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Mailing Address: Unit 170, 422 Richards Street, Vancouver, BC V6B 2Z4
Head Office: Unit 300, 9850 King George Blvd, Surrey, BC V3T 0P9

+1 236 477 8411 (Customer Service)
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Content Details:

Fon Noela Neg (Author) *Itech Consulting*	**Corporate Governance and Ethics in Accounting.**

Objectives

This seminar paper study delves into the intricate relationship between corporate governance and ethics within the accounting profession, aiming to provide a comprehensive understanding of their impact on financial reporting quality and organizational integrity. Leveraging on empirical research studies, including surveys, the research seeks to examine the effectiveness of corporate governance mechanisms, such as board independence and audit committee oversight, in promoting ethical behaviour among accountants. By exploring these dimensions, this research aspires to contribute valuable insights into the multifaceted dynamics of corporate governance and ethics in accounting, offering guidance for practitioners, regulators, and policymakers in fostering a culture of responsible and ethical financial reporting.

Keywords: Corporate Governance, Ethics, Accounting, Financial Reporting Quality

Introduction

The importance of corporate governance and ethics in accounting cannot be overstated, as they serve as the bedrock of financial integrity, transparency, and accountability within organizations. Corporate governance encompasses the systems, processes, and principles that guide and control corporate behaviour, ensuring that decisions are made in the best interest of stakeholders (Agrawal & Knoeber, 1996). Effective corporate governance mechanisms, such as an independent board of directors and rigorous audit practices, help mitigate conflicts of interest and promote ethical conduct. Ethics in accounting, on the other hand, underpins the profession's credibility and trustworthiness. Accountants play a pivotal role in financial reporting and decision-making, and ethical behaviour is essential to maintain public confidence and investor trust (Mintz & Morris, 2022). The integration of ethical principles in accounting practices safeguards against financial fraud, misrepresentation, and unethical conduct. Together, strong corporate governance and ethical standards not only enhance financial reporting quality but also contribute to the overall sustainability and reputation of organizations.

What is corporate Governance?

Corporate Governance refers to the system of rules, practices, processes, and structures by which a company is directed and controlled. It encompasses the relationships between a company's management, its board of directors, shareholders, and other stakeholders. Effective corporate

governance aims to ensure transparency, accountability, and responsible decision-making within an organization, ultimately safeguarding the interests of shareholders and stakeholders (Siems & Alvarez-Macotela, 2015).

Ethics in Accounting pertains to the moral principles, values, and codes of conduct that guide the behaviour and actions of accountants and financial professionals in their practice. Ethical accounting practices emphasize honesty, integrity, objectivity, and professional competence. Accountants are expected to adhere to ethical standards to maintain public trust, ensure the accuracy of financial reporting, and act in the best interests of clients, organizations, and the broader society (Indrati & Sarikha, 2021).

Components of Corporate Governance and Ethics

Board of Directors: The board of directors is a central component of corporate governance. It plays a pivotal role in overseeing the management and strategic direction of a company. The composition of the board, including the presence of independent directors, is crucial. Independent directors bring objectivity and impartiality to decision-making, reducing the risk of conflicts of interest (Solomon, 2020)

Audit Committees: Audit committees are specialized subcommittees of the board responsible for overseeing financial reporting, internal controls, and the external audit process. Effective audit committees are typically comprised of independent directors with financial expertise who work closely with external auditors to ensure the accuracy and reliability of financial statements (COSO, 2013).

Shareholder Activism: Shareholder activism is a mechanism through which shareholders, including institutional investors and individuals, use their ownership rights to influence corporate decisions. Activist investors may advocate for changes in governance practices, executive compensation, or strategic direction. Shareholder activism can serve as a powerful tool for holding boards and management accountable (Gillan & Starks, 2007).

Theoretical Frameworks

Agency Theory

Agency theory is a foundational framework in corporate governance that focuses on the principal-agent relationship. It posits that conflicts of interest can arise between shareholders (principals) and managers (agents), leading to agency problems (McColgan, 2001). The theory suggests that mechanisms such as incentive structures and monitoring can mitigate these conflicts.

Institutional Theory

Institutional theory examines how organizations conform to institutional norms, values, and expectations to gain legitimacy and social acceptance (DiMaggio & Powell, 1983). Corporate governance practices are influenced by institutional pressures, including legal, cultural, and societal norms.

Stakeholder Theory

Stakeholder theory asserts that organizations should consider the interests of various stakeholders beyond just shareholders, including employees, customers, suppliers, and the broader society (Freeman & Phillips, 2002). Ethical corporate governance practices involve balancing the interests of multiple stakeholders.

Regulatory Framework for corporate governance

In Cameroon, the regulatory landscape for corporate governance and ethics in accounting is influenced by both international and national bodies. Some of these bodies in Cameroon include:

Cameroon Professional Accounting Body (ONECCA-CAM): ONECCA-CAM is the primary national body regulating the accounting profession in Cameroon. It establishes ethical standards and guidelines for professional accountants, promoting ethical behaviour in the profession.

Financial Market Commission (CMF): The CMF regulates financial markets and intermediaries in Cameroon. It ensures compliance with accounting and financial reporting standards, promoting transparency and accountability in the financial sector.

Ministry of Finance: The Ministry of Finance oversees financial reporting requirements for companies operating in Cameroon. It plays a role in enforcing compliance with national accounting standards and regulations.

Empirical literature

Relationship between corporate governance and financial reporting quality

Klein (2002) conducted a study to investigate the relationship between audit committee effectiveness and financial reporting quality in U.S. firms. Klein found that audit committee effectiveness, measured by factors such as expertise and meeting frequency, was associated with a lower likelihood of financial restatements. This implies that robust audit committees can help mitigate reporting errors, enhancing financial reporting quality (Klein, 2002).

Also, Beasley et al. (2000) examine the impact of the board of directors' independence on the likelihood of financial statement fraud in U.S. They found that firms with a higher percentage of independent directors on their boards were less likely to engage in financial statement fraud. Their study suggested that independent boards contribute to improved financial reporting quality by reducing the incentive for fraudulent reporting (Beasley et al., 2000).

Case Studies

These case studies serve as cautionary tales, demonstrating the far-reaching impacts of corporate governance and ethical lapses in accounting. They emphasize the necessity of strong ethical leadership, transparency, and effective corporate governance practices to maintain trust, protect stakeholders, and ensure the integrity of financial reporting.

Case Study 1: Enron Corporation

The Enron scandal, one of the most infamous corporate collapses, was primarily driven by unethical accounting practices. Enron engaged in aggressive accounting methods, such as off-balance-sheet financing, to hide debt and inflate profits. The company's corporate culture encouraged excessive risk-taking, and its executives manipulated financial statements to maintain the appearance of success (Thomas & McDaniel, 2016).

Consequences:

The consequences of the Enron scandal were severe. Shareholders lost billions of dollars, employees lost their jobs, and public trust in corporate governance and accounting was eroded. Arthur Andersen, Enron's auditing firm, also collapsed, leading to a loss of confidence in the auditing profession (Thomas & McDaniel, 2016).

Lessons Learned:

The Enron case emphasized the importance of transparency, ethical leadership, and effective corporate governance. It led to the Sarbanes-Oxley Act, which imposed stricter regulations on financial reporting, corporate governance, and auditing. Companies and auditors now face greater scrutiny, highlighting the need for ethical behaviour and accountability (Thomas & McDaniel, 2016).

Case Study 2: Volkswagen Emissions Scandal

The Volkswagen (VW) emissions scandal involved the use of software to manipulate emissions tests in diesel vehicles. The company falsely advertised its vehicles as environmentally friendly, concealing the actual emissions levels. Ethical lapses within VW's management and a desire to gain a competitive edge in the market contributed to the scandal (Hotten, 2015).

Consequences:

The scandal had significant financial and reputational consequences for Volkswagen. The company faced billions in fines and legal settlements, and its stock price plummeted. The scandal also damaged VW's reputation for ethical behaviour and environmental responsibility (Hotten, 2015).

Lessons Learned:

The VW emissions scandal underscored the importance of ethical behaviour, transparency, and accountability at all levels of an organization. It highlighted the need for robust corporate governance and oversight mechanisms to prevent unethical actions. The scandal also prompted increased scrutiny of emissions testing in the automotive industry (Hotten, 2015).

Challenges and Emerging Trends

Current challenges and emerging issues in corporate governance and ethics within the accounting profession encompass a range of topics, reflecting the evolving landscape of business and finance. Some of these issues include sustainability reporting, digital transformation, and ethical dilemmas in accounting practice:

Sustainability Reporting: The integration of Environmental, Social, and Governance (ESG) factors into corporate governance and financial reporting has gained prominence. Companies are increasingly expected to disclose information related to their environmental impact, social responsibility, and governance practices. This shift reflects the growing importance of sustainability and responsible business practices in meeting stakeholder expectations and regulatory requirements (GRI, 2016).

Digital Transformation: The rapid advancement of technology is transforming accounting practices. Automation, data analytics, and artificial intelligence (AI) are altering the way financial information is processed, analysed, and reported. While these technological advancements can improve efficiency, they also present ethical challenges related to data privacy, cybersecurity, and the potential for biased algorithms (IAESB, 2021).

Ethical Dilemmas in Accounting Practice: Ethical dilemmas continue to confront accountants. These dilemmas can arise in various forms, such as conflicts of interest, earnings management,

auditor independence, and whistleblowing. Accountants must navigate complex situations where their professional responsibilities may conflict with financial pressures or organizational interests. Ensuring ethical conduct remains a critical challenge (IFAC, 2020).

Global Regulatory Changes: Accounting and auditing standards are subject to continuous updates and changes, both at the national and international levels. Keeping pace with evolving regulations, such as International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), is a challenge for professionals and organizations operating across borders (IFRS Foundation, 2021).

Data Privacy and Confidentiality: As accounting firms and organizations handle vast amounts of financial and personal data, maintaining data privacy and confidentiality is paramount. Stricter data protection laws and regulations, such as the European Union's General Data Protection Regulation (GDPR), have raised the bar for data security and compliance (GDPR, 2018).

Diversity and Inclusion: Achieving diversity and inclusion in the accounting profession is an ongoing challenge. The profession is striving to create more diverse talent pipelines, address unconscious biases, and promote equity at all levels, including leadership positions. Diverse teams are seen as more likely to make ethical decisions and foster innovation (AICPA, 2021).

Conclusion

In conclusion, this paper underscores the pivotal role of ethical accounting practices within the broader framework of corporate governance. The empirical findings discussed highlight the positive impact of strong corporate governance structures, such as independent boards, effective audit committees, and ethical leadership, on financial

reporting quality. These findings emphasize the crucial link between ethical conduct, transparency, and trust in financial reporting. Embracing and upholding ethical accounting practices not only enhance financial reporting quality but also contribute to building a foundation of credibility and integrity in corporate operations. In an era where stakeholders increasingly demand accountability and transparency, ethical accounting practices stand as a fundamental pillar for organizations striving to achieve sustainable growth and maintain the trust of investors, regulators, and the public at large.

Recommendations and Best Practices

- Ensure that a significant portion of the board consists of independent directors who can provide unbiased oversight. Independent directors bring diverse perspectives and can challenge management when necessary (Solomon, 2018).
- Formulate audit committees with members who possess financial expertise and independence. These committees should meet regularly and have a clear mandate to oversee financial reporting and internal controls (COSO, 2013).
- Foster an ethical culture throughout the organization, starting with senior leadership. Develop and communicate a code of ethics that sets clear expectations for employees' conduct and encourage whistleblowing mechanisms (CIMA, 2019).
- Ensure transparency in financial disclosures and avoid overly complex financial statements. Clear and concise reporting enhances understanding and trust (IFAC, 2017).
- Implement robust internal control systems to safeguard assets and ensure accurate financial reporting. Regularly assess and update these controls to adapt to changing risks (COSO, 2013).
- Ethics Training: Provide ethics training to employees at all levels, emphasizing the importance of ethical behaviour and adherence to the organization's code of ethics (AICPA, 2021).

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Masoumeh Chahrdahcheriki (Author) *Allameh Tabataba'i University, Tehran* **Ribesh Khanal (Co-Author)** *Toledo university, Ohio*	**Identifying and ranking creative accounting Motives echniques: A Case Study of Iran**

Abstract

The aim of this survey is to identify and rank the motives and techniques of creative accounting for companies listed on the Tehran Stock Exchange (TSE). To achieve this aim, we first studied the research literature and theoretical framework, and conducted semi-structured interviews with experts to identify a collection of motives and techniques of creative accounting. In the next step, the identified motives and techniques that had expert consensus were screened using a questionnaire and the Fuzzy Delphi method. Finally, we analyzed the financial statements of companies listed on the Tehran Stock Exchange to rank the techniques used in practice. By performing the Fuzzy Delphi method, we identified 7 motives and 6 creative accounting techniques. The results of examining financial statements show that the mostly used techniques in companies listed on the Tehran Stock Exchange are recognizing provisions with an optimistic prospect (e.g., for doubtful receivables, guarantees, investments, stagnant inventories, taxes), assessing entity group transactions at prices different from the market price, and manipulating sales. Other techniques are of lower priority. Also, these techniques are mostly used with the motives of stock price management, increasing managers' compensation and achieving internal and external forecasts.

Keywords: Creative accounting, Creative accounting motives, Creative accounting techniques, Fuzzy Delphi.

Introduction

Financial reports aim to convey corporate performance, financial positions, and management accountability to stakeholders, including shareholders. Therefore, the accuracy, reliability and transparency of financial reports are critical for all stakeholders to make sound decisions (Bhasin, 2016). Biased financial statements resulting from accounting manipulation often influence decision-making processes, posing risks to the present and future of organizations and other stakeholders who depend on this inaccurate information (Teixeira and Rodrigues, 2022). Creative accounting, as a form of accounting manipulation, is defined as employing latitude, flexibility, and exploiting loopholes in accounting standards to falsely portray a better financial picture of a company. This topic attracted considerable attention after major U.S. companies were accused of fraudulent financial reporting (e.g., Enron, WorldCom) (Rezaee and Riley, 2009). Creative accounting has garnered significant attention due to several factors. These include the intensifying competition among companies on a global scale, the imperative to enhance the quality of financial reporting, rapid technological advancements, the complexities of the economic environment, the emergence of new financial instruments, and issues related to unfair competition (Preda *et al.,* 2022). Understanding how companies employ creative accounting methods can enhance investor decision-making and bolster trust in the financial reporting system among users.

Economic sanctions have had a profound impact on the Iranian economy, affecting both individual businesses and the broader economic landscape. These sanctions have resulted in decreased efficiency, challenges with imports and exports, elevated prices of raw materials, higher production costs, and subsequently, diminished overall performance. In light of these challenges, managers may resort to opportunistic financial reporting practices to portray a more positive financial standing and performance of their companies. However, such behaviors have undermined investors' confidence in the accuracy and reliability of financial reports (Arabi *et al.,* 2017). In Iran, creative accounting is frequently observed, largely due to inefficiencies in the capital market and the complexities of operating within an unpredictable economic and political landscape. These practices often compromise the reliability and significance of financial reports, which in turn can impact the stability of businesses (Kallantary and Valiyan, 2024). In light of this, we develop the following research questions: (1) What are the key motives and techniques for creative accounting in Iran? Furthermore, (2) What is the rank of each of these motives and techniques in practice?

We conduct our research in three stages. First, we review the Theoretical framework and literature review to identify motives and techniques of creative accounting and conduct semi-structured interviews with experts. Second, we develop a Delphi questionnaire and use the Fuzzy Delphi technique to obtain screening and reach a consensus. Third, we examine the financial statements of companies listed on the Tehran Stock Exchange and rank the techniques used in practice.

We find that several techniques are mostly used by companies listed on the Tehran Stock Exchange, including recognizing provisions with an optimistic prospect (e.g., for doubtful

receivables, guarantees, investments, stagnant inventories, taxes), assessing entity group transactions at different prices than the market price, and manipulating sales. The results also indicate that these techniques are primarily employed with the motives of stock price management, increasing managers' compensation, and achieving internal and external forecasts.
These findings have significant implications for policies, practices, and research, as companies globally strive to address creative accounting practices. This contributes to the literature in multiple ways. Unlike prior research that primarily identifies creative accounting techniques in a single step, this study employs a two-step approach. It utilizes qualitative methods such as questionnaires and the fuzzy Delphi technique, followed by a step involving data collection from financial reports of companies listed on the Tehran Stock Exchange. This methodology aims to screen and identify influential techniques comprehensively. Secondly, this study differentiates between creative accounting and fraud, categorizing the sample companies into two groups based on their utilization or non-utilization of creative accounting techniques. Moreover, exploring creative accounting within the Iranian economy contributes to expanding the literature on creative accounting specifically in emerging economies. The structure of the remaining paper includes sections on theoretical framework and literature review, methodology, findings, and conclusion.

Theoretical framework and literature review

Theoretical framework

One of the theories that can explain the motives for creative accounting is agency theory. This theory explains the relationship between principals, such as shareholders, and agents, such as a company's executives. Agency theory posits that a company is structured around contracts between the owners of economic resources (the principals) and managers (the agents) who are responsible for utilizing and managing those resources (Jensen and Meckling, 1976). They also contend that conflicts of interest arise between management and owners of businesses, particularly when owners are not directly involved in managerial roles. Agency theory operates on the premise that managers are individualistic, self-serving, and opportunistic. According to this theory, managers are inclined to prioritize their own interests over those of the owners, potentially leading to conflicts and suboptimal outcomes for the company (Adelopo**,** 2010**)**.
Another theory associated with creative accounting is Positive Accounting Theory. Positive Accounting Theory aims to predict real-world events and interpret them in terms of accounting transactions. In contrast to normative accounting theories, which typically propose what ought to be done, Positive Accounting Theory seeks to explain and forecast actions, such as which accounting policies firms will adopt and the reasons behind these choices (Scott, 2003). The positive accounting theory includes three hypotheses: The bonus plan hypothesis, according to which managers will choose procedures that increase their rewards; the debt contract hypothesis, according to which managers will choose procedures that increase current profits; and the

political cost hypothesis, which states that managers will use methods that reduce political costs such as taxes (Watts and Zimmerman, 1986). Creative accounting involves using management judgment to choose accounting procedures that can influence the transfer of wealth between the company and society through the political cost hypothesis, fund providers through the debt contract hypothesis, or managers through the bonus plan hypothesis (Diana and Madalina, 2007).

Literature Review

According to International Financial Reporting Standards (IFRS), a fundamental characteristic of financial information is faithful representation. This means that information representing an economic phenomenon should ideally be complete, neutral, and free of material misstatements, whether caused by errors or fraud. Therefore, exploitation of accounting rules to transform accounting numbers from their actual state to a more desirable one (i.e., creative accounting) undermines faithful representation in financial reports and reduces the usefulness of financial information, resulting in poor investor decisions, financial losses, and inefficient allocation of resources at the macroeconomic level. The linguistic interpretations of creative accounting have created confusion and ambiguity. The term creativity can sometimes lead to positive connotations regarding creative accounting. Creativity typically arises in novel or ambiguous situations where the appropriate course of action is unclear. In such cases, creativity can be beneficial (Bachtijeva, 2020). In the realm of accounting, the inherent flexibility of accounting standards demands creativity in navigating ambiguous scenarios to identify optimal solutions and accurately portray the company's financial status in a fair and transparent manner. However, creative accounting involves the use of accounting techniques and practices allowed under accounting standards to portray a desired image of the company in financial statements, often deviating from the true economic reality (Griffiths, 1986; Watts and Zimmerman, 1986; Gherai and Balaciu, 2011; Bhasin, 2016; Akpanuko and Umoren, 2018; Gupta and Kumar, 2020; Kallantary *et al.,* 2024). Creative accounting, motivated by opportunism, does not offer an accurate and unbiased portrayal of the company. Thus, it's crucial not to conflate 'creative accounting' with genuine creativity. It represents a deliberate interference in the accounting process aimed at distorting financial figures (Bachtijeva, 2021).

Creative accounting is often used in Europe, while earnings management is a more common term in the United States for similar practices (Bhasin, 2016; Susmuş and Demirhan, 2013; Amat and Gowthorpe, 2004). some researchers view creative accounting and earnings management as interchangeable terms that encompass different types of accounting manipulations (Bachtijeva and Tamulevičienė, 2022; Amat and Gowthorpe, 2004). Akpanuko and Umoren (2018) differentiate between these terms, highlighting that earnings management typically involves adjustments to items in the profit and loss statement, while manipulations associated with creative accounting primarily target items in the balance sheet. This distinction highlights the multifaceted nature of accounting manipulations and the various techniques used by entities to manage financial reporting outcomes. Understanding these differences can be crucial in evaluating the

quality and reliability of financial information. According to Stolowy and Breton (2004), accounting manipulations can be classified based on two criteria that adhere to accounting rules and standards: Earnings management, aimed at impacting earnings per share and creative accounting, aimed at influencing both earnings per share and the debt-to-equity ratio. By specifying these criteria, Stolowy and Breton provide a more detailed understanding of the motivations and outcomes associated with different types of accounting manipulations within the framework of accounting standards and rules.

In line with prior research and in response to which term—creative accounting or earnings management—better describes the manipulation of accounting results, this research in two parts explains the meaning of creative accounting and the concept of creativity and the relationship between creative accounting and earnings management. Given the differences in terminology across countries, it should be noted that earnings management and creative accounting are understood differently in Iran. A panel of experts provided input on this matter, asserting that creative accounting encompasses more than just earnings management. Furthermore, certain manipulations, such as those involving the classification of balance sheet items or the improvement of financial ratios do not fall within earnings management. Therefore, the present research defines creative
accounting as any form of accounting manipulation that do not violate accounting standards. In this classification, there is accounting manipulation, fraud, that do not fall within the framework of accounting standards and is outside the scope of creative accounting.

Creative accounting practices

Popescu and Nișulescu (2013) survey financial managers across 13 different sectors, identifying various creative accounting techniques and practices. These include methods such as manipulating expenses through depreciation adjustments, selecting fixed assets for revaluation, treating R&D costs as expenses or capitalizing them, engaging in off-balance sheet financing, altering stock valuation methods, using optimistic or pessimistic estimates in accounting transactions, accelerating revenue recognition or delaying expense recognition, offsetting assets with liabilities or revenues with expenses, changing holdings classification policies, and issuing convertible bonds or bonds with share subscription warrants, among others. Remenarić *et al.* (2018) identify the most frequently used creative accounting techniques, which include off-balance sheet financing, changes in accounting policies and depreciation methods, manipulation of other revenue and expense items, changes in the value of money, overestimation of revenues through fictitious sales, manipulation of receivable write-offs, and manipulation of accruals. Hussein *et al.* (2015) find that companies frequently modify depreciation policies and provisions for bad debts as the most commonly used techniques to mislead shareholders. Okoye and Alao (2008) identify six areas with the potential for creative accounting: regulatory flexibility, absence of regulation, management's judgment about future assumptions, timing of certain

transactions, use of fictitious transactions, and reclassification and presentation of financial figures. Managers may seek to temporarily increase sales throughout the year by offering price discounts or more lenient credit terms. (Roychowdhury, 2006). Additionally, managers of financially struggling companies may seek recovery through sales manipulation and by offering substantial discounts. (Campa and Camacho-Miñano, 2014).

Creative accounting motives

Companies engage in creative accounting practices for various motives. Managers hold an advantage over shareholders due to their access to information and discretion over disclosed information. This combination of factors, coupled with managers' discretion over reported earnings and its direct impact on management compensation, creates an incentive for creative accounting. Gosh (2010), Mulford and Comiskey (2011), Knezevic et al. (2012), and Kamau et al. (2015) argue that companies use creative accounting to enhance the manager's compensation.

Mulford and Comiskey (2011), Njuguna and Moronge (2013) conclude that contractual obligations, such as debt contracts, serve as a motivation for creative accounting in many companies. This finding is consistent with positive accounting theory, specifically the debt contract hypothesis. According to Kamau et al. (2015), tax evasion and the subsequent reduction of political costs are key reasons for engaging in creative accounting. This phenomenon is especially prevalent in developing countries, where taxable income is often calculated based on accounting figures. Other researchers, including Kuria (2013) and Sanusi and Izedonmi (2014), have also identified tax evasion as one of the primary motivations for using creative accounting.

Another motivation frequently mentioned in the research literature is the desire to increase expected profits and stock prices. Gosh (2010), Osazevbaru (2012), Effiok and Eton (2012), and Balaciu et al. (2014) have confirmed this motivation for using creative accounting. Sawicki and Shrestha (2008) and Bewaji (2012) identified Insider Dealings as a factor contributing to the existence of creative accounting. Additionally, according to several researchers such as Shah et al. (2011) and Remenaric et al. (2018), the reason for using creative accounting practices is to achieve internal or external forecasts.

Methodology

Our research process comprises three stages. In the first stage, we identify the motives and techniques of creative accounting through a comprehensive literature review. Subsequently, in the second stage, semi-structured interviews are conducted with a panel of 16 experts in 2022 to gather their opinions and complete initial motives and techniques. In this stage, the statistical population consists of academics from the accounting department of the university, audit partners and managers (members of the Iranian Association of Certified Public Accountants), managers and members of special committees of regulatory bodies such as Iran Audit Organization (IAO)

and the Securities and Exchange Organization (SEO) of Iran, and financial managers of companies listed on the Tehran Stock Exchange (TSE). Purposive (snowball) sampling is used in interviews until saturation is reached. Table 1 provides the descriptive characteristics of the interviewees.

Moving on to the second stage, we utilize the results from the previous stage to implement the fuzzy Delphi method (FDM) for screening creative accounting motives and techniques. Table 2 presents the descriptive characteristics of the expert panel involved in the fuzzy Delphi techniques and motives.

Finally, in the third stage, we analyze the financial statements of companies listed on the Tehran Stock Exchange and rank techniques used in practice. Two criteria are considered when selecting industries: (1) market concentration and turnover and (2) the number of active companies. Specifically, those with the highest market concentration and at least 10 active companies that meet the conditions below are selected as the sample. Industries meeting the inclusion criteria are as follows:

(1) Automobile and parts manufacturing
(2) Basic metals
(3) Chemicals
(4) Pharmaceutical materials and products
(5) Machinery and equipment
(6) Food and beverage (excluding sugar)
(7) Cement, lime, and plaster

Purposive sampling is used to screen companies and select the sample based on the following criteria:

(1) Having been listed on the TSE before 2012.
(2) Not belonging to investment, holding, banking, or insurance industries.
(3) Availability of required data in the Codal database for the period 2012-2022.
(4) Fiscal year-end matching the calendar year-end (March 20).
(5) Having no changes to the fiscal year in the studied period.

After applying the defined criteria for purposive sampling, a total of 72 companies were selected as the sample over a period of 10 consecutive years between 2012 and 2022. The distribution of selected companies across industries is as follows: 20 companies from the automotive and parts manufacturing industry, 14 companies from the basic metals industry, 8 companies from the chemical products industry, 9 companies from the materials and pharmaceutical products industry, 6 companies from the machinery and equipment industry, 8 companies from the food and beverage industry, and 7 companies from the cement, lime, and plaster industry. These companies yielded a total of 720 firm-years of data. Next, by examining their financial statements, the rank of the techniques used in practice is determined. The data are extracted from the Codal, the Securities and Exchange Organization's official database concerning issuers.

Findings

Literature review and expert interviews

By studying the literature and conducting interviews with 16 experts, we identified 9 motives and 18 creative accounting techniques (Tables 3 and 4). Notably, during the interview stage, the technique of manipulating currency exchange rates and motives such as the appointment of a new management team and lack of accountability are added to the research. The definition of creative accounting agreed upon and accepted by the panel of experts is as follows:

" Creative accounting refers to the exploitation of loopholes and ambiguity in accounting rules to present a more favorable image of a company's financial position. It involves the manipulation of financial data and figures by the preparers of financial statements within the boundaries of accounting standards, with the intent to mislead users."

Fuzzy Delphi results

The results of the fuzzy Delphi technique for motives and techniques of creative accounting are presented in Tables 3 and 4. Following the removal of items scoring less than 0.7, 7 motives and 6 techniques are identified as the agreed-upon creative accounting motives and techniques by the experts. We find that several techniques are mostly used by companies listed on the Tehran Stock Exchange, including recognizing provisions with an optimistic prospect (e.g., for doubtful receivables, guarantees, investments, stagnant inventories, taxes), Changing different components of depreciation such as method, period or residual value, Creating exceptional items (sales of fixed assets, investments), manipulating sales, assessing entity group transactions at different prices than the market price, and manipulating currency exchange rates. The results also indicate that these techniques are primarily employed with the motives of stock price management, increasing managers' compensation, and achieving internal and external forecasts.

Examining financial statement and ranking creative accounting techniques

In the final stage, we examined the financial statements of 72 companies listed on the Tehran Stock Exchange over a period of 10 consecutive years between 2012 and 2022 to discover the creative accounting techniques. Consequently, out of the 720 firm-years, 278 used creative accounting techniques, while 442 did not use these techniques. The frequency of the techniques used is shown in Table 5. As the table shows, the techniques of Recognizing provision with an optimistic prospect (e.g., for doubtful receivables, guarantees, investments, stagnant inventories, taxes), Assessing entity group transactions with different prices than the market price, and Manipulating sales are, respectively, the most frequently used in companies listed on the Tehran Stock Exchange.

Discussion and Conclusion

The results of the present research indicate that the six most widely used creative accounting techniques in companies listed on the Tehran Stock Exchange respectively are as follows: (1) Recognizing provision with an optimistic prospect (e.g., for doubtful receivables, guarantees, investments, stagnant inventories, taxes); (2) assessing entity group transactions with different prices than the market price value; (3) manipulating sales; (4) manipulating currency exchange rates; (5) creating exceptional items (sales of fixed assets, investments); and (6) changing different components of depreciation such as method, period or residual. Since all these techniques impact profit figures, it can be concluded that creative accounting serves as a vehicle for earnings management in Iran. Experts also have confirmed that the main motivation for employing creative accounting is stock price management, while one of the methods of doing this is earning management. Perhaps one reason for this is that Iranian companies often face financial resource shortages due to economic sanctions. In response, they have turned to creative accounting practices as a means to signal the market and secure the necessary resources. As a result, companies are giving less priority to reducing profits, leading to a reduction in political costs

According to expert interviews, manipulating currency exchange rates emerged as a particularly important creative accounting technique in this research and was added to the list of creative accounting techniques. This technique holds significance due to the Iranian economy's experience of severe inflation and intense fluctuations in exchange rates. As a result, this method may be a unique aspect of creative accounting in Iran that may not be observed in other countries.

Considering the identified creative accounting techniques in TSE-listed companies, it is advisable for the Iran Audit Organization and Iranian audit firms to incorporate creative accounting into their audit plans. This proactive approach can help prevent insufficient or misleading disclosures by companies extensively using creative accounting practices in their financial reporting. Additionally, understanding creative accounting techniques enables auditors to estimate audit and detection risks more accurately, serving as a valuable guide for reducing audit costs. The findings of this research can also be considered in initial public offering (IPO) evaluations to assess the reliability and quality of financial reports, as well as the pricing of the shares of these companies.

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Table 1. Descriptive characteristics of the interviewees

Activity		Academic Degree		Field of Study	
Description	N	MSc	PhD	Accounting	Other
Academics	3	-	3	3	-
Audit partners/managers	3	3	-	2	1
Managers/members of special comn	5	5	-	5	-
Financial managers of TSE-listed com	5	1	4	4	1
Total	16		16		16

Table 2. Expert panel for the fuzzy Delphi techniques and motive

Panel	N	Percentage
Audit partners/managers	13	22%
Academics	11	18%
Financial managers of TSE-listed companies	12	20%
Managers/members of special committees	14	23%
Financial analysts	10	17%
Total	60	100%

Table 3. Initial motives were extracted from the literature, expert interviews, and Fuzzy screening

S/N	Motives	Fuzzy Score			Crisp	Result
		L	M	U		
1	increasing managers' compensation	0.70	0.8	0.95	0.837	Accepte
2	Contractual Obligations	0.54	0.7	0.88	0.716	Accepte
3	Tax evasion	0.58	0.7	0.89	0.748	Accepte
4	stock price management	0.75	0.8	0.96	0.872	Accepte
5	achieving internal and external sts	0.67	0.8	0.95	0.829	Accepte
6	Management of financial leverage rrowing	0.56	0.7	0.90	0.742	Accepte
7	Transfer of insider information	0.41	0.5	0.74	0.583	Rejected
8	lack of accountability	0.50	0.6	0.81	0.666	Rejected
9	appointment of a new management	0.55	0.7	0.87	0.723	Accepte

Table 4. Initial techniques were extracted from the literature, expert interviews, and Fuzzy screening

S/	Technique	Fuzzy Score			Crisp	Result
		L	M	U		
1	Recognizing provision with an optimistic prospect for doubtful receivables, guarantees, investments, nt inventories, taxes)	0.5	0.7	0.8	0.737	Accepted
2	Changing different components of depreciation such hod, period or residual value	0.5	0.7	0.8	0.739	Accepted
3	Including/excluding specific cost items in/from asset :tion or purchase cost	0.4	0.6	0.8	0.650	Rejected
4	Selecting fixed assets to be included in the ation process	0.3	0.4	0.6	0.502	Rejected
5	Considering R&D costs as expenses for the period or izing them	0.4	0.6	0.8	0.631	Rejected
6	Accounting for expenses based on retained earnings l of including them in the profit and loss statement	0.2	0.4	0.6	0.458	Rejected
7	Off-balance sheet financing	0.3	0.4	0.6	0.477	Rejected
8	Change in inventory valuation method	0.2	0.4	0.5	0.430	Rejected
9	Accounting transactions that are based on optimistic simistic estimates	0.4	0.6	0.8	0.657	Rejected
10	Creating exceptional items (sales of fixed assets, nents)	0.5	0.7	0.8	0.713	Accepted
11	Categorizing operating items as non-operating items ce versa	0.3	0.4	0.6	0.494	Rejected

12	Accelerating the recognition of revenues or delaying :ognition of expenses	0.2	0.4	0.6	0.462	Rejected
13	Delaying the recognition of revenues or accelerating :ognition of expenses	0.3	0.4	0.6	0.485	Rejected
14	Manipulating sales	0.6	0.8	0.9	0.804	Accepted
15	Offsetting assets with liabilities and/or expenses with ıes	0.4	0.6	0.8	0.671	Rejected
16	Assessing entity group transactions with different than the market price	0.5	0.7	0.8	0.718	Accepted
17	Changing classification policies	0.3	0.5	0.6	0.504	Rejected
18	Manipulating currency exchange rates	0.6	0.8	0.9	0.804	Accepted

Table 5. frequency of creative accounting techniques in practice

S/N	**Technique**	**frequency**
1	Recognizing provision with an optimistic prospect (e.g., for doubtful ables, guarantees, investments, stagnant inventories, taxes)	113
2	Assessing entity group transactions with different prices than the t price	92
3	Manipulating sales	65
4	Manipulating currency exchange rates	39
5	Creating exceptional items (sales of fixed assets, investments)	30
6	Changing different components of depreciation such as method, or residual value	8

George Kodzo Kumako (Author)
Ghana Revenue Authority

Francis Kusi (Co-Author)
DVLA

Esther Asiedu (Co-Author)
Ghana Communication Technology University

Taxation Policy Reform in Ghana: Addressing Challenges and Leveraging Opportunities in the Digital Age

Abstract

The problems of efficiently taxing digital transactions and sustaining a strong revenue base are mounting for Ghana's taxation system because of the fast digitization and globalisation of the country. In this article, the authors assess Ghana's tax policy as it is right now, analysing it for the problems caused by the internet economy and then suggesting some big changes to fix them.

Digital goods and services, cross-border e-commerce, and the operations of digital platforms in Ghana are the subjects of this research. It brings to light issues with the informal sector, the necessity for global collaboration in tax regulation, and base erosion and profit shifting (BEPS). This paper offers a framework for Ghana to update its tax policy for the digital era by studying other nations' successful digital taxation policies and international recommendations like the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan. Best practices for taxing the digital economy are identified through a thorough analysis of current literature, policy papers, and empirical data in this study. It goes on to look at how these changes could affect companies, customers, and tax money in Ghana. The results highlight the need for a middle ground strategy that promotes innovation and economic development while guaranteeing efficient and equitable taxation.

The study explores deeper into the topic of technology's impact on tax administration and compliance, suggesting digital platforms and tools to boost transparency and efficiency in tax collecting. Among the proposed changes to current policy are the following: strengthening regional and international collaboration to handle cross-border tax issues; updating tax regulations; and improving capacity building for tax agencies. This paper's primary objective is to add to the current conversation on taxation policy reform in Ghana by providing concrete suggestions on how lawmakers might create a transparent and equitable tax system that can thrive in the modern information age.

Keywords: Tax Policy, Digital Age, e-commence, Ghana's taxation system, Cross-border

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Ghana Revenue Authority. (2020). "Annual Report." This report provides insights into the current state of tax policy and administration in Ghana.

This abstract addresses the specific context of Ghana, making it relevant for an international conference focused on accounting and financial management.

Christian Coronado (Author) *Tecnologico de Monterrey-Campus Monterrey*	**Redefining strategic supply chains: the nearshoring, reshoring and offshoring of electro automotive supply chains in Northeastern Mexico and Texas.**

Abstract

Supply chains are greatly influenced by their vulnerability to geopolitical disruptions, unforeseen global events (COVID-19-like events), wars, changes in legislation, etc. Therefore, supply chain planners must design robust and reliable supply chains that endure the above. Northeastern Mexico and Texas have gained renewed interest from companies of different origins in resettling or settling in the region. This region (Northeast Mexico, most specifically the Mexican States of Nuevo Leon and Coahuila, and Texas) is seeing a renewed interest from companies from different origins to settle, or resettle, there. More specifically, automotive OEMs and Tier 1 suppliers are flocking to the region, steadily morphing r into a global hub for automotive electromobility technology. This transformation is causing automotive supply chains to adapt and reshape to cope with the increased needs of the North American market and a growing burgeoning middle class in Mexico and other LATAM countries. This study attempts to empirically describe some of the changes and transformations that are taking place from the perspective of the electro-automotive supply chains.

Keywords: Nearshoring, Backshoring, Automotive Industry, Northeastern Mexico and Texas, Supply Chains.

Introduction

The COVID-19 post-pandemic and current geopolitical jointure (i.e. US-China industrial decoupling, The Ruso-Ukrainian war, the enlargement of BRICS countries and other critical geopolitical events) are causing Western companies to consider more than ever to reshape the architecture of their supply chains to compensate for political uncertainty and the raising logistics and energy costs. Over the last decade and a half, many academic articles have explored the concepts of Backshoring/Reshoring, Nearshoring and Offshoring, thus creating multiple definitions.

For practical reasons and the purpose of this study, we considered the following definitions as described in the table below:

Concept	Definition	Source
Backshori /reshoring	Relocating activities to the home country or where more nic activities occur regardless of origin.	Ellram (2013), t al. (2013)
Nearshori	It is a relocation approach that emphasizes geographical ess between client and service provider and offers ages over traditional offshoring, such as improved unication and cultural alignment, that can lead to more ve collaboration and project success.	Carmel and Abbott).
Offshorin	Offshoring is defined as a business relocation strategy to r country. This strategy is employed to reduce costs and access to specialized skills, enhancing firm titiveness.	Kahai et al. (2011).

Table 1. Definitions of foreign investment strategies.

1. Relocation Strategies in the Automotive Industry and Mexico's Role in the Automotive Supply Chain: A survey of the literature

The impact of the automotive industry on the global economy is very significant. Countries and governments entice OEMs and suppliers to relocate to bolster countries and or regional economic development. Stenoff et al. (2016) argue that nearshoring is attractive and actively encouraged by governments because of benefits such as i) the creation of high-value jobs and supporting jobs, including the creation of supporting jobs in the economy, (ii) higher wages permeate to complementary industries, (iii) firms that relocate manufacturing facilities tend to develop R&D centers and transfer technology to the host country (iv) increased export potential.

Mexico plays a significant role in the global automotive supply chain. Mexico has become the world's fourth-largest manufacturer of motor vehicles and the seventh-largest manufacturer of automotive components (Falck-Reyes, 2023).

By the end of the third quarter of 2023, foreign investment in Mexico's manufacturing sector (mainly automotive and metal extraction and processing) amounted to 17,753 Billion USD, or 53% of the country's total foreign investment (Cámara de Diputados, 2023). According to Bloomberg's Linea (2022), automotive companies from Germany, Spain, and North America are

relocating from China to Mexico to access the American market better to profit from the provisions of the USMCA and to move to accelerate the upward trend in electromobility According to the same source, electromobility and digitization are not mere trends but transformative forces shaping Mexico's industries (2022).

2.Mexico and China as Collaborators and Competitors of Direct Investment

Authors such as Pietrobelli and Serin (2023) and Shi and Ouyang (2023) have studied the nearshoring patterns of relocation investment of foreign capital in Mexico and other LATAM countries as preferred options to China. In their findings, while they have seen significant increases in foreign investment in the region, especially in Northern Mexico, they claim that China is still a preferred destination for foreign investment compared to Mexico and LATAM. Most specifically, Shi and Ouyang (2023) argue that Mexico still relies significantly on Chinese value-added goods in its exports to the US. According to their analysis, Mexico's exports are concentrated in lower-skill sectors compared to China's high-skill goods exports. Pietrobelli and Seri (2023) conclude that, with the exclusion of Mexico, LATAM countries do not offer meaningful or strategic advantages for relocating investments vis-à-vis China.

However, many articles have shed light on the pattern of Chinese autoparts companies investing in Mexico. Ortíz and Prudencio (2022) argue that Mexico's Autoparts and Automotive Industry (AAI) has become increasingly attractive. The authors claim that Chinese investment IN LATAM reached $139.2 billion, a sevenfold increase from the previous decade. Mexico, in particular, experienced a massive inflow of Chinese direct investment in its AAI from $1.088 billion to $12.946 billion in one decade. According to the same authors, Mexico is the top recipient of Chinese investment in its AAI; thus, it is a top destination within LATAM, especially in manufacturing and AAI. According to the same authors, Mexico's states receiving most of the Chinese AAI investment are Coahuila, San Luis Potosi, Jalisco, Aguascalientes, and Hidalgo, which combined received 83.17% of all Chinese investment.

The findings suggest that this investment trend will persist, driven by the demand from global automotive industry projects and strategic location benefits from agreements like NAFTA/USMCA and the agglomeration economies within Mexico.

Sanguinés et al. (2021) argue that Chinese companies will continue to invest in Mexico's automotive industry. According to the previously cited authors, Chinese investment, particularly in the autoparts and automotive sector (AAI), is expected to be sustained and grow in the coming years. According to them, this influx of Chinese investment is mainly driven by the favourable demand prospects in Mexico, which are stimulated by the presence of global assemblers, along with location advantages such as proximity to the United States and the benefits of the USMCA.

Some key takeaways of Sanquinés et al. are the following:

1. Chinese investment is expected to continue in Mexico due to favourable demand prospects and strategic advantages like proximity to the US and the benefits of /USMCA.
2. Mexico is not replacing China as an automotive hub but is becoming an increasingly important player in the industry due to its strategic location and trade agreements.
3. USMCA provides incentives for Chinese companies to consider Mexico an attractive location for investment, mainly due to market access and regional content requirements, which can make Mexico a beneficial export platform to the US market.

3. Automotive Supply Chains in Northeastern Mexico and Texas.

As stated, Mexico plays a seminal role in the global automotive industry. The vast majority of Mexico's investments hug around Mexico's Federal Highway 57, which runs from around Mexico City to Piedras Negras (Coahuila, Mexico)/Eagle Pass (Texas, USA) border crossing. Furthermore, Highway 57, around Saltillo, diverts to Monterrey (Nuevo Leon, Mexico) and branches out from there to Nuevo Laredo (Tamaulipas, Mexico)/Laredo (Texas) border crossing—figure 1. Depicts the location within Mexico of all Automotive OEMs as documented by the Mexican Association of Automotive Manufacturers; it also highlights Highway 57 to Piedras Negras/Eagle Pass (A) and its diversion to Monterrey and Nuevo Laredo/Laredo (B).

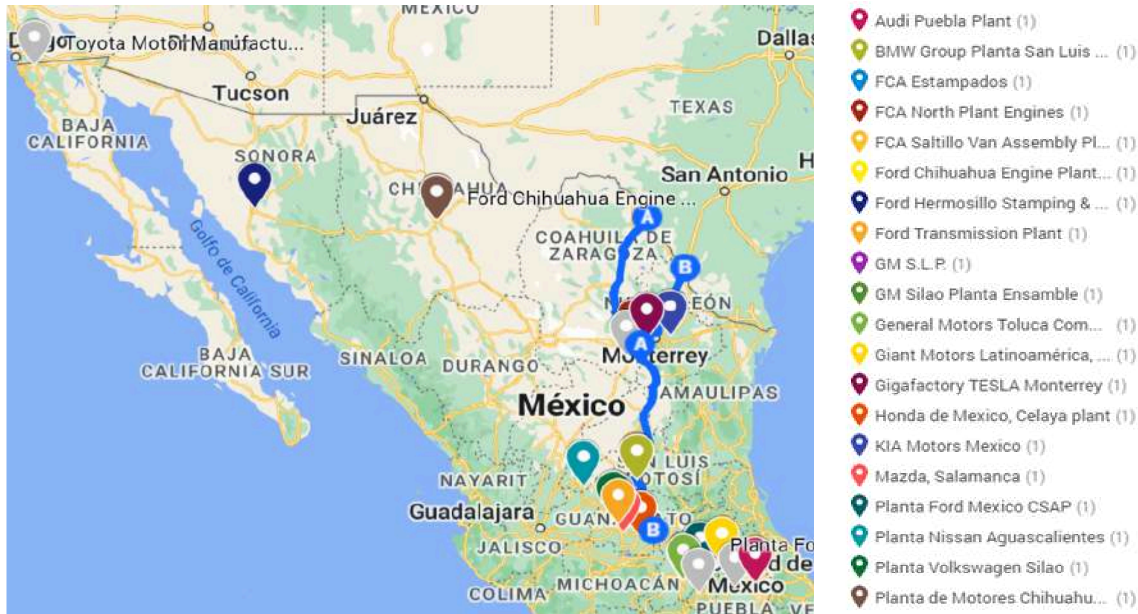

Figure 1. Location of OEMs operating plants in Mexico.

In Mexico's Northeastern Region (Coahuila and Nuevo Leon), OEMs such as Stellantis, GM, KIA, and truck manufacturer Navistar (not depicted in figure 1) have dedicated assembly plants in Northeastern Mexico, which represents multi-billion investments.

According to Mexico's INA (Mexico's Autoparts Association), the Northeastern state of Coahuila leads the country in producing autoparts, with a production output of 10.7 billion USD. According to INA, Mexico's total production output in 2023 was worth 17.5 billion USD (Ramirez, 2024).

According to the Office of the Governor of Texas, the state has become the US's 7th most import automotive hub (Office of the Governor of Texas., n.d.). Furthermore, Texas hosts more than 1759 automotive OEMs and T1 and T2 suppliers. From 2009 to 2016, total exports of cars and trucks from Texas more than doubled, from $9.2 billion to more than $18.5 billion (Starner, 2021).

Northeastern Mexico's and Texas's Auto industries are deeply interconnected, complementary and competitive. The figure below depicts this interconnectedness by showing in detail the location of automotive OEMs and auto suppliers in Northeastern Mexico and Texas.

Figure 2. Northeastern Mexico-Texas Corridor automotive manufacturing corridor, according to the Office of the Governor of Texas (Office of the Governor of Texas, n.d., p6].

EV and Electromobility hub in Northeastern Mexico and Texas.

According to the perspective of Mexico's INA about the development of EVs, Electromobility and the evolution of autoparts for electric vehicles in Mexico, this industry is poised to continue its steady growth and adoption in the US and Western countries and Mexico too (INA). On the one hand, Mexico's role as a critical player in the electromobility revolution will solidify in the coming years. Some of the challenges that Mexico will have to overcome to continue to be a relevant player in the industry provide insights related to the impact of digitalization of supply chains, continued investments in infrastructure and safety, and human capital development.

The state of Texas, on the other, is transforming into a critical player in the EV manufacturing landscape. Tesla's gigafactory in Austin and Rivian Motors' negotiation for a 5 billion USD EV plant in Fort Worth genuinely transforms Texas into an EV powerhouse (Hethcock, 2021).

Key Auto-parts EV suppliers such as Nemak, LG-Magna or Kongsberg Automotive, the former operating from the state of Nuevo Leon and the letters from neighbouring Coahuila, are examples of auto suppliers which have optimized their supply chains to be fully integrated with the US supply chain. GM Coahuila's plant is now developing new capabilities to develop and manufacture electric motors.

Conclusions and Recommendations

Mexico has indisputably transformed into a critical global automotive player, with seventeen (Hamre & Posen, 2021) automotive plants operating there. This industry is one of the foundational stones of the Mexican economy, representing 4% of the country's GDP. From our review of Chinese investment in Mexico, we can identify a continuous investment pattern of Chinese automotive companies in Mexico. Thus, we believe that Mexico is double-dipping regarding the reception of foreign automotive investment. On the one hand, Westerners (American and European) are nearshoring or relocating their investments to Mexico to benefit from the country's strategic advantages. On the other hand, Chinese, Korean and Japanese companies are offshoring their investment to the country to take advantage of favourable strategic conditions, such as the USMCA agreement (Hamre & Posen, 2021). Some of the most severe challenges which Mexico needs to address to profit from these conditions relate to the country's structural conditions; from our perspective.

These are:

- *Urgently address and reduce crime and corruption*. To truly become a global automotive producer, Mexico needs to combat corruption in all instances of government and address criminality and safety issues.
- *Structural barriers.* Reduce or eliminate trade barriers, regulatory rigidities, and energy sector interventions which increase uncertainty.
- *Logistical Infrastructure Investment.* Mexico urgently needs to improve and enhance its logistical infrastructure, particularly around Highway 57, and improve and develop rail alternatives.
- *Increase Intellectual Property certainty.* The inadequate protection and enforcement of intellectual property rights hinder investment attractiveness.
- *Stand out from nearshoring competitors*. The competition for foreign direct investment with other nearshoring locations in Asia, North America and Latam is vicious. Mexico must develop structural policies and promotion strategies to stand out from competing nations.
- *Flaws in the regulatory framework of the USMCA* may disadvantage Mexico in favour of US-based production.
- *Mexico must recast domestic economic policies* to be competitive and improve the ease of conducting business there.

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Obeng Elizabeth (Author)
Takoradi Technical University

Kwamina Fynn (Co-Author)
Takoradi Technical University

Corporate Governance and Firm Performance in the Alternative Investment Market: Evidence from UK.

Abstract

The study investigates the link between corporate governance (CG) and firm performance for AIM listed firms in the UK. This involves analysis of various corporate governance mechanisms and its impact on financial performance. This study relies on a sample of 82 AIM listed firms in the UK from 2012 to 2016 to examine the relationship between corporate governance and firm performance using panel regression analysis. The findings of the study revealed that board size is negatively related to all the performance indicators (ROSF, ROA and EPS) but statistically significant for only ROSF. However, the number of non-executive directors on board has a statistically positive effect on ROSF and ROA but statistically insignificant for EPS. The study adds new dimensions to the corporate governance literature by contributing to the policy debate with respect to appropriate governance mechanisms relevant to AIM companies whose compliance with CG differs from companies on the main stock market.

Keywords: Corporate Governance; Firm Performance; Agency Theory, Resource Dependency Theory, Alternative Investment Market; UK.

1. Introduction

Following the spectacular corporate scandals and failures resulting from the weak governance system that occurred in Europe and the USA (e.g., Enron, WorldCom, Xerox and), the question as to whether corporate governance matters for firm performance has interested practitioners in the field. In an attempt to address the question that hangs the neck of corporations around the globe, several empirical studies (Lee and Filbeck, 2006; Abdullah , 2007) have been conducted to examine the impact of corporate governance on firm performance, yet the results have been mixed and inconclusive and the question as to whether corporate governance matters for firm performance still remains a puzzle. Whilst some empirical studies have documented positive relationship between corporate governance and firm performance other studies have shown negative relationship (Beiner et al., 2004; Ghosh, 2006; Agyemang and Castellini, 2015; Patel, 2017). Other empirical studies have also documented statistically no significant relationship between corporate governance and firm performance. (Prevost et al., 2002; Weir et al., 2002). The inconsistencies in the results of the literature can be explained in different ways. However, a contextual view, particularly, in the case of Alternative Investment Market (AIM) companies is limited. The few existing empirical studies on the (AIM) companies have focused on minimum

compliance with good governance practices and the rate of disclosure (Mallin and Ow-Yong, 2012; Shah, 2014). Therefore, owing to the limited studies that exist on corporate governance and firm performance and the fact that corporate governance structures for AIM listed firms differs from those in the main market, we expect that gaining in-depth evidence on the implications of corporate governance on firm performance in the AIM listed firms .

The findings of the study were as follows: Board size is negatively related to all the performance indicators (ROSF, ROA and EPS) but statistically significant for ROSF. However, the number of non-executive directors on board has a statistically positive effect on all the performance measures but statistically significant for only ROSF and ROA. Regarding ownership and firm performance, the study documented negative relationships between ownership and firm performance and statistically significant in the case of institutional shareholdings for all the performance measures.

The study adds novelties to the existing literature as it departs from the conventional use of the agency theory to include the resource dependency theory and market for corporate control to examine the impact of corporate governance on firm performance.

2.1 Empirical Review and Hypothesis

2.1.1 Board size and firm performance

Drawing on the resource dependency theory it is argued that directors of a corporation provide the firm access to wealth of resources such skills, information, key constituencies including but not limited to customers, suppliers, policy makers, social groups, bankers and assures the firm of external legitimacy which reduces uncertainty and ultimately leads superior firm performance (Gales and Kesner, 1994). These assertions have been supported by various empirical findings including Adams and Ferriera (2007), who observed that larger board represent pool of expertise, ensure greater management oversight and provide access to wider range of resources and contracts.

Contrary to the foregoing assertion, Yawson (2006) found that that lager boards are often bewildered with a lot of challenges which stem from higher agency problems, and thus they become less effective in comparison with smaller boards size. Empirical findings by Guest (2009) on UK listed firms from 1981 to 2002 revealed that board size is negatively related to profitability. However, drawing from the argument of the resource dependency theory, we hypothesize that:

H1: Large board size is positively related to firm performance

2.2 Non-executive directors and firm performance

Based on the perspective of agency theory, it can be deduced that a board consisting of a high proportion of NEDs will ultimately lead to the implementation of strategies that will consequently increase shareholders wealth. This is because NEDs deepen the independence of the board,

ensures greater managerial oversight and control and add to the diversity and expertise of the board (Abdullah, 2004). As emphasised by Boakye (2018), the addition of the independent outside directors is important in balancing the scale of decision making at the boardroom to prevent management's opportunistic behaviour

Contrarily to the foregoing assertions, Agrawal and Knoeber (1996) documented that the number of NEDs on board are often driven political machinations which results in too many outsiders on the board which impact negatively on firm performance. Based on both the theoretical and empirical arguments, the study hypothesized that:

H2: The proportion of independent directors is positively related with firm performance

2.3 Managerial ownership and firm performance

The agency theory suggests that managerial ownership helps in reducing the conflicts of interest that exist between shareholders and professional managers (Jensen and Meckling, 1976; Fama, 1980). This convergence-of-interests model asserts that as the percentage of shares owned by managers increases, their interests and those of shareholders become more aligned, and therefore, no incentive to engage in opportunistic behaviour. This has been emphasised by Gugler et al. (2008) that Managers opportunistic behaviour will cease to exist if they own large proportion of shares in the firm.

However, another strand of literature debates managers' entrenchment as an alternative hypothesis to convergence-of-interests (Morck et al., 1988; McConnell and Servaes, 1990; Short and Keasey, 1999). The entrenchment hypothesis proposes that the market forces, both internally and externally, aid in aligning shareholders' interests with those of the managers when managerial ownership is at low levels. This has been supported by the empirical findings of Davies et al. (2005). Thus, the study hypothesized that:

H3: A positive relationship exists between managerial shareholding and firm performance.

2.4 Institutional investors

Institutional blockholders such as pension funds, e.g. CULPERS, mutual trusts and fund managers by virtue of their relatively large share have incentives to monitor and exercise greater control over managers. This helps to mitigate the agency problems that have taken the centre stage of modern corporate finance (Jensen and Meckling 1976). Consistent with the work of Jesen and Meckling (1976), Shleifer and Vishny (1997) pointed out that blockholders thus help reduce the principal-agent conflicts as they have keen interest in both profit maximization and a commanding control over the assets of the company to have their interest respected. Empirical findings based on S & P 100 firms by Cornett et al. (2007) discovered that institutional share ownership impact positively on operational performance of the firms.

On the other hand, Shleifer and Vishny (1997) cautioned that "Large investors may represent their own interest, which need not coincide with the interest of other investors in the firms, or with the interests of employees and managers. It is hypothesized that.

H4: Institutional shareholdings are positively related to firm performance.

3. Research methodology

3.1 Sample Size

The study focused on AIM listed firms in the UK which has not been focussed by existing empirical studies contrary to the large listed firms. Purposive sampling was used to draw the sample from the 982 companies listed on AIM as at December 2016. This is to ensure only firms that disclose the variables that address the research objectives were selected. In line with Ntim and Soobaroyen (2012) banks, financial institutions, insurance firms and investment companies were excluded from the sample due to the significance variations in capital structure and operational requirements. The criteria resulted in a final sample of 82 companies, with a total of 410 observations across 9 industrial sectors.

3.2 Variables

The study relied on accounting-based measures, specifically, return on assets (ROA), earnings per share (EPS) and return on shareholders fund (ROSF) as dependent variables which take retrospective assessment of what the firm has already accomplished. In relation to the independent variables, the study employed both internal and external corporate governance mechanisms (Board Size, Managerial shareholding, Non-Executive Directors) and external corporate governance mechanism as operationalised by institutional investors or block holders consistent with existing studies.

Previous empirical research (Short and Keasey, 1999; Vo and Phan, 2013 and Fahart, 2014) have considered control variables such as firm size, industry, leverage, firm age and country of origin, in examining the relationship between corporate governance and firm performance.

Consistent with the position of previous empirical studies, the researcher controlled for other variable that could mask the relationship between corporate governance and firm performance. The control variables used in the study were firm size (based on market capitalisation), firm age and leverage. The study could not include "firm industry" in the model as a control variable since the number of firms for each industry group was too small. Whilst the dependent and control variables were obtained from FAME and Amedeaus database; the independent variables were hand picked from the annual reports of the sampled firms.

3.3 The Regression Model

Regression analysis in STATA and SPSS was used to estimate the study's model. The model used to examine the relationship between firm performance, and corporate governance is summarized as follows:

$$FP_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 Controls_{it} + \mu_{it} + \lambda_{it} + \varepsilon_{it}$$

Where FP: Financial performance (ROA, EPS and ROSF), CG: Corporate Governance Variables (independent variables) which comprise of Board Size (BSIZE), Board Independence (IDEP), Executive Director ownership (XDOIROWN), Non-Executive Director Ownership (NXDOIROWN) and INIVT (Institutional Investors). Controls represent control variables Firm Size (FRMSIZE), Firm Age (FRMAG), Financial Leverage (LEVG). The subscript i denotes the nth company (i = 1... 82), and the subscript t denotes the year (t=1...5). μi is the unobservable heterogeneity (individual effects) which is specific for each firm, λt is the parameters of time dummy variables, and εit is the error term,

4.0 Presentation and Analysis of the Results

The descriptive statistics of both dependent and independent variables as summarized in Table 1, revealed minimum market capitalization is $ 440000, and the highest market capitalization of $30,545,000,000. The level of financial leverage ranged from 0.01 to 666.73, and some of the firms were as young as one year old from the period under consideration, and some have been in existence for 97 years. Whilst some firms the executive directors have no shareholdings; in some cases, executive directors own about 99.87%. Likewise, percentage of shares owned by non-executive directors ranged from 0.00% to 52.03%. Number of non-executive directors also ranged from 1 to 8.

With regards to the performance indicators operationalised as dependent variables, the results are equally mixed. The minimum return on shareholders' funds for some of the firms in the period under review is as low as -711.31, and the maximum return on shareholders' fund is 113.17, Earnings per share also peaked at 2.30 and in some cases as low as -5.22. Return on assets was as high as 34.27 in some companies but dived into -541.56 in some cases.

The correlation table revealed that the Firm Age does not have a significant correlation with the firm performance. Firm size correlates positively with the Earnings per Share. The level of financial leverage also does not correlate significantly with Earnings per share, return on shareholders' fund, and return on assets.

4.1 Regression results and Discussion of Findings

Regarding board size, the study documented a negative relationship between board size and all the performance measures and therefore, the study hypothesis 1 is rejected. However, the relationship is only statistically significant for only ROSF. These findings contradict the hypothesis developed and challenge the assumption that underlines the resource dependency theory, which argues for large board size. It has also been argued that large board size leads to

superior firm performance only when there is element of diversity (Cadbury, 2002). Considering the fact that a substantial number of AIM companies are family owned, the board mostly consisting of family members. et al.; Guest 2009). In line with the study hypothesis 2, the result confirmed large proportion of independent directors on board has a significant positive effect on ROSF. This result is in line with the Cadburry position, and consistent with the arguments of many corporate governance codes that advocate for the inclusion of more non-executive directors on board. The findings reinforce the agency theory assertion that a board consisting of a high proportion of Non-Executive Directors provides effective monitoring mechanism for executive directors and will ultimately lead to the implementation of strategies that will consequently increase firm performance.

This convergence-of-interests model asserts that as the percentage of shares owned by managers increases, their interests and those of shareholders become more aligned, and there would be no incentive to engage in opportunistic behaviour. In contrary to the forgoing assertions, the study documented a negative relationship for all the performance measures and as a result, reject the study hypothesis 3 which argued for positive relationship between managerial shareholding and financial performance. The relationship is, however, not statistically significant in all cases. It was concluded that high proportion of equity owned by directors is often associated with director entrenchment which often serve as a friction to beneficial takeovers, and thus negatively affect firm performance.

The results of the study reject the study hypothesis 4 as statistically significant negative relationship was reported for all the independent variables. The finding of the study is also inconsistent with the position of Shleifer and Vishny (1997) who pointed out that blockholders help to reduce the principal-agent conflicts as they have keen interest in both profit maximization and a commanding control over the assets of the company to have their interest respected.

The negative relationship reinforces the widely held notion that concentrated ownership are less efficient as compare to disperse ownership (Anderson and Reeb, 2003). The finding is viewed on perspective that, combining ownership and control empower blockholders to trade firms' profits for private benefits. Another strand of literature that underpins the negative relationship is that blockholders may forgo pecuniary consumption and thus take scarce resources away from profitable projects (Demsetz 1983). Moreover, it is argued that large premiums are associated with superior voting rights and control which allows blockholders to restrict board position to cronies which restrict the labour pool where talent can be obtained thereby leading competitive disadvantages ownership (Anderson and Reeb, 2003).

5. Conclusion

The analysis of the link between corporate governance and firm performance for AIM listed firms in the UK revealed that the relationship is complex one as the study produced mixed results.
The study revealed the aspect of corporate governance practices that is likely to enhance firm performance. Supporting the recommendation of Cadbury position and in line with agency theory, management of AIM listed firms can consider the inclusion of more non-executive directors Second, it is expected that AIM listed firms with large board size will draw a lesson from this study and reduce the board size and also brings in diversity in order to enhance performance. Third, the study offered guidance to the policy makers of AIM listed firms that high level of managerial shareholding should not be encouraged as it inhibits performance. Fourth, the study also identified that large proportion of institutional investors are not helpful for AIM listed firms.
Finally, the study, like many other empirical studies has limitations. The findings of the study were, therefore interpreted in the light of the limitations. First, the study also selected only three performance measures; selecting other performance measures could have impacted on the results. Second, the study also relied purely on accounting-based measures; however, inclusion of market-based measures could have produced different results, and therefore it is expected that future studies will include both accounting and market-based measures.

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Appendices

Table 1: Summary Statistics

Variable	Observati	Minim	Maximu	Mean	Standa viation	Pr 'ness)	Pr osis)	adj 2)
Firm Age	404	1	97	22.99	19.2475	0	0.0038	63.4
Market lization	410	0.44	30545	539.3	3355.51	0.8787	0	28.0
Leverage	368	0.01	666.73	44.40	60.7628	0	0	-
Return on	410	-541.56	34.27	-6.105	50.4652	0	0	-
Return on older Fund	408	-711.31	113.17	2.041	55.2192	0	0	-
Earnings are	410	-5.22	2.3	0.105	0.37401	0	0	-
Board Size	409	2	11	6.430	1.48874	0.1757	0.6971	1.99
Executive or rship%	410	0	71.99	9.713	13.7957	0	0	-
Non-Execu Director rship%	410	0	52.03	6.471	10.7093	0	0	-
Number of xecutive ors	409	1	8	3.374	1.28697	0.0001	0.4855	13.7
Institutiona tors	401	0	99.87	44.54	24.1971	0.8542	0.0009	10.0

Table 2: Correlation Analysis

	ROA	EPS	RO	F.AG	MRK	LVG	B.SI	XD%	NON	NON JM	INST.INV
ROA	1										
EPS	0.35*	1									
ROSF	0.79*	0.44	1								
F.AGE	0.044	0.03	-0.0	1							
MRKT	0.052	0.97	0.04	-0.02	1						
LVG	0.008	0.02	0.01	-0.00	-0.06	1					
B.SIZE	0.267	0.18	0.14	0.073	0.043	-0.07	1				
XD%	0.086	0.07	0.07	-0.05	0.228	0.047	-0.0	1			
NON	0.140	-0.0	0.04	0.096	-0.026	-0.07	0.58	-0.225	1		
NON XS	0.016	-0.0	0.01	0.269	-0.077	-0.00	-0.0	-0.022	0.060	1	
INST.INV	-0.02	0.00	0.01	0.081	0.0193	-0.01	0.12	-0.499	-0.23	0.227**	1

Table 3: Regression results

	(Model 1) ROSF	(Model 2) ROA	(Model 3) EPS
Firm Age	1.142	-0.174	0.0244***
	-0.7	(-0.11)	-1.97
Market Capitalization	-0.00195	-0.00288	0.00000343
	(-0.11)	(-0.17)	-0.03
Leverage	-0.112*	0.00554	-0.00022
	-2.17	-0.11	(-0.56)
Board Size	-14.40***	-3.91	-0.0257
	(-3.87)	(-1.10)	-0.92
Executive Director Ownership%	-0.276	-0.0418	-0.000305
	(-0.61)	(-0.09)	-0.88
Non-Executive Director Ownership%	0.714	-0.876	-0.000133
	(-1.26)	(-1.60)	-0.03
Number of Non-Executive Directors	18.28***	11.96**	0.0494
	-4.32	-2.94	-1.55
Institutional Investors	-0.649**	-1.136***	-0.00586***
	-2.83	-5.25	(-3.46)
_cons	52.64	42	-0.151
	-1.23	-1.02	(-0.47)
N	351	353	353

t statistic in parentheses

* $p<0.10$, ** $p<0.05$, *** $p<0.01$

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