CSR, Sustainability, Ethics & Governance
Series Editors: Samuel O. Idowu · René Schmidpeter

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René Schmidpeter *Editors*

Dimensional Corporate Governance

An Inclusive Approach

Springer

CSR, Sustainability, Ethics & Governance

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Dedicated to All Members of the Global
Corporate Governance Institute Worldwide

Foreword

The Global Corporate Governance Institute came into existence as the confluence of two streams of research: Corporate Governance and Corporate Social Responsibility. The former field has existed for over a century in Anglo-American Law, and the latter field came into prominence in the 1980s. Events since 1989 have made this confluence necessary. There are since the 1989 fall of the Berlin Wall very few places in the world where centrally planned economies are advocated. Almost everywhere there is the recognition of the importance of the promise of economic growth and development as the product of a market economy. At the same time, globalisation, the recognition of an inescapable global marketplace, became part of the public consciousness. But globalisation brings contagion—both its promise and its problems cannot be contained. It is no longer possible to be provincial.

Nor is it possible to understand these issues through the lens of one discipline. It is no longer possible to engage in the evolution of legal thought in abstraction from competing and sometimes conflicting legal traditions. The social sciences such as economics and traditional business school disciplines such as finance, management and marketing are forced to confront normative issues for which they are ill-equipped intellectually.

How are we to understand 'social' institutions? In what sense is a corporation (or firm) a 'social' entity, specifically as opposed to a 'commercial' entity? How do corporations relate to other social institutions (including political and legal ones)? What does it mean to evaluate the performance of social institutions in general and commercial ones in particular? How are we thereby to make sense of the notion of 'improving' performance? *Advocacy* of what future practice should be in evolving and novel contexts is not a form of research (i.e. not descriptive) but a normative activity. There is nothing inherently illegitimate about advocacy or normative activity. But it is intellectually dishonest to present this as 'research'. To what extent do activist organisations misrepresent the facts and to what extent is advocacy a mask for a private political agenda?

Scholars view CSR as a form of value creation (sustainable business model), risk management or philanthropy. While all of these perspectives are useful, these perspectives merely focus on the fact that corporations impact other social institutions. Might corporations have a positive obligation to transform other social institutions? Are corporations constrained to prioritise the production of profitable products or services?

As Schumpeter pointed out long ago, markets reflect a process of creative destruction. In the light of what Schumpeter had to say, we need to ask if we are researching the right questions. To what extent is our thinking constrained by inherited philosophical prejudice? Could this be by inherited cultural or geographical or historical bias? What institutions or institutional structures can be exported? Are we seeking a universal model or might we welcome a continuum of approaches?

We seek to turn the page and engage scholars from every discipline and every perspective to come together to grapple with what may be the epicentre of the major commercial, political and social issues of our time.

Global Corporate Governance Institute Nicholas Capaldi
New Orleans, USA

Foreword: Global Corporate Governance: Global Cosmetics?

For CSR, the efforts of Samuel O. Idowu and colleagues have put in place a formidable background literature for CSR, including the *Encyclopaedia of CSR* and the *Dictionary of CSR* (Idowu et al. 2009, 2011, 2013, 2014). This has provided a well-documented vocabulary. The diversity of CSR is such that the same words are used with different meanings and contexts. CSR tends to be defined in terms of companies going beyond legal minimum requirements, and as such legal requirements vary around the world, we encounter varied cases. We need to explore central concepts around Responsibility, recognising that theory and practice can be very different. We must walk the talk, avoiding claims of academic detachment. We share an understanding of individual responsibility for our actions. Social responsibility, taking responsibility for the needs of others, may be less clear.

Management tends to be anything but Responsible. The culture is based on Irresponsibility, starting with protection of Limited Liability. We see an increased tendency to outsource responsibility. Profitability is maximised while commitments are restricted. This has accelerated with privatisation.

Once we see universities as businesses, it is harder to maintain academic detachment. There is pressure on universities to make cosmetic changes in order to compete. Despite the 2008 Financial and Economic Crash, and the subsequent Recession, many Business Schools have continued to teach as if nothing had gone wrong. Financial markets were not self-correcting. Loosely regulated banks and financial services exploited their freedom, with catastrophic consequences. Recovery is being financed by austerity and pressure on the poor. To talk of "responsibility" in such a context is absurd, insulting, and inflammatory. Universities now face a new threat from Massively Open Online Courses (MOOCs), which tend to be offered by high status universities but with a potentially disruptive impact on other universities. How are students to learn and to complete qualifications?

Vocational education continues to have lower status than academic studies, and Higher Education is remote from the workplace. Universities are knowledge workplaces. Combined with the pace of technology change, we see challenges to hierarchies and institutions (Johnsen and Ennals 2012; Johnsen 2014; Johnsen et al. 2015). Many companies do not regard their workforces as stakeholders and dialogue partners. They have developed approaches to corporate responsibility, looking outwards and ignoring the role of Working Life. Their schemes improve their image in the community, without affecting the core business. This is to apply lipstick to the capitalist pig (Ennals 2014). Companies are culturally situated, reluctant to address inconvenient truths, preferring denial.

Is there one model of capitalism which is followed globally, where the vocabulary of CSR is understood consistently? There is a small core of agreement. Capitalism should have a human face. CSR means companies going beyond legal minimum requirements. There has been optional corporate philanthropy. Now companies want to see CSR as integral to corporate strategy.

The dominant orthodoxy has been Liberal Capitalism, as seen in the USA and the UK. The European Union has developed an alternative Social Model, underpinned by EU Directives. In the European Union, employers have particular responsibilities to their employees. Social Partnership brings together employers' organisations and trade unions, who participate in the Social Dialogue process at all levels, as part of the process for improving working conditions (Fricke and Totterdill 2004). By contrast, many US and UK companies opt out of this social dimension, talking instead of Corporate Responsibility.

Scandinavia has maintained a distinctive Model. With the emergence of India and China, we see new approaches to business and to CSR. Emerging economies in Africa bring their own traditions. In a globalised economy, companies need to observe the laws and traditions of each of the places where they work. In Scandinavia, the social dimension is more developed, with a tradition of consensus, tripartite dialogue, respect for work, and social equity. They can consider work organisation in this context, favouring socially responsible innovation (see e.g. Ennals 1999, 2000, 2001; Ennals and Gustavsen 1999; Ekman et al. 2010).

The Quality Movement is now global in scale but with two traditions. In the USA and the UK, the emphasis has been on Compliance, with Quality as a tool for scientific management. By contrast, the Japanese need, during American occupation, was to empower workers to use their knowledge and experience. Hoshin Kanri (Hutchins 2008) demonstrated the strategic impact of workers engaging in self-managed collaborative problem-solving in Quality Circles, developing a culture of continuous improvement. This approach was taken up in India, and applied in schools, spreading to 25 countries, many in South Asia (Ennals and Hutchins 2012).

Once we understand that knowledge can be explicit, implicit or tacit, we see the implications for management. Running a successful company depends on communicating and sharing knowledge, only some of which can be written down and analysed. We can see older workers as repositories of experience and wisdom, strategically vital to the health and survival of the organisation (Ennals and Salomon 2011). By contrast, we may identify managers who purport to exercise responsibility while lacking experience and knowledge. There is experience of using the Dialogue Seminar Method to gain access to tacit knowledge in an organisation and using the power of analogies (Göranzon et al. 2006). Management decisions are not taken on the basis of complete information.

In the Action Research tradition, the researcher is engaged, rather than detached (see *International Journal of Action Research, AI* & *Society*). Managers are themselves part of the problems which they seek to solve. Management involves intervention and learning from differences. In the organisation, management is the orchestration of reflection.

The UN Global Compact offers an exciting way forward. The idea in 2001 was that, in order to take forward the UN Millennium Development Goals, UN agencies should work together with NGOs, companies and universities. The process seems to have degenerated into a superficial signing up exercise, often linked to accreditations. What has been lost is the opportunity for learning through the process of creating collaborative advantage. This can transform management culture and enhance sustainability.

This Foreword is based on an abridged version of the invited keynote talk at the first conference on Global Corporate Governance, Surrey University, UK, in August 2014.

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Preface

Some years ago, I had the good fortune to meet the indefatigable Samuel Idowu which in turn led to an introduction to René Schmidpeter. All three of us had been working on a variety of overlapping issues that crossed traditional academic boundaries, even within schools of business to say nothing of the university world as a whole. Essentially we were focusing on topics which themselves did not constitute a traditional academic discipline such as entrepreneurship, corporate social responsibility and sustainability.

In addition, we were mindful of the fact that scholars from a variety of disciplines such as management, economics, law, religion, political theory, philosophy, etc., were writing and publishing on these topics within traditional disciplinary journals. Given the nature of the modern university, scholars tended to read only articles within their own discipline. Although scholars and teachers are always encouraged to be interdisciplinary, in reality tenure and promotion come with a focus on and publication in traditional disciplinary journals. The result was a wealth of useful material largely neglected outside of a small circle. Worse yet, some scholars were 'reinventing the wheel' because of their lack of familiarity with the work in other disciplines. Elementary mistakes recognised and explained by one group of scholars were repeated *ad nauseam* by those unfamiliar with that literature.

Commerce, in the age of globalisation, cries out for recognition as a field of study of its own, and it requires familiarity with a range of methodologies that simply are not housed within any one discipline. It is as if we are back in the Middle Ages trying to convince the traditional liberal arts that the sciences ought to be part of the curriculum. Business schools, which themselves only became a part of the university in the last century, are narrowly focused on specific marketable skills like accounting, finance, marketing, human resources, etc. There is no locus which brings these all together so that students can connect the dots and see the big picture. In their endeavour to appear respectable (i.e. scientific), the traditional business school disciplines are hopeless when faced with normative issues. Some hire adjuncts or junior faculty to address these issues so as to impress donors or to look like they are responding to public opinion. Adding core curricula taught by the humanities is of no help since liberal arts professors either do not understand commerce themselves (what's a balance sheet?) or are inexcusably hostile to it.

We seem to be no better off than when Adam Smith wrote the following in the *Wealth of Nations* (1776): "The greatest innovative ideas and initiatives are typically made outside universities. The greater part of universities have not even been very forward to adopt those improvements. . .several. . .have chosen to remain. . .the sanctuaries in which exploded systems and obsolete prejudices found shelter and protection after they had been hunted out of every other corner of the world. In general the richest and best endowed universities have been the slowest in adopting those improvements....The endowments. . .have diminished. . .the necessity of application in the teachers."

This volume is an initial effort to supply what has been lacking.

New Orleans, LA — Nicholas Capaldi
London, UK — Samuel O. Idowu
Cologne, Germany — René Schmidpeter
February 2017

Acknowledgements

We are grateful to all members of the Global Corporate Governance Institute who have supported the very first conference of the Institute held at the University of Surrey, Guildford, England, between the 14 and 15 August 2014. A few of the papers presented at this inaugural conference have culminated into this very first book in the name of the Institute. We are also grateful to our host in 2014 Reginee Pillay formerly of the University of Surrey. We also wish to express our gratitude to Judith Flatz from Austria who assisted us in documenting the inaugural conference in pictures and Bonnie Lawtas. We are particularly grateful to Stephanie Willis of the Centre for Spiritual Capital, Loyola University, New Orleans, USA, for managing the Institute's headquarters in New Orleans; without Stephanie's managerial skills these conferences we have held over the last couple of years would not have taken place. We look forward to working with you.

We are also grateful to our past sponsors, Springer International—our publisher, Gower Publishing Company, Loyola University, London Metropolitan University, Cologne Business School and the European Journal of Economics and Management.

We are particularly grateful to an Executive Editor at Springer, Christian Rauscher, for donating prizes on behalf of Springer to some of the excellent presenters of papers at the Surrey Conference in August 2014; we are equally grateful to our friend Barbara Bethke at Springer in Heidelberg for her watchful eyes on some important details academics carelessly ignore in many of these things.

Dimensional Corporate Governance: An Inclusive Approach—Introduction

Corporate social responsibility (CSR) as a management concept is a broad topic that has relevance in virtually every economic sector around the world. Therefore, the CSR, Sustainability, Ethics and Governance series often zooms in on the intricacies of its various disciplines, dimensions and relevance for a specific region or sector. This book however, takes a more inclusive approach and comprises such individual aspects into a "bird's eye view" offering expert insight into historical, present and future global perspectives. Articles in this book span many countries and sectors and are therefore, perfect for anyone interested in the overall concept of CSR and its application in different areas. CSR has been long since recognized as an important issue for the sustainable development of business and market stabilization. Therefore, this book offers both general approaches as well as location-based examples of sound CSR management techniques to help foster strong corporate governance. The following is a short glimpse into the critical areas explored in by our international experts. The book is divided into four parts: Business and Society, Corporate Governance, Corporate Social Responsibility and Reporting CSR as well as Sustainability and Financial Performance.

The Business and Society part of this multidisciplinary publication begins with a comparison of the expected role of business in four completely different markets: USA, South Korea, Hong Kong and Singapore. It is brought to us by Randal S. Franz and Donghun Lee who are management professors from School of Business, Government and Economics at the Seattle Pacific University. There is no one-size-fits-all approach to CSR that proves equally successful in all sectors and regions. In order to find the most successful integration style, it is important to understand local people's beliefs about the role businesses in society. Despite dramatic differences in this area, a "global" model highlighting similarities would be extremely helpful, especially in today's globalized world where many companies operate across international borders. The author's thus conducted a cross-cultural analysis of four key regions and shed light on differences and similarities based on an exploratory and confirmatory factor analyses (EFA and CFA). The authors describe the complicated challenge faced by managers who wish to practice

CSR in a global context and the importance developing an understanding for local variations in expected role of business in society.

This discussion is then furthered with a collaborative article from Manuel Castelo Branco and Catarinfa Delgado of the University of Porto, Portugal on an analysis of organizational responses to the justification of CEO pay ratios. The chapter offers a glimpse into whether CEO and general worker compensations had an impact on the decision of the 250 top companies featured in Standard & Poor's 500 Index to respond to publications by Bloomberg on CEO pay ratio calculations. It looks into different strategies employed by organizations to avoid the topic of unfair compensation, such as deflecting attention away from public concerns or attempting to devalue research on a case of technicality. The researchers look at whether or not the likelihood of a company's willingness to respond was positively correlated to increased or decreased CEO compensation and ways in which the organizations defended wage disparities among employees. Wage disparities and a growing income gap is a serious problem in both industrialized and developing nations and if companies are to be considered socially responsible, they must not only justly compensate, but also be able to clearly and transparently communicate salaries at all organizational levels.

The next chapter looks at the ethical side of CSR within the business management realm. The article is a result of research by Mary Godwyn of Babson College in Massachusetts, USA. Ethics is an issue, which is largely determined by cultural values and individual perception. As this series attempts to offer an international perspective on the various issues surrounding CSR, it is important to understand the levels of variation in how different programs, universities and cultures teach ethics to business management students. In order to bridge the gap between academia and practice, the author looks into ways in which different teaching strategies across 13 countries are implemented in the ethical standards of businesses in those regions. The research applies a framework by political philosopher Hannah Arendt on the manifestation of ethical standards among individuals and the influence of immediate surroundings on the conceptualization and understanding of ethical behaviour as well as the likeliness of people to accept ethical reasoning without critical reflection. Blind following and a lack of critical thinking skills among employees and managers can severely stunt sustainable management within organizations.

Further aspects of ethics in governance are developed by Friedrich Glauner of the Cultural Images & Global Ethics Institute at the Universität Tübingen, Germany who explores ethics, values and corporate culture based on the Wittgensteinian Approach as a way to understand corporate actions. The author discusses how corporations cannot accurately be considered ethical entities as they do not inherently self-impose a set of guiding principles for action based on moral consciousness – a prerequisite for moral behaviour. With this understanding in mind, the author develops strategies as how CSR and ethics can be entrenched in the core of company culture. The integration of cultural values is systemically analyzed in relation to psychological systems of a similar nature. The study concludes that the foundations and design of corporate culture is more influential on the success and sustainability of companies than mere training programs and ethical claims. The integration of CSR in business is about a true understanding and development of what the company culture accepts as ethical behaviour among all employees.

Part II of this book looks at Corporate Governance in various industries and regions. The discussion begins in Africa, where specific challenges associated with Nigeria's Corporate Governance Regulatory Framework are reviewed. The article by Benjamin Inyang of the University of Calabar in Nigeria looks into the recent emergence of corporate governance as a management concept in Nigerian business and the effects of the 2008 world economic crisis on the advancement of governance codes and guidelines for organizational behaviour. These new standards focus on the responsible management of companies based on ethics, transparency, integrity and accountability for the controlling of stakeholder benefits. These are however, not without limitations. The study finds that CSR codes can foster conflicts as systems can be interpreted differently among individual parties. Furthermore, the weak nature of regulatory mechanisms leads to inefficient and voluntary compliance.

While the origins of CSR in Nigeria can be traced back to unrest about mismanagement in large corporations, small and medium sized businesses also play a key role. The SME perspective and how it can help to foster increased responsibility in Nigerian Business is discussed by Adebimpe Lincoln, Oluwatofunmi Adedoyin and Jane Croad of the Cardiff Metropolitan University in the United Kingdom. The study examines the growing amount of literature on CSR and sustainability in Africa and reflects upon the motivations and challenges associated with its development in Nigerian SME's. Through this article, the researchers attempt to fill research gaps and provide a theoretical perspective upon which further studies can be based, especially with a focus on developing countries that face similar challenges to those in Nigeria. We then fly back to Europe where Mara Del Baldo of the University of Urbino "Carlo Bo" discusses CSR in relation to shared territorial governance and the implications for social innovation. The article offers an Italian perspective on the cultivation of governance based on territory. It applies a model for regional-based governance to support the development of public policies for sustainable development, which relies on contextual factors to allow for replication in other areas.

The Corporate Governance chapter is concluded with Liliane Segura, Henrique Formigoni, Rute Abreu and Fátima David's knowledge of the integration of CSR in global business by offering a Southern American standpoint focused on Brazil. The authors from the Mackenzie Presbyterian University in Brasil and the Polytechnic Institute of Guarda in Portugal discuss the role of company founders in the financial decisions of Brazilian companies. The researchers compare the level of debt among various companies in the country in relation to whether or not the organization is managed by its founder or other non-founding professionals. The study concludes that significant evidence exists in support of more responsible financial decision-making, and therefore, lower debt levels among companies managed by their founding director. This is generally due to the founders' personal bias and protection of his or her own financial interest and therefore, pressure to act responsibly when it comes to company investment and spending.

Part III on Corporate Social Responsibility and Reporting CSR begins by considering value concepts of economics and its relation to the social and philosophical heritage of CSR. The article was written by Massimo Costa and Patrizia Torrecchia of the Università degli studi di Palermo in Italy. The study underlines the importance of the value creation concept of CSR with reference to time specific Italian literature. The authors look at value not only in the case of economic relevance but also broader societal and environmental effects of corporate actions and triple bottom line performance. It is followed by another article from Portugal that develops a specific case study from the beverage industry as a practical example of a CSR management system. Fátima David, Rute Abreu and Rita Almeida of the Guarda Polytechnic Institute in Portugal look into systematic CSR policies for the development of responsible practices. The empirical analysis of an industry case, proposes that the company implements a set of principles to guide top management with aspects such as ethics, value chain management, communication transparency, environmental stewardship and societal well-being. The application of CSR does not only differ across regions, but also industries. Therefore, this part is concluded with another industry specific example, this time from India. The article discusses CSR in the Indian apparel industry, a massive sector which in many countries has experienced significant negative media attention for issues such as child labour, poor working conditions and sub-standard environmental performance. The author, Archana Gandhi, Associate Professor of the National Institute of Fashion Technology in New Delhi, India discusses the benefits and challenges of CSR for Indian clothing manufactures. While, short-term thinking and misconceptions about the nature of the industry's CSR activities are significant challenges, companies with higher levels of CSR have demonstrated significant benefits including decreased employee turnover and improved social reputation. Unfortunately, there is still a severe lack of CSR integration in Indian apparel firms. On the one hand, this makes success easier for companies implementing it, but on the other demonstrates the dire need for further development and research in the area.

The final part of this book, Sustainability and Financial Performance, begins with a look at the financial impact of sustainability practices on Nigerian oil and gas companies. The author, Abubakar M. Dembo of the University of Bedfordshire in the UK examines the performance of the listed companies in the country's energy sector based on return on equity, capital employed and price earnings ratio measures. As demonstrated many times throughout this book and also the entire series, this article once again shows the positive correlation between sustainability and economic performance in companies. In this case it can even be seen from both perspectives, i.e. that increased financial performance leads to sustainable development within the firm and also, that increased sustainability results in higher profits. Thus, proving that no matter which comes first, it is always a good idea to adapt a long-term approach consistent with the advancement of social and environmental goals. Sustainability and CSR can be demonstrated in many different ways. The next authors provide us with an excellent example of how it can be used to solve critical social issues in the workplace. Noopur Anand, Archana Gandhi, Vipul Verma and Sarablin Kaur from the National Institute of Fashion Technology in New Delhi, India, present a case on an ergonomic workstation specifically designed for pregnant workers in the Indian garment industry. The fashion industry has a large amount of female workers who at some point in their career become pregnant. Therefore, it is important to develop strategies that cater to the specific needs of childbearing women. Such programs increase workplace safety, empower women and thus, lead to improved working condition and therefore, happier and more reliable employees. The researchers present the specific struggles of pregnant women in the industry and how conditions can be improved through the strategic design of chairs that cater to their needs.

As previously stated, CSR is coming more and more into focus in countries around the world. Indonesia for example, another emerging country, is shifting its attention to the implementation of CSR to solve a number of the countries dynamic issues through responsible management. For this reason, Juniati Gunawan of the *Trisakti University* in Jakarta, Indonesia has developed an article on CSR initiatives and the regulatory approach from an Indonesian perspective. While in many emerging markets CSR is either loosely controlled or not adequately enforced, Indonesia has taken a more regulatory approach on both a local and national level. While this helps with the advancement of responsible business, a common misunderstanding of the concept still exists in that it remains linked to philanthropically and donation-based activities and not integrated as a core management concept. Therefore, the paper draws from leading organizations in order to serve as an example for the challenges, opportunities, methods and initiatives involved in incorporating CSR into organizational DNA. It also draws up governmental challenges and the overall development of organizational ethics in the region.

This book offers numerous examples and various perspectives on challenges and opportunities for sustainable management and responsible business around the world. It is of critical importance that this discussion is furthered through collaboration between academics and practitioners. As discourse in the field constantly advances and is focused on in more and more places and across sectors, lessons can be learned and misunderstandings clarified. We sincerely hope that the knowledge offered in this book helps students, professors, managers and interested stakeholders develop a better understanding of the importance of CSR and the role of business in society. It is finally time, that all companies realize the benefits of focusing on the creation of long-term societal value and abandon out-dated approaches to short-term economic gain.

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About the Editors

Nicholas Capaldi is Legendre-Soulé Distinguished Chair in Business Ethics at Loyola University New Orleans, where he also serves as Director of the Center for Spiritual Capital. He is the founder and President of the Global Corporate Governance Institute. He received his BA from the University of Pennsylvania and his PhD from Columbia University. His principal research and teaching interest is in public policy and its intersection with political science, philosophy, law, religion and economics. He is the author of eight books and over 100 articles, editor of six anthologies and member of the editorial board of six journals and has served as editor of *Public Affairs Quarterly*. He is Associate Editor of the *Encyclopedia of Corporate Social Responsibility* (Springer). His most recent book is *America's Spiritual Capital*, co-authored with Ted Malloch. He is the author of the Cambridge intellectual biography *John Stuart Mill*. Currently, he is writing a book entitled *Liberty and Equality in Political Economy: From Locke versus Rousseau to the Present*.

Samuel O. Idowu is a Senior Lecturer in Accounting and Corporate Social Responsibility at London Guildhall Faculty of Business & Law, London Metropolitan University, UK. He researches in the fields of Corporate Social Responsibility (CSR), Corporate Governance, Business Ethics and Accounting and has published in both professional and academic journals since 1989. He is a freeman of the City of London and a Liveryman of the Worshipful Company of Chartered Secretaries and Administrators. Samuel is the Deputy CEO and First Vice President of the Global Corporate Governance Institute. He has led several edited books in CSR, is the Editor-in-Chief of two Springer's reference books—the Encyclopedia of Corporate Social Responsibility and the Dictionary of Corporate Social Responsibility—and is an Editor-in-Chief of the International Journal of Corporate Social Responsibility. He is also a Series Editor for Springer's books on CSR, Sustainability, Ethics and Governance. One of his edited books won the most Outstanding

Business Reference book Award of the American Library Association (ALA) in 2016 and another was ranked 18th in the 2010 Top 40 Sustainability Books by *Cambridge University Sustainability Leadership Programme*. Samuel is a member of the Committee of the Corporate Governance Special Interest Group of the British Academy of Management (BAM). He is on the Editorial Boards of the International Journal of Business Administration, Canada, and Amfiteatru Economic Journal, Romania. Samuel has delivered a number of Keynote Speeches at national and international conferences and workshops on CSR and has on two occasions 2008 and 2014 won Emerald's Highly Commended Literati Network Awards for Excellence. To date, Samuel has edited several books in the field of CSR, Sustainability and Governance and has written four forewords to books. Samuel has served as an external examiner to the following UK Universities—Sunderland, Ulster, Anglia Ruskin and Plymouth. He is currently an external examiner at Robert Gordon University, Aberdeen, Teesside University, Middlesbrough and Sheffield Hallam University, UK.

René Schmidpeter holds the Dr. Juergen Meyer Endowed Chair of International Business Ethics and Corporate Social Responsibility at Cologne Business School (CBS). He is also a professor at the Nanjing University of Finance and Economics as well as the director of the Center for Advanced Sustainable Management (CASM) at CBS. He is a series editor for Springer's CSR, Sustainability, Ethics and Governance books, a section editor of the Encyclopedia of Corporate Social Responsibility (ECSR) and an editor of the Dictionary of Corporate Social Responsibility (DCSR). His research and teaching activities focus on the management of Corporate Social Responsibility, international perspectives on CSR, Social Innovation and Sustainable Entrepreneurship as well as the relationship between business and society. He has published widely and is the editor of the German management series on Corporate Social Responsibility at Springer Gabler.

List of Contributors

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Oluwatofunmi Adedoyin holds an LLB in Law from the University of South Wales and an LLM in Law and MSc in International Business from Swansea University. She has recently successfully defended her doctoral thesis in Corporate

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Her other areas of work are Fit analysis, Sustainable/'Smart' Product Development and Pattern Engineering in which she has worked extensively.

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Archana Gandhi holds a Doctorate from the Faculty of Management Studies, University of Delhi. Her PhD thesis was in the area of 'Merchandisers' Performance in Improving Supply Chain Competitiveness of Apparel Export Units'.

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She has been conducting Merchandiser training programmes for Okhla Garment and Textile Cluster (OGTC) associated organisations.

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His approach to values management as means for developing high-performance teams and future viable business models combines cybernetic elements of organisational development with social- and existential-psychological findings regarding the formation of personality, philosophical arguments on mental models by which we construct reality and modern management instruments for steering strategy and change processes.

He argues that corporate cultures are the basis for fostering economic value added. To this end, he developed the instrument of the values cockpits to steer and measure corporate cultures with rational means. In this process, cultural images are the foil for working with values. These are implemented and managed within the corporation by the instrument of the C4-Management. It is aligning the four corporate dimensions of Corporate Identity, Corporate Values, Corporate Knowledge and Corporate Development according to the core values driving the fostering of benefit.

Besides working with corporations and as scholar, Friedrich Glauner is engaged in several non-profit organisations for example as member of the extended board of the DNWE Deutsches Netzwerk Wirtschaftsethik EBEN (European Business Ethics Network) Deutschland e.V.

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Her work has been published in journals such as Symbolic Interaction, Current Perspectives in Social Theory, Gender and Management and the Journal of Small Business and Entrepreneurship. In 2008, her business ethics case, 'Hugh Connerty and Hooters: What is Successful Entrepreneurship?', won the Dark Side Case Competition sponsored by the Critical Management Studies Interest Group and the Management Education Division of the Academy of Management. She has also published three books: Minority Women Entrepreneurs: How Outsider Status can Lead to Better Business Practices, co-authored with Donna Stoddard, DBA (Stanford University Press and Greenleaf Publishing, 2011); Sociology of Organizations: Structures and Relationships, co-edited with Jody Hoffer Gittel, PhD (Sage Publications, Inc., 2012); and *Ethics and Diversity in*

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Some of her publications:

- Gunawan, J & Abadi, Kumala. 2015 (forthcoming). *Content Analysis Method: A Proposed Guideline for Quantitative and Qualitative Disclosures*. Book Chapter of: *Handbook of Research Methods in CSR,* Edited by David Crowther and Linne Lauesen, will be published by Edward Elgar, Spring 2015.
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Part I
Business and Society

Corporate Governance in Brazilian Companies: The Influence of the Founder in the Financial Decisions

Liliane Segura, Henrique Formigoni, Rute Abreu, and Fátima David

Abstract All over the world, corporate governance is adopting a new process of leadership and simultaneously propagating responsible governance for the welfare of stakeholders. This research has allowed us to identify new directions for future research. It examines the influence of several contextual factors in the framework of the financial decisions, where company has the right to have a transparent accountability, based on the influence of the founder, dispersion and type of ownership, size, economic sector and environment.

The aim of this research is to analyse the influence of the founder in the financial decisions based on the comparability of the level of indebtedness among Brazilian companies managed by its founder and those managed by professionals.

The methodology focuses the theoretical analysis on the literature review about Corporate Governance and Corporate Finance. The empirical analysis is based on econometric analysis supported on the multiple regression model and fixed effects method. The sample includes 356 non-financial Brazilian companies, with accounting data from the period 2004–2009, on a total of 2136 observations.

The results find supporting evidence that lower debt in those companies of the sample in which the founder is the manager of the company and, in contrast, bigger indebted level of the professional manager. Further findings confirm a reduction of the investment level in businesses run by its founder, as well as, their preference for using equity. The founder has quite peculiar biases relation with decision making process. Generally, the founder has a personal need and his or her own interest, is based on the entrepreneurship decisions.

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1 Introduction

In the new process of leadership, Hadani (2007) focus the family role and their position in company strategy. Also, Sirmon et al. (2008) and Zahra et al. (2008) defend the same role played by the family in the strategic decisions of the company and they study the values and culture of the family on the financial decisions. Other researchers show, on the accounting and corporate finance, different decisions making processes (Berens and Cuny 1995; King and Santor 2008) and, especially, those with major shareholders (Agrawal and Nagarajan 1990; Anderson and Reeb 2003, 2004; Gómez-Mejía et al. 2007; Oro et al. 2008).

Concerning with this new process of leadership, the literature review based on the family and their management have been achieving great prominence (Drodow and Carroll 1996). Anderson and Reeb (2003) say that 35% of the 500 largest U.S. companies have family influence. Oro et al. (2008) found that 253 Brazilian companies, among the top 500 presented by *Exame Magazine* in 2005, had fully characterized by the Brazilian stock market and some of them operate under family interference. In the ownership theory, there is an extensive list of public traded companies with founding family control.

Although, many studies have been classified as family companies and the control of households in public companies, in Brazil, there is a lack of papers associated with the ownership of family members (Thomsen and Pedersen 1997), the capital concentration (Stulz 1990) and the capital structure (Modigliani and Miller 1958, 1963).

There are several studies with contributions to biases the manager in the decision making process. Without any doubt, Conlisk (1996), Baker and Wurgler (2002), Kahneman (2003) and Bazerman (2004) reveal that the profile manager has an effect on the financial decisions. Oro et al. (2008) show the relationship between capital structure and operating income observed during several generations of Brazilian companies. In this research, the authors found differences between profitability and capital structure, because of the policies adopted by the family when they manage these companies.

Several researches argue that the founder of the small businesses is responsible for the financial decisions. However, there are studies that defend other perspective. Leavell and Maniam (2009) show the need to growth on the small businesses and had sought foreign debt at the expense of the initial public offer. Winborg and Landstrom (2000) define a strategy concern with the owner not to lose control of the business. The owner would manager, according to these authors, to prefer debt instead on new shareholders. No studies were found that show, however, in Brazil, public companies managed by its founder or the owner family. Also, on the academic research, there is an influence of the debt management in the company.

Given the above, the structure of the research is organized as follows. Section 2 discusses the theoretical framework of the research. Section 3 describes the research methodology with the sample selection procedure, hypothesis and definition of variables. Section 4 presents the empirical analysis and details the econometric analysis. Finally, Sect. 5 presents the main conclusions and discusses the results and limitations obtained on the research.

2 Theoretical Framework

The literature has pointed to evidence on the corporate finance that managers have overconfidence when they tend to make investment decisions and financing that may cause the company value decreases (Thaler and Barberis 2003; Malmendier and Tate 2004; Barros 2005). There are studies that predict the influence of the manager to be a member of a conservative founding family in relation to its capital structure (Fama and Jensen 1983; Demsetz 1983; Shleifer and Vishny 1997). Lee (2011) corroborates these authors. His research discusses the family ownership and his findings shows that the family ownership is less indebted. Also, he claims that family companies seek greater domestic borrowing. Bitler et al. (2005) show lower risk level when the companies have share concentration of entrepreneurs. Oro et al. (2008) found greater use of equity by family companies and lower debt.

Other studies point out to the fact that the residence of the founding family in company decisions tends to increase the debt and, in many cases, the company's risk (Fiegenbaum and Thomas 1988; Anderson and Reeb 2004). The research made by La Porta et al. (1999) surveyed the amount of publicly traded companies in Europe, Latin America, United States and other countries of the world that had the control exercised by the founding families and say there is little empirical evidence on patterns of decision of the owners of large companies. In this research, the authors required to understand the relationship between ownership and control, unlike the approach given by Berle and Means (1932, 1991), whose work claimed full separation of ownership and control in public trade companies. La Porta et al. (1999) seek evidence that, at the current stage of the market, many companies have been related with family control (founding or non-founding).

Demsetz (1983) finds evidence that companies with ownership concentration in the hands of a single owner choose investment projects that are not profitable to serve its own purposes. Shleifer and Vishny (1997) like many other works, show evidence of expropriation of wealth when there is ownership concentration, but not enough to deal with debt. Morck et al. (2000) show the control and the ownership taken for a long period of time generate to the company lower level of performance.

In the literature review, it must highlight the Mosebach (2007) research, because it justifies the payment of taxes related with the founding family control. In companies managed by founding families the effective tax rate is different and Bitler et al. (2005) argue that founders are owners. The authors found that performance improved with the property and the risk level decreased as increased ownership and Burkart et al. (2003), about the pursuit of professional managers by the founder, instead of using his heirs in business management.

Still, on the performance level, McConaughy (1994) says the founding family performs better than other companies. Nevertheless, performance differences with concentration of power were not found. Moreover, founding family shows lower level of debt and risk aversion. So, in summary, it was observed that the founding family has lower beta and when there is a concentration of power, there is higher risk level. The identification of managers is more important than the control, ie, if the manager is a member of a family or has intercourse with her, then he or she can influences decisions. Despite, the professional manager without a relationship, he or she could not influence the decision of the owners (Carlock and Ward 2000).

3 Research Methodology

The methodology used a hypothetical-deductive research, according to the proposed grounds for Popper (1975). It is characterized by the establishment of hypotheses to be tested through empirical research through the observation of the reality. The econometric analysis used hypothesis testing with multiple regressions analysis (Hair et al. 2010; Greene 2012).

3.1 Population and Sample Selection

The data were obtained from different sources, depending upon on the definitions and the nature of variables. A large amount of data on different variables were extracted from the annual reports of the listed companies among those were active, in 2010, on the *São Paulo* Stock Exchange, called the BM&FBovespa (Bovespa 2014). This year (2010) has been chosen, because, it is before the effects of the economic and financial crises all over the world, and it produces more stable data. The data has been collected from Divext, Foreign Disclosure ITR/DFP/IAN CVM, which are available for Brazilian companies that trade their shares on the BM&FBovespa.

Additionally, the data comprise with names of the founder and till the fifth-largest founder, Chairman of the Board (CB), Chief Executive Officer (CEO) and Chief Financial Officer (CFO), during the period from 2004–2009. This information has been collected from the annual report and other web-based information from each company. Due to limitations on the disclosure of companies, many of them did not have data for the period observed. So, it was necessary for the authors, to have an unbalanced panel (IBGC 2007; IBGE 2008; CPC 2008; SEBRAE 2010).

The set of observed companies obtain among those who were active in 2010 in the BM&FBovespa list, as well as, the type of control of the company and the rating of corporate governance of population of 488 financial and non-financial. On the debugging process were excluded those without accounting and overall data. The sample of research is 356 companies, with a total of 2136 observations.

3.2 Hypothesis

This research studies the influence between the founder and the level of debt. In this sense, Agrawal and Nagarajan (1990) show that companies which do not have long-term debt than professional managers are concerned with high liquidity, but the level of bankruptcy decrease (Altman 1984) with higher percentage of founders (22% in companies with no debt against 11% in leveraged companies). This research indicates 27% of managers have some relation to others and 50% of managers have a family relationship. Thus, it is argued that the loss of one member of the founding family is largely recognize in the case of bankruptcy, because these managers lose control of the company and their jobs (Jensen and Meckling 1976).

In this research, the purpose is to study the influence between the founder and debt, by using a rating of the founding manager. The founder manager does not need to be actual company's controller, but he was the shareholder involved in the foundation of the company. It is understood that, as described in Barros (2005), company founders have entrepreneurial characteristic therefore they could present several types of different decisions related with others. Based on these researches, it was possible to draw the following hypothesis:

> There is an influence between the presence of the founder in the board and the level of debt in the Brazilian companies.

3.3 Definitions of the Model and Variables

The model used in this research has been drawn from other researchers, such as: Anderson and Reeb (2003), Barros (2005), Forte (2005), Perobelli et al. (2005), Brito et al. (2007), Soares and Kloeckner (2008). They present the basis to seek the necessary variables and they work with Brazilian companies.

3.4 Econometric Model

The model allows us to analyse the research hypothesis relating with the influence of the founder and several variables. According to Eq. (1), TD_{it} is the company's debt as dependent variable; $FUND_{it}$ is the founder of the company as independent variable, CVj_{it} are the control variables and ε_{it} is the error.

$$TD_{it} = \beta_0 + \beta_1 FUND_{\mathrm{it}} + \sum_{j=1}^{k} \delta_j CV_{jit} + \varepsilon_{it} \tag{1}$$

3.5 Dependent Variable

Total debt [$TD_{i,t}$] is the total debt of company present at Eq. (2) knowing that the current liabilities of company i in year t (CL) plus the non-current liabilities of company i in year t (NCL) divided by the total assets of company i in year t (TA).

$$TD_{\mathrm{i,t}} = \frac{\mathrm{CL}_{\mathrm{i,t}} + \mathrm{NCL}_{\mathrm{i,t}}}{\mathrm{TA}_{\mathrm{i,t}}} \tag{2}$$

3.6 Independent Variable

Founder of the company [FUND]: is a dummy variable (yes = 1; no = 0) to identify the founder of the company. Also, it will identify their position: Chairman of the Board (CB), Chief Executive Officer (CEO) or Chief Financial Officer (CFO). In the analysis of ownership, the authors identify manager, owner and founder. If the variable is equal to one, then the founder of the company carries one of the positions presented, regardless of the number of shares owned. In some cases, the company may be considered as familiar. If the variable is equal to zero, subsequently it is professional manager.

These variables measure the presence of the founder in the board and even verify that among the managers, her or his names which occupy these positions. It was obtained from the annual financial statements of companies, issued by the CVM system and Divext report (BOVESPA 2014). The classification of professional manager or founder has been obtained from the internet research of the companies' websites and news.

3.7 Control Variables

Profitability [$P_{i,t}$] is widely discussed among capital structure researchers as an important variable regarding whether to seek new financing decisions. Greater profitability may indicate a lower level of debt with third parties (Myers and Majluf 1984; Moreira and Puga 2000; Perobelli and Fama 2002; Perobelli et al. 2005; Brito et al. 2007; Soares and Kloeckner 2008). In Eq. (3), the profitability of company i in year t is fraction of the operating profit before the financial result and taxes of company i in year t (OP) by the total assets of company i in year t (TA):

$$P_{i,t} = \frac{OP_{i,t}}{TA_{i,t}} \tag{3}$$

Company size [$CS_{i,t}$] is measured by the natural logarithm of the total assets of company. Knowing that the larger size of the company induce higher level of debt as the literature pointed: Minichilini et al. (2010), Perobelli and Fama (2002), Perobelli et al. (2005), Soares and Kloeckner (2008).

Risk [$R_{i,t}$] is used by Gómez-Mejía et al. (2007), Perobelli and Fama (2002), Perobelli et al. (2005) and Soares and Kloeckner (2008). Also, the undiversified risk managers are defined by Friend and Lang (1988) as the standard deviation of the operating income (before interest and taxes) divided by the total assets, which are used as a proxy for risk. Thus, Eq. (4) is the level of risk of company i in year t as the standard deviation, in the last 5 years, of the operating profit of company i in year t (OP) by the total assets of company i in year t (TA).

$$\mathrm{R}_{i,t} = standard\ deviation\,\frac{OP_{i,t}}{TA_{i,t}} \tag{4}$$

Tangibility [$Tang_{i,t}$] is the variable that evaluates the corporate debt as argued by Brealey et al. (2008). According to Eq. (5) is the quotient of the investment on fixed assets of company i in year t (I) by the total assets of company i in year t (TA).

$$Tan\,g_{it} = \frac{I_{i,t}}{TA_{i,t}} \tag{5}$$

Opportunity growth [$OG_{i,t}$] can be one of reasons why the company makes more money borrowed, then it increases the level of debt (Heineberg and Procianoy 2003; Perobelli et al. 2005; Soares and Kloeckner 2008). It is used by Barros (2005) as an alternative proxy for growth opportunity. According to Eq. (6) is the quotient of the change on the total assets of company i in year t (TA) by the total assets of company i in year t-1 (TA).

$$OG_{i,t} = TA_{i,t}/TA_{i,t-1} \tag{6}$$

Sales growth [$SG_{i,t}$] indicates the need of funding (Brito et al. 2007). In Eq. (7) is the sales growth of company i in year t (SG) represented by the net sales of company i in year t (NS_{it}) divided by the net sales of company i in year t-1 (NS_{it-1}).

$$SG_{i,t} = \frac{NS_{i,t}}{NS_{i,t-1}} \times 100 \tag{7}$$

Free cash flow [$FCF_{i,t}$] is a variable that evaluates the reduction of the corporate debt (Jensen 1986; Perobelli et al. 2005; Soares and Kloeckner 2008). Companies with a larger free cash flow have less debt. Due to this, companies that have availability and make investments tend not to have the tendency to attract funding. The Eq. (8) presents the free cash flow of company i in year t (FCF) as a result of difference between the net profit of company i in year t (NP), minus is the increase in net working capital of company i (*IncreaseNWC* is calculated by the difference in the net working capital in year t-1 and year t) plus the depreciation of the fixed tangible assets of company i in year t (*Deprec)* plus the investment level of the asset of the company i in year t (*Invest)*.

$$FCF_{i,t} = \mathrm{NP_{i,t}} - \mathrm{Increase\ NWC_{i,t}} + \mathrm{Deprec_{i,t}} - \mathrm{Invest_{i,t}} \tag{8}$$

Other non-debt tax benefits [ONDTB$_{i,t}$] is a control of the non-debt tax benefit, which captures all the expenses not related to the company debt, but it may influence the total debt (Barros 2005). Therefore, in Eq. (9), the fraction of the depreciation of the fixed tangible assets of company i in year t (*Deprec)* and the amortization of the intangible assets of company i in year t (Amort) by the total assets of company i in year t (TA).

$$ONDTB_{it} = \frac{Deprec_{i,t} + Amort_{i,t}}{TA_{i,t}} \tag{9}$$

Performance [**Tobin's Q**] is a continuous variable that is represented by Nogueira et al. *(*2007). As shown in Eq. (10) is the fraction between the market value of the shares (MVS) and the market value of debt (MVD) by the replacement value of assets (VRA).

$$\mathrm{Tobin's\ Q} = \frac{VMS + VMD}{VRA} \tag{10}$$

However, due to the difficulty of finding the database market value of debts of Brazilian companies and the replacement value of assets, an approximate model was defined by Chung and Pruitt (1994). As Eq. (11) considers the market value of the preferred shares and common shares (MVS) plus the book value of debt (BVD) by the quotient of the total assets of company i in year t (TA).

$$\mathrm{Tobin's\ Q} = \frac{VMS + \mathrm{BV}D}{TA} \tag{11}$$

The debt of the company is used by Chung and Pruitt (1994) as Eq. (12) details the book value of current debt (BVCD) minus the book value of current funds (BVCF), plus the book value of inventories (BVI) plus the book value of non-current debt (BVNCD).

$$D = \mathrm{BV}CD - \mathrm{BVCF} + BVI + BVNCD \tag{12}$$

Therefore, the performance calculation will be made, according to Eq. (13), knowing that the total assets of company i in year t (TA):

$$Desemp_{it} = \frac{VMA + \left(VCD_{cp} - VCR_{cp} + VC_{est} + VCD_{lp} \right)}{TA} \tag{13}$$

Uniqueness [$\mathbf{SING_{i,t}}$] is a continuous variable, calculated by Eq. (14), in which SING is the uniqueness of the company i in year t, the sales of the company i in year t (S) and the net sales of the company i in year t (NS).

$$SIN\,G_{i,t} = \frac{S_{i,t}}{NS_{i,t}} \tag{14}$$

Sector is identified by a dummy variable according to the sector in which it operates. The sector dummy is represented by a binary variable and it is equal to one if the company operates in the same sector and zero otherwise.

Year is identified by a dummy variable to capture any macroeconomic shocks and possible temporal effects that can affect the company (Barros 2005). The year dummies are represented by a binary variable and it is equal to one in the year observed for company i and zero otherwise.

4 Empirical Analysis

4.1 Descriptive Statistics

Table 1 shows the distribution across 20 economic sectors, using the Bovespa classification (Bovespa 2014). The most representative sector is the electricity (12.64%), followed by construction (8.43%), textile (8.15%) and steel and metallurgy (7.02%).

In Table 2, there is the distribution of the number of companies managed by founder per year. The annual average of the founder in one of the following positions: Chairman of the Board (CB), Chief Executive Officer (CEO) or Chief Financial Officer (CFO) has been identified in 16% of companies of the total of the sample.

The descriptive statistics of the variables of the sample were drawn after winsorization variables at the level of 10%. In Table 3, it can be seen that the average total indebtedness of the sample is high (0.8) and with the variability is high (0.72), ie, there are companies with low debt (0.08) and others with very higher debt (1.52). Regarding profitability, it is observed that is around 13% of the total of revenue. The sample of companies does not have large variability in size (13.43 average with a standard deviation of 1.96), the risk is, around, 0.09 of average with a standard deviation of 0.12. The tangibility shows 0.33 of average and standard

Table 1 Distribution of number of companies by economic sector, 2004–2009

Economic sector	Number of companies	% of total companies
Electricity	45	12.64
Construction	30	8.43
Textile	29	8.15
Steel and metallurgy	25	7.02
Food and beverage	20	5.62
Vehicles and parts	18	5.06
Transport	18	5.06
Trade	18	5.06
Telecommunication	14	3.93
Chemical industry	14	3.93
Mining	8	2.25
Electronics	7	1.97
Oil and gas	5	1.40
Paper and pulp	5	1.40
Machinery industry	5	1.40
Agriculture	5	1.40
Software and data	4	1.12
Non-metallic minerals	4	1.12
Investment fund	1	0.28
Others	81	22.75
Total	356	100.00

Table 2 Distribution of the companies managed by founder per year

Year	FUND (number of companies)	% of companies
2004	55	15.5
2005	58	16.3
2006	62	17.5
2007	61	17.1
2008	60	16.7
2009	60	16.7
Total	356	100.0

deviation of 0.24. Sales growth was 0.14 on average with a standard deviation of 0.32, the free cash flow showed an average of MR$24 and the others tax benefits extra debt had an average of 0.32 with a standard deviation of 0.58.

The Table 4 presents the descriptive statistics subdivided by Professional Management (Group 1) and Founder (Group 2).

In Table 4, the average of indebtedness (0.73 *versus* 0.74), company size (13.06 *versus* 13.58) and tangibility appeared to be lower in the group 1 managed by the founder, then the group 2 managed by professionals (0.29 *versus* 0.34). The average

Table 3 Descriptive statistics of the variables of the sample

Variable[a]	Average	Standard deviation	Median
Total debt (TD)	0.80	0.72	0.61
Profitability (P)	0.13	0.15	0.08
Company size (CS)	13.43	1.96	13.60
Risk (R)	0.09	0.12	0.05
Tangibility (TANG)	0.33	0.24	0.32
Opportunity growth (OG)	1.54	1.87	0.90
Sales growth (SG)	0.14	0.32	0.09
Free cash-flow (FCF)	24,214.21	104,468.99	2006.07
Other non-debt tax benefits (ONDTB)	0.32	0.58	–

[a]Winsorized variables at 10% level

Table 4 Descriptive statistics using professional management *versus* founder

	Professional management			Founder		
Variable[a]	Average	Standard deviation	Median	Average	Standard deviation	Median
Total debt (TD)	0.74	0.11	0.72	0.73	0.10	0.71
Profitability (P)	0.13	0.15	0.08	0.13	0.16	0.07
Company size (CS)	13.58	2.01	13.79	13.06	1.81	13.28
Risk (R)	0.09	0.11	0.05	0.10	0.13	0.05
Tangibility (TANG)	0.34	0.24	0.35	0.29	0.23	0.29
Opportunity growth (OG)	1.54	1.89	0.89	1.74	1.89	1.20
Sales growth (SG)	0.12	0.30	0.08	0.22	0.36	0.13
Free cash-flow (FCF)	34,598.13	117,332.44	5495.78	5118.96	83,275.49	1272.94
Other non-debt tax benefits (ONDTB)	0.33	0.58	–	0.30	0.59	–

[a]Winsorized variables at 10% level

of the profitability appeared to be equal in both groups (0.13). Indeed, the free cash flow is much lower near MR$ 5 versus MR$35. The company run by the professional management present higher opportunity growth than the founder (1.74 versus 1.54) and the average sales growth (0.22 *versus* 0.12) and the average of the other non-debt tax benefits (0.33 *versus* 0.30). The level of risk slightly increases in the founder than in professional management (0.09 *versus* 0.10).

In summary, from the descriptive analysis of the variables, it is possible to infer that companies managed by the founder present, on average, less indebted, less tangible, and less free cash flow and distribution of debentures. At the same time, it is observed that they have, on average, higher risk, higher sales growth and greater opportunity for growth. At that moment, the multivariate analysis of sample data has taken several tests of the research hypotheses.

5 Multivariate Tests

The relationship between indebtedness and the founder management was analyzed with the research sample and applied the regression method using the Hausman test. This statistical test verifies which of the two tests: fixed or random effects, is more appropriate to the sample. The result of the Hausman test is the probability higher, then Chi^2 is equal to zero, meaning that there are differences in estimation between the two tests applied. The results, based on Hair et al. (2010) and Greene (2012), show that fixed effects method is the most appropriate.

In Table 5, the authors observe the results of the multivariate regression with respect to the explanatory power of the model (R^2). Greene (2012) considers R^2 of 0.5 is relatively high, although any regression models that can fit in the model depend on the theoretical framework. In this model, R^2 obtained 0.3936 and it cannot be considered as a poor model. In this sense, Patten (2002) obtained 0.37992 as relatively higher explanatory power of the model.

Other authors were obtained in the model lower coefficient level of R^2, such as: O'Connor et al. (2002), Hart and Ahuja (1996) show in their lower model coefficients R^2 and these coefficients do not cancel out the feasibility of the models as they have explanatory power, but not predictive. In the case of the social sciences, it should be noted that when the coefficient of determination is low, it does not necessarily indicate that the dependent and independent variables are not related.

Table 5 presents negative and significant relationships between the presence of the founder of the company (−0.315) and, also, between company size (−0.043), the opportunity growth (−0.056) and uniqueness (−1.023) and debt. This shows that businesses managed by its founder have lower levels of debt than professional managers. Positive and significant relationship between risk (0.645), profitability

Table 5 Fixed effects method analysis related with the debt level

Model[a]	Coef.	Std. Error	P > t
Founder (FUND)	**−0.315*****	0.0885824	0.000
Profitability (P)	**0.582*****	0.1022387	0.000
Risk (R)	**0.645*****	0.1389519	0.000
Tangibility (TANG)	**0.414*****	0.1186104	0.001
Opportunity growth (OG)	**−0.056*****	0.0096416	0.000
Sales growth (SG)	0.039	0.0349193	0.260
Free cash-flow (FCF)[b]	0.000	2.71e-08	0.900
Other non-debt tax benefits (ONDTB)	**0.000****	0.0174091	0.003
Company size (CS)	**−0.043***	0.0257402	0.099
Performance (DESEMP)	**0.127*****	0.0258054	0.000
Uniqueness (SING)	**−1.023****	0.404552	0.012
Constant	**1.817*****	0.3421275	0.000

[a]Winsorized variables at 10% level
[b]Millions of euro
*1% Significance level
**5% Significance level
***10% Significance level

Table 6 GMM regression analysis related with the debt level.

Model[a]	Coefficient	Standard Error	P > z
Founder (FUND)	−**0.292*** **	0.085	0.001
Profitability (P)	**0.178***	0.108	0.099
Risk (R)	**0.361*** **	0.112	0.001
Tangibility (TANG)	0.051	0.187	0.787
Opportunity growth (OG)	−**0.054*** **	0.010	0.000
Sales growth (SG)	**0.069** **	0.032	0.032
Other non-debt tax benefits (ONDTB)	**0.093*** **	0.016	0.000
Company size (CS)	−**0.125*** **	0.027	0.000
Performance (DESEMP)	**0.115*** **	0.026	0.000
Uniqueness (SING)	−0.055	0.558	0.922

[a]Winsorized variables at 10% level
*1% Significance level
**5% Significance level
***10% Significance level

(0.582), tangibility (0.414), performance (0.127), and non-debt tax benefits of debt (0.000) and the founder.

The authors used the *Generalized Method of Moments* (GMM) as the same method proposed by Arellano and Bond (1991) and Arellano and Bover (1995). The GMM is indicated for cases in which "T" (time variable) is small and "N" (individual variable) is great. This method is suitable when there are independent variables, not strictly exogenous and correlated with the error (Hair et al. 2010; Greene 2012). This panel uses fixed effects method and there are heteroskedasticity and autocorrelation among individuals. Thus, the probability is higher than Chi^2 that is equal to zero, knowing that Wald Chi^2(10) is equal to 142.57.

Table 6 observes a negative and significant relationship were found between company size (−0.125) and growth opportunities (−0.054) and debt in the presence of the founder, confirming what had already been presented in Table 5. Furthermore, the authors found a positive and significant relationship between profitability (0.178), performance (0.115), risk (0.361) and other non-debt tax benefits (0.093). Contrasting with the fixed effects method, there are no correlation between tangibility (0.051), uniqueness (−0.055) and debt.

6 Conclusion

This research has analysed the influence of the founder in the financial decisions based on the comparability of the level of indebtedness among Brazilian companies managed by its founder and those managed by professionals. The research question was:

> There is an influence between the presence of the founder in the board and the level of debt in the Brazilian companies.

Indeed, the answer to the research question is influence by the founder on the financial decisions, in general, and company's debt, in particular.

The empirical analysis used the fixed effects and GMM method which shows the existence of a negative and significant relationship between the founder of the company and level of debt. Thus, it does not reject the null hypothesis and this result corroborates the Combs (2008) research showing that managers of family businesses, even if they are not family members, behave differently with respect to financial decisions.

The empirical analysis based, on this sample, indicates a trend of lower debt in those companies whose manager is the founder of the company. These results are in agreement with family and founder literature. The empirical analysis revealed that some of the behaviours described in the literature can be seen in these results. One of the limitations, it is not necessarily all the results. The fact that the founder tends to manage based on lower debt, it could be explained by overconfidence. At the same time, the family member with dispersed shares could escape to the debt.

Contrary to what is expected from the behavioural point of view, many studies among them Barros (2005), Malmendier and Tate (2004) and Thaler and Barberis (2003), on the empirical analysis used in this research and show no increase in the level of indebtedness to the managers, as evidenced in the literature review, made with Brazilian companies. This result is not necessarily a surprise, because the authors know that there are wide ranges of variables to consider an analysis of this particular type of company. This means that, according to the criteria established for this analysis, the next survey may show different results. So, one limitation, with respect to the research objectives, is the discrepancies results.

Other conclusion involves the founding partner of the company. Information about these professionals is achieved through research via the Internet and it is expected to be quite affordable. However, there are companies that did not provide such information. So, there is a decrease of the database observed. This is another limitation of this research, because there are no sufficient data available to produce researches.

The authors know that the profile of the manager and the company culture can influence the decisions of debt. However, it was not focuses on this research and, therefore, it is understood that even small distortions can be observed. So, these relationships between other variables could be subject to further research.

In the Brazilian companies, it is possible to observe a negative and significant relationship between the founder and debt. This is a very important result for the corporate governance literature and deserves the attention allocated to it.

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