XX Congreso Internacional AECA

MÁLAGA, 25-27 DE SEPTIEMBRE DE 2019

40 Aniversario 1979-2019 aeca

Corporate Governance Mechanisms, CSR and Financial Performance: a study on technological European Firms

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MOTIVATION

Previous literature has analysed in depth the impact of Corporate Governance (CG) mechanisms on Firm´s Performance (FP), particularly Board structure characteristics (Sánchez-Ballesta and García-Meca, 2007; Ararat et al., 2015; Terjesen et al., 2016).

Nevertheless, results continue **being HETEROGENEOUS** despite the huge amount of literature at this regard.

According to recent literature review, the lack of conclusive empirical evidence could be mainly due to:

(1) the fact that measures do not capture the essence of board monitoring (Boivie et al., 2016).

(2) the relationship between CG and FP is too complex and indirect (Desender et al., 2013) and it would be interesting to introduce the intermediate mechanisms,

(3) the need of going further in the analysis and considering the three perspectives: firm, **industry** and institutional (Filatotchev et al., 2018).

It could be relevant for the better understanding of the relationship

Technological companies

- Most companies have relevant agency problems due to information asymmetry for intangible resources (Jensen and Meckling, 1976; Daniel and Titman, 2006).
- I is appropriate to focus the study of this relationship on the technological firms with special emphasis on the Board-Monitoring intensity

AIM

To analyse how different CG mechanisms affect companies´ financial performance of high technological companies.

To do that, it is going to be analysed the direct impact as well as the indirect one by considering CSR behaviour such as a mediator variable which allow to understand better this relationship.

THEORETICAL FRAMEWORK

Agency Theory (Fama and Jensen, 1983): if there is conflict of interest between shareholders and managers, members of the BoD are responsible for ensuring shareholder´s interest.

Stakeholder´s Theory (Freeman, 1984) vs. ***Stockholder´s Theory*** (Friedman, 1970): although several researchers argue that companies should try to satisfy all stakeholders´ demands, companies´ main objective continues being their survival and to improve their performance.

Even though it has been shown that being a socially responsible company is profitable in the long term (Miras-Rodríguez et al., 2014), the effects on the short term are not as clear. Considering this point of view, managers could have an opportunistic behaviour and try to minimize CSR actions so that they do not harm their personal results (***Opportunistic Behaviour*** - Williamson, 1965). In this case, BoD should take care that companies will be committed to society and the environment since otherwise markets could punish them.

METHODOLOGY

The sample is composed of 65 listed high-technological firms in Europe which CG data were available on were available on DataStream. The period of the study is from 2005 until 2017, and this is the reason why the methodology employed is Data Panel. The total number of observations analysed is 846.

For the consideration of a high-intensity industry, we have taken into account the classification made by OCDE in 2011 (aircraft and spacecraft, pharmaceutical, computing machinery, communication equipment and medical instruments.)

The CG mechanisms that we are going to considerer such as measures of Board Structure are the percentage of Independent Directors, the percentage of Female Directors, if CEO is also de chairman, Average number of year of Experience in BoD, and the existence of a Reference Shareholder. The measure of Board-Monitoring Intensity, the approach followed is the same as Ararat et al. (2015) which is based on the number of Meetings, the number of Committees, the Quality of the Auditor and the Financial Disclosure.

Financial Performance, it is going to be measured through market and accounting measures (ROA and Market to book value). CSR commitment of each company is going to be measured following the approach of Ioannou and Serafeim (2012).

RESULTS

The preliminary results show that Board Structure´s measures have a significant impact on ROA, while Board Monitoring function´s measures influences significantly to Market to Book Value.
Gender presence on the BoD is the CG mechanisms which shows a positive and significant effect on FP, if it is measured considering the market point of view. Notwithstanding, the fact that the CEO will be the same person that the Chairman is the CG characteristic studied which influences significantly negatively on ROA, that is, companies in which both responsibilities were assumed by the same person have more probabilities of getting less FP.
The mediating role that CSR could have on the CG-FP relationship has also been tested. At this regard, Board Functions´s measures are those which show a significant effect on the CSR commitment of each company.

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