THE IMPACT OF CORPORATE GOVERNANCE QUALITY ON COMPANIES PERFORMANCE IN DEVELOPING COUNTRIES

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Abstract:
Corporate governance represents a current topic, with a considerable importance in field of economic research of the last decades, even more so in most developed and developing countries the companies listed at stock exchange are forced to adopt and implement several national and international recommendations regarding corporate practices. In the context of recent years, considering the maturity of financial system of developed countries, international organizations and researchers attention was focused especially on analyzing corporate governance concept in developing countries.
The main purpose of this paper is to estimate the impact of corporate governance quality on the performance of the companies, taking into account a series of data provided by the World Bank database (www.enterprisesurveys.org) in case of 82 developing countries around the world. In this regard, using the principal components analysis, were constructed two informational synthetic indicators: one which describes the corporate governance quality and one for companies performances of analyzed countries. Thus, in assessing the quality level of corporate governance were tacked into account some aspects considered relevant in the literature, such as the type of the companies, innovation, corporate social responsibility, transparency and quality of workforce, while corporate performance has been defined and quantified in terms of issues such as annual real growth of sales, growth of labor productivity and capacity utilization.
In this context, the impact of corporate governance quality on the firms performance was tested using the generalized linear model framework and the main result of the study consists in the thesis that, in analyzed countries, companies performance index is significantly influenced by the corporate governance quality index.

Keywords: *corporate governance, companies' performance, developing countries*

JEL Classification: *G32, G34, L25*

1. Introduction

In the context of the current economy, after several famous bankruptcies which hit ones of the largest companies during the last two decades, corporate governance became a topic of considerable interest for regulators, academics and practitioners. As well, some researchers tried to identify if the corporate governance quality is able to exercise a significant impact on companies performance. Thus, considering the high-tech industry of Taiwan, Chiang (2005) highlighted that corporate transparency does have a significant positive relationship with operating performance. At the same time, other authors (Fahy et al., 2005) consider that organizations are able to increase their performance by using some governance practices such as informational transparency or social responsibility.

Haniffa & Hudaib (2006) showed that the board dimension affects the corporate performance in case of Malaysian listed companies. They mentioned that large boards seemed to provide the companies with experience and expertise needed to enhance performance. In the same year, Javed & Igbal (2006) founded a positive and significant relation between governance quality and firms performance in case of 50 listed companies from Pakistan. As well, Bhagat & Bolton (2007) founded a positive relationship between board independence and operating performance.

More recently, using a sample of 20 Indian listed companies, Aggarwal (2013) mentioned that a good level of corporate governance fosters good financial performance. In the same time, other authors (Vu & Phan, 2013) showed that, in case of Vietnam, several dimensions of corporate governance - such as female board members, duality of CEO, board's working experience and board compensation – have positive correlations with firms performance.

In addition at most of the studies realized previously, the main purpose of this paper is to analyze the impact of corporate governance quality on firms performance not only in a single country or economy, but considering a considerable number of developing countries.

2. Data and methodology

In order to identify if corporate governance quality exercise a significant impact on companies performance were created two composite indices: the first one express the quality of corporate governance and the second one

express the companies performance. These indicators were created using a dataset provided from World Bank Database (www.enterprisesurveys.org) in case of 82 developing countries from Central and Eastern Europe, Africa, Asia and Latin America.

In composition of these two mentioned indices were included varied variables. Thus, the indicator which describes the quality of corporate governance contains variables related mainly at some dimensions of corporate governance like transparency, corporate social responsibility, workforce quality, innovation, management quality and type of organization. Most of these dimensions are recognized in the existent literature of this field. For example, recommendations regarding the informational transparency can be found in the corporate governance principles which are provided by OECD. In this regard, according to fifth chapter of OECD (2004) study (named "Disclosure and Transparency"), the users' access at information should be efficient, equal and timely. In the same time, Didraga & Brandas (2015) mentioned that innovation through aspects like e-government is able to stimulate the performance of the public sector and we can assume that this factor is able to improve the business practices as well.

More specified, the quality of the governance was quantified considering relevant variables, such as (i) proportion of permanent full-time workers that are female, (ii) proportion of permanent full-time non-production workers that are female, (iii) percent of firms with a checking or savings account, (iv) percent of firms with an internationally-recognized quality certification, (v) percent of firms with legal status of privately held Limited Liability Company, (vi) number of permanent full-time workers, (vii) percent of firms having their own Web site, (viii) percent of firms using e-mail to interact with clients/suppliers or (ix) percent of firms offering formal training.

In the same time, corporate performance was quantified considering some aspects like capacity of utilization, real annual sales growth, annual labor productivity growth and access to finance, most of them being considered appropriate for this field by World Bank Database.

In this context, in order to test the influence of corporate governance quality on corporate performance in developing countries, the paper contains two different stages. In case of the first stage was used the principal components analysis (PCA) framework which supposes to cumulate all the relevant variables in order to create a representative indicator for each of these two analyzed concepts: corporate governance quality and corporate performance (for details, see Jolliffe, 2002; Dima et al., 2013).

As well, in case of the second stage was tested the impact of corporate governance quality index on companies performance index, using the generalized linear model method, which was for the first time proposed by Nelder and Wedderburn (for details, Nelder and Wedderburn, 1972). In addition, was used a Gaussian distribution and was select an Identity link function. As well, was assumed that Newton-Raphson method is relevant to check the robustness of results.

In this regard, the model tests the influence of corporate governance quality on companies performance, as it can be seen below:

$$P = \alpha G + \beta X_1 + \gamma X_2 + \varepsilon, \varepsilon \in N(\sigma,0), \quad (1)$$

Where P = companies performance,
G = corporate governance quality,
X_1 = control variable (inflation, consumer prices),
X_2 = control variable (money and quasi money growth),
ε = error,

Additional, to increase the findings robustness of the assumed model, were used two control variables: inflation and money and quasi money growth.

3. Results

In Table 1 are illustrated the results of principal component analysis for the variables related to corporate governance quality. Thus, the first part of the table shows several informations about the number of the components which are retained, while the second part of the table resumes the situation of eigenvalues.

These results show that first principal component describes 52% of total variance and the second one describes 12% of the variance. In this case, the first two components describe 64% of the group variance and this fact can be considered enough for the aim of construction of a synthetic information indicator which is based on considered explanatory variables.

As well, the second part of Table 1 describe the linear combination of coefficients in case of the first principal component, which allows us to see that there exists a roughly-equal linear combination of these nine used explanatory variables, being able to consider this one like a relevant index which define the quality of corporate governance for selected observation.

Table. 1. Principal Components Analysis of corporate governance quality variables

Eigenvalues: (Sum = 9, Average = 1)				
Component number	**Value**	**Difference**	**Proportion**	**Cumulative proportion**
1	4.66	3.56	0.52	0.52
2	1.11	0.30	0.12	0.64
3	0.81	0.05	0.09	0.73
4	0.76	0.05	0.09	0.82
5	0.71	0.32	0.08	0.90
6	0.39	0.13	0.04	0.94
7	0.27	0.06	0.03	0.97
8	0.20	0.12	0.02	0.99
9	0.08	-	0.01	1.00
Eigenvectors (loadings):				
Variable				**PC 1**
Proportion of permanent full-time workers that are female (%)				0.30
Proportion of permanent full-time non-production workers that are female (%)				0.35
Percent of firms with a checking or savings account				0.28
Percent of firms with an internationally-recognized quality certification				0.29
Percent of firms with legal status of privately held Limited Liability Company				0.32
Number of permanent full-time workers				0.26
Percent of firms having their own Web site				0.39
Percent of firms using e-mail to interact with clients/suppliers				0.40
Percent of firms offering formal training				0.38

Notes: Included observations: 82; Computed using: Ordinary (un-centred) correlations; Extracting 9 of 9 possible components.

Source: Authorial computation

The Table 2 highlights the result obtained in case of companies performance, where was applied the same procedure. In this sense, the first principal component explains 52% of the variable group variance, while the second principal component describes 26% of the variance.

Table 2. Principal Components Analysis of companies performance variables

Eigenvalues: (Sum = 4, Average = 1)				
Component number	**Value**	**Difference**	**Proportion**	**Cumulative proportion**
1	2.09	1.06	0.52	0.52
2	1.03	0.19	0.26	0.78
3	0.84	0.81	0.21	0.99
4	0.03	-	0.01	1.00
Eigenvectors (loadings):				
Variable				**PC 1**
Access to finance				0.25
Capacity utilization (%)				0.24
Real annual sales growth (%)				0.66
Annual labor productivity growth (%)				0.66

Notes: Included observations: 82; Computed using: Ordinary (un-centred) correlations; Extracting 4 of 4 possible components.

Source: Authorial computation

Thus, the cumulative percent of 78% in case of the first components allows considering this result justified in order to construct a synthetic informational index related to corporate performance. As well, the second section of Table 2 reflects the combination of coefficients and can be observed that all the values are positive.

After the construction of these two indices, in order to see the influence of corporate governance quality on corporate performance was used the generalized linear model framework, considering also the mentioned control variables – inflation and money and quasi money growth.

In Table 3 can be observed that for corporate governance quality index and also in case of money and quasi money growth the estimated coefficients are positive and statistical significant at 1%. At the same time, it can be seen that, as we already expected ex-ante, inflation exercise a negative influence on companies performance and it is statistical significant at a level of 5%.

Table 3. GLM estimation of corporate governance quality impact on companies performance

	Dependent variable: corporate performance indicator	
Variables	**Coefficients**	**Robust standard errors**
Corporate Governance Quality Index	0.21***	0.07
Inflation, consumer prices (annual %)	-0.09**	0.04
Money and quasi money growth (annual %)	0.07***	0.02
Number of observations	82	
Pearson SSR	133.91	
Log likelihood	-143.41	
Modified Akaike Information Criterion	3.59	
Bayesian Information Criterion	-185.06	
Pearson statistic	1.72	

*Notes: *** and ** represent statistical significance at 1%, 5%, and 10% level. Generalized Linear Model a) Family: Gaussian; b) Link function: Log; c) Optimization algorithm: Newton-Raphson.*
Source: Authorial computation

4. Conclusions

The present paper analyzed the linkage and the possible influence which corporate governance quality can exercise on companies performance, considering a number of 82 developing countries. In this regard, the main output of this work consist in thesis that the quality of corporate governance have a positive and a strong impact on corporate performance, this kind of impact being noticed also in case of money and quasi money growth, these two elements being able to help the corporate sector in achieving the proposed performance. More than this, this empirical study revealed that consumer price index exercises a negative and considerable influence on companies performance.

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