on the Board

The majority of corporate governance codes recommend an important presence of independent members on the board, in order to minimize the agency problems (Fama and Jensen, 1983; Agrawal and Knoeber, 1996). The independent members are expected to be the more interested in ensuring a responsible behavior of the firm, as well as the fulfillment of its objectives (García-Sánchez et al., 2011).

Duchin et al. (2010) observe the implementation of the Sarbanes-Oxley Act (SOX) requiring a minimum proportion of outside (independent) directors. They find that firms compose their boards as if they understand that outsider effectiveness varies with information costs.

Pearce & Zahra (1992) study the relationship between the boards' independence and the yield rate (performance) observing the association within the firm's settings, profits, strategies and the composition boards (size board and independent directors).

In many studies, the independence of the board of directors from management provides effective monitoring and control of firm activities (Fama and Jensen, 1983, Faleye et al., 2013). The presence of independent members in the board is a signal to the market that directors will be more prone to comply with ethical standards (Huang et al. 2008). Evidence has been found on the positive relationship between the independence of the board of directors and the firms' performance (Yermack, 1996; Block, 1999, De Andrés and Rodriguez, 2009).

Xie et al. (2003) find that presence of independent members on the board reduces the information manipulation, increasing the transparency and the quality of the information systems. As regards the Spanish setting, the unified corporate governance code recommends that the amount of independent members is equal to one third of the members of the board (CNMV, 2006). In the Spanish context, where there is a high concentration of ownership, Acero and Alcalde (2012) suggest that variations in the number of independent members on the board basically respond to the need of having an adequate representation of the ownership structure rather

than a specific need for counseling and expertise. Other studies find evidence that low-profitability firms increase the independence of their boards of directors, yet firms with more independent boards do not necessarily perform better than other firms (Bhagat and Black, 2002).

2.4. Capital held by board members

Berle and Means (1932) are among the first to consider the relations between a firm’s ownership structure and its performance. Florackis and Ozkan (2009) note that the capital in the hands of executives can be an incentive mechanism to prevent the expropriation of outside shareholders and thus can align the interests of managers and shareholders.

Prior research has studied this variable as an active mechanism which can reduce agency problems (Peasnell et al. 2003). In general, literature

suggests that board members with more shares are directly associated with increased monitoring and supervision (Jensen and Meckling, 1976; Patton and Baker, 1987).

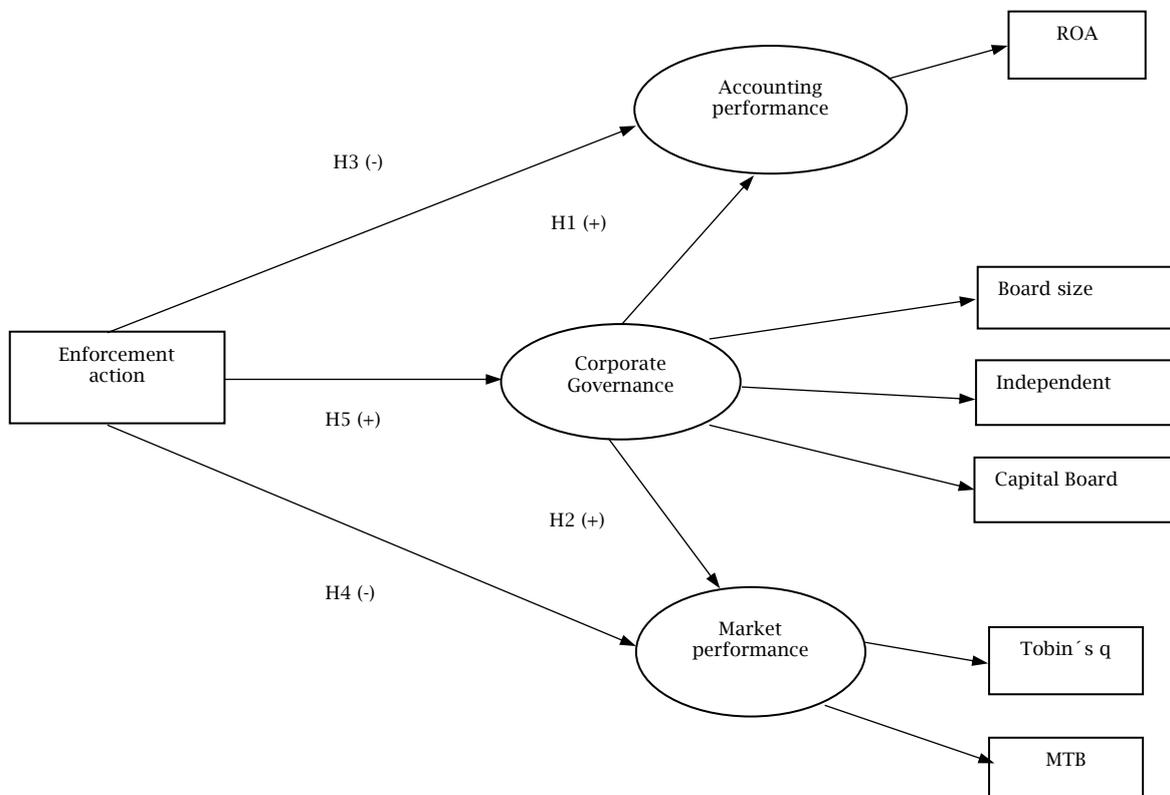
Lafond and Roychowdhury (2008) obtain evidence that when the firm reduces the shares in hand of the directors, the conflicts derived from the agency problem increase. Following existing research (Garcia-Benau, et al, 2013), our market performance construct includes the variables Tobin’s Q and Market to Book Ratio.

Our accounting performance construct, initially included the following variables: ROE and ROA. However, after carrying out the factorial exploratory analysis, the variable ROE was finally disregarded.

As a result of the above, we put forward the following hypotheses (see figure 1):

H1. H2. Corporate governance has a positive impact on performance, both from an accounting and market perspective.

Figure 1. Theoretical model of the study



2.5. Regulatory Approach: enforcement action

In a context of financial scandals and financial crisis, supervisory mechanisms are critical to restore confidence in high quality financial reporting (EU 2014, Cai et al, 2008, Christensen et al. 2013, Leuz 2010, Hitz et al. 2012).

As a result of the 2002 IAS Regulation, European listed companies have prepared their annual reports according to International Financial Reporting Standards (IFRS) since 2005, which are globally recognized as a set of high quality accounting standards (IASB-FASB, 2002). However, one of the problems detected within the EU was the

lack of coordination and coherence between its member countries in the financial reporting supervisory role at a national level. In order to overcome this weakness, a new EU Regulation to improve the quality of audits of public-interest entities increases the importance of market supervisors to this end, and more specifically, highlights the role of the European Securities and Markets Authority’ role (ESMA) (EU, 2014). In Spain, the capital markets supervisory role is carried out by the *Comisión Nacional del Mercado de Valores* (CNMV)¹⁴.

¹⁴<http://www.cnmv.es/portal/quees/Funciones/Funciones.aspx> [accessed on the 28th November 2015].

Nowadays, reporting under IFRS is mandatory in many countries around the world. The capital-market effects around this change have been extensively studied (Christensen et al., 2013). However, the effectiveness of adopting IFRS is believed to be hampered around the world because of differences in the institutional setting in which financial reporting occurs (Brown et al. 2013). Some studies contribute to the current debate on IFRS adoption by considering the economic consequences of IFRS adoption - e.g. Houqe et al. (2013) look at the impact on the cost of equity and find evidence that IFRS is a higher quality set of accounting standards than pre- IFRS New Zealand GAAP.

There are a few papers that analyze the role of the capital market supervisory as regards the enforcement of financial reporting standards. Smaili and Labell (2015) in the Canadian context find out that control and enforcement mechanisms protected investors against accounting manipulation.

Cai et al. (2008) state that there is less manipulation of financial information if the supervisory systems are stricter, which is in line with Hoque et al. (2012) and Callao and Jane (2010). Berger (2010) examines enforcement from the perspective of capital market protection, with a view to ensuring the correct application of accounting standards, and considers how this goal is pursued at European level by means of presenting the different structures and due-processes of national enforcement agencies.

At the same time, the regulatory authorities in many jurisdictions must ensure compliance with good governance and apply the appropriate sanctions in case of non-compliance. Previous studies (e.g. Liu and Magnan, 2011) suggest that investor protection increases company valuation. Focusing on self-regulation (such as disclosure mechanisms and protocols of approval by shareholders) and public control components (e.g. sanctions or fines), Hitz et al. (2012) look into the effect of supervisory actions and show negative responses in the German stock market after error announcements. These announcements represent new negative information and the markets seem to penalize infringing firms and thus provide potential deterrence from malpractice. Along the same lines, there are studies on the impact of regulators' actions on Chinese companies (Chen et al. 2005, Lisic et al, 2014).

Saramasekera et al. (2012) analyze the impact of enforcement (greater monitoring of auditors and more regulatory scrutiny of financial reporting) on accounting quality under IFRS using measures of earnings management, timely loss recognition and value relevance. They found out that IFRS reporting increases value relevance and diminish earnings management practices.

Strohmer (2013) focuses on the implementation in 2004 of a two-tiered external financial reporting enforcement mechanism in Germany. The first objective of the study is the systematic evaluation of the information contained in 151 disclosed error announcements. This study also investigates how these firms act over time. The results show that small high leveraged companies with low profits are overrepresented in the sample of misstatement firms. The analysis detects increasing leverage ratios and a decline in

profitability overtime. These results highlight the role of IFRS enforcement as regards the quality of financial reporting.

The external audit plays an important role to reinforce credibility of financial reports prepared according to an accounting framework.

Our enforcement action construct is a dichotomous variable that takes value 1 if the CNMV has required a listed group to prepare restatements or to complement the financial reports already filed with the CNMV. An auditor' qualified opinion, for instance, is one of the circumstances that lead to enforcement action.

Following the literature on enforcement, we put forward the following hypotheses (see figure 1):

H3. H4. Enforcement action is negatively associated with performance both from an accounting and market perspective

H5. Enforcement action has a positive impact on corporate governance

3. METHODOLOGY

To determine the causal relationships among the variables and in order to contrast the above mentioned hypotheses, we followed a structural equation model based on the theoretical model described in figure 1, on the grounds of both the agency theory and the regulatory frameworks.

Our regression equations imply less restrictive scenarios, which allow for measurement errors both in the criteria variable (independent variables) as well as in the dependent variables. They consist of factorial analyses allowing for direct and indirect effects between the factors, including some indicators and latent variables. As a result, this methodology includes regression procedures, econometric and factorial analysis and overcomes somehow the limitations of the latter (Bollen, 1989).

In addition, the use of structural equation modeling (SEM) is most suitable for the simultaneous estimation of the relationships between the exogenous variables and different levels of endogenous variables (Steensma, and Lyles, 2000). Moreover, SEM has the potential to provide valuable insight on the interrelationships (and maybe causal links), as Wysocki (2011) points out in its paper on IFRS and the institutional setting.

SEM differs from other multivariate relationship techniques mainly because of the use of different relationships for each set of dependent variables (Ribes-Giner and Fuentes-Blasco, 2014). SEM specifies a structural model and estimates several multiple regression equations which are interrelated. The analysis of these causal relationships aims to identify the effect of an explanatory variable on the explained variable and to what extent the observed variation in the latter is due to changes produced by the former. Therefore, in SEM there are not only variables which are measurable and observable but also latent or unobservable variables.

In any case, the main characteristic of SEM is its confirmatory approach based on a theoretical framework and a series of hypotheses that suggest a relationship pattern between variables (Hair et al. 2010, Glaum et al, 2013).

This paper is most valuable in the sense that it frames a new methodological approach such as SEM,

within the agency theory and the regulatory framework, in order to confirm a relationship pattern amongst variables of the outmost importance from a management perspective (i.e., business performance), enforcement action and corporate governance attributes which are extremely timely - note that the EU Regulation increases the importance of enforcement bodies (EU, 2014) and the Spanish Law 31/2014 has just reinforced corporate governance regulation on the shareholders' meeting and the board of directors in listed companies, for instance in order to control over executive pay, require some Committees and increase corporate governance transparency as well as in the new code of good governance (CNMV, 2015) under a "comply or explain" approach.

3.1. Sample and data

Our sample includes 116 Spanish non-financial listed groups on the Spanish Stock Exchange, covering the period 2005-2011, which makes a total of 753 observations (firm-years). These listed groups are required to prepare their consolidated financial statements under IFRS in accordance with the EU Regulation 1606/2002.

Corporate governance variables and economic and financial data have been obtained from the CNMV website and Amadeus Bureau Van Dijk database, respectively. Capital market data was obtained from the stock markets. Data for the variable "enforcement action" has been gathered from the CNMV website.

Table 1. Variables, data sources and description.

| VARIABLES | SOURCE OF DATA | DESCRIPTION |
|----------------------------------|---|--|
| Corporate Governance: | | |
| F1: Board Size Independent | CNMV | Number of directors |
| F2: Capital board | | Percentage of independent directors |
| Firm Accounting Performance: | | |
| ROA | Bureau Van Dijk-Amadeus | Return on assets |
| Market Performance: | | |
| Market to book (MTB) | Bureau Van Dijk-Amadeus/ CNMV/ Stock market | Market value / book value of equity |
| Tobin's q | Bureau Van Dijk-Amadeus/ CNMV and Exchange | Total market value of firm + debts / Total asset value |
| Supervision: | | |
| Enforcement action | CNMV | This dichotomous variable takes the value of 1 if the CNMV has disclosed a public warning to the company in order to supplement the information (as per order OM of September 30, 1992), or as a result of a qualified auditors' opinion on the consolidated financial statements. |

4. RESULTS

The preliminary study of the scale dimensions was carried out through an exploratory factor analysis with a main component estimation method under Varimax rotation, with the criterion of eigenvalues greater than one. This first study helped us to purge the latent variable due to the lack of factor loading of the visible variables in comparison to their theoretical factor and check the enhanced reliability of the study when they are eliminated¹⁵. The final factors were set up as follows. Corporate governance is formed by two factors: F1 including the number of board members and the percentage of independent members on the board as well as F2, which is the percentage of the capital held by the Board. Enforcement Action (F3) is the warning dichotomous variable. Market Performance (F4) includes the market-to-book ratio (MTB) and Tobin's q. Finally, the Financial Accounting Performance (F5) is formed by ROA.

As regards reliability, the scales integrating more than one item show values above 0.55 (Corporate Governance: $\alpha=0.560$; Market Performance: $\alpha=0.638$).

The exploratory dimensionality was confirmed conducting higher-order properties measurement model estimation by means of Maximum Likelihood (MLE) and checking the lack of normality of the data (Table 2).

The validity of the scales was contrasted as follows: first, convergent validity as all the standardized coefficients were above the 0.6 threshold and significant at a 99% level ($t > 2.58$) (Steenkamp and Van Trijp, 1991); and, secondly, discriminant validity as the confidence intervals at 95% level centered in the correlation of the latent factors didn't contain the value 1 (Anderson and Gerbing, 1988).

The adjustment indexes obtained from the measurement estimation model show that the variable converges satisfactorily towards the five factors established (see Table 1). (RMSEA<0.08; Bentles and Bonnet normed and non-normed incremental adjustment indexes -BBNFI, BBNNFI- above 0.9; as well as meeting the desired CFI>0.9).

Having proved the reliability and validity of the proposed scales, we contrast the proposed hypotheses by means of a causal model analysis (SEM). The results of the estimation model are presented in Table 3. The quality of the adjustment according to the values of several goodness-of-fit measures is acceptable.

¹⁵ The variables which have been eliminated are CEO duality, Board activity, and ROE.

Table 2. Measurement model estimation (factorial confirmatory analysis)

| Scales | Items | Standardized λ (t-Student) | Correlation ² | (IC at 95%) |
|---------------------------------------|---------------|---------------------------------------|--------------------------|-----------------|
| Corporate Governance (F1) | Board size | 0.876 ^a | F1-F2= 0.0076 | [-0.237; 0.411] |
| | Independents | 0.506 (3.706 ^{**}) | F1-F3= 0.0119 | [-0.239; 0.021] |
| Corporate Governance (F2) | Capital board | 0.765 ^a | F1-F4= 0.0038 | [-0.460; 0.336] |
| Enforcement Actions (F3) | Warning | 1.000 ^a | F1-F5= 0.0123 | [-0.133; 0.355] |
| Market Performance (F4) | Tobin's q | 1.000 ^a | F2-F3= 0.0006 | [-0.074; 0.122] |
| | MTB | 0.869 ^a | F2-F4= 0.0906 | [0.171; 0.431] |
| Financial Accounting Performance (F5) | ROA | 0.998 (10.551 ^{**}) | F2-F5= 0.0177 | [-0.695; 0.429] |
| | | | F3-F4= 0.0001 | [-0.065; 0.043] |
| | | | F3-F5= 0.0276 | [-0.504; 0.172] |
| | | | F4-F5= 0.0292 | [-0.469; 0.811] |

χ^2 Sat.(g.l.=4)=6.083 (p-value=0.19307); RMSEA=0.026; CFI=0.994; BB-NFI=0.984; BB-NNFI=0.969; IFI= 0.994
^{**}: p-value<0.01

Table 3. Hypothesis testing

| Proposed relationship | Hypothesis | Standardized coefficient | T value | Hypothesis test |
|-----------------------|------------|--------------------------|----------------------|-----------------|
| F1 → F5 | H-1 | 0.358 | 1.832* | Accepted |
| F2 → F5 | H-1 | 0.747 | 2.186 ^{**} | Accepted |
| F1 → F4 | H-2 | -0.070 | -1.984 ^{**} | Rejected |
| F2 → F4 | H-2 | 0.962 | 12.273 ^{**} | Accepted |
| F3 → F5 | H-3 | -0.834 | -4.413 ^{**} | Accepted |
| F3 → F4 | H-4 | -0.386 | -9.597 ^{**} | Accepted |
| F3 → F1 | H-5 | -0.105 | -2.584 ^{**} | Rejected |
| F3 → F2 | H-5 | 0.344 | 4.708 ^{**} | Accepted |

χ^2 Sat.(g.l.=6)= 14.547 (p-value=0.02408); RMSEA=0.044; CFI=0.976; BB-NFI=0.961; BB-NNFI=0.915; IFI= 0.977

*: p-value<0.1

** : p-value<0.05

***: p-value<0.01

As can be observed in Table 3, all the hypotheses put forward by our model are confirmed, with the exception of 2 partial relations. As regards partial rejection of H-2, it can be explained because board supervision is less effective if the board size gets too big, while partial rejection of H-5 is due to

the fact that the increment of independent members could be less effective because of some reasons, such as company culture for example (Jensen, 1993). The causal relations and the expected signs are as expected in our theoretical model (Figure 1).

Table 4. Descriptive Statistics

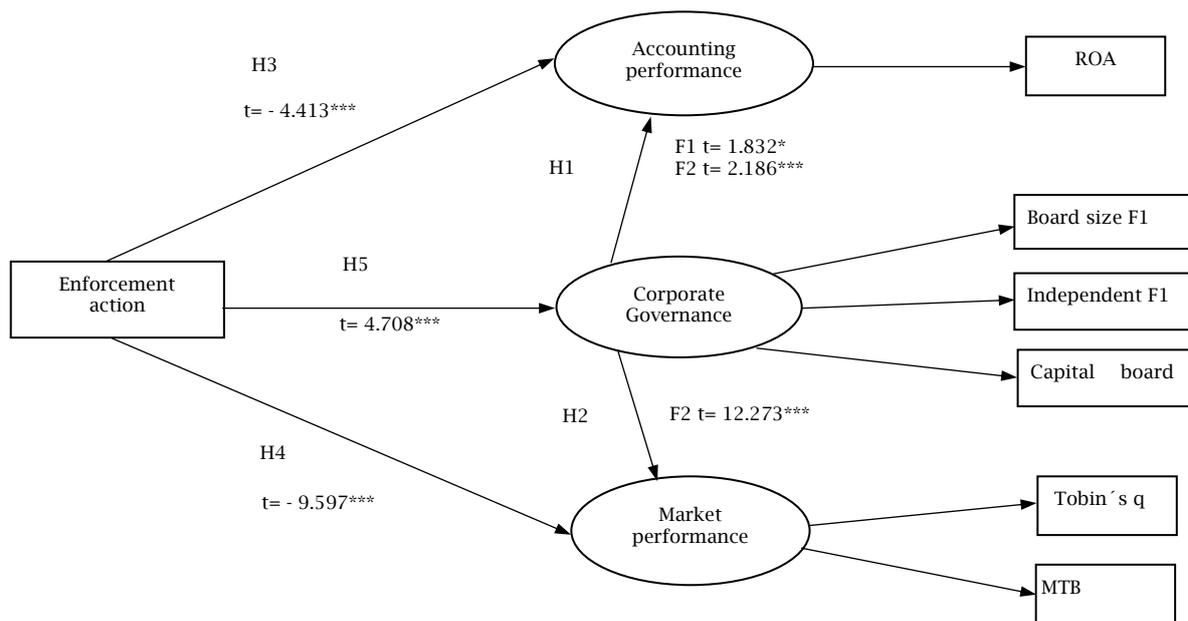
| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|-----------|---------|---------|-------|----------------|
| Board Size | 753 | 3 | 21 | 10,73 | 3,632 |
| Independent | 753 | 0 | 87,50 | 29,82 | 18,115 |
| Board Capital | 753 | 0 | 99,50 | 28,40 | 26,368 |
| ROA (%) | 753 | -84,92 | 68,69 | 2,90 | 9,194 |
| MTB | 753 | 0 | 51,89 | 2,96 | 5,107 |
| Tobin's q | 753 | ,003 | 14,68 | 1,55 | 1,501 |
| Valid N (listwise) | 753 | | | | |
| | Frequency | % | | | |
| Enforcement action | 321 | 42.63 | | | |

Table 4 shows the descriptive statistics. As regards board size, the average number of board members is slightly higher than 10, which is within the recommendable amount of board members (5 - 15) according to the Spanish regulations in board governance (CNMV, 2015, recommendation 13).

The mean percentage of Independent members on the board is nearly 30%, very similar to the mean amount of company capital held by the members of

the board (Board Capital), so the Spanish recommendations have generally been followed (CNMV 2006) to ensure proper representation of small shareholders in the board. In CNMV (2015, recommendation 17), the percentage of independent members in the board rises to 50% in certain circumstances. Figure 2 illustrates the results obtained, which are further discussed in the conclusions section.

Figure 2. Significance of the results obtained



5. CONCLUSIONS

Our research is framed both in the agency theory and in a regulatory framework approach. In Spain, Law 24/1988 on the Stock Market requires the CNMV to ensure that companies' information has been prepared in accordance with applicable regulations. To carry out this function, the CNMV may require listed companies to publish additional information, reconciliations, corrections or, if applicable, restatements of the financial information published. So far, the impact of these actions has not been looked into by existing research. This is an important contribution of this study, given the increasingly important role that stock market supervisors are expected to play in the European Union capital markets (EU, 2014).

Several conclusions can be drawn from this article.

First of all, our results provide evidence that corporate governance attributes (size of the board, independent members of the board and capital on the board) have a significant positive relationship with the performance of listed groups. This result suggests that companies with good corporate governance improve their results.

Secondly, our results indicate that if a company receives a warning from the oversight body (enforcement action), because of a qualified auditing report or any other non-compliance situation identified by the CNMV, it has a significant negative relationship with performance. This implies that the companies required providing new information or restatements by the CNMV send a signal to the market and are being viewed as unreliable by analysts, investors and other users of financial reports, therefore affecting their results, according to the signaling theory.

Finally, we find a significant positive relation between enforcement and corporate governance, which implies that listed groups, can improve their internal control mechanisms so as to increase the

quality of their financial reports and avoid enforcement action.

With this study we open up new lines for future research. For example, additional latent variables could be used to expand the scope of the study, or even a more thorough look at the problems detected by the enforcement body as regards specific types of IFRS non-compliance, the frequency of the errors detected in relation to each IFRS and recurring non-compliance by listed groups and its impact on different types of stakeholders. Indeed, in the current regulatory framework and in view of the increasing globalization and convergence, it would also be very interesting to carry out comparative studies so as to analyze how other national oversight agencies work and their coordination with one another through the ESMA.

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