

AKUNTABILITAS

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Kata kunci

Corporate Governance and Firm Performance of Listed Companies in New Zealand

Fitriya¹, Abdul Basyith²

Diterima 16 April 2012, Disetujui 20 Juli 2012

Abstract

This article entitled "Corporate Governance and Firm Performance of Listed Companies in New Zealand" is based on the research conducted by Fitriya and Abdul Basyith.

There has been a wealth of literature published in recent times regarding the effect of various corporate governance on firm performance. A good corporate framework can benefit the firm with easier financing, lower costs of capital, improve stakeholder favor, and overall better company performance, therefore in this study, an analysis of corporate governance factors and firm performance measures for the period 2007 to 2009 are examined. The aim of this study is to explore the corporate governance practices on company financial performance, as measured by Tobin's Q, return on assets (ROA) and operating income (OPINC). OLS regressions is used to find the presence of a good corporate governance toward firm performance. The findings reveal that only three independent variables (i.e. the proportion of non executive directors in board, the presence of an audit committee and the presence of a remuneration committee) were found to have significant impact on Tobin's. In addition, four independent variables were found to have significant impact on ROA and OPINC but for audit committee. In conclusion that only the proportion of non executive directors is significant for all performance measures.

Keywords: *Corporate governance, firm performance*

Abstrak:

Artikel ini berjudul "Tata Kelola Perusahaan dan Kinerja Keuangan pada Perusahaan Publik di Selandia Baru" berdasarkan penelitian yang dilakukan oleh Fitriya dan Abdul Basyith.

Ada banyak literature yang telah di publikasikan baru-baru ini yang menyangkut efek dari tata kelola perusahaan terhadap kinerja keuangan. Sebuah kerangka kerja perusahaan yang baik dapat menguntungkan perusahaan dengan pembiayaan lebih mudah, biaya modal yang rendah, peningkatan kepuasan pemegang saham, dan kinerja perusahaan secara keseluruhan yang lebih baik, oleh karena itu dalam penelitian ini, analisis faktor tata kelola perusahaan dan ukuran kinerja perusahaan untuk periode 2007 hingga 2009 akan di teliti . Tujuan dari penelitian ini adalah untuk mengeksplorasi dampak praktek tata kelola perusahaan terhadap kinerja keuangan perusahaan, yang diukur dengan Tobins Q, return on asset (ROA) dan laba operasi (OPINC). Regresi OLS digunakan untuk menemukan adanya pengaruh tata kelola perusahaan yang baik terhadap kinerja perusahaan. Hasil penelitian menunjukkan bahwa hanya tiga variabel independen (yaitu proporsi direktur eksekutif non independen, kehadiran komite audit dan kehadiran komite remunerasi) yang ditemukan memiliki dampak signifikan pada Tobins Q. Selain itu, empat variabel independen (yaitu proporsi jumlah dewan direksi, direktur eksekutif non independen, kehadiran direktur perempuan dan komite audit) yang ditemukan memiliki dampak yang signifikan terhadap ROA dan OPINC tapi tidak untuk komite audit. Sebagai kesimpulan bahwa hanya proporsi direktur non eksekutif yang signifikan untuk semua ukuran kinerja.

Kata kunci: *Corporate governance, firm performance*

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INTRODUCTION

As far back as 1932, Berle and Means in their book, *The Modern Corporation and Private Property*, drew attention to possible conflicts of interest as the ownership of a firm's capital is held by dispersed small shareholders, yet controlled by the concentrated direction of a few managers. They discuss agency theory and discuss methods that can be used to limit problems identified by the separation of ownership and control. In general, agency theory assumes that managers are utility maximisers and opportunist self-seekers (Jensen and Meckling, 1976; Fama and Jensen, 1983). Because of this, mechanisms that can align the interests of the managers with the owners, who are referred to as principals, are believed to help create and increase shareholder wealth.

The term corporate governance has been coined to address the issue of aligning the interests of shareholders and management by the use of regulations and methods within management to encourage accountability and verify management's performance. Many definitions have been given to corporate governance. According to Abor and Adjasi (2007) corporate governance describes how companies ought to be run, directed and controlled. To Courtier and Loughrey (2010), governance means to define expectations, delegate authority, verify performance, and provide accountability. It has also been defined by Denis and McConnell (2003) as the set of mechanisms, both institutional and market-based, that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of

capital). According to the OECD (2004), corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders; it also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

It has been proposed by Claessens et al. (2002) that a good corporate framework can benefit the firm with easier financing, lower costs of capital, improve stakeholder favor, and overall better company performance. Related to corporate governance is the issue of stakeholder theory as it needs to be questioned whether a stakeholder in the firm should be represented on the board. Would such representation on the board be a factor of good governance, or would this create possible conflicts that would be bad for the company? It is generally felt that improved corporate governance can result in increased valuations as shareholders interpret improvements in this area as improving company performance, and corporate accountability which in time should result in business prosperity and increases in long-term shareholder value.

Mechanisms of governance and financial performance has tended to focus on internal and external mechanisms of governance that are believed to minimize agency costs. Internal governance mechanisms are things such as insider ownership, board size, committees, and the independence of the board. While external mechanisms refer to things such as block ownership.

Holderness et al. (2002) show that management ownership in the United States has grown over the last 60 years. Equity ownership can be used to align the

interests of management with those of shareholders. However, excessive insider ownership can result in entrenchment of management. Stulz (1988) first outlined a model in which low levels of management ownership through stock holdings resulted in a convergence of interests between shareholders and management which result in increased firm value. The model then suggests that with high levels of insider ownership entrenchment can occur which results in the blocking of takeovers and this result in a decrease in firm value.

Morck et al. (1988) measure performance of the firm as measured by the q-ratio and found inside ownership in the range of 0 to 5% resulted in increased performance. Between 5% and 25% performance dropped. However, above 25% performance increased slowly. Their study acknowledges that the direction of causality in the 0 to 5% range may be a result of other factors than inside ownership such as stock options issued by high-performance firms and the intangible assets that such firms have which may in fact be causing the increased performance.

With regards to New Zealand, Hossain et al. (2001) and Elayan et al. (2003) report a positive correlation between inside ownership and Tobin's Q. While more recent work by Gunasekarage et al. (2006) finds that there is a negative correlation between insider ownership and Tobin's Q when taking into account endogeneity of ownership in New Zealand's 50 largest firms. That study concluded that insider ownership for large firms in New Zealand is not an effective tool in aligning management and shareholder interests.

Lee, Lev, B & Yeo (2008) find that higher pay dispersion including the package, which contains managerial equity ownership, can improve firm performance

by mitigating agency problem. Positive relationship is found in the study conducted by Chiang between the management ownership and the return on equity (2005). Yousef & Mohammed (2006) suggest that there is no significant relationship between managerial ownership and risk-taking and firm performance. They further point out that managerial ownership can provide outside shareholders to monitor in a secured and convenient manner against any reckless decisions. However, it does not necessarily mean the managers will act more efficiently to improve firm performance.

Blockholders reseachs

Both, Shleifer and Vishny (1986), and Morck et al. (1988) show that amongst large American firms, there is generally a modest concentration of ownership. La Porta et al. (1998) concludes that in markets with good legal protection of minority shareholders the equity markets are broader and more valuable, in large part because management is more accountable to shareholders, in part due to ownership incentives, such as stock ownership, and in part because single large ownership is less likely. When there is a large stakeholder, management usually becomes less accountable to shareholders, but more accountable to the large controlling stakeholder who will have considerable control over the firm in excess of the cash flow rights. This may reduce the incentive to expropriate funds but does not eliminate it. La Porta et al. (1998) suggests that widely held corporations can be expected to be more common in countries where there exists healthy legal protection of minority shareholders. La Porta et al. (1999) finds that after studying shareholder distribution in 27 wealthy economies, firms are generally not widely held, except in a few countries where shareholder protection is good. Board independence research has been done by Bhagat and Black (2002) study whether the degree of board independence (proxied

by the fraction of independent directors minus the fraction of inside directors on a company's board) correlates with various measures of the long-term performance of large American firms. They concluded that firms with more independent boards do not perform better than other firms. Prassanna (2006) investigates whether the board independence has any influence in maximizing the firm value. However, the empirical analysis did not produce evidence to confirm this relationship between independent board and value maximization. Setia-Atmaja (2010) finds a relationship between board independence, dividends, and debt in countries with strong legal shareholder protection. Specifically, the study finds that a higher proportion of independent directors influences a firm's dividend policy and as a result complementary governance mechanisms.

Hartzell and Starks (2003) report that institutional investor ownership is positively related to the performance sensitivity of managerial compensation. Thus, institutional investors monitoring tends to be complementary to incentive compensation systems, both mitigating agency problems between shareholders and managers.

The role of outside directors in the past emphasized teamwork and environment without conflict. However, a new style monitoring board, where independent, criticism and skeptical views are more prevalent for the benefit of shareholders. Independent directors who are lack of family connections, a regular stream of income other than the directors' fee, become less motivated in monitoring the firm seriously. An empirical study conducted by Langevoort (2001) suggests that there is a danger to over-independence. The outcome of less effective board can possibly attributable to a reduction in trust among the board that may create adverse

relationship and more complicated or less useful agendas and debates.

Australian firms having a majority of outside board directors in the study by Bonn shows that outside directors are positively related to the firm performance, as outside directors may give priority to shareholders rather than other stakeholders in terms of company efficiency and maximization of shareholders' wealth. Under the market-oriented system, the threat from being removal through takeover can be a means to discipline and monitor the corporation (2004).

It has been considered that outside directors are independent and more able to protect shareholders' interest. Schnake concludes that there is no significant relationship between the proportion of outside directors and the reduction in the firms being investigated in a sample of 181 financial firms (2008).

Mak and Kusnadi (2005) examine the impact of corporate governance mechanisms on the firm value of Singapore and Malaysia firms, measured by Tobin's Q. They found that there is an inverse relationship between board size and firm value in both countries. They conclude that in addition to large boards generally costing more in terms of directors' remuneration (which has a direct impact on firm value), large boards may be indicative of a tendency of boards to add directors rather than to replace directors. Similarly, a negative but insignificant relationship between board size and operating performance is noted in the sample of companies listed in Taiwan by Chiang (2005).

A sample of Australian firms which are mainly small-sized shows that the board size does not have influence on the firm performance (Bonn, 2004). The views can

be conflicting: a large size of board may hinder communication, cohesiveness and coordination whereas a small board cannot fully utilise the pool of expertise and knowledge as the large board normally does.

However, using a sample of 181 financial firms listed in the US during 1999 to 2003, Schnake finds that there is an association between the small boards and firm value, as small boards may tend to monitor the firm's behaviour effectively and be easily coordinated (2008).

Debt appears to have two positive influences on governance. First, debt holders take on some function of monitoring (see Jensen, 1986; Begley and Feltham, 1999). And second, because debt financing reduces the need for sales of shares to raise capital, voting rights remain concentrated in the hands of existing shareholders. As a result, debt makes managers more accountable for consistent performance. Berger et al. (1997) found evidence that firms with entrenched CEOs tend to have lower levels of debt and boards with few outside directors. Also, firms run by entrenched CEOs also have small blockholders.

Too much debt can be both positive and negative. It can act as a defense against takeovers (Begley and Feltham, 1999). While excessive debt may lead to larger risk-taking in order to fund debt servicing. Recent work by Gunasekarage et al. (2006) reports that New Zealand firms generally have a debt to assets ratio of 48% which suggests that holders are acting as an external source of management accountability which should act as a positive influence on firm performance.

Dividends reduce the amount of cash available for management to use for purposes other than maximizing firm

performance (Jensen, 1986). As a result, dividends can be interpreted as acting as a tool in reducing agency problems. Corporate governance policies that seek consistent dividend discipline may be developed to avoid disciplinary action by shareholders (Myers, 2000). Brav et al. (2005) reveal as a result of their survey that financial executives generally treat dividend levels on par with investment decisions and target conservative dividend payout ratios. Further 90% of executives feel reducing dividends have negative consequences in the form of shareholder accountability through the reduction of the firm's stock price in the market. As a result, in New Zealand one may expect dividend policy is a signal used by capital markets in monitoring and enforcing good corporate governance and subsequently firm performance.

Felo et al. (2003) empirically examined the relationship between expertise, independence and size of the audit committees and the quality of financial reporting. They found that expertise and size are positively related to financial reporting quality, however, is not related to the committee's independence. They state that given the prior evidence of a negative relationship between financial reporting quality and cost of capital, firms could improve their reporting quality by appropriately structuring their audit committees, thus reducing their cost of capital. Reddy et al. (2010b) examined the relationship between the presence of an audit committee and a company's financial performance; however, it is not statistically significant indicating that audit committees do not enhance performance.

The presence of audit committees in public corporate entities, have a positive effect on reducing agency cost when measured by Cost to Revenue (Reddy et

al., 2010a). Weir and Laing (2000) found that market returns are higher if firms have a remuneration committee but this is not reflected in the return on assets (ROA). Thus, they state that the choice of performance measure has important implications for understanding the impact of governance structures. Reddy et al. (2010b) examined the relationship between the existence of a remuneration committee and a company's financial performance. They found a positive effect of firm performance measured by Tobin's Q, Market to Book and return on assets (ROA). Reddy et al. (2010a) found that the existence of a remuneration committee has a positive effect on public corporate entities' performance when measured by Sales to Total Assets.

An event study conducted by Campbell and Vera (2010) on non-financial firms listed in Spain during 1995 and 2000 found that female board appointment received positive market reaction and can add value to the firm over a substantial period of time. Nielsen and Huse (2010) conducted a study in Norway tried to explain the effect brought by women directors to board effectiveness. The result is differential depending on the nature of tasks and mediated through the board process, which can enhance the board effectiveness in terms of strategic and operational processes. It is suggested that in certain specific roles or situations, the leadership style of women directors may be different from those of men. Specifically, there are positive direct relationship between women directors and board strategic control.

The proportion of female directors in Australia is below 5% (only 4.79%) has shown a positive association between the ratio of female directors and the firm performance (Bonn, 2004). It can be possibly explained by appointment of female directors who possess exceptional attributes or qualifications.

This study tests a number of hypotheses to determine the relationship between various factors of governance with their effects on firm performance. The hypotheses of this study are:

- Hypothesis 1 : Insider ownership is positively associated with a company's financial performance
- Hypothesis 2: Blockholders will be positively associated with a company's financial performance
- Hypothesis 3: The proportion of non-executive/independent directors is positively associated with a company's financial performance
- Hypothesis 4: Board size is positively associated with a company's financial performance
- Hypothesis 5: Debt will be positively associated with a company's financial performance.
- Hypothesis 6: Dividend payouts will be positively associated with a company's financial performance.
- Hypothesis 7: The presence of an Audit Committee will be positively associated with a company's financial performance.
- Hypothesis 8: The presence of a Remuneration Committee will be positively associated with a company's financial performance.
- Hypothesis 9: The proportion of female directors/board size is positively associated with a company's financial performance.

METHODS

This study is based on the work of Reddy et al. (2010b). Their work covered the top forty companies from 1999 to 2002

and the top fifty companies from 2003 to 2007. This study includes all the companies (72) included in the NZX Deep Archive and covers the period 2007 to 2009 (see Data and Methodology). Further, board diversity (measured by the proportion of female directors) was included in the hypotheses as an independent variable. As a result of the empirical work presented here, the results provide more relevant information for analysis regarding factors of governance and firm performance.

The original sample used in this study includes 138 publicly listed New Zealand companies from NZX over a three-year period (from 2007 to 2009). We collect data from NZ Deep Archive database and generally rely on annual reports. Due to missing information, the effective sample size reduces to 72 firms. We analyse the companies during three-year period, therefore the sample includes 216 observations. In this study, we use both dependent and independent variables to address the effect that principle-based corporate governance practices have on the financial performance of publicly listed companies in New Zealand.

Dependent variables:

We employ three commonly used performance measures, Tobin's Q,

Operating Income (OPINC) and Return on Assets (ROA), as dependent variables for this study. Reddy K. et al (2008) define Tobin's Q as the sum of the market value of common equity, book value of long-term liabilities and book value of net short-term debt divided by the book value of total assets. The dependent variable is employed as a proxy for firm financial performance; a high score signifies a favorable performance (Reddy, et al., 2008). OPINC is determined by dividing Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) by total assets. A high score signifies a favorable performance (Reddy, et al., 2008). ROA is calculated by dividing income after tax by total assets. The score signifies a favorable performance (Reddy, et al., 2008). The ratio of market value to book value of assets (Mrk2Bk) is also used in our study. The values for all the dependent variables were obtained from the NZ Deep Archive database

Independent variables:

In this study, we use independent variables which are identified in prior research. The variables might influence firms' performance either positively or negatively (Reddy, et al., 2008). Basing on the research, we determine the independent variables as below:

Tabel 1. Model Summary^b

Independent variables	Abbreviation	Description
Board size	Log(BDS) ¹	The natural log of the total number of directors on the board.
Insider ownership	IOWN	The proportion of shares held by all members of the board of directors divided by total ordinary shares outstanding
Blockholding	BOWN	The proportion of shares held by the 20 largest shareholders of the company.
Non-executive directors	P_NED	The proportion of the non-executive/independent directors on the board.

Female directors	FD	The proportion of female directors on the board.
Leverage	LEV	The proportion of the debt defined as long-term liabilities plus short-term liabilities divided by the total assets.
Dividend	DIV2TA	The dollar amount of the dividend paid by the company divided by book value of the total assets.
Audit committee (dummy variable)	D_ACCOM	Set equal to 1 if companies have an audit committee, otherwise it is set equal to 0
Remuneration committee (dummy variable)	D_RCOM	Set equal to 1 if companies have a remuneration committee, otherwise it is set equal to 0.

Source: Reddy, K., Locke, S., Scrimgeour, F. & Gunasekarage, A. (2008). Corporate governance practices of small cap companies and their financial performance: An empirical study in New Zealand. *Int. J. Business Governance and Ethics*, 4 (1), 51-78.

Model

This research generally rely on the models and methodology which most of the literature uses to test the relationship between corporate governance factors and firm financial performance. Demsetz and Lehn (1985), Demsetz and Villalonga (2001) and Reddy et al. (2008) have argued that "Ownership is endogenously determined and this may have impacted the findings of the studies that have treated ownership

as exogenous" (Reddy, et al., 2008, p. 62). In this study also consider ownership as an "exogenous variable". The two ownership variables considered in this study are Insider Ownership (IOWN) and Block Ownership (BOWN). Basing on the prior studies, we employ an Ordinary Least Square (OLS) regression to establish if governance and control mechanisms have an effect on firm performance (Reddy, et al., 2008). The econometric model has three equations :

$$\text{Tobin's Q} = \alpha + \beta_1 \text{Log_BDS} + \beta_2 \text{IOWNP} + \beta_3 \text{BOWNP} + \beta_4 \text{P_NED} + \beta_5 \text{P_FD} + \beta_6 \text{LEV} + \beta_7 \text{D_ACCOM} + \beta_8 \text{R_RCOM} + e$$

$$\text{ROA} = \alpha + \beta_1 \text{Log_BDS} + \beta_2 \text{IOWNP} + \beta_3 \text{BOWNP} + \beta_4 \text{P_NED} + \beta_5 \text{P_FD} + \beta_6 \text{LEV} + \beta_7 \text{D_ACCOM} + \beta_8 \text{R_RCOM} + e$$

$$\text{OPINC} = \alpha + \beta_1 \text{Log_BDS} + \beta_2 \text{IOWNP} + \beta_3 \text{BOWNP} + \beta_4 \text{P_NED} + \beta_5 \text{P_FD} + \beta_6 \text{LEV} + \beta_7 \text{D_ACCOM} + \beta_8 \text{R_RCOM} + e$$

RESULTS AND DISCUSSIONS

Normaly Test

This research has conducted a normality test on all three regressions to have see if our data set is normally distributed. We shall look at the skewness, the kurtosis, and the Jarque-Bera test statistic. Skewness measures the extent to which a distribution is not symmetric about its mean value. A distribution that has negative skew or is

left-skewed indicates that the tail of the left side of the probability density function is longer than the right. Hence, the mass of the distribution is more concentrated on the right (Brooks,2008). Conversely, a distribution with a positive skew would have longer tails on the right side of the probability density function, as compared to the left and is more concentrated on the left. Such distribution can also be called a right-skewed distribution (Brooks, 2008). Kurtosis measures the "peakedness" of a

distribution. A normally distributed density function is said to be mesokurtic (Brooks, 2008). A high kurtosis distribution has a sharper peak, and longer, fatter tails. Such distribution is known to be leptokurtic (Brooks, 2008). On the other hand, a platykurtic distribution has a low kurtosis distribution, has a more rounded peak and shorter, thinner tails (Brooks, 2008).

The Jarque-Bera test takes both skewness and kurtosis into account, allowing us to identify if a distribution is normal or not. A normal distribution has a skewness coefficient of 0 and a kurtosis coefficient of 3. In other words, it is symmetric and mesokurtic.

Table 2 below shows the normality test results for all three dependent variables.

Tabel 2. Normality Test

	Q	ROA	OPINC
Skewness	2.1011	2.5668	1.6409
Kurtosis	7.0627	10.4954	5.3704
Jarque-Bera	291.8210	704.9850	139.9929
Probabillity	(0.0000)***	(0.0000)***	(0.0000)***
Adjusted R-Squared	0.0941	0.1285	0.4758
F-Statistic	3.3540	4.3425	21.5714
Prob(F-Statistic)	(0.000768)***	(0.000036)***	(0.0000)***

*** indicates significance at 1% level; ** indicates significance at the 5% level, * indicates significance at the 10% level

Based on our methodology mentioned above, we ran three multiple regressions for dependent variables, Tobin's Q, ROA and OPINC, with all three, carrying nine similar independent variables. Table 3 displays the main results from the regressions. The first row of every cell indicates the coefficients of each independent variable, the t-values and p-values are in parentheses and square brackets respectively.

Tobin's Q as Dependent Variable

From our results, we can see that non-executive directors, the dummy for audit committee and the dummy for remuneration

The Jarque-Bera test statistics for the three dependent variables are all highly significant from 0. Hence, they are all not normally distributed. Analysing the skewness coefficients and the kurtosis coefficients further confirms and gives us an idea of how each of the dependent variables is distributed.

The Tobin's Q is right-skewed, with a skewness coefficient of 2.1011 and it is leptokurtic, since the kurtosis coefficient is 7.067. ROA has a skewness coefficient of 2.5668 and a kurtosis coefficient of 10.4954. This indicates that the TOA is also right-skewed and leptokurtic. Among the three distributions, OPINC is skewed least to the right, and has the lowest peak, carrying a skewness and kurtosis coefficient of 1.6409 and 5.3704 respectively.

committee are significant. This indicates that these three independent variables partially influence Tobin's Q. The coefficient direction of the remuneration committee agrees with our hypothesis that the presence of a remuneration committee is positively associated with a company's financial performance. However, the other two significant variables - non-executive directors and the presence of an audit committee had opposing direction coefficients, disagreeing with our hypotheses aforementioned. Our results are different from the findings by Bonn (2004) for Australia and Reddy (2010a) respectively.

The remaining independent variables were found to be not significant in influencing Tobin's Q. Based on previous studies, we have hypothesized that the board size as well as the proportion of female directors are positively associated with a company's financial performance. Interesting enough, the coefficient of board size from our results was -0.5149, suggesting that board size is negatively associated with a firm's financial performance. This is consistent with the findings of Mak and Kusnadi (2005), Chiang (2005) and Schnake (2008). Similarly, the coefficient for the proportion of female directors present in the board seemed to disagree with our hypothesis, carrying a coefficient of -1.2132.

The coefficient for insider ownership is 0.0786 and the coefficient for dividend is 1.4337. In addition, we found 0.000 coefficients for both, block ownership and leverage. As we have fixed our test results to be in 4 d.p., coefficients less than 0.00004 are displayed as 0.0000. Though these results show positive coefficient directions, they are insignificant in influencing Tobin's Q.

ROA as Dependent Variable

This research now analyse the test results for our second regression for ROA. From the table, this study can see that the number of board of directors, proportion of non-executive directors, and proportion of female directors and presence of an audit committee are significant. The coefficients for board size, proportion of non-executive directors and presence of an audit committee are 0.0862, 0.2786 and 0.1811 respectively. These coefficients show that they are positively associated with ROA, supporting hypotheses 3, 4 and 7. As for the proportion of female directors, its coefficient is -0.3798, implying that the proportion of female directors is negatively affects ROA. Hence, we reject hypothesis 9.

Insider ownership, block ownership and dividends have coefficients of -0.0038, -0.0014, and -0.5315 respectively. Though these coefficients are insignificant, their negative direction would suggest that holding all else constant, an increase of each of these independent variables would subsequently decrease ROA. In contrast, the coefficients for leverage and the presence of a remuneration committee are positive, but are insignificant. The former, has a coefficient of 0.0000, just as it was in the case of our Tobin's Q regression and the latter has a coefficient of 0.0155.

OPINC as Dependent Variable

Finally, we analyze the regression outputs for OPINC. We can see that board size, proportion of non-executive directors, proportion of female directors and leverage are significant, mostly at 1% level. Board size has a coefficient of -0.8600 and the proportion of female directors has a coefficient of -2.1012. These two significant coefficients do not support our hypotheses that board size as well as the proportion of female directors is positively associated with a company's financial performance, which is OPINC, in this case. Further, this suggests that the results presented by Bonn (2004) for Australia do not hold in New Zealand.

The proportion of non- executive directors has a significant coefficient of 1.6471. Hence, this result agrees with hypothesis 3. It is the only independent variable that is significant in all three regressions we have tested. For this regression, leverage still displays a 0.0000 coefficient. Unlike previous regressions, this independent variable is now significant, implying that leverage does not, or has minimal effect on OPINC. This may put into question the suggestion by Gunasekarage et al. (2006) that New Zealand firms with debt are externally influenced and

as a result of increased management accountability firm performance should be positively influenced.

Amongst the insignificant variables are insider ownership and block ownership with coefficients, -0.0038 and -0.0123 respectively, suggesting negative effects that these two variables incur on OPINC.

The remaining independent variables (i.e. dividends, presence of audit committee, as well as presence of remuneration committee) have positive coefficients. These coefficients indicate that their direction moves in line with our theory. However, there is not enough evidence for us to conclude that they do influence a company's financial performance as the coefficients were found to be insignificant.

Tabel 3. Regression Output

	Q	ROA	OPINC
LOG_BDS_	-0.5149	0.0862	-0.8600
t-Statistic	(-1.5648)	(-1.6893)	(-3.4417)
Prob.	[-0.1192]	[0.0927]*	[0.0007]***
IOWNP	0.0786	-0.0038	-0.0038
t-Statistic	(-0.1692)	(-0.0526)	(-0.0106)
Prob.	[-0.8658]	[-0.9581]	[-0.9915]
BOWNP	0.0000	-0.0014	-0.0123
t-Statistic	(-0.0004)	(-0.2960)	(-0.5200)
Prob.	[-0.9997]	[-0.7675]	[-0.6036]
P_NED	-1.3929	0.2787	1.6471
t-Statistic	(-2.8200)	(-3.5299)	(-4.2616)
Prob.	[0.0053]***	[0.0005]***	[0.0000]***
P_FD	-1.2132	-0.3798	-2.1012
t-Statistic	(-1.1072)	(-2.2171)	(-2.5065)
Prob.	[-0.2696]	[0.0278]**	[0.013]**
LEVERAGE	0.0000	0.0000	0.0000
t-Statistic	(-1.4798)	(-0.2169)	(-11.955)
Prob.	[-0.1405]	[-0.8285]	[0.0000]***
DIV2TA	1.4337	-0.5315	0.3005
t-Statistic	(-0.6721)	(-1.5972)	(-0.1845)
Prob.	[-0.5023]	[-0.1118]	[-0.8538]
D_ACCOM	-1.8191	0.1811	0.8068
t-Statistic	(-2.7719)	-1.7629	(-1.6050)
Prob.	[0.0061]***	[0.0795]*	[-0.1101]
D_RCOM	0.8185	0.0155	0.1688
t-Statistic	(-2.8752)	(-0.3480)	(-0.7752)
Prob.	[0.0045]***	[-0.7282]	[-0.4391]
C	3.1792	0.3345	-0.0097
t-Statistic	(-4.3358)	(-2.8911)	(-0.0171)
Prob.	[0.0000]***	[0.0043]***	[-0.9864]

*** indicates significance at 1% level; ** indicates significance at the 5% level, * indicates significance at the 10% level

Table. 4: Correlation Matrix Coefficients for Tobins Q as Dependent Variable

Correlation Probability	LOG_BDS_	IOWNP	BOWNP	P_NED	P_FD	LEVERAGE	DIV2TA	D_ACCOM	D_RCOM
LOG_BDS_	1.0000								
IOWNP	0.0355 (0.6038)	1.0000							
BOWNP	0.0068 (0.9209)	0.0319 (0.6414)	1.0000						
P_NED	0.3089 (0.0000)***	-0.1628 (0.0166)**	0.0168 (0.8056)	1.0000					
P_FD	0.0765 (0.2627)	0.0485 (0.4784)	0.0427 (0.5321)	0.1431 (0.0355)**	1.0000				
LEVERAGE	-0.0288 (0.6742)	-0.1198 (0.0789)*	-0.0218 (0.7501)	-0.0221 (0.7467)	-0.1032 (0.1305)	1.0000			
DIV2TA	-0.4750 (0.0000)***	-0.0905 (0.1849)	0.1445 (0.0338)**	-0.0446 (0.5143)	0.0469 (0.4933)	0.0114 (0.8679)	1.0000		
D_ACC OM	0.1233 (0.0704)*	0.1138 (0.0952)*	0.0126 (0.8540)	-0.0601 (0.3796)	0.0070 (0.9190)	0.0388 (0.5704)	0.0492 (0.4723)	1.0000	
D_RCOM	0.2415 (0.0003)***	0.0551 (0.4203)	0.0734 (0.2826)	0.0921 (0.1775)	0.2340 (0.0005)***	0.1308 (0.0548)*	0.0116 (0.8656)	0.2085 (0.0021)***	1.0000

This table reports pairwise correlations between all the independent variables where *** indicates significance at 1% level; ** indicates significance at the 5% level, * indicates significance at the 10% level

Correlation Matrix

The table above presents a pairwise correlation matrix for the nine independent variables. This study found that almost all governance variables are positively correlated with each other. The only negative correlations among the governance variables were insider ownership and the proportion of non-executive directors, with a correlation coefficient of 0.1628 as well as the proportion of non-executive directors and the presence of an audit committee with a correlation coefficient of 0.0601.

In contrast, most of the correlation coefficients as in the case of the accounting measurements, (i.e. LEVERAGE and DIV2TA) were found to be negatively correlated with most of the independent variables. All the variables are negatively correlated with leverage. DIV2TA is positively correlated with block ownership, proportion of female directors, and leverage.

Among the correlation coefficients, the highest was between board size and proportion of non-executive directors at 0.3089. Since this correlation is relatively small, the probability of multicollinearity issues arising in the OLS regressions is rather low.

CONCLUSION

The aim of this study is to explore the corporate governance practices on company financial performance, as measured by Tobin's Q, return on assets (ROA) and operating income (OPINC). The findings reveal that only three

independent variables (i.e. the proportion of female directors in board, the presence of an audit committee and the presence of a remuneration committee) were found to have significant impact on Tobin's Q. In addition, the coefficients of insider ownership, block ownership, leverage, dividends and presence of remuneration committee were found to be positive.

As for ROA, four out of nine of the independent variables in this regression, namely board size, proportion of non-executive directors, proportion of female directors, and the presence of an audit committee were found to have significantly affect ROA. Further, we found that the coefficient of leverage in this regression was similar (up to 4 d.p.) to the Tobin's Q regression.

For OPINC, only four independent variables were found to be significant. We observed that leverage had 0.0000 coefficients in all three regressions, but was only significant in the last. Also, the coefficients for proportion of non-executive directors are significant in all three regressions and its coefficients for ROA and OPINC agree with our hypothesis.

In short, the coefficient for the presence of a remuneration committee is positively associated with Tobin's Q. We also found that board size, proportion of non-executive directors and the presence of an audit committee have a positive influence on ROA, altogether. As for OPINC, the coefficient of the proportion of non-executive directors seemed to agree with our hypothesis.

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