Corporate governance and multi-dimensional performance

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Abstract

Corporate governance is not a new concept although business researchers have only shown exponential interest dating back a few decades. The recent financial turmoil of global proportions has merited a revitalised interest as shareholders have seen their shareholding wealth tumble markedly. Management and the board of directors of companies have been accused of not doing much in safeguarding the interests of their shareholders. This study revisits the impact of some corporate governance variables on performance by extending the performance measures of previous studies; as extant empirical literature purveys contradicting results in both single and cross-country studies.

Data from seventeen OECD countries; sixteen of which are in the European Union and the other being the USA is utilised. These countries have similar or different legal origins and different levels of investor protection. In addition to the study of governance, an investigation is made of technical efficiency and productivity differences between the countries and the industrial sectors represented. This is achieved by using a bootstrap approach that enables better statistical inferences through data envelopment analysis techniques. This is to see if differences in corporate governance practices are related to differences in technical efficiency and productivity growth.

This study involves an extensive literature review of corporate governance codes and indices, narrowing down to a few of these governance characteristics used in preparing the governance index. These are: corporate shareholding concentration and type; board characteristics of size and composition; CEO-chairman separation, and; a firm's financial policy. The literature goes on to link these characteristics to performance, reviewing the performance measures traditionally used to evaluate the effects of corporate governance. A review of studies in investor protection is also given. The various control variables used in moderating the link between performance and governance are discussed. The concepts of technical efficiency and total factor productivity are explained into detail here and some results of previous studies that have sought to link these with corporate governance are reviewed. The governance characteristics are linked to investor protection and performance through the conceptual framework of positive agency theory and institutional theory.

In the empirical aspect, technical efficiency and productivity analyses are carried out. After the conventional univariate and bivariate analyses of the data, cross-sectional analyses are performed. Justification is then provided for performing pooled analysis, curtailing endogeneity problems. Pooling data gives rise to issues of panel heteroskedasticity and serial correlation. A Prais-Winsten cross-sectional time series transformation is utilised to eschew these problems. In the case of technical efficiency and total factor productivity, this method is inappropriate as the data is censored, so a bootstrapped truncated regression is utilised. In a section of the literature, the relationship between governance and valuation has been argued to be non-monotonic/non-linear. This study utilises piecewise linear and quadratic specifications to investigate this argument. Subsequently, the global model developed for this study is tested at the individual country levels. Finally, the link between corporate governance,

investor protection and valuation is investigated.
In general, there is support for most of the hypotheses of governance effects on performance except the influence of investor protection. Concentrating ownership leads to decreased market valuation but increased technical efficiency and mixed effects on profitability. Board size has a negative effect on most of the performance proxies but it exhibits a concave relationship with valuation. Separating the duties of the CEO and board chairman is of no import to firm performance. Board outsiders exert a positive impact on market valuation, a negative impact on technical efficiency and insignificant influences on the other performance measures. The number of governance codes introduced by a country has adjustment implications for firms as a negative influence on firm performance is observed.
In the light of these findings, a composite measure of performance is recommended while the theoretical framework that is used to examine governance and performance issues needs to be expanded to accommodate contrasting conceptual frameworks. The stakeholder approach is particularly encouraged as positive agency theory on its own will not fully explain why firms are governed the way they are and why the investment decisions of some shareholding categories are not wholly from a financial view point.