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Impact of Corporate Governance on Value Creation: Evidence from Tunisian Context Pre- and Post-Revolution

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ABSTRACT

The purpose of this study is to investigate the impact of governance mechanisms on value creation for Tunisian companies listed on the Tunis Stock Exchange from 2007 to 2016. Our findings suggest that, prior to the revolution, governance did not significantly affect value creation. However, after the revolution period, several governance factors were found to have a positive influence on value creation, with the exception of control block ownership which had a negative impact. These outcomes highlight the importance of implementing mandatory laws based on good governance principles to enhance corporate governance practices in Tunisia.

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Introduction

Financial scandals (Enron, WorldCom, etc.) have increased interest in the relationship between corporate governance and value creation when control mechanisms are called into question. In this context, the board of directors is considered a corporate governance mechanism responsible for protecting and increasing assets and maximizing the return on investments of companies [1-4]. The board of directors becomes the main internal control mechanism of companies. It helps to resolve agency problems resulting from the separation of owners and management control problems that lead to information asymmetries. The board of directors builds a link between shareholders and the management team. It sometimes plays a disciplinary role, replacing executives in case of poor or negative performance. Therefore, the literature mainly analyzes the size and composition of the board as characteristics influencing the monitoring capacity of the board of directors. In the same vein, different codes set out a series of recommendations on the ideal structure and composition of boards of directors.

For this reason, the development and implementation, through national laws and regulations, of corporate governance codes have significantly increased in the early years of the new aera [5]. Today, more than sixty countries have developed good governance codes. Companies, as well as countries, seek to make their corporate governance practices more effective, in part because of corporate governance scandals, but also to attract investors [6]. Worldwide, codes provide sets of recommendations that listed companies must take into account when reporting on their annual corporate governance. They include several essential universal principles for effective corporate governance, in order to achieve a balance between executive and non-executive directors and a clear division of responsibilities between the chairman and the CEO. The purpose of this document is to analyze the effect of governance mechanisms on firm performance under unfavorable institutional conditions. It aims to study whether the size of the board of directors, the duality of the chairman, ownership concentration, foreign ownership, and control block ownership are relevant to a company. We propose as a main hypothesis that there is a direct effect of governance mechanisms on firm value under unfavorable economic conditions. The idea is clear: corporate governance is much less relevant when market conditions are favorable, and when market conditions are not favorable, it is essential to explain differences in value creation.

To test this set of hypotheses, we conducted an econometric study using panel data for companies listed on the Tunis Stock Exchange over different periods: the first period from 2007 to 2010 (pre-revolution and political stability), the second period from 2011 to 2014 (post-revolution and political instability), and the complete period from 2007 to 2016 (characterized by three phases: the first pre-revolution characterized by political stability, the second post-revolution characterized by political instability, and the third characterized by Tunisia entering a phase of stability after presidential elections). Therefore, do unfavorable institutional conditions affect the impact of corporate governance mechanisms on value creation? The analysis of the effect of corporate governance on value creation in unfavorable economic contexts is much more limited. Furthermore, we must keep in mind the fact that these studies have focused on financial entities while our paper sheds light on the behavior of non-financial companies regarding their responsiveness, through corporate governance, to value creation in companies in an environment characterized by

an economic and political crisis [7]. Our work specifically focuses on how the effect of corporate governance on performance varies depending on the economic context of the company (comparative analysis pre- and post-revolution).

This paper is divided into four sections. We provide a literature review in section 2. We explain the research methodology and results in section 3. Section four is dedicated to the conclusion.

Literature Review and Hypothesis Development

• Literature Review

The literature on the relationship between corporate governance and value creation has developed in recent years [8-11]. Most of this research is based on the three theoretical paradigms analyzed by: (i) agency theory, in which the role of the board as a supervisor and the control it exerts are established; (ii) stewardship theory, in which the board assumes an advisory role towards the management team; and finally, (iii) resource dependence theory, in which the board acts as a link between the organization and its environment and facilitates the capture of resources [12]. Many previous studies on the relationship between the board of directors and value creation in the company were based solely on agency theory. However, the inclusion of the advisory role of the board in the analysis has led recent researchers to keep in mind the stewardship perspective and emphasize its importance, especially in turbulent contexts. In this sense, we have adopted a mixed approach in this paper by considering stewardship theory [13] complemented by resource dependence theory [14]. We believe that stewardship theory accounts for the effect of board composition on value creation in the context of an economic crisis.

The resource dependency theory suggests four main advantages of external links: (1) the provision of information and expertise; (2) the creation of communication channels with important stakeholders for the company; (3) obtaining support commitments from organizations or important groups in the external environment; and (4) establishing legitimacy for the company in the external environment [15]. Recent economic events have shown that this is also true in many financial institutions. Perhaps that is why the literature on governance and corporate performance during the crisis focuses mainly on financial companies.

According to, one of the main causes of the financial crisis was the failure of corporate governance. Investment banks and commercial banks in developed countries violated two basic principles of corporate governance (transparency and accountability), leading to the crisis [16].

Several empirical studies have been conducted to examine the relationship between corporate governance and the financial crisis. These include the study by, which analyzes 75 publicly listed Australian companies over two years, 2005 and 2010, considering that these years fell respectively before and after the global financial crisis [17]. These authors observe that after the global financial crisis, companies restructured their boards of directors, thereby increasing the number of independent members.

Studied the impact of corporate governance on the performance of financial companies in a group of 30 countries during the period 2007-2008. Although all companies were affected by the global financial crisis, financial companies had the worst results due to their increased risk-taking before the crisis. Additionally, observed that companies with independent board members had a greater impact on the performance of these companies, which transferred wealth from current shareholders to creditors by increasing their equity during the financial crisis. These authors therefore concluded that corporate governance had a significant impact on company performance during the crisis, through financing policies and risk-taking by companies.

The duality of leaders has a negative relationship with financial performance during the period before the crisis and no impact during the crisis. Analyzed 1,197 companies from 26 European countries between 2004 and mid-2009 [18]. They distinguish between financial and non-financial companies, noting that the results do not align. Thus, during the crisis, the size of boards of directors and the duality of leaders had a positive impact on non-financial companies, while these effects were absent among financial companies.

Research Hypotheses

• The Effect of Board Size on Value Creation

A review of the literature on board size yields mixed results. Some authors argue that board size does not have a significant impact. However, found that board size is significantly negatively associated with firm performance [19]. Other authors find an inverse relationship between firm value and board size [20]. Their results are explained by agency theory, which suggests that smaller boards create more value than larger boards. Furthermore, shows that smaller boards are more effective and companies with smaller boards achieve higher market value. According to, "boards of large companies may be less effective due to challenges in resolving agency problems among board members [21]." Argue that a larger group is less effective because coordination and processes issues outweigh the benefits of having more people to rely on [22]. Consistent with these findings, suggest (and confirm with empirical evidence) that smaller boards have a greater ability to make rapid decisions, which is necessary in crisis situations [23]. However, find a positive and significant relationship [24]. These authors base their results on the resource dependence theory, which suggests that a larger number of directors provides more information for appropriate decision-making. In line with this study, we anticipate a positive association between the board size variable and Tobin's Q. This is because board size, in a crisis context, actually contradicts agency theory, as many studies have found that small boards are worse in the sense that they have a higher likelihood of failure [25,26]. In a financial stress situation where resource supply becomes essential for a company's survival, large boards offer opportunities for resource capture and networking. The empirical results of have paved the way. The number of board members improves performance, but only up to a certain point, after which the value decreases as more members are added to the board. Similar evidence has been revealed by, who argued that a balance between the benefits (supervision and advice) and drawbacks (coordination issues, control, and decision-making) of a large board should be sought [27]. In short, established market leaders, like those being studied here, are primarily interested in the benefits of having access to additional resources from the large size of their board rather than the additional costs associated with agency or slow decision-making due to board size. Beyond a certain point, the challenging dynamics of a large board prevail over the skills and expertise that additional directors may bring [28]. This leads us to propose a first hypothesis

- H1: In unfavorable conditions, board size has a positive effect on value creation.

• The Effect of Duality on Value Creation

The duality of the roles of chairman and CEO presents both advantages and disadvantages. Among the main advantages are

a reduction in information and coordination costs as well as clear and centralized leadership. However, this configuration has a significant drawback: the concentration of power in the hands of a single individual. According to agency theory, duality negatively impacts organizational performance. This theory argues that separating the two roles is essential to avoid conflicts of interest. Indeed, a CEO who also serves as chairman may wield excessive power, be driven by self-interest, and dominate board management, potentially leading to poor performance [29]. The supervisory role of the board of directors is crucial, as it ensures that directors represent shareholders' interests when evaluating managerial performance. To perform this role effectively, the board must be independent, which requires a clear structure and the separation of the chairman and CEO roles. In contrast, stewardship theory offers an opposing perspective, adopting a more humanistic approach [30]. It suggests that greater concentration of power in the hands of the CEO can, under certain circumstances, yield benefits that outweigh the costs. During crises, for example, a powerful and unified CEO may respond more quickly to changes and be more motivated to steer the company out of trouble.

Moreover, with increased authority, the CEO is better equipped to make bold yet necessary decisions, such as restructuring or mass layoffs, during periods of instability, like the financial crisis that began in 2007. Stewardship theory supports the idea that leadership duality enhances rapid decision-making, efficient plan execution, and effective oversight, thereby enabling the company to achieve better results. emphasize that the resource-dependence advantages offered by duality-such as the CEO, in their role as chairman, providing external directors with critical insights into the company's operations and finances-can help mitigate agency problems associated with CEO duality[31]. In line with this perspective, other studies have established a positive relationship between CEO duality and performance in environments of both low and high complexity [32,33]. Confirmed that duality facilitates faster decision-making due to the CEO's enhanced authority. Similarly, demonstrated that CEO duality has a positive and significant impact on the performance of non-financial companies during crises. Their findings suggest that in times of crisis, boards that grant greater discretionary power to management achieve superior results. In light of the above, we propose the following hypothesis

- H2: Under unfavorable conditions, duality has a positive effect on value creation.

- **The Effect of Concentration of Ownership on The Creation of Value**

Theoretically, the effect of capital concentration on corporate performance is highly complex and empirically ambiguous. Numerous studies have identified a positive effect of the presence of majority shareholders on performance. However, other research has found no relationship between capital concentration and performance. Observed a positive, linear relationship between capital concentration and firm value. In line with this, made a significant contribution to the literature on ownership structure, reinforcing the earlier findings. They emphasized the critical role played by majority shareholders. These theoretical perspectives suggest a positive relationship between capital concentration and performance. On the other hand, some studies argue that ownership structure does not significantly impact corporate performance. In this view, all ownership structures are essentially equivalent, and company performance is primarily shaped by external environmental factors and operational modalities.

In this context, examine the impact of majority shareholders on performance using data from 551 U.S. companies in 1980. They classify concentrated ownership into three groups: all investors, institutional investors, and shareholders from founding families. Their findings indicate that the relationship between ownership concentration and return on equity is statistically insignificant and does not exhibit the expected positive sign. Similarly, investigates the effect of capital concentration on the financial performance of a sample of 64 Tunisian companies. His study finds that capital concentration has no significant impact on performance. However, significant differences emerge based on the nature of control: companies controlled by financial institutions are less performant than those controlled by individuals. This reasoning leads us to propose the following hypothesis

- H3: There is no relationship between capital concentration and value creation.

- **The Effect of Foreign Ownership on Value Creation**

Supporting the findings of, empirical studies by also demonstrate that multinational companies outperform their counterparts in developed countries, specifically in the United Kingdom and Canada, respectively. In a study of publicly traded companies in Belgium, examined whether foreign-owned companies performed better than domestic ones. They concluded that firms with foreign ownership exhibited superior performance metrics compared to their local counterparts. Furthermore, analyzed U.S. industrial companies over the period 1981–1992 and found that performance outcomes varied with changes in foreign ownership. The study revealed that foreign ownership has a significant impact on companies' performance metrics.

Additionally, examined the impact of foreign ownership on British firms by analyzing 333 overseas acquisitions between 1984 and 1995. Their findings revealed that foreign ownership had a significantly positive effect on corporate performance. While there is a general consensus that foreign ownership positively influences company performance, some studies present contradictory findings. For instance, found that foreign-owned firms in the U.S. market performed worse than randomly selected domestic firms. Similarly, argued that, after accounting for capital intensity and size effects, multinational corporations operating in Canada were not significantly more productive than domestic firms. They emphasized that the superior performance often attributed to foreign-controlled firms stems primarily from their higher capital intensity and larger size. Supporting the findings of Kim and Lyn, also noted that foreign-owned firms in the UK tend to pay higher wages, which can offset the productivity advantages typically associated with foreign ownership.

In a study conducted by, it was concluded that "ownership links do not make a significant difference in terms of performance for companies in Portugal and Greece." These findings clearly indicate that the impact of foreign ownership on corporate performance can be both positive and negative in developed countries. This reasoning leads us to propose the following hypothesis: H4: There is a significant relationship between foreign ownership and value creation.

- **The Effect of Holding Controlling Interests on Value Creation**

The presence of a controlling block of shareholders can contribute to the creation of corporate value. In contrast, dispersed ownership often faces traditional agency conflicts between shareholders

and managers, stemming from the separation of ownership and control. A significant shareholder has a vested interest in gathering information about the company's activities and monitoring its management, as their income depends on the firm's profitability. Consequently, managers are less inclined to extract personal benefits and more motivated to act in the interests of shareholders. However, the presence of large shareholders also comes with associated costs. First, stock market liquidity may decline, as a controlling block discourages minority shareholders from gathering information about the firm. Additionally, the likelihood of informed trading increases, leading to greater information asymmetry in the market. Reduced liquidity, in turn, raises the firm's cost of capital. Secondly, the presence of a controlling block can also influence the firm's investment decisions. For instance, sensitivity to the specific risks of investments may increase the likelihood of diversification strategies. Furthermore, private benefit extractions, such as strategies that favor the controlling block at the expense of other shareholders or even other stakeholders, are not uncommon [34]. Empirical findings on the relationship between controlling blocks and firm value creation are mixed. While some studies report a positive link, others suggest a nonlinear relationship, where small blocks have a positive effect, but their negative impact outweighs the benefits as their size increases [35]. Estimate the tipping point to be between 40% and 50% ownership. Controlling blocks are less common in the United States and the United Kingdom compared to continental Europe and Asia. According to, this phenomenon is associated with weaker legal protection of shareholder interests. While this explanation may apply to some less developed countries, it is less convincing for many others, particularly in Europe. More recently, proposed that controlling blocks are better positioned to negotiate with other stakeholders, especially employees and their representatives. This cooperative strategy between a majority shareholder and employees could lead to value creation that benefits all parties involved.

- H5: The presence of controlling blocks has a positive effect on value creation.

Methods, Data and Variables

• Sample

The sample construction began by examining all companies listed on the Tunis Stock Exchange for the period from 2007 to 2016, for which data was available. Insurance companies and banks were excluded due to the difficulty in calculating Tobin's Q, as their financial statements are sector-specific. Moreover, these two sectors are subject to distinct regulatory frameworks established by the Directorate General of Insurance and the Central Bank of Tunisia, respectively. Companies that were not listed or for which complete data was unavailable throughout the entire study period were also excluded. As a result, the initial sample consisted of 24 companies, with a total of 240 observations. A standard analysis was then conducted to identify potential outliers affecting Tobin's Q (hereafter referred to as q) or ROA (return on assets).

• Measures of Variables

To approach the performance of the company, we use Tobin's Q. This ratio has been widely used in literature and is a good measure to evaluate the effect of the composition and structure of value creation as it is a prospective measure integrating investor expectations [37-39]. According to the works of we define Tobin's Q as the sum of the market value of equity and the book value of debt divided by the book value of total assets [40]. It seems logical in our case to adopt this investor perspective for the analysis of value creation. Also indicate that "markets favor specific characteristics within boards, including independence and professional qualifications, as a means to enhance corporate performance, and this will be reflected in the level of Tobin's Q measures of companies".

In order to analyze the effect of board composition on performance, the econometric specification includes four independent variables: board size, duality, foreign prosperity and ownership of controlling blocks. We also included four control variables: Size, ROA, leverage and volatility. Size is a control variable that measures the company's size through the natural logarithm of total assets. According to, ROA (Return on Assets) measures the ratio of economic profitability [41]. In preliminary estimates, the ratio of total debt to total assets was also included, but multicollinearity was an issue. The effect of other potential time-invariant control variables (such as the company's industry or whether a company is family-owned) is accounted for by individual fixed effects. The results obtained by for the SIZE variable are not significant. However, most of the previous studies have found a negative and significant correlation with q. We expect the same relationship because, like these authors, we consider that small businesses have higher value. Finally, we expect that companies with higher ROA also have higher value, as shown by the results obtained by. Leverage is the ratio between total liabilities and total assets. States that the presence of debt in the capital structure can prevent a company from investing in profitable projects. Argue that there is a negative correlation between debt and Tobin's Q.

Table 1: Definitions of Variables

Variable Désignation	Symbole	Descriptions
Q Tobin	Q Tobin	(Market value of shares + book value of debt) / book value of assets
Duality	CEO_D	Dichotomous variable: = 1 if CEO = president and = 0 otherwise
Board Size	CEO_S	Total number of board members
Foreign Ownership	OWN_F	Measure by the percentage of foreign ownership relative to share capital.
Concentration of Ownership	OWN_C	Measured by the Herfindahl index which corresponds to the sum of the squares of the percentages of shares held by the first and second shareholders.
Controlling Block Holders	DBC	1 if the first shareholder is an individual, 2 if it is a group, 3 if it is a financial institution and 4 if it is the State.
ROA	ROA	Rapport entre le résultat net et le total des actifs

Taille	SIZE	Le logarithme népérien du total actif
Leverage	LEV	By dividing a company's total debt by its total assets
Volatility	VOL	Historical volatility based on the historical variations that a security's price has experienced.

Analyse Empirique

In order to define the econometric specification to be estimated, several preliminary estimations and tests were carried out. All calculations were performed using EViews 7. The general econometric specification is as follows:

$$Q_{(i,t)} = \alpha\_{(i,t)} + CEO\_D_{(i,t)}) + CEOS_{(i,t)} + OWNC\_{(i,t)} + DBC_{(i,t)} + OWN\_F_{(i,t)} + ROA\_{(i,t)} + SIZE\_{(i,t)} + \varepsilon\_{(i,t)} \quad (1)$$

Table 2: Descriptive Statistics

	CEO_D	CEO_S	OWN_C	OWN_F	DBC	ROA	SIZE	LEV	VOL
Mean	0.924	0.390	0.120	2.166	0.045	18.210	0.557	0.036	0.036
Median	0.903	0.381	0.0176	2.000	0.042	18.079	0.4985	0.0108	0.0108
Maximum	1.1130	0.915	0.6161	5.000	0.618	21.612	3.7050	0.8844	0.8844
Minimum	0.698	0.069	0.000	1.000	-0.672	16.639	0.0900	0.001	0.001
Std. Dev.	0.113	0.152	0.178	0.831	0.101	0.963	0.435	0.089	0.089
Probability	0.013	0.160	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sum	221.960	93.784	28.931	520.000	10.811	4370.615	133.863	8.750	8.750
Sum Sq. Dev.	3.067	5.523	7.605	165.333	2.481	222.017	45.314	1.930	1.930
Observations	240	240	240	240	240	240	240	240	240

Notes: Statistics Calculated on The Balanced Common Sample (240 observations).

Table 2 shows the descriptive statistics for our study. We find that, on average, duality represents 92.4%. It should be noted that the board participation rate seems quite high, it is on average 39%. We note that on average the foreign participation rate is 216.6%. We note that the control block holding rate is very low, representing on average 4.5%.

Results

Table 3: Econometric Estimates:

	Pre-revolution Sample Period	Post-Revolution Sample Period	Full Sample Period
Period	2007-2010	2011-2014	2007-2016
Constant	1.977 (0.037)**	3.273 (0.011)**	2.428 (0.003)***
CEO_D	0.634 (0.195)	0.428 (0.005)***	0.046 (0.619)
CEO_S	-0.226 (0.028)**	0.973 (0.127)	0.825(0.035)**
OWN_C	0.162 (0.578)	0.690 (0.126)	-0.043 (0.868)
OWN_F	-0.034 (0.575)	1.255 (0.017)**	0.667 (0.030)**
DBC	-0.340 (0.206)	-0.323 (0.000)* **	-0.174 (0.001)***
ROA	0.371 (0.350)	0.630 (0.453)	0.271 (0.590)
SIZE	1.055 (0.000)***	-0.210 (0.008)***	-0.148 (0.003)***
LEV	-0.103 (0.085)*	0.904 (0.000)***	0.932 (0.000)***
VOL	-0.221 (0.757)	-0.473 (0.726)	-0.212 (0.635)
R^2	0.405	0.429	0.334
R^2 Ajusté	0.342	0.369	0.308
Estimateur	Panel least squares	Panel least squares	Panel least squares

F sta	6.506	7.180	12.827
Prob	0.000	0.000	0.000
Observations	96	96	240

- **Indicates Significant at 10%.**
- **Indicates Significant at 5%.**
- **Indicates Significant at 1%.**

The general model of our study is statistically significant at the 1% level, with an R^2 ranging between 30.8% and 36.9%. Column 1 shows the effect of corporate governance on value creation for Tunisian listed companies during periods of political stability. Specifically, board duality has a positive but statistically insignificant effect on value creation. This result is consistent with the findings of. The size of the board has a negative and statistically significant effect on value creation, with significance at the 5% level. Our findings align with those of. Ownership concentration has a positive but statistically insignificant effect on value creation. This result is consistent with the work of. Foreign ownership has a negative but statistically insignificant effect on Tobin's Q. Our result contrasts with the findings of, who suggests a positive and significant impact of foreign ownership on the value of Australian firms. The presence of controlling blocks has a negative but statistically insignificant effect on value creation [42-48].

Column 2 presents the effect of governance on value creation under adverse conditions, characterized by political instability. Specifically, board duality has a positive and statistically significant effect on value creation, with significance at the 1% level. This result is consistent with the findings [49-57]. Thus, Hypothesis 1 is confirmed. The size of the board has a positive and statistically significant effect on value creation, with significance at the 5% level. Our findings align with those who report a positive and significant relationship. These authors base their results on resource dependence theory, suggesting that a larger board provides more information for better decision-making. Therefore, Hypothesis 2 is supported. Ownership concentration has a positive but statistically insignificant effect on value creation. This result is consistent with, who examined the impact of capital concentration on the financial performance of a sample of 64 Tunisian companies, finding that capital concentration does not significantly affect firm performance. Thus, Hypothesis 3 is supported. We find a negative but statistically insignificant relationship between foreign ownership and Tobin's Q. This result contradicts, who suggests that foreign ownership has a significant positive impact on the value of Australian firms. The presence of controlling blocks has a negative but statistically insignificant effect on value creation. Our result is inconsistent with the findings of. Thus, Hypothesis 5 is rejected [58-68].

Conclusion

Based on the analysis conducted in this paper, the empirical evidence supports the idea that governance mechanisms impact firm performance under adverse economic conditions. Furthermore, this effect differs from what occurs in stable situations. During times of stress, most of the firms included in the study increased the size of their boards, a change associated with greater independence. This had a positive effect on the firms' value creation. From our perspective, when economic conditions are highly turbulent, as was the case during the period of the study, the ability to establish stronger "links" or relationships with the external environment helps firms achieve better results. The same person holding both the CEO and chairman roles does not appear to influence the value creation process when attention is focused on the most stressful scenarios. It seems that the potentially negative effects of this duality are offset by the fact that the CEO, with greater power, can make drastic decisions to manage the crisis effectively. The key findings of this paper indicate that governance did not have a significant effect on value creation in the pre-revolution period. However, most governance variables had a positive impact on the value creation of Tunisian listed companies. The exception was the variable related to the ownership of controlling blocks, which had a negative and significant effect on value creation in the post-revolution period. These results lead us to believe that the current governance structures of listed companies are not the most effective and that, as a result, restructuring these companies could generate greater value. There have been several attempts to improve the governing bodies of listed Spanish companies, with the publication of various reports and corporate governance codes (Corporate Governance Code, 2012).

In light of the above, public institutions must recognize that, to achieve the desired effect through the development of corporate governance codes, recommendations should be transformed into enforceable legal rules. We acknowledge that this paper has certain limitations. The first is that the study focuses solely on the analysis of publicly listed companies in Tunisia. Future research should extend this study to other countries for comparative purposes. A comparative analysis could also be considered between two groups: one consisting of countries most affected by revolution (Libya, Syria, Egypt, and Yemen) and the other of countries that have not experienced a revolution, such as Morocco, Oman, and Jordan. Additionally, the article is based on a narrow sample of listed companies. Future studies should examine a larger sample. Thus, a future study could focus on the post-electoral period.

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