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The Relationship of Corporate Governance and Firm Performance

Fazli Azim
SZABIST, Islamabad, Pakistan

Manzoor Ahmed Nasir Ali Zia u-Din
College of Business Administration King Saud University, Riyadh Saudi Arab

Abstract
This survey based research administered 300 questionnaires to the middle and top level managers of 130 Karachi Stock Exchange (KSE) listed firms. The questionnaire used in this study was designed to study the relationship between corporate governance structure and firm performance. The findings of this research shows that among corporate governance dimensions, "commitment to corporate governance" , "transparency and disclosure" and "Structure and function of Board" have the highest middle and lowest mean values respectively assigned by the sample studied. Further regression analysis showed that "commitment to corporate governance" , "transparency and disclosure" have significant positive relationship with firm performance. Finally study find that "Structure and function of Board" has positive with firm performance that is not statistically significant.
Keyword: corporate governance, firm performance, commitment to corporate governance and transparency and disclosure

1.1. Introduction

Corporate governance is an economic area, researching how to operate firms more effectively through such system arrangements as contract, organization plan, legislation and so on. In the light of entrust and agency theory, corporate governance is the outcome when ownership of modern corporations is divided from management. In modern corporations, ownership and operation section are separate, and owners can build up entrust and agency relationship with the management through sighing contracts, under which one person or more (i.e. Grantors) hide another person (i.e. agent) to represent them fulfilling some service, including handing over a part of decision making rights to the agents. (Jensen and Meckling, 1976) Corporate governance is originated from the existence of the following two problems: on the one hand, agency problem. Agency problem comes about because there are conflicts of interest between the parties concerned in the firm and shareholders and the management strives to seek for their own interests. On the other hand, trade cost. That is because contracts can't resolve all agency problems completely. Owing to the existence of trade cost, contracts signed between owners and the management can not possibly be one hundred percent, namely, any contract is not able to take all uncertain events to happen in the future into account, as a result, the management is likely to conduct behaviors of opportunism (Shleifer and Vishny, 1997) .The investors therefore need to control the management's actions, stimulate and restrict them, and realize investors' interest optimum through setting up some mechanism. As a result, corporate governance is actually a series of mechanism to solve problems of interest conflicts and problems of incentives between investors and the management.

This research concentrates on listed firm's performances and its relationship with corporate governance structure after information Disclosure procedures of Securities and Exchange Commission of Pakistan (SECP) in 1999. The data for the research analysis of each section was collected through a questionnaire on various aspects of corporate governance and firm performances.

1.2. Objective of the research:

The objective of research is to study the relationship between corporate governance structure and firm performance. Firm performances are a variable to measure directly, and then we can directly study the relationship between corporate governance structure and firm performances. Black and Jang (2003) this research introduces significant relationship between corporate governance and firm performances by getting responses through survey based questionnaire.

1.3. Problem Identification

It is comprised of External Control Mechanism and Internal Control Mechanism (Fama, 1980; Fama and Jensen, 1983; Shleifer and Vishny, 1986; Jensen, 1993). External Control Mechanism is to realize indirect control not only through competitive product market, capital market, manager market and firm's control right market, but also by laws and regulations and systems. In these external markets fierce competition brings extreme pressure on the management staff. If the firm does not run well, it will lose share in product market and lose its profits, and its stock price will fall in capital market and its financing cost will increase. And also in firm's control rights market the firm is likely to be taken over or merged by other firms, and the management staff's repute and future employment career will be badly influenced in the manager market. In addition, local laws and regulations and systems have restrained opportunism behavior of firm's internal staff in some extent, and protected legislative rights and interests of external investors. Internal Control Mechanism is a kind of direct control designed for supervision before events, that is, firm's top structure composed by relation among shareholders, the board of directors and the top management staff, such as the composition of the board of directors, design and setup of the auditing council, function of the independent directors, salary and reward plan for advanced management staff and so on. This type of system arrangement directly decides how decision rights are distributed and how entrusting operating mechanism is build up and how risks and interests are distributed among all persons concerned. Whether this type of system arrangement is rational or not is one of the most important elements determining the firm's performance and profits.

1.4. Problem Statement

Among corporate governance dimension "commitment to corporate governance" have a significant positive relationship with firm performance. The second class of hypotheses concerns Structure and Function of Board elevates firm performances. The third set of hypotheses deals that transparency and disclosure leads to firm performances.

According to the above research route, other parts of this research are arranged as follows:
Part 2, literature review, mainly introduces former theoretical explanation and empirical analysis on corporate governance and information disclosure, theoretical hypothesis. Part 3, empirical methodology, includes variable description, and model description. Data and information description, simply describes information source and sample selection. Part 4, empirical conclusion and its analysis, mainly analyzes and explains Regression models put forward in Part 3. Summary and conclusion of this research are discussed in part 5.

2.1. Literature Review

Efficient capital market theory produced by Fama (1970) establishes the basis of information hypothesis of stock price fluctuation and reveals the relation between stock prices and information as well. Efficient market hypothesis indicates that stock prices already reflect all available information completely and stock market is efficient to this information set in which nobody can gain economic profits by dealing. Efficient market hypothesis is further divided into three different types: weak form efficient market hypothesis, semi-strong form efficient market hypothesis and strong form efficient market hypothesis. Weak form efficient market hypothesis suggests that current security prices have fully reflected all information obtained from data of market deals, including past prices, volume, uncovered contracts, etc. Semi-strong form efficient market hypothesis indicates that all publicized information has been expressed in security prices comprised of stock prices, volume, accounting data, operation of rivals, entire national economic data and all other public information concerning corporations' value. And strong form efficient market hypothesis suggests that all information, both public and private, is consisted in stock prices.

Brown and Caylor (2004) made hypothesis in his research that there is positive relationship between corporate governance and firm performance. They have examined eight categories underlying Gov-Score are most highly associated with firm performance and they found out that better-governed firms are relatively more profitable, more valuable, and pay out more cash to their shareholders.

The relationship between information and stock prices proves the existence of the information transmitting mechanism in the stock market. Transmission of information brings about changes of stock prices, which implies that corporations are able to affect their stock prices by controlling information disclosure. In an efficient market, stock prices reflect corporations' real value and they only change when new information regarding the future cash flows comes about (Fama 1970, 1991). Hew, Skerratt, Strong and Walker (1996) emphasized remarkable effect accounting information has on stock prices in their empirical analysis. But the primary shortcoming of accounting information lies in its prearranged time for disclosure and information changes easily to anticipate, while other randomly-arriving and unanticipated information, including sell-side analysts, directors' trades, corporation merging, dividends distribution, etc, more likely leads to price fluctuation of large range (Kim and Verrecchia, 1991).

On the other hand, empirical researches on information disclosure behavior provide evidence that the corporations do not always disclose price-sensitive information immediately and completely. Lev and Penman (1990) showed that US corporations are more likely to disclose good news than bad ones in respect of earnings forecast. Conversely, Skinner (1994) found that firms are more likely to release bad news instead of good ones, as a result of asymmetric loss function due to litigation risk. In the UK, Collett (2004) provided evidence that expected profits announced by listed corporations exceed actual profit attained by 50%. Dedman and Lin (2002) found only half of their sample of CEO departure was reported to the Regulatory News Service, even though this is price-sensitive information, which stock prices respond to after disclosure by the finance press. Additionally, they found obvious intent of voluntary disclosure in smaller firms. Using a new methodology, Ryan and Taffler (2004) computed the largest price movements for a sample of FTSE 100 and FTSE MID-250 corporations in 1994 and 1995, and then attempted to explain these changes by either announcements to the Regulatory News Service or press release relating to this corporation. They found that only 65% of major share price movements could be explained by obtained information. By disaggregating this number, 82% of price movements of FTSE 100 corporations are explained, while this is true of 56% for smaller MID-250 firms. The study further confirmed that corporations are more likely to disclose good news than bad ones, with 55% of stock price movements positive, and analysts' reports function most in all event categories. Even without any other observable events or announcements, an analysts' recommendation has a significant impact on share price. Holland (1998) presents evidence that financial institution value disclosure and sees it as part of the governance process. Where companies are perceived as weak in certain areas, financial institution will step in and encourage them to improve their governance structure. This would suggest a potential link between disclosure behavior and the governance structure of the firm.

Agency theory put forward by Jensen and Meckling (1976) provides a framework for analyzing corporate governance structure and information disclosure. Introduction of corporate governance structure is to solve the principal agent problem in corporate operation and ensure maximizing shareholders value. According to agency theory, good corporate governance structure can strengthen internal control decreasing opportunism and asymmetric information and therefore improve information disclosure. Meanwhile this surely enhances full-coverage and high quality of information disclosed through supervising operators' opposite behavior in their own sake.

In the same article, Jensen and Meckling (1976) suggested management stock ownership as internal stimulation mechanism to solve the agency problem. Corporate managers with high proportional ownership work more efficiently to increase their company's value and own profit, instead of adverse behavior. In opposite situation, shareholders have to reinforce supervision to free management bringing out supervision cost. Therefore shareholders, with reasonable anticipation will cut the same sum of payment to managers or accordingly low their purchasing price of stocks so as to transfer all cost back to management. In turn the management willingly discloses information to obtain shareholders' trust and reduce supervision cost. Morck (1988) verified that management, holding high proportion of shares, tend to dismiss less information to gain benefit for themselves in cost of common shareholders, for they have enough voting right to appoint CEO and members and chairman of the board. Ruland et al. (1990) suggested in research that information disclosure of profit anticipation is positively correlated to external ownership, which indicated that more proportional is external ownership, more willingly management forecast profits.

Berle and Means (1932) argues that disperse ownership of modern large corporations leads to that firm's control right pools in the hand of managers. And the interest of the management and the interest of shareholders are not necessary identical, as a result, dispersed ownership is likely to induce the firm's management staff to seek for private interests instead of to optimize shareholders' value. In the traditional agency problem, the management, for their own good, has the opportunism incentive and ability to conduct behavior not good for owners' interests and profits. In order to regulate the management's behavior, owners can evaluate performance and results of the management according to accounting indexes and stock prices, and can restrict behavior of the management by contracts to require the management to conduct to the principle of optimizing owners' rights and interests. But the management may relieve these restrictions or avoid supervision when facing them by means of falsifying accounting reports, lowering accounting information quality and so on. Empirical accounting theory research advises to test the influence that contract form has on surplus controlling behavior of the management staff. Healy (1985) discusses that in the nonlinear phenomenon of annual bonus plan, how the managing staff control the firm's earnings to maximize the present value of their own rewards, and its focus is on separating existed surplus managing. Surplus managing behavior can make the wealth redistribute among all the parties concerned in contracts, even can bring new interest conflicts among them. Besides, too much surplus managing behavior is easy to change into such illegal conducts as embezzlement, fraud, insider dealings as so on, which results in universal attention on manipulating surplus issue in recent years.

Relative literature of Watts and Zimmerman (1986) indicates that the management rewards contracts can relieve entrust and agency conflicts, but at the same time give birth to incentives of the management to manipulate profits. Simultaneously, accounting information asymmetric distribution between shareholders and the management gives the management chance to manipulate surplus data. Just as pointed out by Watts and Zimmerman (1986), 'if contracts and supervision cost still exist, the management's behavior of manipulating accounting can be removed completely'. Because asymmetric accounting information is the inevitable result of entrust and agency relationship, and to maximize their own interest, the management has both incentive and ability to control the earnings number in the accounting reports through mastering reporting method themselves to develop in favor of themselves. In addition, conformation foundation of modern financial accounting is accrual basis, under which earnings data is rather elastic, providing the management some space to regulate earnings. Last but not least, uncritical supervision is external objective condition that makes surplus managing flood so. Healy and Wahlen (1999) points out in a review that 'when the management authority utilizes judgments to adjust accounting reports in planning dealings and reporting, in order to mislead some concerned parties' view on the firm's internal economic performance or affect contract sequence depending on reported accounting numbers, then surplus managing comes into being.

Chirinko, Ees, Garretsen and Sterken (1999) have examined firm performance, financial institutions and corporate governance in the Netherlands. They found out that there is a significant positive relationship between share ownership by insurance companies and pension funds and the probability of networking.

Brown and Caylor (2008) have examined relationship between Corporate governance and firm operating performance. They found out that the governance provisions recently mandated by the U.S. stock exchanges and are less closely linked to firm operating performance than are those not so mandated.

The appearance of the managerial ownership induces the interest of the management and the interest of shareholders to become unified, which is good for reducing agency cost. However, what influence will this governance mechanism have on the quality of accounting information? And is there any relation between the proportion of the managerial ownership and the quality of accounting information? Warfield, Wild and Wild (1995) find that managerial ownership is related to the quality of accounting information and it is correlative with the level of adjusting accounting earnings. Research of Yeo, Tan, Ho and Chen (2002) indicates the quality of profits doesn't always increase with the proportion of managerial ownership, and when the proportion of managerial ownership is at rather low level, the quality of accounting information (at any accounting level) is positively correlated to the proportion of managerial ownership. However, when the proportion of managerial ownership is at much higher level, this relationship is reversed. Limpaphayom (2002) testifies in his research the correlation of managerial ownership and the accounting information quality in the new booming markets. Different from research conclusion of developed markets, the proportion of managerial ownership is negatively related to the accounting information quality in new booming markets. Nevertheless, in financial crisis, the proportion of managerial ownership is positively related to the accounting information quality, which originates from influence of the hypothesis that loaners supervise more, small shareholders are protected and the management anticipates less intervention in the future. In addition, it is found that the proportion of managerial ownership is in the positive correlation with the level of controlling profits, which is in accordance with the view that ownership structure influences the accounting information quality.

Shleifer and Vishny (1997) conclude in their summary that 'when the largest shareholder almost owns the firm's whole control rights, they are inclined to make private profits through control rights, which can't be shared by minority shareholders'. Similar to this, Grossman and Hart (1988) remarks that the firm, with large shareholders of high ownership in existence, will emerge control right profits. Some recent researches, such as Zingales (1994) and Nenova (2003), gradually start to directly analyze this plundering problem under the frame of controlling shareholder and minority shareholder's agency theory. Private income inspires insiders, with control rights, to have the incentive of controlling profits, because if outsiders are exactly aware of the existence of these control right private income, they are likely to fight against insiders robbing private interests by legal accusation or 'vote by foot' (Zingales, 1994; Shleifer and Vishny, 1997). As a result, the management and the controlling shareholder, with the aim to decorate firms' real performance and to hide their control right private interests to outsiders at most, so have strong incentive to manage earnings.

Hossain et al. (1994) found that degree of voluntary disclosure is negatively related to concentration of shares. But Mitchell et al. (1995) and Raffournier (1995) indicated in their articles that the negative relation between ownership concentration and voluntary disclosure is not significant. Shleifer and Vishny (1997) considered that when corporate shares distribute extremely, conflict of top management and shareholders translated into that of controlling shareholder and most common shareholders. El-Gazzar (1998) suggested institute investors holding shares require corporations releasing more information. In agency theory, corporations with decentralized shares are inclined to disclosure more information reducing agent cost and asymmetric information. Schadewitz et al. (1998), in use of midterm reports of Finland corporations, found that level of voluntary disclosed information is negatively correlated to share proportion of institute investors. Eng and Mak (2003) sampled 158 corporations in Singapore stock market and empirically verified that level of voluntary disclosed information correlates, negatively to share proportion held by top management, positively to share held by government and scarcely to that of controlling shareholder.

Board of directors is an important internal controlling mechanism overseeing top management and composition of board, which play a key role in deciding how well the board functions. Considering information dominance of top management, their dominance in board easily leads to the loss of shareholders' wealth, which will not exist after introduction of external independent directors. (Fama, Jensen 1983) Fama (1980) agued that independent directors could supervise decisions and behaviors of top management and the board and as well advise to strategic decisions made by the board, as a result improving operation and finance. And also more seats for independent directors make the board function better and restrict opportunism of management only to disclose information in time. (Fama, Jensen 1983) However, Molz (1988) tested that exist of independent directors has no significant effect on corporations' achievements. Schellenger et al. (1989) then suggested corporate finance result is positively correlated to the proportion of independent directors, which elevates corporation's market value. Rosensteinet et al. (1990) argue that independent directors are inclined to oversee the management's behavior and to encourage disclosing information to investors. Baysinger et al. (1990) summarized that independent directors can hardly get known of corporations well without sufficient information nor in result contribute to operating results, and meanwhile they can require top management observing compulsory disclosure to inform investors of work of the board. Forker (1992) suggested the boards with independent directors take more responsibility for investors and are more likely to observe information disclosure requirements. Thus quality and level of dismissed accounting information will improve, and so does transparence of the boards. Forker set up the hypothesis that if proportion of independent directors in the board is released in finance reports, quality of disclosed information improves. He tested the relativity between quality of disclosed information (defined by the content of share-distributing plan dismissed) and proportion of independent directors and results show they are positively correlated, but insignificant. And he explained that some corporations could have not disclosed their independent directors. SEHK (1996) argued that independent directors urge corporations to observe relative laws and policies of board of directors and to ensure accuracy of information disclosed by management. Chen and Jaggi (2000) argued that top management, whose policies will be supported, which results in weakened independence of these directors, possibly affects appointment of independent directors in family-controlled corporations and less information released to outer shareholders. With 85 corporations in Hong Kong stock market as research sample, they empirically analyzed the correlation between proportion of independent directors and level of finance information disclosed (excluding voluntary disclosure) and also whether family control has effect on this correlation. The result shows those two are positively correlated, that is corporations with high proportion of independent directors disclose information extensively and accurately. Their study revealed as well the above correlation is much more significant in non-family-controlled corporations, suggesting family control harms effect of independent directors on supervision. Recently Simon and Kar Shun Wong (2001) suggested an insignificantly positive correlation between proportion of independent directors and level of voluntary disclosed information, while Eng and Mak (2003) found it negative.

In agency theory, chairman, as representative of the board, has the relation of supervision to CEO. If the two positions integrate into one, indicating general manager supervised himself, the board will be controlled by top management. Molz (1988) suggested corporations, with one person assuming both chairman of board and general manager, are controlled by management more easily and tend to disclose no adverse information. Forker (1992) assumed one person for the two positions decreases the quality of supervision and information disclosed. And he empirically verified that quality of information disclosed by corporations with one CEO and chairman is inferior to others. Simon and Kar Shun Wong (2001) suggested that level of voluntary disclosure with one CEO and chairman is insignificant lower than others.

Peasnell, Pope and Young (2001), using firms in UK as sample, tests the relationship between effectiveness of the board's supervision on the management and earnings managing, and its result shows that external directors are helpful to reduce earnings managing activities of firms' management and further to ensure reality of accounting reports, and the independence of the board of directors is also key element in restricting earnings managing behaviors. Parallel to this result, Beasley (1996) uses firms in US as sample to test the relationship between the board's supervision and accounting report quality and finds that firms, with higher proportional external directors, have lower possibility of mendacious accounting information. Klein (2002) tests whether auditing council and features of the board are relative with firm's earnings managing, and her empirical result shows that the board structure is more independent from CEO, more effective the board supervises the firm's finance and accounting. These research results all suggest that the board governance mechanism influences earnings managing and then influences the level of accounting report quality. Shleifer and his colleagues find in their series of researches, such as Shleifer and Vishny (1997); La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000b), that the level of protecting minority shareholders is a crucial element in choosing the firm's policies, such as firm's financing, dividend policy, ownership structure and so on. In fact, the level of protecting investors also decides whether insiders control earnings or its level.

2.2. Theoretical Hypothesis

On the basis of above discussion, the hypotheses of this study are as follows.

H1: among corporate governance dimension "commitment to corporate governance" have a significant positive relationship with firm performance.

H2: The second class of hypotheses concerns Structure and Function of Board elevates firm performances

H3: The third set of hypotheses deals that transparency and disclosure leads to firm performances.

3. Methodology

3.1. Sample

300 structured questionnaires have been used to collect data from middle and top level manger in different sector of 180 companies which are listed in Karachi Stock Exchange (KSE). In consistent with prior research (Gompers, Ishii, and Metrick 2003), we constructed a governance score which is based on the level of compliance and used this score as a proxy for the strength of corporate governance in these listed companies.

The data was collected through a questionnaire on various aspects of corporate governance and firm performances. The respondents were top management of the listed companies and stock market' professionals who involved in the study and/or practice of corporate governance. The detailed Questionnaire is shown in Appendix 1.

3.2. Instrumentation

For this study, data was collected from respondent that are middle level manger and top management through questionnaire. The questionnaire reveals those issues of corporate governance and their impact on company performance. Five-point Likert scale was adopted for designing the questionnaire. The data collected were analyzed through data driven qualitative approach and also applied content analysis (Patton 2002).

3.3. Procedures

The study has collected responses through forming structured questionnaire. The structured questionnaire sought to measure issue of corporate governance and their impact on firm performance. The aim of research is to find the relationship between listed firms' performance and their governance structure after information disclosure procedure of SECP and listed firms in KSE. Other information about listed firm features, including shareholding structure, ownership concentration, directors' board structure etc, all comes from questionnaire. Information about Firm performance of listed firms is also important, which is divided into eight parts: Share market, Profitability, Productivity, Quality Product, Internal Process coordination, Personal activities coordination, Voluntarily Personnel rotation and Personal absenteeism.

3.4. Model description

This study mainly tests the influence of corporate governance on firm performance, in which independent variables include part of variables of corporate governance, such as commitment to corporate governance, structure and function of board, transparency and disclosure of firm. Dependent variables which is firm performance that includes Variables such as share market, profitability, productivity, quality product, internal process coordination, personal activities coordination, voluntarily personnel rotation and personal absenteeism.

3.5. Regression model:

Firm performance =

$$\beta_0 + \beta_1 Comitment\ \_to\ \_CorporateG\ overnance\ +$$
$$\beta_2 Structure\ \_and\ \_functionof\ Board$$
$$+\ \beta_3 Transperan\ cy\ \_and\ \_disclosure\ +\varepsilon$$

4. Results and Findings

Table 1: corporate governance dimensions

	N	Mean	Median
Commitment to Corporate Governance	301.00	2.21	1.67
Structure and Function of Board	301.00	1.72	1.60
Transparency and Disclosure	301.00	1.83	1.83

The Table 1 shows that among corporate governance dimensions, “commitment to corporate governance” has the highest mean value. This shows that commitment to corporate governance is the most important dimension of corporate governance among the sample studied and structure and function of board is the least important.

Table 2: Regression analysis: firm performance (dependent variable) and corporate governance (independent variable)

Statistics	Constant	Commitment to Corporate governance	Structure and function of Board	Transparency and disclosure	R^2	F-Statistic
Coefficient	3.11	.218	.127	.783	0.24	30.56
Standard error	(0.17)	(.023)	(.147)	(.186)		
t value	[17.94]	[9.397]	[.863]	[4.213]		
P-Value	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*

Notes:
Coefficient
Standard error in parenthesis
t value in Brackets
P-Value in italic

Table 2 present the result of regression analysis while taking firm performance as dependent variable and corporate governance as independent variable. This table shows that overall regression analysis is significant (i.e. R^2 =0.24; F= 30.56). The result presented in table 2 shows that commitment to corporate governance and transparency and disclosure have a significant positive relationship with firm performance. It means that with commitment to corporate governance increase in these corporate governance measures, the firm performance increase. This is consistent with findings of Chirinko, Ees, Garretsen and Sterken (1999) and Brown and Caylor (2008) which show that governance provisions recently mandated by the U.S. stock exchanges and are less closely linked to firm operating performance than are those not so mandated. This study also finds that Transparency and disclosure and Structure and function of Board has positive with firm performance but it is not statistically significant.

5. Discussion and Conclusion:

The aim of study is to show relationship between listed firms’ performance and their governance structure after information disclosure procedure of SECP and listed firms in KSE. The findings of this study show that in Pakistan corporate governance measure plays a major role for increasing the performance of listed firms. The result of this study shows that dimension of corporate governance, the participants assign highest value to “commitment corporate governance”. This supports to the previous findings that this dimension plays important role which means that the more “commitment to corporate governance” , the higher firm performance. The second highest mean value of corporate governance dimension is “structure and function of Board” and “Transparency and disclosure”. Further regression analysis was conducted to measure the relationship between dependent variable i.e. firm performance and independent variable i.e. corporate governance dimensions. The results shows that the “commitment to corporate governance” and “transparency and disclosure” have significant positive relationship with firm performance. This study supports the previous findings of the study that "commitment to corporate governance" and "transparency and disclosure" have the highest value and having the statistically significant relationship.

So conclusion of this study is that among the sample listed firms, corporate governance plays a significant role as invested by the questionnaire.

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Appendix 1:

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Commitment to Corporate Governance					
1	The company has a written corporate governance (CG) policy or manual that deals comprehensively with corporate governance issue.					
2.	The Corporate governance issues are discussed in the Annual report of the company.					
3.	The CG code or manual specify the major stakeholders, whose interests must be taken into account.					
4.	The CG policy or manual is easily available to the regulators and the general public in the case of a publicly listed company.					
5.	There is an identified officer of the company tasked with the responsibility of ensuring that the company follows their own CG policy or manual					
6.	Company has designated officer to ensure the compliance committee or other appropriate sub -committee of the Board.					
	Structure and Functioning of the Board					
7.	The Board has a sufficient number of independent directors.					
8.	The board members are qualified to discharge their duties.					
9.	Do they dedicate enough time.					
10.	The Board has a written code for the guidance of directors regarding their rights and duties, their prerogatives and responsibilities.					
11.	There is a Code of Ethics for the entire Corporation.					
12.	The Board has an Audit Committee, composed of in dependent directors, that chooses the external auditor, receives reports directly from the external auditor, oversees the work of the internal auditor, and makes sure that audit and Regulator's findings are duly and properly acted upon.					
13.	The Board have actively functioning committees or sub -committees (compliance, nomination, compensation, risk management), composed mainly of independent directors.					
14.	The Board is provided with all relevant information, within sufficient time for study and analysis, to enable directors to exercise their duties of guiding corporate strategy, monitoring performance and providing oversight to top management.					
15.	Board meetings are held according to a regular schedule, agendas prepared in advance, minutes prepared and approved.					
16.	The Board have a performance evaluation system to evaluate its own performance.					
	4. Transparency and Disclosure					
17.	An internationally recognized accounting and auditing system is in place.					
18.	The audit is performed by a recognized national/international firm.					
19.	The company publishes meaningful quarterly reports, containing segment reporting as well as results per share, consistent with IAS form. Is there a detailed analysis of any deviation from previously announced earnings, targets and strategic goals?					
20.	The Annual Report discuss the company's risk management system and its corporate governance practices.					
21.	The company's annual financial statement is published no later than 3 months and the quarterly report no later than 2 months after the end of the reporting period.					
22.	The company's Annual Report contains information on significant cross shareholdings (say 5% or more).					
23.	Conflicts of interest are fully revealed through a clear and well-established mechanism, approved by the regulatory authorities.					
24.	Conflicts of interest are disclosed due to the involvement of auditing firms in the provision of non -audit services to the company.					
25.	All financial analysts are treated equally regarding information dissemination (is there fair disclosure).					
26.	Regular analyst meetings are held (e.g. quarterly or semestrally).					
27.	This information, along with the financial calendar, is readily and regularly available.					
28.	This information, along with the financial calendar, is readily and regularly put on the internet.					
		1	2	3	4	5
	Organizational Performance	In the three previously years: decreasing evolution	Weak rise in evolution	Neutral No Change	Rising evolution	Strong rise in evolution
1.	Share market					
2.	Profitability					
3.	Productivity					
4.	Quality Product					
5.	Internal Process coordination					
6.	Personal activities coordination					
7.	Voluntarily Personnel rotation					
8.	Personal absenteeism					