

CORPORATE GOVERNANCE AND COMPANY PERFORMANCE: EXPLORING THE CHALLENGING ISSUES

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Abstract

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The challenging issues in corporate governance and company performance were explored in the international conference that took place in Lisbon on October 26th, 2017, entitled “Corporate governance and company performance: Exploring the challenging issues” (the joint organization was composed by ISEG Lisbon, publishing house “Virtus Interpress”, ADVANCE/CSG Research Center and Virtus Global Center for Corporate Governance). The main purpose of the conference was to provide the platform at international level for academics to analyse recent trends and upcoming challenges in corporate governance and company performance, major challenges and new horizons in further research. Keynote speakers addressed valuable suggestions and examples of how researchers focused on the board of directors can learn from research approaches of behavioural scientists regarding individual and group behaviour. Scholars participated in the conference concluded that insights from various disciplines should be combined for performing more precise and accurate research on corporate boards. Moreover, scholars identified main challenges currently facing the boards, namely the exponential rise in the number of risks and the difficulties of developing relevant strategies. A relevant discussion was raised concerning as to whether discretionary accruals fit methodological needs of researchers focused on corporate governance and on the financial information disclosed. In the line with recent practices in corporate governance in Europe, scholars suggested that female directors were associated with fewer income-increasing discretionary accruals.

Keywords: Corporate Governance, Company Performance, Board of Directors

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1. INTRODUCTION

The main aim of the conference was to serve as a platform for sharing knowledge and embracing new ideas towards exploring challenging issues in corporate governance and company performance. The conference took place at the heart of one of the oldest cities in the world at the beautiful campus of ISEG - Lisbon School of Economics and Management, University of Lisbon. About 50 experts from 20 countries of the world that represented leading universities and organizations of Europe, USA, Asia,

Africa, and the Middle East gathered with the aim to take part in the conference. The conference started with welcome remarks of co-chairs of organizing committee: Professor Maria João Guedes, representing ISEG Lisbon and Professor Alexander Kostyuk representing Virtus Global Center for Corporate Governance. Speakers wished the participants productive work and expressed the desire that attendees contribute to the understanding of relevant economic and legal issues, and that the conference stimulates the creation of new partnerships and academic acquaintances.

Then the floor was given to the first keynote speaker. Professor, Chair of the Department of Economics, Econometrics and Finance, Faculty of Economics and Business, University of Groningen, Niels Hermes¹. Prof. Hermes argued that in most research papers focused on the relationship between boards and performance (Davidson & Rowe, 2004; Meyer & de Wet, 2013; Lopes, Ferraz, & Martins, 2016; Yaseen, Al-Amarneh, & Iskandrani, 2018) the board's internal context is missing but a multi-disciplinary approach helps to understand the relationship between boards and performance. He has addressed valuable suggestions and examples of how researchers focused on the board of directors can learn from research approaches of behavioural scientists regarding individual and group behaviour. According to his presentation insights from various disciplines should be combined for performing more precise and accurate research on corporate boards (Garner, Kim, & Kim, 2017; Bavoso, 2018). Considering that during the last decade several Nobel prizes in economics were awarded for the research connected to behavioural sciences, suggestions of Prof. Hermes were met by the audience with great enthusiasm and caused interesting discussions. Relevant findings and conceptual ideas in this context have been made previously by Kostyuk, A., Kostyuk, O., Mozghovyi, and Kravchenko (2013), Castellini and Agyemang (2012), Perényi and Tenuta (2018), Bodolica and Chan (2018).

The second keynote speaker was Maclyn Clouse, representing Reiman School of Finance, University of Denver, USA. In his keynote speech, Prof. Clouse explored the secretly developed corporate governance principles that were introduced by the CEOs of leading corporations in the USA. Prof. Clouse outlined key information on the introduced principles and approached them with the detailed critiques and analyses. He outlined that no specific guidance on earnings management was provided by these corporate governance principles. Prof. Clouse devoted special attention to the share's buybacks by companies since the major obligation of a public company should be to find the best use of its capital to create long-term value for its shareholders, however, recently, many companies have chosen buying back their own common shares. Research on shares buybacks may well be crucial for the sustainable growth of companies worldwide as well as for the emerging scholarly literature (Dixon, Palmer, Stradling, & Woodhead, 2008; Young & Yang, 2011; Dhanani, 2016; Kim & Ng, 2018).

2. CORPORATE GOVERNANCE AND FIRM PERFORMANCE

The plenary part continued with three very interesting presentations. Victor Barros, representing ISEG - Lisbon School of Economics & Management, and ADVANCE/CSG, presented an analysis of the change in acquirer's level of corporate tax avoidance following M&A deals, with focus on the influence of profitability and deal characteristics. He and his colleague Daniel Duarte tested several M&A features in a sample, which covers 391 European deals announced between 2005

and 2014. Victor concluded that there is no evidence of changes in acquirer's ETR following M&As. However, the authors found evidence of a decrease in Book ETR when the target firm exhibits negative pre-tax income before the deal. Authors' findings support for the longstanding view that taxation may not trigger M&As, although significant tax savings appear to occur for certain M&A characteristics. Several interesting aspects of corporate tax avoidance have been considered also by Kubick, Lynch, Mayberry, and Omer (2016), Atwood, Drake, Myers, and Myers (2012).

Eric Pichet from KEDGE-Business School and acting independent director in French listed companies after covering a progress in the governance of listed companies over the past years, continued to identify main challenges currently facing the boards, namely the exponential rise in the number of risks and the difficulties of developing relevant strategies. Then he suggested ways of reinforcing the role that could be played by two crucial committees of the boards. The audit committee to whom internal auditors should report directly should also absorb the existing risk committee of the board. According to Prof. Pichet, the strategic committee should play a more important role in the ex-ante preparation - in conjunction with consultancies and executive directors - of the strategic plans that the board must be discussed more deeply. Previously, directors' duties have been investigated in more details by Hines, Masli, Mauldin, and Peters (2015), Shehata (2013), Kostyuk, Koverga, and Kostyuk (2006), Akanmidu (2017).

The third presentation in the session was delivered by Anabela Miranda Rodrigues, a former Portuguese Minister of International Affairs. In the presentation, Prof. Rodrigues covered an exceptionally interesting case of corporate fraud. She noted, that in the 21st century U.S. frauds destroyed well over one trillion of market capitalization and one of the most interesting examples of such fraud is Valeant's 2016 market cap destruction of \$86 billion. So, the speaker raised the question: where were the gatekeepers (boards of directors, regulators, sell-side financial analysts, and auditors) to protect investors? Thus, the authors developed lessons learned from this \$86 billion scandal to emphasize the importance of corporate governance principles as a pathway to avoid such malpractices in the future. This research goes in the line with the previous research by Haque, Arun, and Kirkpatrick (2008), Dyck, Morse, and Zingales (2010), Cohen, Ding, Lesage, and Stolowy (2010).

Mamdouh Abdulaziz Saleh Al-Faryan from Portsmouth Business School (UK) followed with his presentation on the relationship between corporate governance mechanisms and the performance of Saudi listed firms. The author reported that he has found two variables to have a significant negative relation to firm performance: chief executive officer turnover and independent board members. He noted that the companies in the region should approach CEO turnover with caution because it has a strong influence on the financial performance of the firms. These aspects of the CEO practices in companies worldwide have been investigated by Stein and Plaza (2011), Abdulsamad, Yusoff, and Lasyoud (2018).

¹ His speech was titled "Board dynamics and firm performance: The missing link in corporate governance research".

The next presentation followed and was delivered by André Luiz Carvalho da Silva from the Federal University of Rio de Janeiro (Brazil) who, together with his colleague Marie Dutordoir from the University of Manchester (UK), analysed the governance of SOEs in Brazil, which has been plagued by corruption scandals. The researchers found that the governance of SOEs is significantly better than that of POEs. The results were robust to different governance measures, and are surprising because they reject the common assumption that SOEs have worse governance than POEs. However, Andre concluded that the governance practices of POEs in Brazil are as poor as those of SOEs. Brazilian experience of corporate governance has been explored previously by other scholars too (Broedel Lopes, Walker, & da Silva, 2016; Dal-Ri Murcia, 2016).

Telmo Vieira representing ISEG Lisbon (Portugal) in his presentation connected firm performance and corporate governance variables. He examined the effect that corporate governance variables exert on the performance of companies in the UK for the period 2005-2012. The author considered five mechanisms of corporate control: control of the board of directors, control through equity ownership structure, internal control performed by the Board Committees, separation of CEO and Chairman roles, and control through the performance variable remuneration. The equity ownership structure, together with the separation of CEO and Chairman roles and control through the performance variable remuneration, proved to be the most significant mechanisms in the resolution of the equation performance - governance. Previous research in this field has been undertaken by Rigamonti (2008), Fernández and Gómez-Ansón (2006). Finally, Telmo stated that corporate governance is a dynamic process in which all stakeholders should be considered to achieve a common goal - develop a governance model that is sustainable and beneficial to society (Lo & Sheu, 2007; Artiach, Lee, Nelson, & Walker, 2010; Bonn & Fisher, 2011).

Yerzhan Tokbolat from the Nottingham University Business School (UK) continued the session with the presentation devoted to the consequences of shareholder voting on performance in the UK. The author did not find evidence that shareholder votes are related to post-M&A performance. He argued that this is because shareholders are likely to vote against with the sole purpose of showing their dissatisfaction with a particular deal or the acquisition strategy of their managers. Therefore, dissent may be effective in monitoring the managers' acquisitions strategies rather than the performance of the firm. The papers by Huang (2006), Sancetta, Cucari, and Esposito De Falco (2018) and Hanamura, Inoue, and Suzuki (2011) are worth of attention in the context linked to the voting premium.

Regina Magkata representing University of Limpopo (South Africa) took the floor to talk about joint research with Collins Ngwakwe on their joint research devoted to labour turnover and corporate revenue in the light of corporate control. The authors found a significant relationship between managerial labour turnover and revenue of large retail companies. They noted that depending on the cadre involved, labour turnover might not

necessarily be catastrophic for corporate performance. Lekhanya (2015) has already contributed previously to the investigation of these issues in developing countries including South Africa.

The session finished with the presentation of Itumeleng Mongale from the University of Limpopo (South Africa) who talked about governance and foreign direct investment nexus. He employed the bounds testing autoregressive distributed lag approach to cointegration which is appropriate for estimation in small sample studies such as this one with an annual time series data spanning from 1996 to 2015. The author noted that FDI inflows into Africa have been significantly impacted by the resources cycle which is currently in a downturn.

3. REPORTING, EARNINGS MANAGEMENT AND CORPORATE CONTROL

The second session of the conference that was devoted to reporting, earnings management, and corporate control issues, was chaired by Maria Guedes and included 9 presentations. Researchers from Spain, Italy, Finland, Portugal, Indonesia, UK, and Slovenia took part in this session. Thomas A. Gilliam investigated whether firms manage order backlog to beat two revenue benchmarks: prior year's revenue and analysts' forecasts of revenue. The representer of IE Business School (Spain) found that managers were more likely to draw down order backlog when their firms' orders in the current period were insufficient to beat a revenue benchmark. That is to say, insights from traditional earnings management theories may well hold for the order backlog management, yet the phenomena might only be observable in the US due to standard-specific disclosure requirements. During the session, the specifics of the impact of ownership concentration on earnings quality of banks were also discussed. Some interesting findings related to the above issues can be found at Tutino and Pompili (2018), Grimaldi and Muserra (2017).

Simone Terzani from University of Perugia (Italy) focused on banks and the specific constraints and regulations to which financial institutions are subjected, and as well as the different incentives to earnings management activities from management and property. The results show that ownership concentration improves earnings quality of banks. This research is grounded in the works of López-Iturriaga and Hoffmann (2005), Iswaisi and Falahati (2017), Gelmini (2017).

The scholar from Finland (JAMK University of Applied Sciences) Shab Hundal identified the effect of the board of directors', and other corporate governance characteristics of the firms in the Nordic nations (Finland, Sweden, and Denmark) on the quality of financial information, measured by discretionary accrual. This presentation highlighted the previous research in this field by Maingot and Zeghal (2008), Melis (2003), Garefalakis, Dimitras, Floros, and Lemonakis (2016). A relevant discussion was raised concerning as to whether discretionary accruals fit methodological needs of researchers focused on corporate governance and on the financial information disclosed. Co-chairs of the conference committee Professor Maria João Guedes in her report explored whether the number of

women on a board impacts earnings management. Results suggested that female directors were associated with fewer income-increasing discretionary accruals, which implied that they were more conservative regarding financial reporting.

Ana Isabel Lopes from ISCTE-IUL (Lisbon) presented a preliminary version of a research focused on the analysis of the potential market benefits of presenting a high-quality Integrated Report. Main findings confirmed that either the book value of equity or operating income had a positive and statistically significant impact on firms' market value. Limitations in collecting data on Integrated Reports makes the topic demanding, while it is of high interest for both the regulators and the regulated.

In addition, researchers from Indonesia, Yulius Kurnia Susanto and Arya Pradipta, presented their report on empirical evidence of earnings management, audit quality, tenure, firm size, leverage, liquidity, inventory, and losses. One of the most fundamental research in these major mechanisms of corporate governance has been introduced before by Meier and Meier (2013), Nerantzidis, Filios, and Lazarides (2012).

Scientific problems regarding shareholder duties were discussed during the presentation of Konstantinos Sergakis from the University of Glasgow (UK). The following sources of shareholder duties were underlined in the speech contractual arrangements, statutory provisions, general legal principles, soft law. Previous research in this field has been undertaken by Aprea (2006).

The second session was closed by the presentation of Iryna Alves and Sofia Lourenço (ISEG, Portugal). The authors explored the relationship between contextual variables (strategy, external environment, organizational culture, decentralization, and technology) and the use of non-financial performance measures (NFPM) for managerial compensation in SMEs. The authors made their contribution to the previous papers by Ates, Garengo, Cocca, and Bititci (2013), Michiels (2017).

4. GOVERNANCE, RISK MANAGEMENT AND CORPORATE BOARD ISSUES

The third session of the conference was headed by Yaroslav Mozghovyi and Yulia Lapina². Ana Beatriz Hernández-Lara and Xiaoni Li (Spain) opened the session. Their research aims to contribute to the literature on corporate governance and innovation, providing empirical evidence with respect to the evolution of board composition and innovation over time, by comparing family and non-family businesses. The researchers highlighted the differences between family and non-family business and successfully contributed the research by Bennedsen, Nielsen, Pérez-González, and Wolfenzon (2007), Bennedsen, Pérez-González, and Wolfenzon (2010), Bertrand and Schoar (2006), Burkart, Pannunzi, and Shleifer (2003).

Another Spanish researcher, Elena Merino from the University of Castilla-La Mancha, showed that while some board characteristics that favour the interests of shareholders might not apply to the

interests of stakeholders (particularly, Board ownership), others (Board independence and Separation of Chairman/CEO) could be shown to promote board effectiveness from the stakeholders' perspective. This research fits into previous studies developed by John and Senbet (1998), Hermalin and Weisbach (2003).

Senior economist of Bank Transilvania and Scientific researcher of Institute for World economy (Romanian Academy) Andrei Radulescu analysed the implementation of standard econometric tools to estimate the relationship between the equity risk premium in CEE countries and several important macroeconomic and financial indicators during 2000-2017, both at regional and global levels.

Kazuyuki Shimizu from School of Business Administration Meiji University (Japan) investigated how structural governance change is triggered by cybernetics issues, such as by the development of automotive navigation systems in German, Japanese and US automotive industries.

Mark Holmes from Faculty of Business and Law, Coventry University (UK) analysed the performance consequences of board structure changes in Ghana for the study period 2000 to 2009. The results showed that duality decreased firm performance pre-2003, but those firms that separate the two posts in line with the recommendations of the Ghanaian Code did not perform better than those that combined the two post-2003. This paper contributes in various ways to the previous research by Bathala and Rao (1995), Kyereboah-Coleman and Biekpe (2007).

The report of François Joseph Cabral from University Cheikh Anta DIOP (Senegal) built a dynamic computable general equilibrium model which integrates into the capital accumulation module parameter that captures the leak public and private investments attributed to corrupt behaviour. Results obtained showed that, overall, a leakage of 10% public investment induced a contraction of economic activity. This research contributes to the research introduced previously by Muthu (2017)

Karin Barthelmes-Wehr from International Ethics Standards Coalition (Germany) described the objective of IES (International Ethics Standards) as establishing an overarching set of global principles that would reaffirm the importance of ethics in real estate and evolved to meet the needs of today's global market; promoting the effective implementation of these standards and encourage world markets to accept and adopt IES as the ethics framework for our global professions. She underlined 10 High-Level Principles: accountability, confidentiality, conflict of Interest, financial responsibility, integrity, lawfulness, reflection, the standard of service, transparency and trust.

5. CONCLUSION³

The unique features of the conference, by covering a delimited range of pertinent topics while enabling valuable discussions in each session, yielded

² Ukrainian members of the conference organizing committee.

³ Organizational committee of the conference would like to express their gratitude to all participants and supporters who joined our international network and visited Lisbon to make their deposit by the quality of presentations and interesting discussions. Members of Virtus Global Center for Corporate Governance and executive team of the Publishing House "Virtus Interpress" would like to express great appreciation to Portuguese colleagues from ISEG – Maria João Guedes and João Manuel Jorge Estevão for their contribution to the conference.

positive returns for the paper's presenters and enabled relevant discussions. Attendees' comments were aligned towards the high level that the conference was held. It provided the room for relevant and innovative research ideas and benefited from colleagues' insights. Overall, it was a more integrative yet informal format of the academic conference, comparing to larger conferences in the field.

Conference presenters contributed to the literature on corporate governance and innovation, providing empirical evidence with respect to the evolution of board composition and innovation over time, by comparing family and non-family businesses. Also, scholars showed that while some board characteristics that favour the interests of shareholders might not apply to the interests of stakeholders (particularly, Board ownership), others (Board independence and Separation of Chairman/CEO) could be shown to promote board effectiveness from the stakeholders' perspective.

It was suggested that female directors were associated with fewer income-increasing discretionary

accruals, which implied that they were more conservative regarding financial reporting. In addition to the board performance issues, it was found that two variables have a significant negative influence on the firm performance: chief executive officer turnover and independent board members. Moreover, it was noted that the companies in the region should approach CEO turnover with caution because it has a strong influence on the financial performance of the firms.

Some researchers presented their view toward several mechanisms of corporate control such as control of the board of directors, control through equity ownership structure, internal control performed by the Board Committees, separation of CEO and Chairman roles, and control through the performance variable remuneration. In one of the papers presented it was concluded that the ownership structure, together with the separation of CEO and Chairman roles and control through the performance variable remuneration, proved to be the most significant mechanisms in the improving the company performance.

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