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Impact of Corporate Governance on Financial Performance: Evidences in the Brazilian Stock Market

ABSTRACT

Objective: Examine the impact of corporate governance on the financial performance of Brazilian companies with shares traded in the Brasil Bolsa Balcão (B3) between the years 2010 and 2020.

Method: Using annual data from a sample of 118 non-financial companies, regressions were estimated with panel data and instrumental variables approach. As metrics of corporate governance quality, we used two indexes that consider the mechanisms pointed out by the literature as efficient in reducing agency problems, as well as the listing of companies in the B3's Differentiated Levels of Corporate Governance. As measures of financial performance, we used the ratios Return on Equity (ROE), Return on Assets (ROA) and Earnings before interest, taxes, depreciation and amortization (EBITDA).

Originality/Relevance: The suggested governance quality indexes, mainly the IGOV8, which showed statistical significance in all estimated models, are simpler to obtain than the ones previously suggested in the literature, since they require fewer variables (inputs).

Results: The results indicate that in Brazil companies with better corporate governance quality tend to present statistically superior financial performance than those with lower quality.

Theoretical/Methodological contributions: In addition to contributing to the academy by providing insights into the importance of corporate governance in the financial performance of Brazilian companies, this work can help managers and investors. The proposed corporate governance indexes, in particular the IGOV8, can make it easier for companies to assess their own governance and thus identify areas for improvement. Furthermore, investors can use these tools to evaluate companies they are investing in or intend to do so.

Keywords: Governance indexes, Agency Theory, Financial performance.

João Eduardo Ribeiro
Federal University of Minas Gerais, MG, Brazil
joaoeduardoribeiro@ufmg.br

Antônio Artur de Souza
Federal University of Minas Gerais, MG, Brazil
artur@face.ufmg.br

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1 INTRODUCTION

Corporate governance plays an important role in preventing accounting fraud, being crucial to increase market confidence and attract investors to companies, as it tends to enhance ethical principles in business (Alnajar, 2021; Freire et al., 2022; Ribeiro, 2014). Over the past decades, numerous studies have been conducted to investigate the association of best governance practices with various aspects of companies, such as market value (Ana et al., 2021; Demsetz & Villalonga, 2001; Pinheiro et al., 2019), capital structure (Grossman & Hart, 1982; Javaid et al., 2021), financial performance (Antwi et al., 2021; Hermalin & Weisbach, 1991), among others.

In Brazil, the relationship between corporate governance and financial performance of companies has been widely debated in the field of finance; however, the studies conducted have not yielded consistent results. For example, Catapan et al. (2013), Kimura et al. (2012), Machado et al. (2020), and Silveira (2004) have shown a positive effect of better corporate governance practices on the financial performance of companies. On the other hand, studies such as those by Lopes et al. (2021), Tavares and Penedo (2018), Vieira et al. (2011), and Vilhena and Camargos (2015) have reached divergent conclusions.

Due to the dissonance in previous findings on this topic, as well as the importance of corporate governance for companies and investors, aiming to increase the probability of capital suppliers (creditors and investors) obtaining a return on their investment, the following question arises: What are the impacts of corporate governance quality on financial performance of Brazilian companies? To answer this question, this study aims to examine the impact of corporate governance on the financial performance of Brazilian companies listed on the Brazil Stock Exchange (B3), using data from 2010 to 2020.

It is expected that corporate governance quality positively affects the performance of the analysed companies, considering that performance is one of the key aspects considered by

stakeholders in evaluating the success or failure of companies. Thus, by studying one of the factors that can affect performance, this study contributes not only to the empirical literature on governance but also to investors, managers, and other parties interested in financial performance.

Ribeiro and Souza (2022) point out that a significant number of national empirical studies employ the B3 Differentiated Levels of Corporate Governance (NDGC) as a metric for corporate governance quality in Brazil, meaning that companies listed in the B3 special segments - Bovespa Mais, Bovespa Mais Nível 2, Novo Mercado, Nível 1, and Nível 2 - are understood to have good governance quality, as opposed to companies listed on the traditional market level. In addition to using the proxy indicated by Ribeiro and Souza (2022), this study also proposes a governance quality index (IGOV) composed of ten objective questions identified in the literature as capable of reducing agency conflicts. Furthermore, inspired by previous studies, such as those by Correia et al. (2011), Santos (2018), and Silveira (2004), which demonstrated that in Brazil disclosure and transparency mechanisms and incentives for administrators are more important for governance quality than characteristics related to ownership structure and board of directors, an alternative index (IGOV8) was also tested.

The construction of these indexes aims to seek alternative measurements of corporate governance that are simpler to obtain than those previously suggested in the literature and more comprehensive and efficient than the B3 NDGC, considering that Ribeiro and Souza (2022) suggest that national empirical studies prefer to use the NDGC as they are less costly than the proposed indicators. Given the discrepancy of results from previous studies, as well as the importance of such topic for companies, investors, and regulators, it is important for academia to propose alternative evaluations of governance quality in order to enrich the debate on the subject.

2 LITERATURE REVIEW

There is no fully established concept of corporate governance. According to Shleifer and Vishny (1997), corporate governance is structured through instruments that increase the likelihood of investors and creditors obtaining a return on their capital. For Aman and Nguyen (2013), governance is the set of laws, rules, and procedures that influence managers' decisions and, consequently, the company's operations.

Some definitions of governance emphasize the potential conflicts of interest between insiders (managers, directors, and majority shareholders) and outsiders (minority shareholders and creditors) of the company (El-Deeb et al., 2022; Fatma & Chouaibi, 2021; Trambacos et al., 2021). Jensen (2001) points out that rational individuals seek to achieve their own objectives and, for this reason, always lack incentives to reduce or control conflicts of interests. This is the central hypothesis of the agency theory (Jensen & Meckling, 1976). In this context, corporate governance comprises a set of internal and external mechanisms capable of balancing these conflicts of interest, that is, it is an efficient way to reducing agency conflicts.

The effect that this set of good corporate governance practices has on firm performance has been studied with the support of some mechanisms, such as the board of directors' structure (Aman & Nguyen, 2013; Tanaka, 2014; Yermack, 1996); ownership and control structure (Peixoto & Buccini, 2013; Shleifer & Vishny, 1997; Viana Júnior et al., 2020); voluntary disclosure of information (Luz et al., 2006); incentives for managers (Beuren et al., 2020; Fama, 1980; Hall & Liebman, 1998); transparency of published information (Leuz et al., 2003); among others.

Different national studies have also focused on the topic. Silveira (2004), for example, assessed the relationship between corporate governance, market value, and profitability of Brazilian publicly traded companies. To do that, the author constructed a governance index using data from 161 companies whose shares were traded on the B3 between 1998 and 2002

and employed operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA) as a financial performance metric. The results showed a positive association, although statistically significant only in the case of the EBITDA variable, between governance quality and financial performance of Brazilian companies. The author suggests, therefore, that companies with better governance practices tend to show better financial performance.

In this regard, Kimura et al. (2012) analysed the impact of corporate governance related variables on firm's profitability. The authors employed multiple linear regression analysis on a sample of 17,493 companies from 38 countries, including Brazil. The research results suggested that governance related variables can positively affect profitability and other firm's characteristics. In turn, Catapan et al. (2013) examined the effect of corporate governance on the financial and market performance of Brazilian companies traded in the B3. The authors used the Carvalhal-da-Silva and Leal (2005) corporate governance index, return on assets (ROA) and EBITDA as financial performance measures to analyse a sample of 111 companies traded between 2008 and 2010. Although not statistically significant, the results showed a positive relationship between the corporate governance index and the financial and market performance of the analysed companies. Later, Machado et al. (2020) employed structural equation modelling and showed that corporate governance can positively affect the financial performance of the analysed companies.

On the other hand, Vieira et al. (2011) evaluated the impact of adopting good corporate governance practices on the financial performance and capital structure of Brazilian listed companies. For this, the authors used a sample of 84 companies with shares traded on the B3 from 2001 to 2006 and listed in the governance segments (NDGC) Level 1, Level 2, and New Market. The analysis was based on panel regression and revealed a negative relationship between corporate governance and return on equity (ROE). In a similar study, Vilhena and

Camargos (2015) employed six panel data models on a sample of 1,848 observations of 66 companies traded from 2005 to 2011 and found that companies which adhered to differentiated corporate governance practices had worse financial performance, that is, a negative relationship was observed between NDGC and ROE, net profit, and EBIT.

Tavares and Penedo (2018) analyzed the relationship between corporate governance and financial performance of Brazilian companies using data from 2001 to 2015 and employed the NDGC as a governance metric. The results showed that adherence to corporate governance levels did not have a positive relationship with any of the analyzed performance variables (ROA, ROE, EBITDA/TA, EBITDA/PL, and Tobin's Q). Recently, Lopes et al. (2021) examined the association between corporate governance quality, risk management disclosure, and financial performance of Brazilian companies issuing American Depositary Receipts (ADRs). The results suggested a negative association between governance and performance.

Based on these findings, it can be observed that the results regarding the relationship between corporate governance and financial performance of companies do not provide unanimous conclusions. Therefore, it is important for further research to be conducted to fill this gap in the literature, given the relevance of the subject. For this purpose, the following research hypothesis was formulated in this work:

Hypothesis: Corporate governance quality positively affects the financial performance of companies.

3 METHOD

3.1 Sample and Study Variables

The population under study consists of all companies with stocks traded on the Brazilian stock exchange (B3) during the analysed period. Regarding the sample, it was obtained by excluding companies with cancelled registration, companies from the financial sector,

companies with a liquidity index equal to or less than 0.001, and companies with a negative net equity. After applying these procedures suggested on the literature (Santos, 2018; Silveira, 2004; Vilhena & Camargos, 2015), the final sample consisted of 118 companies. The economic and financial data required for the analysis was collected from the Economatica® platform, and the data for creating the governance indexes were obtained from mandatory disclosure documents to the Brazilian Securities and Exchange Commission (CVM), which are publicly available on the CVM and the companies' websites. Tables 1 and 2 provide details of these pieces of data and their respective collection sources.

Since governance is a phenomenon that cannot be directly observed, it is necessary to study it by means of its mechanisms, global indexes, and/or proxies. Therefore, we opted to construct a governance quality index (IGOV) by summing up the responses to 10 objective binary questions. For each positive response, one point was added to the index. Thus, the IGOV had a value ranging from 0 to 10, and the questions were developed considering the mechanisms of the Board of Directors, Ownership and Control Structure, Disclosure and Transparency, Incentives to Administrators, and Level of Disclosure.

The variables that encompass these mechanisms and constitute the IGOV were chosen in accordance with the recommendations of the Brazilian Institute of Corporate Governance (IBGC) best practices codes, as well as the literature on agency theory, as stated by Al-Najjar and Al-Najjar (2017), Carvalhal-da-Silva and Leal (2005), Jensen (2001), and Silveira (2004). A variation of the main index, IGOV8, was also tested to provide an alternative measure of governance practices quality in Brazil. IGOV8 is obtained by summing up the responses to the 7 questions which encompass the mechanisms of Disclosure and Transparency, Incentives to Administrators, and Level of Disclosure, plus a variable representing the industry sector (+1 point for industrial companies). Thus, IGOV8 has a value ranging from 0 to 8, and its calculation is simpler than that of IGOV since it requires fewer variables (inputs). The creation

of IGOV8 was inspired by the works of Correia et al. (2011), Santos (2018), Silveira (2004), and Silveira and Barros (2008).

Silveira (2004) suggests that more regulated sectors, such as the industrial sector, may influence corporate governance quality in these companies, as they are required to comply with best governance practices. Additionally, Correia et al. (2011), Santos (2018), and Silveira (2004) point out that, in the Brazilian context, information disclosure and transparency are more effective in assessing corporate governance quality than ownership and control structure and the board of directors' structure.

It is worth observing that the formulated indicators are based on binary responses of adherence or non-adherence to governance mechanisms. In other words, the sum of binary scores considers the presence or absence of a governance attribute, and therefore, the higher the score, the better governed the company is considered. Table 1 presents the variables that comprise the analysed governance indexes, their definitions, the governance mechanisms to which they are related, and the data collection source.

Table 1

Variables that compose the governance indexes

Variables		Questions	Data Source
Board of Directors	(1)	Does the Board of Directors have from five to nine members?	FR
Property and Control Structure	(2)	Do controlling shareholders own less than 50% of the voting shares?	FR
	(3)	Does the company have more than 25% of its shares in free-float?	FR
Disclosure and Transparency	(4)	Does the company publish material facts and communications to the market?	RI e CVM
	(5)	Does the company have dividend statements made available to shareholders?	FR e CVM
Incentives for Administrators	(6)	Do managers have a participation in the profits?	FR
	(7)	Does the company have a stock options plan?	FR
	(8)	Does the company have stock-based compensation plan?	FR
Disclosure	(9)	Does the company participate in the NDGC?	B3
	(10)	Is the company an issuer of ADRs?	JPMorgan
Sector	(11)	Is the company from the manufacturing sector?	Economatics®

Note: Reference Forms (FR); Investor Relations (RI); Portal J.P. Morgan Asset Management (JPMorgan).

Ribeiro and Souza (2022) point out that the majority of empirical studies on corporate governance in Brazil employ the listing of companies in the B3's Corporate Governance New Market (NDGC) as a measure of governance. Therefore, the NDGC proxy variable was added to the analysis, which was a dummy variable that received a value of 1 when the company in question was listed on any of the governance levels of the B3, and 0 when it was listed in the traditional market.

Regarding the financial performance of companies, which is the dependent variable in the models, it was analysed based on the metrics Return on Assets (ROA), Return on Equity (ROE), and Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA). In addition to the dependent variables, some control variables were employed, such as Firm Size (TAM), Indebtedness (END), Current Liquidity Ratio (ILC), Growth (CRES), Net Margin (ML), and Degree of Financial Leverage (GAF).

The choice of these indicators was inspired by the empirical literature on the subject (see Catapan et al. (2013), Correia et al. (2011), Lopes et al. (2021), Silveira (2004), Santos (2018), Vieira et al. (2011), and Vilhena and Camargos (2015), for example). Table 2 presents the dependent, independent, and control variables, as well as their calculation formulas.

Table 2

Study variables

Variables		Calculation Formulas
Dependents	ROE	Net Income/Shareholders' Equity
	ROA	Net Income/Total Assets
	EBITDA	EBITDA/Total Assets
Independent	IGOV	Sum of Responses to Questions 1 to 10
	IGOV8	Sum of Responses to Questions 4 to 11
	NDGC	Dummy: 0 for traditional market, 1 for NDGC
Control	TAM	Ln (Total Assets)
	END	(Current Liabilities + Current Assets)/Total Assets
	ILC	Current Assets/Current Liabilities
	CRES	$(Sales_{t} - Sales_{t-1})/ Sales_{t-1}$
	ML	Net Income/Net Revenue
	GAF	Total Assets/Shareholders' Equity

3.2 Statistical Models

Empirical studies on corporate governance can be susceptible to econometric problems that, when not properly addressed, can lead to misinterpretations of the results (Caixe & Krauter, 2014). The main issue reported in the literature relates to the endogeneity of governance indicators, which can be caused by simultaneity (or reverse causality), omitted variables, and feedback effects (Börsch-Supan & Köke, 2002; Caixe & Krauter, 2014).

Caixe and Krauter (2014) emphasize that the use of control variables, as well as the estimation of regressions using fixed or random effects panel data, as in the studies by Carvalhal-da-Silva and Leal (2005) and Santos (2018), represent ways to mitigate these problems, particularly regarding omitted variables. However, Wooldridge (2010) highlights that one of the assumptions of panel data models is strict exogeneity, meaning that if the employed corporate governance index is endogenous, panel data estimation can be spurious.

Therefore, to examine the relationship between corporate governance and firm financial performance, regression models were estimated using panel data methodology, considering the corporate governance proxies as exogenous variables. Additionally, instrumental variable (IV) regression models were employed, treating the corporate governance proxies as endogenous variables. This combination of estimation methods, along with the three governance proxies and the three financial performance metrics, resulted in the estimation of eighteen distinct regressions, leading to more robust results. The general specifications of the models used are described in Equation 1.

$$DF_{it} = \beta_{0it} + \beta_{1it}GC_{it} + \beta_{2it}TAM_{it} + \beta_{3it}END_{it} + \beta_{4it}ILC_{it} + \\ + \beta_{5it}CRES_{it} + \beta_{6it}ML_{it} + \beta_{7it}GAF_{it} + e_{it} \quad (1)$$

Where: DF_{it} represents the dependent variables and refers to the financial performance of companies (ROE, ROA and EBITDA); GC_{it} represents the independent variables that represent corporate governance quality (IGOV, IGOV8 and NDGC); TAM, END, ILC, CRES, ML and GAF

are the other independent variables (control) of the model; β_0 refers to the intercept parameter; β_1, β_2, β_3, β_4, β_5, β_6, and β_7 refer to the coefficients corresponding to each of the model's explanatory variables; and e_{it} refers to the idiosyncratic error, since it varies randomly for all companies and periods.

Regressions using panel data can be estimated using the pooled model, random effects (RE) model, and fixed effects (FE) model (Wooldridge, 2010). The identification of the most suitable model for the study data depends on conducting statistical tests. Therefore, Breusch-Pagan tests were used to compare the RE model with the pooled model, the Chow test was used to compare the pooled model with the FE model, and the Hausman test was used to compare the FE model with the RE model. The results of these tests yielded p-values < 0.01 in all analysed regressions, indicating that the FE model is the most appropriate for the study data (Wooldridge, 2010).

Since the aforementioned tests indicated that the estimation of the fixed effects model is the most suitable for the data used in the research, regression models using instrumental variables (IV) were performed using the same procedure (Instrumental-variables regressions - FE). The use of IV is a solution for all endogeneity problems, and for this purpose, the instruments should have a zero correlation with the error term of the original equation, while being correlated with the independent variables (Larcker & Rusticus, 2010). In this regard, lagged values (t-1) of the control variables were chosen as instrumental variables, a procedure also used by Larcker and Rusticus (2010) and O'Connor and Rafferty (2012), for example.

After estimating the models, specification tests were conducted to verify if the assumptions were met (normality of residuals, multicollinearity, heteroscedasticity, and autocorrelation). Regarding the normality of residuals, the Jarque-Bera test rejected the null hypothesis of normal distribution in all models. However, according to the central limit theorem, when the sample size is sufficiently large, statistical inference is not invalidated

(Wooldridge, 2010). On the other hand, the Breusch-Pagan and Breusch-Godfrey tests indicated problems of heteroscedasticity and autocorrelation, respectively. As a correction, the FE regressions were estimated with robust standard errors (HAC), a procedure developed by Newey and West (1987) as a unique solution for both problems. The IV regressions, on the other hand, were estimated using the vce (robust) procedure.

Finally, the multicollinearity test was performed using the variance inflation factor (VIF) values for the studied variables. The highest VIF value was observed for the variable IGOV8 (3.169). According to Wooldridge (2010), it is assumed in the literature that VIF values below 10 indicate no problems with collinearity among the studied variables. The regressions and tests conducted in this study were estimated using the Stata software, based on annual data from 2010 to 2020, from the companies included in the sample. The results and discussions of these analyses are presented in the next section.

4 RESULTS

In Table 3, descriptive statistics of the independent variables (metrics of corporate governance quality) are displayed, while Table 4 presents the results of the classification of companies regarding their level of corporate governance.

The sample companies were classified into three different groups based on the governance indexes created in this study. For IGOV, the first group (Low governance quality) consisted of companies with IGOV scores between 0 and 4. The second group (Medium governance quality) included companies with IGOV scores between 5 and 7, and finally, the third group comprised companies with IGOV scores between 8 and 10 (High governance quality). Similarly, the classification was performed using IGOV8, where the first group consisted of companies with Low governance quality (IGOV8 scores from 0 to 3), the second group included companies with Medium governance quality (IGOV8 scores from 4 to 5), and

the third group, High governance quality, comprised companies with IGOV8 scores between 6 and 8.

Table 3

Summary of Descriptive Statistics - Governance Quality Metrics

	IGOV				IGOV8				NDGC			
Period	**Me.**	**Mi.**	**Ma.**	**SD**	**Me.**	**Mi.**	**Ma.**	**SD**	**Me.**	**Mi.**	**Ma.**	**SD**
2010	5.87	1.00	9.00	1.67	4.19	0.00	7.00	1.29	0.82	0.00	1.00	0.38
2011	6.01	1.00	9.00	1.83	4.34	0.00	7.00	1.39	0.85	0.00	1.00	0.36
2012	6.11	1.00	9.00	1.71	4.41	0.00	7.00	1.32	0.85	0.00	1.00	0.35
2013	6.10	1.00	9.00	1.76	4.40	0.00	7.00	1.33	0.87	0.00	1.00	0.34
2014	6.21	1.00	10.00	1.74	4.46	0.00	7.00	1.30	0.88	0.00	1.00	0.32
2015	6.14	2.00	10.00	1.71	4.39	1.00	7.00	1.28	0.88	0.00	1.00	0.33
2016	6.13	1.00	10.00	1.76	4.38	1.00	7.00	1.32	0.88	0.00	1.00	0.33
2017	6.13	1.00	10.00	1.78	4.33	0.00	7.00	1.47	0.87	0.00	1.00	0.33
2018	6.29	1.00	10.00	1.76	4.44	0.00	8.00	1.48	0.88	0.00	1.00	0.33
2019	6.27	2.00	10.00	1.72	4.40	0.00	8.00	1.47	0.89	0.00	1.00	0.32
2020	6.31	1.00	10.00	1.59	4.45	0.00	7.00	1.33	0.90	0.00	1.00	0.29
Total	6.14	1.00	10.00	1.73	4.38	0.00	8.00	1.36	0.87	0.00	1.00	0.33

Note: SD corresponds to the standard deviation of the variables.

Table 4

Corporate Governance Classification

Classification IGOV										
Low Governance				**Medium Governance**				**High Governance**		
0	1	2	3	4	5	6	7	8	9	10
0.00%	0.73%	1.83%	4.18%	8.13%	21.47%	20.95%	19.05%	15.09%	7.84%	0.73%
14.87%					61.47%			23.66%		
Classification IGOV8										
Low Governance				**Medium Governance**				**High Governance**		
0	1	2	3	4	5	6	7	8		
0.66%	1.98%	4.47%	16.70%	30.40%	24.91%	15.31%	5.42%	0.15%		
23.81%				55.31%			20.88%			

Regarding the estimated models, Table 5 displays the coefficients of the regressions estimated with the IGOV proxy representing corporate governance quality (independent variable) and ROE, ROA, and EBITDA as dependent variables, corresponding to financial performance, as well as the coefficient of determination (R^2 within) for all models. In turn, Tables 6 and 7 show the coefficients of the regressions estimated with the IGOV8 index and the NDGC proxy representing corporate governance quality, respectively.

Table 5

Regression Results with IGOV as a Governance Metric

Variables	ROE		ROA		EBITDA	
	FE	IV	FE	IV	FE	IV
Constant	-192.39***	-149.65**	-39.39***	-22.22	-235.62**	2.25
IGOV	1.72	2.11	0.65**	0.84***	9.28***	12.00***
TAM	11.73***	9.59**	2.28**	1.45	13.61*	2.20
END	-0.43***	-0.42***	-0.11***	-0.12***	-0.44	-0.55*
ILC	3.27*	3.55*	0.63	0.76*	-1.69	0.08
CRES	-0.03***	-0.03***	-0.01***	-0.003***	-0.01	-0.002*
ML	0.02***	0.02***	0.01***	0.007***	0.06***	0.07***
GAF	16.85***	-0.32	7.61***	-0.07**	108.68***	-0.69**
R^2 *within*	0.1285	0.1301	0.2137	0.1691	0.2464	0.1490

Note: The asterisks indicate the levels of significance: * p < 0.01, ** p < 0.05, *** p < 0.10; (ii) The F-tests for all FE models showed 99% significance, as well as the Wald Chi-Squared tests for the IV models.

Table 6

Regression Results with IGOV8 as a Governance Metric

Variables	ROE		ROA		EBITDA	
	FE	IV	FE	IV	FE	IV
Constant	-192.69***	-154.28**	-40.09***	-24.27*	-253.84**	-29.94
IGOV8	3.64**	4.13***	1.14***	1.40***	12.87***	16.88***
TAM	11.49***	9.57**	2.28***	1.51*	14.89*	4.16
END	-0.44***	-0.44***	-0.11***	-0.12***	-0.47	-0.58*
ILC	3.34*	3.60**	0.66	0.78*	-1.35	0.44
CRES	-0.03***	-0.03***	-0.01***	-0.003***	-0.01	-0.0008
ML	0.02***	0.02***	0.01***	0.007***	0.06***	0.08***
GAF	15.27**	-0.31	7.20***	-0.06**	105.42***	-0.66**
R^2 *within*	0.1380	0.1418	0.2262	0.1874	0.2531	0.1624

Note: The asterisks indicate the levels of significance: * p < 0.01, ** p < 0.05, *** p < 0.10; (ii) The F-tests for all FE models showed 99% significance, as well as the Wald Chi-Squared tests for the IV models.

Table 7

Regression Results with the NDGC as a Governance Metric

Variables	ROE		ROA		EBITDA	
	FE	IV	FE	IV	FE	IV
Constant	-203.25***	-160.26***	-42.96***	-25.86*	-302.78**	-67.51
NDGC	3.31	4.13	0.22	0.63	34.33*	40.21***
TAM	12.82***	10.80***	2.71***	1.95**	19.16**	8.83
END	-0.43***	-0.43***	0.11***	-0.12***	-0.47	-0.60*
ILC	3.33*	3.65**	0.66	0.80*	-1.33	0.66
CRES	-0.03***	-0.027***	-0.01***	-0.003***	-0.02***	-0.01*
ML	0.02***	0.018***	0.01***	0.007***	0.07***	0.08***
GAF	18.00***	-0.32	8.07***	-0.07**	114.52***	-0.70**
R^2 *within*	0.1240	0.1233	0.2019	0.1493	0.2289	0.1175

Note: The asterisks indicate the levels of significance: * p < 0.01, ** p < 0.05, *** p < 0.10; (ii) The F-tests for all FE models showed 99% significance, as well as the Wald Chi-Squared tests for the IV models.

5 DISCUSSION

A first analysis relates to descriptive statistics, through which it is possible to observe that the average value of IGOV increased from 5.87 in 2010 to 6.31 in 2020, with an overall mean of 6.14. It is worth remarking substantial differences in the adoption of good governance practices by the analysed companies, as the minimum value was 1 and the maximum was 10, indicating a widely distributed index. Similarly, for IGOV8, a mean of 4.38 was recorded over the analysed period, with an increase from 4.19 in 2010 to 4.45 in the year 2020. Like IGOV, IGOV8 also exhibited a wide distribution of the index, with a minimum value of 0 and a maximum of 8. Regarding the proxy NDGC, it had a mean of 0.87 over the analysed period, with an increase from 2010 to 2020 (0.08). As it is a dummy variable that assumes values of 0 or 1, a mean > 0.5 indicates that the majority of companies in the sample are listed in the NDGC of B3.

Regarding the classification of governance indicators, based on IGOV, 14.87% of the companies were classified as Low-quality governance, 61.47% as Medium-quality, and 23.66% as High-quality. Regarding corporate governance quality based on IGOV8, 23.81% of the companies were classified as Low-quality, 55.31% as Medium-quality, and 20.88% as High-quality. Regardless of the indicator used, these results show that a significant portion of Brazilian companies listed on the B3 can still, and often need to, improve their governance mechanisms. That is due to the fact that corporate governance is understood as a set of practices and processes aimed at ensuring that the company is managed in an ethical, transparent, and responsible manner, seeking to protect the interests of its shareholders and other stakeholders.

When investigating the results obtained through the estimated regressions with IGOV as the independent variable, it is possible to point out that, in an analysis of the overall significance of the models, using the F-test for FE models and the Wald Chi-Squared test for IV models, the null hypothesis was strongly rejected (p-value = 0). Therefore, it can be stated

that jointly the independent variables are significant as explanatory variables for the estimated models.

With regard to the coefficient of determination of the models, it is worth noting that the values obtained for the FE models are higher than the coefficients of the IV models in most of the cases. In the regressions estimated through FE, the variables used in the analysis explain about 12.85% of the total ROE variation, 21.37% of the total ROA variation, and 24.64% of the EBITDA variation. On the other hand, in the regressions estimated via IV, the analysed variables explain about 13% of the ROE variation, 16.91% of the total ROA variation, and 14.9% of the EBITDA variation. These determination coefficients indicate how well the regression fits the data and demonstrate that there are other characteristics that influence the financial performance of companies, such as the activity sector and the macroeconomic scenario, for example.

Regarding the significance of the coefficients, in the models estimated for the ROE, only the GAF exhibited disparate results depending on the method used, being positive and statistically significant in the FE model and negative in the IV model, without statistical significance even at the 10% level. The governance quality, measured by the IGOV index, was not statistically significant in any of the models. On the other hand, all other coefficients were significant (the Constant variable, TAM, END, CRES, ML, and GAF at the 1% level, and ILC at the 10% level).

In the regressions with ROA as the dependent variable, the IGOV index was statistically significant in both models, ILC was not significant in the FE model, and the Constant and TAM were not significant in the IV model. All other variables were significant. On the other hand, in the regressions with EBITDA as the dependent variable, END, ILC, and CRES did not exhibit statistical significance in the FE model, nor did the Constant, TAM, and ILC in the IV model.

Similar to the models with IGOV, in the models with IGOV8, the F-test for the FE models and the Wald Chi-Squared test for the IV models strongly rejected the null hypothesis (p-value = 0). That is, jointly, the independent variables are significant as explanatory variables for the estimated models. Regarding the coefficient of determination of the models, in the regressions estimated through FE, the studied variables explain about 13.8% of the total ROE variation, 22.62% of the total ROA variation, and 25.31% of the EBITDA variation. On the other hand, in the regressions estimated through IV, the considered variables are able to explain about 14.18% of the ROE variation, 18.74% of the total ROA variation, and 16.24% of the EBITDA variation.

The coefficients of the models estimated with ROE as the dependent variable showed statistical significance for all variables, except for GAF in the IV model. Unlike IGOV, the governance quality measured by IGOV8 was statistically significant at the 5% level in the FE model and significant at the 1% level in the IV model.

In the regressions estimated with ROA as the dependent variable, ILC was not significant in the FE model. All other variables had statistically significant coefficients in both models (FE and IV). The IGOV8 index was significant at the 1% level in both models. The same level of significance was observed for the IGOV8 coefficient when EBITDA was the dependent variable. On the other hand, END, ILC, and CRES did not show statistical significance in the FE model, nor did the Constant, TAM, and ILC in the IV model.

Lastly, the analysis of the regressions estimated using the NDGC proxy as a measure of corporate governance revealed that the F-test for the FE models and the Wald Chi-Squared test for the IV models once more rejected the null hypothesis (p-value = 0), demonstrating that the independent variables are significant for the estimated models. In the regressions estimated via FE, the coefficient of determination indicated that the evaluated variables explain about 12.4% of the total ROE variation, 20.19% of the total ROA variation, and 22.89% of the EBITDA

variation. On the other hand, in the regressions estimated via IV, the analysed variables were sufficient to explain 12.33% of the ROE variation, 14.93% of the total ROA variation, and 11.75% of the EBITDA variation.

Regarding the significance of the coefficients, the governance quality measured by the NDGC proxy was statistically significant only in the models estimated with EBITDA as the dependent variable (1% in the IV model and 10% in the FE model). In the regressions estimated based on ROE, GAF was not significant in the IV model. All other variables, except the NDGC proxy, were significant in both models.

Similarly, the regressions with ROA as the dependent variable exhibited statistically significant coefficients in most variables. The exception was found in the NDGC and ILC variables in the FE model, and the NDGC variable in the IV model. Finally, in the regressions with EBITDA as the dependent variable, END and ILC did not exhibit statistical significance in the FE model, nor did the Constant, TAM, and ILC in the IV model, which is a similar result to what was observed in the regressions with the IGOV and IGOV8 indexes as measures of governance.

In summary, the coefficients for IGOV and IGOV8 showed a positive relationship with performance in all estimated models and for all dependent variables (ROE, ROA, and EBITDA). The significance observed in all models using IGOV8 as a governance metric is noteworthy, suggesting that this index can be a good measure of corporate governance quality for Brazilian companies, regardless of being an exogenous (FE) or endogenous (IV) variable. Although not significant in many models, the relationship between NDGC and financial performance was also positive in all cases. This relationship was expected as it demonstrates that companies with better corporate governance quality have statistically superior financial performance. These findings corroborate the results documented by Catapan et al. (2013), Kimura et al. (2012), Machado et al. (2020), and Silveira (2004), and are in line with Lopes et

al. (2021), Vieira et al. (2011), and Vilhena and Camargos (2015), for example.

Table 8 presents a summary of the statistical significances documented in this study, where it can be observed that the IGOV8 index was the only metric of corporate governance quality that showed significance in all estimated models. This result supports previous findings on the positive influence of good governance practices on the financial performance of companies. Furthermore, this response suggests that the mentioned index is a good governance measure and can be considered an important tool not only for future studies in the financial field but also as a management instrument capable of assisting investors and managers.

Table 8

Summary of the significance of the coefficients found in the estimated regressions

Governance Metrics	ROE		ROA		EBITDA	
	FE	IV	FE	IV	FE	IV
IGOV	n.s.	n.s.	5%	1%	1%	1%
IGOV8	5%	1%	1%	1%	1%	1%
NDGC	n.s.	n.s.	n.s.	n.s.	10%	1%

Note: Coefficient not significant (n.s.).

6 FINAL CONSIDERATIONS

This study aimed to examine the impact of corporate governance on the financial performance of Brazilian companies listed on the B3 between 2010 and 2020. Annual data from a sample of 118 non-financial companies was used in the analysis. The quality of corporate governance was measured using an IGOV index, which was constructed by summing up the positive responses to 10 objective binary questions. Each positive response added one point to the index. A variation of the IGOV index, called IGOV8, was also tested as an alternative measure of best corporate governance practices in Brazil. Additionally, the analysis included the NDGC proxy, a dummy variable that took a value of 1 when the company was listed on any of the B3 governance levels, and 0 when it was listed on the traditional market, as this is the most commonly used approach in Brazilian empirical studies on governance.

The coefficients for both IGOV and IGOV8 showed a positive relationship with performance in all estimated models and for all dependent variables (ROE, ROA, and EBITDA). Although not significant in many models, the relationship between NDGC and performance was also positive in all cases. This finding indicates that in Brazil companies with better corporate governance practices tend to have statistically superior financial performance, compared to others that do not have such practices.

Significance was observed in all models where IGOV8 was employed as a governance metric, suggesting that this index can be a good measure of corporate governance quality for Brazilian companies, regardless of being an exogenous or endogenous variable.

It is important to note that the indicators used in this study are based on binary responses of adherence or non-adherence to governance mechanisms. Therefore, the resulting averages from a binary scoring that only considers the presence or absence of an attribute may not represent the most appropriate approach to establish a governance metric. Despite this limitation, the study provides significant contributions to the study of corporate governance and its association with financial performance.

This study contributes to the empirical finance literature by corroborating previous findings on the positive influence of good governance practices on financial performance. Moreover, the suggested governance quality indexes, particularly IGOV8, which showed statistical significance in all estimated models and is obtained with fewer variables (inputs) than IGOV, can be regarded as an important tool not only for future studies in the financial field but also as a management instrument to assist managers and investors.

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Impacto da Governança Corporativa no Desempenho Financeiro: Evidências no Mercado Acionário Brasileiro

João Eduardo Ribeiro
Universidade Federal de Minas Gerais, MG, Brasil
joaoeduardoribeiro@ufmg.br

Antônio Artur de Souza
Universidade Federal de Minas Gerais, MG, Brasil
artur@face.ufmg.br

RESUMO

***Objetivo**: Examinar o impacto da governança corporativa no desempe financeiro das empresas brasileiras com ações negociadas pela Br Bolsa Balcão (B3) entre os anos de 2010 e 2020.*

***Método:** Utilizando-se dados anuais de uma amostra de 118 empresas financeiras, estimou-se regressões com dados em painel e abordagem variáveis instrumentais, empregando como métrica da qualidade governança corporativa, dois índices que consideraram os mecanis apontados pela literatura como eficientes na redução dos problemas agência, bem como a listagem das empresas nos Níveis Diferenciados Governança Corporativa da B3. Como medidas de desempenho financei foi empregado o Retorno sobre o Patrimônio (ROE), o Retorno sobre Ati (ROA) e o Lucros antes de juros, impostos, depreciação e amortiza (LAJIDA).*

***Originalidade/Relevância:** Os índices da qualidade da governa sugeridos, principalmente o IGOV8, que apresentou significân estatística em todos os modelos estimados, tem obtenção mais simples que os índices de governança sugeridos anteriormente na literatura, u vez que carece de menos variáveis (inputs).*

***Resultados:** Os resultados indicaram que, no Brasil, as empresas com melhor qualidade de governança corporativa tendem a apresentar desempenho financeiro estatisticamente superior às empresas com qualidade inferior.*

***Contribuições Teóricas/Metodológicas**: Além de contribuir com a academia ao fornecer insights sobre a importância da governança corporativa no desempenho financeiro das empresas brasileiras, este trabalho pode auxiliar administradores e investidores. Os índices de governança corporativa propostos, em especial o IGOV8, podem tornar mais fácil para as empresas avaliarem sua própria governança e assim, identificar áreas para melhorias. Ademais, os investidores podem usar essas ferramentas para avaliar as empresas em que estão investindo ou pretendem investir.*

***Palavras-chave**: Índices de governança, Teoria da Agência, Desempenho financeiro.*

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