



**The influence of Corporate Governance and Corporate Social Responsibility on Corporate Performance: An Iberian Panel Data Evidence**

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## **The influence of Corporate Governance and Corporate Social Responsibility on Corporate Performance: An Iberian Panel Data Evidence**

### **Abstract**

**Purpose:** The main goal of this paper is to study the influence of some Corporate Governance, Corporate Social Responsibility, and Corporate-specific characteristics on the performance of Iberian listed companies.

**Design/methodology/approach:** To achieve this aim, we have used data from 33 Portuguese listed companies, and 60 Spanish listed companies, for the period 2011 to 2018. To test our hypotheses we employed the Generalized Method of Moments (GMM) estimation method, developed by Arellano and Bover (1995) and Blundell and Bond (1998).

**Findings:** The results point out that the performance determinants vary depending on the country under analysis and the variable used to measure performance. Despite being neighbors and historically commercially close, these countries have differences in their governmental, social and economic structure that lead to different stakeholder perceptions on the determinants of corporate performance. Specifically, when we use Tobin's Q as a market performance variable, board independence and the existence of a CSR committee have different signs in the two countries. The same happens when ROA is used as an accounting variable for internal management, implying that both, managers and potential investors of the two countries have different understandings about the variables that influence their performance.

**Originality/value:** To the best of our knowledge, is the first study to comparatively analyze the two countries of the Iberian Peninsula, analyzing the effect of corporate governance and social responsibility characteristics on the performance. Our results show that managers and potential investors have different points of view regarding the importance of corporate governance and social responsibility characteristics in corporate performance.

**Keywords:** Corporate Governance; Corporate Social Responsibility; Corporate Performance; the Iberian Peninsula, GMM system

## 1. Introduction

Companies influence and are influenced by their external environment, so the company's objectives exceed profit-making and turn to value creation (Berman *et al.*, 1999; Cremers, 2017). Thus, the Corporate Governance (CG) characteristics, which dictate the relationship that the company maintains with its stakeholders, are considered essential tools for the success of companies. Simultaneously, the Corporate Social Responsibility (CSR) characteristics comprise the behaviors and actions that the company takes voluntarily, promoting its stakeholders' well-being.

In this sense, corporate governance protects shareholder interests and plays a key role in preserving and sustainable development of a company (Srivastava *et al.*, 2018). Recent literature has shown that adopting corporate governance principles and practices is considered an important determinant of the assessment of companies and, consequently, their performance levels (Ting *et al.*, 2019).

There is a growing concern regarding social and corporate initiatives, providing companies with a natural progression, focusing on improving the human dimension, preserving the environment, and social awareness. In addition, currently, companies are increasingly involved in plans whose objectives involve environmental, social, or governmental issues (Zhao *et al.*, 2018). This process benefits companies, allowing them to improve their performance (Rodriguez-Fernandez, 2016). There is still a long way to go in performance analysis considering societies' social challenges.

Thus, this study arises from the need to expand the literature on the subject, namely the Iberian territory, and aims to demonstrate how corporate governance, corporate social responsibility, and company-specific characteristics influence performance.

This analysis is made from two different perspectives, analyzing both the view of managers and the view of potential investors in the period between 2011 and 2018. It should be noted that this period comprises the intervention period of the Troika<sup>1</sup> in Portugal, with all restrictions imposed, and precedes the period of the crisis caused by COVID -19.

This study contributes in different ways to the literature. First, the Iberian peninsula as a whole is analyzed, given its geographic proximity and commercial and cultural relations; then, each country is analyzed individually to better understand the differentiating

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<sup>1</sup> The Troika is the name assigned to the team composed by the International Monetary Fund, the European Central Bank and the European Commission. It is a team of consultants, analysts and economists who are responsible for negotiations with countries requesting financial assistance in order to consolidate and stabilize debts and public accounts.

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3 characteristics between Portugal and Spain in terms of business performance. Although  
4 the results of the global sample may be very similar to those obtained in Spain, given the  
5 greater weight in the sample, this fact only reinforces the need to study small countries  
6 separately to understand what still needs to be done in order to increase the value of  
7 companies (Neves, Proença, *et al.*, 2020).  
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11 Secondly, and to the best of our knowledge, this study is the first to analyze the different  
12 characteristics of corporate governance and social responsibility for the Iberian Peninsula,  
13 allowing us to investigate the effect of these determinants in comparative terms for each  
14 of the two countries.  
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18 Thirdly, our study allows us to analyze the results from the different perspectives of  
19 managers and potential investors, results that can be quite different, according to Vieira  
20 *et al.* (2019). Our results emphasize, in fact, that for Portuguese companies, it appears that  
21 the manager, internal to the organization, is concerned with the CEO's remuneration  
22 levels and is confident about the social expenses spent in the company to improve  
23 performance. However, a potential investor will consider the existence of audit and  
24 corporate social responsibility committees, while attending to CEO compensation.  
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28 For Spanish companies, managers emphasize the composition of the board of directors  
29 and social expenses as determinants of performance. On the other hand, a potential  
30 investor will attach importance to CEO compensation, social expenses, and independent  
31 board members as determinants of corporate performance levels. Considering the Iberian  
32 Peninsula as a single market, our results are in line with the individual results for Portugal  
33 and Spain.  
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37 This study is organized as follows. Section 2 presents the literature review and the  
38 development of hypotheses. Section 3 sets out the research design. In section 4, the main  
39 results obtained from the estimations are discussed. Finally, section 5 presents the  
40 conclusions, study limitations, and lines for future research.  
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## 43 44 45 46 47 48 49 50 **2. Literature Review and Hypotheses**

51  
52 The companies performance has been measured in different ways, being essential for the  
53 survival of organizations. One of them has been through the Return on Assets (ROA),  
54 which allows us to perceive the vision of the company's manager, and the other through  
55 Tobin's Q, which indicates the organization's growth opportunities, that is, the vision of  
56 potential future investors, following Vieira *et al.* (2019). These determinants can  
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3 traditionally be divided into corporate governance, Corporate Social Responsibility, and  
4 specific determinants.  
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## 8 **2.1. Corporate Governance Factors**

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10 Corporate governance allows the organization to gather tools that create value for the  
11 company and, at the same time, create conditions to involve the various stakeholders  
12 (Handriani and Robiyanto, 2018). The Corporate Governance mechanisms studied in the  
13 literature focus on the board of directors' size and its independence, shareholder structure,  
14 and the existence of the audit board.  
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### 20 **2.1.1. Board size**

21  
22 The board of directors of companies is an essential internal control mechanism, as it  
23 represents the link between shareholders and the company's management. In addition,  
24 this board monitors the quality of financial information to ensure transparency in the  
25 disclosure of information and allow for the reduction of agency costs (Dias *et al.*, 2017;  
26 García-Sánchez *et al.*, 2019; Kalsie and Shrivastav, 2016; Merendino and Melville,  
27 2019).  
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32 In Portugal, there is no recommendation about the ideal board size. However, Spain states  
33 in its Code of Good Governance that the number of members that compose the board of  
34 directors must be adequated to achieve an effective and participative functioning, defining  
35 the total number of members between five to fifteen.  
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39 Literature shows controversial results concerning board size and performance.

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41 On the one hand, some studies support a positive effect on performance, justified by the  
42 fact that larger boards promote more effective controls and encompass a broad set of  
43 competencies and skills to meet the organization's diverse needs. Furthermore, a larger  
44 number of board members can dilute power decisions (e.g., Kalsie and Shrivastav, 2016;  
45 Pekovic and Vogt, 2021; Pucheta-Martínez and Gallego-Álvarez, 2020; Tulung and  
46 Ramdani, 2018).  
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50  
51 On the other hand, according to agency theory, more managers negatively influence  
52 company performance (e.g., Merendino and Melville, 2019; Orozco *et al.*, 2018;  
53 Palaniappan, 2017; Terjesen *et al.*, 2016).  
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56 Vieira *et al.* (2019), who studied Portuguese listed companies, concluded that there is no  
57 significant relationship between the size of the board of directors and ROA.  
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3 According to the non-consensual literature, we propose the first hypothesis (with no  
4 predicted signal):

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6 H1: There is a significant relationship between board size and corporate performance.  
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### 10 **2.1.2. Board Independence**

11 A board member is independent if external to the organization, having arbitrary capacity  
12 in situations of divergence between managers, seeking to mitigate agency problems  
13 between managers and shareholders, and promoting the interests of different stakeholders  
14 (Fama, 1980; Sá *et al.*, 2017). Capital markets regulators in Portugal and Spain have the  
15 following definition of independent board size: in Portugal, independent directors must  
16 have a proportion greater than 25%, and in Spain, greater than 50% or a third if there is a  
17 shareholder with control greater than 30%.  
18

19 Studies that analyze the relationship between board independence and performance  
20 expose different results. Thus, there are studies that identify a positive relationship, using  
21 ROA and Tobin's Q as performance proxy (e.g., Alqatan *et al.*, 2019; Ben Barka and  
22 Legendre, 2017; Handriani and Robiyanto, 2018; Manna *et al.*, 2016; Pucheta-Martínez  
23 and Gallego-Álvarez, 2020; Tulung and Ramdani, 2018). This positive relationship is  
24 justified because more independent administrators increase supervision and control in  
25 organizations, leading to better performances (Fernández-Temprano and Tejerina-Gaite,  
26 2020).  
27

28 However, other studies show a negative relationship between the independent elements  
29 and the company's performance, such as Cavaco *et al.* (2016) or Rashid (2018). Singh *et*  
30 *al.* (2018) conclude that the negative relationship is due to the close association between  
31 internal and external managers of the company, which leads to worse performance.  
32 Moreover, for the market, more independent members can affect the company's  
33 credibility.  
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35 According to the literature presented, the following hypothesis is proposed (with no  
36 predicted sign):

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38 H2: There is a significant relationship between board independence and corporate  
39 performance.  
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### 48 **2.1.3. Audit Committee**

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3 The audit committee, quite common in the Anglo-Saxon model, is ended of a part of the  
4 board of directors, who are non-executive directors. This committee acts as a supervisory  
5 body. Its functions include obtaining internal information, reporting, and supervising so  
6 that information disclosed to stakeholders is presented fairly and truthfully (Dakhlallh *et*  
7 *al.*, 2020; Zhou *et al.*, 2018). According to the Portuguese Commercial Companies Code,  
8 the audit committee must be composed of at least three members, the majority of which  
9 are independent. In Spain, the audit committee is present in the organizational structure  
10 of all companies.  
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12  
13 Concerning studies that analyze the impact of the audit committee on the companies  
14 performance, there are uncertain results. Some studies verify a positive effect on  
15 performance measured by ROA or Tobin's Q since the audit committee will promote  
16 greater internal control, reduce risks and fraud in organizations, increasing the  
17 performance of companies (e.g., Dakhlallh *et al.*, 2020; Fauzi *et al.*, 2017; Hussein  
18 Mohammed *et al.*, 2019).  
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21 However, some authors report a negative relationship between these variables, such as  
22 Hassan *et al.* (2016) and Puni and Anlesinya (2020), justifying this relationship with a  
23 possible lack of independence and specialized knowledge of its members, or by the fact  
24 that companies only fulfill the requirement of having an audit committee (Zhou *et al.*,  
25 2018).  
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28 According to the results of the literature described above, the following hypothesis is  
29 considered (with no predicted sign):  
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32 H3: There is a significant relationship between the presence of the audit committee and  
33 corporate performance.  
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#### 36 37 38 39 40 41 42 43 44 45 **2.1.4. Ownership concentration**

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47 Ownership concentration is an internal corporate governance mechanism that determines  
48 the power and control assigned to the management body and the owner, whose  
49 determination is the ownership structure. Jensen and Meckling (1976) concluded that the  
50 separation of ownership and control will lead to potential agency conflicts, affecting  
51 corporate performance. This situation is observed when managers act for their own  
52 benefit, rather than meeting the interests of shareholders (Belghitar *et al.*, 2011; Elbadry  
53 *et al.*, 2015).  
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56 Concerning the literature that studies the effect of property concentration on performance,  
57 the results are inconsistent. Some studies find a positive impact between concentration  
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3 and performance, as there will be greater control and supervision in the organization's  
4 management (e.g., Al Farooque *et al.*, 2020; Gaur *et al.*, 2015; Iwasaki and Mizobata,  
5 2020; Mandacı and Gumus, 2010; Neves, 2014). In addition, the high concentration of  
6 ownership allows overcoming the agency problems present in the organization, leading  
7 to better business performance results (Waheed and Malik, 2019). In contrast, Altaf and  
8 Shah (2018) and Pekovic and Vogt (2021) find a negative impact of concentration on  
9 performance, suggesting that concentration of ownership tends to  
10 increase information asymmetry, opportunistic behaviors, thus reducing performance.

11 In light of previous reasons, we put the following hypothesis (with no predicted signal):

12 H4: There is a significant relationship between ownership concentration and corporate  
13 performance.  
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## 16 **2.2. Corporate Social Responsibility Determinants**

17 The recognition of the direct relationship between CSR and companies' performance has  
18 attracted the interest of several authors. It can be measured through different proxies such  
19 as CEO remuneration, the Social and Corporate Responsibility Committee, and Social  
20 expenses.  
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### 23 **2.2.1. CEO's Remuneration**

24 The CEO's compensation is the total amounts earned in the quality of salary, bonuses,  
25 compensation through shares, and other personal benefits (Hoi *et al.*, 2019). This  
26 remuneration can positively or negatively affect the performance of companies. Thus,  
27 higher CEO compensation can lead to more ethical conduct, improving organizations'  
28 performance (Bebchuk *et al.*, 2002; Bertrand and Mullainathan, 2003). In addition,  
29 Edmans *et al.* (2017) and Elsayed and Elbardan (2018) argue that a way to align  
30 managers' interests with shareholders' interests involves associating remuneration with  
31 performance, in line with agency theory. Also, Manna *et al.* (2016) and Rehman *et al.*  
32 (2021) find a positive effect between remuneration and company performance, as the  
33 highest-paid CEO may be more motivated to achieve corporate results.  
34

35 However, high remunerations can mean agency problems that cause a decrease in  
36 business performance or CEO do not satisfy their duties (Carter *et al.*, 2016).  
37 Furthermore, executive members with high salaries may not be sufficiently motivated to  
38 increase market performance, as measured by Tobin's Q (Smirnova and Zavertiaeva,  
39 2017). These authors also verify that only bonuses earned by the CEO increase ROA.  
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3 According to the literature, the hypothesis that proposes to test the following hypothesis  
4 (with no predicted sign):

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6 H5: There is a significant relationship between CEO's remuneration and corporate  
7 performance.  
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### 10 11 12 **2.2.2. Corporate Social Responsibility Committee**

13 The existence of a Corporate Social Responsibility Committee shows the direction and  
14 commitment of the board of directors to sustainable development (Hussain *et al.*, 2018)  
15 and environmental issues (García Martín and Herrero, 2020). The presence of the CSR  
16 committee is considered a good governance practice, capable of avoiding corruption and  
17 exposing the company to possible failures in the scope of social responsibility, and,  
18 therefore, it must include at least one specialist in environmental and social issues in its  
19 constitution (García-Sánchez *et al.*, 2019; Gennari and Salvioni, 2019).

20 The literature that analyzes the effect of the social and corporate responsibility  
21 commission on performance shows an ambiguous relationship between the variables.  
22 Some studies show a positive impact, as this committee allows the creation of  
23 mechanisms that ensure more outstanding commitment to the company's social and  
24 economic responsibility, providing greater corporate performance (Martínez-Ferrero *et*  
25 *al.*, 2021; Spitzeck, 2009). However, this commission can also have a negative effect on  
26 performance (Sekhon and Kathuria, 2019) or have a non-existent effect (Cancela *et al.*,  
27 2020), justified by the fact that managers or future shareholders do not consider this  
28 commission useful for corporate performance.  
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31 Taking into account the scarcity of empirical evidence about the relationship between  
32 Corporate Social Responsibility Committee and performance, the following hypothesis  
33 is formulated (with no predicted signal):  
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36 H6: There is a significant relationship between the Corporate Social Responsibility  
37 Committee and corporate performance.  
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### 41 42 43 **2.2.3. Social Expenses**

44 Employee remuneration is essential for organizational functioning, as employers depend  
45 on their human resources skills and professional performance to maintain their activity  
46 and respective competitiveness in the market (Gupta and Shaw, 2014) Thus, social  
47 expenses can have a positive or negative effect on business performance.  
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3 On the one hand, higher remuneration can translate into greater employee motivation and  
4 effort, greater productivity, lower agency costs, greater business innovation, consequently  
5 leading to greater corporate performance (e.g., Cao and Rees, 2020; Edmans *et al.*, 2017;  
6 Iversen and Zatzick, 2011; Neves *et al.*, 2021; Wei *et al.*, 2020).  
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10 However, employees may behave contrary to the organization's interests, acting  
11 according to their own interests to obtain higher remuneration, which can lead to lower  
12 performances (Gupta and Shaw, 2014). Also, Kim and Jang (2020) show that in the short  
13 term, the effect of personnel expenses and performance is negative, but, in the long term,  
14 this relationship could be positive.  
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18 Given the lack of consensus about the relationship between these variables, we put  
19 forward our hypothesis, with no predicted signal:  
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22 H7: There is a significant relationship between social expenses and corporate  
23 performance.  
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### 26 27 **2.3. Specific Determinants**

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29 Following the traditional literature, the specific characteristics of the companies can be  
30 considered as control variables. Two widely used variables are firm size and leverage.  
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#### 33 34 **2.3.1. Company size**

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36 Miralles-Marcelo *et al.* (2014), for a sample consisting of Portuguese companies,  
37 conclude that the company size positively influences corporate performance. Makridou  
38 *et al.*, (2019); Neves, Henriques, *et al.* (2021), and Zeitun and Saleh (2015) also found a  
39 positive effect. According to these authors, large companies have a greater capacity to  
40 diversify their investment, a greater possibility of reducing their default risk, greater ease  
41 of access to capital markets, and greater ease in reducing financing costs, leading to better  
42 performance.  
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46 Contrary to previous studies, Bikker and Vervliet (2018) or Proença *et al.* (2020) conclude  
47 that size is negatively related to business performance, adding that a high amount of assets  
48 does not necessarily guarantee more significant investments in development or greater  
49 stability. Similar to this result, Alqatan *et al.* (2019) demonstrated that the company's  
50 total assets significantly negatively impact the performance.  
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53  
54 Finally, Vieira *et al.* (2019) found no relationship between the Portuguese companies' size  
55 and their level of performance.  
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59 Considering the literature, the following hypothesis, with no predicted signal, is proposed:  
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3 H8: There is a significant relationship between company size and performance.  
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### 6 7 **2.3.2. Leverage**

8 Leverage provides evidence about a company's dependence on third parties and may  
9 reveal its capacity to generate additional returns and maximize business performance.

10 According to Alshatti (2016), leverage positively affects the companies performance,  
11 suggesting that companies that can manage their debt efficiently can have better  
12 performances in the future, mainly for tax reasons. In agreement with previous results,  
13 Bărbuță-Misu *et al.* (2019) and Neves, Henriques, *et al.* (2021) confirm the existence of  
14 a positive relationship between leverage and performance.  
15

16 On the other hand, Zeitun and Saleh (2015) show that leverage has a negative effect on  
17 business performance. Similarly, Pais and Gama (2015), using a sample of Portuguese  
18 non-financial companies, attested to a significantly negative relationship between the  
19 level of financial debt and performance, measured through ROA. Miralles-Marcelo *et al.*  
20 (2014); Serrasqueiro and Nunes (2008) and Vieira *et al.* (2019) empirically show that  
21 there is a strong negative relationship between leverage and the performance of  
22 Portuguese companies, measured by profitability or market measures.  
23

24 According to the non-consensual literature, we propose our last hypothesis (with no  
25 predicted signal)  
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27 H8: There is a significant relationship between leverage and corporate performance.  
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## 30 31 **3. Data, Variables, and Methodology**

### 32 33 **3.1 Data**

34 This study analyzes listed companies present on Euronext Lisbon and Madrid Stock  
35 Exchange between 2011 and 2018. This period comprises the intervention period of the  
36 Troika and the period before the Covid-19 pandemic crisis. The data were obtained from  
37 the database SABI (Iberian Balance Sheet Analysis System) and of the Corporate  
38 Governance Reports obtained from the companies' or Supervisor websites.  
39

40 The sample data were purified as follows: initially, all financial institutions and insurance  
41 companies were removed from the sample, given the uniqueness of the accounting system  
42 and the specificity of the activity and capital structure. Subsequently, all Sports Limited  
43 Companies were dissolved, as they were not engaged in commercial activities. After that,  
44 all companies in technical bankruptcy were withdrawn. Finally, companies that did not  
45 present information for 4 consecutive years were extracted (a necessary condition for  
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using the GMM system estimation method (Neves, 2018). The final sample is composed of 93 companies, 60 Spanish companies listed on the Madrid Stock Exchange, and 33 Portuguese companies listed on Euronext Lisbon, shown in Tables A1 and A2 in Appendix A.

## 3.2. Variables

### 3.2.1. Dependent Variables

Since there is no consensus on the measures that best explain the performance of companies (Vieira *et al.*, 2019), we use the ROA (an accounting ratio, intrinsic to management) and Tobin's Q (a market ratio, variable in the interest of potential investors and stakeholders external to the company) as performance proxy.

Table 1 shows the dependent variables under study.

**Table 1 - Dependent variables Description**

| Variable               | Proxy   | Authors  |
|------------------------|---|--|
| Return On Assets (ROA) | $\frac{EBIT}{Total\ Assets}$                              | Neves and Branco, (2020); Neves, Serrasqueiro, <i>et al.</i> , (2020); Vieira <i>et al.</i> (2019)                     |
| Tobin's Q              | $\frac{Equity\ Market\ Value + Debt}{Total\ Net\ Assets}$ | Palaniappan (2017); Pekovic and Vogt (2021); Pucheta-Martínez and Gallego-Álvarez, (2020); Vieira <i>et al.</i> (2019) |

ROA is a profitability indicator that allows the assessment of management quality (Vieira *et al.*, 2019). Thus, the greater the ROA value, the greater the corporate performance in the use of its assets. Tobin's Q is a market indicator that exposes the relationship between the market value of a company's assets and its replacement cost. This ratio reveals a company's investment opportunity/growth opportunities, indicating whether its value is undervalued or overvalued (Sá *et al.*, 2017). When it presents values above one, it suggests that companies feel motivated and have the necessary investment conditions.

### 3.2.2. Independent Variables

According to the previous section, the explanatory variables of this study are those in Table 2.

**Table 2 - Independent variables description**

| Variable  | Codename | Proxy  | Authors  |
|---|----------|--|--|
| <b>Corporate Governance Determinants</b>            |          |  |  |
| Board Size  | BSize    | Number of members of the board   | Orozco <i>et al.</i> (2018); Pucheta-Martínez and Gallego-Álvarez (2020); Vieira <i>et al.</i> (2019)    |
| Board independence                                  | BInd     | $\frac{\text{Independent members}}{\text{Board members}}$                          | Fernández-Temprano and Tejerina-Gaite (2020); Pucheta-Martínez and Gallego-Álvarez (2020)                |
| Audit committee                                     | AudCom   | Dummy variable that represents the existence (1) or not (0) of the audit committee | Hussein Mohammed <i>et al.</i> , (2019); Puni and Anlesinya (2020)                                       |
| Ownership Concentration                             | OwnC     | % concentration by the largest shareholders  | Al Farooque <i>et al.</i> (2020); Iwasaki and Mizobata (2020); Neves (2014)                              |
| <b>Corporate Social Responsibility Determinants</b> |          |  |  |
| CEO's Remuneration                                  | CEORem   | Ln (Total remuneration earned annually)  | Elsayed and Elbardan (2018); Rehman <i>et al.</i> (2021)   |
| Corporate social responsibility committee (CSR)     | CSRCom   | Dummy variable that represents the existence (1) or not (0) of the CSR committee   | Cancela <i>et al.</i> (2020); Martínez-Ferrero <i>et al.</i> (2021)                                      |
| Social expenses                                     | SE       | Ln (Total personnel expenses)  | Kim and Jang (2020); Neves, Baptista, Dias and Lisboa (2021) Wei <i>et al.</i> (2020)                    |
| <b>Specific Determinants</b>                        |          |  |  |
| Company size  | Size     | Ln (Total Assets)  | Neves, Henriques, <i>et al.</i> (2021); Vieira <i>et al.</i> (2019)                                      |
| Leverage  | Lev      | $\frac{\text{Total Debt}}{\text{Equity}}$  | Bărbuță-Misu <i>et al.</i> (2019); Neves, Henriques, <i>et al.</i> , (2021); Vieira <i>et al.</i> (2019) |

### 3.3. Methodology

The estimation method used in this study, whose data are panel, was the Generalized Method of Moments (GMM), developed by Arellano and Bover (1995) and Blundell and Bond (1998). The GMM System uses instrumental variables produced through lagged values of the dependent and independent variable, which may eventually suffer from endogeneity (Cancela *et al.*, 2020). Thus, endogeneity is corrected, and unobservable heterogeneity is controlled (Badu and Appiah, 2017; Neves, 2018). The authors argue that this dynamic model cancels out unobserved effects, despite omitted variables, enhancing the reliability of the results. To assess the validity of this methodology, three tests are analyzed – Sargan, Autocorrelation, and Wald tests (Neves, Gouveia, *et al.*, 2020).

The Sargan Test allows evaluating the validity of instruments, verifying whether the chosen instruments are independent of the error term (Arellano and Bond, 1991; Blundell and Bond, 1998). Thus, the null hypothesis underlying this test is the validity of the instruments used. The first or second autocorrelation error tests have as a null hypothesis the absence of autocorrelation between the past (one lagged or two lagged, respectively) and present residuals. These two tests are designated as AR(1) and AR(2) (Arellano and Bond, 1991). The Wald test has the null hypothesis that the coefficients of the variable are jointly different from zero, so if the model is valid, it will be adjusted to the data under study and has high explanatory power.

### 3.4. Empirical Model

In line with what was described and using the GMM system estimation method, the estimated models were:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 BSize_{it} + \beta_3 BInd_{it} + \beta_4 AudCom_{it} + \beta_5 OwnC_{it} + \beta_6 CEORem_{it} + \beta_7 CSRCom_{it} + \beta_8 SE_{it} + \beta_9 Size_{it} + \beta_{10} Lev_{it} + \varepsilon_{it} + v_i \quad (1)$$

$$QTobin_{it} = \beta_0 + \beta_1 QTobin_{it-1} + \beta_2 BSize_{it} + \beta_3 BInd_{it} + \beta_4 AudCom_{it} + \beta_5 OwnC_{it} + \beta_6 CEORem_{it} + \beta_7 CSRCom_{it} + \beta_8 SE_{it} + \beta_9 Size_{it} + \beta_{10} Lev_{it} + \varepsilon_{it} + v_i \quad (2)$$

where Greek letters denote parameters,  $i$  and  $t$  are, respectively, individual- (company-) and time-indices and variables' notation are expressed in Tables 1 and 2 -  $ROA_{it}$ ,  $QTobin_{it}$  are the performance variables. Regarding the independent variables, they are given by BSize (Board Size), BInd (Board Independence), AudCom (Audit Committee), OwnC (Ownership Concentration), CEORem (Chief Executive Officer Remuneration),

CSRCom (Corporate Social Responsibility Committee), EmpComp (Employee Compensation), Size (Firm size) and Lev (Leverage).

## 4. Results

### 4.1. Descriptive Statistics

Descriptive statistics for Portugal and Spain are presented in Tables 3 and 4. According to Table 3, all variables have, on average, positive values for Portugal. Noteworthy is the variable with the greatest dispersion (Lev), which shows that debt has a significant weight in the capital structure of companies (66.308%), suggesting that it is the primary source of financing for Portuguese companies.

**Table 3 - Descriptive Statistics for Portugal**

| <b>Variables</b> | <b>Mean</b> | <b>Minimum</b> | <b>Maximum</b> | <b>Standard Deviation</b> |
|------------------|-------------|----------------|----------------|---------------------------|
| <b>ROA</b>       | 3.914       | -45.285        | 157.423        | 12.796                    |
| <b>QTobin</b>    | 0.513       | 0.007          | 6.864          | 0.99                      |
| <b>BSize</b>     | 8.603       | 2              | 21             | 4.06                      |
| <b>BInd</b>      | 0.252       | 0              | 1.714          | 0.304                     |
| <b>AudCom</b>    | 0.344       | 0              | 1              | 0.476                     |
| <b>OwnC</b>      | 2.05        | 1              | 4              | 1.12                      |
| <b>CEORem</b>    | 12.655      | 9.962          | 15.875         | 1.064                     |
| <b>CSRCom</b>    | 0.117       | 0              | 1              | 0.322                     |
| <b>SE</b>        | 10.918      | 2.04           | 13.593         | 1.566                     |
| <b>Size</b>      | 13.392      | 7.869          | 17.602         | 1.803                     |
| <b>Lev</b>       | 66.308      | 2.261          | 244.083        | 29.625                    |

Similar to what happens in the descriptive statistics in the previous Table, the information regarding the Spanish sample (Table 4) also shows that the mean of the dependent and independent variables appear with positive values. Once again, the variable leverage has the highest dispersion value (26.569), showing the dependence of bank financing of these countries on the civil law system. Regarding the characteristics of Corporate Governance, in Spain, the board of directors must have five to fifteen members in its constitution, which effectively happens with an average of 10.341, but the minimum number (3) is below the defined threshold and the maximum number (19) is above what is recommended. All the companies have an audit committee.

**Table 4 - Descriptive Statistics for Spain**

| <b>Variables</b> | <b>Mean</b> | <b>Minimum</b> | <b>Maximum</b> | <b>Standard Deviation</b> |
|------------------|-------------|----------------|----------------|---------------------------|
| <b>ROA</b>       | 5.621       | -57.958        | 425.396        | 22.399                    |



|               |        |       |        |        |
|---------------|--------|-------|--------|--------|
| <b>QTobin</b> | 0.854  | 0     | 7.418  | 1.123  |
| <b>BSize</b>  | 10.341 | 3     | 19     | 3.423  |
| <b>BInd</b>   | 0.366  | 0     | 0.889  | 0.169  |
| <b>AudCom</b> | 1      | 1     | 1      | 0      |
| <b>OwnC</b>   | 2.346  | 1     | 6      | 1.596  |
| <b>CEORem</b> | 13.287 | 8.294 | 16.503 | 1.357  |
| <b>CSRCom</b> | 0.123  | 0     | 1      | 0.328  |
| <b>SE</b>     | 11.505 | 4.478 | 16.221 | 2.353  |
| <b>Size</b>   | 13.975 | 8.704 | 18.681 | 2.282  |
| <b>Lev</b>    | 60.861 | 3.993 | 271.64 | 26.569 |

In Table A3, Appendix B, we can see the statistics for the Iberian Peninsula, as a single market<sup>2</sup>.

## 4.2. Discussion of Results

This section presents the results obtained for the sample of Portugal, Spain, and the Iberian Peninsula, using ROA and Tobin's Q as a proxy to performance, and raised in Tables 5, 6, and 7, respectively.

### 4.2.1. Portugal

Table 5 presents the results for Portugal.

<sup>2</sup> It should be noted that this Peninsular market is frequently used in the international media as a single market, as if it were the same country, given the small economic dimension of Portugal.

**Table 5** - Results of the estimation models 1 and 2 - ROA and Tobin's Q as the dependent variables for Portugal

|                  | ROA         |                |          |           | Tobin's Q   |                |           |           |
|------------------|-------------|----------------|----------|-----------|-------------|----------------|-----------|-----------|
|                  | Coefficient | Standard error | Z        | P-value   | Coefficient | Standard error | Z         | P-value   |
| <b>Constante</b> | 114.191     | 11.705         | 9.76     | 0.000 *** | -0.7        | 1.112          | -0.63     | 0.529     |
| <b>L1</b>        | -0.188      | 0.001          | -278.34  | 0.000 *** | 0.356       | 0.005          | 71.63     | 0.000 *** |
| <b>BSize</b>     | -0.139      | 0.202          | -0.69    | 0.492     | 0.072       | 0.013          | 5.35      | 0.000 *** |
| <b>BInd</b>      | 11.87       | 3.68           | 3.23     | 0.001 *** | -0.601      | 0.17           | -3.53     | 0.000 *** |
| <b>AudCom</b>    | -129.367    | 11.562         | -11.19   | 0.000 *** | 6.028       | 0.741          | 8.14      | 0.000 *** |
| <b>CEORem</b>    | -4.083      | 0.34           | -12.01   | 0.000 *** | 0.236       | 0.015          | 15.49     | 0.000 *** |
| <b>CSRCom</b>    | -27.211     | 6.84           | -3.98    | 0.000 *** | 0.911       | 0.18           | 5.07      | 0.000 *** |
| <b>SE</b>        | 22.041      | 0.465          | 47.4     | 0.000 *** | -0.021      | 0.083          | -0.25     | 0.804     |
| <b>Size</b>      | -14.698     | 0.596          | -24.64   | 0.000 *** | -0.322      | 0.156          | -2.07     | 0.039 **  |
| <b>Lev</b>       | -0.908      | 0.003          | -302.27  | 0.000 *** | -0.001      | 0.003          | -0.51     | 0.613     |
| <b>Sargan</b>    |             |                | 22.345   | 0.616     |             |                | 23.972    | 0.521     |
| <b>Wald</b>      |             |                | 9.29E+06 | 0.000     |             |                | 455053.57 | 0.000     |
| <b>m1</b>        |             |                | -1.105   | 0.269     |             |                | -2.246    | 0.025     |
| <b>m2</b>        |             |                | -0.587   | 0.557     |             |                | -0.891    | 0.373     |

Regression is performed using an unbalanced data panel. It should also be noted that: i) \*, \*\*, and \*\*\* indicates significance levels at 10%, 5%, and 1% respectively; (ii) The Sargan test with a p-value greater than 5% shows that the instruments are valid, and the values in parentheses of the test represent degrees of freedom; (iii) The Wald test has a p-value of less than 5% which means that the joint significance and the coefficients are significant asymptotically distributed as  $\chi^2$  under a null hypothesis without significance, with degrees of freedom in parentheses; iv) The m1 test has a normal distribution N (0,1) and tests the null hypothesis of the absence of the first-order autocorrelation, against the alternative hypothesis of the existence of the first-order autocorrelation; v) The test m2 has normal distribution N (0,1) and with a p-value higher than 5% accepts the null hypothesis of the absence of second-order autocorrelation; vi) The OwnConc variable was included in the model but was removed by exact collinearity.

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8 As shown in Table 5, the sign and significance of the explanatory variables vary according  
9 to the performance measure following Vieira et al. (2019).

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11 Starting the analysis with the Corporate Governance variables, it appears that the board  
12 size (BSize) has a positive effect on Tobin's Q, allowing to corroborate hypothesis 1,  
13 according to Kalsie and Shrivastav (2016); Manna *et al.* (2016); Pekovic and Vogt (2021);  
14 Pucheta-Martínez and Gallego-Álvarez (2020). This result is in line with the Agency  
15 Theory, since an increase in the number of directors leads to the dilution of decision-  
16 making powers, enhancing rigor in the company's management, and consequently,  
17 providing a better image in the market. This result reinforces that Tobin's Q is a variable  
18 of external interest to the company and that, eventually, potential investors appreciate this  
19 characteristic. On the other hand, managers do not see this as being relevant in achieving  
20 higher levels of economic performance, through ROA.

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22 The variable of independence of the board of directors (BInd) is significant for both  
23 models 1 and 2; however, its effects on the two performance measures are the opposite.  
24 The positive relationship when ROA is used as a performance measure is in line with the  
25 results obtained by Barka and Legendre (2017); Fernández-Temprano and Tejerina-Gaite  
26 (2020); Tulung and Ramdani (2018). This result suggests that the presence of external  
27 and independent members of the company can represent an added value since these  
28 members can suggest good different management methods and perspectives that foster  
29 performance. However, the opposite result is verified from a market perspective,  
30 suggesting that independent members have little credibility and trust towards investors.  
31 External members may not be sufficiently competent in developing their functions, as  
32 they perform simultaneous functions outside the company. Thus, hypothesis 2 is  
33 corroborated, according to the studies by Rashid (2018) and Singh *et al.* (2018).

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35 Concerning the presence of the audit committee in companies (AudCom), once again  
36 there is an antagonistic relationship in both models. The presence of this committee has  
37 a negative relationship with ROA, which allows us to corroborate hypothesis 3, according  
38 to Hassan et al. (2016) and Puni and Anlesinya (2020). This result can be explained, from  
39 the point of view of internal management, by the high costs it entails and by the existence  
40 of this body solely for regulatory reasons. On the other hand, there is a positive  
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3 relationship in model 2, using a market variable to capture performance, corroborating  
4 hypothesis 3, according to Dakhlallh et al. (2020) and Fauzi et al. (2017). This result  
5 suggests that the market appreciates the company's investment in managerial bodies,  
6 revealing transparency in the disclosure of financial information.  
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10 Regarding the Corporate Social Responsibility determinants, the CEO's remuneration  
11 (CEORem) is statistically significant in both models, corroborating hypothesis 5.  
12 However, for model 1, the CEO's remuneration negatively influences ROA, according to  
13 Carter *et al.* (2016). This result accedes that an excessive increase in the CEO's  
14 remuneration can lead to an overvaluation of their work and thus become inefficient for  
15 corporate performance. At the same time, it can reveal an unnecessary additional expense  
16 as more salaries may not mean better business management. On the contrary, from the  
17 investors' perspective, the CEO's remuneration positively impacts Tobin's Q,  
18 corroborating the results of Elsayed and Elbardan (2018) and Manna *et al.* (2016). This  
19 result proposes that potential investor understands CEO compensation as a way to  
20 recognize his effort and as an incentive for him to achieve better results in the future.  
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30 The corporate and social responsibility committee (CSRCom) is statistically significant  
31 in both models but with opposite signs. According to model 1, the presence of this body  
32 in the organizational structure negatively influences the ROA, which suggests that the  
33 presence of this committee can lead to high costs for the company, significantly affecting  
34 its performance, according to the results of Cancela *et al.* (2020). Conversely, when we  
35 use a market variable to measure performance, these are positively related. This result is  
36 expectable since Portugal is taking its first steps in the area of social responsibility and,  
37 therefore, in the investors' view, the existence of this body in the organizational structure  
38 shows the concern and commitment that the organization assumes towards society about  
39 corporate sustainability. Thus, we also corroborate hypothesis 6, according to the  
40 literature presented by Martínez-Ferrero *et al.* (2021) and Spitzack (2009).  
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50 Social expenses (SE) positively influence ROA. Indeed the increase in remuneration leads  
51 to greater motivation on the part of staff to effectively exercise their functions, acting  
52 following the company's objectives and, consequently, providing better performance.  
53 This result is in line with Iverson and Zatzick (2011); Kim and Jang (2020) and Wei *et*  
54 *al.* (2020), corroborating hypothesis 7.  
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58 Regarding the control variables, company size (Size) negatively influences performance,  
59 on both models, corroborating the studies by Alqatan *et al.* (2019); Bikker and Vervliet  
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3 (2018), and Proença *et al.* (2020). Thus, we concluded that the greater the total assets held  
4 by the company, the lower its corporate performance. This result may imply that the more  
5 assets the company has, the fewer management skills there will be and that this can lead  
6 to worse performance levels. This understanding belongs to both managers and potential  
7 shareholders. Regarding leverage (Lev) negatively impacts ROA. This result suggests  
8 that more indebted companies present lower economic performance, in the manager's  
9 view. These results are consistent with Miralles-Marcelo *et al.* (2014); Pais and Gama  
10 (2015); Serrasqueiro and Nunes (2008); Vieira *et al.* (2019) and Zeitun and Saleh (2015),  
11 suggesting that more debt implies more commitments made to third parties that involve  
12 capital disbursements and, therefore, lead to lower results and less performance.  
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21 Finally, the lagged variable in both models is essential, which justifies the elaboration of  
22 a dynamic model. Thus, we conclude that an increase in ROA in the previous period does  
23 not necessarily indicate higher levels of ROA in the current period. In contrast, high  
24 values taken by Tobin's Q in the previous year predict high values for the current year.  
25 These results may suggest that external stakeholders, more attending to Tobin's Q than  
26 to ROA, recognize that a company's performance levels have to be maintained so that the  
27 values of one year will have to influence those of another.  
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#### 36 **4.2.2. Spain**

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38 Table 6 presents the results for Spain.  
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**Table 6** - Results of the estimation models 1 and 2 - ROA and Tobin's Q as the dependent variables for Spain

|                  | ROA         |                |          |           | Tobin's Q   |                |         |           |
|------------------|-------------|----------------|----------|-----------|-------------|----------------|---------|-----------|
|                  | Coefficient | Standard error | Z        | P-Value   | Coefficient | Standard error | Z       | P-Value   |
| <b>Constante</b> | 38.738      | 24.361         | 1.59     | 0.112     | -5.689      | 0.653          | -8.71   | 0.000 *** |
| <b>L1</b>        | 0.058       | 0.013          | 4.49     | 0.000 *** | 0.143       | 0.021          | 6.7     | 0.000 *** |
| <b>BSize</b>     | 1.074       | 0.403          | 2.67     | 0.008 *** | -0.012      | 0.011          | -1.08   | 0.279     |
| <b>BInd</b>      | -8.437      | 6.262          | -1.35    | 0.178     | 0.566       | 0.158          | 3.57    | 0.000 *** |
| <b>CEORem</b>    | 0.524       | 0.829          | 0.63     | 0.527     | 0.047       | 0.012          | 3.77    | 0.000 *** |
| <b>CSRCom</b>    | 91.866      | 75.703         | 1.21     | 0.225     | -5.21       | 2.284          | -2.28   | 0.023 **  |
| <b>SE</b>        | 29.173      | 1.444          | 20.2     | 0.000 *** | 0.817       | 0.044          | 18.36   | 0.000 *** |
| <b>Size</b>      | -36.151     | 2.238          | -16.16   | 0.000 *** | -0.237      | 0.045          | -5.28   | 0.000 *** |
| <b>Lev</b>       | 1.787       | 0.035          | 51.26    | 0.000 *** | 0.008       | 0.001          | 11.76   | 0.000 *** |
| <b>Sargan</b>    |             |                | 33.616   | 0.116     |             |                | 32.752  | 0.137     |
| <b>Wald</b>      |             |                | 13555.36 | 0.000     |             |                | 1370.66 | 0.000     |
| <b>m1</b>        |             |                | -1.446   | 0.148     |             |                | -1.712  | 0.087     |
| <b>m2</b>        |             |                | -0.031   | 0.976     |             |                | 1.154   | 0.249     |

Regression is performed using an unbalanced data panel. It should also be noted that: i) \*, \*\*, and \*\*\* indicates significance levels at 10%, 5%, and 1% respectively; (ii) The Sargan test with a p-value greater than 5% shows that the instruments are valid, and the values in parentheses of the test represent degrees of freedom; (iii) The Wald test has a p-value of less than 5% which means that the joint significance and the coefficients are significant asymptotically distributed as  $\chi^2$  under a null hypothesis without significance, with degrees of freedom in parentheses; iv) The m1 test has a normal distribution N (0,1) and tests the null hypothesis of the absence of the first-order autocorrelation, against the alternative hypothesis of the existence of the first-order autocorrelation; v) The test m2 has normal distribution N (0,1) and with a p-value higher than 5% accepts the null hypothesis of the absence of second-order autocorrelation; vi) The OwnConc variable was included in the model but was removed by exact collinearity.

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3 According to the results in table 6, for the Spanish sample, the CG and CSR variables are  
4 more relevant for investors than for managers.  
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7 Concerning Corporate Governance characteristics, the board size (BSize) positively  
8 affects the ROA. This result suggests that the increase in the number of directors will  
9 increase the attention given to the management strategy adopted by the company, seeking  
10 to improve some aspects to increase organizational results and, consequently, the  
11 company's performance. Thus, the results allow us to accept hypothesis 1, corroborating  
12 the results of Kalsie and Shrivastav (2016); Manna *et al.* (2016), and Tulung and  
13 Ramdani (2018).  
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16 The independence of the board of directors (BInd) has a positive relationship with Tobin's  
17 Q. This result is in line with Alqatan *et al.* (2019); Handriani and Robiyanto (2018);  
18 Manna *et al.* (2016) or Pucheta-Martínez and Gallego-Álvarez (2020), allowing to  
19 corroborate hypothesis 2. It shows that a greater number of independent members on the  
20 board will transmit security to the market since Independent members have the arbitrary  
21 capacity in conflict situations and contribute to impartial and transparent management.  
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24 Regarding the characteristics of Corporate Social Responsibility, the CEO's remuneration  
25 (CEORem) has a positive impact on Tobin's Q. Thus, hypothesis 5 is confirmed,  
26 according to Elsayed and Elbardan (2018) and Manna *et al.* (2016).  
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29 An increase in CEO compensation may suggest that the company is economically sound  
30 and concerned about the social and economic well-being of its internal bodies. This  
31 compensation will lead to greater motivation, which translates into better decisions  
32 capable of increasing performance, visible both internally and by external stakeholders.  
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35 The existence of the CSR committee (CSRCom) has a significantly negative relationship  
36 with the market variable. The results are in line with Cancela *et al.* (2020). Thus, from the  
37 investors' point of view, this figure is not decisive as it is mandatory, being understood as  
38 mere compliance with legal requirements.  
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41 Social expenses (SE) positively influence both the ROA and Tobin's Q. Thus, we  
42 corroborate hypothesis 7, according to Edmans *et al.* (2017); Iverson and Zatzick (2011);  
43 Kim and Jang (2020), and Wei *et al.* (2020). The results suggest that an increase in social  
44 expenses will be reflected in the well-being of employees, making them feel more  
45 motivated to perform their duties in the company, which will lead to better results and,  
46 consequently, greater corporate performance. From a market perspective, stakeholders  
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3 consider that this scenario shows social concern and care on the part of the organization  
4 towards its human resources.  
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7 Regarding the specific characteristics of the companies, the firm size (Size) presents a  
8 negative relationship both for ROA and for Tobin's Q, as already verified for the  
9 Portuguese market. Leverage (Lev) positively influences ROA and Tobin's Q. This result  
10 indicates that leverage can contribute to more productive investment that will lead to  
11 better results and higher performance levels, corroborating the results of Bărbuță-Misu *et*  
12 *al.* (2019) or Neves, Henriques, *et al.* (2021).  
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18 Finally, in both models under analysis, lagged dependent variables positively influence  
19 performance, confirming the dynamic character of the models. Thus, it is concluded that  
20 an increase in ROA in the previous period will increase ROA in the present period. In the  
21 same sense, the higher the values taken by Tobin's Q in the last year, the higher the values  
22 assumed by them in the current year.  
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### 4.2.3. Summary

In summary, our results highlight that although the countries under analysis are very close, both geographically and through their commercial and financial transactions, some of the determinants of their companies' performance are quite different between them.

Let's start with the similarities: For both countries, the total assets held by the company are negatively related to corporate performance, both with management variables and with market variables. This result may suggest that, in Iberian territory, the larger the companies, the less efficient the management of resources.

Likewise, both countries agree that investing in improving employees' living conditions through salaries and social benefits leads to greater performance. Also, CEO compensation is a key factor in increasing corporate performance levels in these two neighboring countries, in particular for external stakeholders.

Explicitly considering the determinants that strongly influence corporate performance in Portugal, the existence of the social responsibility committee is also noteworthy, as it is a relatively recent body and has shown to have an immense influence on investment decisions by members outside the company. Thus, according to the interested parties theory, this committee allows safeguarding all organizational elements' interests, leading to the generation of gains for the company and consequently enabling an increase in its corporate performance.

A variable with the opposite result between countries is the board size. Understood several times as a critical variable in performance, our results illustrate that stakeholders external to Portuguese companies are the only ones who believe that more elements in the board can imply more performance. Could this suggest that external stakeholders distrust the effective functioning of our Corporate Governance system? This result is even more interesting if we realize that an audit committee only positively influences performance when assessed by external parties in Portugal. Will this commission come to "rearrange" some transparency in the functioning of listed companies?

Regarding the characteristics that explain the corporate performance of Spanish companies, we can see that, from a management perspective, personnel expenses have a positive influence. Likewise, external stakeholders also attach importance to how the organization takes care of employees and the CEO. As for the existence of a social and corporate responsibility committee, the result obtained raises the following questions: is

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3 this result only due to the discredit given to a body whose existence is mandatory? or do  
4 the external stakeholders really believe that the concern with the social and environmental  
5 environment entails several expenses and generates unrest capable of reducing business  
6 performance?  
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10 Finally, our results allow us to corroborate the study by Vieira *et al.* (2019) insofar as the  
11 determinants of company performance vary depending on the variable considered as a  
12 measure of performance. In this case, ROA is an intrinsic variable to the management  
13 itself, and Tobin's Q, as a market measure of interest to stakeholders outside the  
14 organization.  
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19 The results for the Iberian Peninsula, as a whole, are presented in Table A4 (Appendix),  
20 and, as can be seen, the conclusions are in line with those referred for Portugal and Spain  
21 reinforcing the interest in studying individual countries to capture the various perceptions  
22 of stakeholders and allow better decisions to be made towards a fairer and more equitable  
23 society  
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## 31 **5. Conclusion**

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33 This paper aimed to study the corporate performance determinants from management and  
34 the market perspectives, specifically analyzing the Corporate Governance and Corporate  
35 Social Responsibility characteristics. Our research was carried out for Portugal and Spain,  
36 covering 33 Portuguese companies and 60 Spanish companies. Despite their geographical  
37 and historical commercial proximity, these countries have different economic, social, and  
38 governance structures, hence the importance of studying them, both separately and  
39 together.  
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45 In line with Vieira *et al.* (2019), our results establish that the determinants of company  
46 performance vary depending on the variable used to quantify performance.  
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49 Specifically, our results show that Portuguese managers consider the number of  
50 independent members on the board as well as the remuneration of their employees to be  
51 relevant for the increase in corporate performance. On the other hand, a potential investor  
52 in the Portuguese market will take into account the board size, the existence of an audit  
53 committee and a social responsibility committee, as well as the CEO's remuneration.  
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3 In Spain, managers place more emphasis on board size and social expenses in determining  
4 performance. Regarding potential investors, the characteristics that they most value are  
5 the weight of the independent directors and the CEO's remuneration.  
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9 In an era in which the aim is to eradicate poverty in the world and care not only for  
10 economic issues but for social well-being, this work shows that these two countries  
11 consider it important to take care of their workers and that this condition raises  
12 performance, both in terms of from the management point of view and from the investor's  
13 point of view, increasingly attentive to these issues.  
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18 Our results may be of interest to several different stakeholders: to managers because they  
19 can understand the impact that their decisions have on economic profitability (ROA),  
20 which is a measure that allows comparability of management between companies in the  
21 same sector; to investors who understand the variables that best suit their view of  
22 performance and to the entire civil society, which is interested in understanding the  
23 determinants of companies' performance globally.  
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29 Despite the interest that this article may arouse in academia, we had some limitations,  
30 namely because not all companies had complete information for the entire period under  
31 analysis and also because non-financial variables were difficult to collect given the  
32 difference in disclosure in the reports of corporate governance.  
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37 For future works, it would be interesting to research by sectors using different  
38 independent variables, such as cultural variables for different institutional environments,  
39 where legal investor protection, market development, and financing systems are different.  
40 In addition, it would be interesting to use hybrid methodologies to understand which  
41 variables will influence the efficiency of more sustainable companies, for example, using  
42 GMM with DEA.  
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## Appendix A- Listed Companies on Euronext Lisbon and Madrid Stock Exchange

**Table A1 - Companies listed on Euronext Lisbon**

| <b>Name</b>                                    | <b>Name</b>                                      |
|--|--|
| Altri, SPGS, S.A.                              | Mota Engil, SPGS, S.A.                           |
| Cofina, SPGS, S.A.                             | NOS, SPGS, S.A.                                  |
| Corticeira Amorim, SPGS, S.A.                  | Novabase – Soc. Gest. de Particip. Sociais, S.A. |
| EDP – Energias de Portugal, S.A.               | Ramada – Investimentos e Indústria, S.A.         |
| Estoril Sol, SPGS, S.A.                        | Reditus – Soc. Gest. de Part. Sociais, S.A.      |
| Galp Energia, SPGS, S.A.                       | REN – Redes Energéticas Nacionais, SPGS, S.A.    |
| Glintt – Global Intelligent Technologies, S.A. | Semapa – Soc. De Inv. e Gestão, SPGS, S.A.       |
| Grupo Media Capital, SPGS, S.A.                | Sonae, SPGS, S.A.                                |
| Ibersol, SPGS, S.A.                            | Sonae Capital, SPGS, S.A.                        |

|    |   |                                   |
|----|---|-----------------------------------|
| 1  |   |                                   |
| 2  |   |                                   |
| 3  | Imobiliária Contrutora Grão Pará, S.A.            | Sonae Indústria, SPGS, S.A.       |
| 4  | Impresa – Soc. Gestora de Particip. Sociais, S.A. | Sonaecom, SPGS, S.A.              |
| 5  | Inapa – Invest., Participações e Gestão, S.A.     | Sumol+Compal, S.A.                |
| 6  | Jerónimo Martins, SPGS, S.A.                      | Teixeira Duarte, S.A.             |
| 7  | Lisgráfica – Impressão e Artes Gráficas, S.A.     | The Navigator Company, S.A.       |
| 8  | Litho Formas, S.A.                                | Toyota Caetano Portugal, S.A.     |
| 9  | Luz Saúde, S.A.                                   | VAA – Vista Alegre Atlantis, S.A. |
| 10 | Martifer, SPGS, S.A.                              |                                   |
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**Table A2 - Companies listed on Madrid Stock Exchange**

| <b>Name</b>                                      | <b>Name</b>                           |
|--|---------------------------------------|
| Acciona, S.A.                                    | Industria de Diseño Textil, S.A.      |
| Acerinox, S.A.                                   | Inmobiliaria Colonial Socimi, S.A.    |
| ACS, Act. de Construccion y Servicios, S.A.      | Inmobiliaria del Sur, S.A.            |
| Adolfo Dominguez, S.A.                           | Laboratorios Reig Jofre, S.A.         |
| Amadeus It Group, S.A.                           | Laboratorios Farmaceuticos Rovi, S.A. |
| Applus Services, S.A.                            | Lingotes Especiales, S.A.             |
| Atresmedia Corp. de Medios de Comunicacion, S.A. | Liwe Española, S.A.                   |
| Ayco Grupo Inmobiliario, S.A.                    | Minerales y Productos Derivados, S.A. |
| Azkoyen, S.A.                                    | Miquel y Costas & Miquel, S.A.        |
| Baron de Ley, S.A.                               | Montebalito, S.A.                     |
| Bodegas Riojanas, S.A.                           | Naturgy Energy Group, S.A.            |
| Cementos Molins, S.A.                            | Nicolas Correa, S.A.                  |



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|--|---------------------------------------|
| Cie Automotive, S.A.                                 | Nyesa Valores Corporación, S.A.       |
| Clinica Baviera, S.A.                                | Obrascon Huarte Lain, S.A.            |
| Compañía de Dist. Int. Logistica Holdings, S.A.      | Prim, S.A.                            |
| Compañía Lev. de Edif. y Obras Publicas, S.A.        | Prosegur Compañía de Seguridad, S.A.  |
| Corporación Emp. de Materiales de Construcción, S.A. | Realia Business, S.A.                 |
| Desarrollos Especiales de Sistemas de Anclaje, S.A.  | Red Electrica Corporación, S.A.       |
| Distribuidora Internacional de Alimentación, S.A.    | Repsol, S.A.                          |
| Ebro Foods, S.A.                                     | Sacyr, S.A.                           |
| Ecolumber, S.A.                                      | Siemens Gamesa Renewable Energy, S.A. |
| Elecnor, S.A.  | Sniace, S.A.                          |
| Enagas, S.A.   | Telefonica, S.A.                      |
| Ence Energia y Celulosa, S.A.                        | TR Hotel Jardin del Mar, S.A.         |
| Endesa, S.A.   | Tubacex, S.A.                         |
| Ercros, S.A.   | Tubos Reunidos, S.A.                  |
| Faes Farma, S.A.                                     | Urbar Ingenieros, S.A.                |
| Fluidra, S.A.  | Vidrala, S.A.                         |
| Fomento de Construcciones y Contratas, S.A.          | Viscofan, S.A.                        |
| Iberdrola, S.A.                                      | Zardoya Otis, S.A.                    |

## Appendix A- Descriptive Statistics

Table A3 - Descriptive Statistics for Iberian Peninsula

| Variables | Mean   | Minimum | Maximum | Standard Deviation |
|-----------|--------|---------|---------|--------------------|
| ROA       | 5.017  | -57.958 | 425.396 | 19.552             |
| QTobin    | 0.734  | 0       | 7.418   | 1.09               |
| BSize     | 9.721  | 2       | 21      | 3.753              |
| BInd      | 0.326  | 0       | 1.714   | 0.233              |
| AudCom    | 0.764  | 0       | 1       | 0.425              |
| OwnC      | 2.181  | 1       | 6       | 1.357              |
| CSRCom    | 0.12   | 0       | 1       | 0.325              |
| CEORem    | 13.051 | 8.294   | 16.503  | 1.292              |
| SE        | 11.297 | 2.04    | 16.221  | 2.126              |
| Size      | 13.769 | 7.869   | 18.681  | 2.141              |
| Lev       | 62.79  | 2.261   | 271.64  | 27.792             |

Table A4 - Results of the estimation models 1 and 2 - ROA and Tobin's Q as the dependent variables for the Iberian Peninsula

|                  | ROA         |                |              |           | Tobins' Q   |                |             |           |
|------------------|-------------|----------------|--------------|-----------|-------------|----------------|-------------|-----------|
|                  | Coefficient | Standard error | Z            | P-Value   | Coefficient | Standard error | Z           | P-Value   |
| <b>Constante</b> | 170.688     | 23.837         | 7.16         | 0.000 *** | -5.716      | 2.071          | -2.76       | 0.006 *** |
| <b>L1</b>        | -0.212      | 0.002          | -107.52      | 0.000 *** | -0.012      | 0.006          | -1.97       | 0.049 **  |
| <b>BSize</b>     | 0.766       | 0.065          | 11.82        | 0.000 *** | 0.048       | 0.008          | 5.87        | 0.000 *** |
| <b>BInd</b>      | 16.985      | 2.046          | 8.3          | 0.000 *** | -0.686      | 0.163          | -4.22       | 0.000 *** |
| <b>AudCom</b>    | -112.603    | 4.989          | -22.57       | 0.000 *** | 5.488       | 1.414          | 3.88        | 0.000 *** |
| <b>CEORem</b>    | 0.14        | 0.364          | 0.38         | 0.700     | 0.063       | 0.007          | 8.84        | 0.000 *** |
| <b>CSRCom</b>    | -164.958    | 45.808         | -3.6         | 0.000 *** | -11.767     | 3.434          | -3.43       | 0.001 *** |
| <b>SE</b>        | 8.345       | 0.855          | 9.76         | 0.000 *** | -0.739      | 0.039          | -19.09      | 0.000 *** |
| <b>Size</b>      | -5.019      | 1.137          | -4.42        | 0.000 *** | 1.014       | 0.077          | 13.16       | 0.000 *** |
| <b>Lev</b>       | -0.897      | 0.003          | -316.33      | 0.000 *** | -0.006      | 0.001          | -5.66       | 0.000 *** |
| <b>Sargan</b>    |             |                | 27.591(23)   | 0.232     |             |                | 27.448(23)  | 0.237     |
| <b>Wald</b>      |             |                | 3.71E+06(10) | 0.000     |             |                | 1347.76(10) | 0.000     |
| <b>m1</b>        |             |                | -1.184       | 0.237     |             |                | -1.708      | 0.088     |
| <b>m2</b>        |             |                | -0.854       | 0.393     |             |                | 0.597       | 0.550     |

Regression is performed using an unbalanced data panel. It should also be noted that: i) \*, \*\*, and \*\*\* indicates significance levels at 10%, 5%, and 1% respectively; (ii) The Sargan test with a p-value greater than 5% shows that the instruments are valid, and the values in parentheses of the test represent degrees of freedom; (iii) The Wald test has a p-value of less than 5% which means that the joint significance and the coefficients are significant asymptotically distributed as  $\chi^2$  under a null hypothesis without significance, with degrees of freedom in parentheses; iv) The m1 test has a normal distribution N (0,1) and tests the null hypothesis of the absence of the first-order autocorrelation, against the alternative hypothesis of the existence of the first-order autocorrelation; v) The test m2 has normal distribution N (0,1) and with a p-value higher than 5% accepts the null hypothesis of the absence of second-order autocorrelation.