Minority investor protection and corporate governance practices: Evidence from West Africa regional stock exchange (BRVM)

Babarindé René ADEROMOU[1]

Mahmoudou Bocar SALL[2]

Abstract

Developing countries tend to have weak institutional structures and contracting environments. More specifically, the concentration of ownership would be a response to weak investor protection (Klapper& Love, 2004; La Porta, Lopez-de-Silanes, Shleifer, &Vishny, 2000). However, in India, despite the improved degree of investors protection, share ownership remains concentrated (Altaf & Shah, 2018). This means that the concentration of share ownership is not always dictated by the level of investor protection. The objective of this paper is to determine the effect of minority investor protection on the corporate governance practices adopted by multinationals listed on the regional stock exchange. We used dynamic panel estimator to obtain significative results. The results show that when the protection of minority investors improves, the functions of Manager and chairman of the board of directors tend to be separated; the corporate governance tends towards a bicameral type of model, share ownership tends to be less concentrated, policies and remuneration standards are put in place and compensation of the Chairman and the members of the Board of Directors published in the annual reports and CSR practices and adherence to the code of ethics and norms tend to be a reality. The results of this study plead for policies consisting in improving the level of protection of the investors, especially the level of protection of the minority investors.

Keywords: Investor protection – Corporate governance - West Africa regional stock exchange

Protection des investisseurs minoritaires et pratiques de gouvernement d'entreprise: données probantes de la Bourse régionale de l'Afrique de l'Ouest (BRVM)

Résumé

Les pays en développement ont généralement des structures institutionnelles et des environnements contractuels faibles. Plus précisément, la concentration de l’actionnariat serait une réponse à la faible protection des investisseurs (Klapper& Love, 2004; La Porta, Lopez-de-Silanes, Shleifer, &Vishny, 2000). Cependant, en Inde, malgré l'amélioration du degré de protection des investisseurs, l'actionnariat reste concentré (Altaf& Shah, 2018). Cela signifie que la concentration de l'actionnariat n'est pas toujours dictée par le niveau de protection des investisseurs. L'objectif de cet article est de déterminer l'effet de la protection des investisseurs minoritaires sur les pratiques de gouvernement d'entreprise adoptées par les multinationales cotées sur la BRVM. Nous avons utilisé l'estimateur dynamique sur données de panel pour obtenir des résultats significatifs. Les résultats montrent que lorsque la protection des investisseurs minoritaires s'améliore, les fonctions de gérant et de président du conseil d'administration tendent à se séparer; la gouvernance d'entreprise tend vers un modèle de type bicaméral, l'actionnariat a tendance à être moins concentré, des politiques et des normes de rémunération sont mises en place et la rémunération du président et des membres du conseil d'administration publiée dans les rapports annuels et les pratiques RSE et le respect au code d'éthique et de normes ont tendance à être une réalité. Les résultats de cette étude plaident pour des politiques consistant à améliorer le niveau de protection des investisseurs, notamment le niveau de protection des investisseurs minoritaires.

[1]Doctor, management studies, Email: adebarene@gmail.com, associated with the corporate finance and economic financing laboratory, UCAD, Senegal.

[2]Associate Professor, Director of corporate finance and economic financing laboratory, UCAD Senegal.

Mots-clés: Protection des investisseurs – Gouvernance d'entreprise – Bourse régionale des valeurs mobilières

Introduction

Since the emergence of the legal approach of corporate governance as a way of thinking better about finance (Clarke, 1986; Demirgüç-Kunt & Maksimovic, 1998; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997, 1998), investors protection has become a term that receives much attention from researchers (Altaf & Shah, 2018; Bell, Filatotchev, & Aguilera, 2014; Himmelberg, Hubbard, & Love, 2002; Klapper & Love, 2004; Kohler, 1940; Lepore, Paolone, & Cambrea, 2018). It is said that Investors look beyond the seemingly weak country-level governance structures, and focus on corporate governance (O'Connor, Kinsella, & O'Sullivan, 2014). So, a variety of private and public responses, like the choices made by managers among governance mechanisms, are proposed to the problem of asymmetric information.

The need for corporate governance arises because of the separation of management and ownership in the modern corporation. In practice, the interest of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. « *THE STANDARD DEFINITION of corporate governance among economists and legal scholars refers to the defence of shareholders' interests* » (Tirole, 2001, p. 1). For example, authors like Cochran and Warwick (1988) define corporate governance as: *"...an umbrellaterm that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders."* Another important use of ownership information is related to the development of corporate governance rules and practices, including related party transactions and takeovers. In this respect, it is particularly important to understand the degree of concentration and control by individual shareholders at the company level.

It shown that effective state–business relations contribute significantly to economic growth (Sen & Te Velde, 2009). Effective corporate governance also requires a sound legal, regulatory and institutional framework that market participants can rely on. In dealing with corporate governance issues, jurisdictions use various hard law (legal and regulatory) instruments on the one hand, and soft law (codes and principles) on the other. The desirable mix between legislation, regulation, self-regulation, voluntary standards, etc., will vary from country to country (OECD, 2019b).

Africa is traditionally viewed as a high-risk continent by international investors. It is often believed that African economies are characterized by macro-economic instability, trade restrictions, weak institutional environment regarding property rights and the judicial system, and high state regulation of economic activities (Okeahalam & Akinboade, 2003).

More specifically, the concentration of ownership would be a response to weak investors protection (Klapper & Love, 2004; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). However, in India, despite the improved degree of investors protection, share ownership remains concentrated (Altaf & Shah, 2018). This means that the concentration of share ownership is not always dictated by the level of investor protection.

Non-financial companies listed on the Regional Stock Exchange are controlled by large foreign groups. The first shareholders in those multinationals hold on average 65% of the shares in these companies. Despite this concentration of ownership in the hands of large groups, these companies are performing poorly (Afego, 2015; Bayala, 2012).

In the context of a multinational in which the ownership is concentrated, owners from other countries can control and influence the management of the firm to protect their interests (Madhani, 2016). That interest protection through the control and influence the management of the firm may be very important when the investor protection is weak in the host country. Consequently, not only the home country's level of shareholder protection, derived from judicial efficiency, that can affect the governance practices, but also the home country governance practices of the controlling group that owners can transpose on host country's corporate governance practices.

Several recent studies examining the differences between the institutional environments of emerging and developed economies point out that firms need to employ specific strategies to acquire capital market resources outside of their home markets, and that these strategies depend on the institutional characteristics of the country of destination (Filatotchev, Poulsen, & Bell, 2018). This study integrates corporate finance research with level of shareholder protection, derived from judicial efficiency studies in order to understand how a firm adopts governance practices that do not necessary conform to the dominant governance logic when the institutional environment change.

Aguilera, Judge, and Terjesen(2016) refer to all corporate governance practices that are not conform to standard (intentional deviations from standards set by the legitimate practices and normative expectations advanced by the dominant national governance logic) as *corporate governance deviance.* The deviance can be caused by complexity. Greenwood et al. (2011) have built upon the rapidly growing institutional logics perspective to zoom in on how organizations respond to institutional complexity situations, where organizations experience a multiplexity of different pressures from a plurality of institutional logics. In the OHADA's countries (Organization for the Harmonization of Business Law in Africa), including West African Economic and Monetary Union's countries (WAEMU), several documents take the role of code of governance. The Regional Corporate governance framework is characterized by jurisdictions without comply or explain code.
The listed companies on the Regional stock exchange (BRVM) are concentrated in Ivory Coast where political uncertainty prevailed over from 2000 to 2010. The political uncertainty is an important channel through which the political process affects real economic outcomes and the volatility of corporate investment is increased (An, Chen, Luo, & Zhang, 2016; Hill, Korczak, & Korczak, 2019; Julio & Yook, 2012).

In a context of political uncertainty, without comply corporate governance code and the control and influence of the management of companies by multinationals, it is very important to know how corporate governance practices are changing with level of shareholder protection, derived from judicial efficiency. The objective of this paper is to determine the effect of minority investors protection on the corporate governance practices adopted by multinationals listed on the regional stock exchange.

1. Institutional theory and the role of regional governance quality on corporate governance

Qualified as adolescent a moment ago, the institutional theory become very important because of the relation between institutions and interests (Scott, 1987). Institutional features of organizational environments shape both the goals and means of actors. The neo-institutional theory attempts to explain the phenomenon of homogeneity in organizations and the influence of the environment and institutional arrangements. According to North (1990), the environment refers to the rules of the game; that is to say, the political, social and legal rules that delimit and support the transactional activity of the actors, whereas the arrangements refer to the modes of use of these rules by the actors, or more exactly, to the modes of organization of transactions under these rules. By integrating signalling research with an institutional perspective Filatotchev, Bell, and Moore (2012) examine how country of origin, corporate governance, and host market effects impact foreign IPO performance. The main claim of institutional theories is the fact that actors pursue their interests within institutional constraints (Ingram & Silverman, 2002)

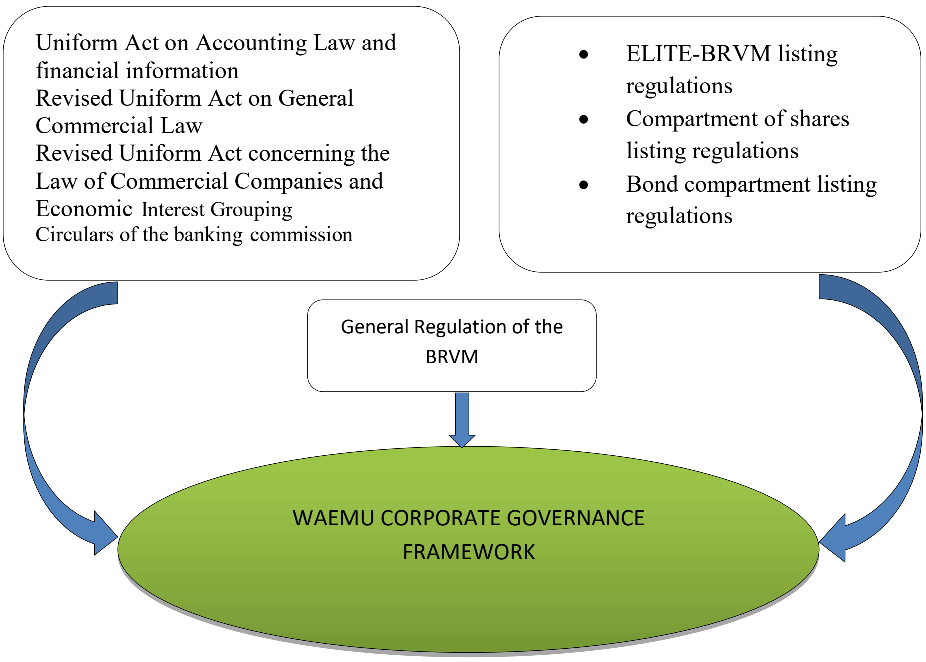
Zoogah, Peng, and Woldu(2014) argue that Africa-focused management research may address the major problem of organizational effectiveness through work on the two major theoretical building blocks: institutions and resources. According to the authors, the effectiveness of African organizations depends on the institutional environment in which they operate. Effective corporate governance necessitates a sound legal, regulatory and institutional framework that market participants can rely on (OECD, 2019b). So, link can be established between the regulatory and institutional framework and internal corporate governance mechanism also called corporate governance practices.

"A more nuanced picture of ownership patterns is emerging around the world, both with respect to the categories of owners and the degree of concentration of ownership in individual listed companies. While listed companies with concentrated ownership make up an increasing share of global market capitalization, a range of different ownership structures and governance arrangements co-exist."(OECD, 2019a, p. 17). OECD research shows, however, that ownership structures are evolving and that, while there has been an overall global trend towards greater predominance of concentrated ownership structures, the traditional concepts of dispersed and concentrated ownership may no longer be sufficient as a basis for understanding and adapting corporate governance frameworks to the more complex landscape of corporate ownership structures in place around the world.CEO turnover, Corporate social responsibility, cross-border acquisitions, corporate disclosure practices etc. can be determined by the level of investors protection in the home country of the company (Burkart, Gromb, Mueller, & Panunzi, 2014; Chih, Shen, & Kang, 2008; Defond & Hung, 2004; Hicks, 1994, 1994; Shen & Chih, 2005; Zhou & Lan, 2017).

In dealing with corporate governance issues, jurisdictions use various hard law (legal and regulatory) instruments on the one hand, and soft law (codes and principles) on the other. The desirable mix between legislation, regulation, self-regulation, voluntary standards, etc., vary from country to country (OECD, 2019b). The legislative and regulatory elements of the corporate governance framework can usefully be complemented by soft law such as corporate governance codes, which often are based on the 'comply or explain' principle in order to allow for flexibility and address specificities of individual companies. While nearly all jurisdictions now have national codes or principles, with 83% following a "comply or explain" framework, a few jurisdictions do not have such codes, and address these issues mainly through laws, regulations and listing requirements (OECD, 2019a).

Even if tests can be noted, as is the case in Senegal with the Senegalese Institute of Directors, which has drawn up a Code of Corporate Governance of Senegal, the WAEMU countries sharing the same stock market and the same regulations in business law, do not have a code of corporate governance. It is certain that OHADA law and the Revised Uniform Act on commercial company law and economic interest grouping cannot validly act as a corporate governance code. The present corporate governance framework of the WAEMU region can be drawn as it is in the following figure.

Figure 1: WAEMU corporate governance framework: A jurisdiction without comply and explain code



Source: Authors

The regulators of these corporate governance policies in the WAEMU region are OHADA authority, BRVM Securities and Ministry of Finance authorities, and the Central Bank (BCEAO).

2. Corporate governance and investor protection

Recent research asserts that an essential feature of good corporate governance is strong investor protection, where investor protection is defined as the extent of the laws that protect investors' rights and the strength of the legal institutions that facilitate law enforcement (Defond & Hung, 2004). La Porta, Lopez-de-Silanes, and Shleifer (1999) suggested that there is a common element for explaining large differences between countries in ownership concentration in publicly traded firms, in the breadth and depth of capital markets, in dividend policies, and in the access of firms to external finance. That element is related to how well investors, both shareholders and creditors, are protected by law from expropriation by the managers and controlling shareholders of firms. It means, as it can be noticed with Klapper and Love (2004), that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible investor protection.

2.1. Investor protection and CEO board organization

Recently, about the efficiency of corporate governance mechanisms, the activity of the corporate boards of directors is the subject of debate. Garcia-Sanchez, Aceituno, and Domínguez (2015) stated, as regards the effectiveness of independent directors in constraining unethical behaviour by managers, that there are significant differences between countries with high levels and countries with low levels of investor protection. So, the board of directors is considered as an instrument for dealing with the organization's environment. Chang, Lee, and Shim (2019) suggested that CEO duality is complementary to board independence and that the value of CEO duality is contingent on a firm's environment. Elements of board size and composition are shown to be systematically related to factors measuring the organization's requirements for coopting sectors of the environment. The board's function as a link to the external environment is an important one, and that firms respond to significant changes in their external environment by altering board composition (Calza et al., 2017; Hillman et al., 2000; Pfeffer, 1972).

Filatotchev and Nakajima (2010) explore the role of filtering and enaction in the process of institutional conformity and change, and the mechanisms behind proactive environmental protection strategies within business and discuss the importance of formal and informal governance arrangements that organizations use in managing their relationships with external parties, such as alliance partners, overseas subsidiaries and network members. The environment, strategy and past performance were viewed as posing a strategic contingency; each of these sets could determine the success or failure of the company (Pearce & Zahra, 1992).

2.2. Investor protection and ownership concentration

The relationship between investor protection and ownership concentration generated substantial interest among theorists and practitioners (Yutao, 2010). Boubakri, Cosset, and Guedhami(2005) investigated the role of ownership structure and investor protection in post-privatization corporate governance. They demonstrated that the level of institutional development and investor protection explain the cross-firm differences in ownership concentration.

It showed that the positive effect of concentrated ownership on performance of firms (Aragon, Nanda, & Zhao, 2019) than that in the well-established system (Nguyen, Locke, & Reddy, 2015). Thus, the ownership concentration is an efficient corporate governance mechanism which can substitute for weak national governance quality.

Saona and San Martín (2016) assess whether within country changes in legal and regulatory systems and changes in corporate ownership concentration can predict a change in the value. Authors observe that the investors' rights and their legal protection level as well as the rule of law can cause the expropriation of minority shareholders.

Some authors (Aragon et al., 2019) demonstrated that capital flows to hedge funds in different countries are influenced by the strength and the enforcement of investor protection laws in these countries.

2.3. Investor protection and firm's transparency

According to the G20/OECD Principles of Corporate Governance, a strong disclosure regime that promotes transparency is a pivotal feature of market-based company monitoring and is thus central to shareholders' ability to exercise their ownership rights on an informed basis. Persakis and Iatridis(2016) show that audit quality is positively associated with most institutional factors of investor protection and that higher (lower) for firms with strong (weak) investor protection and legal enforcement. Bushman, Piotroski, and Smith (2004) suggested that the governance transparency factor is primarily related to a country's judicial system.

When firms set out to manage their communications in accordance with the corporate ideal, they seem to take for granted that they are transparent for themselves and to their surroundings (Christensen, 2002). Erudition showed that there is a strong country effect in what firms disclose. Inter alia, BerglöF and Pajuste(2005) suggested that what is disclosed by firms depends on the legal framework and practice in a given country.

As far as corporate transparency is concerned, according to Miller (2004) and Bushman et al. (2004), there are at least two components: financial transparency, which captures the intensity, timeliness, analysis, and dissemination of financial information, and governance transparency, which captures information needed to monitor and hold accountable managers. Transparency is defined as the extent to which a stakeholder perceives an organization provides learning opportunities and trust about itself (Albu & Flyverbom, 2019; Parris, Dapko, Arnold, & Arnold, 2016; Schnackenberg & Tomlinson, 2016). Miller (2004) stated that the transparency factors (financial and governance factors) vary with the government institutions in the country.

2.4. Managerial remuneration and investor protection

The relationship between investor protection and CEO pay in corporations was investigated by researchers. For example, Bozzi, Barontini, and Miroshnychenko(2017) show that the lower the investor protection, the higher the compensation of the CEO. This result is more consistent with the hypothesis of rent extraction than with the perspective of optimal remuneration contracts. Rent extraction by capitalists is present if the capital income share exceeds the capital output elasticity (Brueckner, 2017).

Authors examine chief executive officer remuneration disclosure. For instance, Clarkson, Bueren, and Walker (2006) indicate that high quality disclosures will only come about through detailed, black letter requirements and that principle-based legislation involving interpretative discretion is unlikely to produce the desired level of disclosure.

The legal investor protection is increasing, the management has to give up a part of the private benefit. However, some of the private benefits extracted by management before have to be paid in the explicit way in order to make management incentive compatible in the new environment, which leads to the increasing trend in executive pay. Davis et al. (2019) examine environmental munificence, dynamism, and complexity and the influence of varying levels of each of these variables and their interaction on the optimal choice of compensation contract utilized for both large firms and small and medium-sized enterprises (SMEs) and argue that top executive compensation structures for large organizations and non-adaptive SMEs should differ from those of adaptive SMEs.

2.5. Ethical practices and investors protection

International law has the capacity to advance, in practice, the abstract social values shared by the community of states and persons (Franck, 1995). In greater regulatory and stronger investor protection environments, board independence and gender diversity have more influence on the social behaviour of companies (Breuer, Müller, Rosenbach, & Salzmann, 2018; García-Sánchez, Martínez-Ferrero, & García-Meca, 2018). Managerial choice theory suggests that environmental factors and management's ethical commitment will influence compliance and values-based control (Weaver et al., 1999).

3. Data and research methods

The design of this research reflects postpositivist philosophical assumptions. The study is trying to explain the relative influence of Investor protection on corporate governance practices of listed companies in WAEMU countries. It uses a dynamic perspective (Anderson & Hsiao, 1982).

The target population of the study comprised all listed companies at the West African Regional Stock Exchange. The number of listed companies in this stock market varied from thirty-eight (38) to forty (40) between 1998 to 2014. Only non-financial companies were considered because of the differences between financial and non-financial companies' characteristics. The intention was to include all the twenty-seven non-financial companies listed, but the annual report of one of them was not available. So, the study considered firms which had been listed and had full financial statements from 2000 to 2014. This period is taking in account the political uncertainty context the companies in Ivory Coast were confronted with because of the political crisis. In order to take in account, the variation of the investor protection of the host country, a company from Senegal which had been listed and had full financial statements from 2000 to 2014 was also considered. Twenty-six companies (26), based in Ivory Coast and Senegal, were finally included in the analysis.

The secondary data used was obtained through a review of the financial statements, a review of the companies' annual reports obtained from the regional stock exchange data base and a review of World Bank data base. Standardized structured Index (Black, Jang, & Kim, 2006) were constructed for corporate governance practices from annual reports and the scores of investor protection were obtained from the World Bank data base. The corporate governance index (Govindex) used by Black and al. (2006) are contextualized to capture the corporate governance. Only sub-index that vary other the time or per company were considered. Data related to control variables were obtained from the financial statements.

Multiple regression analyses were used to assess the power of the relationship between Corporate governance practices, investor protection and control variables. The note of investor protection of the year Y will affect investor behaviour in the year Y+1. Accordingly, it is suitable to foresee a dynamic relationship between the level of investor protection, published in Doing Business annual Report, and the corporate governance practices. Indeed, Bazdresch, Kahn, and Whited (2018) assess the finite sample performance of simulation estimators that are used to estimate the parameters of dynamic corporate finance models. They formulate an external validity specification test and propose a new set of statistical benchmarks that can be used to estimate and evaluate these models. Before, Wintoki, Linck, and Netter (2012) had illustrated why other commonly used estimators ignoring the dynamic relationship between current governance and past firm performance may be biased. Wintoki and al. (2012) suggested that it may be appropriate to consider the dynamic panel estimator in corporate governance research, as well as caveats to its use.

Some authors (Bazdresch et al., 2018; Dang, Kim, & Shin, 2015; Flannery & Hankins, 2013) saw the dynamic estimators as appropriate model for testing corporate governance data. For those raisons, dynamic estimators are used for relating the variables. The econometric model used is a dynamic model describing the governance-investor protection relationship for firm i in period t. The model is as follow:

$$Govindexi_{jt} = \alpha \mathrm{Govindexi}_{jt-1} + \beta \mathrm{Ipropect}_{jt} + \gamma_1 \mathrm{LnTAjt} + \gamma_2 \mathrm{D/CPjt} + \gamma_3 \mathrm{VarCAjt} + \mu_j + \epsilon_{jt}$$

Where $\mathrm{Govindex}_{ijt}$ is the form of corporate governance practices (i is from 1 to 5) of firm j in period t , $\mathrm{Iprotect}_{jt}$ is the score of investor protection in the host country of the firm j in the period t, LnTAjt is the size of the firm j in the period t, D/CPjt is the leverage of the firm j in the period t, VarCAjt is the change in turnover of the firm j between period t-1 and t, uj represents unobservable firm heterogeneity, εjt is the idiosyncratic error term, and the subscripts j and t indicate firm and year, respectively.

Bun and Kiviet(2001) has demonstrated that the estimated asymptotic standard errors may be poor approximations in small samples. That is the reason the bias-corrected LSDV estimators (LSDVC) estimators initialized by the Anderson-Hsiao GMM estimator (Bruno, 2005a, 2005b) were used to test the models. Indeed, a Monte Carlo analysis is carried out by Bruno (2005) to evaluate the finite-sample performance of the bias corrected LSDV estimators in comparison to the original LSDV estimator and three popular N-consistent estimators: Arellano-Bond, Anderson-Hsiao and Blundell-Bond. Results strongly support the bias-corrected LSDV estimators according to bias and root mean squared error criteria when the number of individuals is small. Blundell and Smith (1990) argue that, all but the most trivial assumption concerning the initial conditions, the standard GLS procedure is inconsistent. They demonstrated that Wald postestimation test approach provides a natural procedure for testing assumptions concerning the process underlying the initial conditions when one has to do with business data or household data. So, for efficient estimation of dynamic panel data models, concerning initial conditions and variance assumptions Wald test is preferred.

4. Results

The objective of this paper is to determine the effect of minority investors protection on the corporate governance practices adopted by multinationals listed on the regional stock exchange. The results of correlation are presented in table 1 herebelow.

Table 1: Correlation table

	govind~1	*govind~2*	*govind~3*	*govind~4*	*govind~5*	*iprotect*	*lnta*	*varca*	*dcp*
govindex1	1.0000								
govindex2	0.1900	1.0000							
govindex3	0.3530	-0.0395	1.0000						
govindex4	0.3120	0.0641	0.4038	1.0000					
govindex5	0.4371	0.1313	0.2209	0.3916	1.0000				
iprotect	0.2566	0.1215	0.1827	0.4676	0.2757	1.0000			
lnta	0.3425	-0.0380	0.2906	0.0533	-0.0659	0.0865	1.0000		
varca	-0.0334	-0.0942	-0.0912	-0.0784	-0.0442	-0.0293	-0.0415	1.0000	
dcp	0.0763	0.0961	-0.0245	0.0819	0.0494	0.0347	0.0654	0.0028	1.0000

The results of regressions are presented in table 2 herebelow.

Table 2: Results of the regression estimating the link between the degree of protection of minority investors and governance practices

VARIABLES	Model (1) Govindex1	Model (2) Govindex2	Model (3) Govindex3	Model (4) Govindex4	Model (5) Govindex5
L.Govindex(.)	0.0923**	1.087***	1.025***	0.234***	0.660***
	(0.0471)	(0.0268)	(0.0216)	(0.0365)	(0.0317)
Investor protection	**0.234*** **	**-0.0567*** **	**0.170*** **	**0.234*** **	**0.157** **
	(0.0432)	**(0.0187)**	**(0.0326)**	**(0.0649)**	**(0.0636)**
Corporate Size	0.00551	0.00186	-0.0605**	-0.0863	-0.165***
	(0.0407)	(0.0142)	(0.0270)	(0.0618)	(0.0612)
Sales variation	0.000302	1.07e-06	-0.000393	-0.000939**	-0.000530
	(0.000327)	(0.000140)	(0.000259)	(0.000471)	(0.000445)
Leverage	-5.03e-07	7.54e-06	1.52e-05	0.000125	-1.66e-05
	(0.000118)	(5.25e-05)	(9.85e-05)	(0.000177)	(0.000163)
Dummy Year	Yes	No	Yes	Yes	Yes
Observations	364	364	364	364	364
Number of id	26	26	26	26	26
Bias control	AH	AH	AH	AH	AH
Wald Test	1923.38	5429.03	3682.22	163.87	570.82
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The effect of the protection of minority investors on the structure, organization and functioning of the board of directors of non-financial companies listed on BRVM was tested in the model (1). Only the scores relating to the independence of the Board of Directors were taken into account in this regression (the separation of the functions of Chairman of the Board of Directors and Chief Executive

Officer, the non-membership of the Board of Directors of the Chief Executive Officer, the bicameral form of the Board of Directors). This effect has been tested by the LSDVC estimator. According to the results of Model (1) above, the variable "protection of minority investors" (Iprotect) has a positive and significant effect at the 1% threshold on corporate governance practices measured by the structure, the organization and the functioning of the board of directors (Govindex1). It means that, when the protection of minority investors improves, the functions of Manager and chairman of the board of directors tend to be separated and corporate governance tends towards a bicameral type of model. Regarding the control variables, none of them is significant. The delayed variable is significant and justifies the use of dynamic models.

Model (2) is intended to test the effect of the protection of minority investors on the ownership structure (Presence of majority shareholder holding more than 10% of the capital; Shareholding concentrated in the hands of 5 majority shareholders; Existence of a dividend policy). The results obtained above show that the protection variable for minority investors (Iprotect) has a negative and significant effect at the 1% threshold on the ownership structure (Govindex2). Thus, when the protection of minority investors is strong, share ownership tends to be less concentrated. The control variables and the time effect are not significant.

The effect of the protection of minority investors on transparency (the publication of accounting information and audit practices) is tested by the model (3). Table above summarizes the results obtained by testing this model. The results obtained above show that the variable protection of minority investors (Iprotect) has a positive and significant effect at the 1% threshold on the corporate governance score measured by the publication of governance practices, the publication of the accounting information and the audit practice of non-financial corporations (Govindex3). In fact, when the protection of minority investors tends to be strong, non-financial companies listed on the BRVM tend to publish governance practices and accounting information. The control variable, company size, measured by the natural logarithm of the total assets, has a negative and significant effect at the 5% threshold on the publication of the accounting information and the audit practice of the companies. The publication of the governance practices, the publication of the accounting information and the audit practice of the companies of the previous financial year have a positive and significant influence on the 1% threshold of the current year's practice. The significance of the delayed variable shows that the use of dynamic models is justified. The time effect is remarkable and significant at the 1% threshold for this test.

The effect of the protection of minority investors on the practices related to the publication of the benefits granted to the directors and the adoption of a remuneration policy is summarized in the model (4). The test results of this model show a positive and significant effect at the 1% threshold of minority investor protection on governance practices that deal with compensation.

In fact, when the protection of minority investors is strong, policies and remuneration standards tend to be put in place, the compensation of the Chairman and the members of the Board of Directors tends to be published in the annual reports. The growth rate of sales has a negative and significant effect at the 5% threshold on the adoption and publication of compensation practices. The other control variables are not significant. Delayed variables are also justified. The fixed annual effects of time are present.

The effect of protecting minority investors on ethical practices was tested in the model (5). This regression shows a positive and significant effect at the 5% threshold of the protection of minority investors on the governance index measured by ethical practices and CSR. The results show that while the protection of minority investors is strong, CSR practices and adherence to the code of ethics and norms tend to be a reality.

The size of the non-financial listed company is the only control variable that has a negative and significant effect at the 1% threshold on the adoption of CSR practices and adherence to the code of ethics and standard. The other control variables are not significant. The implementation of CSR practices and adherence to the code of ethics and standard by the companies during the previous financial year influence the practice of the current year; which justifies the use of delayed variables. The fixed annual effects relating to time are also present.

CONCLUDING REMARKS

The objective of this paper is to determine the effect of minority investors protection on the corporate governance practices adopted by multinationals listed on the regional stock exchange. The results show that when the protection of minority investors improves, the functions of Manager and chairman of the board of directors tend to be separated. Confirm Chang, Lee, and Shim (2019) result which suggested that CEO duality is complementary to board independence and that the value of CEO duality is contingent on a firm's environment. The corporate governance tends towards a bicameral type of model when the protection of minority investors improves. This result confirmed that the board's function as a link to the external environment is an important one in the context of BRVM listed companies, and that firms respond to significant changes in their external environment by altering board composition (Calza et al., 2017; Hillman et al., 2000; Pfeffer, 1972).

In addition, when the protection of minority investors is strong, share ownership tends to be less concentrated. Thus, the level of institutional development and investor protection explain the cross-firm differences in ownership concentration (Boubakri, Cosset, & Guedhami 2005). When the protection of minority investors tends to be strong, non-financial companies listed on the BRVM tend to publish governance practices and accounting information. It can be concluded that what is disclosed by firms depends on the legal framework and practice in a given country (Inter alia et al., 2005). Strong level of minority investors protection is positively related to policies and remuneration standards putting in place and compensation of the Chairman and the members of the Board of Directors publishing in the annual reports. Chief executive officer remuneration disclosure is related to legislation (Clarkson et al., 2006). Bozzi, Barontini et al. (2017) show that the lower the investor protection, the higher the compensation of the CEO. In so context, CEOs are used to a remuneration like rent extraction. That kind of remuneration is not optimal.

The results show that while the protection of minority investors is strong, CSR practices and adherence to the code of ethics and norms tend to be a reality. It is in the same perspective Garcia-Sanchez et al. (2015) suggested that the effectiveness of independent directors in constraining unethical behaviour by managers is increasing when investor protection is improved. The results confirmed the managerial choice theory which suggests that environmental factors and management's ethical commitment influence compliance and values-based control.

This study has some limitations. It based on non-financial listed companies in BRVM stock exchange, the results may not be generalized to non-listed companies which are not facing the same constraints and regulations. Another limitation of this study is related to the size of the sample. A future study on several markets in South of the Sahara could allow considering larger sample. Other studies can examine the efficacy of public enforcement in weak investor protection countries by examining the outcomes of a comprehensive public enforcement campaign in those contexts.

References

Afego, P. N. (2015). Market efficiency in developing African stock markets: What do we know? *The Journal of Developing Areas*, *49*(1), 243–266.

Aguilera, R. V., Judge, W. Q., & Terjesen, S. A. (2016). Corporate Governance Deviance. *Academy of Management Review*, *43*(1), 87‑109.

Albu, O. B., &Flyverbom, M. (2019). Organizational Transparency: Conceptualizations, Conditions, and Consequences. *Business & Society*, *58*(2), 268‑297.

Altaf, N., & Shah, F. A. (2018). Ownership concentration and firm performance in Indian firms: Does investor protection quality matter? *Journal of Indian Business Research*, *10*(1), 33‑52.

An, H., Chen, Y., Luo, D., & Zhang, T. (2016). Political uncertainty and corporate investment: Evidence from China. *Journal of Corporate Finance*, *36*, 174‑189.

Anderson, T. W., & Hsiao, C. (1982). Formulation and estimation of dynamic models using panel data. *Journal of econometrics*, *18*(1), 47–82.

Aragon, G. O., Nanda, V. K., & Zhao, H. (2019). *Investor Protection and Capital Fragility: Evidence from Hedge Funds Around the World* (SSRN Scholarly Paper N° ID 3207064).

Bayala, B. S. A. (2012). Going public and characteristics of newly listed companies: Evidence from the Bourse Régionale des Valeurs Mobilières (BRVM). *African Journal of Accounting, Auditing and Finance*, *1*(4), 383–403.

Bazdresch, S., Kahn, R. J., & Whited, T. M. (2018). Estimating and Testing Dynamic Corporate Finance Models. *The Review of Financial Studies*, *31*(1), 322‑361.

Bell, R. G., Filatotchev, I., & Aguilera, R. V. (2014). Corporate Governance and Investors' Perceptions of Foreign IPO Value: An Institutional Perspective. *Academy of Management Journal*, *57*(1), 301‑320.

BerglöF, E., & Pajuste, A. (2005). What do Firms Disclose and Why? Enforcing Corporate Governance and Transparency in Central and Eastern Europe. *Oxford Review of Economic Policy*, *21*(2), 178‑197.

Black, B. S., Jang, H., & Kim, W. (2006). Does corporate governance predict firms' market values? Evidence from Korea. *The Journal of Law, Economics, and Organization*, *22*(2), 366–413.

Blundell, R., & Smith, R. J. (1990). Conditions initiales et estimation efficace dans les modèles dynamiques sur données de panel: Une application au comportement d'investissement des entreprises. *Annales d'Économie et de Statistique*, (20/21), 109‑123.

Boubakri, N., Cosset, J.-C., &Guedhami, O. (2005). Postprivatization corporate governance: The role of ownership structure and investor protection. *Journal of Financial Economics*, *76*(2), 369–399.

Bozzi, S., Barontini, R., & Miroshnychenko, I. (2017). Investor protection and CEO compensation in family firms. *Corporate Ownership and Control*, *14*(2), 17–29.

Breuer, W., Müller, T., Rosenbach, D., & Salzmann, A. (2018). Corporate social responsibility, investor protection, and cost of equity: A cross-country comparison. *Journal of Banking & Finance*, *96*, 34‑55.

Brueckner, M. (2017). Rent extraction by capitalists. *European Journal of Political Economy*, *50*, 157‑170.

Bruno, G. S. (2005a). *Estimation and inference in dynamic unbalanced panel data models with a small number of individuals*. Università commerciale Luigi Bocconi.

Bruno, G. S. (2005b). *XTLSDVC: Stata module to estimate bias corrected LSDV dynamic panel data models*.

Bun, M. J., &Kiviet, J. F. (2001). *The accuracy of inference in small samples of dynamic panel data models*. Tinbergen Institute discussionpaper.

Burkart, M., Gromb, D., Mueller, H. M., &Panunzi, F. (2014). Legal Investor Protection and Takeovers: Legal Investor Protection and Takeovers. *The Journal of Finance*, *69*(3), 1129‑1165.

Bushman, R. M., Piotroski, J. D., & Smith, A. J. (2004). What determines corporate transparency? *Journal of accounting research*, *42*(2), 207–252.

Calza, F., Profumo, G., & Tutore, I. (2017). Boards of directors and firms' environmental proactivity. *Corporate Governance and Organizational Behavior Review*, *1*(1), 52–64.

Chang, K., Lee, J., & Shim, H. (2019). CEO Duality and Firm Performance: Does Economic Policy Uncertainty Mediate the Relation? *International Review of Finance*.

Chih, H.-L., Shen, C.-H., & Kang, F.-C. (2008). Corporate social responsibility, investor protection, and earnings management: Some international evidence. *Journal of business ethics*, *79*(1‑2), 179–198.

Christensen, L. T. (2002). Corporate communication: The challenge of transparency. *Corporate Communications: An International Journal*. https://doi.org/10.1108/13563280210436772

Clarke, R. C. (1986). Corporate law. *Boston, Little, Brown and Company*.

Clarkson, P., Bueren, A. L. V., & Walker, J. (2006). Chief executive officer remuneration disclosure quality: Corporate responses to an evolving disclosure environment. *Accounting & Finance*, *46*(5), 771‑796.

Dang, V. A., Kim, M., & Shin, Y. (2015). In search of robust methods for dynamic panel data models in empirical corporate finance. *Journal of Banking & Finance*, *53*, 84–98.

Davis, J., Batchelor, J. H., & Kreiser, P. (2019). The influence of organizational task environment and firm size on top-executive compensation contracts. *Journal of Small Business & Entrepreneurship*, *31*(1), 21‑42.

Defond, M. L., & Hung, M. (2004). Investor protection and corporate governance: Evidence from worldwide CEO turnover. *Journal of Accounting Research*, *42*(2), 269–312.

Demirgüç-Kunt, A., & Maksimovic, V. (1998). Law, finance, and firm growth. *The Journal of Finance*, *53*(6), 2107–2137.

Filatotchev, I., Bell, R. G., & Moore, C. (2012). *Strategic and Institutional Effects on Foreign IPO Performance: Examining the Impact of Country of Origin, Corporate Governance, and Host Country Effects*.

Filatotchev, I., & Nakajima, C. (2010). Internal and External Corporate Governance : An Interface between an Organization and its Environment. *British Journal of Management*, *21*(3), 591‑606.

Filatotchev, I., Poulsen, A., & Bell, R. G. (2018). Corporate governance of a multinational enterprise: Firm, industry and institutional perspectives. *Journal of Corporate Finance*.

Flannery, M. J., & Hankins, K. W. (2013). Estimating dynamic panel models in corporate finance. *Journal of Corporate Finance*, *19*, 1–19.

Franck, T. M. (1995). *Fairness in International Law and Institutions*. Oxford University Press UK.

Garcia-Sanchez, I. M., Aceituno, J. V. F., & Domínguez, L. R. (2015). The ethical commitment of independent directors in different contexts of investor protection. *BRQ Business Research Quarterly*, *18*(2), 81–94.

García-Sánchez, I.-M., Martínez-Ferrero, J., & García-Meca, E. (2018). Board of Directors and CSR in Banking: The Moderating Role of Bank Regulation and Investor Protection Strength. *Australian Accounting Review*, *28*(3), 428‑445.

Greenwood, R., Raynard, M., Kodeih, F., Micelotta, E. R., & Lounsbury, M. (2011). Institutional complexity and organizational responses. *Academy of Management annals*, *5*(1), 317–371.

Hicks, J. W. (1994). Protection of Individual Investors under U.S. Securities Laws: The Impact of International Regulatory Competition. *Indiana Journal of Global Legal Studies*, *1*(2), 431‑465.

Hill, P., Korczak, A., & Korczak, P. (2019). Political uncertainty exposure of individual companies: The case of the Brexit referendum. *Journal of Banking & Finance*, *100*, 58–76.

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000). The resource dependence role of corporate directors : Strategic adaptation of board composition in response to environmental change. *Journal of Management studies*, *37*(2), 235–256.

Himmelberg, C. P., Hubbard, R. G., & Love, I. (2002). *Investment, protection, ownership, and the cost of capital*. Consulté à l'adresse Working Paper Research website: https://www.econstor.eu/handle/10419/144239

Ingram, P., & Silverman, B. S. (2002). *New Institutionalism in Strategic Management, The. Advances in Strategic Management*. Emerald Group Publishing.

Julio, B., & Yook, Y. (2012). Political uncertainty and corporate investment cycles. *The Journal of Finance*, *67*(1), 45–83.

Klapper, L. F., & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of corporate Finance*, *10*(5), 703–728.

Kohler, E. L. (1940). Protection for Investors. *The Accounting Review*, *15*(3), 446‑452.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (1999). Corporate ownership around the world. *The journal of finance*, *54*(2), 471–517.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of financial economics*, *58*(1), 3–27.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal determinants of external finance. *The journal of finance*, *52*(3), 1131–1150.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of political economy*, *106*(6), 1113–1155.

Lepore, L., Paolone, F., & Cambrea, D. R. (2018). Ownership structure, investors' protection and corporate valuation: The effect of judicial system efficiency in family and non-family firms. *Journal of Management and Governance*, 1‑34.

Madhani, P. M. (2016). Ownership Concentration, Corporate Governance and Disclosure Practices: A Study of Firms Listed in Bombay Stock Exchange. *Corporate Governance and Disclosure Practices: A Study of Firms Listed in Bombay Stock Exchange*, 7–36.

Miller, G. S. (2004). Discussion of What Determines Corporate Transparency? *Journal of Accounting Research*, *42*(2), 253‑268.

Nguyen, T., Locke, S., & Reddy, K. (2015). Ownership concentration and corporate performance from a dynamic perspective: Does national governance quality matter? *International Review of Financial Analysis*, *41*, 148–161.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Consulté à l'adresse https://books.google.fr/books?hl=fr&lr=&id=oFnWbTqgNPYC&oi=fnd&pg=PR6&dq=North+1990&ots=sZhrSgKqUa&sig=wA09Jge9Wl5dV-bewHINa8vkaHU

O'Connor, T., Kinsella, S., & O'Sullivan, V. (2014). Legal protection of investors, corporate governance, and investable premia in emerging markets. *International Review of Economics & Finance*, *29*, 426–439.

OECD. (2019a). *OECD Corporate Governance Factbook 2019*. Consulté à l'adresse www.oecd.org/corporate/corporate-governance-factbook.htm

OECD. (2019b). *OECD Survey of Corporate Governance Frameworks in the Middle East and North Africa*. Consulté à l'adresse http://www.oecd.org/corporate/OECD-Survey-of-Corporate-Governance-Frameworks-in-MENA.htm

Okeahalam, C. C., & Akinboade, O. A. (2003). A review of corporate governance in Africa: Literature, issues and challenges. *global corporate governance forum*, *15*, 1–34.

Parris, D. L., Dapko, J. L., Arnold, R. W., & Arnold, D. (2016). Exploring transparency: A new framework for responsible business management. *Management Decision*. https://doi.org/10.1108/MD-07-2015-0279

Pearce, J. A., & Zahra, S. A. (1992). Board composition from a strategic contingency perspective. *Journal of management studies*, *29*(4), 411–438.

Persakis, A., & Iatridis, G. E. (2016). Audit quality, investor protection and earnings management during the financial crisis of 2008: An international perspective. *Journal of International Financial Markets, Institutions and Money*, *41*, 73‑101.

Pfeffer, J. (1972). Size and composition of corporate boards of directors : The organization and its environment. *Administrative science quarterly*, 218–228.

Saona, P., & San Martín, P. (2016). Country level governance variables and ownership concentration as determinants of firm value in Latin America. *International Review of Law and Economics*, *47*, 84–95.

Sen, K., & Te Velde, D. W. (2009). State business relations and economic growth in Sub-Saharan Africa. *Journal of Development Studies*, *45*(8), 1267–1283.

Schnackenberg, A. K., & Tomlinson, E. C. (2016). Organizational transparency: A new perspective on managing trust in organization-stakeholder relationships. *Journal of Management*, *42*(7), 1784–1810.

Scott, W. R. (1987). The adolescence of institutional theory. *Administrative science quarterly*, 493–511.

Shen, C.-H., & Chih, H.-L. (2005). Investor protection, prospect theory, and earnings management: An international comparison of the banking industry. *Journal of Banking & Finance*, *29*(10), 2675–2697.

Tirole, J. (2001, janvier). Corporate Governance. *Econometrics, Vol. 69, No. 1.*, p. 1‑35.

Weaver, G. R., TreviÑo, L. K., & Cochran, P. L. (1999). Corporate Ethics Programs as Control Systems : Influences of Executive Commitment and Environmental Factors. *Academy of Management Journal*, *42*(1), 41‑57.

Wintoki, M. B., Linck, J. S., & Netter, J. M. (2012). Endogeneity and the dynamics of internal corporate governance. *Journal of Financial Economics*, *105*(3), 581‑606.

Yutao, H. Y. W. (2010). Investor Protection and Ownership Concentration: New Empirical Evidence from Control Right Transfer [J]. *Journal of Financial Research*, *3*.

Zhou, J., & Lan, W. (2017). Investor protection and cross-border acquisitions by Chinese listed firms: The moderating role of institutional shareholders. *International Review of Economics & Finance*.

Zoogah, D. B., Peng, M. W., & Woldu, H. (2014). Institutions, Resources, and Organizational Effectiveness in Africa. *Academy of Management Perspectives*, *29*(1), 7‑31.