

Corporate Governance and Perennity

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Purpose

The aim of this study is to determine the effectiveness of governance mechanisms on the perennity of quoted companies.

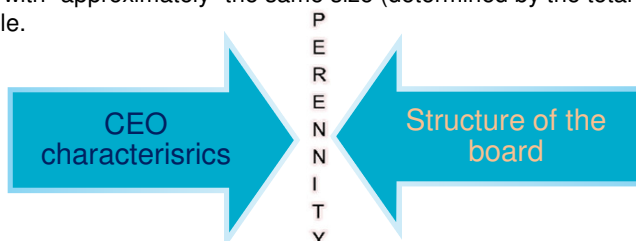
Introduction

Shareholders and managers' utility functions are different. Corporate governance mechanisms may help to reconcile them.



Data and Methodology

Our work is based upon a paired sample of 314 companies previously quoted on the Amex, the Nasdaq and the NYSE. For each of the companies that was engaged in a liquidation or reorganization procedure, there is a corresponding one in the same field of activity and with "approximately" the same size (determined by the total assets) that has not met with the same kind of financial trouble.



We used a probit analysis on this sample to detect corporate governance mechanisms that influence the failure of firms. We worked upon hypotheses split into two groups, depending on whether the underlying variable is oriented to the Chief Executive Officer (CEO) or to the board of directors.

Main results and conclusion

CEO Characteristics:

- The **tenure** of the **CEO** reflects a negative entrenchment.
- The **holding of shares** by the CEO is positively linked to perennity.

Dependent variable	Perennity			
Variable name	Coefficient	Robust Std. Error	Z stat	P> z
Tenure_CEO	-0.00	0.00	-2.23**	0.03
K_CEO	2.19	0.65	3.40***	0.00
Size_Board	0.11	0.03	3.22***	0.00
Comp_Com	1.18	0.45	2.64**	0.01

*, **, *** Significant at P < 0.10, 0.05, and 0.01, respectively.

→ Perennity seems to be conditioned by a "subtle" dose of managerial incentive and control.

Structure of the board:

- A large **number of directors**, and
- A **Compensation committee** are positively linked to perennity.

Research activities within the accounting and management department:

- Performances in particular operations (IPO, OPA, LMBO, ...).
- Financial and non financial corporate performance.
- Family firm, company passing down, entrepreneurship.
- Accounting standardization, ESA 95, public accounting.
- Corporate governance.

Members of the department:

Comblé Karin (Professor)
Bughin Christiane (Lecturer)
Colot Olivier (Lecturer)
Bellanca Sabrina (PhD student)
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