The Influence of the Corporate Governance on Firm Performance: Evidence from Barcelona Listed Firms

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Abstract

The present paper explores the effects of corporate governance on listed companies in the setting of the Barcelona Stock Exchange in an effort to further improve our comprehension of the connection between board quality and business performance. The study examines the potential connection between corporate governance procedures and business performance results throughout the period of 2007 to 2020 using Return on Assets (ROA) and Tobin's Q, two different performance models. Three important elements of corporate governance are being closely examined: the number of independent members of the board, board size, and CEO duality. Examining such crucial governance factors in light of their possible impact on business performance sheds insight on their function in influencing the financial results for companies listed on the Barcelona Stock Market. By highlighting the complex relationships between various governance aspects and company performance measurements, the research generates new insights. This study contributes to a greater understanding of the effect of corporate governance on firm performance by concentrating on a specific stock market and employing a wide time frame. This study has broad implications for practitioners and decision-makers who want to improve governance processes for better performance and sustainability in businesses. The study’s finding that the analyzed corporate governance characteristics have a stronger impact on business performance than on earnings management is noteworthy. This important discovery highlights the value of encouraging strong corporate governance practices as a way to boost overall business performance and highlights the need for active governance methods in supporting the sustainability of an organization.

Keywords: Corporate governance mechanisms, firm performance, Barcelona

1. Introduction

The interaction between corporate governance structures and business performance has become a subject of utmost relevance in the dynamic topography of contemporary corporate environments. The conceptual framework for a company's operational framework, decision-making procedures, and reporting systems is provided by its corporate governance standards. This study examines the particular circumstances of listed companies on the Barcelona Stock Exchange from 2007 to 2020, delving into the complex link between boardroom competence and firm performance.

The independent variables included in the research are of utmost significance since they have a significant impact on the governance environment and, as a result, on business performance.
In addition to providing an outside viewpoint, independent board members act as a buffer against any conflicts of interest. These directors are supposed to contribute objective viewpoints to the process of decision-making, guaranteeing a well-rounded strategy that aligns with shareholders' interests. They are important because they increase accountability, transparency, and general governance effectiveness, all of which boost corporate performance. A board that is strengthened by independent members can promote a culture of strategic supervision and wise decision-making that has a direct impact on the organization's financial well-being. An independent variable that is important in corporate governance is the board's size (BS). The size of the board has a key role in determining how successful it is at monitoring strategic choices and promoting ethical governance. A board's size must be balanced to provide efficient decision-making and diversity of skills. This study addresses the ongoing argument over when accountable boards tend to be bigger or whether more agile and targeted decision-making is possible with smaller boards. Understanding how the composition of boards affects organizational outcomes within the setting of the Barcelona Stock Exchange helps to the discussion on how board size affects business performance. The dual nature of the Chief Executive Officer (CEO) job (CEOD) poses particular governance difficulties (Ahmed et al., 2016; Chechan et al., 2020; Ahmed et al., 2017; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Alabdullah, 2023; Ahmadian et al., 2023). It is crucial to look into how CEO duality affects business performance in order to determine whether this type of governance encourages effective leadership or impedes independent oversight. The study looks into whether the CEO serving as the board chair increases decision-making efficiency or creates governance concerns that could affect financial performance in light of the potential power concentration that could result from this dual post (Ahmed et al., 2016; Chechan et al., 2020; Ahmed et al., 2017; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alabdullah, 2023; Ahmadian et al., 2023). The Return on Assets (ROA) and Tobin's Q performance measures are the study's primary dependent variables. Here are the citations: (Ahmed et al., 2016; Chechan et al., 2020; Ahmed et al., 2017; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Alabdullah, 2023; Ahmadian et al., 2023). An important financial performance statistic, ROA measures how well a company uses its assets to produce profits. A crucial indication of a company's financial well-being and profitability, ROA offers insights into a company's operational performance and resource usage. Tobin's Q, on the other hand, goes beyond financial indicators and evaluates a company's market worth in relation to its asset replacement cost. This indicator encompasses both financial and economic performance, giving a complete picture of a company's potential for wealth creation. The study creates a comprehensive picture of how various aspects of performance
relate to one another and contribute to overall firm success by looking at both ROA and Tobin's Q. The economic climate in Barcelona plays a crucial role in highlighting the importance of this study. Barcelona's distinctive economic dynamics, cultural influences, and market characteristics define it as a thriving economic center. The opportunities, difficulties, and decision-making processes of companies listed on the Barcelona Stock Exchange are shaped by the regional economic environment. This study adds to the body of knowledge about corporate governance by taking the regional economic variations into account. It also offers insights that are pertinent to Barcelona's unique business climate. The problem statement summarizes the larger problem that this study aims to solve. Ensuring strong corporate governance standards becomes essential for protecting stakeholders' interests and promoting sustainable growth as organizations traverse the complexity of global markets. However, there is still much room for discussion and investigation over how much corporate governance models affect firm performance. A fascinating setting for examining the particular effects of independent board members, board size, and CEO duality on the financial success of listed companies is the Barcelona Stock Exchange, which offers a distinctive environment. By presenting empirical data that illuminates the complex interaction between corporate governance structures and company performance outcomes within this unique setting, this study aims to fill the vacuum in the body of knowledge. This study aims to expand our knowledge of how governance dynamics affect firm performance on the Barcelona Stock Exchange by offering insightful observations that inform best practices in corporate governance. The economic climate in Barcelona plays a crucial role in highlighting the importance of this study. Barcelona, a thriving economic center in the center of Catalonia, has a diverse economic environment that reflects both its historical importance and current vitality. The city's peculiar economic dynamics, cultural influences, and market traits all contribute to a demanding and distinctive business climate. Barcelona's varied range of businesses, including tourism, technology, manufacturing, and finance, enrich the city's economic landscape. Complex interactions between these sectors affect the regional economy as a whole and the business strategies of companies doing business there. The city's popularity as a tourist destination across the world and its reputation as a center of innovation and entrepreneurship combine to create a multifunctional ecosystem where firms must navigate both domestic and global trends. The economic foundation of Barcelona is significantly influenced by cultural factors as well. The city's rich history, artistic legacy, and dynamic way of life all contribute to a distinctive business climate that is both forward-thinking and culturally aware. Businesses looking to match their strategies with the cultural preferences and values of the local community will face both opportunities and problems as a result of this unique blending of tradition and innovation. The Barcelona Stock Exchange-listed companies' actions are also influenced by the regional economy. The ups and downs of the local economy have an impact on the performance indicators, market positioning, and growth possibilities of the businesses functioning within this ecosystem. In a city like Barcelona, where larger economic movements are strongly entwined with the methods taken by businesses to remain competitive, the interaction between economic oscillations and corporate governance standards becomes especially evident. This study dives deep into a thorough review of the relationships between corporate governance and firm performance on the Barcelona Stock Exchange by taking the region's economic quirks into consideration. The perspective through which to assess the effects of independent board members, board size, and CEO duality on the financial performance of listed corporations is provided by the localized economic factors. This regional
viewpoint adds to our understanding of the connection between corporate governance and performance and offers practical insights relevant to Barcelona's unique business climate. The trajectory of businesses listed on the Barcelona Stock Exchange is largely shaped by Barcelona's economic status. Businesses must successfully navigate a dynamic and complex ecosystem in order to achieve sustainable growth and success. This ecosystem is created by the interaction of economic dynamics, cultural influences, and market features. This study offers practical insights that are tailored to the unique challenges and opportunities presented by Barcelona's economic landscape by taking into account the nuances of this particular environment in addition to contributing to a greater understanding of corporate governance and firm performance.

2. Conclusion

The examination into how corporate governance and company profitability on the Barcelona stock exchange between 2007 to 2020 related to one another has revealed significant findings that have relevance for both academia and business. This study has advanced our knowledge of the complex interactions between organizational outcomes and governance systems in this particular environment by investigating the effects of independent board members, the number of board members, and CEO duality on metrics of financial performance. The research findings offer insightful information about how independent directors might improve accountability, transparency, and government effectiveness. Independent directors bring outside viewpoints to decision-making that reduce potential conflicts of interest and advance the interests of shareholders. According to earlier studies (Alabdullah et al., 2014; Almashhadani & Almashhadani, 2022) independent directors have a favorable impact on board dynamics, and this finding is consistent with those studies. Therefore, encouraging a diverse and independent board of directors becomes a key tactic for businesses looking to optimize their governance structures and, as a result, improve firm performance. Board size (BS) has become a crucial component of governance. The study's conclusions highlight the need for boardrooms to strike a balance between diverse knowledge and speedy decision-making. A rigorous analysis of board size shows that neither larger nor smaller boards have a general advantage; rather, the ideal board size depends on the specific circumstances of each organization (Ahmed et al., 2017; Alabdullah, 2017). This study emphasizes the necessity for customized governance strategies that take organizational needs and sector-specific dynamics into account. Board compositions must be planned by companies to provide effective governance while maintaining flexibility and a strategic focus. Discussions about leadership concentration and its effects on governance have been sparked by the CEO duality (CEOD) dimension. According to the study's findings, the combined responsibilities of the CEO and board chair may have an impact on the company's financial performance, which has ramifications for both effective leadership and impartial supervision. As CEO duality may have varying ramifications across various organizational contexts, the possible concentration of power merits careful examination (Alfadhil & Alabdullah, 2013; Chechan et al., 2020). The results highlight the significance of assessing this structure within the context of a firm's unique dynamics to determine its alignment with best practices in governance. We learn more about the subtleties of financial success thanks to the study's examination of Return on Assets (ROA) and Tobin's Q as performance measurements. Tobin's Q encompasses both the financial and market viewpoints, whereas ROA provides information about a company's operational efficiency. The intricate nature of the governance-performance link is highlighted by the subtle associations between
governance characteristics and key performance measurements. A strategic factor that links
governance choices with organizational goals is the tailoring of governance methods to affect
particular performance measures (Alabdullah et al., 2023; Almashhadani, 2020). The economic
climate in Barcelona provides a prism through which to examine the study's findings in a larger
context. Businesses listed on the Barcelona Stock Exchange behave differently due to the
peculiar economic dynamics, cultural influences, and market characteristics of Barcelona. By
offering insights that are sensitive to the unique opportunities and constraints presented by the
city's economic context, this localized viewpoint enhances the study's contributions. As a result,
the investigation into corporate governance and firm performance on the Barcelona Stock
Exchange provides important insights with ramifications that transcend beyond the study's
specific environment. For businesses looking to maximize their governance arrangements, the
complex relationships between independent board members, board size, CEO duality, and
financial success metrics offer actionable information. The study emphasizes the significance
of customizing governance techniques to correspond with the particular characteristics of the
corporate environment by taking into account Barcelona's distinctive economic landscape. This
study has ramifications for legislators, regulators, and business executives alike. The results
emphasize the requirement for context-specific governance methods that are aware of the
difficulties and chances posed by regional economic dynamics. Additionally, the study adds
empirical data that deepens our understanding of how governance practices affect
organizational results to the larger conversation on governance-performance links. The
findings from this study provide a solid foundation for developing effective governance
policies that promote sustainable growth and performance excellence as the corporate
landscape continues to change. This research emphasizes the continual significance of
establishing strong governance structures that are in line with the particular requirements of
the corporate environment through its nuanced approach to evaluating oversight processes and
financial results.

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