

## **A STUDY OF MANAGEMENT PERCEPTIONS OF THE IMPACT OF BOARD ROLES ON VALUE CREATION TYPOLOGY IN DEVELOPING ECONOMIES: THE CASE OF TUNISIAN LISTED COMPANIES**

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### **—Abstract —**

This study deals with the contribution of corporate board to value creation in a developing economies context as Tunisia. This paper aims to go beyond the conventional approaches to identify the different board roles that can contribute to enhance the creation of a given type of value according to company objectives, stakeholders' interests and environment expectations.

The conceptual study has allowed us to identify three main board roles: a control role, a strategy role and a service role. Regarding value creation, we retained a typology with three kind of value: the economic value, the social value and the institutional value.

The survey of 52 Tunisian listed companies revealed a positive relationship between two board roles and the three types of value creation.

**Key Words:** *Corporate Governance, Board roles, Value creation, Tunisia*

**JEL Classification:** G34, M14, M10

### **1. INTRODUCTION**

In the recent years, the relationship between board characteristics and value creation has been increasingly debated throughout the academic literature (Huse, 2005; Filatotchev, 2007; Van Ees et al., 2009). Traditionally, researches on corporate boards have studied the impact of the "usual suspects" on the firm financial performance (Finkelstein and Mooney, 2003:101). They refer to the board size, composition, leadership and the director's ownership. In this regard, corporate governance authors considers that the study of the board effectiveness requires to open the "black box" (Huse, 2009:275) and to incorporate others performance dimensions to learn more about the board processes, roles and director's profiles that guarantee performance and sustainability (Babic et al., 2011:152). In this context, this study examines the

impact of the board roles on the different types of value created by the company. This study intends to contribute to the managerial literature on corporate boards in helping to determine the board roles that can allow the company to develop a competitive advantage in a developing economy context as Tunisia.

Through this paper, we present, initially, the theoretical framework of this research to identify the board main roles and to retain an appropriate typology of the value creation. Subsequently we review the theoretical and empirical literature on the studied relationship in order to formulate a set of hypothesis. Finally, we present the empirical survey results as well as the lessons learned.

## **2. THE BOARD OF DIRECTOR'S ROLES**

Researchers agree that the board's effectiveness depends on the degree of implementation of its various roles (Nicholson and Kiel, 2004). The board roles have evolved over time in parallel with the managerial thinking evolution as well as the issues encountered in practice. Contractual theories consider that the board mission is to reduce agency costs and to protect the shareholders interests (Fama and Jensen, 1983). The resources dependence theory views the board as an instrument facilitating the company access to tangible and intangible resources (Pfeffer and Salancik, 1978). The stakeholder theory considers that the board's role is not limited to protect the shareholder's interests but to ensure the sustainability of the cooperative node through a fair sharing of the created value. Finally, the cognitive theories believe that board role is to help the manager to build his vision and to grasp growth opportunities (Charreaux, 2003). Some authors have tried to provide a normative framework of the different roles played by the board. The literature review allowed us to identify three main roles:

- A control role: management oversight and monitoring, performance evaluation (Zahra and Pearce, 1989; Baysinger and Hoskisson, 1990, Monks and Minow, 2004).
- A service role: Networking, advice and assistance of the management team, mentoring (Pfeffer and Salancik, 1978; Davis and Cobb, 2010)
- A strategic role: company strategic guidance, strategic decision making (Judge et Zeithamal, 1992; Pettigrew and McNulty, 1995).

## **3. THE VALUE TYPOLOGY**

The value creation is a prerequisite for the organizations sustainability. The notion of value has been discussed and interpreted differently over time. From a financial perspective, Copeland and al. (2000) suggest that value is created when the return

on investment exceeds the opportunity cost of capital. Recent approaches add a non-financial dimension of the value creation and recognize the stakeholders as the value co-creators by emphasizing the contribution of co-invention, synergies and interactions between the company and its stakeholders. Across the literature review, the authors proposed several classifications of the value. The typology proposed by Frioui and Ayed (2007:463) seems to us the most appropriate for this study's purposes; it includes three types of value:

- The economic value: it is often equated with the financial value or the shareholder value (Caby and Hirigoyen, 2001). This value is created by the company when it can sell their products at price above the cost of the input through a combination of resources that increase the productivity (Moran and Ghoshal, 1999; Barney, 2001).
- The social value: This value refers to the issue of corporate social responsibility and the relationship between the company and its environment (Cappelletti and Khouatra, 2004). Social value is created through developing of relational networks enabling the company to be positively perceived by its environment (Mack, 1997; Galbreath, 2002).
- The institutional value: The institution is defined as the grouping of individuals in a company around the act of production and vis - à - vis to the society as a whole (Claude, 1998). It is associated to several values, such as, membership, cohesion, legitimacy, group spirit, identity and the ability to last (Sainsaulieu, 1990). Thus, the institutional value is defined as the consecration of values which bring out the feeling of pride to belong to a viable and livable organization (Frioui and Ayed, 2007:463).

#### **4. THE RELATIONSHIP BETWEEN THE BOARD ROLES AND THE TYPE OF VALUE CREATED**

##### **4.1. Board roles and economic value creation**

The oversight role of the board is at the heart of the contractual approach of the firm based of the shareholder primacy and the economic purpose of the firm (Fama and Jensen, 1983, Jensen and Meckling, 1976). In this respect, Jensen (2001) estimates that the firm should only maximize the shareholder value creation. The control oriented boards are often characterized by a significant proportion of outside directors as well as a separation between the company management and the board leadership (Mizruchi, 1983, Zahra and Pearce, 1989). Several empirical studies have reported positive associations between these board characteristics and the financial performance (Dalton et al. 1998:272). We can

conclude that the control role has a positive effect on the economic value creation:

**H1:** *The board control role has a positive effect on the economic value creation.*

Regarding the strategic role, the board is involved in the identification of the main strategic directions and the choice of the business portfolio. In this regard, Sellevoll et al. (2007) found that the board strategic involvement is positively related to the internationalization of the company as well as to the mergers operations. In addition, the study of Huse (2009) has found a positive association between the board strategic involvement and the innovation within the company. Therefore, we can advance the following hypothesis:

**H2:** *The board strategic role has a positive effect on the economic value creation.*

According to Huse (2009), there is a connection between the board networking tasks and the economic value creation. The directors can use their personal networks not only to fund the R&D activities but also to benefit from partnership with the universities. It can help the company to develop new products and to improve its market position. In this sense, Sellevoll and al. (2007) found a positive relationship between the board networking activity and the R&D expenses in Norway. We can formulate the following hypothesis:

**H3:** *The board service role has a positive effect on the economic value creation.*

#### **4.2. Board roles and social value creation**

According to Babic and al. (2011:147), the social value creation refers to the employees' safety, ethical behavior, employees training programs, social responsibility, environment protection, etc. The social value is often considered in terms of the value distribution as well as the decision regarding the stakeholders to include in the rent sharing. For Huse and al. (2009:10), the board plays an oversight role when the value is distributed. The board decides which stakeholders should profit from the value created and controls the value distribution among the chosen beneficiaries. As a result, we can suppose that:

**H4:** *The board control role has a positive effect on the social value creation.*

The board is involved in different issues relating to the social value: the objectives setting, the strategy formulation, the definition of the mission, the vision and the core values of the company and finally, the distribution of the value created (Ingley and Van der Walt, 2001:176). In this regard, Schendel and Hofer (1979) describe the strategy as the negotiation and the processing of the social issues and the legitimacy of the organization. It means that the board strategic role allows the

integration of stakeholders in the mission statement which promotes the social value creation. This leads to formulate the following hypothesis:

**H5:** *The board strategic role has a positive effect on the social value creation.*

The social value creation does not just means to benefit some stakeholders from the value distribution but rather to shape the company commitment to integrate its stakeholders in all its actions and decisions. To promote the social value creation, the stakeholders may seek to legitimize their interests across the board. A board using its networking capability to access to some resources is more likely to be subject to external pressures from the stakeholders (Huse, 2009). Therefore, we can formulate the following hypothesis:

**H6:** *The board service role has a positive effect on the social value creation.*

### **4.3. Board roles and institutional value creation**

The institutional value promotes innovation and fosters a competitive advantage development. Thus, the values are the foundation of the company mission and strategy as well as the cement essential for maintaining organizational cohesion (Williams and Ferris, 2000). The board is responsible for establishing and promoting a governance culture which fosters the institutional value creation (Fitzgerald and Desjardins, 2004; Prybil, 2008). In this respect, Kanbur (2011:8) found that the board roles and activities affect the "structural" values of studied Turkish companies. In addition, Huse and al. (2009:10) consider that the board mentoring role is critical to create a climate of mutual trust and reciprocity, which is essential to innovation. We can advance the following hypothesis:

**H7:** *The board service role has a positive effect on the institutional value creation.*

Regarding the board control role, it aims to monitor the implementation of a set of values, norms and procedures forming the institution culture and also to fulfill the mission statement as well as the company vision (Rome, 2010). The existence of clearly stated values may increase the commitment of the shareholders and the key stakeholders and, therefore, promoting the institutional value creation. This leads us to formulate the following hypothesis:

**H8:** *The board control role has a positive effect on the institutional value creation.*

The board strategic role involves the directors' participation to the definition of the company mission and vision. According to Collins and Porras (1996), the mission can be defined as the *raison d'être* of the company while the strategic

vision is a philosophy composed by a set of beliefs and core values, a clear and engaging aim and a projected image of a desired future. The definition of a clear and shared strategic vision can promote the cohesion and the involvement of all the stakeholders (Mustakallio and Autio, 2001). We can conclude that the board strategic role contributes to the creation of institutional value:

**H9:** *The board strategic role has a positive effect on the institutional value creation.*

## 5. METHODOLOGY

### 5.1. The sample and data collection

For this survey purpose, we choose to study the listed companies in Tunisia. This choice is justified by the nature of the issues raised. Compared to other Tunisian enterprises, listed companies show corporate governance practices "relatively advanced" under the regulations which they have been subjected. Given the limited number of the listed companies, we managed to get 52 questionnaires filled out; it represents 96% of the sample.

### 5.2. The measuring instrument

**Table 3 : Variables operationalization**

Variable	Items description	References
Economic value creation (4 items)	Sales Growth, Profitability, company market value, Innovation	Sellevoll et al. (2007) ; Huse (2009)
Social value creation (3 items)	Positive perception of the company by the stakeholders, Development of network within the environment, reputation and company image	Huse (2009) ; Frioui et Ayed (2007) ; Cappelletti et Khouatra, (2004)
Institutional value creation (3 items)	Stakeholders identification with the corporate vision, Sense of belonging to the company, cohesion and pride to belong to the company	Frioui et Ayed (2007) ; Cappelletti et Khouatra, (2004)
Control role (4 items)	Monitoring and performance evaluation, Top Management control, selection and compensation, Monitoring of the strategies implementation by the management, opportunism and abuse reduction	Levrau, et Van den Berghe (2007) ; Van Den Heuvel et Van Gils (2006) ; Zahra et Pearce (1989)
Strategic role (3 items)	Defining the company vision and mission, Establishment of long-term objectives and strategic management of the company, Identification of new strategic options	Levrau, et Van den Berghe (2007) ; Van Den Heuvel et Van Gils (2006) ; Zahra et Pearce (1989)
Service role (3 items)	Management team assistance, Advice and mentoring of the management team, Company representation and networking	Levrau, et Van den Berghe (2007) ; Van Den Heuvel et Van Gils (2006)

The questionnaire used for this research purpose includes a majority of items which the validity and the reliability have been confirmed in previous research. In some cases, where the scales were not available, items were developed on the basis of the studies in this area. We selected two control variables: the company age and the company size.

## 6. EMPIRICAL RESULTS: THE IMPACT OF BOARD ROLES ON THE TYPE OF THE VALUE CREATED

### 6.1. Reliability and validity of measurement scales

The scales used in this study were subjected to a pre-test and the tests of validity and reliability. We tested the unidimensionality of the constructs through the factor analysis (CFA) with SPSS 16 and we assessed the reliability of the scales through the Cronbach's alpha (Fink, 1995). As shown in table 4, all variables are unidimensionals; the scales used show a Cronbach alpha greater than 0.70 which indicate a good reliability.

**Table 4: Summary statistics of CFA**

Variable	Average variance extracted	Range of loading	Composite reliability
Economic value creation (EV)	54%	0.85-0.66	0.70
Social value creation (SV)	82%	0.95-0.87	0.89
Institutional value creation (IV)	82%	0.93-0.90	0.90
Control role (CR)	64%	0.89-0.59	0.79
Strategic role (STR)	70%	0.89-0.75	0.76
Service role (SVR)	88%	0.94-0.94	0.93

Table 5 presents the descriptive analysis' results. The correlations between the dependent and the independent variables are significant, suggesting a potential causal association between the variables. The correlation results are consistent with our hypothesis. Besides, there are no correlations above 0.9 confirming the absence of the problem of multicollinearity between the independent variables.

**Table 5: descriptive statistics, and correlation**

Variable	1	2	3	4	5	6	7	8
1. EV	1							
2. SV	0.41**	1						
3. IV	0.28*	0.81**	1					
4. CR	0.35*	0.34*	0.52**	1				
5. STR	0.37*	0.48**	0.44**	0.42**	1			
6. SVR	0.11	0.23	0.30*	0.43**	0.59**	1		
7. CA	-0.12	-0.20	-0.05	-0.13	-0.20	0.05	1	
8. CS	-0.17	-0.24	-0.24	-0.09	-0.03	0.05	0.45**	1

\* $p < 0.05$ , \*\* $p < 0.01$ ;  $N = 52$

## 6.2. Multiple regression analysis

The multiple regression analysis seems the most appropriate to be used for this research purpose given the raised issues and the sample size (Hair et al., 1998). Table 6 presents the results of two regressions: We ran two regressions, one without the control variables (Model 1), and one with the control variables (Model 2).

**Table 6: Results of regression analysis**

	Board roles and economic value creation		Board roles and social value creation		Board roles and institutional value creation	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
<i>Constant : Type of value</i>	2.22	2.36	1.05	1.70	0.25	0.42
Control Role (CR)	0.30**	0.29*	0.21	0.19	0.42**	0.41**
Strategic Role (STR)	0.39**	0.41**	0.48**	0.47**	0.31**	0.36**
Service Role (SVR)	-0.25	-0.25	0.15	-0.12	-0.06	-0.09
Company Age (CA)	-	0.08	-	0.02	-	0.21
Company Size (CS)	-	-0.15	-	-0.21	-	-0.28**
$R^2$	0.22	0.24	0.26	0.31	0.34	0.41
<i>F-test</i>	4.49**	2.87**	5.75**	4.03**	8.07***	6.26***

\* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.001$ ;  $N = 52$

Let's start with the relationship between the board roles and the creation of economic value, the model is statistically significant and has an acceptable predictive capacity ( $R^2 = 0.24$ ,  $p < 0.05$ ). The results show that the economic value creation is significantly related to the control role and the strategic role. Contrary to our expectations, we didn't find a statistically significant link between the economic value creation and the board service role. Therefore, hypothesis H3 cannot be confirmed. Regarding the relationship between the board roles and the social value creation, the model is statistically significant and has an acceptable predictive capability ( $R^2 = 0.31$ ,  $p < 0.05$ ). The results show that the board strategic role has a positive and significant effect on social value creation. Contrary to expectations, we didn't find any statistically significant association between the control role, the service role and the creation of social value. Thus, hypotheses H4 and H6 cannot be confirmed. Finally, concerning the relationship between the board roles and the creation of institutional value, the model is statistically significant and has a good predictive power ( $R^2 = 0.41$ ,  $p < 0.001$ ). The results show that the control role as well as the strategic role has positive and significant effect on institutional value creation.

However, we did not find a statistically significant effect of the service role which means that hypothesis H7 cannot be confirmed.

## 7. CONCLUSION

In this paper, we explored the link between board roles and value creation in Tunisian listed companies. By doing so, we tried to contribute to the current managerial literature on corporate governance practices in developing countries. The conceptual study has allowed us to identify three main board roles: a control role, a strategic role and a service role. Regarding value creation, we retained the typology proposed by Frioui and Ayed (2007) with three types of value: economic value, social value and institutional value. The literature review suggests a positive relationship between the board roles and the value creation typology.

The results of the survey conducted on 52 Tunisian listed companies partially validated hypotheses. Overall, the results show, on one hand, that the board roles influence the type of the created value. On the other hand, the strategic role has a positive and significant effect on the three types of value creation. Furthermore, our study reported a positive and significant effect of the control role on economic value and institutional value creation. This confirms the results of several researches on the relationship between corporate governance and financial performance. The board control role promotes accountability and transparency within the company which can reassure the stakeholders and strengthen their belonging's sense to the company. However, contrary to our expectations, the survey results did not confirm the relationship between the board service role and the three types of value in the sample firms. It should be noted that these companies have boards composed primarily by majority shareholders. This situation is not favorable to allow the board to play a service role that requires a heterogeneous composition made by directors with specific skills and expertise as well as relational networks.

Although that we have confirmed the contribution of the board control role to some types of value creation, the results show that the board strategic role is critical to create different types of value. This result challenges the dominant approach based on the agency theory establishing a disciplinary role of the board. This result leads to examine the factors allowing the board to properly perform its role as a strategist. It's about the directors' profile, background and board composition. This issue is particularly important in a developing economy, as Tunisia, where boards continue to operate as a closed club restricted to large shareholders or to family members, who haven't necessarily the required profile to properly fulfill the function of directors and, therefore, the different board roles. Some limitations suggest that our results should be viewed with caution. The results of this study cannot be generalized to all the

developing economies. They largely dominated by SMEs and family businesses and differ in terms of markets and cultures. Moreover, our empirical study is based on perceptual data from the respondents' personal appreciation. In addition, this paper provides evidence on the relationship between the board behavior and the value creation but does not help to understand the dynamics through which the board promotes value creation. A more in-depth study would be appropriate to shed light on this process.

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