

Corporate Governance in Fiji

Corporate Governance Practices in Fiji: An Empirical Investigation

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Abstract

This study investigates the nature and extent of compliance to the principle-based corporate governance initiatives by the listed companies in the South Pacific Stock Exchange (SPSE) in Fiji. Three important questions are addressed: (i) whether listed companies in Fiji have complied with the principle-based governance practices: (ii) did compliance with principle-based recommendations lead to an improvement in the listed company's financial performance? and (iii) how the institutional factors have contributed towards corporate governance practices in Fiji?

Panel data for the SPSE companies over the period 2008-2010 are analysed using ordinary least squares (OLS) regression. Tobin's Q, Return on Assets (ROA), Return on Equity (ROE) and Earnings Before Interest, Tax, Depreciation and Amortisation to Total Revenue (EBITDA2REV) metrics are used as dependent variables. Findings indicate that listed companies have adopted the Capital Market Development Authority's (CMDA) recommendations, establishing subcommittees for audit and remuneration, and having non-executive/independent directors on the board. The result supports the view that the CMDA recommendations of board sub-committees (Audit and Remuneration) have had positive influence on company performance measured by Tobin's Q. The findings of this study give support to the principle-based corporate governance practices adopted in Fiji. The results of this study provide useful insights to both regulators and policy analysts (in Fiji and internationally) seeking to enhance both governance and firm performance in their own jurisdiction.

JEL Classification: G-3

Keywords: Corporate governance, Institutional theory, Board of directors, Managerial ownership, Block ownership

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1 Introduction

Large corporate failures at the beginning of the 21st century in Europe and America and the Asian financial crisis of 1997 have highlighted the importance of investor protection and good corporate governance practices. The corporate governance system refers to one of the means by which a nation channels corporate power for the good of society so that wealth is created efficiently and distributed fairly within a national economy (Monks, 2007). The financial crisis of 2007–2009 have also been attributed to the failures and weaknesses in corporate governance practices (Kirkpatrick, 2009). Some argue that boards' lack of monitoring and lack of understanding of the nature and impact of risks undertaken has caused the financial crisis (Kirkpatrick, 2009), while others argue that it is the result of the lack of shareholder monitoring (Icahn, 2009). However, the widespread concern is how boards and shareholders could let this happen and more specifically, why did the corporate governance system failed so massively.

As a consequence, the effectiveness of self-regulation has been increasingly questioned by both the academia as well as, markets and regulators (Bianchi, Ciavarella, Novembre, & Signoretti, 2010). The principle-based corporate governance guidelines have been adopted by a number of jurisdictions in both developed and emerging capital markets with a view to improve investor confidence. The principle-based corporate governance guidelines are a voluntary recommendation for good governance where listed companies are required to clearly state the reasons for non-compliance. The South Pacific Stock Exchange (hereafter SPSE) also adopted the principle-based corporate governance code in 2009 with a view to enhance investor participation and confidence in the capital market in Fiji. The SPSE listing rules Section 6.42 require all listed companies to comply with the corporate governance code as stipulated under the Reserve Bank of Fiji (hereafter RBF) corporate governance principles and reporting guidelines (SPSE, 2010). Given that Fiji has small size and small number of companies listed compared to other capital markets, it was believed that the flexibility provided by the principle-based approach will minimise compliance costs, as well as, encourage companies to adopt the spirit of the principles/code. The principle-based approach is a purely voluntary measure which requires companies to either 'comply' with the set

guidelines or ‘explain’ if deviating from those set guidelines. Therefore, it was assumed that the ‘comply or explain’ approach would ultimately lead to improved corporate governance practices in Fiji.

However, relatively scarce literature exists on the nature of compliance of listed companies to the corporate governance principles in Fiji. Also, little is known about the impact compliance to the corporate governance code has had on financial performance of companies listed in the SPSE. If the companies that did comply with the corporate governance code but did not improve financial performance, then the motivation for the shareholders’ to remain committed to voluntary recommendations becomes questionable.

This study investigates the nature and extent of compliance to the principal-based corporate governance initiatives by the listed companies in the South Pacific Stock Exchange in Fiji. This study attempts to address three important questions: (1) what is the extent to which listed companies in Fiji have complied with the principal-based recommendations; (2) did compliance with principal-based recommendations lead to an improvement in the listed company’s financial performance?; and (3) how the institutional factors have contributed towards governance practices in Fiji and in particular, to the companies listed in the SPSE.

2 Background

The Suva Stock Exchange was established in 1979 as a subsidiary of the Fiji Development Bank and in 2000 it was renamed the South Pacific Stock Exchange (SPSE) by the Fijian government with a view to provide a common marketplace for companies and organisations in the South Pacific region². Eleven years later it continues to list solely Fiji-based entities with no representation from any other member nations of the Pacific Islands Forum countries³. Only 18 companies were publicly listed in 2010 with a combined trading volume of only F\$2.7 million (SPSE, 2011). Evidence shows that market capitalization declined 10.06 percent in 2009 (F\$1,002 million in 2008 to F\$901 million) and figures for 2010 show the market capitalisation further declined by 13.68 percent to F\$778 million (SPSE, 2011).

² Include Cook Islands, Kiribati, Niue, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

³ Include Australia, Cook Islands, Fiji (suspended, May 2009), Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

In addition to the series of coup d'état that occurred in Fiji, myriad of other factors have also contributed to the slow recovery of the capital market in Fiji. Political instability, regulations protecting shareholder rights, in particular minority shareholder rights and the quality of corporate governance practices are some of the contributory factors. Other factors include: risk averse (small and mum/dad) investors tend to favour banks deposits to risky investments; less educated and unsophisticated investors; underdeveloped brokerage community; low level of interest from local and member countries business community; lack of clarity and understanding of the legislation regarding protection of shareholder/minority rights. These factors are further culminated by the restrictions imposed by the regulatory regimes of individual island nations and the lack of accessibility because of the absence of an IT-based trading infrastructure. More importantly, political instability created by coups of 1987, 2000 and 2006 have raised international awareness that Fiji is not a safe place for investment and thus signaled investors both local and international to stay away. Subsequent coups have created reputation internationally that there exists a 'coup-culture' in Fiji (Fraenkel, 2009).

Past studies have suggested that strengthening legal institutions may be an essential prerequisite for financial development and, through it, for stronger economic development (Asian Development Bank, 2001; Chand, 2002; Sharma & Nguyen, 2010). Although relevant securities market regulations did exist in Fiji, the implementation seems to be less visible. CMDA conducts investigations and deals with the offenders in Fiji, whereas the courts seem to have more power to deal with the breaches/offences relating to capital markets in Australia (Sudhakar, 2000). In support Sharma and Nguyen (2010, 23), report that "... although shareholders in Fiji enjoy strong legal protection, both existing and potential shareholders do not have a very good knowledge of what these protective measures are." This suggests that there has been a lack of will to prosecute perpetrators for breaching securities market regulations and as a consequence, shareholders are not aware of the existence of regulations that could protect them and its effectiveness.

Furthermore, SPSE listing requirements allow up to 90% of equities to be held by directors of the company (Mala & White, 2009) and as a consequence, the listed companies show a high degree of concentration of ownership with a controlling interest typically in the hands of a single shareholder (Patel, 2002). Although this reflects Fiji's private company ownership culture, it is also an indication of the existence of a weak minority shareholder rights

protection (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2002) in Fiji. Both, Shleifer and Vishny (1997) and Gugler (1999) provide empirical evidence that block shareholders do receive private benefits at the expense of minority shareholders. In addition, poor standard of corporate governance practices were akin to a number of private and public sector organisations during the period 1987 to 2006. Lal and Vakatora (1997) state that “ ... accountability and principles of good governance were rapidly compromised as expectations of certain sections of the community as well as individuals had been raised; the easiest to meet these expectations and tastes was through cronyism, nepotism, patronage, etc., which became the norm...” The untoward practices were discovered too late where vast amount of money has already been squandered. Examples of such practices have been experienced in the National Bank of Fiji, National Provident Fund, Fijian public sector corporate entities and government departments (Larmour, 2008). This is not surprising as Transparency International Corruption Index (CPI) (based on perception of journalists and investment risk analysts) in 2005 rated Fiji a below-average 4 on a scale of 0-10, where 10 being ‘highly clean’ and 0 ‘highly corrupt’ (Transparency International, 2005). In a worldwide governance survey Kaufmann, Kraay and Mastruzzi (2010) scored Fiji below zero in most of the governance categories. The governance score range between -2.5 and 2.5 and scores for Fiji for 2008 and 2009 are as follows: voice and accountability (-0.48, -0.72), political stability (+0.01, -0.22), government and stability (-0.84, -0.96), regulatory quality (-0.67, -0.95), rule of law (-0.55, -0.96) and control of corruption (-0.43, -0.74). In all categories, the governance scores have declined in 2009 compared to 2008. Further, Larmour (2008) and Olaks (2001) report corruption existing in both the public^{4,5} and as well the private sector⁶ in Fiji. These have a negative effect on Fiji’s image internationally and also reflects on Fiji’s investment climate.

⁴ The culture of kickbacks (extra payment required for permits and licenses), greasing palms (bribes to officials), nepotism/cronyism (favouritism in recruitment, promotion, contracting, and outsourcing), pulling ranks (using political or social status to bent rules), unfair and unethical decisions on procurement (political interference) and misuse and abuse of public funds (where delegation not clearly communicated or monitored) (Larmour, 2008).

⁵ Fiji National Provident Fund, The Fiji Ports Authority, Fiji Pine Limited, Lands department, Ministry of Fisheries and Forestry, The Native Land Trust Board (Larmour, 2008).

⁶ Overpricing by importers, by purchasing through offshore entities (Larmour, 2008) and bribery of supervisory officials (Olaks Consulting, 2001).

Research show that governance indicators are positively correlated with foreign direct investment (FDI) (Okere, Tamule, & Maloney, 2010) thus providing support to the view that countries striding to attract foreign capital need to improve and maintain various aspects of good corporate governance practices to maximise long-run economic welfare, both for the foreign and domestic investors as well as the wider market participants (Gani, 2007). With a view to improve market activity and investment climate in Fiji, the administration of the CMDA was transferred in 2009 to the Reserve Bank under the Capital Markets Decree 2009 (Reddy, 2010). In March 2010, the Capital Markets Development Taskforce was established within the Reserve Bank serving as a “think tank” for the capital markets development. Furthermore, Fiji government offer to incentivise companies listed on the SPSE by reducing their corporate tax of 20 percent (Reddy, 2010).

The adoption of the ‘comply or explain’ principle-based corporate governance approach by CMDA is in line with the international best practices. Also flexibility provided by the ‘comply and explain’ approach will enable individual companies and/or industries to tailor make corporate governance practices for their own circumstances, thus improving the quality and standard of corporate governance practiced in Fiji (CMDA, 2008). Since principle-based governance approach is voluntary, flexible and non-binding, it will encourage companies in different industries to develop industry-specific corporate governance structures. Companies that are large and have complicated structures will be able to adopt more sophisticated governance structures compared to small size companies.

However, it is argued that the “comply or explain” policies are paradoxical. On one hand, it claims to be voluntary in nature, on the other, it has been legitimised through incorporation into the SPSE listing requirement that companies are obliged to disclose any deviations from the set principles and guidelines. Furthermore, it emphasises that governance should be tailored for each company’s circumstances and on the other hand, it prescribes a uniform set of governance standards (for example, separation of chair and CEO positions, at least thirty percent non-executive/independent directors, and board sub-committees) against which all listed companies should report their practices⁷. The prescription of uniform standards

⁷ The companies reporting on corporate governance practices in their annual reports will have to explain why they have deviated from the set guidelines. This will put pressure on companies to comply rather than explain to the investors.

implicitly makes the CMDA recommendations compulsory for listed companies and therefore, will increase their compliance costs. Also, 'comply or explain' requirements do not provide any clarity to the investors' as to how to judge what constitutes a good explanation for non-compliance that can be relied upon for decision making. As CMDA do not rank explanations provided by companies for non-compliance, it becomes difficult for the market to decide whether it is a good explanation or not. In absence of clear guidelines, it becomes much harder to determine if any offence is committed and difficult to prosecute, therefore easier to escape liability. As Farrar (2005) sums up that principles-based corporate governance practices have a lot of roar but no teeth to bite.

The Bainimarama Government in 2007 established Fiji Independent Commission Against Corruption (FIAC) to investigate the reported cases of complaints and corruption existing in Fiji. Initiatives undertaken by the Fiji government to improve investor confidence has been welcomed by both the market and investors. The international rating agency Standard and Poor's recently upgraded Fiji's credit rating to B and estimated that Fiji economy in 2011 will grow by 1.3 percent (Vuibau, 2011). The evidence from SPSE also suggests that listed companies have complied with the corporate governance code. The next section provides the theoretical basis for the study.

3 Theoretical basis

Institutional theory emphasises that social systems and individuals not only compete for resources but ultimately seek legitimacy (Judge, Douglas, & Kutan, 2008; Suchman, 1995). From this perspective, one of the keys to understanding social systems is to study the forces within the institutional environment that guide or constrain legitimacy seeking. A critical assumption within institutional theory is that all social actors are seeking legitimacy and/ or reinventing legitimacy norms within institutional environment. These constraints and forces converge to create isomorphism, or similarity of structure, thought and action, within institutional environments.

The theory argues that organisations conform to norms and trends in their organisational field in order to gain social legitimacy. Legitimacy is a state of being considered acceptable in the eyes of internal and external stakeholders (Suchman, 1995). One way firms achieve legitimacy is by similarly modelling themselves after the traits and behaviour of other

legitimate organisations around them (DiMaggio & Powell, 1983; 1991). Implicit in the institutional theory argument is the idea that seeking legitimacy through mimicry does not always bring economic efficiencies.

Organisational behaviours can be described in terms of isomorphism, which is caused by institutional pressures and expectations. Isomorphism is a constraining process that forces one unit in a population to resemble other units that face a similar set of environmental conditions (DiMaggio & Powell, 1983). Institutional theory shows how organisational behaviour respond not only to market pressures, but also to institutional pressures such as pressures from general social expectations and the actions of leading organisations (Chizema & Buck, 2006).

Three classifications of institutional isomorphism have been proposed: coercive, mimetic and normative (DiMaggio & Powell, 1983; 1991). Coercive isomorphism results from both formal and informal pressure imposed on an organisation by another party upon which it is dependent, and by expectations of the society within which it operates. Mimetic isomorphism occurs when the organisation faces uncertainty that engenders organisations to model themselves after other organisations that they perceive to be legitimate. Mimicking others may act as a cost-effective way of getting legitimacy (DiMaggio & Powell, 1983; 1991; Mizruchi & Fein, 1999). Normative isomorphism is where the norms of societies and professional bodies influence the practices of organisations. Normative pressures arise from specialised groups such as profession.

The corporate governance system refers to one of the means through which a nation channels corporate power for the good of society so that wealth is created efficiently and distributed fairly within a national economy (Judge et al., 2008; Monks, 2007). Therefore, corporate governance legitimacy is conceptualised as one of the means by which a nation constrains and directs corporate power so that it efficiently creates economic value and distributes fairly economic wealth. According to Judge et al. (2008), the antecedents of corporate governance legitimacy are much less shared and hence, much less understood.

DiMaggio and Powell (1983; 1991) argue that organisations have to appear legitimate to their broader constituencies and stakeholders in order to secure the resources they need for continued survival. To gain this legitimacy, organisations have to be seen to conform to what

is expected of them (DiMaggio & Powell, 1983; 1991; Lounsbury, 2008). Covaleski and Dirsmith (1988) suggest that an organisation's survival requires it to conform to societal norms of acceptable behaviour. The advantages of compliance to institutional norms are revealed in the literature as increased prestige for the organisation, stability, legitimacy, social support, acceptance in the profession and invulnerability to questioning (DiMaggio & Powell, 1983).

Institutional theorists emphasised a distinction between technical forces and legitimacy. This was apparent in empirical research that emphasised a two-stage diffusion process whereby early adopters of innovation are motivated by technical considerations while the later adopter engage in imitation fuelled by pressure to conform (Tolbert & Zucker, 1983, 1996). The key insight of institutional theory is that organisations seek not only resources and customers but also social legitimacy. Legitimacy is a state of being considered acceptable in the eyes of internal and external stakeholders (Suchman, 1995). One way companies achieve legitimacy is by similarly modelling themselves after the traits and behaviours of other legitimate organisation around them (DiMaggio & Powell, 1983). The kind of mimicry is considered partly responsible for the widespread diffusion of various organisational forms and strategies (Eapen & Krishnan, 2009; Meyer & Rowan, 1977). The next section delineates the research method for the study.

4 Research Method

Empirical studies conducted overseas relating to larger economies, mature capital markets and larger publicly listed companies provide support to the view that improved corporate governance practices have a positive effect on company financial performance measured by Tobin's Q. However, capital market in Fiji is small, still in its infancy and have only a handful of small companies listed, which provide a completely different environment to undertake study relating to corporate governance practices. Furthermore, corporate governance codes and/or principles, and guidelines have been in existence only since 1992 (revised in 2004) and relatively little research has been undertaken on their underlying mechanisms. An understanding of the dynamics of so-called soft regulation in general is rather limited. It is difficult to ascertain whether changes to corporate governance practices in Fiji have been made for the benefit of the shareholders or simply to comply with the regulation that has been applied in other countries. This study is novel as it explores corporate

governance practices of publicly listed companies which are different from companies that exist in larger economies and also uses a larger number of variables, including: board size, board gender diversity, board sub-committees (audit, remuneration and nomination), ownership (block and insider), leverage and dividends.

Data for this study was obtained from the SPSE website and from annual reports of the companies listed. There were sixteen companies publicly listed for the period 2008 to 2009 and eighteen companies in 2010. Since 7 companies did not provide all the information in 2010, only eleven companies were included in our sample for 2010. SPSE annual report was also collected for 2007 to 2009. In addition, qualitative data was also gathered through interviews with the SPSE CEO and other staff between 2007 and 2008 over corporate governance issues. The use of multiple data sources allow a more comprehensive and valid portrayal of the phenomena compared to a single source of data (Jick, 1979; Modell, 2005). The interviews lasted between an hour and two. The topics selected for interviews were mainly on the corporate governance practices in Fiji's capital market. Most questions were asked in an open-ended manner to encourage interviewees to respond in their own ways. The aim was to generate a rich source of field evidence.

4.1 *Dependent Variables*

Tobin's Q is regarded as a futuristic and forward-looking performance financial performance measure used as a dependent variable (Agrawal & Knoeber, 1996; Chung & Pruitt, 1994; Hossain, Prevost, & Rao, 2001; Kang & Stulz, 1996; Reddy, Locke, & Scrimgeour, 2010), therefore, we also use Tobin's Q as a dependent variable. Tobin's Q is estimated as:

$$Tobin's\ Q = \frac{MVE + L/T\ Debt + Net\ S/T\ Debt}{Total\ Assets}$$

where MVE (the market value estimate) is a product of a company's share price and the common stock outstanding, L/T Debt is the book value of long term liabilities; Net S/T Debt is book value of current liabilities less current assets. Total assets is the depreciated book value of tangible assets.

Demsetz and Villalonga (2001), Finch and Shivadasani (2006), and Thomsen, Pedersen and Kvist (2006) have also used accounting-based performance measures such as return on assets

and return on equity as well. It has been argued that accounting-based performance measures are backward-looking and it only partially estimates future events in the form of depreciation and amortization (Demsetz & Villalonga, 2001). Considering the above concerns and to have alternative results, the accounting-based performance measures (return of assets (ROA), return on equity (ROE) and proportion of earnings before interest, tax, depreciation and amortization to total revenue (EBITDA2REV) are also used. ROA, ROE and EBITDA2REV are measured as follows:

$$\text{ROA} = \frac{\text{Earnings after tax}}{\text{TotalAssets}}$$

$$\text{ROE} = \frac{\text{Earnings after tax}}{\text{TotalEquity}}$$

$$\text{EBITDA2REV} = \frac{\text{Earnings Before Interest, Tax, Depreciation, Amortization}}{\text{TotalRevenue}}$$

4.2 *Independent Variables*

The control variables employed in this study are estimated as follows:

Jensen and Meckling (1976) suggest incentive alignment hypothesis to mitigate agency problems arising from the separation of ownership and control. By giving managers shares in companies is one way of aligning managers' interests with that of the shareholders. Although Jensen and Meckling initially focused on only managerial ownership, this argument has been extended to board members as well (Dalton, Daily, Trevis, & Roengpitya, 2003). Based on the above proposition, we use insider ownership (IOWN) to determine the effect it has on financial performance. Insider ownership is the proportion of shares held by all members of the board of directors including top officers of the company who are members of the board divided by total ordinary shares outstanding.

Empirical evidence suggests that block ownership have a potential to mitigate a number of agency problem inherent in the company (Prowse, 1994). Large shares give blockholders' power to make management serve their interest (Agrawal & Mandelker, 1990; Hill & Snell, 1988, 1989), thus improves financial performance. By using active monitoring hypothesis, Agrawal and Mandelker (1990) and Shleifer and Vishny (1986) argue blockholders are better monitors than other type of shareholders. Since blockholding is permitted in Fiji, we want to

investigate if blockholding has similar effect on financial performance in Fiji as well. We measure blockholding (BOWN) as the proportion of shares held by the 20 largest shareholders of the company.

Jensen (1983) suggests that a board should have seven to eight members to function effectively. The SPSE listing rules 6.35 only specify that the minimum number of Directors in listed companies should be three (SPSE, 2010). However, proponents of large board size argue using resource dependency theory (Dalton, Daily, Johnson, & Ellstrand, 1999; Hillman, Cannella, & Paetzold, 2000) that large boards tend to provide an increased pool of expertise and linkages that companies need. On the other hand, the proponents of small board size argue that smaller boards are more likely to reach consensus and allow members to have genuine debate and interaction (Firstenberg & Malkiel, 1994). However, others argue that optimality of board size is situational, that is, it depends on the nature of the company. In a similar way, we also investigate the effect board size of companies in Fiji have on the financial performance. We use natural log of board size ($\ln(\text{BDS})$) as a proxy for board size.

The proponents of board-as-monitors argue that a board that is independent of management and dependent on shareholders will be more effective in aligning the interest of managers and shareholders (Bebchuk & Fried, 2004). In policy statements Cadbury Report (1992), Greenbury Report (Study Group on Directors' Remuneration, 1995), Hampel Report (Committee on Corporate Governance, 1998) and Turnbull Report (ICEAW, 1999) have highlighted the special contribution non-executive and independent directors can make to this process. SPSE listing rules 6.36 articulate that at least one third of the Directors must be independent (SPSE, 2010).

The annual reports of listed companies have not explicitly identified directors as either "executive" and "non-executive" directors, and have disclosed very little information regarding the directors to external stakeholders. The general lack of disclosure of such information by companies in their annual reports and in other forms of corporate communication means these inconsistencies cannot be corrected retrospectively. Some previous researchers have avoided the word "independence" by using "outside directors" to describe directors who are presumed to be independent from management (Ajinkya, Bhojraj, & Sengupta, 2005; Hossain et al., 2001), or simply consider potential differences between

“non-executive” and “executive” directors. Other studies acknowledge a director’s independence when he/she is independent from senior management of the company (Anderson, Mansi, & Reeb, 2004; Dulewicz & Herbert, 2004; Hooghiemstra & van Manen, 2004)

The publication of the CMDA principles and guidelines clarifies what constitutes an independent director. Consequently, there will be some consistency in the reporting of independent directors after 2009. Due to the inconsistencies in reporting, a director may have been reported to be independent but is not and a director may have not reported to be independent, but in fact is. To reduce the effect of any bias arising from the inconsistent reporting of independent directors, non-executive/independent directors (NED) are used, that is, directors that are reported to be either non-executive and/or independent. Non-Executive/Independent Directors (NED) is the proportion of the non-executive/independent directors on the board.

The diversity literature suggests diversity adversely impacts group dynamics, but improves group decision-making. Carter, Simkins and Simpson (2003) argue that board diversity improves boards understanding of the market place, increases creativity, innovation and effectiveness when problem solving. Arfken, Bellar and Reeb (2004) argue that board diversity promotes global relationships and increases board independence and asks questions that would not come from directors with similar backgrounds. Therefore, we use a proportion of female directors on board as a proxy for board diversity (DIVERS).

Empirical research focusing on the presence of an audit committee has been associated with fewer financial reporting problems (McMullen, 1996) and is positively related to factors associated with the benefits of monitoring (John & Senbet, 1998). Main and Johnston (1998) and Weir and Laing (2001) report that remuneration committee has a positive effect on financial performance. To study the effect board subcommittees have on companies’ financial performance, two dummy variables are created. The Audit Committee (ACOM) is the dummy variable set equal to “1” if companies have an audit committee; otherwise it is set equal to “0”. A Remuneration committee (RCOM) is the dummy variable set equal to “1” if companies have a remuneration committee; otherwise it is set equal to “0”.

The extant literature views debt as an internal corporate governance mechanism that can voluntarily be used to transfer the functions of monitoring and evaluating managerial performance to the capital market (Agrawal & Knoeber, 1996; Begley & Feltham, 1999; Jensen, 1986). According to Grossman and Hart (1988) debt forces managers to consume fewer perquisites and become more efficient. To investigate the effect of debt on financial performance, we use leverage (LEV) which is the proportion of the debt defined as long term liabilities plus short-term liabilities divided by the total assets.

Easterbrook (1984) argue that dividends play a role in controlling equity agency problems by facilitating primary capital market monitoring of the company activities and performance. To investigate the effect of dividends on financial performance, we use DIV2TA which is the dollar amount of the dividend paid by the company divided by book value of the total assets.

We use the natural log of total revenue (Ln(REV)) as proxy for company size.

Company level risk (FMRISK) is the standard deviation of the quarterly stock price of the company for the period 2008 through to 2010.

To study the effect of the growth/decline of the Fijian economy have had on company financial performance, a variable RGDP is created. RGDP is the yearly real growth rate.

To study the effect corporate governance practices of different industries have on financial performance, four industry dummy variables are created. SPSE listed companies are divided into four sectors, viz, goods (food, textile & apparel, intermediate & durables), property, service (transport, port, leisure & tourism, media & communication, finance & other services), and investment. Therefore four industry dummy variables are introduced. IND1 is the dummy variable equal to “1” if the company belongs to goods industry, otherwise equal to “0”. IND2 is the dummy variable equal to “1” if the company belongs to property industry, otherwise equal to “0”. IND3 is the dummy variable equal to “1” if the company belongs to service industry, otherwise equal to “0”. IND4 is the dummy variable equal to “1” if the company belongs to investment industry, otherwise equal to “0”.

Table 1 provides a summary of dependent and control variables used and their method of measurement.

<insert table 1 here>

5 Empirical Results

5.1 Descriptive statistics

<insert Table 2 here>

Table 2 provides a summary of the sample descriptive statistics for the panel data. The mean (median) Tobin's Q ratio is 1.03 (1.09), thus indicate that the publicly listed companies in Fiji did create value for the shareholders. The mean (median) of ROA ratio is 2% (6%) indicate that companies on average have positive performance and this is a reflection that assets of the companies were utilised in an efficient manner. The mean (median) of ROE is 16% (13%) indicate that publicly listed companies in Fiji did invest shareholders funds appropriately that resulted in a respective return for the shareholders. The mean (median) EBITDA2REV is 0.13 (0.15) indicate that for dollar of revenue received by the company, the operating margin is approximately 13%. All financial performance measures are positive.

The mean proportion of insider ownership (IOWN) is 18% and median 0% which indicate that in fifty percent of the listed companies, insider ownership is zero. Since the 25th percentile is 0% and 75th percentile is 69%, indicate that some publicly listed companies have adopted the policy of remunerating managers with shares to align the interest of the management with the shareholders. According to Jensen and Meckling (1976) such practices have a tendency to mitigate agency cost.

The mean (median) proportion of stock held by the 20 largest shareholders (BOWN) is 91% (95%) with the inter-quartile range of 82%-99%. In comparison basis, blockholding in New Zealand is 76.3% (Reddy et al., 2010). However, the non-controlling shareholder in the US hold 80 per cent of the shares and in the UK, the figure is around 90 per cent for the top 20 companies (Kapopoulos & Lazaretou, 2007). Since the non-controlling shareholders hold very dismal proportion of shares in Fiji indicate that there is a need for a strong protection of minority shareholder rights in Fiji. In summary, there is evidence that insiders' own large proportion of the company and blockholding is relatively high. This suggests insider ownership is not a strong mechanism itself to deal with agency problems in Fijian context.

The mean (median) proportion of non-executive/independent directors is 0.22 (0) with an inter-quartile range of 0 to 1. The typical (median) board has 5.68 directors with a narrow inter-quartile range of four to eight members. On average, 76% of the companies have an

Audit Committee, 24% have a Remuneration Committee and 22% have a Nomination Committee. It is to be noted that not all companies reported having board committees nor any explanation was provided in the annual reports for not providing such information.

The mean (median) dividend to total assets is 4% (3%) and inter-quartile range of 0%-10%, indicating that listed companies are retaining high proportion of the profits for investments purposes as the small nature of capital market makes it difficult to raise capital otherwise. The mean (median) leverage is 40% (36%). This shows that companies are not highly leverage, thus supporting the view that companies use retained earnings as a source of funds for investments. The mean (median) Ln(TA) is 4.50 (4.56). The mean (median) firm level risk is 0.23 (0.07) and the inter-quartile range of 0.00-1.05. On average, 49% of the companies in the sample belong to goods industry, 2% property, 32% service and 17% investment. This provides an opportunity to study the differences in the corporate governance practices in different industries.

5.2 Correlation Analysis

<insert Table 3 here>

Table 3, presents a pairwise correlation matrix for control variables. Control variables are not highly correlated with each other. There is a positive correlation between LOWN and BOWN indicating large owners make up high proportion of block ownership in publicly listed companies in Fiji. BDS is negatively correlated with IOWN and LOWN, indicating large board size is associated with low level of insider ownership and also, the proportion of shares held by a single large owner tends to be lower. On the other hand, DIVERS is positively correlated with BDS, indicating large boards tend to have more female board members. NCOM is negatively correlated with LOWN indicating nomination committee reduces the influence of the large shareholders. Company size is positively correlated with BDS. The highest correlation of the independent variables is between Ln(REV) and BDS at 0.57 and between DIVERS and BDS at 0.53. The other high correlations are between BDS and LOWN at -0.43, FMRISK and ACOM at -0.40, and between FMRISK and RCOM at 0.40. None of the pairwise correlations between independent variables are above 0.57, indicating that the likelihood of multicollinearity issues arising in the OLS regressions is low.

5.3 OLS Regression Dependent and Independent variables

<insert Table 4 here>

Table 4 report the OLS regression results for equation 1. Column 2, 4, 6 and 8 of Table 4 provide coefficients of independent variables that are used in equation 1. The results reported in column 2 of Table 4 are the coefficients of the independent variables using Tobin's Q as a dependent variable. The independent variables ACOM and RCOM have positive coefficients, indicating that these variables have a positive effect on financial performance measured by Tobin's Q. Both these variables are statistically significant at 5% level. This evidence supports the view that both audit and remuneration committee are good mechanisms for monitoring managers' behaviour. DIV2TA also have a positive effect Tobin's Q, indicating that the payment of dividend is regarded by the market to be a better utilisation of firm's cash flows. This finding supports Jensen's (1986) proposition that dividend payments dissipates cash which might otherwise be wasted on non value-maximising projects, thus reducing the extent of overinvestment by managers.

Both insider ownership (IOWN) and largest owner (LOWN) have negative coefficients and are statistically significant at 5% level. This indicates that the ownership is not at an optimal level in companies in Fiji. Since Fijian regulation allows companies to have concentrated ownership structure, thus reducing liquidity in the capital market.

Board independence (NED) and female directors on boards (FD) both have negative coefficient but are not statistically significant. This result indicates that neither board independence nor female board members are adding value to the company. However, it should be noted that it was difficult to establish whether board members were independent from limited information provided in the companies' annual reports. However, for companies we could establish the nature of board independence, the results do indicate that both board independence and female directors have a negative effect of Tobin's Q.

A negative coefficient of Ln(REV), which is statistically significant at 5% level, indicates that size has a negative effect on Tobin's Q. This raises questions about the size of firms in Fiji as to whether it has been increased to derive personal benefits for the managers. Only the coefficient of the goods industry (IND1) is statistically significant at 10% level, thus

indicating that governance practices in goods industry contributes positively towards Tobin's Q.

Table 4, columns 4, 6 and 8 provide coefficients of the independent variables used in equation 1 using ROA, ROE and EBITDA2REV as dependent variables. The results reported in columns 4, 6, and 8 are similar. IOWN has a negative coefficient and is statistically significant at 5% level which is similar result to that reported in column 2. The coefficient of BDS is negative and is statistically significant at 10% level suggest that board size of listed companies are not at an optimal level. This supports the findings reported by Lipton and Lorsch (1992) that large boards are less effective monitors because of the inability of the members to fully express their ideas and concerns during board meetings. The SPSE listing rules states that minimum board size should be three, but average board size is 5.68 (refer to Table 2) which is close to what Jensen (1983) suggests to be an optimal board size for the listed companies in the US. In comparison to the size of companies in the US and Fiji, 5.68 board members seem bit high for Fiji.

LEV has a positive coefficient and is statistically significant at 1% level. This shows that leverage contributes positively towards financial performance measured by ROA, ROE and EBITDA2REV. This shows that LEV is an effective mechanism to control managerial behaviour. Borrowing allows a portion of the company's cash flows to be returned to the bondholders which reduces the discretionary power of the managers and also, it increases the risk level of the company as well. Therefore, managers have to invest remaining cash flows in high value generating projects. The other statistically significant results are for DIV2TA and Ln(REV) each having positive coefficients. The results indicate that dividend payouts contribute positively towards financial performance measured by ROA, ROE and EBITDA2REV. Firm size (Ln(REV)) also has a positive coefficient thus indicate that high revenue leads to high return for the shareholders. Similar to the results reported in column 2, only the coefficient of the goods industry (IND1) is statistically significant at 10% level. This indicates that the corporate governance practices in the goods industry is having a positive effect on financial performance measured by both Tobin's Q and EBITDA2REV.

5.4 OLS Regression with Dependent and Ownership, Governance and Control Variables

<insert Table 5 here>

In Table 5 variable LOWN and BOWN has a negative coefficient and is statistically significant at 5% and 10% level, respectively. Studies undertaken in the Sweden, Israel, Italy and Switzerland (see Horner, 1988; Levy, 1982; Rydqvist, 1987; Zingales, 1994) where concentrated ownership is a norm suggests that expropriation of private benefits by controlling blockholders is a major problem. This evidence suggest that largest owner and the block owner may be the original owner that started the business and are holding a high proportion of the shares after going public.

The coefficient of IOWN is positive and not statistically significant. However, empirical evidence suggest that small proportion of insider ownership is positively associated with financial performance and large proportion of insider ownership is negatively associated with financial performance (see Hermalin & Weisbach, 1991; Kole, 1996; McConnell & Servaes, 1990; Morck et al., 1988; Wruck, 1989). Based on this reasoning, we have also tested whether insider ownership less than 20% and over 20% are statistically significant. Results reported in columns 2, 4, 6 and 8 of Table 5 show that none of the variables are statistically significant. The next section examines the role of Asian Development Bank and the South Pacific Stock Exchange on corporate governance practices.

6. Role of Asian Development Bank and South Pacific Stock Exchange

6.1 Role of Asian Development Bank

The Asian Development Bank (ADB) has played a major role in the establishment of the Capital Markets Development Authority (CMDA) and promotion of good corporate governance practices in Fiji. As a major donor agency⁸, ADB promoted privatisation of government business entities such as telecommunication, electricity utilities amongst others (Reddy & Sharma, 2011). Furthermore, ADB recommended to the Fiji government to support the establishment of CMDA whose functions have now been transferred to the Reserve Bank of Fiji. The ADB findings revealed that there is a limited range of saving and investment instruments available to the public and a corresponding lack of financing mechanisms

⁸ The Fiji government has received F\$326.6 million in loans since joining ADB in 1970 (ADB, 2001).

available to support private sector investment (ADB, 1996). This is reflected in high liquidity and intermediation margins in the banking system, but low levels of capital investment in the economy. According to ADB report (1996), public awareness of stock exchange and its role has been minimal and market turnover prior to 1996 has been insignificant at less than F\$100,000 per annum. With recommendations from Asian Development Bank, the Fiji government is improving the environment for capital market activity with tax incentives to encourage companies to list on the Stock Exchange introduced in 1996. Also there is tax incentive for local shareholders. The dividend income is tax exempted for local residents.

The Asian Development Bank (1996) reports that a grant of F\$600,000 was approved for the establishment of Capital Market Development Authority in Fiji whose functions have now been transferred to Reserve Bank of Fiji. The technical assistance from ADB in setting up Capital Market Development Authority in 1996 met the cost of a senior advisor who provided technical advice to the locally recruited chief executive of CMDA for a period of 16 months. The ADB provided CMDA to secure the input of up to four short-term international technical advisers for a total input of up to four months (Asian Development Bank, 1996). The total cost of technical assistance by ADB was at US\$630,000 (Asian Development Bank, 1996, p.5). Individual consultants were internationally recruited for the technical assistance.

The role of the Reserve Bank of Fiji is to oversee the effective and efficient operations of capital markets. According to Chand (2005), the ADB believes that the development of effective capital markets, partly through good accounting, is a most important way of promoting growth in the emerging economies. In order to attract international investment, Fiji has to look at the accounting standard it follows, to see whether it embodies international best practice. For example, a Fiji subsidiary reporting results to a parent company in Australia want accounts prepared by using internationally generally accepted practices. The parent company does not want special rules operating in Fiji that would render the reports not so useful in Australia (Chand, 2005).

The adoption of the international financial reporting system (IFRS) which has been encouraged by ADB may attract the MNCs and the financial institutions to register on the SPSE. ADB has also insisted that the auditing of many of the projects they finance be carried out by an international firm of accountants and use internationally recognised (i.e., the IFRS or IRFS-compliant accounting standards) (ADB, 2002).

The ADB identifies the operation and functioning of capital market as a central means of enabling the Fiji government to effectively carry out its privatisation program and introduce domestic private sector shareholding in conjunction with foreign investors in several enterprises. Interview with a senior manager at South Pacific Stock Exchange revealed an absence of liberal market for overseas investors willing to participate in the local market. The interviewee stated:

There is uncertainty since the 2006 military coup. The Reserve Bank has tightened its monetary policy. Therefore, it becomes difficult for overseas investors to remit their money overseas.

According to Reddy and Sharma (2011), overseas investors need to have a local bank account to have sales transaction proceeds deposited into their account. However, it is becoming increasingly difficult for overseas investors to open bank accounts in Fiji as the Banks need formal documentation such as local address of account holders, phone bills, local drivers licence and occupation in Fiji, amongst others to enable a bank account to be opened. Some overseas investors' accounts are kept in a Trust by a local broker, Kontiki Capital Limited. While the SPSE management endeavours to have more international shareholder participation in the local market, the Fiji government's tight monetary policy somewhat inhibits that despite international interests in Fiji's capital market.

Only a small number of individuals, as absentee owners, have a direct holding in equities, accounting for 4% of issued share capital in quoted companies (Patel, 2002; Chand, 2005). As the business ownership is concentrated, the information needs of the resource providers are satisfied in a relatively straightforward way. An interviewee at SPSE stated:

Very few individuals participate in the stock market and even those who do so are mainly business people. While the return on shares is higher, people still put money in banks which attract lower return.

To provide greater public participation, the SPSE has been holding multiple workshops in various centres of the country, although the turnouts at such workshops were not so encouraging. Attempts to get more indigenous Fijian shareholders' participation were done through radio and television advertisement. For example, prominent Fijian figures such as former Reserve Bank governor were used in television who spoke in Fijian language about the importance of their participation in the capital market and the benefit reaped through

capital growth and dividend payment. The SPSE had some impact by running workshops at indigenous provincial council levels. The next section examines the role of SPSE in corporate governance.

6.2 Role of SPSE in corporate governance practices

The SPSE ensures that listing companies submit six monthly reports to them and comply with listing rules. SPSE listing rules (2010) states that for the listing of shares, the total market capitalisation of the company must be at least F\$1 million. The applicants Memorandum and Article of Association must be consistent with the requirements of the Companies Act. All half yearly financial statements shall be approved by the company's Board of Directors, and signed by two or more Directors of the company. According to the SPSE (2010) a company is required to send a copy of its annual audited financial statements to the SPSE as soon as the accounts are available or no later than three months after the end of the annual accounting period.

According to a manager at SPSE, the listed company needs to disclose immediate announcement of any information which include takeover, reduction in earnings or merely anything that have some impact on the business. The annual reports are prepared in line with the Fiji Institute of Accountants requirement. The first six monthly reports are interim report and need not be audited. However, the final report is audited.

According to Reddy and Sharma (2011), some stringent reporting is done by listed companies to their shareholders. However, despite all rules, companies are reluctant to report bad news. For the annual reports, an interviewee stated that section 6.30 and 6.31 which is part of listing requirement has to be followed. He went on to say:

We don't want to create complexity in reporting as this may create fear for new companies wanting to come on board and get listed.

Section 6.30 of the listing rule states:

A company must send one copy to each shareholder and eight copies to the SPSE, its annual report as soon as the report is available or no later than four months after the end of annual accounting period (p.21).

Further, section 6.31 specifies the content of annual report such as the audited financial statements have been prepared and presented in accordance with the accounting standards in

force in Fiji; a statement by the chairman, discussing the outlook for the company and any developments that might be expected in the industry in the next twelve months, supplementary information which in the opinion of the Directors is necessary for a reasonable appreciation of results amongst others.

According to Mala and White (2009), stock exchange listing in emerging economies can be perceived as a status symbol. Trading in the shares in the hands of the public at large has remained thin in Fiji. On some days, there are hardly any trades on the stock exchange. Mala and White (2009, p.53) note that “in the first year of operations as a formal market (1997), the total value of shares traded was 0.001% of GDP, rising only to 0.004% in 2004 (this compares with value of 0.4% for Australia and 0.38% for New Zealand) and falling back 0.001% in 2006.”

Mala and White (2009) point out that a suitable regulatory, legal and supervisory environment is critical for effective stock markets. Their research demonstrate that Fiji listed companies on the SPSE had long term confidence in the stock market and they felt that there would be public demand for their shares and that the value of shares would increase over time. The authors noted that listed companies in Fiji view an IPO as a strategic reputation enhancing move and as a means of establishing and improving the market value of the company, rather than as a financing decision. Further, to date in contrast to experiences such as Korean financial markets, no company in Fiji has sought additional finance from public subscription after listing. Listed companies are well established, financially sound and can generate substantial finance through internal operations.

The SPSE is faced with challenges of getting more companies listed on the stock exchange (Interview with CEO, SPSE). Some 27 new companies were approached by SPSE for listing which the companies subsequently declined. According to Mala and White (2009, p.60) the ‘potential to list companies’, fear of loss of control and fear of disclosing the financial performance to competitors are pertinent influences in making the decision to list or not to list. Mala and White (2009, p.60), for instance, report on a managing director of one of the family-based companies as justifying reasons for not listing as:

Upon discussion with my family members regarding listing, they never expressed any interest in changing the business’s family ownership structure and all of them said that they want to stay private to maintain control. They

said that we do not have to focus on increasing the earnings only to increase the share price, but we want to focus on growing the business.

Concerns in relation to the possible loss of control through making an IPO are evident. However, SPSE listing regulation allows up to 90% of the equity to be held by the directors of a company.

Listing companies continue to demonstrate a high degree of concentrations of ownership with a controlling interest typically in the hands of a single shareholder as manifested in the concentration of equity holdings in listed companies (Patel, 2002; Mala & White, 2009). Companies contemplating listing would have no practical impediments in maintaining similar ownership structures and it appears that fears over loss of control are unsubstantiated. According to Mala and White (2009), reliance by companies to list would seem to be driven by perceptions among corporate directors and senior managers.

To have a stock exchange listing can be perceived as a status symbol. The Reserve Bank of Fiji, the SPSE and all other parties engaged in developing Fiji's economy through the capital market hope that in time corporate and investor attitudes will change, bringing greater volume of activity to the market. The next section brings the narrative together and discusses the results in relation to the theoretical framework and draws out conclusion.

7. Discussion/ Conclusion

This study explained the nature and extent of compliance to the principal based corporate governance initiatives by the listed companies in SPSE in Fiji. Three important questions are addressed: (i) whether listed companies in Fiji have complied with the principal-based governance practices; (ii) did compliance with principle-based recommendations lead to an improvement in the listed company's financial performance and (iii) how the institutional factors have contributed towards corporate governance practices in Fiji?

In Fiji, the non-controlling shareholders hold very dismal proportion of shareholding in listed companies. There may be a need to have rigorous protection of minority shareholders' rights to safeguard their interests which may in turn increase liquidity in the stock market. There is evidence that insiders own large proportion of the company and blockholding is relatively high.

Descriptive statistics provided in Table 1 show that companies listed in SPSE did create value for shareholders, as the market value of companies' shares are greater than its book value. Also all financial performance measures (Tobin's Q, ROA, ROE, EBITDA2REV) are positive. There is also evidence that in some companies insider ownership is high.

Non-controlling shareholders holding dismal proportion of shares in listed companies in Fiji is of concern. In stock exchanges that have a proportion of non-controlling shareholders also tend to have a high level of liquidity. The companies (on an average basis) are not highly leveraged, thus supporting the view that companies use retained earnings as a source of funds for investment. Block owners tends to be insiders of the company. Both managerial ownership (MOWN) and large owner (LOWN) have negative coefficients and are statistically significant at 1%. The results generally show that ownership is not at the optimum level for the listed companies in Fiji.

In this study, we found that Fijian companies did create value for shareholders; all financial performance was positive. The average proportion of stock held by the twenty largest shareholders is 92%. There is a need to protect and safeguard minority shareholders' interests as majority of shareholders are held by "insiders" to company.

There are myriad of factors that affect listing and provide plausible reasons for only a small number of companies being listed in the SPSE. These factors include: high proportion of block and/or institutional holding which signals that minority investors may be not well protected; risk averse small and mum/dad investors tends to deposit money in banks rather than undertake risky investments; less educated and unsophisticated investors; underdeveloped brokerage community; low level of interest from local and member countries business community; and lack of clarity and understanding of the legislation regarding protection of shareholder/minority rights. These factors are further culminated by the restrictions imposed by the regulatory regimes of individual island nations and the lack of accessibility because of the absence of an IT-based trading infrastructure. Furthermore, the political instability created in Fiji by coups of 1987, 2000 and 2006 have raised international awareness that Fiji is not a safe place for investment and thus signaling investors both local and international to stay away. The subsequent coups have created an international reputation of Fiji having a coup-culture.

According to Judge et al. (2008), corporate governance legitimacy is conceptualised as one of the means by which a nation constrains and directs corporate so that it efficiently creates economic value and equitably distributes economic wealth. Hence the legitimacy of corporate governance system is pivotal to Fiji's economic system. There were global pressures on Fiji to improve its corporate governance practices. The donor agency of Asian Development Bank funded and supported the establishment of the Capital Market Development Authority in Fiji. Some technical assistance in form of personnel was made available by the ADB for a brief period so that the locals are trained to undertake such governance exercise. ADB was a source of coercive isomorphic pressure on Fiji's capital market which helped to enhance credibility and confidence and ultimately, the legitimacy of the companies.

While seeking to preserve its legitimacy, companies have adopted such ideas as corporate governance codes of conduct and audit committees. However, observers have noted that these governance actions result from institutional pressures and amount more to "myth and ceremony" than to substantive action and improved social welfare (Meyer & Rowan, 1977; Judge et al., 2008). Large proportion of equity in Fiji's capital market is owned by insiders such as board of directors and management of the respective companies.

One of the functions of institutions is to constrain and standardise social behaviour through regulative mechanisms. Therefore, regulative institutions such as CMDA and SPSE set rules, monitor compliance, sanction certain activities and punish others. Force, fear and expedience are certain ingredients of the regulative pillar (Suchman, 1995). As such, the institution of law and order is institutional predictor of the legitimacy of corporate governance in Fiji.

For our knowledge, this is an initial systematic study of institutional theory applied to corporate governance legitimacy study in Fiji. To date, relatively little study have been undertaken regarding the compliance of listed companies in the corporate governance code in Fiji. Our study intends to extend the literature on corporate governance practices in Fiji's financial market. The study is based on a single emerging economy, Fiji and on corporate governance legitimacy. One could question whether our results will hold for other empirical settings and strategic behaviours.

Future research examining corporate governance may like to examine how other cognitive institutions such as ADB membership might influence corporate governance structure and

practices. Such research could also be aimed at exploring corporate governance initiatives in non-listed companies in Fiji or extending the study to cover other parts of the Pacific Island region. The study offers insights for policy makers interested in stock exchange listing requirements/ regulatory issues with associated compliance burdens is better informed as a consequence of the research. The results inform Fijian managers, regulators and policy analysts who are seeking to evaluate the success of past reforms and determine path to further enhance both governance and performance. Our research also offers some practical insights to executives of multinational firms that are seeking to do business in Fiji.

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Table 1
Dependent and Control Variables and their Method of Measurement

Tobin's Q	MVE (the market value estimate is a product of a company's share price and the common stock outstanding) + L/T Debt is the book value of long term liabilities + Net S/T Debt is book value of current liabilities less current assets/Total assets is the depreciated book value of tangible assets.
ROA	Earnings After Tax/Total Assets
ROE	Earnings After tax/Total Shareholders' Equity
EBITDA2R	Earnings Before Interest, Tax, Depreciation and Amortisation/Total Revenue
EV	Revenue
IOWN	Proportion of shares held by the members of the board including top officers of the company who are members of the board
LOWN	Proportion of shares held by the largest shareholder of the company
BOWN	Proportion of shares held by twenty largest shareholders of the company
BDS	Natural log of Board size
NED	Proportion of directors that are non-executive/independent
DIVERS	Proportion of female directors on the board
ACOM	Dummy variable equal to "1" if company has a audit committee, otherwise '0"
RCOM	Dummy variable equal to "1" if company has a remuneration committee, otherwise '0"
LEV	Ratio of total liability to total assets
DIV2TA	Ratio of total dividends paid to total assets
Ln(REV)	Natural log of total revenue
FMRISK	Standard deviation of the quarterly stock price of the company for the year
RGDP	Real gross domestic product per year
IND1	Dummy variable equal to "1" if the company belongs to goods industry, otherwise "0"
IND2	Dummy variable equal to "1" if the company belongs to property industry, otherwise "0"
IND3	Dummy variable equal to "1" if the company belongs to service industry, otherwise "0"
IND4	Dummy variable equal to "1" if the company belongs to investment industry, otherwise "0"
LESS20	Dummy variable equal to "1" if IOWN is less than 20 percent otherwise equal to "0"
OVER20	Dummy variable equal to "1" if IOWN is greater than equal to 20 percent otherwise equal to "0"

Table 2: Sample descriptive statistics for dependent and control variables

Variable	Mean	Median	Min	Max	Inter-quartile range
Q-ratio	1.03	1.09	0.07	2.01	0.26 – 1.81
ROA	0.02	0.06	-1.25	0.25	-0.09 – 0.15
ROE	0.16	0.13	--0.33	2.74	-0.13 – 2.73
EDITDA2REV	0.13	0.15	-0.95	0.51	-0.11– 0.43
IOWN	0.18	0.00	0.00	0.70	0.00 – 0.69
LOWN	0.45	0.45	0.01	0.90	0.14 – 0.75
BOWN	0.91	0.95	0.16	1.00	0.82 – 0.99
BDS	5.68	5.00	3	9	4 - 8
NED	0.22	0.00	0.0	2	0 - 1
FD	0.15	0.00	0.00	2	0 - 1
LEV	0.40	0.36	0.04	1.44	0.13 – 0.68
DIV2TA	0.04	0.03	0.00	0.12	0.00 – 0.10
Log(TA)	4.50	4.56	3.42	5.71	3.59 – 5.52
FMRISK	0.23	0.07	0.00	1.49	0.0 – 1.05
ACOM	0.76	1.00	0	1	
RCOM	0.24	1.00	0	1	
IND1	0.49	0	0	1	
IND2	0.02	0	0	1	
IND3	0.32	0	0	1	
IND4	0.17	0	0	1	

Notes: Q ratio is Tobin's Q approximated by taking the sum of the market value of common equity, book value of long term liabilities, book value of net short term debt divided by the net fixed assets. ROA is the net income divided by book value of total assets. ROE is the net income divided by total shareholders' equity. EBITDA2REV is the proportion of earnings before interest, tax, depreciation and amortisation to total revenue. IOWN is the proportion shares held by all members of the board of directors, including top officers of the firm who are members of the board to total shares outstanding. LOWN is the proportion of the shares held by the largest shareholder. LOWN is the proportion of shares held by the largest shareholder of the firm. BOWN is the proportion of shares held by 20 largest shareholders of the firm. BDS is the number of directors on the board. NED is the number of independent/non-executive directors on the board. ACOM is dummy variable set equal to "1" if companies have an audit committee, otherwise it is set equal to "0". RCOM is dummy variable set equal to "1" if companies have remuneration committee, otherwise it is set equal to "0". DIV2TA is the dividend divided by book value of the total assets. LEV is the proportion of the debt defined as long term liabilities plus short term liabilities divided by the total assets. Ln (TA) is the natural log of total assets is proxy for size. FMRISK is the standard deviation of the quarterly stock price of the company's stock for each year from 2008 to 2010. IND1 is the dummy variable equal to "1" if the industry is goods; otherwise it is equal to "0". IND2 is the dummy variable equal to "1" if the industry is property or otherwise equal to "0". IND3 is the dummy variable equal to "1" if the industry is service; otherwise equal to "0". IND4 is the dummy variable equal to "1" if the industry is investment; otherwise it is equal to "0".

Table 3: Correlation matrix for control variables

Notes: IOWN is the proportion shares held by all members of the board of directors, including top officers of the firm who are members of the board to total shares outstanding. LOWN is the proportion of the shares held by the largest shareholder. BOWN is the proportion of shares held by the largest shareholder of the firm. BOWN is the proportion of shares held by 20 largest shareholders of the firm. BDS is the number of directors on the board. NED is the proportion of the independent/non-executive directors on the board. DIVERS is the proportion of the female directors on the board. ACOM is dummy variable set equal to “1” if companies have an audit committee, otherwise it is set equal to “0”. RCOM is dummy variable set equal to “1” if companies have remuneration committee, otherwise it is set equal to “0”. DIV2TA is the dividend divided by book value of the total assets. LEV is the proportion of the debt defined as long term liabilities plus short term liabilities divided by the total assets. Ln (TA) is the natural log of total assets is proxy for size. FMRISK is the standard deviation of the quarterly stock price of the company’s stock for each year from 2008 to 2010. IND1 is the dummy variable equal to “1” if the industry is goods; otherwise it is equal to “0”. IND2 is the dummy variable equal to “1” if the industry is property or otherwise equal to “0”. IND3 is the dummy variable equal to “1” if the industry is service; otherwise equal to “0”. IND4 is the dummy variable equal to “1” if the industry is investment; otherwise it is equal to “0”.

	IOWN	BOWN	LOWN	BDS	NED	DIVERS	ACOM	RCOM	LEV	DIV2TA	Log(TA)	FM RISK
IOWN	-											
BOWN	0.0104 (0.518)	-										
LOWN	0.052 (0.747)	0.315** (0.045)	-									
BDS	-0.282* (0.074)	-0.153 (0.340)	-0.425** (0.006)	-								
NED	0.265* (0.094)	-0.196 (0.220)	-0.071 (0.661)	-0.170 (0.287)	-							
DIVERS	-0.160 (0.316)	-0.084 (0.600)	-0.231 (0.147)	0.529*** (0.000)	-0.132 (0.412)	-						
ACOM	0.019 (0.905)	-0.181 (0.258)	-0.032 (0.844)	0.103 (0.521)	0.209 (0.190)	0.203 (0.203)	-					
RCOM	-0.019 (0.905)	0.181 (0.278)	0.032 (0.844)	-0.103 (0.521)	-0.209 (0.190)	-0.203 (0.207)	-0.019 (0.309)	-				
LEV	0.305* (0.053)	0.017 (0.914)	-0.032 (0.842)	0.202 (0.206)	0.005 (0.974)	-0.026 (0.872)	0.147 (0.360)	-0.147 (0.360)	-			
DIV2TA	-0.253 (0.111)	0.112 (0.485)	-0.076 (0.637)	0.079 (0.626)	-0.208 (0.192)	0.246 (0.121)	-0.166 (0.301)	0.166 (0.301)	-0.122 (0.448)	-		
Log(TA)	-0.251 (0.113)	0.103 (0.522)	0.001 (0.993)	0.569*** (0.000)	-0.179 (0.2630)	0.225 (0.158)	0.084 (0.600)	-0.084 (0.600)	0.370** (0.017)	0.085 (0.598)	-	
FM RISK	0.012 (0.941)	0.097 (0.547)	-0.078 (0.626)	-0.033 (0.836)	-0.046 (0.775)	-0.132 (0.410)	-0.402** (0.009)	0.402** (0.009)	-0.156 (0.331)	-0.093 (0.564)	-0.236 (0.139)	-

*** Correlation is significant at the 0.01 level (2-tailed) ** Correlation is significant at the 0.05 level (2-tailed); * Correlation is significant at the 0.10 level (2-tailed)

Table 4: OLS Regression of Tobin's Q, MB and ROA on Governance and Control variables

Equation 1								
Independent Variable	Q		ROA		ROE		EBITDA2REV	
	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering
Constant	-2.91⁺⁺ (-2.85)	1.38	0.66 (0.93)	0.71	-1.14 (-0.64)	1.78	0.34 (0.27)	1.25
IOWN	-0.046^{**} (-2.15)	0.32	-0.44^{***} (-4.81)	0.09	-0.88^{***} (-3.84)	0.23	-0.45^{**} (-2.78)	0.16
LOWN	-1.48^{**} (-2.64)	0.40	-0.08 (-0.56)	0.14	-0.07 (-0.22)	0.34	-0.12 (-0.50)	0.24
BOWN	0.28 (0.45)	0.32	-0.32[*] (-1.75)	0.19	0.01 (0.02)	0.47	-0.24 (-0.76)	0.33
BDS	0.54 (0.58)	1.33	-0.57^{**} (-2.02)	0.28	-0.50[*] (-1.89)	0.71	-0.96[*] (-1.95)	0.49
NED	-0.03 (-0.04)	0.42	-0.30 (-1.38)	0.22	-0.28 (-0.52)	0.55	-0.12 (-0.30)	0.38
DIVERS	-1.18 (-0.83)	1.57	-0.14 (-0.27)	0.54	-0.55 (-0.59)	1.35	0.71 (0.76)	0.94
ACOM	4.15⁺⁺ (2.65)	0.95	-0.18 (-0.30)	0.61	1.73 (1.14)	1.53	0.41 (0.38)	1.07
RCOM	4.08⁺⁺ (2.45)	0.97	-0.25 (-0.41)	0.61	1.98 (1.29)	1.54	0.40 (0.37)	1.07
LEV	0.52 (1.52)	0.26	0.77^{***} (7.51)	0.10	1.75^{***} (6.79)	0.26	0.66^{***} (3.62)	0.18
DIV2TA	3.80⁺⁺ (2.26)	2.30	2.33^{***} (3.53)	0.66	1.16^{***} (3.80)	0.75	1.93 (1.66)	1.17
Ln(REV)	-0.12⁺⁺ (-2.15)	0.04	0.06^{***} (3.44)	0.66	0.08[*] (1.82)	0.04	0.06^{**} (3.16)	0.03
FMRISK	-0.01 (-0.06)	.15	0.06 (0.88)	0.07	-0.13 (-0.76)	0.18	0.01 (0.09)	0.12
Dep2TA	-4.03 (-1.30)	1.36	-1.53 (-1.66)	0.93	3.12 (1.33)	2.34	-0.38 (-0.24)	1.63
Int2TA	3.03⁺⁺ (1.22)	1.68	0.08 (0.17)	0.46	0.92 (0.79)	1.16	0.35 (0.43)	0.81
RGDP	-0.03 (-0.50)	0.20	-0.01 (-0.28)	0.02	0.06 (1.24)	0.05	-0.01 (-0.15)	0.03
Industry Dummy	Yes		Yes		Yes		Yes	
F Statistics (p value)	3.39^{**} (0.003)		6.57^{***} (0.000)		3.66^{***} (0.001)		2.59^{**} (0.016)	
R2 (Adj. R2)	0.74 (0.52)		0.85 (0.72)		0.75 (0.56)		0.68 (0.42)	
N	43		43		43			

*** Significance at the 0.001 level (2-tailed), ** Significant at the 0.01 level (2-tailed), † Significant at the 0.05 level (2-tailed)

Table 5: OLS Regression of Tobin's Q, MB and ROA on Ownership, Governance and Control variables

Equation 2								
Independent Variable	Q		ROA		ROE		EBITDA2REV	
	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering	Coefficient	Standard error after adjusted for clustering
Constant	-4.00* (-1.79)	2.23	1.22** (2.12)	0.58	0.73 (0.97)	0.76	0.55 (0.42)	1.32
IOWN	0.74 (1.49)	0.49	0.32*** (2.48)	0.13	0.41** (2.44)	0.17	0.36 (1.22)	0.29
Less20	0.60 (1.40)	0.43	-0.01 (-0.08)	0.11	-0.05 (-0.36)	0.15	-0.15 (-0.57)	0.26
Over20	-0.11 (-0.22)	0.48	0.01 (0.09)	0.13	-0.02 (-0.12)	0.16	-0.05 (-0.18)	02.9
LOWN	-1.13** (-2.67)	0.42	-0.04 (-0.45)	0.11	-0.07 (-1.31)	0.05	-0.12 (-0.82)	0.34
BOWN	-0.44* (-2.69)	0.58	-0.21 (-1.39)	0.15	-0.34* (-1.75)	0.20	-0.27 (-0.820)	0.34
BDS	0.67 (0.78)	0.86	-0.31 (-1.40)	0.22	-0.57* (-1.96)	0.29	-0.99* (-1.93)	0.51
NED	0.28 (0.41)	0.68	-0.22 (-1.25)	0.018	-0.32 (-1.38)	0.23	-0.17 (-0.42)	0.40
DIVERS	-2.04 (-1.23)	1.67	-0.15 (-0.35)	0.43	-0.11 (-0.21)	0.57	0.78 (0.79)	0.99
ACOM	4.76** (2.53)	1.87	-0.26 (-0.55)	0.48	-0.21 (-0.34)	0.64	0.31 (0.28)	1.11
RCOM	4.84** (2.56)	1.89	-0.33 (-0.67)	0.49	-0.29 (-0.45)	0.64	0.28 (0.25)	1.13
LEV	0.58* (1.83)	0.32	-0.61*** (-7.42)	0.08	-0.77*** (-7.17)	0.11	-0.66** (-3.50)	0.18
DIV2TA	5.32** (2.13)	2.13	1.31** (2.36)	0.55	2.26** (3.12)	0.72	1.72 (1.36)	1.27
Ln(REV)	-0.15** (-2.79)	0.22	0.04** (3.07)	0.01	0.06** (3.31)	0.02	0.10** (3.13)	0.03
FMRISK	-0.60 (-0.27)	0.22	0.05 (0.78)	0.06	0.07 (0.92)	0.08	0.03 (0.26)	0.13
Dep2TA	-2.93 (-1.02)	2.89	-1.22 (-1.63)	0.75	-1.56 (-1.63)	0.98	-0.55 (-0.32)	1.71
Int2TA	3.05** (2.46)	1.43	-0.04 (-0.11)	0.37	0.05 (0.11)	0.48	0.28 (0.33)	0.84
RGDP	-0.19 (-0.32)	0.06	-0.01 (-0.38)	0.02	-0.07 (-0.33)	0.02	-0.01 (-0.25)	0.04
Industry Dummy	Yes		Yes		Yes		Yes	
F Statistics (p value)	3.89*** (0.001)		5.01*** (0.000)		5.49*** (0.000)		2.21** (0.038)	
R2 (Adj. R2)	0.80 (0.59)		0.83 (0.67)		0.85 (0.69)		0.69 (0.38)	
N	43		43		43		43	

***Significance at the 0.001 level (2-tailed), **Significant at the 0.01 level (2-tailed), †Significant at the 0.05 level (2-tailed)