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The Association of the Organizational Life Cycle of Brazilian Companies with Levels of Corporate Governance

ABSTRACT

Objective: To identify whether Brazilian companies with high levels of B3 corporate governance have a greater probability of reversing the final stages of the organizational life cycle.

Method: The final sample consists of 323 observations from 2010 to 2020 in an unbalanced panel of non-financial Brazilian companies listed on the B3 stock exchange. The data was obtained from the Economatica database and the B3 website. Logistic regressions were used to analyze the results.

Originality/Relevance: Various studies have analyzed the corporate governance practices adopted by companies at each stage of the organizational life cycle, however, given that the organizational life cycle is not linear (Dickinson, 2011), this study investigates the effects of high levels of governance on changes in stages.

Results: The results demonstrate that Brazilian companies with high levels of B3 corporate governance have a lower probability of reversing stages of turbulence or decline in period t to another stage during period t+1 compared to other companies.

Theoretical/Methodological contributions: The results indicate that the B3 corporate governance levels are not a good *proxy* for corporate governance.

Social/Managerial contributions: This evidence suggests that the B3's corporate governance levels cannot be used by creditors and investors as additional information in evaluating risk in terms of reversing situations of economic or operational uncertainty experienced by companies going through the turbulence or decline stages of the organizational life cycle.

Keywords: Corporate Governance, New Market, Organizational Life Cycle, Turbulence, Decline.

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1 INTRODUÇÃO

Studies have demonstrated that the stages of the organizational life cycle are related to profitability, the dividend distribution policy, sales growth, capital structure, and company accounting and finance indicators (Costa et al., 2017; Dickinson, 2011; Faff et al., 2016; Novaes & Almeida, 2020; Oliveira & Girão, 2018; Ribeiro et al., 2018), with there being distinct characteristics that have been identified in each phase of the organizational life cycle. These characteristics include asset structure, cash flow, sales trends, profitability, and the ability to honor creditor commitments (Dickinson, 2011; Habib & Hasan, 2019).

Moreover, Dickinson's study (2011) has found that the organizational life cycle does not follow a linear sequence and companies can move among the stages of birth, growth, maturity, turbulence, and decline during a given period and can enter the stages of turbulence or decline directly, while more efficient corporate management is needed to reverse the final stages of the organizational life cycle, and these stages are strongly related to corporate decisions and results (Habib & Hasan, 2019).

With this, corporate governance has arisen as a possible tool for effective management which can help firms recover (Miglani et al., 2015) by controlling conflicts of interest, establishing managerial mechanisms to safeguard shareholder capital, elevating operational efficiency by decreasing production costs, improving performance levels, increasing the quality of corporate management, and keeping companies in operation (Brega & Dovladbekova, 2019; Martins & Ventura Júnior, 2020). Given this, the following research question arises: does corporate governance influence the probability of reversing the final stages of the organizational life cycle?

Among various corporate monitoring and control mechanisms, the Brazilian literature has been using the B3's levels of corporate governance as a proxy for corporate governance due to the listing's requirements in terms of the implementation of liquidity mechanisms, risk

management, monitoring by the board of directors, the dilution of shareholder control, and the participation of independent board members (B3, 2020). Given this, this study seeks to identify whether Brazilian firms with high levels of corporate governance have a greater probability of reversing the final stages of the organizational life cycle.

Costa et al. (2017) analyzed the relationship between the stages of the organizational life cycle of Brazilian companies listed on the B3 stock exchange with financial and accounting indicators, and identified that the variables leverage, dividend distribution, market-to-book, profitability, size and sales growth can be used as factors to explain the classification of firms in the stages of the organizational life cycle. However, they did not consider corporate governance factors, and thus this study will consider corporate governance levels and indicators as possible factors which influence the classification of companies in these stages in a different manner than Costa et al. (2017).

Machado et al. (2020), meanwhile investigated the influence of the organizational life cycle of the companies listed on the B3 stock exchange on the relationship between corporate governance and financial distress and demonstrated that internal and external mechanisms of corporate governance presented a distinct relationship with the possibility of financial distress during the stages of the life cycle. However, unlike Machado et al. (2020), we will investigate whether the corporate governance indicators influence changes in stages, specifically changes from the stages of turbulence and decline to the stages of birth, growth, or maturity.

The justification for conducting that study is based on the importance of corporate governance in elevating the quality of corporate management to keep firms in operation (Habib & Hasan, 2019), as well as controlling the interactions between the managers and shareholders (Miglani et al., 2015), which can become intense during periods of financial difficulty, which is common in companies in the stages of turbulence and decline (Dickinson, 2011).

To make it possible to identify whether companies with high levels of corporate governance have a greater probability of reversing the final stages of the organizational life cycle, we utilized 323 observations of Brazilian firms listed on the B3 exchange from 2010 to 2020. The accounting data was obtained from the Economatica database, and the corporate governance variables were obtained from the B3 website, with logistic regressions being used to analyze the data. In general, the results demonstrate that companies with high levels of corporate governance have a lower probability of reversing the stages of turbulence or decline during period t, to another stage by period t+1.

It is hoped that these results will provide theoretical and practical contributions. In theoretical terms, they show that the utilization of the B3's corporate governance levels are not a good proxy for corporate governance, since the companies listed in the New Market segment, considered to be the most important level of corporate governance in the Brazilian capital markets, had a lower probability of reversing the final stages of the organizational life cycle.

Meanwhile, in practical terms, this study intends to provide creditors and investors with the important information that a high level of corporate governance cannot be used as additional information to evaluate risk, especially in attempts to reverse a situation of economic or operational adversity that companies experience when they are in the stages of turbulence or decline.

2 A REVIEW OF THE LITERATURE

2.1 Corporate Governance

Corporate governance is designed to minimize agency conflicts within companies (Miglani et al., 2015). Its mechanisms are used to maintain profitability for the shareholders (Shleifer & Vishny, 1997), playing a fundamental role in company development by keeping the company operational (Baioco & Almeida, 2017; Machado & Gartner, 2018). In this way,

companies which adopt corporate governance mechanisms offer investors more security, which is reflected in the firm's valuation, operational efficiency, and a decrease in agency costs (Baioco & Almeida, 2017; Machado & Gartner, 2018; Robicheaux et al., 2007).

In addition, the implementation of corporate governance mechanisms stimulates the reduction of bank debt costs, decreases the level of earnings management (González & García-Meca, 2014), and raises the quality of profits (Maranho & Leal, 2018) and levels of performance (Brega & Dovladbekova, 2019). To Shahid and Abbas (2019) and Andries et al. (2020), firms with higher levels of corporate governance present lower investment risks even during periods of financial crisis.

Meanwhile, Melo et al. (2013) show that adopting the best practices in corporate governance in openly traded Brazilian companies has been positively associated with company performance. Machado et al. (2020) documented that corporate governance mechanisms have a relationship with the possibility of financial distress depending on each stage of the life cycle, and Freire et al. (2022) showed that Brazilian firms with a high level of corporate governance have a lower probability of republishing financial statements.

Among corporate governance mechanisms, the Brazilian literature has adopted the B3's levels of corporate governance as a proxy for governance. An example of this is a study by Oliveira and Monte-Mor (2020) which found that companies classified as Level 1, Level 2 and New Market have a lower probability of violating financial covenants in bank debt contracts than companies in other levels or those which are unclassified. A study by Dalmácio et al. (2021), meanwhile, reported that the fact that companies are classified as being in these higher levels (Level 1, Level 2, and New Market) affects market analyst recommendations, indicating that having listings in these levels is viewed as a positive sign by these analysts.

Moreover, Ganz et al. (2020) have documented that large Brazilian firms that belong to the New Market level have had a greater return on shares, unlike smaller firms and those

with lower levels of corporate governance, arguing that the average profitability of companies in the highest corporate governance levels was greater than firms without corporate governance. However, a study by Miranda et al. (2021) indicated that being classified in the New Market level did not result in less risk, greater returns, or even a better risk-reward ratio.

Adhesion to the B3's Bovespa Mais (Plus), Level 1, Level 2 or New Market levels of corporate governance is designed to improve the ratings of the companies which voluntarily adopt them, and these practices go beyond those required by Brazilian law (B3, 2020), which stipulates regulations in terms of a company's type of shares, the composition of the board of directors, the accumulation of titles, and the voluntary disclosure of information, among other things, as displayed in Figure 1.

Listings in the Level 1, Level 2, and New Market segments, considered to be differentiated levels of corporate governance, make companies better options for investment because they present lower risk and a greater degree of conservative accounting (Almeida et al., 2008).

In addition, the Brazilian literature also stipulates various benefits of adhering to these differentiated levels of the B3, including: higher market valuation; a positive impact on the institution's image; abnormal returns in mergers and acquisitions; lower debt financing costs; a reduction in the level of restrictive contractual clauses; and improved economic performance (Clemente et al., 2014; Li et al., 2011; Lima et al., 2015b; Nardi & Nakao, 2008; Silva et al., 2016; Rossoni & Silva, 2013).

Figure 1

Some Requisites for being Classified in the B3's Corporate Governance Segments.

<table>
<tr><th>CRITERIONS</th><th>NEW MARKET</th><th>LEVEL 2</th><th>LEVEL 1</th><th>BOVESPA +</th><th>TRADITIONAL</th></tr>
<tr><td>Characteristics of Issued Shares</td><td>Only permits the existence of common shares</td><td>Permits the existence of common and preferred shares (with additional rights)</td><td>Permits the existence of common and preferred shares (in accordance with legislation)</td><td>Only common shares can be negotiated and issued, but preferred shares are permitted</td><td>Permits the existence of common and preferred shares (in accordance with legislation)</td></tr>
<tr><td>Minimum Percentage of Shares in Circulation (free float)</td><td colspan="3">At least 25% free float</td><td>25% free float until the 7th year on the listing, or minimum liquidity conditions</td><td>There are no rules</td></tr>
<tr><td>Public Distribution of Shares</td><td colspan="3">Efforts made to Increase Share Dispersion</td><td colspan="2">There are no rules</td></tr>
<tr><td>Approval of statutory dispositions (beginning 5/10/2011)</td><td colspan="2">Limiting vote with less than 5% of capital, qualified quorum and "fixed clauses"</td><td colspan="3">There are no rules</td></tr>
<tr><td>Composition of the Administrative Board</td><td colspan="2">Minimum of 5 members, of which at least 20% should be independent with a unified mandate of up to 2 years</td><td colspan="3">Minimum of 3 members (in accordance with legislation)</td></tr>
<tr><td>Approval of accumulation of positions (beginning 5/10/2011)</td><td colspan="3">Chairman of the Board and President or Chief Executive held by the same person (only 3 years after joining)</td><td colspan="2">There are no rules</td></tr>
<tr><td>Administrative Board Obligations (beginning 5/10/2011)</td><td colspan="2">Response to any public offer to acquire the company's shares</td><td colspan="3">There are no rules</td></tr>
<tr><td>Financial Statements</td><td colspan="2">Translated into English</td><td colspan="3">In accordance with legislation</td></tr>
<tr><td>Annual public meeting and calendar of corporate events</td><td colspan="3">Mandatory</td><td colspan="2">Optional</td></tr>
<tr><td>Additional release of information (beginning 5/10/2011)</td><td colspan="3">Securities trading policy and code of conduct</td><td colspan="2">There are no rules</td></tr>
<tr><td rowspan="2">Tag Along Rights</td><td rowspan="2">Granted 100% for common shares</td><td>Granted 100% for common and preferred shares</td><td rowspan="2">Granted 80% for common shares (in accordance with legislation)</td><td rowspan="2">Granted 100% for common shares</td><td rowspan="2">Granted 80% for common shares (in accordance with legislation)</td></tr>
<tr><td>Granted 100% for common shares and 80% for preferred shares (until 5/9/2011)</td></tr>
<tr><td>Public offer to acquire shares at a minimum economic value</td><td colspan="2">Mandatory when delisting or leaving segment</td><td>In accordance with legislation</td><td>Mandatory when delisting or leaving segment</td><td>In accordance with legislation</td></tr>
<tr><td>Joining the Market Arbitration Chamber</td><td colspan="2">Mandatory</td><td>Optional</td><td>Mandatory</td><td>Optional</td></tr>
</table>

Source: Investor's Compass (2020) and Oliveira and Monte-Mor (2020).

2.1 Stages of the Organizational Life Cycle and the Development of Our Hypothesis

Studies have documented that the stages of the organizational life cycle are related to performance indicators, dividend distribution policies, sales growth, capital structure, and company accounting and financial indicators (Costa et al., 2017; Dickinson, 2011; Faff et al., 2016; Novaes & Almeida, 2020; Oliveira & Girão, 2018; Ribeiro et al., 2018), which are identified as distinct characteristics of each phase of the organizational life cycle.

Studies by Dickinson (2011) and Faff et al. (2016) show that companies do not have to pass from one stage to another in a linear fashion. Dickinson (2011) specifically developed a proxy for the organizational life cycle based on the cash flows that appear on the Cash Flow Statement (CFS), identifying eight possible associations based on the signs of the operational, investment, and financing cash flows to classify companies in the birth, growth, maturity, turbulence, or decline stages.

According to Dickinson (2011), companies in the birth stage have few assets and generate less cash flow, which may even be negative. Meanwhile, in the growth phase, they make more investments in assets which results in revenue growth and generates positive operational cash flow. When companies enter the maturity stage, they have a larger asset structure, stable cash flow, and are profitable. When they are in the turbulence and decline stages, they have difficulty in honoring their financial commitments to creditors as well as keeping their operations running (Dickinson, 2011; Habib & Hasan, 2019).

Faff et al. (2016) examined whether corporate investment, financing, and cash flow policies are interdependent and follow a predictable pattern in accordance with the organizational life cycle and discovered that investment and the issuing of shares diminish as the company advances towards the last phases of its life cycle. In addition, they found that companies issue more debt and retain cash as they progress from the birth phase to the maturity phase, and issue less debt when they are in the maturity, turbulence, and decline phases.

Along these lines, Costa et al. (2017) identified that the variables leverage, dividend distribution, market-to-book ratio, profitability, size, and sales growth can be used as factors to explain the classification of companies in the organizational life cycle. Novaes and Almeida's study (2020) demonstrated that companies in the maturity stage disclose more

information voluntarily, and companies in the birth and decline stages have higher capital costs.

In addition, there have been studies that show that companies in the growth stage use less conservative accounting, focus on sales growth, and do not use strategic planning or budgetary control, tending to lay off workers when they face financial difficulties (Frezatti et al., 2010; Jenkins et al., 2004; Koh et al., 2015).

On the other hand, firms in the maturity stage have less exposure to risk, have a greater ability to generate resources internally through cost optimization to maximize profitability, invest in the expansion of production capacity, are more conservative in their accounting, have more persistent profits, tend to restructure assets during periods of financial difficulty, use strategic planning to achieve targets, and disclose less complex information, which is clearer and more optimistic (Bakarich et al., 2019; Frezatti et al., 2010; Hasan & Habib, 2017; Koh et al., 2015; Lima et al., 2015a; Novaes & Almeida, 2020; Owen & Yanson, 2010).

However, when companies are in the turbulence or decline stages, they disclose more confusing and negative information, generate operational losses, practice more earnings management, and have a higher cost of capital over net equity (Bakarich et al., 2019; Hasan & Habib, 2017; Novaes & Almeida, 2020; Ribeiro et al., 2018). Moreover, Oliveira and Girão (2018) found that profit forecasts can be affected by companies being in the birth or decline stages, identifying an optimistic attitude in the birth stage and a pessimistic attitude for companies in the decline stage.

Due to the uncertainties of profitability and cash flow, risk is greater during the stages of turbulence and decline, as has been documented by Hasan and Habib (2017). Shahzad et al. (2020) discovered that risks (idiosyncratic risk, market risk and total risk) are relatively greater during the birth, growth, and decline stages.

However, Bhuiyan et al. (2021) have demonstrated that risk measures are significantly lower for companies that have an autonomous risk committee. Even so, Machado et al. (2020) found that internal (the duality of the CEO having the concentration of control) and external (quality of the auditing) mechanisms of corporate governance appear in the decline stage, which differs from the literature in terms of the possibility of financial distress in Brazilian firms, and they also found positive relationships between executive remuneration and the percentage of shares in circulation, and the possibility of default during this stage.

Despite this, Silva Campos et al. (2022) found that an external board of directors is vital to the survival of an organization in a change environment, in which the external directors can concentrate their efforts on adopting actions which will effectively contribute to organizational performance. In addition, Ribeiro et al. (2021) argue that the quality of corporate governance influences a reduction in the cost of debt for Brazilian firms in the stages of turbulence and decline. These results demonstrate the importance of corporate governance to company management, especially for companies in the turbulence and decline stages.

From this perspective, companies which are listed at the B3's highest level of corporate governance adhere to its mandatory requirements which involve liquidity mechanisms, a dilution of shareholder control, the prohibition of accumulating titles, monitoring by the board of directors, and have a chance to moderately control shareholder interests and influence manager decisions that will result in better economic and financial performance mainly in companies with financial difficulties that require organizational restructuring (Melo et al., 2013; Shahid & Abbas, 2019), which increases their chances of reversing the final stages of the life cycle, as suggested by this study's second hypothesis:

Hypothesis: Brazilian companies with a high level of corporate governance have a greater probability of reversing the stages of turbulence or decline that they experience during period t and entering another stage in the organizational life cycle during period t+1, than other companies do.

3 METHODOLOGY

3.1 Data Collection and the Data Sample

To realize this study, we considered openly traded Brazilian firms listed on the B3 stock exchange, eliminating companies in the financial sector which have their own distinct characteristics. We examined the period from 2010 through 2020 to avoid the effects of the COVID-19 pandemic. The initial sample was composed of 2,560 observations in an unbalanced panel of 278 companies as displayed in Table 1. The data was downloaded from the Economatica database.

Table 1

Treatment Process for the Sample Selection

Realized action	Nº Obs.
Total number of observations	2,858
Elimination of observations without cash flow data	(216)
Elimination of observations without control variable data	(82)
Sample for initial analysis	2,560

In accordance with Table 2, we used Dickinson's model (2011) to classify the companies in each stage of the organizational life cycle. This model was selected because it is a contemporary metric in which the transition of companies between the life cycle stages is dynamic and does not follow a linear sequence (Dickinson, 2011; Faff et al., 2016; Habib & Hasan, 2019). It also uses cash flow, which can be influenced by corporate governance.

The use of this model is also justified because various studies have used it to measure the stages of the organizational life cycle and correlate them to financial indicators for openly traded Brazilian companies. Among these studies, Costa et al. (2017) demonstrated that the

indicators of leverage, dividend distribution, market-to-book ratio, profitability, size, and sales growth can be used as factors that influence the classification of companies in the stages of the organizational life cycle, in which it is expected that the level of corporate governance together with these indicators influences companies that enter other stages during this life cycle.

Table 2

Possible Associations for Classifying the Stages of the Organizational Life Cycle (by year)

Cash Flow	Initial Stages		Maturity	Final Stages	
	Birth	Growth		Turbulence	Decline
Operational	-	+	+	+ - +	- -
Investment	-	-	-	+ - +	+ +
Financing	+	+	-	+ - -	+ -

Source: (Dickinson, 2011).

Table 3 presents the number of observations for each stage based on Dickinson's model (2011), with 37.7% of the initial sample being made up of companies in the initial stages (birth and growth), 48.7% of the initial sample being made up of companies in the maturity stage, and 13.6% of the initial sample being made up of companies in the final stages (turbulence and decline).

Table 3

Number of Observations Classified for Each Stage (per year)

Stages	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	%
Birth	44	36	31	24	24	23	23	22	32	19	20	298	11.6%
Growth	58	66	74	71	74	54	47	58	55	52	59	668	26.1%
Maturity	93	101	105	113	117	133	137	138	126	93	89	1,245	48.6%
Turbulence	6	11	16	23	20	29	24	27	33	23	18	230	9.0%
Decline	11	8	9	11	9	6	17	13	16	11	8	119	4.6%
Total	212	222	235	242	244	245	248	258	262	198	194	2,560	100%

To classify the companies for each stage, we observed the signs of the operation, investment, and financing cash flows in accordance with Dickinson (2011). To classify companies in the birth stage, we considered companies that presented negative operational cash flow, negative investment cash flow, and positive financing cash flow in period *t*. For the

growth stage, we considered companies that presented positive operational cash flow, negative investment cash flow, and positive financing cash flow in period *t*.

To classify companies in the maturity stage, we considered companies which presented positive operational cash flow, negative investment cash flow, and negative financing cash flow in period t. For the turbulence stage, we considered companies which presented one of three combinations in period t: (1) positive operational cash flow, positive investment cash flow, and positive financing cash flow; or (2) negative operational cash flow, negative investment cash flow, and negative financing cash flow; or (3) positive operational cash flow, positive investment cash flow, and negative financing cash flow.

Finally, to classify companies in the decline stage, we considered companies which presented one of two combinations in period t: (1) negative operational cash flow, positive investment cash flow, and positive financing cash flow; or (2) negative operational cash flow, positive investment cash flow, and negative financing cash flow.

Since the objective of this study is to investigate the probability of changing stages from turbulence or decline, we considered only the companies that were in the stages of turbulence or decline during period t for our final sample, which consisted of 323 observations. Then we verified whether these companies changed to the birth, growth, or maturity stages during period t+1, with 191 companies changing from turbulence or decline in period t to the birth, growth, or maturity stages during period t+1, which represented 59% of the final sample, and 132 companies remained in these stages during period t+1, which accounted for the remaining 41% of the final sample, as can be seen in Table 4.

We used the B3 classification of the companies in terms of corporate governance from June 18, 2019 and the date of adhesion for their respective levels and years. Based on Table 4, we performed two tests: (1) a comparison of the companies listed in the New Market segment with the companies which were classified in the other segments, namely Level 2, Level 1,

Bovespa Mais (Plus), and Traditional, with a total of 167 observations for the first test; and (2) a comparison of the companies in the New Market segment with companies which were not classified in any segment, with a total of 290 observations for the second test.

Table 4

Classification of the Observations that Changed or Did Not Change Stage during Period t+1

B3 corporate governance segments	New Market	Level 2	Level 1	Bovespa Mais (Plus)	Traditional	Unclassified	Total
Changed from the turbulence or decline stages to another stage during period *t+1*	73	9	13	5	1	90	191
Did not change from the turbulence or decline stages during period *t+1*	61	0	4	0	1	66	132
Total	134	9	17	5	2	156	323

In addition to using the B3 corporate governance levels as a proxy for governance, we used the Corporate Governance Index (CGI), in accordance with Leal et al. (2015). This index was developed to measure the quality of the corporate governance practices adopted by openly traded Brazilian firms (Leal et al., 2015) and answers 20 questions divided into four blocks: (1) Disclosure; (2) Composition of the Board of Directors and its Functioning; (3) Ethics and Conflicts of Interest; and (4) Shareholder Rights. For each question, a grade between 0 and 1 was attributed, with the index of each company being calculated in accordance with Equation 1 (Leal et al., 2015).

$$CGI_{t,1} = \frac{\text{Total company grade (value from 0 to 20)}_{t,i}}{20} * 10 \quad (1)$$

It is expected that the larger the company index, the better the quality of the corporate governance practices adopted by the company (Leal et al., 2015).

3.2 Empirical Design

To test the research hypothesis that Brazilian companies with high levels of corporate governance have a greater probability of reversing the stages of turbulence or decline during period t, changing to another stage in period t+1, using the logistic regressions displayed in

Equation 2, expecting that the β_1 coefficient will be positive and significant. To verify the quality of the logistic models, we performed the Hosmer-Lemeshow test, verifying the area below the ROC curve and analyzing the number of observations which were classified correctly.

$$\text{Probability}(\text{Change in LCS}_{it+1} = 1/X) = \frac{1}{1+e^{-z}} \quad (2)$$

with

$$Z = \beta_0 + \beta_1 \text{Corporate Governance Level or Index}_{it} + \sum_k \beta_k \text{Controls}_{it}^k + \varepsilon_{it}$$

and the variables used are described below:

Z: is the linear predictor of the equation which is composed of the independent variable and the control variables;

Change in LCS_{it+1}: dummy variable equal to 1 if the company was in the turbulence or decline stages during period t and reverted to another stage during period t+1, and 0 if not;

Corporate Governance Level or Index: we used two proxies: (1) a dummy variable which represents the B3 levels of corporate governance, which is 1 if the company belongs to the New Market level, and 0 otherwise; and (2) the Corporate Governance Index, in accordance with Leal *et al*. (2015).

The unified analysis of the turbulence and decline stages was based on Dickinson's premise (2011) considering these stages to be the final ones in the life cycle. In addition, the low number of observations in these stages makes their individual analysis difficult. The same situation was identified for the B3's Level 2, Level 1, Bovespa Mais (Plus), and the Traditional segments of corporate governance.

To make it possible to control for existing endogeneities among the sample companies, the Equation 2 model also considered size, profitability, leverage, and the growth

rate of net revenues, in accordance with the variables described in the subsection below, and the control variables were winsorized at 1% to deal with the outliers present in the sample.

3.3 Control Variables

The *size* variable was considered with the expectation that companies would present different sizes during the organizational life cycle (Bhattacharya et al., 2004; Costa et al., 2017). The *profitability* variable, meanwhile, was inserted due to its relationship with the stages of the organizational life cycle (Bhattacharya et al., 2004; Costa et al., 2017; De Angelo et al., 2006; Owen & Yamson, 2010).

It is expected that the companies in the birth, growth, turbulence and decline stages will present greater levels of leverage, and that companies in the maturity stage will exhibit a lower level of leverage (Costa et al., 2017; Owen & Yamson, 2010), which is why we included the *leverage* variable. Finally, the *growth* variable was included because it was expected that sales growth would be negative for companies reverting a decline situation (Costa et al., 2017). All of the variables used in the study are described in Table 5.

Table 5

Variables Used in the Model

Variable	Sign	Definition	Data source
Dependent			
Change in LCS_{it+1}		Change in LCS which is 1 if the company is in the turbulence or decline stages during period t and reverted to another stage during period t+1, and 0 if it did not.	Economatica
Explanatory			
Corporate Governance Levels	(+)	Corporate governance dummy variable, which is 0 if company i belongs to the New Market Level and 0 if it does not.	B3
Corporate Governance Index	(+)	Corporate Governance Index.	Reference Forms
Control			
Size	(+/-)	Natural logarithm of total assets.	Economatica
Profitability	(+)	Net profits divided by net equity.	Economatica
Leverage	(+)	Total liabilities divided by total assets.	Economatica
Growth	(-)	Net revenue growth.	Economatica

4 PRESENTATION AND ANALYSIS OF THE RESULTS

4.1 Descriptive Statistics

Table 6 presents the descriptive statistics of the continuous variables used in the logistics model. It should be noted that the final sample only considers companies in the turbulence and decline stages during period t, in which the average is influenced by companies that did not perform any practice of corporate governance related to disclosure, the composition of the board of directors and its functioning, ethics, conflicts of interest, and shareholder rights, as indicated by the minimum index of 0. On the other hand, the sample considers companies that realize this practice, as demonstrated by the maximum index of 8.5.

Table 6

Descriptive Statistics of the Continuous Variables

Quantitative Variables	Average	Standard Deviation	Minimum	Maximum
Corporate Governance Index	4.769	2.686	0.000	8.500
Size	14.258	1.756	10.522	18.964
Profitability	0.055	0.869	-0.412	2.722
Leverage	0.757	0.617	0.102	3.334
Growth	-0.026	0.200	-0.833	0.435

The companies that make up the sample had an average of 14.26 in terms of the log of their total assets, ranging from 10.52 to 18.97. The average profitability was 5.5% per year over net equity, ranging from -41% to +272%, which demonstrates that even in the stages of turbulence and decline, the companies in our final sample were profitable on average. These results are in line with the findings of Costa et al. (2017).

Through the *leverage* variable, we verified that companies in the turbulence and decline stages committed 0.76 times their total assets with short- and long-term obligations on average, ranging from 0.10 times to 3.33 times. These results are also in line with the findings of Costa et al. (2017). Finally, the *growth* variable was -2.6% on average, a result expected for

companies in the turbulence and decline stages as demonstrated by the literature, ranging from -83.3% to +43.5%.

4.2 Presentation of the Results

Table 7 presents the results of the logistic regressions such as the one presented in Equation 2. It should be noted that initially the research models presented acceptable quality for the estimation of the probability of reversing the organizational life cycle stages of turbulence or decline during period t, to another stage during period t+1, to the extent that it does not reject the Hosmer-Lemeshow goodness of fit test with all probabilities>chi^2>0.17, the area below the ROC curve is greater than 0.605 and, on average, 81.6% of the observations were classified correctly.

Table 7

Results of the Logistic Regressions

Change of LCS	Coef.	p-value	Coef.	p-value	Coef.	p-value
New Market vs. Other segments	-1.4954	0.006				
New Market vs. Unclassified			-0.6069	0.025		
CGI					-0.1157	0.019
Size	0.3746	0.002	0.2796	0.001	0.2805	0.000
Profitability	0.1244	0.495	0.0526	0.709	0.0468	0.734
Leverage	-0.2347	0.468	0.2547	0.197	0.1998	0.294
Growth	-0.5047	0.511	-0.2775	0.639	-0.2827	0.624
Constant	-3.7057	0.043	-3.5461	0.002	-3.1658	0.002
Observations	167		290		323	
Pseudo-R²	0.1091		0.0326		0,0413	
Hosmer-Lemeshow Test	0.1736		0.3911		0,778	
ROC Curve	0.725		0.605		0.6423	
Classification Table	81.90%		80.30%		82.60%	

Based on the results presented in Table 7, we verified that the research hypothesis was rejected with confidence levels of 95% and 99%. Specifically, in verifying the negative and significant coefficients of β_1 (-1.4954 and -0.6069), it was demonstrated that the companies listed in the New Market, the highest level of B3 corporate governance, presented a lower probability of reversing stages of turbulence or decline in period t to another stage during period t+1, compared to companies in the other levels or those which were unclassified.

Moreover, with the coefficient -0.1157 of the CGI variable, the results show that companies with a higher Corporate Governance Index also presented a lower probability of reversing the stages of turbulence or decline found in period t to another stage by period t+1. These results do not support the research hypothesis that Brazilian companies with high levels of corporate governance have a greater probability of reverting stages of turbulence or decline during period t to another stage by period t+1 than other companies.

By using the results for the control variables, we identified that only the *size* variable was significant, which shows that larger companies, as measured by the logarithm of their total assets, presented a greater probability of reversing stages of turbulence or decline, proceeding to another stage.

Table 8

Chances of Reversing Stages of Turbulence or Decline in Period t to another stage in Period t+1

Change in LCS	Odds Ratio	p-value	Odds Ratio	p-value	Odds Ratio	p-value
New Market *vs* Other Segments	0.2242	0.006				
New Market *vs* Unclassified			0.5451	0.025		
Corporate Governance Index					0.8908	0.019
Size	1.4544	0.002	1.3225	0.001	1.3238	0.000
Profitability	1.1324	0.495	1.1255	0.709	1.0525	0.734
Leverage	0.7908	0.468	1.2901	0.197	1.2212	0.294
Growth	0.6037	0.511	0.4476	0.639	0.7537	0.624

Table 8 presents the chances of the event occurring, demonstrating through the odds ratio the chances that a company listed in the B3's New Market corporate governance segment will revert from the stages of turbulence or decline in period t to another stage in period t+1, and the probability is 0.78 times less than for a company listed in the other segments.

The probability that a company listed in the New Market segment would revert from the stages of turbulence or decline during period t to another stage during period t+1, is 0.45 times less than that of a company not listed in any B3 corporate governance segment. In

addition, Table 8 shows that a company with a high Corporate Governance Index has a 0.11 times lesser probability of reverting from a stage of turbulence or decline during period *t* to another stage during period t+1 than companies with low Corporate Governance Indices.

Thus, the results are not in line with the findings of the literature, which expects that companies with higher levels of corporate governance represent the best investment options due to their lower risk (Andries et al., 2020; Shahid & Abbas, 2019), greater degree of conservative accounting (Almeida et al., 2008), and better company performance (Melo et al., 2013), presenting a greater probability of reverting a stage of turbulence or decline to another stage the following year.

However, these findings are in line with some of the evidence presented by Machado et al. (2020), who documented that internal (the duality of being the CEO and having a concentration of control) and external mechanisms (the quality of the auditing) of corporate governance during the decline stage did not present greater explanatory power in terms of the possibility of financial distress in Brazilian companies. Miranda et al. (2021) also demonstrate that companies listed in the New Market segment do not pose lower risks for investors.

5 FINAL CONSIDERATIONS

This study has sought to identify whether Brazilian firms with high levels of corporate governance have a greater probability of reversing the final stages of the organizational life cycle. In general, the results demonstrate that Brazilian companies with a high level of corporate governance have a lower probability of reverting from stages of turbulence or decline during period t to another stage during period t+1 than other companies. These results reject the research hypothesis which expected that a high level of corporate governance would influence the reversion of the final stages of the organizational life cycle.

These results could indicate that the proxies used in this study are not good proxies for corporate governance. As an example, we can cite recent cases in the Brazilian stock market involving problems in corporate governance among companies listed in the New Market segment, including CVC Brasil Travel Operator and Agency Inc., IRB-Brasil Reinsurance Inc., and Lojas Americanas Inc., which involve accounting irregularities designed to hide liabilities to increase the apparent earnings of these companies to ensure that managers achieved established targets that would entitle them to variable remuneration.

However, variable remuneration is a point that is superficially observed by corporate governance indicators, including the B3's levels of corporate governance and the CGI used in this study, which only require the disclosure of variable and fixed remuneration and do not establish requisites for the elaboration of an executive remuneration policy which needs to be supervised by these companies.

With this, it is hoped that our results will contribute from a theoretical perspective by suggesting that corporate governance consider remuneration requirements, especially for variable remuneration, as part of their corporate governance indicators for the Brazilian stock market. In terms of practical contributions, it is hoped that these results will provide material for a possible review on the part of the B3 of its minimum requirements for companies that wish to adhere to its corporate governance segments, going further than a requirement to disclose their remuneration policies.

Moreover, it is hoped that it will supply creditors and investors with evidence that a high level of corporate governance cannot be used as supplementary information in terms of risk evaluation, mainly in terms of reversing difficult economic or operational situations experienced by companies in the stages of turbulence or decline.

Even though the CGI used in this study has its limitations, this indicator does manage to capture a better overall vision of corporate governance than other governance proxies, and

we should appreciate that it considers requirements related to voluntary disclosure, the composition of the board of directors and its functioning, ethics, conflicts of interest, and shareholder rights in a single index. In addition to the limitation of proxies for corporate governance, the low number of observations for the dependent variable in this study presented another limitation, given that it represented just 13% of the initial sample.

In terms of future research, this study's results indicate paths for broadening the literature in terms of identifying factors that can influence whether companies change from one stage of the organizational life cycle to another, including other measures of corporate governance, measures of investment in Research and Development (R&D), measures of manager sentiment, measures of access to lines of credit, and operational measures which can be used together or individually.

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Associação do Ciclo da Vida Organizacional das Companhias Brasileiras Com o Nível de Governança Corporativa

RESUMO

***Objetivo**: Identificar se as companhias brasileiras com alto nível de governança corporativa têm maior probabilidade de reverter os estágios finais do clico da vida organizacional.*

***Método:** A amostra final contou com 323 observações de 2010 a 2020 em painel desbalanceado de companhias brasileiras não financeiras listadas na B3. Os dados foram obtidos na base Economatica e no site da B3. Foram realizados testes por meio de regressão logística para análise dos resultados.*

***Originalidade/Relevância:** Vários estudos analisaram as práticas de governança corporativa adotadas pelas companhias em cada estágio do clico da vida organizacional, porém, considerando-se que o clico da vida organizacional não tem uma sequência linear (Dickinson, 2011), o presente estudo investigou os efeitos do alto nível de governança na perspectiva de mudança de estágio.*

***Resultados:** Os resultados evidenciaram que as companhias brasileiras com alto nível de governança corporativa têm menor probabilidade de reverter os estágios de turbulência ou declínio no período t para outro estágio no período t+1, do que as demais companhias.*

***Contribuições Teóricas/Metodológicas**: Os resultados demonstram que a utilização dos níveis de governança corporativa da B3 não é uma boa medida como proxy de governança corporativa.*

***Contribuições Sociais/para a Gestão**: Tal evidência sugere que os níveis de governança corporativa da B3 não podem ser utilizados pelos credores e investidores como subsídio adicional na avaliação dos riscos, principalmente, para reversão de uma situação de dificuldade econômica que é vivenciada pelas empresas nos estágios de turbulência ou declínio.*

***Palavras-chave**: Governança Corporativa, Novo Mercado, Ciclo da Vida Organizacional, Turbulência, Declínio.*

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