

THE IMPACT OF GOOD CORPORATE GOVERNANCE PRACTICES ON STAKEHOLDER'S SATISFACTION IN TUNISIAN LISTED COMPANIES

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—Abstract —

This research deals with the contribution of good governance practices to stakeholder's satisfaction. The aim of this paper is to demonstrate that the good governance practices are a driver of stakeholder's satisfaction and therefore a factor of a sustainable competitive advantage development in the developing economies that do not have active markets and sound external institutions with the power to establish good corporate governance practices.

The literature review provides core references related to the the good corporate governance conceptualization through three dimensions: Prerequisites (Governance structures and Directors' skills), Principles (Responsibility, Accountability, Fairness and Transparency) and Mission (board monitoring and strategic guidance). The survey of 52 Tunisian listed companies revealed that the corporate governance have a positive and partial impact on stakeholder's satisfaction.

Key Words: *Good corporate governance, stakeholder's satisfaction, Tunisia*

JEL Classification: G34, M14, M10

1. INTRODUCTION

For developing economies, the needs to fund economic growth and to attract investors impose to companies to adopt good corporate governance standards. Surveys have shown that investors are willing to pay more to acquire the shares of companies with good corporate governance especially in developing economies characterized by the shortage of governance traditions and weak external control markets (McKinsey & Company, 2002:5). Indeed, well-governed companies and socially responsible, enjoy a better reputation in their environment, enabling them to develop a sustainable competitive advantage (Hillman and Keim, 2001; D'Aveni, 1994). The study of Sharma and Vredenberg (Sharma and Vredenberg, 1998:749) revealed that companies engaged in a dialogue with their stakeholders accumulate distinctive capabilities, difficult to imitate and non-transferable. Corporate governance appears to be a solution to manage the interests of key stakeholders. In this sense, this study intends to contribute to the corporate governance culture, to extend the knowledge on the board of directors functioning but also to help to set guidelines for corporate governance in Tunisia. This paper is structured in two parts. We will present, in a first step, the theoretical framework of this research through the conceptual development of the stakeholder's satisfaction as well as the elements associated with good corporate governance practices. This will lead us to formulate the research hypothesis. Besides, we will present the results of the empirical study and lessons learned from this research.

2. STAKEHOLDER'S SATISFACTION

The company can be considered as a community of shared interests, it is a "nexus of specific investments" made by the stakeholders (Blair, 1995). The stakeholders are defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984:46). The management goal is to meet the stakeholder's needs and to maintain with them good long-term relationships (Dwyer et al, 1987; Wilson, 1995). In this regard, the stakeholders can claim the right to be informed, to be consulted or to participate in decision-making (Ljubojevic and Ljubojevic, 2009:26). Büssing assumes that satisfaction depends on the comparison between the current situation and aspirations, problem solving strategies, etc. (Büssing, 1992:245). Transposed to the stakeholders, their satisfaction depends on the company's ability to meet their personal expectations and maximize their utility functions. In spite of these interests are interdependent, companies are forced to make choices, tradeoffs and establish some priorities between the different interests involved (Mitchell et al,

1997:854). Given the complexity of meeting stakeholder's needs, corporate governance can contribute to solving this problem. Strong et al (2001) identified three management practices leading to the stakeholder's satisfaction: i) empathy and concern for fair treatment, ii) honesty and integrity of information, iii) timeliness of the communication (Strong et al, 2001:225). Gaa (2009) considers that disclosure is an important aspect in the sustainability of the relationship between the company and its stakeholders. Moreover, stakeholder's satisfaction is linked to the company's ability to harmonize, balance and accommodate their interests (Susniene and Vanagas, 2007:26).

3. GOOD GOVERNANCE PRACTICES

Corporate governance is defined as "the relationship among various participants in determining the direction and performance of corporations" (Monks and Minow, 2004:1). Concerning the good corporate governance, the review of the definitions shows that there is "no precise oriented definition of what constitutes good corporate governance" (Fox, 2006:7). The various approaches focused on three main areas:

- Principles: Accountability, transparency, responsibility and equity or fairness (Benham and He, 2010; Murthy, 2006; OECD, 2004; Watson, 2003).
- Mission of the board of directors: monitoring, managerial and strategic guidance (Nicholson and Kiel, 2004).
- Prerequisites: Directors expertise and qualifications (Davies, 1999; Zandstra, 2002), clear monitoring structures (OECD, 2004).

3.1. Corporate governance pre-requisites

The pre-requisites refer to the fulfillment of the pre-conditions in which depends the corporate governance success. The literature review reveals some prerequisites such as director's qualifications, preparation, skills, competencies and experience (Davies, 1999; Zandstra, 2002). In practical terms, the review of international corporate governance codes shows that several prerequisites are advanced: Clear corporate governance roles and responsibilities (OECD, 2004; ASX Corporate Governance Council, 2003; AS 8000, 2003); Sound mechanisms for monitoring and disclosure (OECD, 2004; AS 8000, 2003); Directors skills, preparation, experience, competencies (ASX Corporate Governance Council, 2003; AS 8000, 2003). The firm that complies with the corporate governance prerequisites can reassure the stakeholders regarding the protection of their interests. The presence

of qualified, experienced and competent directors in corporate boards ensures the provision of the expertise, the knowledge and the diligence required to run the business well and to develop the company resources. The existence of clear rules of corporate governance shows the company commitment to ensure fairness and justice in its relationship with their stakeholders. We can formulate the following hypothesis:

H1: *The existence of the prerequisites of corporate governance has a positive effect on the stakeholder's satisfaction.*

3.2. Corporate Governance Principles

There are 4 governance principles largely devoted: responsibility, accountability, fairness and transparency (OECD, 2004; Jesover & Kirkpatrick 2005:130).

3.2.1. Responsibility

Responsibility refers to the recognition of all stakeholders' rights such as provided by law and the promotion of active cooperation between the company and main stakeholders to create wealth and sustainable enterprises (Sudarsono et al, 2006:3). In addition, responsibility implies that the board ensures corporate compliance with laws and regulations that reflect the values of the society (OECD, 2004). The responsibility can be practiced through the participation and the involvement of the stakeholders in strategic decision-making. The responsibility to the stakeholders enables the company to follow market and society trends and to have a thorough knowledge about the changing values of stakeholders. This can help companies to understand better their stakeholder's needs and to satisfy them efficiently. We can formulate the following hypothesis:

H2: *The responsibility has a positive effect on the stakeholder's satisfaction.*

3.2.2. Accountability

This principle is defined as the predisposition of an organization to provide explanations and justifications for the key stakeholders, concerned by its judgments, intentions, acts and omissions, if they call to do so (Arjoon, 2005:4). Indeed, the central issue in accountability is to determine the extent to which stakeholders have access to adequate, accurate, understandable, and up to date information's, on the basis of which they can act (Shearer, 2002:545). The concretization of accountability allows the company to receive a better evaluation from outside and increases the stakeholder's confidence which can improve the reliability, the credibility and the reputation of the company in its environment (Epstein and Birchard, 1999). We can advance the following hypothesis:

H3: *The accountability has a positive effect on the stakeholder's satisfaction.*

3.2.3. Fairness

The OECD (2004) considers the fairness through two different perspectives: protecting all the shareholders interests and ensuring equitable treatment of the stakeholders (Sudarsono et al. 2006:3). In fact, the board must ensure the fairness in the execution of contracts between the company and the resource providers (OECD, 2004). Practicing the fairness in decision-making and in dealing with stakeholders can increase the satisfaction of the latter. The study of Herramann et al. (2001) showed that German customer perception of price fairness is positively correlated with their satisfaction. Strong et al. (2001:225) suggest that empathy and the willingness of the company to treat fairly their stakeholders lead to the satisfaction of the latter. Therefore, we can advance the following hypothesis:

H4: *The fairness has a positive effect on the stakeholder's satisfaction.*

3.2.4. Transparency

Transparency means that the company provides adequate disclosure and timely information to its stakeholders regarding its operations and activities (Pahuja and Bhatia, 2010). These informations relate to the financial performance, the corporate governance, the ownership structure, the voting rights, the directors profiles, the key executives and their remuneration (Shafi, 2004; OECD, 2004). Strong et al. (2001) consider that the integrity of information and the timeliness of the communication are the key drivers of stakeholder's satisfaction. In the same direction, Gaa (2009) considers that the disclosure is an important aspect in the sustainability of the relationship between the company and its stakeholders. Indeed, a study conducted in Germany by Walch and Wiedmann (2004:308) showed that stakeholders place a high value to the fact that the company "does not hide anything" and communicates openly about its financial condition and operations. Thus, we can advance the following hypothesis:

H5: *The transparency has a positive effect on the stakeholder's satisfaction.*

3.3. Corporate governance mission

Researchers agree that board effectiveness depends on the fulfillment of the corporate governance mission through the different board roles. The review of the literature reveals two major board roles: a monitoring role and a strategist role (Zahra and Pearce, 1989; Johnson et al. 1996; Nicholson and Kiel, 2004).

3.3.1. The board monitoring role

The contractual governance approach proposes a monitoring role for the board through a disciplinary orientation. According to Fama and Jensen (1983), the board's main mission is to protect shareholder interests by restricting the manager's discretion. The board monitoring role can reassure stakeholders about the proper use of the resources provided and the protection of their legitimate interests. The stakeholders will be more encouraged to collaborate and to provide more resources if they know that there is an adequate monitoring allowing abuse reduction and ensuring a fair management in line with expectations. In this sense, the McKinsey & Company (2002:5) survey has shown that investors are willing to pay a premium to acquire the shares of well governed companies. This leads us to formulate the following hypothesis:

H6: The board monitoring role has a positive effect on the stakeholder's satisfaction.

3.3.2. The board strategist role

From another perspective, several theories suggest that board serves as a strategist body through managerial role as resource provider and strategic guide. The board manages strategically the company to identify growth opportunities and make good strategic choices that enable the company to develop a sustainable competitive advantage. According to cognitive theories, the directors' role is to help the manager to define his vision and to build growth opportunities (Charreaux, 2000:11). The board strategist role can promote the stakeholder's satisfaction to the extent that their contributions will be valued and developed through an appropriate strategic orientation. Cortada and Woods (1999) consider that the existence of a clear strategic direction allows staff to become more involved. Stakeholders will be satisfied if they are dealing with a company whose board is pursuing a clear vision allowing him to grasp opportunities and to maximize value creation. We can formulate the following hypothesis:

H7: The board strategist role has a positive effect on the stakeholder's satisfaction.

4. METHODOLOGY

4.1. 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. In fact, if we compare them with the other Tunisian enterprises, listed companies show corporate governance

practices "relatively advanced" under the regulations which they have been subjected. Given the relatively small number of listed companies, we managed to get 52 questionnaires filled out after object; it represents 96% of the sample.

4.2. The measuring instrument

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. Our dependent variable is the stakeholder's satisfaction, our independent variables are: the four principles of governance, the monitoring role, the strategist role and the prerequisites. We selected three control variables: the company age, the company size and the majority state ownership (Huse, 2005; Lynall et al., 2003).

Table 1: Operationalization of research variables

Variable	Items description	References
Stakeholder's satisfaction (8 items)	Convergence of interests, stakeholders involvement and commitment, stakeholders satisfaction and willingness to collaborate	Plaza-Úbed et al. (2010) ; Sharma and Vredenburg (1998) ; Strong et al. (2001)
Responsibility (3 items)	Recognizing the rights of stakeholders, promoting active cooperation with the stakeholders	CLSA (2002) ; Sudarsono, et al. (2006) ;
Accountability (3 items)	Stakeholders accountability	Adendorff (2008) ; CLSA (2002)
Transparency (4 items)	Disclosure of information's related to the financial performance, ownership structure and governance	Jongsureyapart (2006) ; CLSA (2006) ; Sudarsono et al. (2006)
Fairness (4 items)	Stakeholders interests protection and fair treatment	CLSA (2002) ; Sudarsono et al. (2006)
Monitoring role (5 items)	Performance monitoring, control, opportunism minimization, manager evaluation	Wan and Ong (2005) ; Jongsureyapart (2006) ; Zahra and Pearce (1990)
Strategist role (5 items)	Defining the company vision and mission, strategic guidance	Wan and Ong (2005) ; Zahra and Pearce (1990)
Pre-requisites (6 items)	Directors skills and experience, appropriate control mechanisms, clear rules of governance	Ingley and Van der Walt (2001) ; Adendorff (2008) ;

5. EMPIRICAL RESULTS: THE IMPACT OF GOOD GOVERNANCE PRACTICES ON THE STAKEHOLDERS SATISFACTION

5.1. Reliability and validity of measurement scales

The scales used in this study were subjected to a pre-test but also to 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 2, the scales used show a Cronbach alpha greater than 0.80 which indicate a good reliability.

Table 2: Summary statistics of CFA

Variable	Average variance extracted	Range of loading	Composite reliability
Stakeholder's satisfaction (SHS)	47%	0.40-0.88	0.81
Pre-requisite (PR)	69%	0.72-0.95	0.90
Responsibility (RES)	84%	0.85-0.95	0.90
Transparency (TR)	66%	0.69-0.87	0.82
Fairness (FR)	70%	0.70-0.93	0.82
Accountability (AC)	89%	0.88-0.98	0.93
Monitoring role (MR)	66%	0.55-0.91	0.85
Strategist role (SR)	63%	0.68-0.89	0.85

Table 3 shows significant correlations between the dependent and the independent 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 3: Descriptive statistics, and correlation

Variable	1	2	3	4	5	6	7	8	9	10	11
1. SHS	1										
2. PR	0.63**	1									
3. RES	-0.31*	-0.44**	1								
4. TR	0.42**	0.50**	-0.87**	1							
5. FR	0.36**	0.38**	-0.29*	0.27	1						
6. AC	0.33*	0.27	-0.55**	0.45**	0.26	1					
7. MR	0.53**	0.75**	-0.49**	0.46**	0.40**	0.33*	1				
8. SR	0.53**	0.68**	-0.58**	0.61**	0.28*	0.24	0.58**	1			
9. CA	0.10	0.05	0.24	-0.04	0.02	-0.11	0.02	-0.11	1		
10. CS	-0.15	0.05	0.26	-0.13	-0.22	0.01	0.04	-0.10	0.39**	1	
11. MSO	-0.16	0.04	0.02	0.02	-0.11	0.11	0.03	-0.14	0.07	0.35*	1

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

5.2. 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 4 presents the results of two regressions: one without the control variables (Model 1), and one with the control variables (Model 2).

Table 4: Results of regression analysis of stakeholder's satisfaction

	Model 1		Model 2	
	Beta	t-value	Beta	t-value
Constant : Stakeholder's satisfaction (SHS)	-2.06	-1.31	-2.22	-1.41
Pre-requisites (PR)	0.31*	1.70	0.36**	2.06
Responsibility (RES)	0.51**	2.07	0.62**	2.38
Transparency (TR)	0.38	1.63	0.42*	1.77
Fairness (FR)	0.12	1.00	0.02	0.17
Accountability (AC)	0.24*	1.80	0.32**	2.47
Monitoring role (MR)	0.10	0.572	0.15	0.89
Strategist role (SR)	0.24	1.45	0.19	1.19
Company Age (CA)	-	-	0.12	0.96
Company Size (TE)	-	-	-0.13	-1.15
Majority State Ownership (MSO)	-	-	-0.26**	-2.02
	<i>R</i> ²	0.50		0.58
	<i>F</i> -test	6.29***		5.65***

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

The model is statistically significant and has good predictive capacity ($R^2 = 0.58$, $p < 0.001$). The results show that the stakeholder's satisfaction is significantly related to the pre-requisites, the responsibility, the transparency as well as the accountability. Contrary to our expectation, we did not find statistically significant associations between the stakeholder's satisfaction and the Fairness, the board monitoring role and the board strategist role. Therefore, we did not find support for hypotheses H4, H6 and H7; they cannot be confirmed.

6. CONCLUSION

In this study, we explored the association between good corporate governance practices and stakeholder's satisfaction in Tunisian listed companies. By so doing, we sought to contribute to the current literature on corporate governance in developing economies. Our results indicate a positive and significant association between the implementation of the three principles of governance (responsibility, transparency and accountability), the existence of the prerequisites, and the stakeholder's satisfaction in the Tunisian listed companies. However, contrary to our prediction, we didn't find a statistically significant relationship between the fairness, the board monitoring role, the board strategist role, and the stakeholder's satisfaction.

Confirming the relationship between corporate governance and stakeholder's satisfaction in a developing economy context is important for many reasons. While in the western developed economies, there are many empirical studies that provided evidence on the effect of corporate governance on stakeholder's satisfaction, our study is one of the rare researches in the area that provides evidence of this association in a non-western economy. Besides, this study showed that the impact of good corporate governance practices on the stakeholder's satisfaction in developing economies is similar to the case of developed economies, although the differences in institutional frameworks. In addition, in developing economies, companies put an emphasis on economic growth and competitiveness rather than on CSR and stakeholder's satisfaction. In fact, the shortage of regulations may encourage companies to neglect their stakeholders to achieve short-term financial goals. Demonstrating a positive link between corporate governance and stakeholder's satisfaction can help these companies to voluntarily improve their corporate governance practices to develop a sustainable competitive advantage.

Some limitations suggest that our results should be viewed with caution. The results of this study cannot be generalized to all Tunisian companies and even less to developing economies in general. These latter are 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 which introduces a part of subjectivity in the responses. Add to that, our results are part of the developing economy logic characterized by non-advanced and often not formalized corporate governance practices. This study provides evidence on the nature of the relationship between corporate governance and stakeholder satisfaction but does not help to understand the processes through which corporate governance promotes stakeholder's satisfaction. A more in-depth case study research would be appropriate to shed light on this process.

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