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Editorial

Impact Research: Theory and Practice in the Corporate World

Pesquisa de Impacto: Teoria e Prática no Mundo Corporativo

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ABSTRACT

The impact that research has on society cannot be measured just by the amount of attention (citations) that it receives. High-impact research is relevant to society and is helpful to strengthen or modify its practices. However, decision-makers have to address society's demands and participate in the knowledge construction process, primarily through the proper use of scientific findings. Thus, the approximation between theory and practice is essential for the research to be relevant,. In this context, I propose a reflection on research relevance and its connection with practice in the corporate world. It is noteworthy that, despite extensive studies in the fields of management, corporate governance, and sustainability practices, we continue to face frequent corporate scandals. So, where is the flaw in this process?

Keywords: research relevance; decision-making; corporate governance; frauds.

RESUMO

O impacto que uma pesquisa causa na sociedade não pode ser medido apenas pela quantidade de atenção (citações) que essa pesquisa atrai. Uma pesquisa de alto impacto é aquela que tem alta relevância para a sociedade, sendo útil para fortalecer ou modificar suas práticas. Mas, para isso, o tomador de decisão precisa endereçar suas demandas e participar do processo de construção do conhecimento, especialmente por meio do uso adequado dos achados científicos. Assim, para que a pesquisa seja relevante, é essencial a aproximação entre teoria e prática. É nesse contexto que proponho a reflexão sobre a relevância da pesquisa e sua conexão com a prática no mundo corporativo. Relato que, apesar de extensos estudos nos campos da gestão, da governança e das práticas de sustentabilidade, nós continuamos a nos deparar com frequentes escândalos corporativos. Então, onde está a falha nesse processo?

Palavras-chave: relevância da pesquisa; tomada de decisão; governança corporativa; fraudes.

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WHAT IS IMPACT RESEARCH?

According to Toffel (2016), the impact of a study should not be measured based on how many times it was cited. For the author, the impact refers to the research's relevance to practice. Research is relevant (or impactful) if it can improve decision-making by managers, policymakers, and other professionals.

However, the research process should be a two-way street. Assuming that we have (relevant) impact research, has this knowledge actually been used to improve the business environment? How has this research been used in the corporate world? Has this environment communicated adequately with the scientific community so that its demands are known and considered in the investigation process? Have theory and practice communicated adequately? Let's talk a little bit about these issues.

HOW CAN RESEARCH IMPROVE DECISION-MAKING IN PRACTICE?

Relevant research to influence decision-making processes has to have theoretical support and connection with the real context, usually called 'practice.' So, in 'practice,' research is relevant if it considers the 'practical' context and is useful for strengthening or modifying society's 'practices.' Also, a theory that does not consider the real context tends to be little applicable, fails to support scientific evidence, and, therefore, will have a low impact on society.

Speaking of relevance, identifying a relevant research problem is one of the first steps in producing a study. It usually originates from a subject of interest to society and is associated with a gap in the literature. The researcher establishes the objective and justifies the study, pointing out the motivation and potential contributions. Publishing is the materialization of carrying out these steps properly.

Nevertheless, publishing scientific findings is only the first cycle of the process. Successful research is used by agents in society, who tend to make better decisions when supported by scientific evidence. Theory and practice must go together; they are mutually influential and crucial to address the constant changes in phenomena and society. Research unrelated to practice tends to be useless, just as practice without scientific guidance tends to be erratic.

In this editorial, I intend to provoke you to reflect on the relevance of scientific research and its connection with practice. Especially in the social sciences, how useful has our research been to society? Has the knowledge we have built been appropriately used in the corporate environment? Or are we generating knowledge that, for the most part, serves only as input for new research in the academic environment itself? How have corporations used scientific discoveries? I have no intention to provide the answers to these questions, I do not have them. My goal here is to provoke doubts and invite you to reflect on them.

IS THE THEORY DIFFERENT IN PRACTICE?

I never liked the phrase 'theory is different in practice.' So, I tried to get closer to the market to understand what the other side needs, using this information to improve my research. It is also true that I have had the misfortune to encounter situations in which some representatives of 'practice' felt that theorists should be at their service. Thus, I learned to face this phrase in another way. Actually, in practice, the theory is different. This does not mean that the theory is wrong or irrelevant, nor that we should exclusively blame researchers for the evils observed in practice.

In the theoretical field, we make assumptions and simplifications to isolate the phenomenon of interest. This is important so that the researcher can focus on their analysis. In addition, Toffel (2016) notes that relevant research should lead to implications that encourage practitioners to act on its findings. On one side, researchers need to clearly present how their results can influence the practitioners' decisions, demonstrating, whenever possible, specific cases and circumstances in which the findings are likely to apply. On the other side, practitioners must support their decisions with scientific evidence. It is not uncommon to identify in practice situations in which professionals make decisions that seem tautological, disregarding scientific knowledge.

In the field of practice, a simple and agile solution is often preferable, especially when decision-making must be quick. In valuation, for example, market analysts tend to prefer the use of an approximate cost of capital by a one-factor model (CAPM), dedicating more time to knowing the company's business model than spending a lot of time with a theoretically more robust model, with several factors, but which brings a smaller marginal gain to the valuation process. However, the simple solution also requires scientific knowledge.

CASES IN THE CORPORATE WORLD

Many advances in the field of market regulation come from scientific and practical evidence. They tend to be supported by some theory. For example, in the field of management, Almeida and França (2021) point out that studies on agency theory and corporate governance have practical applications in dealing with elements such as reducing conflicts of interest through compensation plans, optimal ownership structure, monitoring mechanisms, shareholder rights, among others. Nevertheless, these authors reinforce that in Brazil, in addition to studies, there are several real examples of agency problems.

According to Almeida and França (2021), the Brazilian stock exchange has developed different segments for voluntary listing, where companies commit to better corporate governance practices. The highest level was named '*Novo Mercado*' in allusion to a new market. Companies listed in this segment commit to improving governance, and therefore, researchers theoretically consider the segment as a proxy for 'better governance.' However, this is not seen in practice since several corporate scandals have happened to companies listed in this particular segment – and this is not due to a lack of scientific knowledge. In addition, Miranda et al. (2021) show that listing on the *Novo Mercado* does not indicate lower risk, higher return, or better risk-return ratio (these scandals are evidence of that). The segment brings together companies with greater risks, which suggests that the riskiest companies seek to be listed on *Novo Mercado* to obtain legitimacy regarding their governance.

In recent years, several companies listed on *Novo Mercado* have gained the spotlight with scandals that have led to losses for different stakeholders, including society. Americanas, IRB Brasil, JBS, Multiplus, OGX, Qualicorp, and Smiles are some examples of companies listed on the *Novo Mercado* that destroyed value for their stakeholders. Although, in theory, there are nice speeches and commitments to differentiated governance and management procedures, in practice, we observe a mix of conflicts of interest, maximization of own benefits, disrespect for shareholder rights, information asymmetry, and fraud, among others. We have scientific evidence pointing out weaknesses and solutions for all these cases.

IRB Brasil RE, for example, is a company with over 80 years of existence that already had a monopoly in the reinsurance sector in Brazil until it went through a privatization process and went public in 2017. In that and the following two years, the company's shares appreciated, respectively, 27.0%, 157.6%, and 44.5%. It was something phenomenal. In its 2018 Management Report, after beautiful words about corporate social responsibility (CSR), socio-environmental impacts, and governance, IRB highlighted the various awards received as a prominent company in its sector, the awards received by its directors, president (CEO), finance (CFO), and investor relations (IR). It was on the list of 'tops' by Institutional Investor — Euromoney.

However, in early 2020, a letter from its manager corporation Squadra triggered a series of events and discoveries about the company's numbers. The house of cards collapsed. The company even republished its 2019 Management Report, now without all the CSR and socio-environmental emphasis, using the space to explain accounting fraud and serious flaws in its corporate governance structure. From then on, IRB ceased to be seen as a model of privatization, growth, and management. Since going public (July 28, 2017) to March 31, 2023, the company lost 90.1% in value, destroying more than BRL 10 billion in market value. Everything there was about regulation and scientific evidence about corporate governance was easily set aside by the bad faith of a few managers. Among the many possible causes is a compensation policy with misaligned incentives and ineffective monitoring bodies. Again, the problem was not a lack of scientific knowledge.

Another recent and equally scandalous case is that of Americanas. As one of the largest retail companies in Brazil, it disclosed a material fact on January 11, 2023 that surprised the market, informing that the company had detected inconsistencies in accounting entries that involved values close to BRL 20 billion in debts that were not registered on its balance sheet, in addition to the resignation of its chief executive officers (CEO) and investor relations officers (IR). The following day, the company's shares dropped an incredible 77.3% on the stock exchange. There were around BRL 8.4 billion in value loss in a single day, in addition to the fear of default by around 16,300 creditors, to whom the company owed around BRL 43 billion.

It is yet another company listed on the *Novo Mercado* that engages in fraud. In this case, there are suspicions that the fraudulent practice was carried out for years, and there is evidence of similar fraud in other companies of the same controlling group of Americanas. The scandal involves 'drawn risk,' an advance payment operation offered by banks to companies that buy goods from a supplier and need a longer period for payment. As in many other cases involving fraud, some questions remain. Where was the company's fiscal committee? Why did the independent audit not identify these operations in such a high volume in an account relevant to the company? Where were the rating agencies? Why has no one been able to spot this fraud for years, but a new executive identified this within ten days at the company?

After the publication of the facts, it seemed that everything was on display, but no one noticed. It was noted that the company's own executives sold more than BRL 200 million in shares in the second half of 2022. The very banks that financed the drawn-risk operations started legal battles against the company but were accused of knowing the operations and risks involved. Bradesco went to court and managed to block the assets of the five company's fiscal committee members until clarifying their responsibilities in the case. Two credit risk rating agencies cut Americanas' global credit ratings, Moody's from Ba2 to Caa3, and S&P from B to D, which, in practice, means that it moved from the position of good payer to the condition of higher risk of insolvency.

Is there any difference between the cited cases and the famous corporate scandals outside Brazil in the 1990s and 2000s? For example, Barings in the 1990s and Enron in the 2000s. I think there are more similarities than differences. And it did not stop there. In the following decade, we saw the Brazilian cases of Petrobras and OGX Petróleo. However, after scandals emerge, researchers and regulators usually promote advances in studies and regulation. So why can these advances fail to prevent such problems from continuing to arise? Its causes and possible solutions are already known.

Most common among these cases is the moral hazard of the professionals involved. According to Martins et al. (2005), although being a member of a company's board of directors and fiscal committee allows greater control over the executive's decisions, professionals on these boards may not be qualified to exercise these attributions. This can become the root of most of the company's management problems, most often resulting from abuse of power by the controlling shareholder over minority shareholders or by the board over shareholders and third parties.

Both society and the corporate world are constantly changing. Concerning company stakeholders, whether managers, shareholders, creditors, customers, or other interested parties, their levels of engagement in relation to company practices have modified the current business environment. Thus, studies on environmental, social, and governance (ESG) practices became timely and dominant, especially given the unprecedented levels of proactive involvement of different stakeholders, which leads their interests and expectations to be increasingly considered. This goes beyond theoretical discourse about being 'good for the planet' or sticking to 'social and philanthropic causes.' In practice, the aim is to respond to the different stakeholders' expectations of value creation.

As part of the market shift, incentives are created by facilitating funding for companies that excel in ESG practices. In 2021, BlackRock, the world's largest asset manager, announced drastic changes in its investment policies, removing companies classified as polluting from its portfolio. Also in 2021, Natura Cosméticos S.A. issued a debt bond linked to environmental objectives of reducing greenhouse gas emissions and recycling plastic products, which allowed the company to reduce the cost of raising debt from 5.375% to 4.125%. In 2022, the Brazilian National Development Bank (BNDES) informed in a letter to the market that socio-environmental and governance criteria would permeate the bank's development strategy.

As a result, many companies have invested in ESG practices to differentiate themselves in the market and be seen as companies committed to sustainability. However, in the theoretical field, the benefits and costs of ESG practices are clear. In the practical field, stakeholders' interests are not exactly aligned with expectations. One example is the practice of greenwashing, when companies disseminate the idea of being sustainable in products and services while their practices do not create value in terms of ESG.

Despite the growing number of studies on ESG practices and the identification of greenwashing, there is still a great misalignment between existing evidence in the literature and effective practices. The dissemination of distorted information, endowed with untruths, omissions, or exaggeration, is recurrent. Stating that you have environmental, social, and governance concerns is different from showing what you are doing. Therefore, some research findings are far from the companies' practices, especially because there is significant ambiguity about which practices are favorable to the ESG agenda and which are just 'coverups.'

Some cases gained visibility in Brazil. The Proteste Associação de Cosumidores (a consumer protection organization) denounced the company Bombril for environmental coverup as its product packaging stated that it was a '100% ecological product' when it was not. Fiat was accused of a 'hidden trade' practice when it promoted a range of tires as 'super green,' promising a sustainable technology for low fuel consumption and high durability but disregarding what would come in return (stimulus to pollution by increased use of tires and the lack of clarity regarding disposal and reuse). Another famous case involved the automakers Ford and GM, which disclosed false attributes of their cars, giving the idea of sustainability. Information about Ford's Fusion EcoBoost and GM's Chevrolet ECO line was false, as some vehicles were rated at fuel consumption level D (on a scale from A to E).

FINAL CONSIDERATIONS

Is our research really causing the expected impact on society?

Are practitioners in the corporate world using research findings properly?

What explains the persisting fraud and errors if scientific knowledge on a related topic has advanced?

Should we consider that theory has drifted far from practice? Or is it practice that disregards advances in theory?

If you've come this far expecting answers, you've forgotten how I began. I don't have them. But I offer my 'drop in the ocean' for reflection in this universe.

Many phenomena are observed indirectly in social sciences. This is the case with the quality of a company's corporate governance or the level of engagement of its owners and directors with the best ESG practices. As much as there are a variety of scores and ratings seeking to measure them, all need a proxy for qualitative components. Due to this variety of methods, it is not uncommon to observe conflicting empirical evidence in analyses of the same object. Even the evolution of the literature related to these themes brings changes, which are often not easy to be mapped and distinguished. However, disseminating and using knowledge in practice is easier when there is an approximation of the theoretical and practical worlds.

This is not unique to social science. Elliot et al. (2021) characterize this problem in the health area during the COVID-19 pandemic. For the authors, when there is a lot of evidence on a topic, especially when there is knowledge evolution and a flood of new evidence, the lack of updated systematic reviews that organize the accumulated knowledge can disperse the decision-makers' attention, who tend to jump from one study to another. This confuses policy-making, fuels controversy and erodes trust in science. In any field of the social sciences, such as corporate governance, this clutter of evidence can lead market professionals to invest less time in applying the latest findings.

If practitioners present their demands more clearly and researchers develop targeted scientific evidence, the decision-making process in society is more efficient. We see less of a gap between theory and practice, especially in the corporate world. I emphasize that this is a two-way street. The market must be closer to academia to make this relationship more fruitful. In the end, the essence of this reflection may seem logical, but logic is often considered trivial and disregarded. For example, how can we explain the frequency of corporate scandals being motivated by factors about which we already have so much scientific evidence demonstrating that they can become problems for corporations?

Finally, I hope this text incites doubts and reflections on the impact and relevance of the research we have carried out in the corporate world, especially concerning the approximation between theory and practice.

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