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A Path Analysis of Goodwill Impairment – Does Corporate Governance Matter?

ABSTRACT

Objective: This paper examines the extent to which different corporate governance mechanisms affect the recognition and measurement of goodwill impairment, considering that these decisions are affected by a complex set of factors such as variables associated with corporate governance, economic/financial variables, and the market.

Methodology: We used data from 110 companies, both Spanish (75) and Portuguese (35), with listed securities, in the period 2010–2016 (unbalanced panel), and the path analysis method to infer financial and non-financial data relationships.

Findings: The results support the hypothesis that attributes linked to management and internal and external control mechanisms, as well as economic/financial, market and location variables, are directly and indirectly associated with the recognition of goodwill impairment.

Value Added: This paper outlines a company behavioral profile where opportunity seems to prevail over timely recognition and measurement of goodwill impairment. Big bath practices appear to be well founded, as well as the alignment of this strategy with market signals.

Recommendations: To foster the adoption of accounting practices close to the interests of all stakeholders, regulators should be encouraged to incentivize corporate governance models that promote the periodic rotation of the chief executive officer/chairman, the independence of all members of the statutory audit board, and training in economic and financial areas.

Key words: Corporate governance, goodwill impairment, path analysis.

JEL codes: M10, M41, M42, M48, N24

This study is dedicated to the memory and contribution of Professor Cristina Gonçalves, a colleague and beloved friend who sadly passed away in July 2019. We miss her dearly and deeply regret that she did not live to see the completion of this paper, of which she was a great part.

Introduction

High-quality information reporting tends to minimize information asymmetry, as managers hold more and better information than stakeholders do. The perception of the risk of this gap may negatively influence the company's risk perception (Akerlof, 1970).

Several authors see the decisions on impairment recognition in goodwill (IMP_GW) as a privileged instrument for manipulating results (Beatty & Weber, 2006; Francis et al., 1996; Ramanna & Watts, 2012). The first studies on the subject emphasized economic factors as explanatory variables for the decision to recognize these impairments (Beatty & Weber, 2006; Godfrey & Koh, 2009; Li et al., 2011). However, in the last 20 to 30 years, concern with corporate governance and its mechanisms has grown (Becht et al., 2003).

Motivated by the dynamics of the capital market, attention is focused on the protection of small shareholders, large mergers and acquisitions, pension reform, and the various financial scandals with a strong impact on public opinion and investor confidence. A number of scientific studies analyze, among other topics, the relationship between corporate governance mechanisms and the quality of financial reporting (Becht et al., 2003; Kabir & Rahman, 2016).

The recognition of goodwill in corporate mergers, as well as the recognition of its impairment, are decisions that allow the exercise of discretion. Therefore, it is appropriate to examine to what extent the structure of the administration and the control mechanisms limit this discretion.

This study analyzes the relationship between the various characteristics of corporate governance and the decisions about IMP_GW. These decisions are

associated with a complex set of factors, such as variables linked to corporate governance and economic/financial variables (henceforth referred to as economic variables), as well as market variables.

Based on data from 110 Spanish and Portuguese companies, listed in regulated markets, for the period 2010–2016 (unbalanced panel), the path analysis method is used to infer relations between economic and non-economic variables. The results outline a behavioral profile of companies where the opportunism seems to prevail over the timely and appropriate recognition of IMP_GW. Big bath practices appear to be well founded, as well as the alignment of this strategy with market signals. To foster the adoption of accounting practices close to the interests of all stakeholders, regulators should be encouraged to incentivize solutions that favor the periodic rotation of the chief executive officer/chairman, the independence of the members of the Statutory Audit Board (SAB), and their training in economic and financial areas.

Theoretical background and research hypotheses

The separation between ownership and management of companies has required the setting up of adequate corporate governance mechanisms to protect the general interests of shareholders (and of stakeholders in general), to prevent opportunistic actions on the part of managers. The increase in governance mechanisms allows the constant monitoring of the administration, aiming at reducing the effects of information asymmetry and minimizing the problems arising from agency conflicts and practices detrimental to general and specific interests.

Many authors associate corporate governance with aspects such as corporate performance (Hutchinson & Gul, 2004), debt (Armstrong et al., 2010), capital markets (Abbott & Parker, 2000), accrual quality and management of results (Becker et al., 1998), voluntary information (Eng & Mak, 2003). Corporate governance studies tend to focus on one or more attributes of the governance

model and its control mechanisms. These attributes have been individually identified as independent variables or as constructs (AbuGhazaleh et al., 2011) or grouped into indices that seek to position entities at levels of governance (Bhagat & Bolton, 2013). There is evidence that an optimal governance structure depends on both the company's characteristics and the characteristics of the surrounding environment (Coles et al., 2008).

This research considers three corporate governance aspects: (i) the structure of the board of directors, as a management body; (ii) the SAB, as an internal monitoring body for management decisions; (iii) the external auditors, as the external monitoring body of those decisions. The general hypothesis of this paper assumes that both management characteristics and the mechanisms for monitoring executives' decisions contribute to the quality of those decisions, of an accounting nature, namely those associated with the recognition of IMP_GW.

Board of directors

It is the responsibility of the management body (board of directors and executive board, where it exists) to decide on acquisitions and mergers, a decision that involves aspects related to the initial and subsequent measurement of GW. Therefore, this body has inside information, which has to be presented and disclosed in the financial statements in a neutral way. Opportunistic management of this information can be reflected in the timing and measurement (recognized amounts) of GW and its impairment (Li & Sloan, 2017; Ramanna & Watts, 2012). Several studies (e.g., AbuGhazaleh et al., 2011) suggest that if corporate governance incorporates decision monitoring mechanisms, such as a diversified composition of bodies – including independent members, financially knowledgeable members, and diligent members in action (Jennings et al., 2006) – then control will be strong, the quality of financial reporting will increase, and involvement in fraud and result manipulation will be reduced.

In each company, the board of directors, as a collective body, differs with respect to size (number of members), members' term of office, separation of CEO (Chief Executive Officer) and the Chair, independence, remuneration, existence

of specialized committees, as well as operational aspects such as the frequency of meetings. This paper analyzes a combination of attributes with the objective of retaining a multidimensional perspective of this organ.

Structure of the board of directors

- *Size*: there is no consensus as to the optimum number of directors, leading to differences in the amount of company board members. First, the size of the board is regulated differently in various countries. For instance, in Spain the Code of Good Governance of Listed Companies (2015) recommends the size of the board of directors being between five and 15, whereas in Portugal the Code of Corporate Governance (2013) does not impose any size. With regard to this body's effectiveness according to size, there are quite different conclusions. Some authors believe that larger boards monitor management more effectively (Zahra & Pearce, 1989) and are, therefore, more capable of protecting shareholder interests. Other authors, such as Lipton and Lorsch (1992), disagree in that larger board size leads to a greater difficulty in achieving a consensus and thus the CEO can have a greater influence or control on the decisions of this body (Jensen, 1993).
- *Shareholder members*: according to Lin and Hwang (2010), there is no clear theory regarding the contribution of directors with equity holdings in monitoring management action. Some authors see the presence in the management of members with equity holdings (Morck et al., 1988) as a form of convergence between the interests of shareholders and those of the management body. This results in better control, which contributes positively to shareholder wealth and thus reduces agency costs (Farrer & Ramsay, 1998). Warfield et al. (1995) also suggest that shareholder councils contribute to management monitoring by reducing the magnitude of discretionary accruals. However, Morck et al. (1988) state that a high presence of equity participation may lead to excessive control over management decisions, leading to a disregard for the interests of non-management shareholders. Authors such as Short and Keasey (1999) and Bhagat and Bolton (2013) find a positive relationship between

the presence of shareholders on the board and company performance. Bhagat and Bolton (2008) also suggest there is a relationship between the CEO's rotation in the event of poor performance and the presence of shareholders on the board of directors.

- *Independent members*: the board of directors may include shareholders and / or representatives of major shareholders and independent members. The independence of board members has been analyzed as a mechanism for controlling management abuses and opportunistic behavior, namely manipulating results (Roe, 1991). Several authors (Beasley, 1996; Chen et al., 2015; Idris et al., 2017) find evidence of a negative relationship between the independence of the members of the board of directors and the extent of result manipulation. For Ryan and Wiggins (2004), independent advisors are more willing to monitor the CEO in opportunistic management of results. The independent members strengthen the corporate governance mechanisms, as they contribute to the reduction of results management and getting involved in the IMP_GW decision. A positive relationship is expected between recognition of IMP_GW and an administration with a high presence of independents. Several authors (e.g., AbuGhazaleh et al., 2011) argue that effective corporate governance mechanisms tend to restrict the CEO/ Chairman's freedom to omit presenting GW losses when they occur.
- *Remuneration of members*: the remuneration of directors may depend both on the market mechanisms that support certain profiles and on the influence that these directors exercise internally when setting their own remunerations. Watts and Zimmerman (1986) theorize that managers tend to make accounting choices that allow them to anticipate future profits for the present period, in order to maximize their remuneration, a hypothesis that supports manipulation of results for their own purposes. Most of the studies on management compensation mechanisms focus on the variable remuneration component of the chairman of the board of directors and their relationship to performance and manipulation of results (Gaver et al., 1995), assuming that, as a rule, the chairman will avoid recognizing losses (in particular, IMP_GW) in order to

avoid a reduction of their own remuneration. This study focuses on the relationship between the independence of the board of directors and the remuneration of its members. This remuneration includes a fixed and a variable part, which is associated with reward mechanisms (Ryan & Wiggins, 2004). For Bebchuk and Fried (2003) the managerial power approach cannot fully explain the compensation system, thus other explanatory factors must be taken into account. Several authors advocate the hypothesis of management independence and its alignment with stakeholders' interests (Garratt, 2015; Hassen, 2014). They assume that independence is connected to a set of factors other than remuneration, such as the composition of the board, the quality of corporate governance mechanisms, the experience of managers, the size of the company, and past performance in the capital market. The Code of Good Governance of Listed Companies (2015) recommends that the remuneration of the board of directors should attract and retain directors with the desirable profile to promote the pursuit of social interest. In this study, it is defended that a board of directors with high wages strengthens the mechanisms of governance and will correspond to a more effective monitoring of the CEO and to a less opportunistic behavior, which will, in turn, reduce the propensity to manipulate results, avoiding risks of litigation and substitution.

Considering that the size, independence, presence of shareholders, and remuneration are aspects that characterize a strong management structure and are directly associated with the capacity of this body to exercise its mandates in the defense of the general interests of shareholders, it is recommended that they contribute positively to the recognition of IMP_GW when it is verified that the loss of capacity of the underlying assets generates future economic benefits.

- H1.1: A strong governance structure is positively associated with the decision to recognize IMP_GW.

Seniority in the position (CEO or Chairman)

Long mandates are associated with a reputation that has allowed the executive to survive the decisions to resign or renew mandates over the years (Milbourn, 2003). The executives' reputation is based on the assessment that the market provides, taking into account the past and present path, the ability to value assets and returns over the medium term (Fama, 1980; Holmstrom, 1982) and credibility of financial information (Wilson, 2008). In this context, Zhang (2009) finds that executives with long careers are not as concerned about the reputation because having previously been evaluated for performance, they do not need to adopt opportunistic practices to assert themselves. Ali and Zhang (2015) suggest that results management is more frequent in the early years of the mandate than in subsequent years. In this sense, Masters-Stout et al. (2008) prove that in the first years of mandate more losses are recognized in IMP_GW.

In another perspective, Schwenk (1993) suggests that senior executives become psychologically committed to maintaining a certain status, a commitment that can reduce the quality of decision making and the company's own performance. Ramanna and Watts (2012) and Kim and Bay (2017) suggest that if executives were involved in the investment decisions that generate GW (Lapointe-Antunes et al. 2008; Hamberg et al. 2011), they will be less ready to recognize the impairment of these investments. In line with these conclusions, the following hypothesis is defined:

- H1.2: The seniority of the CEO/Chairman is negatively associated with the decision to recognize IMP_GW.

Separation between CEO and Chairman

The chairman of a board of directors assumes the executive powers (chairman) or delegates them to an executive committee, chaired by the CEO, who is responsible for the day-to-day management of the company. The separation between an executive committee and a non-executive chairperson represents

a division of powers in business management. While the chairman is responsible for board management, the CEO is responsible for the day-to-day administration, including the execution of the board's decisions. This duality can enable the CEO to have the ability to make decisions that do not maximize shareholder wealth, thereby weakening the board's leadership. Authors like Sheikh et al. (2013) believe that authoritarian decisionmaking, under the leadership of a single individual, leads to higher performance. However, Brown and Caylor (2006) conclude that the capital market places more value on companies that have this separation of powers.

Considering that the CEO may have more freedom and greater motivation to perform a management oriented to the presentation of short-term results, the following hypothesis is considered:

- H1.3: The separation of management functions between CEO and Chairman is negatively associated with the decision to recognize IMP_GW.

Meetings (administration or statutory audit board)

Several authors consider that the frequency of corporate governance meetings (administration/SAB) shows greater or lesser attention to management issues, namely those related to results management, and it is also one of the strong governance mechanisms.

Vafeas (1999) and AbuGhazaleh et al. (2011), among others, tested the relationship between the number of meetings and the effectiveness of the functions, namely in the monitoring of management decisions. The results suggest that when meetings are less frequent, less time is devoted to management issues, those related to results management. In this sense, the authors argue that there is an inverse relationship between the frequency of meetings and the discretionary practice of managing the results.

The literature goes on to consider the frequency of the meetings, both of the administration and of the internal oversight body, as a proxy for the efficiency of the corporate governance bodies, for which it is considered:

- H1.4: The frequency of meetings of the board of directors and of the statutory audit board is positively associated with the decision to recognize IMP-GW.

Statutory audit board

Independence

It is up to the SAB to monitor management decisions in the pursuit of transparency, compliance with general objectives and compliance with general or specific regulations of the organization. The independence of members of this board is an imperative in ensuring the quality of financial information (Karamanou & Vafeas, 2005) and quality of results (Abbott & Parker, 2000; Abdul-Majid, 2017). These authors argue that a completely independent SAB better defends shareholders' interests because it can objectively analyze all issues. The independence of these members is a relevant factor in the constraint of results management practices.

- H2.1: The independence of members of the statutory audit board is positively associated with the decision to recognize IMP_GW.

Formation

Training in the economic/financial area is adequate for the effectiveness of monitoring opportunistic management practices and the quality of financial information because it is expected that SAB members will be able to assess whether accounting policies are appropriate and whether the recommendations of the external audit reports are applied.

Several studies have tested the relevance of training in the economic/financial area in strengthening governance mechanisms. Lin and Hwang (2010), DeFond et al. (2015) and Inaam and Khamoussi (2016) concluded that financial training contributes to strengthening governance mechanisms and limits results management. Abbott et al. (2004) confirmed that there was a negative

relationship between training in the financial area of at least one of the members and the change – by default or erroneous – in the financial information disclosed. Other authors (Nelson & Devi, 2013) argue that the quality of monitoring functions can improve with members with and without financial/economic training. Other studies did not find a relation between financial training and the restriction of results management practices (Garven, 2015).

It is suggested as a research hypothesis that there is a positive relationship between the presence of financial training of the SAB president and the recognition of IMP_GW in a timely manner and with adequate measurement.

- H2.2: Training in the economic and financial areas of members of the statutory audit board is positively associated with the decision to recognize IMP_GW.

External auditor

The role of external auditors in controlling and guaranteeing the quality of information is an aspect of corporate governance mechanisms that has been widely studied. Characteristics such as the type of auditor BIG4 (previously 5 or 6) versus non-Big, the auditor's remuneration, and whether auditor rotation is required have been analyzed.

BIG4

There are studies on the role of BIG4 (5 or 6) and the quality of financial information regarding the timely recognition of IMP_GW or the management of results, where impairments can provide a timely tool for all discretionary accruals. Francis and Wang (2008) and Xu et al. (2013) associate the BIG4 with a more conservative perspective of accounting. According to Ball et al. (2012), these are agents of great importance for the capital market, since they confirm the financial information made available by the managers. Lin and Hwang (2010), in a review of systematic literature on audit quality, corporate governance, and earnings management, concluded that in 12 out of 48 articles analyzed, seniority,

size, and independence of the auditors show a significant negative relationship with results management practices, suggesting that BIG4 auditors discourage such practices, thus contributing to better financial information quality.

The BIG4 variable (5 or 6), proxy for large audit firms, has been widely used (Artur et al., 2015; Becker et al., 1998), representing the quality of supervision, a disincentive to the management of results, and the ability to predict, more likely, the bankruptcy of the company (Francis et al., 1999) and therefore the risk of litigation. Vann and Presley (2018) argue that BIG4 auditors are better able to contain results management when client firms have strong corporate governance. However, other studies have not proved the relationship between large audit firms and results management (Bédard et al., 2004). On the other hand, several studies (Caplan et al., 2018; Giner & Pardo, 2015) associate these auditors with the timely recognition of IMP_GW preventing companies from postponing this recognition for more opportune periods.

- H3.1: Belonging to BIG4 is positively associated with the Auditor's decision to recognize IMP_GW.

Remuneration

The quality of the auditors is an unobservable concept, manifesting itself in the services rendered independently. DeAngelo (1981) and Watts and Zimmerman (1986) defined the auditors' independence as the ability to detect and report errors. Since this quality is a multidimensional attribute, there is no single attribute that represents it. Balsam et al. (2003) consider the auditor's specialization in a given sector and the domain in this market as explanatory factors of a better quality of the service provided. Francis (2004, 2011), considers the audit burden and suggest that the BIG 4 audit services (5 or 6) include a premium (part of the higher price) that is associated with high quality of their services. This bonus is leveraged for specialized auditors in some industries (Craswell et al., 1995), but according to Craswell et al. (2002), auditors' remuneration does not affect their independence or the propensity to issue unqualified audit opinions.

Frankel et. al (2002) compare expenditure on audit and advisory services provided by audit firms as a proxy for auditor independence. These authors confirm a positive relation between the magnitude of discretionary accruals and this proxy. Geiger and Rama (2003) and Raghunandan et al. (2003) do not confirm this relationship.

- H3.2: The remuneration of audit services is positively associated with the decision to recognize IMP_GW.

Considering that the consulting activities provided by the auditors (remuneration of the consulting services as a percentage of the remuneration of the audit services as a proxy for those activities) tend to be oriented by the interests of the companies, affecting the observance of prudence, it is postulated that:

- H3.3: The remuneration of consulting services is negatively associated with the decision to recognize IMP_GW.

Mandatory auditor rotation

Mandatory auditor rotation is a controversial issue. On the one hand, it is suggested that the reappointment of the auditors may affect their performance, due to their dependence on the auditing companies (DeFond et al., 2002). On the other hand, it is argued that turnover is unnecessary because market incentives prevail, namely the costs associated with loss of reputation and litigation (Geiger & Raghunandan, 2002). Ruiz-Barbadillo et al. (2009) analyzed the auditors' rotation and considered that the results provide empirical support for the arguments presented by those who oppose the auditor's mandatory rotation. In the same vein, arguing that the seniority of auditors does not compromise independence, Garcia-Blandon and Argilés-Bosh (2016) reach the same conclusion. However, Boone et al. (2008) find a nonlinear relationship between investor confidence (through the risk premium required in the stock price) and the seniority of the auditors. This stock risk premium decreases in the first years of the auditor's activities but increases with time. Also, Zvi and Jing (2018) have confirmed

that a longer audit firm's stay leads to less accurate findings and corrections, consistent with a negative effect of the auditor's long term audit quality.

Given the role of auditors in ensuring the quality of financial information, it is difficult to predict the nature of their relationship with the recognition of impairment. If, on the one hand, auditors are guarantors of the non-use of discretionary accruals in results management practices, this may inhibit the use of IMP_GW for this purpose. On the other hand, the recognition of these impairments is an accounting decision that assumes a conservative and timely accounting, practices that auditors tend to support. Considering these assumptions, the following hypothesis of investigation is proposed that favors a positive association between the seniority of the auditors, as a proxy for the quality of the services provided, and the recognition of IMP_GW, admitting that the auditors are guided by a conservative stance and scrutinize judiciously the basis of recognition of these impairments.

- H3.4: The seniority of the auditors is positively associated with the decision to recognize IMP_GW.

Economic and financial factors

Raman and Watts (2012), and Li and Sloan (2017) analyzed the recognition of IMP_GW in the context of the discretionary power of managers. Among the explanatory factors for these practices are the size of the company, the level of indebtedness, the negative results, and the behavior of the capital market and the amount of GW recognized.

Company size

Company size is a control variable for management quality and possible economies of scale, as a larger company dimension increases public recognition and can encourage performance-reducing practices to reduce political costs (Watts & Zimmerman, 1978). The most commonly used dimension proxies are total assets (AbuGhazaleh et al., 2011, Chen et al., 2008; Vann & Presley, 2018), market

capitalization (Hamberg et al., 2011) and turnover (Caplan et al., 2018, Kabir & Rahman, 2016). The latter variable is used in this study.

- H4.1: Company size is positively associated with the decision to recognize IMP_GW.

Goodwill

GW identifies the amount recognized in the scope of business combinations. It is expected that firms with higher amounts of active GW will report higher values of IMP_GW (Abughazaleh et al., 2011; Zhang, 2008).

- H4.2: The pre-impairment carrying amount of GW is positively associated with the decision to recognize IMP_GW.

Indebtedness

Several authors associate firms' level of indebtedness with accounting policy options, namely Beatty and Weber (2003, 2006), Zhang (2008), Godfrey and Koh (2009), AbuGhazaleh et al. (2011), Hamberg et al. (2011), Ramanna and Watts (2012), Avallone and Qualgli (2015) and Vogt et al. (2016). Some of these and other authors also associate the level of indebtedness with the tendency not to recognize impairments, when they have a potential effect on the credit negotiation capacity of companies, namely in the risk premium and in obtaining new credits (Beatty et al., 2002).

Since IMP_GW leads to a reduction in results, which may undermine the company's trading capacity and increase credit risk, it is proposed that:

- H4.3: The decision to recognize IMP_GW is negatively associated with the level of corporate indebtedness.

Capital market

Several authors, such as Elliot and Shaw (1988), Francis et al. (1996), Alciatore et al. (2000), Giner and Pardo (2015) and Vogt et al. (2016) assume that capital market information is relevant to the recognition of IMP_GW. They argue that recognizing IMP_GW forces managers to disclose fair value information and the expectation of future cash flows, which leads to the updating of investors' expectations of these returns. Henning et al. (2004) confirm the existence of manipulation (delay in the recognition of IMP_GW) in order to obtain the approval of the financial statements by the shareholders, linked to certain objectives. Francis et al. (1996) conclude that firms with poor market performance tend to recognize higher impairment losses. As to the moment of impairment recognition, Alciatore et al. (2000) conclude that it tends to follow a fall in share price, suggesting that the market has already incorporated at least part of this information.

In this study, the market value of the company is a mediation variable, which considers the simultaneity of variables that are potentially associated both with market value and the recognition of IMP_GW. An adapted Ohlson (1995) model is used as a reference, in line with other authors (Holtz & Neto, 2014).

Given that managers tend to adjust impairments to market signals, in the context of opportunistic management of results, it is proposed that:

- H4.4: The decision to recognize IMP_GW is negatively associated with company market value.

Negative results (pre-impairment)

In managing the results through big bath, managers usually use non-current items to manage the results in periods when they are already significantly low. This strategy is justified by the expectation that markets will not penalize companies in proportion to losses (Jordan & Clark, 2004), because investors are more focused on the future, whereas companies are trying to convey to the market the improvements made after a bad result.

There is no consensus in the results of the studies on big bath practices. Li et al. (2011) found evidence of big bath practices using impairments associated with the presence of negative results, while AbuGhazaleh et al. (2011), Beatty and Weber (2006), and Jordan and Clark (2015) associate big bath strategies with recent CEO changes. However, the big bath hypothesis associated with new CEOs was not validated in the studies of Avallone and Quagli (2015), Jordan and Clark (2004, 2015), and Ramanna and Watts (2012). These authors conclude that impairment recognition is associated with other factors, namely the market's perception and or effective asset deterioration (Jordan & Clark, 2004), while Jahmani et al. (2010) also suggest that managers manage the moment of recognition of IMP_GW. In a study applied to Portuguese companies, Castro (2012) cannot reach a conclusion about big bath practices, while Alves (2011, 2013) confirms the relevance of IMP_GW as a discretionary element of accruals. Gonçalves et al. (2019), who analyzed Portuguese and Spanish companies, concluded that there are big bath practices, especially in Spanish companies.

In another perspective, Brochet and Welch (2011) analyzed the relationship between the previous experience of the members of the board of directors, namely in the area of investment, management consulting and recognition of impairment. They concluded that impairment was more likely to be recognized when at least one member of the board of directors had previous experience and whether the recognition of IMP_GW in prior periods was low or non-existent. The reported IMP_GW value is small but frequent, signaling a strategy for smoothing the results.

Considering that the evidence obtained in previous studies regarding the practice of using IMP_GW as an instrument for manipulating the results does not show a consensus, the following research hypothesis is stated:

- H4.5: The decision to recognize IMP_GW is positively associated with negative pre-impairment GW results of companies.

Empirical study

This research follows a positivist approach (Watts & Zimmerman, 1990) in the search for causal relationships between potentially explanatory variables of IMP_GW recognition, in the context of agency problems and costs (Jensen & Meckling, 1976).

Universe and sample

The research universe is limited to companies with securities listed on the Lisbon and Madrid stock exchanges in the period 2010–2016. There are similar companies in both countries, because (i) both are part of the European Union, thus complying with the requirements of the European Union on corporate governance, (ii) the historical influence of the two countries, in comparison with those of the common law tradition, is seen as a factor of less protection for shareholders and creditors (La Porta et al., 1997). Both countries experienced several years of economic recession (2009–2013), marked by high unemployment, more pronounced in Spain (around 20%). Spain has a gross domestic product (GDP) (2016) that ranked it fifth in the European Union (Eurostat, 2018) and 13th in the world ranking, while Portugal occupies the 46th position (World Bank, 2018). Portugal, as a result of the economic recession, coupled with continued growth in public debt, was subject to an Economic and Financial Assistance Program (2011–2014), which led to more stringent budgetary measures, struggling for the stability of financial markets, and cuts in social expenditure. Although with a different degree of intervention, Spain also resorted to financial support to recapitalize its financial sector. In terms of market capitalization (World Federation of Exchanges, 2016), the difference between the two countries remains, with Spain ranking 16th in the world ranking and Portugal in 48th place.

A sample of 110 companies – 35 Portuguese (PT) and 75 Spanish (ES) – was chosen from the universe of, respectively, 53 and 168, in an unbalanced panel data structure. The financial, insurance, and sports sector companies were not considered, accounting for the aspects of comparability, and 14 companies were excluded because they did not have GW recognized during the analysis

period. The final sample contained 580 observations (210 observations from 32 PT companies and 370 observations from 59 ES firms). During the period under analysis, 36 companies (26 ES and 10 PT) never recognized IMP_GW.

Variables and model

The study analyzes a set of variables that the literature associates with the recognition of IMP_GW: variables of corporate governance and economic variables (Table 1), mediated by the capital market. The reasoning of the independent variables was discussed in sections 2 and 3. However, due to the multidimensionality of the structure of administration construct (ADM), we opted for factorial analysis (principal components method). Values of KMO (0.772), Bartlett test (6) = 912.109, $p < 0.000$, total explained variance (66,288), and factorial loads of the variables [0.764; 0.901], allows accepting the explanatory power of this factor.

Table 1. Independent variables

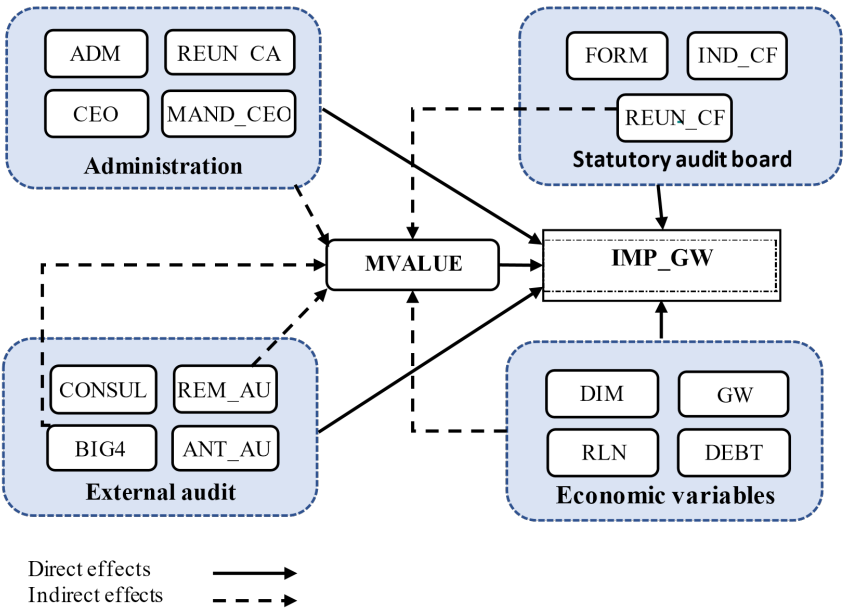
	Variables	Measure	Signal	References
ADMINIST	Administration (factor) (ADM)	Number of counselors Number of shareholder advisors Number of independent directors Management remuneration (10^6 €) (Ln)	+	Garven (2015) AbuGhazaleh et al. (2011) Kabir & Rahman (2016) Hassen (2014)
	Seniority CEO/ Chairman (MAND_CEO)	Number of mandates for three years	-	Bhagat & Bolton (2008)
	CEO different Chairman (CEO)	Binary variable = 1 if CEO is different from Chairman; 0, otherwise	-	Abbadi et al. (2016)
	Board meetings (REUN_CA)	Number of meetings by the Management Board		AbuGhazaleh et al. (2011)

	Variables	Measure	Signal	References
AUDITOR	BIG4	Binary variable = 1 If audit firms is BIG4: 0, otherwise	+	Artur et al. (2015)
	Remuneration of the Auditor services (REM_AU)	Remuneration of audit services (10^6 €) (Ln) (proxy of independence)	+	Francis (2004) Geiger & Rama (2003)
	Consulting Services Audit Firms (CONSULT)	Remuneration of consultancy services (10^6 €) (Ln)	+	Frankel et al. (2002)
	Consecutive mandates of the audit firm (ANT_AU)	Number of consecutive (seven-year) mandates of the same audit firm	+	Ruiz-Barbadillo et al. (2009)
SAB	Independent Members Fiscal Council/ Audit (IND_CF)	Percentage of independent Members in the Fiscal/audit board	+	Abdul-Majid (2017)
	Qualifications of the president's supervisory board/ auditoria (FORM)	Binary variable = 1 If training in the economic/financial area; 0, otherwise	+	Kabir & Rahman (2016)
	Fiscal Council Meetings (REUN_ CF)	Number of meetings (proxy of efficiency)	+	Garven (2015)
ECONOMIC	Company SIZE (DIM)	Total Assets (Ln)	+	Caplan et al. (2018)
	Goodwill (GW)	GW deduced from the impairments of the period (10^6 €) (Ln)	+	Sun (2016)
	Debt (DEBT)	Liabilities/Assets	-	Caplan et al. (2018)
	Market capitalization (MVALUE)	Market capitalization at 31dez t (10^6 €) (Ln)	-	Hamberg et al. (2011)
	Negative net Results (RLN)	Binary variable = 1 if the net results, before IMP _GW are negative; 0, otherwise	+	Kabir & Rahman (2016)

Source: Own elaboration.

Figure 1 schematizes the adopted research model. The four groups of variables are observed: administration, Statutory Audit Board, external audit, and economic variables.

Figure 1. Reasearch model



Source: Own elaboration.

Legend:

Administration:

Administration (factor)(ADM)
Seniority CEO/Chairman (MAND_CEO)
CEO different Chairman (CEO)
Board meetings (REUN_CA)

Statutory audit board:

Independent members of the Fiscal council/ Audit(IND_CF)
Fiscal Council meetings (REUN_CF)
Qualification of the president of the Supervisory board/ auditor (FORM)

External audit

BIG4
Consulting Services Audit Firms (CONSULT)
Remuneration of the Auditors services (REM_AU)
Consecutive mandates of the audit firm (ANT_AU)
Market capitalization (MVALUE)

Economic variables:

Company size (DIM)
Negative net results (RLN)
Debt (DEBT)
Goodwill (GW)
Goodwill impairment (IMP_GW)

A recursive model (Path analysis method) was defined using the predicted values of MVALUE (equation [2]) as an independent variable, in order to obtain estimates for IMP_GW (equation [1]). The model was implemented in AMOS, V. 22 SPSS, estimated by the maximum likelihood method. It explores the direct and indirect structural causal relationships of the various independent variables in the dependent variable:

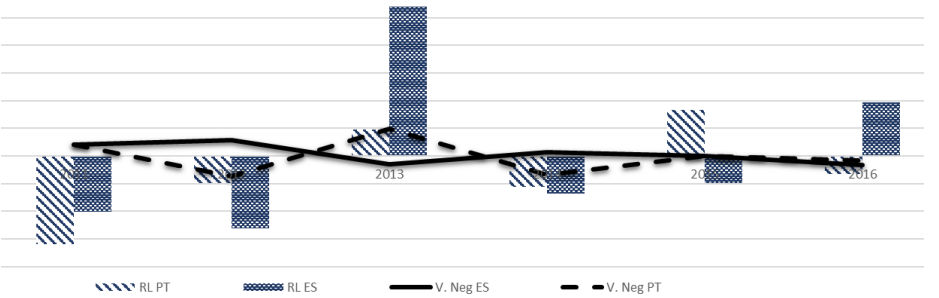
$$IMP\_GW = \beta 1.0 + (\beta 1.1CEO + \beta 1.2ADM + \beta 1.3REUN\_CA + \beta 1.4MAND\_CEO) + (\beta 1.5BIG4 + \beta 1.6REM\_AU + \beta 1.7CONSUL + \beta 1.8ANT) + (\beta 1.9FORM + \beta 1.10IND\_CF + \beta 1.11REUN\_CF) + (\beta 1.12DIM + \beta 1.13GW + \beta 1.14RLN + \beta 1.15DEBT) + \beta 1.16MVALUE + \psi 1 \quad \text{[Equation 1]}$$

$$MVALUE = \beta 2.0 + (\beta 2.1CEO + \beta 2.2ADM + \beta 2.3REUN\_CA + \beta 2.4MAND\_CEO) + (\beta 2.5BIG4 + \beta 2.6REM\_AU) + (\beta 2.7REUN\_CF) + (\beta 2.8DIM + \beta 2.9GW + \beta 2.10RLN + \beta 2.11DEBT) + \psi 2. \quad \text{[Equation 2]}$$

Descriptive analysis

In the period under study (2010–2016), the Portuguese and Spanish economies have successive negative GDP variations, with signs of recovery from the year 2014 in Spain and in the year 2015 in Portugal. In this seven-year period, the annual turnover had significant and different variations (Figure 2) in each country. At the end of the period, compared to 2010, Portuguese companies already have an increase in turnover in the order of 9%, while Spanish companies fail to recover the initial level of activity (-7%). Both Portuguese and Spanish companies present negative variations of results (RL) in four of the six years of the analyzed period, with an atypical year (2013), where the RL of Spanish companies had a significant positive increase.

Figure 2. Variations in *Turnover* and RL (net Income)



Source: Own elaboration.

Legend: RL PT – Net result for Portuguese companies. RL ES – Net result for Spanish companies. V. Neg PT – Annual sales for Portuguese companies. V. Neg SP – Annual sales for Spanish companies.

The sample presents, on average, a market to book ratio of 1.3, with both Spanish (1.31) and Portuguese (1.34) subsets falling within the same order of magnitude. However, there are clear differences of dimension between the companies of the two countries (Table 2), taking into account indicators such as asset, V. Neg., and scholarship capitalization, which allows the assumption that Spanish companies will have about twice the size of Portuguese companies.

Regarding the variables of corporate governance, it is noteworthy that the seniority of the CEO and the seniority of external auditors are, on average, higher in Spanish than Portuguese companies (statistically significant difference for $P < 0.000$), revealing Spain's greater stability in the composition of these organs. However, Spanish companies have a higher turnover ($p < 0.000$) in the SAB's direction (2.9 years for about five years in Portuguese companies), suggesting greater alignment with the recommendations provided in the regulations of good governance practices that indicate four-year mandates in both countries (corporate law).

The presence of independent members in the administration and SAB are also distinctive (and statistically significant) elements of the companies in both countries, but in the opposite direction. The average percentage of independents in the Management Board of Spanish companies is higher (36%) than that of Portuguese (20.5%). On the other hand, in SAB, the average percentage

of independent members in Portuguese companies (91%) surpasses the observed percentage in Spanish companies (about 60%), denoting differentiated policies regarding the composition of this body.

Table 2. Descriptive statistics

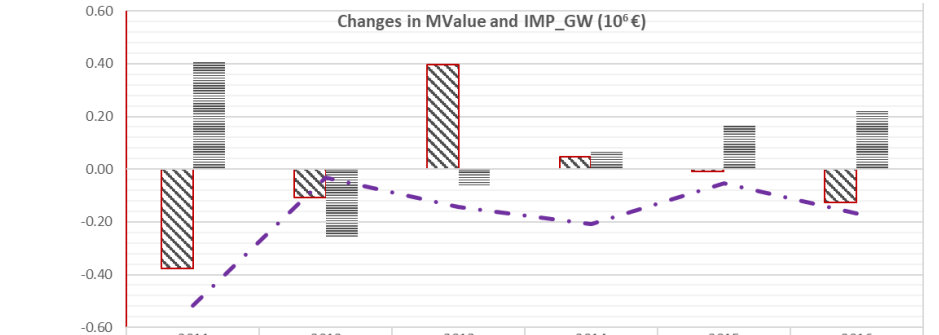
Variables	Sample		Portugal		Spain	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Assets	8 091.27	19 215.59	3 706.01	7 969.99	10 580.20	22 939.95
Turnover	4 166.15	9 755.57	2 307.67	4 345.88	5 220.96	11 642.81
MVALUE	3 041.75	7 718.80	1 434.90	2 825.90	3 953.74	9 309.17
Equity	2 310.39	5 871.38	1 074.21	2 326.45	3 012.01	7 047.21
GW	860.98	2 955.55	327.49	659.25	1 163.78	3 634.07
IMP_GW	9.47	52.87	4.70	40.70	12.18	58.54
RL	220.47	829.80	119.09	468.64	278.01	973.07
MAND_ CEO	11.42	9.23	9.62	7.61	12.44	9.90
Seniority President CF	3.71	2.54	5.12	3.07	2.90	1.72
ANT_AU	9.12	6.12	7.87	4.86	9.83	6.64
Independents Administration	0.30	0.18	0.21	0.19	0.36	0.15
IND_CF	0.71	0.25	0.91	0.15	0.59	0.23
N	580		210		370	

Source: Own elaboration.

Legend: Seniority CEO/Chairman (MAND_CEO); CEO different Chairman (CEO); Consecutive mandates of the audit firm (ANT_AU N); Independent Members Fiscal Council/Audit (IND_CF); Market capitalization (MVALUE); Goodwill Impairment (IMP_GW); Goodwill (GW); NET Results (RL); Debt (DEBT); Company Size (DIM).

Comparing company market value with the recognition of IMP_GW, the latter increases in periods where the market value is reduced (2011, 2015 and 2016) and decreases in association with raises of market value (2013). This behavior suggests that market prices flag the type of policies to be followed. Throughout the period of analysis, a negative and significant correlation between the two variables is observed systematically. Despite the weak strength of this association, it signals a certain type of relationship (Figure 3).

Figure 3. Market and IMP_GW



	2011	2012	2013	2014	2015	2016
V.MVALUE	- 0.377	- 0.108	0.396	0.049	- 0.009	- 0.125
V,IMP_GW	0.405	- 0.264	- 0.061	0.066	0.165	0.220
r Pearson	- 0.516	- 0.031	- 0.143	- 0.207	- 0.054	- 0.169

Source: Own elaboration.

Legend: MVALUE – Market capitalization; IMP_GW – Goodwill impairment.

Multivariate analysis

The normality of the variables was assessed by the asymmetry (| Sk | < 3) and kurtosis (| Ku | < 7–10) coefficients, which indicate that none of the variables severely violates the characteristics of the normal distribution (Marôco, 2014). The significance of the indirect effects was obtained by Monte-Carlo simulation, by Bootstrap resampling (n = 200). An evaluation determined the absence of multicollinearity among the variables (VIF < 3).

Table 3 shows the results of direct effects and their statistics. They are within parameters that, according to Marôco (2014), allow qualifying the adjustment as good or very good (2/DF < 2; CFI ≥ 0.95; RMSEA ≤ 0.05). The explained variance (R2) by the general model for IMP_GW is 23.7% and 72.1% for MVALUE.

Table 3. Direct Effects (IMP_GW)

Variables	Sample	Portugal	Spain
ADM	---	---	---
N. elements	----	---	-0.053*
Remuneration	0.024***	---	0.026***
CEO	---	---	---
REUN_CA	---	---	---
MAND_CEO	-0.238***	---	-0.312**
IND_CF	-0.378**	-0.798*	-0.539*
FORM	0.135***	---	0.164***
REUN_CF	---	---	---
BIG4	---	---	---
REM_AU	0.271***	---	0.338***
ANT_AU	---	---	---
CONSULT	---	0.081**	---
DIM	---	-0.184**	---
GW	0.093***	---	0.089***
RLN	0.647***	0.751***	0.648***
DEBT	---	-1.184***	---
MVALUE	-0.132***	---	-0.194***
Var. model = 19	Endogenous: 2; Exogenous: 17		
N / R square	N = 580 R2 = 0.237	N = 210 R2 = 0.167	N = 370 R2 = 0.286
Chi-square	χ2 (2) = 1.569; p = 0.456	χ2 (2) = 2.436; p = 0.292	χ2 (2) = 4.105; p = 0.128
χ2 / df	0.784	1.298	1.812
CFI	1.000	1.000	0.999
RMSEA	0.000	0.032	0.047

Source: Own elaboration.

Note: *** p < 0.01; ** p < 0.5; *p < 0.10;--- non-significant.

Legend: ADM – Administration (factor); REUN_CF – Fiscal council meetings; CEO – CEO different Chairman; BIG4 – Auditor; DEBT – Debt. RLN – Negative net results; DIM – Company Size REM_AU – Remuneration of auditors' services; GW – Goodwill; REUN_CA – Board meetings;

MAND_CEO – Seniority CEO/Chairman; MVALUE – Market capitalization; IND_CF – Independent members Fiscal council/Audit; FORM – Qualifications of the president's supervisory board/ audit; ANT_AU – Consecutive mandates of the audit firm; CONSULT – Consulting Services Audit Firms.

The overall results (Table 3) support the hypotheses that attributes associated with ADM and its internal and external control, as well as the economic and market variables, are associated with the recognition of IMP_GW. This association is obtained by direct and indirect route (Figure 4), since there is a common set of variables relevant to the formation of market value.

There is no evidence of statistical significance that demonstrates the separation of Chairman and CEO (H1.3), the frequency of management board meetings (H1.4), of being audited by a BIG4 company and seniority (H3.4) influencing the willingness to recognize goodwill impairments.

Board of directors

When considering the ADM factor (administration structure), the results indicate that it is not significant in the explanation of the IMP_GW (H1). However, when analyzing the variables that comprise this factor (only those that are significant), there is a positive association both in the total sample and the sample of Spanish companies ($P < .0000$) between the total remuneration of the administration and the recognition of IMP_GW. These results do not confirm the general thesis that the managers tend not to recognize discretionary accruals, which impair the results, in view of the protection of the variable component of their remuneration (Beatty & Weber, 2006; Watts & Zimmerman, 1990). The positive relation found suggests, in line with the conclusions of Gaver et al. (1995), that one should expect managers to opt for the recognition of accruals with negative impact on the results, when, as in the case of IMP_GW, the recognition does not jeopardize their reward objectives.

An analysis of the robustness of these results confirmed a positive correlation between the levels of remuneration (total, variable, and fixed) in the different years of the study, either with the IMP_GW (except for 2013), or with the net results before these impairments, suggesting that IMP_GW have no significant impact on remuneration plans, thus managers opt for more conservative accounting.

The negative association between the seniority of the CEO/Chairman and IMP_GW (H2) will meet the suggestions of authors such as Lapointe-Antunes et al. (2008), Hamberg et al. (2011), Ramanna and Watts (2012) and Kim and Bay (2017). These authors suggest that seniority creates greater probability for managers to be involved in the concentration operations that gave rise to GW, so they are less available to recognize the impairment of these investments, that is, to admit that their acquisitions do not generate the expected benefits.

Internal control mechanisms (SAB)

In the variables related to internal control mechanisms (SAB), there are two associations of opposite sign: one respects the training in the economic/financial areas (FORM), with a positive relationship; and the independence of the members (IND_CF), with a negative sign.

The positive relationship between the recognition of IMP_GW and training is the expected relationship (H2.2), in line with the arguments of Lin and Hwang (2010), DeFond et al. (2015), and Inaam and Khamoussi (2016), that contribute to the reinforcement of governance mechanisms and the limitation of results management, as knowledge of accounting standards and practices allows better supervision of the quality of financial information. Considering each country in isolation, this relationship is only significant in Spanish companies, which can be explained by the explicit recommendation of the applicable good governance code (Código de Buen Gobierno de las Sociedades Cotizadas): members should be designated taking into account their knowledge of accounting, auditing, and risk management.

The negative relationship with the independence of the members of the supervisory board and IMP_GW suggests that the actions of these members validate the decisions of the CEO/Chairman. In line with Klein's arguments (2002), it is confirmed that companies with higher IMP_GW have fewer independent members in the supervisory body, a fact that can significantly condition their supervisory action. The results suggest, as in Abbott and Parker (2000) and Abdul-Majid (2017) that only a fully independent fiscal/audit board can guarantee the defense of the interests of shareholders because they are in a position to analyze all the questions objectively. In

the analyzed companies, the average composition of independent members of this board is 70%, with a positive evolution in the period under analysis (66.3% in 2010 and 76.5% in 2016) that is associated with the existing pressure from the regulatory authorities of the capital market for good governance practices.

External control mechanisms (auditor)

The External Auditor's proxies confirm the expected positive relationship between REM_AU and IMP_GW. This positive relationship suggests that the fees of the auditor include a premium for the presence of BIG4 (91.4% of the auditors belong to one of these auditors) and that this award refers to the high quality of services (Francis, 2004, 2011). For Portuguese companies, consulting services (CONSULT) have a positive relationship, not confirming assumptions of Frankel et al. (2002) who argue that these services condition the independence of auditors and the quality of services.

Economic variables

The economic variables GW, RLN, and MVALUE present robust significant relationships ($p < 0.000$) for the total sample and for the Spanish companies. From this set of variables, Portuguese companies are only sensitive to RLN.

The positive relationship between GW (before Impairments) and IMP_GW is the expected relationship and confirms the conclusions of several authors such as Zhang (2008) and Abughazaleh et al. (2011).

The positive relationship between RLN (negative results before impairment) and IMP_GW, significant for both countries, suggests practices of big bath (Alves, 2013; Li et al., 2011). The presence of RLN and the perception of managers that IMP_GW will not have a significant impact on performance, either on the part of the market or from the other stakeholders, creates conditions for the use of this accrual opportunistically. This behavior falls within the context of the discretionary power of managers, who can choose the amount and time of recognition of these accruals (Henning et al., 2004; Read & Sloan, 2017; Ramanna & Watts, 2012).

The negative relationship between IMP_GW and MVALUE corroborates the perspective of Francis et al. (1996) who conclude that companies with poor

market performance tend to recognize higher impairment losses (compatible with big bath strategies). This result confirms the behavior of the impairments in relation to variations in market value (systematically negative correlations), which induces an interpretation of the behavior of managers in function of market performance. They reduce the impairment to not negatively influence the market, but when it decreases, they take advantage of this reduction to use negative accruals, in the expectation that the penalties will not be proportional to the losses recognized (Jordan & Clark, 2004). In this way, they also create an expectation of increasing future results.

Portuguese companies have differences in relation to Spanish companies. The DEBT and DIM variables are only relevant to Portuguese companies suggesting that specific context factors prevail.

The negative relationship between DIM and IMP_GW was not expected because the use of this accrual is more likely in large companies than in small ones (Elliott & Shaw, 1988). However, it can be argued that smaller companies are more sensitive to negative impacts of the perception of less reliable accounting information, namely harmful effects, on the risk perception of investors and creditors. The negative relationship with indebtedness was expected. Beatty and Weber (2006) suggest that companies are less susceptible to recognizing IMP_GW when they have lower negotiating capacity and their credit contracts are affected by accounting changes. It appears that for Portuguese companies, the capital market is not an explanatory variable, possibly due to the greater dependence on the financial market to supply credit deficiencies. The Portuguese companies present, on average, a ratio of higher indebtedness (69.9% to 67.7% of Spanish companies) and a non-statistically significant difference of 44% of the dimension (total revenue) of Spanish companies. Combined, these factors may explain a lower negotiating power of these companies and consequently greater sensitivity to the factors that condition credit contracts.

Indirect effects

A set of variables is statistically significant for the formation of market value, inducing indirect effects – positive or negative – in the dependent variable (IMP_GW).

Figure 4 presents the significant independent variables for the explanation of MVALUE (R2 = 72.1%) and the range of associated indirect effects (P < 0.05), evaluated with the bootstrap resampling method. It is noteworthy the variables ADM, BIG4, and DEBT, which in the total sample do not show direct effects on IMP_GW, however, indirectly contribute to it significantly.

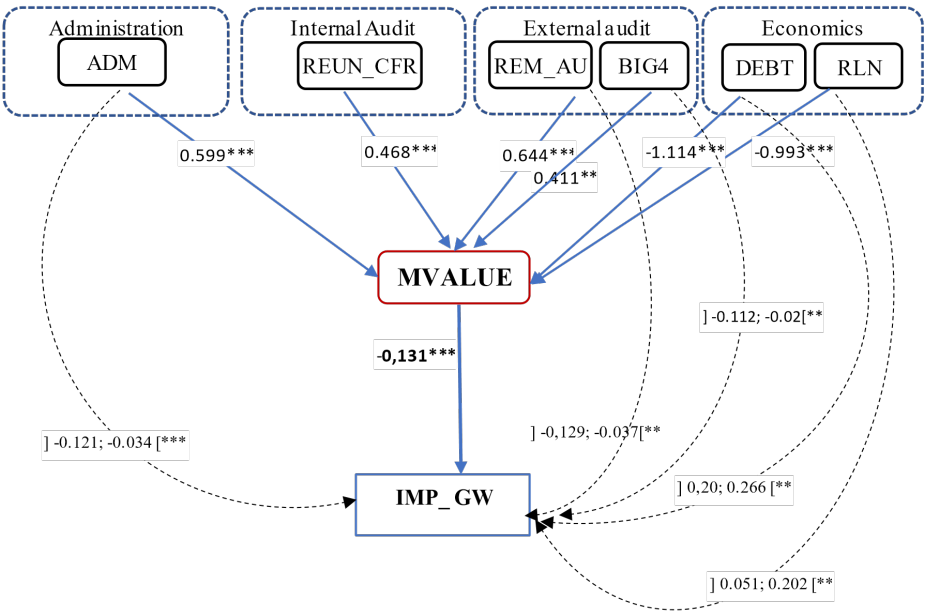
The variables ADM, REM_AU, and BIG4 are positively associated with MVALUE, but they show a negative relationship with the recognition of IMP_GW. The indirect and negative relationship of ADM suggests alignment with the decisions of the CEO, with special emphasis on longer mandates (direct negative relationship with IMP_GW), confirming that the various elements of the management bodies share the decisions about IMP_GW.

The following effects on IMP_GW are noted: (i) Indirect and negative with REM_AU and BIG4 and (ii) direct and positive with REM_AU. These contradictory effects suggest that the positive and direct effect associated with external auditors can be minimized, and the market effect for management decisions not recognizing IMP_GW prevails.

The positive and indirect effect of DEBT (negative association with market value) is interpreted as an intermediation effect justified by the double interest that the most indebted companies have in maintaining the balance between accounting options validated by the market and, at the same time, to serve the company's specific interests. The conditions that reinforce the negotiating power of companies go through not only the financial equilibrium but also the good market performance.

The positive sign In the indirect relationship between RLN and IMP_GW reinforces the arguments about the evidence of big bath practices, previously mentioned.

Figure 4. Indirect effects



Source: Own elaboration.

Note: *** p < 0.01; ** p < 0.5: Indirect effects: Confidence interval to 90%

Legend:

ADM – Administration (factor), BIG4 – Auditor, REUN_CF – Fiscal Council meetings, DEBT – Debt., RLN – Negative net results., REM_AU – Remuneration of auditors' services., IMP_GW – Goodwill impairment., MVALUE – Market capitalization.

Conclusion

A broad set of studies analyzed the association between economic, financial, and market attributes and the practices of IMP_GW recognition. In addition, this paper considers corporate governance mechanisms, such as those relating to administration, internal, and external control bodies.

The findings of this research trace a behavior profile of companies where opportunism seems to prevail over the timely recognition and the adequate measurement of goodwill impairments. The practices of big bath seem substantiated, as well as the alignment of this strategy to market signals. Aligned with this analysis, what can be observed is the role of the CEO, whose seniority suggests a power that overlaps the supervision of ADM and that influences the predisposition of the independent elements of the fiscal/audit board for the non-recognition of IMP_GW. In this context, the recognition of IMP_GW emerges as an instrument of opportunity for the specific objectives of the CEO.

With regard to the internal control mechanisms (SAB), the positive relationship between the recognition of IMP_GW and training contributes to the reinforcement of governance mechanisms and the limitation of results management, as acknowledgement of accounting standards and practices which allow better supervision of the quality of financial information. Additionally, the negative relationship with the independence of the members of the supervisory board and IMP_GW suggests that the actions of those members validate the decisions of the CEO/Chairman. There is pressure from the regulatory authorities of the capital market for good governance practices for the independence of audit board members, in order to guarantee shareholders' interests.

The results suggest that the External Auditor, as an independent control authority of management options, in the defense of timely and appropriate accounting policies, and under the terms defined in the accounting standards, has no capacity to influence the CEO's practices in a meaningful way.

Portuguese companies present a different pattern to Spanish ones regarding the recognition of IMP_GW. While the Spanish companies follow a pattern close to the sample, in Portuguese companies it is noteworthy that, of the control bodies, only IND_CF is significant and negative, similarly to Spanish companies. The advisory remuneration (CONSULT) presents a positive relationship, suggesting that, in these companies, external auditors, even in functions outside the audit, maintain a posture of independence and defense of appropriate accounting practices.

There is a high sensitivity of Portuguese companies to the levels of indebtedness, as a conditioning factor for the recognition of IMP_GW. It is

considered as an explanatory hypothesis that debt contracts are more sensitive, in terms of a risk or access premium, to measures that reduce results and thus undermine indicators of economic and financial equilibrium.

There is also an interaction between market information and impairment decisions. The capital market is influenced by a set of variables that have an equally relevant meaning for IMP_GW. The indirect effects, mediated by MVALUE, demonstrate that some of the effects are only noticeable through this mediation, as regards administration. These results suggest further research on this subject matter is needed in future studies.

The results suggest that regulators should encourage corporate governance models that recommend the periodic rotation of the CEO/Chairman, the independence of all SAB members, and the requirement of training in economic and financial areas, in order to encourage accounting practices that bring quality to information, to be comparable and comply with the law, thus aligning with the interests of all stakeholders.

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