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Determinants of corporate governance disclosures by Australian listed companies subsequent to the introduction of ASX listing rule 4.10.3

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Determinants of Corporate Governance Disclosures by Australian Listed Companies Subsequent to the Introduction of ASX Listing Rule 4.10.3.

By

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ABSTRACT

This study has considered the incentives motivating listed mining and industrial companies to provide governance related disclosures in their annual reports. An examination is made of the impact of listing rule 4.10.3 that was applicable from 30 June 1996. Accordingly the years 1995, 1996 and 1997 are examined. A sample of 100 mining companies and 100 industrial companies was drawn primarily from the Connect 4 database of companies. Adopting political cost theory the study hypothesised that governance disclosures were positively related to the proportion of non-executive directors, gearing, ownership diffusion, Big 6 external auditor and firm size.

Two measures of governance disclosure are examined. Firstly, governance disclosures were measured using a dichotomous index of 30 items suggested by the Australian Stock Exchange (ASX) through Appendix 4A of the listing rule. The second measure included the 30 items suggested by the ASX together with an additional 25 items of governance disclosure found in the annual reports of companies included in the sample. In total, the second dichotomous index comprised 55 items. For both measures of governance disclosure, each item disclosed by the company received a score of "1", otherwise "zero". Items disclosed were added and the total score for each company was used in statistical analysis. The comprehensive index applied in the current study has not been employed in previous studies.

Overall, descriptive results indicated governance disclosures have increased significantly over the period 1995 to 1997 for both mining companies and industrial companies for both measures of governance disclosures. In 1995, companies that had a separate governance statement in their annual report was 68. This more than

doubled after the introduction of the listing rule, where 189 companies in 1996 and 191 companies in 1997 had a separate statement. This indicates an increase of 173% for mining companies and 188% for industrial companies.

Prior to the introduction of the listing rule, the mean number of governance disclosures suggested by the ASX for mining companies in 1995 was 9.82 disclosures. After the listing rule introduction, the mean number of governance disclosures increased to 16.27 disclosures in 1996, and, 17.54 disclosures for 1997. The mean number of ASX plus additional items of governance disclosure for mining companies in 1995 was 14.26. After the introduction of the listing rule the mean number of governance disclosures increased to 22.66 disclosures in 1996 and 24.31 disclosures in 1997.

For industrial companies, the mean number of governance disclosures suggested by the ASX prior to the listing rule introduction in 1995 was 9.29 disclosures. The mean number of disclosures increased to 16.62 disclosures for 1996 and 17.45 disclosures for 1997. ASX suggested and additional disclosures for industrial companies also increased. In 1995, the mean number of disclosures was 13.59 disclosures, this increased after the listing rule was introduced to 23.01 disclosures in 1996 and 24.29 disclosures in 1997.

The highest ranked items of governance disclosure for mining companies in 1995 were the break-up of directors into executive and non-executive, and acknowledging that risks exist. For industrial companies the highest ranked items were the break-up of directors into executive and non-executive, and presence of an audit committee. After the listing rule became operational, the highest ranked items for mining companies in 1996 and 1997 remained the break-up of directors into executive and non-executive, and acknowledging that risks exist. For industrial companies the highest ranked items in 1996 and 1997, were the break-up of directors into executive and non-executive, and acknowledging that risks exist, acknowledgment of ethical standards and information on the responsibilities of the board of directors. Audit and remuneration related information was the most prevalent category of disclosure for both mining and industrial companies. However, some individual items of disclosure within these categories were not adequate.

Although governance disclosures have consistently increased for both industry groups, findings have highlighted some areas where disclosures are lacking. Prior to the introduction of the listing rule an area of governance where disclosures were lacking with mining companies included procedures for reviewing the membership of the board of directors. In 1997 65% of mining companies and 77% of industrial companies did not disclose this item. Disclosure on the main procedures for establishing and reviewing the compensation arrangements for executive and non-executive directors was also lacking prior to and after the listing rule introduction. For mining companies in 1997, 49% of companies did not disclose the main procedures for reviewing compensation arrangements of executive directors and 56% of companies did not disclose compensation arrangements for non-executive directors. For industrial companies in 1997, 72% did not disclose procedures for the review of executive directors' compensation and 67% did not disclose procedures for reviewing non-executive directors' compensation. There was also a lack of disclosure for both mining companies and industrial companies on the procedures for nominating external auditors and reviewing the adequacy of external audit arrangements with an emphasis on the scope and quality of the audit.

Regression analysis has indicated support for a number of the hypotheses tested. Model 1 examined ASX suggested governance disclosures. Prior to the introduction of the listing rule in 1995, firm size was the only significant variable for mining companies. Firm size and ownership diffusion were both significant for industrial companies in 1995. The independent variables gearing, ownership diffusion, Big 6 external auditor and firm size were significant for mining companies in 1996 and 1997 after the introduction of the listing rule. For industrial companies, gearing, and firm size were significant in 1996, and ownership diffusion, firm size and proportion of non-executive directors were significant in 1997. Proportion of non-executive directors was negatively correlated to governance disclosures, this was not in the expected direction.

Model 2 examined ASX suggested governance disclosures together with additional items of actual disclosure. In 1995 before the listing rule was introduced, ownership diffusion and firm size were significant for both mining and industrial companies. In 1996, for both mining companies and industrial companies, after the listing rule was introduced, the independent variables gearing, ownership diffusion, Big 6 external auditor and firm size were significantly related to governance disclosures for mining and industrial companies. In 1997 all independent variables were significant for mining companies. For industrial companies in 1997 ownership diffusion, Big 6 external auditor and firm size were significant.

The research findings show that governance disclosures have increased considerably since the listing rule was introduced on 30 June 1996. There is also evidence of some differences between governance disclosures being made by mining and industrial companies before and after the introduction of ASX listing rule 4.10.3.

Prior to the introduction of the listing rule, ownership diffusion was significant for industrial companies and not mining. After the introduction of the listing rule in 1997, an unforseen significant negative association of proportion of non-executive directors to governance disclosures for industrial companies was found. Gearing was significant for mining companies in 1997 and not significant for industrial companies.

DECLARATION

I certify that this thesis does not, to the best of my knowledge and belief:

(i) incorporate, without acknowledgment, any material previously submitted for a degree or diploma in any institution of higher education;

(ii) contain any material previously published or written by another person except where due reference is made in text; or

(iii) contain any defamatory material.

Lisa M. Cullen

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CHAPTER 1

INTRODUCTION

This study adopts political cost theory to empirically examine the relationship of governance disclosures by listed Australian mining and industrial companies to selected corporate characteristics following the introduction of listing rule 4.10.3[1].

Background of the study

The topic of corporate governance has emerged in importance with a number of corporate failures in Australia and around the world from the 1980's through to the present time[2]. Calls for the reform of corporate governance systems have resulted from more widespread and comprehensive media coverage that has focused attentions on corporate governance failures[3] and managerial accountability. In Australia this process of reform has included the introduction of the Australian Stock Exchange (ASX) listing rule 4.10.3 which became operational on or after 30 June 1996. Appendix 4A[4] of this listing rule provides a list of suggested governance items a company may choose to disclose in their annual report.

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1 Previously listing rule 3C(3)(j). Specific details of the listing rule are detailed in Appendix A.

2 Evidence of recent Australian and overseas companies' failures with corporate governance contributing to their demise can be found in the following newspaper articles, Collins (2002), Buffini (2002), and Davis (2002).

3 Recent corporate failures in Australia include HIH, OneTel, Ansett and Harris Scarfe.

4 Refer to Appendix A for a full list of indicative items.

There is no universally accepted definition of corporate governance. A number of informed comments, on what might constitute good corporate governance have been discussed. Among these comments, corporate governance has been referred to as a system by which companies are directed and controlled, (Bosch, 1993). The ASX adds to this by defining corporate governance as the monitoring and controlling mechanisms that are established by companies with the aim of enhancing shareholder value (ASX, 1994). Lewis (1999) broadens the definition to describe corporate governance as a "system of rights, processes and controls established both internally and externally over the management of a business entity with the objective of protecting the interests of all stakeholders" (p. 2). These stakeholders range from shareholders to owners, managers, employees, consumers, suppliers and competitors. Lynn (1996) also emphasises that governance is about accountability where "corporate governance is, in essence, about putting in place and maintaining an appropriate accountability system; management is accountable to the board for its actions, and the board is accountable to the owners for its oversight of management" (p. 16).

The increasing globalisation of companies has added to the debate on what constitutes good governance. The Organisation for Economic Co-operation and Development (OECD) has formed a task force on corporate governance and released a paper in 1999, (OECD Principles of Corporate governance, SG/CG/(99) 5). The paper makes several recommendations on what constitutes good governance disclosures. The paper suggests that good corporate governance "should provide proper incentives for the board and management to pursue objectives that are in the interests of the company shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently" (p. 2). In addition, the

OECD is trying to encourage uniformity in disclosures between companies so that investors can make more informed comparisons between companies.

Around the world a number of corporate watchdogs have contributed to the debate and made recommendations regarding best practice in the area of board composition and structure. From the United Kingdom (UK) advice has come from the Cadbury, Greenbury and Hampel Committees. Contributions from the United States (US) came from discussions by the American Law Institute. In Australia, early recommendations on appropriate governance principles came from the Bosch Committee, and the Investment and Financial Services Association Ltd (IFSA)[5]. The introduction of the Cadbury report in the UK had particular influence in Australia. In 1994, subsequent to the release of the Cadbury report, the ASX released a discussion paper on appropriate governance practices. This subsequently led to the introduction of the new ASX listing rule 4.10.3.

This listing rule requires each listed company to provide a statement of the main corporate governance practices in their annual report for the reporting period. The listing rule is not considered mandatory as governance disclosures are not stipulated and no format of disclosure for companies to follow is prescribed[6] rather an indicative list of items a company may choose to disclose is provided in Appendix 4A of the listing rule. Items of governance disclosure may include such items as

[5] The Investment and Financial Services Association Ltd (IFSA), was previously the Australian Investment Managers Association (AIMA) who merged with the Financial Services Association, along with the Business Council of Australia (BCA). They have been at the forefront of improving disclosure of corporate governance information. IFSA represents the institutional investors in Australia. The AIMA in 1995 issued a well publicised set of guidelines on corporate governance disclosures.

[6] It should be noted, that the ASX has mandated some disclosures relating to corporate governance in relation to naming directors, their positions and any share interests in the company, prior to the new listing requirement 4.10.3. In addition companies are required to disclose the presence of an audit committee under listing rule 4.10.2 and if applicable explain why they don't have one.

whether the chairman is an executive or non-executive director, procedures for nominating directors and external auditors, seeking independent advice, policies and procedures on directors' remuneration, business risks and ethical standards.

Purpose of the research

The purpose of this study is to examine the annual reports[7] of Australian listed mining and industrial companies for governance disclosures in the periods prior to and after the introduction of the ASX Listing Rule 4.10.3. The financial years for 1995 to 1997 are examined. Two classifications of governance disclosures are considered.

The first classification comprises governance disclosures suggested by the ASX in Appendix 4A of the listing rule. From the list of 8 categories described in Appendix 4A, an unweighted dichotomous disclosure index comprising 30 items[8] of governance disclosure was developed. A company receives a score of "1" for disclosing an item and zero for non-disclosure. Total scores for each company are used in the statistical analysis.

The second classification combines the 30 items described above, plus an additional 25 items of actual governance disclosures found in the annual reports of companies in the sample and are not referred to by the ASX. This resulted in an unweighted dichotomous disclosure index comprising 55 governance items. A company receives

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7 The annual report represents one of the most useful mediums for companies to disseminate information about the company, and for interested stakeholders in the firm to use this information for decision making purposes. (Roberts, 1991; Tilt, 1994; Anderson and Epstein, 1995).

8 Table 4.2 details a full list with examples of each governance disclosure item.

a score of "1" for disclosing an item and zero for non-disclosure. Further details of the two models are provided in Chapter 4.

It should be noted that this governance disclosure list of 55 items is not considered to be an exhaustive list of all possible governance disclosures. That is, the current study examines those governance disclosure items suggested by the ASX along with items of actual disclosure found in the annual reports of companies included in the sample.

Adopting the concepts of political cost theory, the current study will identify if any relationship exists between the two models of governance related disclosures and selected corporate characteristics acting as proxies for political visibility. Proxies for political visibility in this study are, proportion of non-executive directors, gearing, ownership diffusion, Big 6[9] external auditor, and firm size. The two industry groups of mining and industrial companies are examined to ascertain if they have differential reporting characteristics with regard to governance disclosures.

This study hypothesises that firms that are more politically visible will be more likely to disclose governance related information. Companies wit'' higher political visibility are more likely to disclose corporate governance information in accordance with Appendix 4A requirements and may also disclose additional information to the listing rule suggestions. Increasing disclosure in the annual report allows firms the opportunity, and means by which they can increase disclosure in an attempt to reduce political cost wealth transfers associated with non-disclosure. Corporate governance

9 At the time of this study the Big 6 audit firms was applicable, however the main audit firms are now referred to as the Big 4 due to the merger of PriceWaterhouse and Coopers and Lybrand and the exclusion of Arthur Anderson.

information assists stakeholders to determine if the company is operating in an ethical manner, and, therefore, encourage them to invest and contribute to the continued growth of the company that makes good governance disclosures.

Significance and contribution of the research

This study is significant for a number of reasons. Firstly the ASX regulators are informed on the degree of governance disclosures being made and areas where governance disclosures are abundant and/or scarce are highlighted. Secondly, it may be possible to identify areas of opposition should more stringent regulation be introduced. Thirdly, this study adds to the body of literature by identifying possible reasons for company governance disclosure practices that may be of interest to the users of annual reports.

Fourthly, governance related studies have been undertaken in Australia with most being conducted prior to the new listing rule becoming operational. The current study examines annual reports for governance disclosures for the years 1995 to 1997, the periods prior to and after the introduction of the listing rule and also differentiates between mining and industrial companies. This approach has not previously been undertaken and provides and an indication of the impact of the introduction of the listing rule on governance disclosure practices.

Finally, the current study adds to the literature by applying a more comprehensive disclosure index of governance disclosure items, hence providing more useful information for assessing the effectiveness of the introduction of this listing rule in eliciting new information. Two unweighted dichotomous indexes are developed. The first index includes governance disclosure items suggested by the ASX and the second index combines the suggested items by the ASX and additional items of actual disclosure. Prior research has not used this methodology.

Organisation of the research

This thesis is organised as follows; Chapter 2 summarises directly related studies that have provided an insight into Australian companies governance disclosure practices. Particular emphasis is placed on studies that have examined listing rule 4.10.3. A brief discussion is also provided for some overseas studies that are indirectly related to the current study. The theoretical framework and hypothesis development is described in Chapter 3. Chapter 4 specifies the methodology employed including the methods of sample selection, sources of data, and research design. A detailed analysis of governance disclosures is presented in Chapter 5 and Chapter 6 provides results of regression analysis. Finally, Chapter 7 concludes the thesis by listing the findings, specifying the limitations, implications of the findings and some suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

Introduction

The purpose of this literature review was to focus on empirical studies that examined Australian governance disclosure practices. An examination is made of studies that relate directly to governance disclosure practices before and after the introduction of ASX listing rule 4.10.3. Gaps and limitations within prior research are identified and a discussion is provided on the areas where the current study extends upon the findings of prior research by eliciting new information. Selected overseas studies that indirectly relate to the current study were also noted.

Australian research directly related

This section is comprised of three sub sections. Firstly, Australian studies examining governance disclosure practices prior to the introduction of the listing rule are discussed. This is followed by studies conducted after the introduction of the listing rule. Thirdly the limitations of these Australian studies are deliberated along with a discussion of how the current study improves upon this prior research.

Australian voluntary governance disclosure studies

Prior research has demonstrated that management display self-interest or opportunistic behaviour with the provision of voluntary information (Lewellen, Park and Ro, 1996). Verrecchia (1983) proposed that management tend to voluntarily disclose favourable information, where the benefit of providing the information exceeds perceived proprietary costs. The majority of information about corporate governance practices is not of great use to its competitors, therefore the costs of providing that information are minimal. Competitors are not the only stakeholders interested in governance disclosures. Some governance information such as risk related or, and salary arrangements or bonus's of managing directors, are of interest to shareholders and subject to discretionary disclosure with favourable information more likely to be disclosed.

Australian studies examining the voluntary disclosure of governance information have been conducted by Stapledon, and Lawrence (1996), the Australian Society of Certified Practising Accountants (ASCPA's) (1996), Carson and Simnett (1997) and Evans and Christopher (1999). A summary of the key research questions, methodologies applied and principal findings of these studies are provided in Table 2.1.

Applying agency theory, the study conducted by Stapledon, and Lawrence (1996) examined the board composition and structure of Australia's 100 largest companies for the year 1995. In particular the study suggested that an increase in the number of independent non-executive directors on company boards would bring about a net reduction in agency costs. Answers were sought to the question of whether corporate governance affects corporate performance and the influences that may affect independent directors' effectiveness. The effect of firm size on board composition/structure was also discussed.

In 1995, the Australian Investment Managers Association (AIMA)[10] published guidelines[11] on appropriate corporate governance for its members. Stapledon and Lawrence (1996) apply the recommendations and definitions provided by these guidelines fundamentally due to the increasing role and influence of institutional investors on corporate governance.

The AIMA guidelines prescribe that the majority of directors should be independent[12]. Contrary to this recommendation, findings by Stapledon and Lawrence indicated that only 43% of the 889 seats held by directors in the top 100 companies were considered independent non-executives. In addition, only 40% of companies had a majority of independent non-executive directors on their board. It was also found that, although 83% of companies had a non-executive chairperson, only 45% of the top 100 had an independent director serving as chairperson. Audit committees were present in all companies. Remuneration committees were present in 66% of the top 100 companies and 19% disclosed a nomination committee.

Stapledon and Lawrence found that larger firms had notable board characteristics. These included that the company was likely to have more directors, more non-executive directors, and more independent directors. Larger firms were also more

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10 The AIMA is now IFSA refer footnote 3.
11 Titled "Corporate Governance: A guide for investment managers and a statement of recommended corporate practice".
12 AIMA guidelines on independent directors are provided in Appendix E.

likely to have an independent chairperson and have a nomination and remuneration committee with a majority of non-executive directors on the remuneration committee.

The Australian Society of Certified Practicing Accountants (ASCPA) conducted a survey of governance disclosures of 100 of Australia's top listed companies with a year-end in 1995. This study examined the extent to which recommended corporate governance practices were being adopted prior to the introduction of the ASX Listing Rule 4.10.3 that became operational on 30 June 1996.

The ASCPA study found that the majority of entities in the sample were providing corporate governance disclosures. Specifically, the study found 57% of firms had a separate section in their annual report dedicated to governance disclosures. Disclosures in relation to board structures were more prominent than disclosures of methods. Audit committees were found to be present in 90% of firms, but few had nomination committees. Surprisingly the study highlighted those governance disclosures that related to internal controls and reviews were almost non-existent. Given that most companies have very comprehensive processes in place to comply with ASX and Corporations Law, the ASCPA indicated that firms were probably being unnecessarily modest in failing to disclose summaries of these procedures. Very few of the entities provided the type of detail suggested by the ASX.

The ASCPA (1996) study emphasised that users of financial statements could be provided with better information. In particular 31% of entities did not clearly identify executive and non-executive directors. Information on the composition of board committees was not disclosed. Some entities did not disclose their governance related information in an organised format in one place. For example within a governance statement, director or chairman's report.

Adopting agency theory, Carson and Simnett (1997) conducted an empirical study that applied regression analysis to examine the relationship between voluntary governance disclosures and selected corporate characteristics. These characteristics included firm size, shareholder dispersion, shareholder concentration, auditor type, dominant personality, foreign stock exchange listing, leverage, and percentage of ownership by institutional investors, risk and proportion of independent directors.

The annual reports of a sample of 473 industrial companies as at 30 June 1995 were examined for 8 specific items of governance related disclosure as suggested by the ASX. Appendix A of the current study lists these items. This list was used to create an unweighted governance disclosure index that comprised 8 items each with equal weighting.

Descriptive results indicated a low level of voluntary disclosure with the average disclosure score being 1.7241 out of a possible 8. Descriptive statistics for independent variables indicated that the top twenty shareholders held 72% of the issued capital, and Big 6 audit firms audit 64% of the companies. Findings showed that variables were highly correlated, which supported the use of backward stepwise regression to identify the effect of multicollinearity.

Regression results by Carson and Simnett (1997) found size, shareholder dispersion and percentage of ownership by institutional investors to be significantly positively related to the level of voluntary governance related disclosure. Auditor type was not found to be significant.

Evans and Christopher (1999) examined a sample of 72 Australian mining companies for 1995, to determine if there was a relationship between voluntary governance disclosures and selected firm characteristics. The authors suggested that firms voluntarily report governance information to maximise firm value through mitigating agency and/or political costs. Five propositions are tested. The incidence of voluntary governance related information is positively associated to firm size, leverage, ownership diffusion, return on assets, and negatively associated to CEO/Chairman duality. Governance disclosures are measured using an unweighted index where disclosure of an item receives a score of "1" and non-disclosure receives "0" score. Similar to the Carson and Simnett (1997) study the disclosure index was derived from the ASX suggested list of items.

Descriptive results indicate 33.3% of companies had a separate governance statement and 88.9% of companies clearly disclosed the break-up of directors into executive and non-executive. Few disclosures were made in relation to risk and ethics. Findings indicated a positive relationship to firm size, return on assets and CEO duality. No significant results were found for leverage and ownership concentration.

Table 2.1

Summary of Australian voluntary governance disclosure studies

Author(s)	Sample	Research Question(s)	Methodology	Principal Findings
Stapledon, G. and Lawrence, J. (1996)	100 companies ranked by market capitalisation, listed on the ASX as at the 29 December 1995.	Agency theory used to investigate the question of whether corporate governance affects corporate performance, and factors limiting the effectiveness of independent directors, and the effect of firm size on board composition and structure is examined.	1995 Annual report data obtained from the ASX Datadisc CD-Rom database. Phone calls to the company secretary, investor relations office, or both were used to confirm any data whose accuracy was doubted. Applies AIMA guidelines as a benchmark, in particular, a number of assumptions were employed in the study when evaluating whether directors met the AIMA criteria for independence.	Compliance with key AIMA recommendations on board composition and independence of the chairperson were low with only 43% of companies having independent non-executive directors. All 100 companies had audit committees, 66% had remuneration committees, and 19% had nomination committees. Only 56% of companies conformed to the AIMA recommendation that the audit committee should be comprised solely of non-executive directors. AIMA guidelines require members of remuneration and nomination committees to be a majority non-executive. Results were consistent with this. Larger firms were likely to have more directors, more non-executive directors, more independent directors, an independent chairperson, a nomination committee, a majority of non-executive directors on sub committees, and an independent remuneration committee chairperson.

Table 2.1 (continued)

Author(s)	Sample	Research Question(s)	Methodology	Principal Findings
ASCPA (1996)	Top 100 companies from top 150 listed on ASX by market capitalisation.	Survey of voluntary governance disclosures made as at 30 June 1995.	Exploratory study into the extent and types of corporate governance disclosures being made. Uses the indicative list provided by the ASX Appendix 4A as a basis for survey questions on board composition, audit, compensation and nomination committees, directors interest, ethics and risk management.	The key findings were that the majority of entities were providing corporate governance disclosures. Audit committees were present in 90% of firms. Few companies had nomination committees. Disclosures in relation to internal controls and reviews were almost non-existent. Very few of the entities provided the type of detail suggested by the ASX.
Carson, E. and Simnett, R. (1997)	A final sample of 473 industrial companies for 1995 with 30 June balance date.	Applying agency theory, the relationship of corporate governance disclosures to selected corporate characteristics is examined.	Governance disclosures measured using the indicative list provided by the ASX Appendix 4A. Regression analysis is used to test the relationship between levels of governance disclosures and the independent variables of size, shareholder dispersion, shareholder concentration, auditor type, dominant personality, foreign stock exchange listing, leverage, percentage of ownership by institutional investors, risk and proportion of independent directors.	Governance disclosures found to be associated with firm size, institutional investors and independent chairperson.

Table 2.1 (continued)

Author(s)	Sample	Research Question(s)	Methodology	Principal Findings
Evans, R., and Christopher, T. (1999).	72 Mining companies selected from the list of Top 500 listed on ASX from the Connect 4 database for 1995.	This study uses efficient contracting and information perspective's of economic consequence theory to examine the incentives motivating Australian listed mining companies to voluntarily report governance related procedures in their annual report.	Multivariate analysis to determine if a positive relationship exists between governance disclosures and firm size, leverage, ownership diffusion, return on assets and a negative relationship to CEO/Chairman duality.	Voluntary disclosure of corporate governance information was positively related to firm size, CEO duality and return on assets. No significant relationship was found for leverage and ownership diffusion.

Australian governance studies after the introduction of listing rule 4.10.3.

Studies examining the impact of the listing rule were by Ramsay and Hoad (1997) and Evans and Christopher (2001) who provide a descriptive analysis on the extent of governance related disclosures. Carson (1999) conducted an empirical based study that applied regression analysis to examine the relationship of governance disclosures to selected firm characteristics. A summary of the key research questions, methodologies applied and principal findings of these studies is shown in Table 2.2.

Ramsay and Hoad (1997) examined the 1996 annual reports of 268 companies listed on the ASX for governance related disclosures. The list of suggested items by the ASX in Appendix 4A of the ASX Listing Rule 4.10.3 provided a basis to examine the extent and types of governance disclosures made. The items included were modified to make them more manageable for analysis and discussion and focussed on the following four areas; Board composition, access to independent advice, remuneration for management and directors and audit, risks and ethics. A total of 11 items were examined.

Companies in the study were divided into small medium and large based on market capitalisation along with industry classifications being recorded. The intention was to enable comparisons between companies of varying sizes and to highlight variances in disclosure practices for the different industry groups. A sample of 100 companies was drawn from each grouping. After discarding some companies because data were not available or they were foreign listed companies a final sample of 68 large, 100 medium and 100 small companies were included. The extent of governance disclosures was expected to favour larger companies as larger companies have more resources to prepare detailed disclosure statements and are more likely to be influenced by international trends and shareholder pressures especially where large institutional shareholders have an impact.

Disclosure practices of listed Australian companies indicate that all large companies, 98% of medium and 97% of small companies had a separate governance statement with an average length of 1.75 pages. The banking and finance companies disclosed noticeably more than all other companies disclosing on average 3.56 pages. This above average result was to be expected given the stringent legal implications surrounding the industry along with higher levels of financial risk.

An attempt was made by Ramsay and Hoad (1997) to highlight that the quality of disclosures is more important than the quantity. However, quantitative results provide a focus for comparatives. In examining Board composition, 60% of company's boards were found to contain non-executive directors and 57% had a non-executive chairperson. However, the AIMA guideline that the majority of the board members should be independent is not the case, with only 7% stating that their boards contained a majority of independent directors. This result was to be expected given that the list of governance related items provided by the ASX is only an indicative list and refers to non-executive directors, not independent directors and differences between the two are substantial[13]. Only 57% of companies reported having a non-executive chairperson and 4% had an independent chairperson. It was also noted that 25% of all companies chose not to disclose anything on the status of the chairperson.

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[13] Refer to Appendix E for a summary of AIMA guidelines on independent directors.

The findings indicated that numbers of disclosures on the procedures for the nomination of directors and criteria for board membership were limited. The most common disclosure of criteria for board membership was the requirement to ensure an appropriate "mix of skill and experience" with only 10% of companies disclosing something more than this. Nomination committees were found to be present in 22% of companies.

The disclosure of procedures for reviewing performance of directors was made by 21% of companies. Management performance related information was disclosed by 23% of companies. Sixty-nine percent of large companies disclosed information on the retirement of directors. Disclosure in relation to remuneration levels varied widely between the company groups. Of the large companies, 75% had remuneration committees compared to 71% of medium companies and 26% of small companies.

Audit committees were prevalent throughout, with all 68 of the large companies, 95% for medium and 68% from small companies. A high proportion of companies, 84% acknowledged the importance of risk management, however, the disclosure of any policies and procedures in this regard was very limited except for the banking and finance industry that provided very detailed information of various risks affecting the particular company. Ethical standards were acknowledged by 72% of companies as being important, but only 15% outlined their policies.

In summary the Ramsay and Hoad (1997) study was conducted soon after the introduction of the new listing rule. The purpose was to highlight the adequacy of corporate governance practices at the time and provide some initial benchmarks for continued improvement for future governance disclosure practices. Further to this, interested stakeholders can identify the extent of disclosures being made by other companies. The study also highlighted that the quality of governance disclosure was clearly better for larger companies than for smaller companies. The study identified a key area of concern, in that 65% of companies at this time failed to discuss procedures for reviewing the performance of management and directors.

Carson (1999) examined the relationship of board sub-committees namely audit, remuneration and nomination committees to selected corporate characteristics, including auditor characteristics (Big 6), shareholder characteristics and director characteristics, firm size and board size. The study aimed to provide a "model of development of committee structures which reconciles differences in prior research into audit committee formation and also provides a guide as to the future development of remuneration and nomination committees" (p. 3).

A sample of 363 Australian companies listed on the Connect 4 (C4)[14] database were examined by Carson (1999). Dichotomous scoring was applied to companies. Where an applicable item was disclosed, the company received a scored of "1". Non disclosure received a score of "0". Applicable items related specifically to the presence of an audit, remuneration and audit committee. Investigations found that audit committees were highly developed and associated with Big 6 auditors, institutional investment and firm size. Remuneration committees were found to be associated to the Big 6 auditors and firm size. Nomination committees were only found to be associated to board size.

[14] The C4 database includes the Top 500 companies by market capitalisation listed on the ASX for a particular year.

Evans and Christopher (2001) examined the extent of governance related disclosures in the annual reports of 61 mining companies listed on the ASX for 1995 and 1997. The suggested list of items by the ASX provided a basis for measuring governance disclosures. An unweighted index comprising the items detailed in the ASX suggested list was adopted. A score of "1" was given for the presence of an item of voluntary disclosure in the annual report and a score of "0" for non-disclosure. The study hypothesised that there was a positive increase in corporate governance disclosures in the 1995 to 1997 annual reports of Australian listed mining companies.

The hypothesis was supported with the research showing that all disclosure items increased from 1995 to 1997. The presence of a separate governance statement increased from 32.8% in 1995 to 95.1% in 1997. The four lowest ranked items of disclosure for both 1995 and 1997 were nomination committee in place, director's appointment and retirement procedures, statement relating to risk management and a statement of ethical conduct. The ability of directors to seek independent advice increased from 24.6% to 86.9%.

Limitations of Australian studies

Studies conducted prior to the introduction of ASX Listing Rule 4.10.3 have provided useful insights into governance related disclosures, however, some limitations are evident. Firstly, these studies (summarised in Table 2.1) were conducted prior to the introduction of the new Listing Rule 4.10.3 and the focus was for one time period namely 1995. Studies by Stapledon and Lawrence (1996) and the ASCPA (1996) are both limited by studying only the top 100 companies. The results are, therefore, not generalisable to the wider population.

Stapledon and Lawrence (1997) limit their study to some items of board composition, namely non-executive and or independent chairperson, and majority of non-executive and or independent directors, and the presence of audit, remuneration and nomination committees. Other items of governance related disclosures such as risk and ethics information are neglected. In addition, this study examined primarily the extent of disclosures and empirical analysis was limited to examining the relationship of firm size to governance disclosures, other variables that may have an impact on disclosures were not examined. Similarly, the ASCPA focused on the extent of disclosures and no empirical analysis is conducted.

The studies by Carson and Simnett (1997) and Evans and Christopher (1999) have limitations inherent with the subjectivity in scoring the governance related disclosure items. Each study adopted an unweighted disclosure index of items suggested by the ASX. An examination of the list shown in Appendix A of the current study, suggests that some of these items or categories contain more than one key item. Prior studies have not attempted to extend or separate the individual items contained within this list. An example within Appendix A, is item 6 that relates to auditor information and has several separate items that could be scored. Separate items include commentary on the adequacy of the audit, presence of an audit committee, and the main functions of the committee. The current study separates these 3 items and each receives a score of "1" if disclosed and "0" if not disclosed.

Carson and Simnett (1997) examined only industrial companies and Evans and Christopher (1999) examined only mining companies. The current study includes both mining and industrial companies in the same study. Comparisons are made to determine if there are differential reporting characteristics between the two industry groups.

Studies conducted <u>after</u> the introduction of the listing rule have limitations similar to those mentioned above. Firstly, Ramsay and Hoad (1997) focussed on the extent and types of governance disclosures of larger companies. This study did not empirically examine if a relationship existed between governance disclosures and selected corporate characteristics.

Evans and Christopher (2001) examined only a sample of large mining companies. Similar to previous studies Evans and Christopher adopt an unweighted disclosure index comprising 9 items suggested by the ASX. No attempt was made to broaden this list to each individual item that could be disclosed and may cause some subjectivity in scoring. In addition, this study focused on the extent of disclosures for 1995 and 1997, allowing an analysis of the impact of the listing rule. However, this study did not apply any empirical analysis to determine if a relationship exists between corporate characteristics and governance disclosures. The study did find that companies in the sample that had lower market capitalisation (measure of size) had a lower governance disclosure level.

The Carson (1999) study provides a valuable insight into board sub committees and the relationship of selected corporate characteristics to the presence of these committees. However, this study is limited in that other areas of governance such as risks and ethics are neglected.

The current study attempted to overcome some of the above mentioned limitations by adopting the following enhancements. Firstly, the current study examined the annual reports of 100 mining and 100 industrial companies over the periods prior to and after the introduction of the listing rule, namely 1995, 1996 and 1997. This facilitates a direct examination of the voluntary disclosures made in 1995 and the impact of the introduction of the listing rule in eliciting more governance information in 1996 and 1997. By examining the two industry groups differential governance disclosure practices can be ascertained. The key contribution of the current study is the adoption of an extensive disclosure list of 55 items of governance related information that combine to form an unweighted dichotomous index of disclosure. This approach was introduced in an attempt to reduce some of the subjectivity in scoring evident in previous studies. Of the 55 items, 30 of them relate directly to the suggested items contained in Appendix 4A. The additional 25 items are items of actual disclosure, found in the annual reports of companies included in the sample. To date previous studies have not included additional items of actual disclosure in their analysis. Chapter 4 provides a detailed description of this index.

Table 2.2

Summary of Australian corporate governance literature after the ASX listing rule introduction

Author(s)	Sample	Research Question(s)	Methodology	Principal Findings
Ramsay, I. M. and Hoad, R (1997)	268 listed divided into Large (68), Medium (100) and Small (100), based on market capitalisation. Annual reports for companies with a financial year ended on or after 30 June 1996 are used.	This study examines the governance disclosure practices of Australian companies after the introduction of listing rule 4.10.3.	Content analysis is used to examine the extent of disclosure of the 8 items detailed in Appendix 4A of the ASX listing rules. Examination was also made for the position of the statement, for example, the directors report or separate governance statement. The length of are also obtained. Industry classifications are also used to compare disclosure patterns.	In summary larger companies tend to disclose more than smaller companies. The banking and finance industry tended to have more detailed disclosures. • 25% of companies not disclosing criteria for board membership • In addition 65% of the companies did not discuss procedures for reviewing performance of managers and directors • Non-executive directors present in 60% of companies, 7% independent directors • 57% had non-executive chairperson, 4% independent chairperson • Nomination committee present in 22% of companies • 21% stated regularly reviewed performance of board directors and 23% reviewed performance of management • All large companies had an audit committee • 84% acknowledged importance of risk management and 72% acknowledge importance of ethical standards however only 15% actually outlined their policies

Table 2.2 (continued)

Author(s)	Sample	Research Question(s)	Methodology	Principal Findings
Evans and Christopher (2001)	61 Australian mining companies listed on the ASX for 1995 and 1997 available on the connect 4 database.	Hypothesises that there is a positive increase in governance related disclosures in the 1995 to 1997 annual reports of listed Australian mining companies.	Used an unweighted dichotomous index comprising 9 items of indicative disclosure described in Appendix 4A of the ASX listing rules. A score of "1" is given for the presence of an item of voluntary disclosure in the annual report and a score of "0" for non-disclosure.	Disclosures increased over the periods. Presence of separate governance statements increased from 32.8% to 95.1 %. Ability of directors to seek independent advice increased from 24.6% to 86.9%. The 4 lowest ranked items of disclosure in 1995 and 1997: • Presence of nomination committee • Directors appointment and retirement procedures • Statement relating to risk management • Statement of ethical conduct
Carson, E. (1999)	363 Australian companies from the Top 500 on the Connect 4 database for 1996 and 1997.	Examines the factors associated with board sub committees. Factors divided into auditor, director and investor related.	Logistic regression used to test propositions. Dependent variable – presence of audit, remuneration and nomination committees Independent variables – Big 6 external auditor, proportion of non-executive directors, non-executive chairman, number of directorships of other listed companies, % of shares owned by investment managers, % shares owned by nominee shareholders, % shares owned by other shareholders). Control variables- firm size, and board size.	Audit committees found to be in an advanced stage of development. Positive association to Big 6 auditor and inter-corporate relationships was found. Remuneration committees also found to be related to Big 6 auditor and inter-corporate relationships and institutional investment. Results indicated nomination committees still in the early stages of development and are likely to be associated when board size becomes unmanageable.

Selected indirectly related overseas studies

The purpose of the current study was to examine the impact of Australian listing rule 4.10.3 on governance related disclosures. The specific nature of this study precludes the inclusion of most overseas studies within the literature review. However, due to the large body of overseas studies on various governance issues a brief discussion is provided on the contributions of some selected overseas research that examine various aspects of board composition, firm performance and presence of an audit committee.

Non-executive/independent directors act as both adviser and watchdog, and have the important role of influencing internal control mechanisms and accountability. Overseas studies examining the importance of non-executive directors in their role of monitoring managerial opportunism include Lefwich,Watts and Zimmerman (1981), Fama and Jensen, (1983), Forker (1992). Further, in the United States (US), Byrd and Hickman (1992) suggest that non-executive directors appear to improve accountability in crisis situations. However, Baysinger and Butler (1985) suggest that boards dominated by non-executive directors' place too much emphasis on monitoring at the expense of decision making and advisory roles. Additional studies that examine the drawbacks of having non-executive directors on the company board of directors include Goodstein, Gautum, and Boeker (1994), who suggest that too many non-executive directors stifle strategic actions. Patton and Baker (1987) suggest that non-executive directors lack necessary business knowledge to be effective. Demb and Nuebauer, (1992), Short, (1996), Kosnik, (1987) and Singh and Harianto, (1989) suggest that non-executive directors lack real independence.

Included within the board composition related studies is the argument that the role of the Chief Executive Officer (CEO) or managing director, and chairman should be separated. Arguments in favour of separating the role of CEO and chairman of the board include Argenti, (1976), Rechner and Dalton (1991), Forker, (1992) Shamsher and Annuar (1993), Stiles and Taylor (1993) and Blackburn (1994). Contrary to this, Eisenhardt, (1989); Dahya, Lonie Power, (1996); Rechner and Dalton, (1991) apply arguments based on stewardship theory which implies that managers act in the best interest of the firm and shareholders and suggest the separation of the roles is unimportant as role duality may enhance board effectiveness.

Further studies, primarily from the US examine the relationship of board effectiveness and independence. Results found have been mixed. Dalton, Daily, Ellstrand, and Johnson (1998) found no relationship between board composition and firm performance, whilst Wagner, Stimpert and Fubara (1998) found evidence of firm performance being enhanced by either having a majority of executives of majority of non-executives. Some overseas studies have found a negative relationship between firm performance and board size including Yermack (1996) in the US, Eisenberg, Sundgren, and Wells (1998) in Finland and Conyon and Peck (1998) who examined a number of European economies. Rosenstein and Wyatt (1990) found evidence of positive share price reactions when independent directors are appointed. Weisbach (1988) found support for boards dominated by non-executive directors are more likely to remove the CEO based on poor earnings or share price performance than boards dominated by management.

Agency literature highlights the role of directors' remuneration in providing incentives for directors to promote long-term performance and enterprise. There is weak evidence in the United Kingdom (UK) and US that suggest a link between pay and performance in particular remuneration appears to be related to firm size (Conyon, Gregg, and Machin, 1995). Kren and Kerr (1997) found that the number of non-executive directors had no effect on the relationship between CEO remuneration and firm performance.

Audit committees are mandatory or heavily advocated in a number of countries around the world, including US, UK, Canada, and Malaysia. The notion that audit committees should be comprised solely of non-executive directors has been acknowledged by Treadway, (1987); Cadbury, (1992); and Toronto Stock Exchange (1994) (cited in Carson, 1999). Few studies have examined the effectiveness of audit committees, but one such study was by Beasley (1996) who found evidence that suggested board composition, rather than audit committee presence is more important for reducing the likelihood of fraud. Mixed results were found on factors influencing audit committee formation where Eichenseher and Shields (1985) found a relationship to Big 8 external auditors. Pincus, Rusbarsky and Wong (1989) found lower managerial ownership, higher leverage, larger size Big 8 external auditors and higher proportion of non-executive directors were all positively related to audit committee formation. Contrary to these finding, Bradbury, (1990) in NZ did not find any significant relationships. Collier (1993) in the UK found lower director shareholdings, higher gearing and a higher number of non-executive directors are positively associated with audit committee formation.

Summary

The introduction of Listing Rule 4.10.3 has had a positive impact on the extent of governance disclosures. Deficiencies in prior research do exist, with subjectivity being present in disclosure indexes, and with few studies applying empirical analysis. The current study aims to add to the literature by empirically examining the relationship of governance disclosures, measured by a more extensive less subjective disclosure index, to selected corporate characteristics of mining and industrial companies. The periods prior to and after the introduction of the listing rule and items of actual disclosure will be considered. The following chapter examines political cost theory and discusses the hypotheses to be tested.

CHAPTER 3

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Introduction

The current study adopts political cost theory to explain firm governance disclosure practices. The disclosure of governance information in the annual report represents a means by which companies can improve their reputation and minimise political costs associated with the operations of their companies. This chapter discusses political cost theory and highlights five proxies for political visibility, namely, proportion of non-executive directors, gearing, ownership diffusion, external auditor, and firm size. The findings of previous research are outlined to support the hypotheses to be tested.

Political cost theory

The topic of corporate governance and related disclosure has been receiving more publicity and attention. The large number of corporate failures in the 1980's heightened awareness and companies became more subject to public scrutiny. Significant governance changes resulted in the ways boards were structured, in particular the role of independent and non-executive directors in the monitoring process. Major public corporations acknowledge that they have no choice but to make management more accountable to shareholders and by strengthening the hand of outside directors is a means by which they can do this (Harvard Business Review on Corporate Governance, 2000).

The corporate governance process has received unprecedented public attention and investor activism, primarily due to the wave of board restructuring that peaked in the 1980's, and has resulted in numerous proposals for reform. The increase in shareholder lawsuits and escalating costs of directors and officers liability insurance has resulted in board members feeling the pressure of increased risk. More importantly, board members are facing increasing pressure from holders of large blocks of stock (such as pension and mutual funds), from judicial and regulatory authorities, and from the financial press, all of whom are calling for boards to be more active. "This attention has had an impact in the nations public corporations and has brought about a change in boardroom behaviour that is significant". (Harvard Business Review on Corporate Governance, 2000, p. 54).

Political costs are referred to as the costs that groups external to an organisation can impose upon a firm. For example, organisations can be influenced by governments who can impose increases in taxes, trade unions can influence wage claims and lobby groups can instigate product boycotts (Deegan, 2002). These external groups may be affected by the accounting results of the firm (Watts and Zimmerman, 1978, Wong, 1988, and Deegan and Hallam, 1991). The extent to which a firm is subject to potential wealth transfers in the political process provides management with differential incentives to apply accounting techniques to reduce the potential for these wealth transfers (Watts and Zimmerman, 1986; Key, 1997). An example of political costs imposed upon companies is provided by the recent failures of Worldcom, Enron in the United States and HIH in Australia. Governments have responded strongly with major proposed changes to legislation and fines imposed on directors seen to be acting contrary to the best interest of shareholders.

Watts and Zimmerman (1978), and Holthausen and Leftwich (1983), Whittred and Zimmer (1990), and Deegan and Carroll (1993), have argued that accounting numbers may be used in the wealth transferring process. The use of accounting techniques to reduce political costs has been demonstrated by the disclosure of value added statements to reduce the likelihood of unions justifying further wage claims against the firm, (Deegan and Hallam, 1991). Similarly, management can make choices with regard to the governance disclosures made within their annual report to reduce potential political cost wealth transfers.

The rise of informed institutional investors and shareholder committees have resulted in these groups influencing corporate policy and making demands on corporate disclosure. For example, in Australia IFSA (formerly AIMA) have published guidelines on appropriate governance policies and procedures and have influenced the introduction of governance legislation and ASX listing rules. A study by ASCPA's (1996) found that increasing publicity and attention were influencing an upward trend for the extent of governance related disclosure. Four times as many companies in 1995 were disclosing governance related information since 1994. Research has also demonstrated that users of financial statements regard governance disclosures as having information value in the decision making process. A study conducted in the United States indicated that institutional investors are willing to pay a premium to own shares in a company that demonstrates good corporate governance (Editorial Staff, 2000, Investor Relations Business).

Political cost studies have traditionally been conducted in an unregulated market. This current study applies a political cost framework to examine the motivations of Australian listed companies to disclose governance information prior to and after the introduction of listing rule 4.10.3. With reference to Appendix 4A of the listing rules and Appendix A of the current study, companies are provided with an indicative list of eight governance related items that may be disclosed. However, these disclosures are not clearly defined, therefore, the disclosure of governance related information is still essentially voluntary and disclosure patterns between companies may differ. The following section details the hypotheses indicating governance disclosures will be associated to selected corporate characteristics acting as proxies for political visibility.

Hypotheses development

Using a political cost framework, the current study examines the relationship of governance disclosures of Australian listed companies to a number of explanatory variables. The aim of this section will be to highlight those empirical studies that have identified corporate characteristics that may influence or motivate firms to engage in corporate governance disclosures within their annual report. Testable hypotheses are then developed, where all hypotheses are expected to have a positive relationship to governance disclosures. The following proxies for political visibility are examined, proportion of non-executive directors, gearing, ownership diffusion Big 6 external auditor, and firm size.

Proportion of non-executive directors

The board of directors has been described as the highest level of internal control mechanism within an organisation (Fama and Jensen, 1983). In Australia, both the Bosch Committee and the Australian Investment Managers Association (AIMA)[15] have recommend that the Board of Directors be composed of a majority of non-executive directors. Further to this a majority should also be independent (Pinder, 1998, cited in Goodwin and Seow, 2000) and possess skills, knowledge and expertise to enhance firm performance through an effective board (Baysinger and Butler, 1985, cited in Goodwin and Seow, 2000).

Support from overseas for increasing the number of non-executive directors has come from the Cadbury Report (1992) and the Hampel Committee (1998) in the UK. Each has proposed that a balance of executive and non-executive directors brings an element of independent judgement to the boards decision making. Clapman, (2000) suggests that an independent board will be more willing to press management and prove to be more valuable when it comes to contentious board decisions. Conversely, some authors have argued that non-executive and or independent directors may have a negative effect on board cohesiveness, corporate entrepreneurship and firm performance (Perry, 1995; Hoskisson, 1990; Klein, 1998; Yermack, 1996; Agrawal and Knoeber, 1996, all cited in Goodwin and Seow, 2000).

Fama and Jensen (1983), discuss the notion that non-executive directors are high reputation members of society who view their responsibilities as a means of developing their reputations in corporate decision making. Similarly, Carson and

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[15] The AIMA is now IFSA.

Simnett (1997) contend that independent directors, like auditors, have high reputational capital at stake and would want to be associated with high disclosure companies or would use their influence to make the companies so. A recent Canadian study by Labelle (2002), suggested that internal control devices such as non-executive directors are believed to enhance monitoring and reduce agency costs and are important features of the Toronto Stock Exchange directives. Although logistic regression did not find the proportion of non-executive directors to be significant when examining the disclosure quality of the statement of corporate governance practices, it is still worthy of inclusion in the current study due to the emphasis placed on the importance of non-executive directors.

Several studies provide empirical support for the importance of outside directors. Leftwich, Watts and Zimmerman, (1981), found a significant relationship between non-executive directors and the voluntary disclosure of interim reports for companies in the US. Results of a study by Mak and Roush (2000), were consistent with the argument that firms associated with agency costs are likely to use relatively more outside directors for monitoring purposes. Using logistic regression to examine the relationship of percentage of non-executive directors to governance related disclosures, Carson and Simnett (1997) did not find this variable to be significant in Australian industrial companies. Similarly, results found by Malone, Fries and Jones (1993) and Forker (1992) were not significant.

Research has demonstrated that shareholders regard governance disclosures as having information value in the decision making process. In particular, the appointment of non-executive directors has influenced the share market. Rosenstein and Wyatt (1990), have documented significantly positive share price returns around the announcement of non-executive director appointments. Clearly this highlights how firms management can make disclosure choices to minimise political costs by executing good governance practices and disclosing presence of non-executive directors that may be perceived positively by outside parties thereby reducing political costs. This leads to the following hypothesis:

H1: The proportion of non-executive directors is positively associated with governance disclosures.

The current study examines mining and industrial companies for the years 1995, 1996 and 1997 and governance disclosures include those suggested by the ASX and additional items of actual disclosure. Consequently the above hypothesis can be broken down into the following 12 sub hypotheses;

H1(a): The proportion of non-executive directors in mining companies in 1995 is positively associated with governance related disclosures suggested by the ASX.

H1(b): The proportion of non-executive directors in mining companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H1(c): The proportion of non-executive directors in mining companies in 1996 is positively associated with governance related disclosures suggested by the ASX.

H1(d): The proportion of non-executive directors in mining companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H1(e): The proportion of non-executive directors in mining companies in 1997 is positively associated with governance related disclosures suggested by the ASX.

H1(f): The proportion of non-executive directors in mining companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

H1(g): The proportion of non-executive directors in industrial companies in 1995 is positively associated with governance related disclosures suggested by the ASX.

H1(h): The proportion of non-executive directors in industrial companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H1(i): The proportion of non-executive directors in industrial companies in 1996 is positively associated with governance related disclosures suggested by the ASX.

H1(j): The proportion of non-executive directors in industrial companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H1(k): The proportion of non-executive directors in industrial companies in 1997 is positively associated with governance related disclosures suggested by the ASX.

H1(l): The proportion of non-executive directors in industrial companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

Gearing

Gearing measures the degree to which a firm uses debt capital. As debt capital increases, creditors need assurance from companies that the firm is being managed properly and in such a way that debts can be repaid. Firms with lower gearing in their capital structure would be less likely to be approaching default on debt covenants (Daly and Vigeland, 1983). There is potential for wealth transfers to occur and creditors to call in their debts or to reduce future loans when companies are not seen to be acting in the best interest of creditors. The disclosure of governance related information, in particular policies and procedures for assessing various risks, management can demonstrate to creditors that funds are being used appropriately, thereby reducing the likelihood of creditors increasing interest rates and thereby helping to mitigate potential political costs.

It has been suggested by Jensen and Meckling, (1976) (cited in Deegan and Gordon, 1994), that increases in the amount of capital, causes agency costs to increase. In a similar context political costs will increase. Creditors concern will be heightened if a firm is seen to be misusing funds. Creditors can then monitor the firms operations and protect their loans by adding various conditions to their contracts including changing interest rates and the like.

Prior studies that have examined gearing lack consistency. Selected research has found a significant relationship between gearing and company disclosure. Notably, these studies have all been conducted overseas. Studies by Leftwich, Watts and Zimmerman,1981; Bradbury, 1992; and Malone et al, 1993, all found significant results.

On the other hand several Australian studies have not found gearing to be significant. Carson and Simnett, (1997) conducted a study that examined the association of gearing to governance disclosures of industrial companies in Australia, gearing was found to be insignificant. Evans and Christopher (1999), have conducted a more recent study directly related to corporate governance disclosures prior to the introduction of the ASX Listing Rule 4.10.3. This study examined the voluntary disclosure of governance related disclosures for Australian mining companies. A positive association between governance related disclosures and gearing was predicted. However no significant relationship was found. Further studies that support this result include Chow and Wong-Boren, 1987; Craswell and Taylor, 1992; McKinnon and Dalimunthe, 1993; Carlon and Morris, 1995, Eng and Mak (1999). Ho and Wong (2000) when examining companies in Hong Kong using regression analysis, found gearing to be insignificant.

Despite the previous insignificant results, the study by Carson and Simnett (1997) is limited to only the industrial companies and Evans and Christopher examined only mining companies which limits the generalisability of results. These studies also focussed on the period before the introduction of the listing rule. Consequently as the current study examines both mining and industrial companies and surveys the periods before and after the listing rule became operational, this leads to the following hypothesis:

H2: Firm gearing is positively associated with governance disclosures.

This hypothesis is broken down into the following 12 sub hypotheses:

H2(a) : Mining companies gearing in 1995 is positively associated with governance disclosures suggested by the ASX.

H2(b) : Mining companies gearing in 1995 is positively associated with ASX and additional actual governance related disclosures.

H2(c) : Mining companies gearing in 1996 is positively associated with governance disclosures suggested by the ASX.

H2(d) : Mining companies gearing in 1996 is positively associated with ASX and additional actual governance related disclosures.

H2(e) : Mining companies gearing in 1997 is positively associated with governance disclosures suggested by the ASX.

H2(f) : Mining companies gearing in 1997 is positively associated with ASX and additional actual governance related disclosures.

H2(g) : Industrial companies gearing in 1995 is positively associated with governance disclosures suggested by the ASX.

H2(h) : Industrial companies gearing in 1995 is positively associated with ASX and additional actual governance related disclosures.

H2(i) : Industrial companies gearing in 1996 is positively associated with governance disclosures suggested by the ASX.

H2(j) : Industrial companies gearing in 1996 is positively associated with ASX and additional actual governance related disclosures.

H2(k) : Industrial companies gearing in 1997 is positively associated with governance disclosures suggested by the ASX.

H2(l) : Industrial companies gearing in 1997 is positively associated with ASX and additional actual governance related disclosures.

Ownership diffusion

Ownership diffusion refers to the dispersion of shareholdings in a company and is a variable that provides evidence of the degree of control shareholders have over the firm. Increases in separation of ownership and control increases managements pressure to provide shareholders with information to meet their information demands. Agency theory suggests that where there is separation of ownership and control potential agency costs exist and directors have more incentive to enforce disclosure policies to mitigate these risks. Within the same context there are political incentives for firms to increase disclosure to mitigate potential political costs. Wealth transfers may result from shareholders that may create negative publicity by lobbying against and choosing not to invest in companies without good corporate governance practices. It may be implied that there is incentive for management to disclose more governance information so as to improve shareholders perceptions of managements' decisions and policy choices. Thereby reducing agency and political costs associated with non-disclosure.

The current study defines ownership diffusion as proportion of shareholders other than the top twenty shareholders. This measurement is consistent with studies conducted by Evans and Christopher (1999).

It has been noted in previous research by Frost, 1996 (cited in Carson and Simnett, 1997), that major shareholders are likely to have access to private information about the firms that they hold large investments in. Consequently, the agency/political cost is not as evident as with more dispersed ownership. Therefore, the need to reduce this cost not as great, and disclosure in the annual report not as likely. Disclosing governance information in the annual report represents the primary and most cost effective means of attempting to reduce wealth transfers.

Craswell and Taylor (1992) suggest that ownership diffusion appeared to be related to the extent of disclosure of reserves by oil and gas companies, similarly ownership diffusion could be related to the extent and types of corporate governance disclosures. That is, as ownership becomes more dispersed, it is more likely that more corporate governance information will be disclosed to the larger number of shareholders that have an interest in the firm.

Previous Australian research by Carson and Simnett (1997), hypothesised that "Firms with a higher concentration of shares held by a few shareholders will disclose voluntarily less corporate governance information than firms with a lower concentration of shares held by a few shareholders" (p. 11). This was measured using the top twenty shareholders and was found to be insignificant. As the top twenty shareholders have such a large interest in the firm, they may be privy to information that shareholders that are not in the top twenty may not have access to.
Results on this variable are mixed. Craswell and Taylor (1992) and Carson and Simnett (1997) and Evans and Christopher (1999) did not find this variable to be significant. These studies were all conducted in an unregulated market prior to the introduction of the listing rule. Taking into consideration that the current study

examines a different time period with new rules in place and that a study conducted by McKinnon and Dalimunthe (1993) did find this variable significant, this variable is considered relevant to the current study. This leads to the following hypothesis:

H3: Ownership diffusion is positively associated with governance disclosures.

This hypothesis is broken down into the following 12 sub hypotheses:

H3(a): Ownership diffusion of mining companies in 1995 is positively associated with governance disclosures suggested by the ASX.

H3(b): Ownership diffusion of mining companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H3(c): Ownership diffusion of mining companies in 1996 is positively associated with governance disclosures suggested by the ASX.

H3(d): Ownership diffusion of mining companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H3(e): Ownership diffusion of mining companies in 1997 is positively associated with governance disclosures suggested by the ASX.

H3(f): Ownership diffusion of mining companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

H3(g): Ownership diffusion of industrial companies in 1995 is positively associated with governance disclosures suggested by the ASX.

H3(h): Ownership diffusion of industrial companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H3(i): Ownership diffusion of industrial companies in 1996 is positively associated with governance disclosures suggested by the ASX.

H3(j): Ownership diffusion of industrial companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H3(k): Ownership diffusion of industrial companies in 1997 is positively associated with governance disclosures suggested by the ASX.

H3(l): Ownership diffusion of industrial companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

Auditor (Big 6)

The inclusion of auditor type as a determinant of corporate disclosure is based on the notion that larger auditors such as the Big 6[16] in Australia, will influence companies to disclose as much as possible. Auditors incur costs when entering into contracts with clients and therefore are unlikely to enter into contracts with clients that don't have a positive track record with disclosure as it may reflect badly on them as the auditor (Watts and Zimmerman, 1986). As discussed by Carson and Simnett, (1997), auditors may perceive that improvements in corporate governance disclosures is likely to improve the quality of financial reports produced, thereby reducing risks of litigation.

Previous research has not been conclusive, Carson and Simnett, (1997), did not find auditor type to be significant. A suggested reason for this "may be because the Big 6 firms did not include a corporate governance disclosure in their proforma accounts for listed companies, as the listing rule did not apply at this stage. This study looked at the financial year ending 30 June 1995 and the rule did not apply until 30 June 1996. In a further study by Carson, 1999, Big 6 auditors were found to be influential in the formation of audit and remuneration committees.

[16] In Australia we now have the Big 4, however, at the time of the study the Big 6 audit firms was still applicable.

This study examines governance related disclosure before and after the listing rule introduction and therefore, it is expected that auditors associated with the Big 6 will have a positive relationship to the disclosure of governance related information. This leads to the following hypothesis:

H4: Big 6 external auditor is positively associated with governance disclosures.

This hypothesis is broken down into the following 12 sub hypotheses:

H4(a) The presence of Big 6 external auditors in mining companies for 1995 is positively associated with governance disclosures suggested by the ASX.

H4(b) The presence of Big 6 external auditors in mining companies for 1995 is positively associated with ASX and additional actual governance related disclosures.

H4(c) The presence of Big 6 external auditors in mining companies for 1996 is positively associated with governance disclosures suggested by the ASX.

H4(d) The presence of Big 6 external auditors in mining companies for 1996 is positively associated with ASX and additional actual governance related disclosures.

H4(e) The presence of Big 6 external auditors in mining companies for 1997 is positively associated with governance disclosures suggested by the ASX.

H4(f) The presence of Big 6 external auditors in mining companies for 1997 is positively associated with ASX and additional actual governance related disclosures.

H4(g) The presence of Big 6 external auditors in industrial companies for 1995 is positively associated with governance disclosures suggested by the ASX.

H4(h) The presence of Big 6 external auditors in industrial companies for 1995 is positively associated with ASX and additional actual governance related disclosures.

H4(i) The presence of Big 6 external auditors in industrial companies for 1996 is positively associated with governance disclosures suggested by the ASX.

H4(j) The presence of Big 6 external auditors in industrial companies for 1996 is positively associated with ASX and additional actual governance related disclosures.

H4(k) The presence of Big 6 external auditors in industrial companies for 1997 is positively associated with governance disclosures suggested by the ASX.

H4(l) The presence of Big 6 external auditors in industrial companies for 1997 is positively associated with ASX and additional actual governance related disclosures.

Firm Size

Firm size has consistently been found to be positively associated with various firm disclosures. The suggestion is that larger firms may consider their size to be a variable which encourages the public to take notice, pay more attention or scrutinise their operations, (Dierkes and Coppock, 1978; Eilbert and Parker, 1973). Similarly, the larger the firm, the greater the incentive to disclose information to reduce perceived political costs and improve the firm image to shareholders (Deegan and Gordon, 1994). There are various measurement techniques employed to measure firm size. Measures include the use of market capitalisation and total assets and total sales. Hagerman and Zmijewski (1979) have argued that no measure of size is necessarily superior to another. The present study will use total assets as a proxy for firm size.

According to Watts and Zimmerman (1978) the extent of political costs impacting on a firm is highly dependent on firm size. Furthermore, it is also argued that lobby groups target larger size companies due to their political visibility and are at a greater risk of negative publicity and wealth transfers away from the company. Therefore increasing corporate governance disclosures may assist in reducing the potential wealth transfers associated with non-disclosure.

Baxter and Pragasam (1999), found that;

> "the only factor that appeared to have a significant impact on audit committee disclosures was the size of the company. This would be consistent with the view that only larger listed companies disclose audit committees to enhance their corporate image, as these companies are more likely to be subject to costly political attention from the government, the media and the investing public" (p. 42).

Firm size has consistently been found to be associated with the disclosure of corporate governance information. Carson and Simnett (1997) found that firm size, as measured by market capitalisation was significantly associated with the voluntary disclosure of corporate governance information. Stapledon and Lawrence (1996) also found firm size to have a significant relationship to the proportion of independent directors. In addition, Evans and Christopher (1999) using regression analysis, found company size to be a major determinant of governance related disclosures. Ho and Wong (2000) similarly found firm size to be significant. Dolley and Monroe (2000) found firm size to be significantly related to the voluntary formation of audit committees. This leads to the following hypothesis:

H5: Firm size is positively associated with governance disclosures.

This hypothesis is broken down into the following 12 sub hypotheses:

H5(a) Firm size of mining companies in 1995 is positively associated with governance disclosures suggested by the ASX.

H5(b) Firm size of mining companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H5(c) Firm size of mining companies in 1996 is positively associated with governance disclosures suggested by the ASX.

H5(d) Firm size of mining companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H5(e) Firm size of mining companies in 1997 is positively associated with governance disclosures suggested by the ASX.

H5(f Firm size of mining companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

H5(g) Firm size of industrial companies in 1995 is positively associated with governance disclosures suggested by the ASX.

H5(h) Firm size of industrial companies in 1995 is positively associated with ASX and additional actual governance related disclosures.

H5(i) Firm size of industrial companies in 1996 is positively associated with governance disclosures suggested by the ASX.

H5(j) Firm size of industrial companies in 1996 is positively associated with ASX and additional actual governance related disclosures.

H5(k) Firm size of industrial companies in 1997 is positively associated with governance disclosures suggested by the ASX.

H5(l) Firm size of industrial companies in 1997 is positively associated with ASX and additional actual governance related disclosures.

Summary

This chapter has discussed political cost theory. Previous research was examined to determine those explanatory variables likely to be associated to corporate governance disclosures. Proxies for political visibility examined were size, percentage of non-executive directors, gearing, ownership diffusion, and Big 6 external auditor. The following chapter details the research methodology. The method of sample selection, sources of data, measurement of variables, and statistics to be employed are outlined.

CHAPTER 4

RESEARCH METHODOLOGY

Introduction

The purpose of this chapter is to outline the method of data collection and measurements employed to examine company governance disclosures within a political cost framework. The method of sample selection and sources of data are described followed by dependent and independent variable measurements employed. Finally, statistical analysis applied to test the hypotheses detailed within Chapter 3 are elaborated.

Sample selection

Mining and industrial companies listed on the Australian Stock Exchange (ASX), for the years 1995, 1996 and 1997 are included in the sample of this study. These years were chosen to examine governance disclosures prior to and after the introduction of the ASX listing rule 4.10.3, which became operational from 30 June 1996.

Table 4.1 summarises the sources of 100 annual reports for the mining companies included in this study. The Connect 4 database provided the primary source for the annual reports for mining companies listed on the ASX. Additional annual reports were obtained from various sources to make up the 100 companies included in the final sample for each of the 3 years. These included the Australian Graduate School of Management (AGSM) Annual Report Files[17] Global Access (GA)[18] database, hard copies available at ECU library and seven annual reports were purchased from the ASX. The final sample was limited by the following criteria[19].

1) No liability companies are excluded,

2) Trusts are excluded, and

3) Annual reports were required to be available for all years.

Table 4.1

Sources of annual reports for mining companies

	1995	1996	1997
Total number available on C4 database	75	77	75
Hard copy ECU Library	13	8	4
AGSM file	2	3	5
Global Access Database	4	11	15
Hard copies purchased from ASX	6	0	1
Hard copy obtained from company	0	1	0
Final sample of mining companies	**100**	**100**	**100**

The sample of 100 industrial companies was randomly selected from a list of 225 companies available from the C4 database for all years of the study, using a random numbers table. A full list of all mining and industrial companies used in the sample is provided in Appendix B.

17 AGSM annual report files were available on CD-Rom at the Churchlands Campus of Edith Cowan University (ECU).

18 GA is maintained in the United Kingdom and is made available on the Internet to subscribers – various company data can be downloaded including full annual reports.

19 No liability companies and trusts are excluded as they are subject to differential stock exchange listing rules in relation to director disclosures and corporate governance. This is consistent with Carson (1999) Evans and Christopher (1999).

Data Sources

Company annual reports provide the primary source of the data to be used in statistical analysis. Annual reports are widely acknowledged as being the principal means of corporate communication of company intentions, and is therefore a valuable instrument for analysing governance disclosures (Roberts, 1991; Tilt, 1994; Anderson and Epstein, 1995). Carson and Simnett (1997) highlight that the annual report is used by shareholders when making investment decisions and therefore a useful tool for management to disclose governance related information that may affect investment decisions.

Governance disclosure items were extracted from each company's annual report and recorded against a list of dichotomous items [20]. A disclosed item received a score of "1" and a score of "zero" if no disclosure was present. As it was not expected that all information would be disclosed in a single place, all pages in the annual report of each company were examined for governance disclosure items.

The annual report also provided the source for the following items used to calculate values for the independent variables for each of the years of the study; total debt, total assets, proportion of shareholders other than the top 20, total number of directors, total number of non-executive directors, and company external auditors.

Some items were reported in foreign currency and required translation into Australian dollars. Relevant exchange rates were obtained from those published by

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[20] A more detailed discussion of how this list was developed is discussed under the measurement of the dependent variable.

The Reserve Bank of Australia Bulletin. Appendix B highlights the companies that required foreign currency translation and Appendix C details the relevant rates used to translate into Australian dollars.

Measurement of the dependent variable – Governance disclosure index

The current study uses an unweighted dichotomous index comprising 55 items of governance disclosure developed using the 8 suggested categories provided by the ASX listing rule 4.10.3 within Appendix 4A[21] and adding additional items of actual disclosure found in the annual reports of companies in the sample. The eight categories of governance disclosure were: disclosure of directors (EXEC), membership on board of directors (BMEM), appointment and retirement of directors (APRET), directors ability to seek independent advice (INDADV), remuneration (REM), external auditors (AUD), business risk (RSK) and ethical standards (ETHIC). Total governance disclosure (TGD) is the sum of all the above categories.

The wording of the 8 categories shown in Appendix 4A suggested a number of possible items in each of these categories. A thorough investigation revealed 30 separate items of governance disclosure within these 8 categories. Applying content analysis, a further 25 items of actual disclosure were added to the list when annual reports were examined. Table 4.2 details the items and gives examples of the 55 items that combine to form TGD. Items highlighted by shading are the 25 items made in addition to those suggested by the ASX.

[21] Refer Appendix A of the current study for a copy of the listing rule and related Appendix 4A.

Dichotomous indexing is applied to objectively measure the information disclosed and to provide a consistent numerical basis for evaluating governance related disclosures. Given that each item is ranked equally the misranking of items can be avoided (Marston and Shrives, 1991). However, by treating each governance item equally this method is perceived to be a limitation of the study (Coy, Tower and Dixon, 1991). When an item was disclosed, the company received a score of 1, non-disclosure received a zero score. Total governance disclosure score was calculated by summing all the items disclosed by each company.

The current study applies 2 indexes of governance related disclosures. The first measure of governance disclosure, TGD_{ASX} comprises the sum of the 30 governance disclosures as suggested by the ASX listing rule. The second measure TGD_{+ASX} comprises the sum of all 55 items of governance disclosure including the 30 items suggested by the ASX, plus the 25 items of additional actual disclosure.

The first category EXEC is represented by 2 items[22] of governance related disclosure namely disclosure of the break-up of directors into executive and non-executive and whether the chairman of the board is a non-executive director. The second category BMEM is made up of 12 disclosure items[23]. In summary, the items relate to the criteria for board membership, nomination of directors and performance of directors. Category 3 APRET comprises 2 items relating to the appointment and retirement of directors[24]. The fourth category INDADV comprises 2 items relating to the ability of directors to seek independent advice[25]. The fifth category REM refers to

22 Refer to items 2.1 and 2.2 in Table 4.2.
23 Refer to items 3.1 to 3.12 in Table 4.2.
24 Refer to items 4.1 and 4.2 in Table 4.2.
25 Refer to items 5.1 and 5.2 in Table 4.2.

remuneration of directors and comprises 9 items[26]. Category 6 AUD relates to the audit function and comprises 9 items[27]. Category 7 RISK relates to the acknowledgment and disclosure of business risk information and comprises 10 items[28]. Category 8 ETHIC refers to business ethics and comprises 9 items[29]. Items shaded in Table 4.2 are the 25 additional items of actual disclosure found in the annual reports of companies included in the sample.

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26 Refer to items 6.1 to 6.9 in Table 4.2.

27 Refer to items 7.1 to 7.9 in Table 4.2.

28 Refer to items 8.1 to 8.10 in Table 4.2.

29 Refer to items 9.1 to 9.9 in Table 4.2.

Table 4.2

Corporate governance disclosure items

Items highlighted by shading are the 25 items provided in addition to the ASX Listing Rule 4.10.3 items. When an item is disclosed in the annual report, the company will receive a score of 1, while non-disclosure receives a score of zero.

TYPE OF DISCLOSURE	DESCRIPTION
A. Corporate Governance Statement (GSTAT)	
1.1 Separate Corporate Governance Statement.	The purpose of this item is to determine if companies had a separate section in their annual report that detailed corporate governance disclosures. The ASX Listing requirement does not specify where corporate governance disclosures should be detailed. A study by the ASCPA (1996) indicated that shareholders could be better served as "some entities provided dispersed disclosures, rather than collecting them in a location where they would be expected, such as a corporate governance statement" (p.4). This variable is collected for descriptive statistics only and not used in multiple regression analysis.
B. Categories of Disclosure	
CATEGORY 1: Disclosure of Directors (EXEC)	
2.1 Disclosure of the break-up of directors into executive or non-executive directors.	Appendix 4A item 1 indicates that companies should disclose the break-up of directors into executive and non-executive. The presence of more non-executive directors on the board of directors is perceived as good governance. For example, the Cadbury Code section 1.4 indicates the board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the boards' decisions. This type of disclosure would be seen as favourable. Non-executive directors have some important contributions to make to the governance process as a consequence of their independence from executive responsibility. Firstly in the review of the performance of the board and of executive, the second is taking the lead when possible conflicts arise. (Stapledon, 1996).

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
2.2 Is the Chairman of the Board of Directors an executive or non-executive director?	Consistent with 2.1 above, Appendix 4A indicates that companies should disclose if the chairman of the board of directors is executive or non-executive. Authorities have long seen having the Chairman as a non-executive director as a good governance practice. This has been recommended by various committees in Australia and overseas. The Cadbury Report (1992) indicated that the chairman should be divorced from the day today activities of the company and was an important control to ensure that the shareholders interests are better served by somebody who is not directly involved in the management of the firm.
TGDASX = 2 **TGD+ASX =2**	
CATEGORY 2: Membership on Board of Directors (BMEM)	
3.1 Acknowledgment of existence of criteria for board membership.	Within Appendix 4A of the ASX listing rules, item 2(ii) outlines that companies should disclose criteria for board membership. This item focuses on the acknowledgment of criteria for board membership, rather than more specific information on procedures.
3.2 Disclosure of the main procedures for devising criteria for board membership.	In addition to item 3.1, disclosure of this item indicates that the company has gone further than acknowledge criteria for board membership, it has disclosed the main procedures for criteria for board membership. This is applicable if a firm has given a clear indication as to the specific procedures and items they consider when determining the membership of the board. An example of this is the criteria for board membership is provided by Arthur Anderson (2001) "The board seeks to consist of directors with an appropriate range of experience, skill knowledge and vision to enable it to operate the Companies with business with excellence" (p. 37). If the company receives a score of 1 for this item 3.2, they will receive a score of 1 for item 3.1 as well, meaning that companies that acknowledge and provide a greater extent of disclosure will receive a higher score for this category.

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
3.3 Disclosure of the main procedures for reviewing the membership of the board.	Appendix 4A under item 2(ii) the ASX highlight that a company should disclose the main procedures for reviewing the membership of the board. An example of this is "Executive directors should serve at least 3 years. At the completion of the first 3 years, the position of director is reviewed to ascertain if circumstances warrant further term. The director is required to relinquish the directorship after 10 years." (Arthur Anderson, 2001, p.37).
3.4 Disclosure of procedures for nominating directors.	Appendix 4A under item 2(ii) the ASX suggest that a company should disclose the procedures for nominating directors. An example of this is disclosure that "The board has the option to use either a nomination committee or an external consulting firm to identify and approach possible new candidates for directorships." "The selection of the directors must be approved by the majority of the shareholders" (Arthur Anderson 2001, p.37). The disclosure of the presence of a Nomination committee on its own is not enough, further disclosure on specific procedures is required to receive a score of one with this item.
3.5 Disclosure of presence of nomination committee.	Appendix 4A indicates that companies should disclose if it has a nomination committee.
3.6 Disclosure or the names and positions of nomination committee members.	Appendix 4A indicates that companies should disclose members of its nomination committee.
3.7 Disclosure of the responsibilities of nomination committee members.	Appendix 4A indicates that companies should disclose the responsibilities of the nomination committee members. An example of nomination committee responsibilities is "Formulates policy and criteria for appointment of the directors to the Board, and identifies potential candidates. Specific activities include the review of the Boards required status, experience, mix of skills and education (Arthur Anderson, 2001, p.39).

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
3.8 Disclosure that chairperson of the nomination committee is a non-executive director.	This item is in addition to the ASX Listing rule Appendix 4A requirements. As with item 2.2, having a non-executive director as chairman of a committee is seen as good governance practice. The chairman should be independent from the day today activities of the company and provides an important control mechanism to ensure that the shareholders interests are better served.
3.9 Are the majority of the nomination committee members non-executive directors?	This item is in addition to the ASX Listing rule Appendix 4A requirements. Having a majority of non-executive directors on the nomination committee ensures the nomination process is divorced from the normal operations.
3.10 Disclosure of the responsibilities of the board of directors.	This item is in addition to the ASX Listing rule Appendix 4A requirements. An example is, "The board of directors is responsible for setting the strategic direction and establishing the policies of AA Ltd. It is responsible for overseeing the financial position, and for monitoring the business affairs of the company on behalf of the shareholders. It also addresses issues relating to internal controls and approaches to risk management" (Arthur Anderson, 2001, p.37).
3.11 Disclosure of acknowledgment of a formal review of the performance of the board of directors.	This item is in addition to the ASX Listing rule Appendix 4A requirements. This variable was to determine if company's had indicated a formal review of the boards performance. This does not refer to individual director performance. An example is provided by the annual report of Ghana old Mines 1996, " The membership of the board, its activities and composition is subject to periodic review" (p.11).

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
3.12 Disclosure of procedures for reviewing performance outlined.	This item is in addition to the ASX Listing rule Appendix 4A requirements. An example is provided by the annual report of Macmahon Holdings Ltd, 1996 "The Board assesses its performance no less than once a year. The intent of the assessment is to gauge the effectiveness of the Board and not to necessarily focus on individual performance. However, it will be necessary for the Board, in open forum, to focus on the appropriate skills and characteristics required of Board members. This assessment should include issues of diversity, age, skills, background and other matters necessary to achieve the Company's objectives and should be viewed in the context of the perceived needs of the Board and the current make-up of the Board at that point in time" (p.53).
TGDASX = 7 **TGD +ASX= 12**	
CATEGORY 3: Appointment and retirement of directors (APRET)	
4.1 Disclosure of policies on the terms and conditions relating to the appointment of non-executive directors.	Within Appendix 4A item 3, the ASX indicates that firms should disclose policies on the terms and conditions relating to the appointment of Non-Executive directors. An example is "The company shareholders are responsible for voting on the appointment of directors." "Non-executive directors must spend at least 50 days per annum to appropriately deal with their responsibilities, including attendance at Board and Committee meetings" (Arthur Anderson, 2001, p.37).
4.2 Disclosure of policies on the terms and conditions relating to the retirement of non-executive directors.	Within Appendix 4A item 3, the ASX indicates that firms should disclose policies on the terms and conditions relating to the retirement of Non-Executive directors. An example is "the maximum retirement age or directors is 65 years...The director is required to relinquish the directorship after 10 years" (Arthur Anderson, 2001, p.37).
TGDASX = 2 **TGD +ASX= 2**	

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
CATEGORY 4: Directors ability to seek independent advice (INDADV)	
5.1 Acknowledgment of directors ability to seek independent advice.	Within Appendix 4A item 4, the ASX outlines that companies should disclose directors' ability to seek independent advice. This item focuses only on the acknowledgment of ability to seek independent advice, rather than procedures by which directors can do this. It is now impossible for directors to be expert on all the matters about which they are likely to be accountable and if they are to feel safe they will frequently have to obtain specialist advice. (Bosch, (1996). An example is stating that the company directors can seek independent advice in pursuance of their duties as director.
5.2 Disclosure of procedures by which directors can seek independent professional advice at the company's expense in the furtherance of their duties.	This item goes further than item 5.1 above and highlights disclosure of actual procedures followed by directors to seek independent advice in the furtherance of their duties. The Cadbury committee under section 1.5, indicates that there should be an agreed procedure for directors in the furtherance of their duties to take independent advice from professionals at the expense of the company, if necessary. Further to this, Bosch (1996) indicates that Australian companies should make clear when and how a director can seek independent advice. An example is stating that company directors can seek independent advice in the pursuance of their duties, with prior approval from the chairman of the board.
TGDASX = 2	
TGD +ASX= 2	
CATEGORY 5: Remuneration (REM)	
6.1 Acknowledgment that procedures exist for determining remuneration of executive and non-executive directors.	Within Appendix 4A, item 5 highlights that a company should disclose procedures for determining remuneration. This item is included to determine if the company has acknowledged that they have procedures for determining remuneration of executive and non-executive directors.

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
6.2 The main procedures for establishing and reviewing the compensation arrangements for the CEO and other senior executives.	Further to item 6.1 above, this item reflects disclosure of actual procedures and relates to item 5(i) of Appendix 4A. This item is looking at the procedures for establishing and reviewing the compensation arrangements for the CEO, and other senior executives. Therefore a company that scores 1 for item 6.2 will score 1 for item 6.1 indicating a greater extent of disclosure for the particular company. An example is "The nomination and remuneration committee determines the fees paid to non-executive directors and executive remuneration. Executive remuneration is determined as a part of an annual review, which includes performance evaluation, regard to comparative remuneration and independent advice" (Arthur Anderson, 2001, p.39).
6.3 The main procedures for establishing and reviewing the compensation arrangements for the non-executive members of the board.	This item relates to Appendix 4A item 5(ii) and is similar item 6.2 above with the difference being that the focus is on procedures for remuneration of Non-Executive directors, rather than the CEO or other senior executives.
6.4 Disclosure of the presence of a remuneration committee.	Again relating to item 5 of Appendix 4A has the company disclosed in the annual report, that it has a remuneration committee.
6.5 Disclosure of the main responsibilities and core rights of the remuneration committee.	Further to item 6.4 above, if a remuneration committee is present, are the responsibilities and core rights disclosed. An example is provided by the annual report of Acacia Resources 1996. The annual report discloses that "the duties of the committee are to ensure that a competitive and equitable remuneration policy is maintained which will attract and retain high calibre people... To review and recommend remuneration of the chairman, non-executive directors, the Managing Director, Executive Director Exploration and Mining and senior executives" (p.26).
6.6 Disclosure of the names and positions of committee members.	Are the names and positions of the remuneration committee members disclosed in the annual report.

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
6.7 Are fees paid to members of the remuneration committee disclosed.	This item is in addition to disclosure requirements of Appendix 4A and highlights additional disclosure of amounts paid to remuneration committee members. An example is provided in the annual report of CSR Ltd 1996 (p.46), where the company discloses additional yearly fees of A$5,000 are paid to members of each committee with A$7,500 paid to directors who chair a committee, and no additional fees are payable to members of the remuneration committee".
6.8 Is chairperson of the remuneration committee a non-executive director.	This item is in addition to disclosure requirements of Appendix 4A. As described under item 2.2, having a non-executive director as chairman of a committee is seen as good governance practice. The chairman should be independent from the day today activities of the company and provides an important control mechanism to ensure that the shareholders interests are better served.
6.9 Are the majority of the remuneration committee members non-executive directors.	This item is in addition to disclosure requirements of Appendix 4A. Having a majority of non-executive directors on the remuneration committee ensures the remuneration process is divorced from the normal operations.
TGDASX = 6 **TGD +ASX= 9**	
CATEGORY 6: External Auditors (AUD)	
7.1 Acknowledgment of existence of procedures for nominating external Auditors	This item relates to item 6(i) of Appendix 4A and highlights if the company has acknowledged that procedures exists for nominating external auditors.
7.2 Disclosure of main procedures for nominating external Auditors.	Similar to item 7.1, but, this item goes further to acknowledge the disclosure of actual procedures for nominating external Auditors, rather than just acknowledging existence of procedures. For example, does the board make a decision on whom to appoint and what considerations do they take into account when nominating the external auditors.

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
7.3 Reviewing the adequacy of existing external Audit arrangements with particular emphasis on the scope and quality of the Audit.	This item relates to Appendix 4A 6(ii) and acknowledges that the company reviews the adequacy of existing external Audit arrangements.
7.4 Disclosure of an Audit committee.	Has the company disclosed existence of an audit committee?
7.5 Disclosure of main responsibilities and core rights of the Audit committee.	This item again is a requirement of Appendix 4A, item 6 and requires the main responsibilities of the audit committee to be disclosed? The purpose of this item is not to score on all the audit committee responsibilities, but rather to see if some of these have been disclosed. An example is provided by Acacia resources, (1996 p.25) where the company discloses that the audit committee's duties include the review of external audit plans and activity, overseeing of external financial reporting, monitoring of corporate risk and the assessment of internal controls. In Australian, the presence of an audit committee must be disclosed in the annual report, and if the company doesn't have an audit committee, reasons as to why. This is enforced by Listing Rule 4.10.2 that applied from 30 June 1993.
7.6 Disclosure of the names and positions of audit committee members.	Also included within item 6 of Appendix 4A, are the names and positions of audit committee members disclosed?
7.7 Are Fees paid to members of the Audit Committee disclosed?	This item is in addition to the requirements of Appendix 4A and highlights those companies that disclose separate fees paid to members of the audit committee. An example is provided by CSR Ltd, (1996, p.46) where they disclose that additional yearly fees of A$5000 are paid to members of each committee with A$7500 paid to directors who chair a committee.

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
7.8 Is the chairperson of the Audit committee a non-executive director?.	This item is in addition to the requirements of Appendix 4A. As with item 2.2 above, having a non-executive director as chairman of a committee are seen as good governance practice. The chairman should be independent from the day today activities of the company and provides an important control mechanism to ensure that the shareholders interests are better served.
7.9 Are the majority of the Audit committee members non-executive directors	This item is in addition to the requirements of Appendix 4A. Having a majority of non-executive directors on the audit committee assists in ensuring that the Audit process is divorced from the normal operations.
TGDASX = 6 **TGD +ASX= 9**	
CATEGORY 7: Business Risk (RSK)	
8.1 Acknowledgment that risk exists	Within Appendix 4A, item 7, the ASX highlights that companies should disclose items of risk. This item highlights that the company has acknowledged in their annual report that risk exists. This may be in the form of a single statement such as - the board has procedures in place to manage risks, but does not require specific disclosure.
8.2 Boards approach to identifying areas of significant business risk.	Item 7 in Appendix 4A, the ASX identifies the importance of the disclosure of the boards approach to identifying areas of significant business risk. An example " The company has in place the following specific arrangements to identify risk areas; business risk analysis of all major activities of the group, updated on a periodic basis" (Arthur Anderson, 2001, p.40).
8.3 Arrangements in place to manage those risks.	This item is addressed under item 7 of Appendix 4A and requires arrangements the company has in place to manage risks to be disclosed. An example is that approval is required by the Board of directors for the annual budget, and that the firm has a regulatory compliance program, and that the firm has a comprehensive annual insurance program, which is reviewed by the audit committee, (Arthur Anderson, 2001, p.40).

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
8.4 Acknowledgment of specific areas of risk.	This item of disclosure is in addition to Appendix 4A and item 8.2 in that the firm goes further than to just acknowledge risk, but it also gives more detail on the types of risks the company tries to manage. For example, has the company disclosed environmental risks, other risks include financial risks, currency risks and the like.
8.5 Separate risk management committee - other than audit committee, including committees for specific areas of risk includes environmental committee, occupational health and safety, financial risks.	This item is in addition to the disclosure requirements of Appendix 4A and is used to determine if the firm has a separate committee specifically to manage risks. This included evidence of an environmental committee. The annual report of Central Norseman Gold Corporation provides an example in 1996, where the Board receives regular reports from the Risk Management Committee (p.11).
8.6 Disclosure of the main responsibilities and core rights of the committee.	This item is in addition to the requirements of Appendix 4A and refers to the main responsibilities of the committee being disclosed.
8.7 Disclosure of names and positions of separate risk committees.	This item is in addition to the requirements of Appendix 4A. If the company has a risk committee have they disclosed the names and positions of its members.
8.8 Fees paid to risk committee members	This item is in addition to the requirements of Appendix 4A. Has the company disclosed any fees paid to the separate risk committee members.
8.9 Is the chairperson of the risk committee a non-executive director?	As with item 2.2, having a non-executive director as chairman of a committee is seen as good governance practice. The chairman should be independent from the day today activities of the company and provides an important control mechanism to ensure that the shareholders interests are better served.
8.10 Are the majority of the risk committee members non-executive directors	Having a majority of non-executive directors on the risk committee ensures the risk management process is divorced from the normal operations.
TGDASX = 3	
TGD +ASX= 10	

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
CATEGORY 8: Ethical Standards (ETHIC)	
9.1 Acknowledgment of existence of ethical standards.	This item examines the acknowledgment of the company having ethical standards and relates to item 8 of Appendix 4A.
9.2 Disclosure of policies on the establishment of ethical standards.	Again under Appendix 4A, item 8, the ASX requires the company to disclose policies on ethical standards.
9.3 Firms Approach to the buying and selling of shares by directors and other employees	This item is in addition to Appendix 4A and looks specifically at the company acknowledging policy on the directors and employees ability to buy and sell shares of the company. An example is where a company discloses that Directors and senior executives are not permitted to engage in short term trading shares and the buying and selling of shares may only occur within a period of 30 days following the announcement of the company's annual or half yearly results of the holding of the annual general meeting.
9.4 Separate code of conduct committee-other than audit committee	This item is in addition to Appendix 4A item 8 and identifies if the company has a separate code of conduct committee. An example is provided by MIM Holdings Ltd (1996, p.39) where the company highlights the appropriateness of policies and systems is monitored on an ongoing basis by the Board Compliance Committee.
9.5 Disclosure of the main responsibilities and core rights of the committee.	Following on from item 9.4, has the company disclosed the main responsibilities of the code of conduct committee.
9.6 Disclosure of the names of members of the separate code of conduct committee	If the firm has a code of conduct committee has the company disclosed the names of the members of this committee?
9.7 Disclosure of any Fees paid to the code of conduct committee members	If the firm has a code of conduct committee, has the firm further detailed any fees paid to the committee members?

Table 4.2 (continued)

TYPE OF DISCLOSURE	DESCRIPTION
9.8 Is the chairperson of the risk committee a non-executive director?	As with item 2.2, having a non-executive director as chairman of a committee is seen as good governance practice. The chairman should be independent from the day today activities of the company and provides an important control mechanism to ensure that the shareholders interests are better served.
9.9 Are the majority of the risk committee members non-executive directors	Having a majority of non-executive directors on the risk committee ensures the process is divorced from the normal operations.
TGDASX = 3 **TGD +ASX= 10**	
OVERALL TGDASX = 30 **OVERALL TGD+ASX = 55**	

Measurement of independent variables

This section describes the measurement methods employed for each of the independent variables. Table 4.3 summarises the independent variables definitions. The relevant values for each variable were extracted from each of the annual reports for the years 1995, 1996 and 1997.

Proportion of non-executive directors (NEXDR)

To measure the proportion of non-executive directors the number of non-executive directors will be divided by the total number of directors. This variable is used to test Hypothesis 1.

Gearing (GEAR)

The current study measures gearing as total debt divided by total assets. This variable is used to test Hypothesis 2. This measure is consistent with Evans and Christopher (1999) and Dolley and Monroe (2000).

Ownership diffusion (OWND)

Companies are required to disclose the top twenty largest shareholders in their company in the annual report. This variable is measured as the percentage of shares held by shareholders other than the top twenty shareholders. This variable is used to test Hypothesis 3. This measurement is consistent with Evans and Christopher (1999).

Auditor – Big 6 (AUD6)

Each annual report will be examined to determine the firm's external auditor. This variable is used to test Hypothesis 4. If the company uses one of the Big 6 auditors, they will receive a score of 1, otherwise 0.

The Big 6 auditors are Price Waterhouse (PW), Arthur Anderson (AA), Coopers and Lybrand (CL), Deloitte Touche Tohmatsu (DTT), Ernst and Young (EY), and KPMG (KP).

Firm size (SZTA)

There are various measurement techniques employed to measure firm size. Measures include the use of market capitalisation and total assets and total sales. Hagerman and Zmijewski (1979) have argued that no measure of size is necessarily superior to another. The present study will use the log of total assets. Hypothesis 6 will be tested using this variable.

Table 4.3

Variable definitions

Variable	Measurement
DEPENDENT VARIABLE: Governance related disclosures	
MODEL 1 **Governance disclosures suggested by ASX listing rule**	
I) Total disclosure (TGD_{ASX})	Aggregate of dichotomous index scores for 30 governance related disclosure items. 1 = Presence of disclosure item 0 = Non-disclosure
MODEL 2 **Governance disclosures suggested by ASX listing rule and additional items of disclosure.**	
II) Total disclosure (TGD_{+ASX})	Aggregate of dichotomous index scores for 55 governance related disclosure items. 1 = Presence of disclosure item 0 = Non-disclosure

	Variable		Expected Sign	Measurement	Type of Data
INDEPENDENT VARIABLES					
1.	Proportion of Non-Executive Directors	(NEXDR)	+	Total # Non-Exec Directors/ Total # Directors	Interval
2.	Gearing	(GEAR)	+	Total Debt/Total Assets	Interval
3.	Ownership Diffusion	(OWND)	+	% of shares held by shareholders other than the top twenty shareholders	Interval
4.	Auditor	(AUD6)	+	Auditor Big 6 = 1, Non Big 6=0 (Big 6 = Price Waterhouse (PW) Arhtur Anderson (AA), Coopers and Lybrand (CL) Deloitte Touche Tohmatsu (DTT) Ernst and Young (EY) KPMG (KP).	Categorical
5.	Size	(SZTA)	+	Log10 (Total Assets)	Interval

Research Design

The purpose of the current study is to analyse the extent and types of governance related disclosures made by mining and industrial companies over the years 1995, 1996 and 1997. Following this an examination is made of various corporate characteristics and if these characteristics influence governance related disclosures.

Data analysis comprises a number steps. To begin, the dependent variable governance related disclosures are examined for the different types of disclosure over the three year period for mining and industrial companies. A distinction is made between governance related disclosures suggested by the listing rule, and additional items of actual disclosure. Following this Ordinary Least Squares (OLS) multiple regression is employed to determine if a relationship exists between governance related disclosures and selected corporate characteristics acting as proxies for political visibility for each year separately. Time series analysis is not employed as the present study is examines governance disclosure pre and post the introduction of ASX listing rule 4.10.3.

Multiple Regression

Where a dependent variable is explained by more than one independent variable, it is inefficient to run univariate tests (Porkorny, 1991). Consequently multiple regression is utilised in this study as governance related disclosures are explained by a number of variables. Further to this, multiple regression provides an objective means of assessing the predictive power of the explanatory variables (Hair, Anderson, Tatham and Black, 1995). One of the problems that can emerge with multiple regression is that of multicollinearity. Multicollinearity is a potential problem in multiple regression applications arising when some or all independent variables are highly correlated. Chapter 6 provides a more detailed description of multicollinearity and the tests undertaken to ensure that multicollinearity does not pose a problem with regression analysis.

The following two multiple regression models are constructed to determine if a relationship exists with total governance disclosures and selected corporate characteristics for mining and industrial companies. The first model examines the relationship of governance disclosures suggested by the ASX to the selected corporate characteristics. Governance disclosures are the 30 items detailed in Table 4.3. The second model comprises the 30 items suggested by the ASX, plus the additional 25 items of actual governance disclosure resulting in 55 items of governance disclosure.

Both models are applied to the three years of the study and for the two industry groups, therefore a total of 12 regressions are executed. As the hypotheses are directional, the tests are all one-tailed.

The two regression models are expressed as follows:

MODEL 1

$$TGD_{(ASX)} = \alpha + \beta_1 (NEXDR) + \beta_2 (GEAR) + \beta_3(OWND) + \beta_4 (AUD6) + \beta_6(SZTA) + e$$

MODEL 2

$$TGD_{(+ASX)} = \alpha + \beta_1 (NEXDR) + \beta_2 (GEAR) + \beta_3(OWND) + \beta_4 (AUD6) + \beta_6(SZTA) + e$$

Where

$TGD_{(ASX)}$	-	is the dependent variable analysing the total or sum of the categories of governance related disclosures as suggested by the ASX Listing Rule 4.10.3. A total of 30 items are included and measured by an unweighted dichotomous index.
$TGD_{(+ASX)}$	-	is the dependent variable analysing the total or sum of the categories of governance related disclosures as suggested by the ASX Listing Rule 4.10.3 plus additional items of actual disclosure. A total of 55 items are included and measured by an unweighted dichotomous index.
α	-	is a constant value.
NEXDR	-	proportion of non-executive directors as measured by the total number of non-executive directors divided by the total number of directors.
GEAR	-	gearing as measured by total debt divided by total assets.
OWND	-	ownership diffusion as measured by the percentage of shares held by the shareholders other than the top twenty shareholders.
AUD6	-	Big 6 external auditor, auditors classified as external receive a score of one, otherwise zero. Big 6 external auditors are PW, AA, CL, DTT, EY and KP.
SZTA	-	size as measured by the log of total assets.
βn	-	represents the coefficient of the explanatory variables.
e	-	is the residual or prediction error.

Summary

This chapter has described the method of sample selection, the sources of data, defined the dependent and independent variables and identified the statistical methods to be employed. The following chapter provides an analysis of governance disclosures made in 1995, 1996 and 1997.

CHAPTER 5

ANALYSIS OF GOVERNANCE DISCLOSURES

Introduction

The research methodology was outlined in the previous chapter. This chapter presents the results of governance disclosures made in annual reports for 1995 to 1997 by mining and industrial companies. A discussion on the presence of a separate governance statement in firms' annual reports is followed by a detailed analysis of each of the categories of governance disclosures. Mining company results are examined first, followed by industrial companies. A discussion of the two industry groups is then provided.

Corporate Governance Statement

Prior studies have highlighted that keeping governance related information in a central location is preferable to enable shareholders and other annual report users ease of access to the relevant information. For example, within the guidelines provided by the AIMA (1995), reference is made that companies should disclose relevant corporate governance practices prominently and clearly in a separate section.

Results of companies disclosing a separate section in their annual report on corporate governance matters, such as a "Corporate Governance Statement" are presented in Table 5.1. In 1995, the year prior to the introduction of the listing rule, 34 mining and 34 industrial companies disclosed a separate governance statement in their annual report. The impact of the introduction of the listing rule 4.10.3 in 1996 is evident with the increase in the disclosure of a separate governance statement to 91 for mining companies and 98 for industrial companies. The presence of corporate governance statements remained consistent in 1997 with 93 mining and 98 industrial companies having a separate section. On average the presence of a separate governance statement increased 181% from 1995 to 1997 for both industry groups.

Table 5.1

Companies disclosing a separate Statement of Corporate Governance

Industry	Sample	1995	1996	1997	% increase 1995 to 1997
Mining	100	34	91	93	173%
Industrial	100	34	98	98	188%
TOTAL	**200**	**68**	**189**	**191**	**181%**

The results are consistent with the findings of Evans and Christopher (2001) who found 32.8% of mining companies in 1995 and 95.1% in 1997 disclosed a separate governance statement. Results are also consistent with Ramsay and Hoad (1997) who examined annual reports after the introduction of the listing rule and found 100% of large companies, 98% of medium and 97% of small companies disclosed a separate governance statement[30].

[30] Companies were classified as small medium and large by market capitalisation.

Governance disclosures by mining companies

The following section presents the results of the survey of governance disclosures made by mining companies in 1995 to 1997. Table 5.2 summarises overall governance disclosures by category. Each category of disclosure has increased over the period of the study. Total governance disclosures have increased significantly from 1995 to 1997. The mean number of governance disclosures suggested by the ASX has increased from 9.82 in 1995, to 16.27 in 1996 and 17.54 in 1997. Additional items of disclosure have also increased, being 14.26 in 1995, 22.66 in 1996 and 24.31 in 1997. As shown in Table 5.2 the most prominent disclosures are in relation to audit and remuneration information. The frequency of disclosures are discussed next, followed by the results of each category of governance information.

Table 5.2

Summary of mining company governance disclosures by category for 1995 to 1997

ITEM OF DISCLOSURE *(n=100)*	**1995**	**1996**	**1997**	**1995**	**1996**	**1997**
	ASX*	**ASX***	**ASX***	**+ASX****	**+ASX****	**+ASX****
Directors (EXEC)	168	177	176	168	177	176
Board Membership (BMEM)	80	223	261	147	375	410
Appointment and Retirement (APRET)	40	101	117	40	101	117
Independent Advice (INDADV)	47	145	142	47	145	142
Remuneration (REM)	192	324	354	271	434	462
Auditors (AUD)	219	324	341	350	480	503
Risk (RSK)	155	207	234	309	385	437
Ethical Standards (ETHIC)	81	126	129	94	169	184
TOTAL GOVERNANCE DISCLOSURES	**982**	**1627**	**1754**	**1426**	**2266**	**2431**
Mean	*9.82*	*16.27*	*17.54*	*14.26*	*22.66*	*24.31*
Median	*8.00*	*17.00*	*19.00*	*12.00*	*24.00*	*25.00*
Standard deviation	*6.37*	*5.82*	*5.58*	*9.66*	*8.71*	*8.73*
Minimum	*0*	*2*	*3*	*0*	*3*	*4*
Maximum	*24*	*26*	*29*	*35*	*39*	*43*

* *ASX represents the governance disclosures suggested by the Australian Stock Exchange*

** *+ ASX represents the governance disclosures suggested by the Australian Stock exchange plus additional items of actual disclosure.*

Frequency of governance disclosures by mining companies

Table 5.3 details the frequency of governance disclosures suggested by the ASX for mining companies for the years 1995 to 1997. The maximum number of disclosures per company is 30 items of disclosure. In 1995 the most number of disclosures as suggested by the ASX was 24 items out of the total 30 items, and was disclosed by 2 companies. This increased to 26 items in 1996, disclosed by 5 companies and 29 items in 1997, disclosed by one company. The least number of disclosures in 1995 by one company was no disclosures. In 1996 and the least number of disclosures was 2 items by one company and in 1997, 3 items by one company.

Table 5.4 shows the frequency of governance disclosures for the additional items of actual governance disclosures for mining companies in 1995 to 1997. In 1995, the most number of additional items of actual disclosure items was 16, out of a maximum 25, and was disclosed by one company. The most number of disclosures by 2 companies in 1996 was 15 items. In 1997 the most number of disclosures by one company was 18 items.

The most number of disclosures overall out of the total 55 items in 1995 was 35 items, disclosed by 2 companies. In 1996, the most number of disclosures was 39 and was disclosed by one company. In 1997 the most number of disclosures by one company was 43. (These results are not shown in the accompanying tables).

Table 5.3

Frequency of governance disclosure items suggested by the ASX for mining companies in 1995 to 1997

Disclosure Score	ASX Disclosure Items					
	Frequency n = 100			Cumulative Percent		
	1995	1996	1997	1995	1996	1997
0	1	0	0	1	0	0
1	4	0	0	5	0	0
2	5	1	0	10	1	0
3	7	1	1	17	2	1
4	4	1	0	21	3	1
5	8	1	1	29	4	2
6	10	3	2	39	7	4
7	7	3	2	46	10	6
8	5	0	2	51	10	8
9	6	3	1	57	13	9
10	6	9	4	63	22	13
11	4	3	6	67	25	19
12	2	1	1	69	26	20
13	3	3	3	72	29	23
14	0	6	5	72	35	28
15	6	5	2	78	40	30
16	3	3	4	81	43	34
17	1	9	10	82	52	44
18	4	6	3	86	58	47
19	5	12	12	91	70	59
20	1	8	12	92	78	71
21	2	2	8	94	80	79
22	3	7	5	97	87	84
23	1	2	4	98	89	88
24	2	5	3	100	94	91
25	0	1	2	100	95	93
26	0	5	2	100	100	95
27	0	0	3	100	100	98
28	0	0	1	100	100	99
29	0	0	1	100	100	100
30	0	0	0	100	100	100

Table 5.4

Frequency of ASX and additional items of governance disclosure for mining companies in 1995 to 1997

Disclosure Score	Additional items of Actual Disclosure					
	Frequency n = 100			Cumulative Percent		
	1995	1996	1997	1995	1996	1997
0	14	0	0	14	0	0
1	14	7	6	28	7	6
2	10	13	12	38	20	18
3	10	3	4	48	23	22
4	8	13	11	56	36	33
5	13	3	6	69	39	39
6	10	17	16	79	56	55
7	3	14	10	82	70	65
8	3	6	6	85	76	71
9	1	2	5	86	78	76
10	2	3	4	88	81	80
11	4	7	5	92	88	85
12	3	4	3	95	92	88
13	3	5	4	98	97	92
14	1	1	4	99	98	96
15	0	2	3	99	100	99
16	1	0	0	100	100	99
17	0	0	0	100	100	99
18	0	0	1	100	100	100
19	0	0	0	100	100	100
20	0	0	0	100	100	100
21	0	0	0	100	100	100
22	0	0	0	100	100	100
23	0	0	0	100	100	100
24	0	0	0	100	100	100
25	0	0	0	100	100	100

Disclosure of directors (EXEC)

As shown in Table 5.5, EXEC category comprises 2 items of governance disclosure suggested by the listing rule. These include disclosures relating to the break-up of individual directors into executive and non-executive directors and whether the chairman of the board is a non-executive director.

Disclosure of the break-up of directors (Item 2.1) has remained quite high over the periods examined, where 94 companies disclosed this item in 1995, 99 companies in both 1996 and 1997. Non-executive chairpersons were present in 74 companies in 1995, this increased to 78 companies in 1996 and declined to 77 companies in 1997. Of the 100 mining companies a total of 84% made EXEC related disclosures in 1995 compared to 88% in 1997. Item 2.1 was ranked first overall out of the 55 disclosure items in 1995 and 1996, and ranked 2nd in 1997. Item 2.2 was ranked 6th in 1995, 9th in 1996 and 11th in 1997.

Table 5.5

Summary of EXEC information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	DIRECTORS (EXEC)						
2.1	Break-up of individual directors into executive and non-executive	94	99	99	1	1	2
2.2	Chairman is a non-executive director	74	78	77	6	9	11
	TOTAL EXEC	**168**	**177**	**176**			
	% of companies disclosing this category	*84%*	*89%*	*88%*			

Membership on Board of Directors (BMEM)

Table 5.6 summarises results of the 12 items that combine to form the BMEM category. Item 3.1 to item 3.7 relate are items suggested by the ASX and item 3.8 to item 3.12 (highlighted by shading in the table) are additional items of actual disclosure.

In 1995, 31 companies acknowledged the existence of criteria for board membership (item 3.1) with only 7 of these companies providing some additional detail on what their procedures were for devising criteria for board membership (item 3.2). Disclosures increased in 1996 with 82 companies acknowledging criteria for board membership and 62 of these provided some additional detail on what these procedures were. In 1997 disclosures increased marginally again with 87 companies disclosing item 3.1 and 62 of these companies provided additional detail on what these procedures were (item 3.2).

Nomination committees were present in 14 companies in 1995 with 2 of these companies providing some additional detail on nomination procedures and 10 companies provided details on the responsibilities of nomination committee members. In 1996 nomination committees were present in 22 companies with 18 of these companies providing detail on the procedures for nominating directors and responsibilities of nomination committee members. In 1997 nomination committees were present in 21 companies with 19 companies providing additional detail on procedures for nominating directors and 17 companies disclosed responsibilities of nomination committee members.

The additional items of actual disclosure relate to the chairperson and the majority of the nomination committee members being non-executive directors, responsibilities of the board of directors, and acknowledging and providing procedures for a review of the board and directors performance. 36 companies disclosed responsibilities of the board of directors in 1995, increasing to 94 companies in 1996 and reducing to 86 companies in 1997. Few companies acknowledged a review of the board/directors performance, only 8 companies in 1995, 18 in 1996 and 20 companies in 1997. This highlights that in 1997, 80% of mining companies did not disclose that a review of the boards' performance is undertaken.

Table 5.6

Summary of BMEM information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	BOARD MEMBERSHIP (BMEM)						
3.1	Acknowledgment of existence of criteria for board membership	31	82	87	16	8	5
3.2	Main procedures in place for devising criteria for board membership.	7	42	62	28	20	13
3.3	Procedures for reviewing the membership of the board.	3	19	35	29	29	21
3.4	Procedures for nominating directors.	2	18	19	30	30	28
3.5	Presence of a nomination committee	14	22	21	23	27	26
3.6	Names and positions of nomination committee members	13	22	20	24	27	27
3.7	Responsibilities of nomination committee members	10	18	17	26	30	29
	TOTAL ASX	**80**	**223**	**261**			
	% companies disclosing ASX requirements	*11%*	*32%*	*37%*			
	Additional actual items						
3.8	Non-executive chairperson of Nomination Committee	10	18	20	26	30	27
3.9	Majority of the nomination committee members non-executive directors	13	20	22	24	28	25
3.10	Responsibilities of the board of directors	36	94	86	15	3	6
3.11	Acknowledgment of formal review of boards/directors performance	8	18	20	27	30	27
3.12	Procedures for reviewing performance	0	2	1	32	36	36
	TOTAL ACTUAL	**67**	**152**	**149**			
	% of companies disclosing additional information	*13%*	*30%*	*30%*			
	TOTAL BMEM	**147**	**375**	**410**			
	% of companies disclosing this category	*12%*	*31%*	*34%*			

The highest ranked item for category BMEM in 1995 (ranked 15[th]) and 1996 (ranked 3[rd]) was item 3.10 that examines disclosures in relation to the responsibilities of the board of directors. The highest ranked item for 1997 was item 3.1 (ranked 5[th]) which highlights that the company has acknowledged the existence of criteria for board membership. An examination of all the categories of disclosure shows that BMEM disclosures are ranked the lowest.

Appointment and retirement of directors (APRET)

APRET outlines governance disclosures in relation to the policies on the terms and conditions of the appointment and retirement of non-executive directors. The ASX suggests 2 items related to APRET and these are summarised in Table 5.7.

Overall, 20% of companies disclosed information on the appointment and retirement of directors in 1995. This increased to 51% in 1996 and 59% in 1997. In 1997 a total of 62 companies disclosed information on the appointment of directors and 55 companies provided disclosures on the retirement of directors.

Individually items 4.1 and 4.2 were both ranked 19th in 1995 and progressively increased to be ranked 17th and 18th in 1996 and 13th and 16th in 1997 respectively.

Table 5.7

Summary of APRET information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	APPOINTMENT/RETIREMENT (APRET)						
4.1	Policies on the terms and conditions relating to the appointment of non-executive directors.	20	52	62	19	17	13
4.2	Policies on the terms and conditions relating to the retirement of non-executive directors.	20	49	55	19	18	16
	TOTAL APRET	**40**	**101**	**117**			
	% of companies disclosing this category	*20%*	*51%*	*59%*			

Directors ability to seek independent advice (INDADV)

Prior research has highlighted the importance of non-executive directors being able to seek independent advice at the expense of the company (Ramsay and Hoad, 1997). Table 5.8 summarises the number of companies disclosing INDADV information. The current study has found that overall disclosure has increased from 24% in 1995 to 73% in 1996 and decreased to 71% in 1997. In 1995, 29 companies acknowledged the ability to seek independent advice with 18 of these providing some procedures by which this advice could be sought. In 1996 this increased to 84 companies that acknowledged directors ability to seek independent advice and 61 of these companies provided some of the procedures for seeking this advice. In 1997, 85 companies acknowledged the ability to seek independent advice and 57 companies provided disclosures on procedures. Acknowledgment of directors having the ability to seek independent advice has increased its ranking from 17th in 1995 to 7th in 1996 and 1997.

Table 5.8

Summary of INDADV information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	INDEPENDENT ADVICE (INDADV)						
5.1	Acknowledgment of ability to seek independent advice	29	84	85	17	7	7
5.2	Procedures by which directors can seek independent professional advice at the company's expense in the furtherance of their duties.	18	61	57	21	13	15
	TOTAL INDADV	**47**	**145**	**142**			
	% of companies disclosing this category	*24%*	*73%*	*71%*			

Remuneration (REM)

REM combines 9 items of remuneration related governance disclosures. Items 6.1 to 6.6 are items suggested by the ASX. These items focus on the presence of procedures for determining the remuneration of board members, along with having a remuneration committee and the committees' purpose. Items 6.7 to 6.9 (highlighted by shading in Table 5.9) are additional items of actual disclosure. Additional items that could be disclosed relate to fees paid to members of the remuneration committee, and if the committee members and chairperson are non-executive. Results are summarised in Table 5.9.

In 1995 32% of companies made REM disclosures suggested by the ASX. This increased to 54% in 1996 and 59% of companies in 1997. 26% of companies in 1995, 37% in 1996 and 36% in 1997 made additional items of disclosure.

In 1995, 55 companies acknowledged that procedures existed for determining the remuneration of directors. Of these, 15 companies outlined what these remuneration procedures were for executives and 12 companies outlined procedures for non-executives. In 1996, 85 companies acknowledged procedures for determining remuneration. This increased marginally in 1997, where 87 companies acknowledged that procedures for determining remuneration existed.

Remuneration committees were present in 49 companies in 1995, and 20 of these disclosed the some information on the main procedures of this committee. In 1996 remuneration committees increased to 63 with 48 of these companies disclosing the main responsibilities of the committee. In 1997, the number of remuneration committees decreased to 61 companies, however 54 companies provided more detail on the responsibilities of their committee.

Table 5.9

Summary of REM information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	REMUNERATION (REM)						
6.1	Acknowledgment that procedures exist for determining remuneration of executive and non-executive directors	55	85	87	9	6	5
6.2	The main procedures for establishing and reviewing the compensation arrangements for the CEO and other senior executives. (Includes receipt of external advice)	15	36	51	22	22	19
6.3	The main procedures for establishing and reviewing the compensation arrangements for the non-executive members of the board.	12	33	44	25	23	20
6.4	Presence of a remuneration committee	49	63	61	10	12	14
6.5	Main responsibilities and core rights of the committee.	20	48	54	19	19	17
6.6	Names and positions of committee members.	41	59	57	11	15	15
	TOTAL ASX *% companies disclosing ASX requirements*	**192** *32%*	**324** *54%*	**354** *59%*			
	Items in addition to ASX						
6.7	Fees paid to members of the Remuneration Committee	1	2	4	31	36	33
6.8	Non-executive chairperson of the remuneration committee	38	54	53	14	16	18
6.9	Majority of non-executive directors on the remuneration committee	40	54	51	12	16	19
	TOTAL ACTUAL *% of companies disclosing additional information*	**79** *26%*	**110** *37%*	**108** *36%*			
	TOTAL REM *% of companies disclosing this category*	**271** *30%*	**434** *48%*	**462** *51%*			

The highest ranked item for the REM in 1995 to 1997 is the acknowledgment that procedures exist for determining the remuneration of executive and non-executive directors (Item 6.1). This item was ranked 9th in 1995, 6th in 1996 and 5th in 1997. The lowest ranked item was the disclosure of any fees paid to the remuneration committee members (Item 6.7) which was ranked 31st in 1995, 36th in 1996 and 33rd in 1997. Overall 30% of companies in 1995, 48% in 1996 and 51% in 1997 made REM disclosures. This highlights that in 1997 49% of companies were not making REM related governance disclosures.

External auditors (AUD)

AUD category includes 9 items of audit related governance information and is summarised in Table 5.10. Item 7.1 to Item 7.6 are the items suggested by the ASX. Items include procedures for nominating external auditors, audit committee information and the adequacy of external auditors. Item 7.7 to 7.9 are the additional items of actual governance disclosure and are highlighted by shading in Table 5.10. The three additional items relate to fees paid to audit committee members and whether the chairperson and majority of members of the audit committee are non-executive.

The benefits of having an audit committee are well documented. As a result disclosure within this category is particularly high compared to other categories. Overall in 1995 39% of companies disclose AUD information. This increased to 53% in 1996 and 56% in 1997. 81 companies in 1995, 87 in 1996 and 89 in 1997 disclosed the presence of an audit committee. 39 companies in 1995, 77 in 1996 and 82 in 1997 disclosed the main responsibilities and core rights of this audit committee.

The chairperson of the audit committee was a non-executive director for 65% of the companies in 1995 and 78% in 1997. Fees paid to audit committee members were not common, being disclosed by only one company in 1995, 4 companies in 1996 and increased to 7 companies in 1997.

Table 5.10

Summary of AUD information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	AUDIT (AUD)						
7.1	Acknowledgment of existence of procedures for nominating external auditors	10	31	31	26	24	23
7.2	Main procedures for nominating external auditors.	1	4	1	31	34	36
7.3	Reviewing the adequacy of existing external audit arrangements with particular emphasis on the scope and quality of the audit.	12	40	55	25	21	16
7.4	Presence of an audit committee	81	87	89	3	5	4
7.5	Main responsibilities and core rights of the audit committee.	39	77	82	13	10	9
7.6	Names and positions of audit committee members.	76	85	83	5	6	8
	TOTAL ASX	**219**	**324**	**341**			
	% companies disclosing ASX requirements	*37%*	*54%*	*59%*			
	Items in addition to ASX						
7.7	Fees paid to members of the audit committee	1	4	7	31	34	30
7.8	Non-executive chairperson of the audit committee	65	76	78	8	11	10
7.9	Majority of non-executive directors on the audit committee	65	76	77	8	11	11
	TOTAL ACTUAL	**131**	**156**	**162**			
	% of companies disclosing additional information	*44%*	*52%*	*81%*			
	TOTAL AUD	**350**	**480**	**503**			
	% of companies disclosing this category	*39%*	*53%*	*56%*			

A total of 10 companies in 1995 and 31 companies in 1996 and 1997 acknowledged that procedures existed for nominating external auditors. However only one of these companies in 1995 and 1997 and 4 in 1996 gave more detail on the main procedures for nominating external auditors.

The highest ranked item within AUD category over all three years 1995 to 1997 is the disclosure of an audit committee (Item 7.4) which is ranked 3rd in 1995, 5th in 1996 and 4th in 1997. The high disclosure in this category is evidence of the requirements of listing rule 4.10.2 that requires companies to disclose the presence of an audit committee and if they don't have one, reasons as to why.

The lowest ranked items are procedures for nominating external auditors (Item 7.2) and fees paid to audit committee members (Item 7.7). Both items are equally ranked 31st in 1995 and 34th in 1996, and 36th and 30th in 1997 respectively.

Business risk (RSK)

Items within RSK category focus on acknowledging and identifying various business risks and if the company has disclosed details of a separate risk management committee other than an audit committee. The 10 items that make up the RSK category of disclosures are summarised in Table 5.11. Items 8.1 to 8.3 are the items suggested by the ASX. Items 8.4 to 8.10 are seven additional items of actual disclosure that are highlighted by shading. Overall 52% of companies in 1995 disclosed RSK related information suggested by the ASX, this increased to 69% in 1996 and 78% in 1997. 22% of companies in 1995, 25% in 1996 and 29% in 1997 made additional items of actual disclosure.

Table 5.11

Summary of RSK information by mining companies in 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	RISK (RSK)						
8.1	Acknowledgment that risks at exists	91	98	100	2	2	1
8.2	Boards approach to identifying areas of significant business risk.	28	60	67	18	14	12
8.3	Arrangements in place to manage those risks.	36	49	67	15	18	12
	TOTAL ASX	**155**	**207**	**234**			
	% companies disclosing ASX requirements	*52%*	*69%*	*78%*			
	Items in addition to ASX						
8.4	Acknowledgment of specific areas of risk	78	84	83	4	7	8
8.5	Separate Risk management Committee - Other than Audit committee, including committees for specific area's of risk includes environmental committee, hedging committee, occupational health and safety committee	19	25	32	20	26	22
8.6	Main responsibilities and core rights of the risk committee.	15	20	29	22	28	24
8.7	Names of members of the separate risk committees	14	16	22	23	32	25
8.8	Fees paid to Risk Management Committee members	1	0	1	31	37	36
8.9	Non-executive chairperson of the risk committee	13	17	19	24	31	28
8.10	Majority of non-executive directors on the risk committee	14	16	17	23	32	29
	TOTAL ACTUAL	**154**	**178**	**203**			
	% of companies disclosing additional information	*22%*	*25%*	*29%*			
	TOTAL RSK	**309**	**385**	**437**			
	% of companies disclosing this category	*31%*	*39%*	*44%*			

A significant number of companies acknowledged that risk existed, 91 companies in 1995, 98 companies in 1996 and 100 companies in 1997. Notably, 78 companies in 1995, 84 companies in 1996 and 83 companies in 1997 disclosed some specific areas of risk. Mining companies have particular risks in relation to the environment and the majority of specific disclosures referred to this.

Separate risk management committees (other than an audit committee) were present in 19 companies for 1995. This increased to 25 companies in 1996 and 32 companies in 1997. The highest ranked item within the RSK category is Item 8.1, which examines acknowledgment that risk exists (ranked 2nd in 1995 and 1996 and 1st in 1997). The lowest ranked item was item 8.8 that examines disclosure of fees paid to risk management committee members. This item was ranked 31st in 1995, 37th in 1996 and 36th in 1997.

Ethical standards (ETHIC)

ETHIC disclosures are summarised in Table 5.12. These disclosures relate to providing evidence of ethical standards along with policies on the establishment of these standards, the firm's approach to buying and selling of shares and if the company had a separate code of conduct committee. ETHIC comprises 9 items, of which items 9.1 and 9.2 were suggested by the ASX and items 9.3 to 9.9 are additional items of actual disclosure highlighted by shading in the Table 5.12.

41% of companies in 1995, 63% in 1996 and 65% in 1997 made ETHIC disclosures as suggested by the ASX. 2% of companies in 1995, 6% in 1996 and 8% in 1997 made additional items of disclosure. Overall, 10% of companies made ETHIC related disclosures in 1995, 19% in 1996 and 20% in 1997.

In 1995 a total of 73 companies acknowledged the existence of ethical standards with 8 of theses companies providing additional information on any particular policies on the establishment of these ethical standards. This increased in 1996 to be 93 companies acknowledging ethical standards and 35 companies provided some additional information on policies on the establishment of ethical standards. In 1997 94 companies acknowledged ethical standards, and 35 of these provided more detailed information on the policies on the establishment of ethical standards.

Table 5.12

Summary of ETHIC information by mining companies in 1995 to 1997

NO.	ITEM OF DISCLOSURE	YEAR *n=100* 1995 No.	1996 No.	1997 No.	Overall Ranking 1995 No.	1996 No.	1997 No.
	ETHICS (ETHIC)						
9.1	Acknowledgment of existence of ethical standards	73	93	94	7	4	3
9.2	Policies on the establishment of ethical standards	8	33	35	27	23	21
	TOTAL ASX	**81**	**126**	**129**			
	% companies disclosing ASX requirements	*41%*	*63%*	*65%*			
	Items in addition to ASX						
9.3	Firms Approach to the buying and selling of shares by directors and other employees (specific and acknowledgment - Insider dealing)	7	26	31	28	25	23
9.4	Separate code of conduct committee-other than Audit committee	2	6	7	30	33	30
9.5	Main responsibilities and core rights of the code of conduct committee.	1	3	6	31	35	31
9.6	Names of members of the separate code of conduct committee	1	3	5	31	35	32
9.7	Fees paid to code of conduct committee members	0	0	1	32	37	36
9.8	Non-executive chairperson of the code of conduct committee	1	3	3	31	35	34
9.9	Majority of non-executive directors on the code of conduct committee	1	2	2	31	36	35
	TOTAL ACTUAL	**13**	**43**	**55**			
	% of companies disclosing additional information	*2%*	*6%*	*8%*			
	TOTAL ETHIC	**94**	**169**	**184**			
	% of companies disclosing this category	*10%*	*19%*	*20%*			

7 companies in 1995, 26 companies in 1996 and 31 companies in 1997 made disclosures on the firms' approach to buying and selling shares. A separate code of conduct committee that was not an audit committee was present in only 2 companies in 1995 increasing to 6 companies in 1996, and 7 companies in 1997.

The highest ranked item within the ETHIC category for the three years 1995 to 1997 was item 9.1 that examines the acknowledgment of the existence of ethical standards. This item was ranked 7th in 1995, 4th in 1996 and 3rd in 1997.

The lowest ranked item was item 9.7, which surveys the disclosure of fees paid to a separate code of conduct committee. This item had no disclosures in 1995 and 1996 and only 1 company disclosed this item in 1997. Overall this item was ranked 32nd in 1995, 37th in 1996 and 36th in 1997.

Governance disclosures by industrial companies

This section presents the survey results of governance disclosures made by industrial companies. Table 5.13 summarises overall governance disclosures by category. Consistent with disclosure practices of mining companies governance disclosures have more than doubled over the period 1995 to 1997. The mean number of disclosures suggested by the ASX has increased from 9.29 disclosures in 1995 to 16.62 disclosures in 1996 and 17.45 disclosures in 1997. Consistent with mining companies, the disclosure of audit information is most prominent. The following sections detail the frequency of disclosures by industrial companies, followed by the results of governance disclosures shown separately under each of the eight categories.

Table 5.13

Summary of industrial company governance disclosure by category for 1995 to 1997

ITEM OF DISCLOSURE *(n=100)*	**1995**	**1996**	**1997**	**1995**	**1996**	**1997**
	ASX*	**ASX***	**ASX***	**+ASX****	**+ASX****	**+ASX****
Directors (EXEC)	166	183	185	166	183	185
Board Membership (BMEM)	78	220	239	152	379	406
Appointment and Retirement (APRET)	28	108	114	28	108	114
Independent Advice (INDADV)	38	142	148	38	142	148
Remuneration (REM)	174	328	351	240	437	477
Auditors (AUD)	240	343	356	392	521	539
Risk (RSK)	140	214	224	267	367	386
Ethical Standards (ETHIC)	65	124	128	76	164	174
TOTAL GOVERNANCE DISCLOSURES	**929**	**1662**	**1745**	**1359**	**2301**	**2429**
Mean	*9.29*	*16.62*	*17.45*	*13.59*	*23.01*	*24.29*
Median	*7.50*	*17.00*	*18.00*	*11.00*	*22.00*	*23.50*
Standard deviation	*5.70*	*5.13*	*5.07*	*8.68*	*7.87*	*7.92*
Minimum	*1*	*5*	*5*	*1*	*6*	*6*
Maximum	*25*	*29*	*29*	*37*	*41*	*42*

* *ASX represents the governance disclosures suggested by the Australian Stock Exchange*
** *+ ASX represents the governance disclosures suggested by the Australian Stock exchange plus additional items of actual disclosure.*

Frequency of governance disclosures by industrial companies

Table 5.14 details the frequency of governance disclosures as suggested by the ASX for industrial companies. The maximum number of disclosures is 30 items, no company disclosed all these items. The results show that the most number of disclosures by one company, as suggested by the ASX in 1995 is 25 items. In 1996 and 1997 the most number of disclosures by one company is 29 items. In 1995 the least amount of disclosures was by 3 companies who disclosed one item.

In 1996 and 1997, the least number of disclosures was 5 items, and was made by 2 companies.

Table 5.14

Frequency of governance disclosure items suggested by the ASX for industrial companies for 1995 to 1997

Disclosure Score	ASX Disclosure items					
	Frequency n = 100			Cumulative Percent		
	1995	1996	1997	1995	1996	1997
0	0	0	0	0	0	0
1	3	0	0	3	0	0
2	2	0	0	5	0	0
3	5	0	0	10	0	0
4	11	0	0	21	0	0
5	15	2	2	36	2	2
6	8	0	0	44	0	2
7	6	2	1	50	4	3
8	4	2	3	54	6	6
9	5	4	3	59	10	9
10	5	4	1	64	14	10
11	4	3	1	68	17	11
12	1	6	5	69	23	16
13	6	5	6	75	28	22
14	5	5	3	80	33	25
15	2	3	9	82	36	34
16	3	12	6	85	48	40
17	6	7	9	91	55	49
18	1	11	10	92	66	59
19	2	4	4	94	70	63
20	1	7	6	95	77	69
21	2	6	9	97	83	78
22	2	4	6	99	87	84
23	0	3	3	99	90	87
24	0	5	8	99	95	95
25	1	1	1	100	96	96
26	0	2	1	100	98	97
27	0	1	2	100	99	99
28	0	0	0	100	99	99
29	0	1	1	100	100	100
30	0	0	0	100	100	100

Table 5.15 summarises the frequency of disclosures for the additional items of actual disclosure. The maximum number of disclosures is 25, no company made 25 disclosures. The most number of additional disclosures was 18 items in 1995 and 20 items in 1996 and 1997. The least amount of disclosures in 1995 was no disclosures, made by seven companies. In 1996, the least number of disclosures was one disclosure, made by 6 companies. In 1997, the least number of disclosures was one disclosure made by four companies.

Table 5.15

Frequency of ASX and additional items of governance disclosure for industrial companies for 1995 to 1997

Disclosure Score	Additional items of Actual Disclosure					
	Frequency n = 100			Cumulative Percent		
	1995	1996	1997	1995	1996	1997
0	7	0	0	7	0	0
1	12	6	4	19	6	4
2	18	6	4	37	12	8
3	17	9	11	54	21	19
4	9	10	9	63	31	28
5	11	15	11	74	46	39
6	7	14	16	81	60	55
7	2	4	7	83	64	62
8	5	8	9	88	72	71
9	3	11	7	91	83	78
10	1	5	7	92	88	85
11	3	4	3	95	92	88
12	1	2	3	96	94	91
13	1	4	5	97	98	96
14	1	1	2	98	99	98
15	0	0	0	98	99	98
16	0	0	1	98	99	99
17	1	0	0	99	99	99
18	1	0	0	100	99	99
19	0	0	0	100	99	99
20	0	1	1	100	100	100
21	0	0	0	100	100	100
22	0	0	0	100	100	100
23	0	0	0	100	100	100
24	0	0	0	100	100	100
25	0	0	0	100	100	100

The most number of disclosures overall out of the total 55 items in 1995 was 37 items, disclosed by one company. In 1996, the most number of disclosures by one company was 41 items. In 1997 the most number of disclosures by one company was 42 items of disclosure. (These results are not shown in the accompanying tables).

Disclosure of directors (EXEC)

This section summarises results of governance disclosures relating to the break-up of individual directors into executive and non-executive directors and whether the Chairman of the Board is a non-executive director. Both disclosure items are suggested by the ASX. Results are summarised in Table 5.16.

Table 5.16

Summary of EXEC information by industrial companies for 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
DIRECTORS (EXEC)							
2.1	Break-up of individual directors into executive and non-executive	93	100	100	1	1	1
2.2	Chairman is a non-executive director	73	83	85	6	7	9
	TOTAL EXEC	**166**	**183**	**185**			
	% of companies disclosing this category	*83%*	*92%*	*93%*			

Disclosure in relation to directors has remained fairly consistent from 1995 to 1997. A total of 93 companies in 1995 and 100 companies in 1996 and 1997 disclosed the break-up of directors into executive and non-executive. In 1995, 73 companies had a non-executive chairperson, increasing to 83 companies in 1996 and 85 companies in 1997. Overall 83% of companies in 1995 disclosed some information with regard to EXEC. This increased to 92% in 1996 and 93% in 1997. Item 2.1 is ranked 1st overall of all the 55 items of disclosure for each of the years examined. Disclosure of the chairman being a non-executive director is ranked 6th in 1995, 7th in 1996 and 9th in 1997.

Membership on Board of Directors (BMEM)

BMEM category highlights governance disclosures relating to board membership. Procedures for board membership and the presence of a nomination committee and the responsibilities of the board of directors are the key items of disclosure within this category. Table 5.17 summarises results for the 12 items that make BMEM category. Items 3.1 to 3.7 are items suggested by the ASX and items 3.8 to 3.12 (highlighted by shading) are additional items of actual disclosure.

As shown in Table 5.17, disclosures suggested by the ASX were made by 11% of companies in 1995, 31% of companies in 1996 and increasing to 34% in 1997. 15% of companies in 1995, 32% in 1996 and 33% in 1997 disclosed additional items of actual disclosure.

28 companies in 1995, 79 companies in 1996 and 82 companies in 1997 disclosed the acknowledgment of criteria for board membership, item 3.1. Few companies disclosed the main procedures in place for devising criteria for board membership, 12 companies in 1995, 42 companies in 1996 and 44 companies in 1997. Nomination committees were present in 13 companies in 1995, 24 companies in 1996 and 26 companies in 1997.

The most disclosed item within the BMEM category is Item 3.10 and relates to responsibilities of the board of directors. This item was disclosed by 44 companies in 1995 (ranked 10th), 94 companies in 1996 (ranked 2nd) and 95 companies in 1997 (ranked 3rd).

Table 5.17

Summary of BMEM information by industrial companies for 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
BOARD MEMBERSHIP (BMEM)							
3.1	Acknowledgment of existence of criteria for board membership	28	79	82	17	8	10
3.2	Main procedures in place for devising criteria for board membership.	12	42	44	25	20	23
3.3	Procedures for reviewing the membership of the board.	4	20	23	32	27	28
3.4	Procedures for nominating directors.	2	11	12	34	33	34
3.5	Presence of a nomination committee	13	24	26	24	24	26
3.6	Names and positions of nomination committee members	10	22	26	27	26	26
3.7	Responsibilities of nomination committee members	9	22	26	28	26	26
	TOTAL ASX	**78**	**220**	**239**			
	% companies disclosing ASX requirements	*11%*	*31%*	*34%*			
	Items in addition to ASX						
3.8	Non-executive chairperson of Nomination Committee	10	19	22	27	28	29
3.9	Majority of the nomination committee members non-executive directors	10	20	23	27	27	28
3.10	Responsibilities of the board of directors	44	94	95	10	2	3
3.11	Acknowledgment of formal review of boards/directors performance	9	24	24	28	24	27
3.12	Procedures for reviewing performance	1	2	3	35	36	37
	TOTAL ACTUAL	**74**	**159**	**167**			
	% of companies disclosing additional information	*15%*	*32%*	*33%*			
	TOTAL BMEM	**152**	**379**	**406**			
	% of companies disclosing this category	*13%*	*32%*	*34%*			

Few disclosures were made in relation to procedures for reviewing board membership (Item 3.3) and procedures for nominating directors (Item 3.4). In 1995, 4 and 2 companies disclosed these items respectively. Although disclosures increased by about five times in 1997 disclosures were still low with these items being ranked 28th and 34th in 1997.

Appointment and retirement of directors (APRET)

APRET provides a summary of the governance disclosures on the appointment and retirement of non-executive directors. Both items were suggested by the ASX. Results are shown in Table 5.18.

Table 5.18

Summary of APRET information by industrial companies for 1995 to 1997

		YEAR $n=100$			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
APPOINTMENT/RETIREMENT (APRET)							
4.1	Policies on the terms and conditions relating to the appointment of non-executive directors.	15	64	69	22	11	13
4.2	Policies on the terms and conditions relating to the retirement of non-executive directors.	13	44	45	24	19	22
	TOTAL APRET	**28**	**108**	**114**			
	% of companies disclosing this category	*14%*	*54%*	*57%*			

Disclosures relating to the appointment of directors are marginally higher than for the retirement of non-executive directors. Policies on the appointment of directors are disclosed by 15 companies in 1995, 64 companies in 1996 and 69 companies in 1997. 13 companies in 1995, 44 companies in 1996 and 45 companies in 1997 disclosed policies on retirement of directors. 14% of companies in 1995 increasing to 54% in 1996 and 57% in 1997 made APRET disclosures. As shown in Table 5.18 the ranking's for these two items has increased from 22nd and 24th in 1995 to 13th and 22nd in 1997.

Directors ability to seek independent advice (INDADV)

As illustrated in Table 5.19 the current study has found that overall disclosure for INDADV has increased dramatically. In 1995 19% of companies made disclosures, this increased to 71% in 1996 and 74% of companies in 1997. A total of 24 companies in 1995 acknowledged the director could seek independent advice increasing to 83 companies in 1996 and 85 companies in 1997. Some companies went further and disclosed some of the procedures for seeking advice. 14 companies in 1995, 59 companies in 1996 and 63 companies in 1997 disclosed these procedures.

Table 5.19

Summary of INDADV information by industrial companies

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
INDEPENDENT ADVICE (INDADV)							
5.1	Acknowledgment of ability to seek independent advice	24	83	85	18	7	9
5.2	Procedures by which directors can seek independent professional advice at the company's expense in the furtherance of their duties.	14	59	63	23	13	17
	TOTAL INDADV	**38**	**142**	**148**			
	% of companies disclosing this category	*19%*	*71%*	*74%*			

Remuneration (REM)

REM examines the governance disclosures related to the remuneration of executive and non-executive directors. Table 5.20 summarises the 9 governance items that comprise this category. Items 6.1 to 6.6 are items suggested by the ASX and items relate to procedures for determining remuneration, the presence and purpose and members of a remuneration committee. Items 6.7 to 6.9 are additional items of actual disclosure (highlighted by shading in Table 5.20), items relate to fees paid to remuneration committee members and if the committee chairperson and majority of members are non-executive.

In 1995 51 companies surveyed acknowledged that procedures existed for determining the remuneration of executive and non-executive directors. However only 7 of these companies provided some additional information on procedures for establishing and reviewing remuneration arrangements of the CEO and other executives. A further 12 companies disclosed some procedures for reviewing compensation arrangements of non-executive directors. In 1996 92 companies acknowledged that procedures for determining remuneration existed, with 26 companies providing additional information on CEO remuneration arrangements and 31 providing some information on non-executive directors remuneration arrangements. In 1997, the acknowledgment of procedures increased to 93 companies, with 28 companies providing additional information on executive's remuneration arrangements and 33 companies provided information for non-executives remuneration.

Table 5.20

Summary of REM information by industrial companies for 1995 to 1997

NO.	ITEM OF DISCLOSURE	YEAR *n=100* 1995 No.	1996 No.	1997 No.	Overall Ranking 1995 No.	1996 No.	1997 No.
REMUNERATION (REM)							
6.1	Acknowledgment that procedures exist for determining remuneration of executive and non-executive directors	51	92	93	9	3	5
6.2	The main procedures for establishing and reviewing the compensation arrangements for the CEO and other senior executives. (Includes receipt of external advice)	7	26	28	30	23	25
6.3	The main procedures for establishing and reviewing the compensation arrangements for the non-executive members of the board.	12	31	33	25	21	24
6.4	Presence of a remuneration committee	43	62	68	11	12	14
6.5	Main responsibilities and core rights of the committee.	22	58	65	19	14	15
6.6	Names and positions of committee members.	39	59	64	13	13	16
	TOTAL ASX	**174**	**328**	**351**			
	% companies disclosing ASX requirements	*29%*	*55%*	*59%*			
	Items in addition to ASX						
6.7	Fees paid to members of the Remuneration Committee	1	2	5	35	36	36
6.8	Non-executive chairperson of the remuneration committee	32	53	60	15	16	19
6.9	Majority of non-executive directors on the remuneration committee	33	54	61	14	15	18
	TOTAL ACTUAL	**66**	**109**	**126**			
	% of companies disclosing additional information	*22%*	*36%*	*42%*			
	TOTAL REM	**240**	**437**	**477**			
	% of companies disclosing this category	*27%*	*49%*	*53%*			

Remuneration committees were present in 43 companies in 1995. This increased to 62 companies in 1996 and 68 companies in 1997. In 1995 22 disclosed the core responsibilities of the remuneration committee, this increased to 58 companies in 1996 and 65 companies in 1997. 32 companies in 1995, 53 companies in 1996 and

60 in 1997 had a non-executive chairperson of the remuneration committee. Fees paid to committee members were limited to one in 1995, 2 in 1996 and 5 in 1997.

The highest ranked item of disclosure for REM in 1995 was Item 6.1, which relates to companies acknowledging that procedures exist for determining the remuneration of executive and non-executive directors. This item is ranked 9th in 1995, 3rd in 1996 and 5th in 1997. The lowest ranked item is Item 6.7 which is the disclosure of fees paid to members of the remuneration committee and is ranked 35th in 1995, 36th in 1996 and 1997. In summary a total of 27% of companies disclose REM related information in 1995. This increased to 49% in 1996 and 53% in 1997.

External Auditors (AUD)

Table 5.21 summarises results for AUD category. Items 7.1 to 7.6 are items suggested by the ASX and items are in relation to procedures for nominating and reviewing the adequacy of external auditors and the presence and purpose of an audit committee. Items 7.7 to 7.9 are additional items of actual disclosure and survey fees paid to audit committee members and whether the chairperson and majority of members of the audit committee are non-executive.

Disclosures within AUD are higher compared to other categories with a total of 91 companies disclosing the presence of an audit committee in 1995, 91 companies in 1996 and 94 companies in 1997. A total of 40 companies in 1995 went further to highlight the main responsibilities of the audit committee. This more than doubled in 1996 to be 83 companies and 87 companies in 1997. In addition to this in 1995, 75% of companies disclosed that the chairperson and majority of audit committee members were non-executive directors, this increased to 88% in 1996 and 89% in 1997. Disclosure of fees paid to audit committee members increased from 3 companies in 1995 to 4 companies in 1996 and 6 companies in 1997.

Table 5.21

Summary of AUD information by industrial companies for 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
AUDIT (AUD)							
7.1	Acknowledgment of existence of procedures for nominating external auditors	5	29	28	31	22	25
7.2	Main procedures for nominating external auditors.	1	4	2	35	34	38
7.3	Reviewing the adequacy of existing external audit arrangements with particular emphasis on the scope and quality of the audit.	13	45	52	24	18	21
7.4	Presence of an audit committee	91	91	94	2	4	4
7.5	Main responsibilities and core rights of the audit committee.	40	83	87	12	7	8
7.6	Names and positions of audit committee members.	90	91	93	3	4	5
	TOTAL ASX	**240**	**343**	**356**			
	% companies disclosing ASX requirements	*40%*	*57%*	*59%*			
	Items in addition to ASX						
7.7	Fees paid to members of the audit committee	3	4	6	33	34	35
7.8	Non-executive chairperson of the audit committee	75	88	89	4	5	6
7.9	Majority of non-executive directors on the audit committee	74	86	88	5	6	7
	TOTAL ACTUAL	**152**	**178**	**183**			
	% of companies disclosing additional information	*51%*	*59%*	*61%*			
	TOTAL AUD	**392**	**521**	**539**			
	% of companies disclosing this category	*44%*	*58%*	*60%*			

Although some companies acknowledged the existence of procedures for nominating external directors (5 companies in 1995, 29 in 1996 and 28 in 1997) disclosures in relation to what these procedures were limited, with 1 company disclosing in 1995, 4 in 1996 and 2 in 1997.

The highest ranked item within category AUD is Item 7.4, which details disclosure of an audit committee. This item is ranked 2nd in 1995 and 4th in 1996 and 1997. The lowest ranked item is item 7.2, which examines the disclosure of procedures for nominating external auditors. This item is ranked 35th in 1995, 34th in 1996, and 38th in 1997. Overall, for category AUD, 44% of companies in 1995, 58% in 1996 and 60% in 1997 made AUD related disclosures.

Business risk (RSK)

Table 5.22 summarises results of RSK governance related disclosures for industrial companies. Items 8.1 to 8.3 are items suggested by the ASX and relate to the acknowledgment of risk approach to identifying and managing those risks. Items 8.4 to 8.10 are additional items of actual governance disclosure and examine specific areas of risk, the presence responsibilities ad members of a risk management committee, other than an audit committee.

In 1995, 90 companies acknowledged that risk existed. This increased to 98 companies in 1996 and 99 companies in 1997. Despite this large number acknowledging the existence of risk fewer companies provided additional information of identifying and managing theses risks. For example in 1995, 19 companies provided some information on identifying risks, 51 companies in 1996 and 54 in 1997. 31 companies in 1995, 65 companies in 1996 and 71 companies in 1997 provided some information on arrangements in place to manage risks.

Table 5.22

Summary of RSK information by industrial companies for 1995 to 1997

		YEAR *n=100*			Overall Ranking		
NO.	**ITEM OF DISCLOSURE**	**1995 No.**	**1996 No.**	**1997 No.**	**1995 No.**	**1996 No.**	**1997 No.**
	RISK (RSK)						
8.1	Acknowledgment that risks at exists	90	98	99	3	1	2
8.2	Boards approach to identifying areas of significant business risk.	19	51	54	20	17	20
8.3	Arrangements in place to manage those risks.	31	65	71	16	10	12
	TOTAL ASX	**140**	**214**	**224**			
	% companies disclosing ASX requirements	*47%*	*71%*	*75%*			
	Items in addition to ASX						
8.4	Acknowledgment of specific areas of risk	65	74	78	7	9	11
8.5	Separate Risk management Committee - Other than Audit committee, including committees for specific area's of risk includes environmental committee, hedging committee, occupational health and safety committee	17	20	22	21	27	29
8.6	Main responsibilities and core rights of the risk committee.	12	14	14	25	31	32
8.7	Names of members of the separate risk committees	11	12	13	26	32	33
8.8	Fees paid to Risk Management Committee members	1	0	0	35	37	39
8.9	Non-executive chairperson of the risk committee	11	17	18	26	29	30
8.10	Majority of non-executive directors on the risk committee	10	16	17	27	30	31
	TOTAL ACTUAL	**127**	**153**	**162**			
	% of companies disclosing additional information	*18%*	*22%*	*23%*			
	TOTAL RSK	**267**	**367**	**386**			
	% of companies disclosing this category	*27%*	*37%*	*39%*			

Risk management committees were present in 17 companies in 1995, 20 companies in 1996, and 22 in 1997. This highest ranked item with RSK category is Item 8.1, that identifies companies acknowledge that risk exists. This item is ranked 3rd in

1995, first in 1996 and 2nd in 1997. The lowest ranked item within the RSK category is item 8.8 which identifies the disclosure of fees paid to separate risk management committee. This item is ranked 35th in 1995, 37th in 1996 and 39th in 1997.

In summary for category RSK disclosures suggested by the ASX have increased from 47% of companies disclosing in 1995 to 71% in 1996 and 75% in 1997. Additional items of disclosure were made by 18% of companies in 1995, 22% in 1996 and 23% of companies in 1997. Overall 27% of companies made RSK disclosures in 1995 increasing to 39% of companies in 1997. Importantly, this highlights that 25% of companies in 1997 are not disclosing adequate RSK related information in accordance with the ASX listing rule.

Ethical Standards (ETHIC)

Table 5.23 summarises the ETHIC related governance disclosures. Items 9.1 and 9.2 are items suggested by the ASX and examine the acknowledgment of the existence of ethical standards and policies on the establishment of ethical standards. Items 9.3 to 9.9 are additional items of actual disclosure and look at the disclosure of the firm's approach to buying and selling shares, presence, responsibilities and members of a separate code of conduct committee, other than an audit committee.

In 1995 a total of 57 companies acknowledged the existence of ethical standards with 8 companies providing some information on particular policies on the establishment of ethical standards. This increased to 95 companies acknowledging ethical standards with 29 of these providing information on ethical policies. In 1997, 95 companies provided information of the existence of ethical standards, with 33 companies making more detailed disclosures on policies on the establishment of these standards.

Table 5.23

Summary of ETHIC information by industrial companies for 1995 to 1997

NO.	ITEM OF DISCLOSURE	YEAR *n=100* 1995 No.	1996 No.	1997 No.	Overall Ranking 1995 No.	1996 No.	1997 No.
	ETHICS (ETHIC)						
9.1	Acknowledgment of existence of ethical standards	57	95	95	8	2	3
9.2	Policies on the establishment of ethical standards.- specific areas of code of conduct	8	29	33	29	22	24
	TOTAL ASX	**65**	**124**	**128**			
	% companies disclosing ASX requirements	*33%*	*62%*	*64%*			
	Items in addition to ASX						
9.3	Firms approach to the buying and selling of shares by directors and other employees (specific and acknowledgment - Insider dealing)	5	23	26	31	25	26
9.4	Separate code of conduct committee-other than audit committee	1	4	5	35	34	36
9.5	Main responsibilities and core rights of the code of conduct committee.	1	2	2	35	36	38
9.6	Names of members of the separate code of conduct committee	2	3	3	34	35	37
9.7	Fees paid to code of conduct committee members	0	0	0	36	37	39
9.8	Non-executive chairperson of the code of conduct committee	1	4	5	35	34	36
9.9	Majority of non-executive directors on the code of conduct committee	1	4	5	35	34	36
	TOTAL ACTUAL	**11**	**40**	**46**			
	% of companies disclosing additional information	*2%*	*6%*	*7%*			
	TOTAL ETHIC	**76**	**164**	**174**			
	% of companies disclosing this category	*8%*	*18%*	*19%*			

Additional ETHIC disclosures are few, with only 2% of companies providing information in 1995, 6% in 1996 and 7% in 1997. Disclosures focus on the firms' approach to the buying and selling of shares with 5 companies in 1995, 23 in 1996 and 26 in 1997 providing details of the firms approach share trading. Few companies have a separate code of conduct committee, only 1 on 1995, 4 in 1996 and 5 in 1997.

The highest ranked item within the ETHIC category is Item 9.1, which acknowledges that the company has ethical standards. This item ranked 8^{th} in 1995, 2^{nd} in 1996 and 3^{rd} in 1997. The lowest ranked item for all three years is Item 9.7 which looks at the disclosure of fees paid to code of conduct committee members. No industrial companies have disclosed this item.

Summary of governance disclosures by mining and industrial companies

Governance related disclosures have increased consistently from 1995 to 1997 for both mining and industrial companies. Table 5.24 summarises the governance disclosures suggested by the ASX through listing rule 4.10.3. Prior to the introduction of the listing rule in 1995, overall governance disclosure for both industry groups was 1901. This increased to 3289 disclosures in 1996 and 3499 disclosures in 1997. Mining company governance disclosures are higher in 1995 and 1997, while industrial companies disclosed more in 1996.

As shown in Table 5.24, audit and remuneration related disclosures are the most prevalent items of governance disclosure in 1995 prior to the introduction of the listing rule, for both industry groups. These two categories remain the most prominent after the listing rule became applicable in 1996 and 1997. Audit related disclosures are marginally higher for industrial companies than for mining companies while remuneration information was marginally higher for mining than for industrial companies.

Table 5.25 summarises the governance disclosures suggested by the ASX plus the additional items of actual disclosure. Disclosures have consistently increased over the period. In 1995, the two industry groups made a total of 2785 disclosures. This increased to 4567 disclosures in 1996 and 4860 in 1997. The number of disclosures in 1995 and 1997 were higher for mining companies and in 1996 industrial companies was higher.

As shown in Table 5.25 prior to the introduction of the listing rule in 1995, the most prominent governance disclosures were audit, remuneration and risk information for both mining companies and industrial companies. Audit information is ranked first for both industry groups with industrial companies disclosing more audit information than mining companies. Risk information is ranked 2nd for both industry groups in 1995 with mining companies disclosing more than industrial companies. Remuneration disclosures are ranked 3rd in 1995 with mining companies disclosing more than industrial companies. After the introduction of the listing rule, audit, remuneration, risk and board membership disclosures were most prominent. For mining companies in 1996 and 1997 audit information was ranked first followed by remuneration (ranked 2nd) and risk information (ranked 3rd). For industrial companies in 1996 and 1997 the most prominent disclosures were audit (ranked first), remuneration (ranked 2nd) and board membership information (ranked third). As demonstrated risk information has decreased its ranking for both mining and industrial companies.

Table 5.24

Summary of the number of governance disclosures suggested by the ASX for mining and industrial companies for 1995 to 1997

		YEAR *n=200*						Overall Ranking		
NO	ITEM OF DISCLOSURE	1995		1996		1997		1995	1996	1997
		No.	%	No.	%	No.	%	No.	No.	No.
1	**DIRECTORS (EXEC)**									
	Mining	168	17.11	177	10.88	176	10.03	3	5	5
	Industrial	166	17.87	183	11.01	185	10.60	3	5	5
	Total	**334**	**17.49**	**360**	**10.95**	**361**	**10.32**			
2	**BOARD MEMBERSHIP (BMEM)**									
	Mining	80	8.15	223	13.71	261	14.88	6	3	3
	Industrial	78	8.40	220	13.24	239	13.70	5	3	3
	Total	**158**	**8.23**	**443**	**13.48**	**500**	**14.29**			
3	**APPOINTMENT AND RETIREMENT (APRET)**									
	Mining	40	4.07	101	6.21	117	6.67	8	8	8
	Industrial	28	3.01	108	6.50	114	6.53	8	8	8
	Total	**68**	**3.54**	**209**	**6.36**	**231**	**6.6**			
4	**INDEPENDENT ADVICE (INDADV)**									
	Mining	47	4.79	145	8.91	142	8.10	7	6	6
	Industrial	38	4.09	142	8.54	148	8.48	7	6	6
	Total	**85**	**4.44**	**287**	**8.73**	**290**	**8.29**			
5	**REMUNERATION (REM)**									
	Mining	192	19.55	324	19.91	354	20.18	2	1	1
	Industrial	174	18.73	328	19.74	351	20.11	2	2	2
	Total	**366**	**19.14**	**652**	**19.83**	**705**	**20.15**			
6	**AUDIT (AUD)**									
	Mining	219	22.30	324	19.91	341	19.44	1	1	2
	Industrial	240	25.83	343	20.64	356	20.40	1	1	1
	Total	**459**	**24.07**	**667**	**20.28**	**696**	**19.92**			
7	**RISK (RSK)**									
	Mining	155	15.78	207	12.72	234	13.34	4	4	4
	Industrial	140	15.07	214	12.88	224	12.84	4	4	4
	Total	**295**	**15.43**	**421**	**12.8**	**458**	**13.09**			
8	**ETHICS (ETHIC)**									
	Mining	81	8.25	126	7.75	129	7.36	5	7	7
	Industrial	65	7.00	124	7.45	128	7.34	6	7	7
	Total	**146**	**7.63**	**250**	**15.2**	**257**	**7.35**			
	OVERALL TOTAL									
	Mining	982	100	1627	100	1754	100			
	Industrial	929	100	1662	100	1745	100			
	TOTAL	**1901**		**3289**		**3499**				

Tables 5.26 and 5.27 summarise the highest ranked items for mining and industrial companies. The highest ranked item for mining companies is item 2.1 that examined the break-up of directors into executive and non-executive directors. This item is also ranked highest for industrial companies. Item 8.1 that shows the number of companies that have acknowledged that risk exists and the presence of an audit committee, item 7.4 were also ranked highly for both mining and industrial companies.

Item 3.12 that examines the disclosure of procedures for reviewing the performance of directors is the lowest ranked item (not shown in summary tables) for mining companies in 1995. In 1996 and 1997 the items 3.12, 7.2, 8.8 and 9.7 are ranked lowest. These items examined procedures for reviewing performance, procedures for nominating directors, fees paid to risk management committee members and fees paid to code of conduct committee members. Item 9.7 that looked at fees paid to code of conduct committee members was ranked the lowest for industrial companies over the three years of the study.

The results clearly indicate that the introduction of the ASX listing rule has influenced governance related disclosures by mining and industrial companies. In most cases, disclosures suggested by the ASX have more than doubled in number from 1995 to 1996 when the listing rule was introduced on the 30^{th} of June. Moderate increases in disclosures were present from 1996 to 1997. Additional items of actual disclosure have also increased. A notable increase for mining companies and industrial companies was an increase in the number of companies disclosing the responsibilities of the board of directors. 36 mining companies disclosed this item in 1995 and 86 companies in 1997. 44 industrial companies in 1995 and 95 companies in 1997 disclosed this item.

Although disclosures are increasing, the findings have highlighted some areas where disclosures are lacking. Firstly in 1997, 80% of mining companies and 76% of industrial companies don't acknowledge that they have a formal review of the boards or directors performance. In addition 65% of mining companies and 77% of industrial companies fail to highlight any procedures for reviewing the membership of the board of directors. 23% of mining companies and 15% of industrial companies don't have a non-executive director as chairman. 41% of mining companies and 43% of industrial companies disclose no information on the appointment and retirement of directors. 56% of mining companies and 67% of industrial companies provide no information of the main procedures for establishing and reviewing the compensation arrangements for non-executive directors. Finally, in 1997 only one mining company and 2 industrial companies provided some information on the procedures for nominating external auditors.

Summary

This chapter has shown the results of governance disclosures being made by mining and industrial companies in 1995, 1996 and 1997. The next chapter presents the results of regression analysis that seeks to establish if a relationship exists between governance related disclosures and corporate characteristics of firm size, gearing, ownership diffusion, proportion of non-executive directors and Big 6 external auditor.

Table 5.25

Summary of mining and industrial companies governance disclosures as suggested by the ASX and additional items of governance disclosure

ITEM OF DISCLOSURE	YEAR n=200						Overall Ranking		
	1995		1996		1997		1995	1996	1997
	No.	%	No.	%	No.	%	No.	No.	No.
1 DIRECTORS (EXEC)									
Mining	168	11.78	177	7.81	176	7.24	4	5	6
Industrial	166	12.21	183	7.95	185	7.62	4	5	5
Total	**334**	**12.00**	**360**	**7.88**	**361**	**7.43**			
2 BOARD MEMBERSHIP (BMEM)									
Mining	147	10.31	375	16.55	410	16.87	5	4	4
Industrial	152	11.18	379	16.47	406	16.71	5	3	3
Total	**299**	**10.75**	**754**	**16.51**	**816**	**16.79**			
3 APPOINTMENT AND RETIREMENT (APRET)									
Mining	40	2.81	101	4.46	117	4.81	8	8	8
Industrial	28	2.06	108	4.69	114	4.69	8	8	8
Total	**68**	**2.44**	**209**	**4.58**	**231**	**4.75**			
4 INDEPENDENT ADVICE (INDADV)									
Mining	47	3.30	145	6.40	142	5.84	7	7	7
Industrial	38	2.80	142	6.17	148	6.09	7	7	7
Total	**85**	**3.05**	**287**	**6.29**	**290**	**5.97**			
5 REMUNERATION (REM)									
Mining	271	19.00	434	19.15	462	19.00	3	2	2
Industrial	240	17.66	437	18.99	477	19.64	3	2	2
Total	**511**	**18.33**	**871**	**19.07**	**939**	**19.32**			
6 AUDIT (AUD)									
Mining	350	24.54	480	21.18	503	20.69	1	1	1
Industrial	392	28.84	521	22.64	539	22.19	1	1	1
Total	**742**	**26.7**	**1001**	**21.9**	**1042**	**21.4**			
7 RISK (RSK)									
Mining	309	21.67	385	16.99	437	17.98	2	3	3
Industrial	267	19.65	367	15.95	386	15.89	2	4	4
Total	**576**	**20.7**	**752**	**16.5**	**823**	**16.9**			
8 ETHICS (ETHIC)									
Mining	94	6.59	169	7.46	184	7.57	6	6	5
Industrial	76	5.60	164	7.14	174	7.17	6	6	6
Total	**170**	**6.1**	**333**	**7.3**	**358**	**7.4**			
OVERALL TOTAL									
Mining	1426	100	2266	100	2431	100			
Industrial	1359	100	2301	100	2429	100			
TOTAL	**2785**		**4567**		**4860**				

Table 5.26

Summary of highest ranked items for mining companies for 1995 to 1997

Category		Item	Overall Ranking 1995 No	1996 No	1997 No
Directors (EXEC)	2.1	Break-up of individual directors into executive and non-executive directors.	1	1	2
Risk (RSK)	8.1	Acknowledgment that risks at exists	2	2	1
Audit (AUD)	7.4	Where these procedures involve an audit committee	3	5	4
Risk (RSK)	8.4	Acknowledgment of specific areas of risk	4	7	8
Board Membership (BMEM)	3.10	Responsibilities of the board of directors	15	3	6
Ethics (ETHIC)	9.1	Acknowledgment of existence of ethical standards	7	4	3

* *Items highlighted by shading are those disclosures made in addition to the ASX listing rule Appendix 4A.*

Table 5.27

Summary of highest ranked items for industrial companies for 1995 to 1997

Category		Item	Overall Ranking 1995 No	1996 No	1997 No
Directors (EXEC)	2.1	Break-up of individual directors into executive and non-executive directors.	1	1	1
Audit (AUD)	7.4	Where these procedures involve an audit committee	2	4	4
Risk (RSK)	8.1	Acknowledgment that risks exists	3	1	2
Audit (AUD)	7.6	Disclosure of the names and positions of audit committee members.	3	4	5
Audit (AUD)	7.8	Is the chairperson of the audit committee a non-executive director	4	5	6
Ethics (ETHIC)	9.1	Acknowledgment of existence of ethical standards	8	2	3
Remuneration (REM)	6.1	Acknowledgment that procedures exist for determining remuneration of executive and non-executive directors	9	3	5
Board Membership (BMEM)	3.10	Responsibilities of the board of directors	10	2	3

* *Items highlighted by shading are those disclosures made in addition to the ASX listing rule Appendix 4A.*

CHAPTER 6

REGRESSION RESULTS AND ANALYSIS

Introduction

This chapter presents and discusses the results of the regression analysis for the models discussed in Chapter 4 and provides support for the hypotheses formulated in Chapter 3. Descriptive results and correlation analysis of independent and dependent variables for mining and industrial companies for 1995 to 1997 are presented first. This is followed by regression results for mining companies and industrial companies respectively. A discussion of the main findings incorporating an analysis of governance disclosures suggested by the ASX and the additional governance related disclosures is provided.

Descriptive statistics

Descriptive results of independent variables for 1995, 1996 and 1997 are provided in Tables 6.1 to 6.6. Relevant data were collected for all variables in 1995, except for three mining companies who did not disclose percentage of shares held by the top twenty shareholders and six mining companies that did not provide adequate information in their annual report to determine the number of non-executive directors. In 1996 and 1997, 3 mining companies did not provide percentage of shares held by the top twenty shareholders. All relevant data were collected for industrial companies except for three industrial companies who did not disclose percentage of shares held by the top twenty shareholders for 1995, 1996 and 1997. In addition, 6 companies that did not provide enough information to determine if directors were executive or non-executive in 1995. Statistical analysis was performed using the statistical software package "SPSS" version 10.0.

Descriptive results of raw data and transformed data for mining companies for 1995, 1996 and 1997 are shown in Tables 6.1, 6.2 and 6.3 respectively. As shown, findings indicated that the data for some of these variables was skewed, causing the mean and median to have different values. In order for these variables to be used successfully in regression analysis transformation was required. The following variables for mining companies are not normally distributed in 1995, and 1997 SZTA, GEAR and NEXDR. In 1996, SZTA, OWND and NEXDR are not normally distributed. Tables 6.4, 6.5 and 6.6 summarise the descriptive results for industrial companies. Variables that are not normally distributed include SZTA, OWND and NEXDR in 1995 and 1996, and SZTA and OWND in 1997. These variables were transformed to achieve normality in distributions.

Data transformation reduces both their skewness and the number of outliers and improves normality, linearity and heteroscedacity of residuals (Bradley, cited in Tabachnik and Fidell, 1989). As this study proposes to perform multivariate analysis, multivariate normality should be achieved beforehand (Tabachnik and Fidell, 1989). Several transformations were completed until the transformation that produced skewness and kurtosis values nearest to zero and the difference between the mean and median was least. Tabachnick and Fidell (1989) support this methodology.

Transformation results are shown in Tables 6.1 to 6.3 for mining companies and Table 6.4 to 6.6 for industrial companies. As shown in the accompanying tables, variables for each year were transformed by using either a logarithmic transformation (LG) or square-root (SQ) transformation to achieve normality in distribution. Graphical examinations of the transformed variables via box-whisker plots and histograms revealed that the explanatory variables had become normally distributed.

Table 6.1

Descriptive results of independent variables for mining companies for 1995

Before data transformation				After data transformation			
Variable (n=100)	**Mean**	**Median**	**Standard Deviation**	**Variable (n=100)**	**Mean**	**Median**	**Standard Deviation**
SZTA	1007945	134446	3741308	LGSZTA	5.0302	5.1285	0.9688
GEAR	0.4295	0.3500	0.5609	SQGEAR	0.5873	0.5916	0.2922
OWND	0.2404	0.2300	0.1374	OWND	0.2404	0.2300	0.1374
NEXDR	0.6857	0.7500	0.2055	LGNEXDR	-0.1926	-0.1249	0.1797

Table 6.2

Descriptive results of independent variables for mining companies for 1996

Before data transformation				After data transformation			
Variable (n=100)	**Mean**	**Median**	**Standard Deviation**	**Variable (n=100)**	**Mean**	**Median**	**Standard Deviation**
SZTA	1111487	141360	4191646	LGSZTA	5.1138	5.1503	0.9291
GEAR	0.3426	0.3450	0.1973	GEAR	0.3426	0.3450	0.1973
OWND	0.2465	0.2300	0.1442	SQOWND	0.4706	0.4796	0.1592
NEXDR	0.6776	0.7500	0.2074	SQNEXDR	0.8093	0.8660	0.1513

Table 6.3

Descriptive results of independent variables for mining companies for 1997

Before data transformation				After data transformation			
Variable (n=100)	**Mean**	**Median**	**Standard Deviation**	**Variable (n=100)**	**Mean**	**Median**	**Standard Deviation**
SZTA	1251461	140228	4546768	LGSZTA	5.1281	5.1467	0.9669
GEAR	0.4223	0.3900	0.4839	SQGEAR	0.5964	0.6245	0.2593
OWND	0.2568	0.2500	0.1455	OWND	0.2568	0.2500	0.1455
NEXDR	0.6780	0.7100	0.2187	SQNEXDR	0.8054	0.8426	0.1722

Table 6.4

Descriptive results of independent variables for industrial companies for 1995

Before data transformation				After data transformation			
Variable	**Mean**	**Median**	**Standard Deviation**	**Variable**	**Mean**	**Median**	**Standard Deviation**
SZTA	2039757	176857	10182227	LGSZTA	5.4188	5.2429	0.7426
GEAR	0.4498	0.4700	0.2550	GEAR	0.4498	0.4700	0.2550
OWND	0.3267	0.2800	0.1970	SQOWND	0.7280	0.7274	0.1222
NEXDR	0.7177	0.7500	0.1690	SQNEXDR	0.8407	0.8660	0.1045

Table 6.5

Descriptive results of independent variables for industrial companies for 1996

Before data transformation				After data transformation			
Variable	**Mean**	**Median**	**Standard Deviation**	**Variable**	**Mean**	**Median**	**Standard Deviation**
SZTA	2127330	161584	11073472	LGSZTA	5.4576	5.2084	0.7213
GEAR	0.4564	0.4700	0.2347	GEAR	0.4564	0.4700	0.2347
OWND	0.3264	0.2700	0.1941	SQOWND	-0.5796	-0.5686	0.3290
NEXDR	0.7215	0.7500	0.1721	SQNEXDR	0.8427	0.8660	0.1072

Table 6.6

Descriptive results of independent variables for industrial companies for 1997

Before data transformation				After data transformation			
Variable	**Mean**	**Median**	**Standard Deviation**	**Variable**	**Mean**	**Median**	**Standard Deviation**
SZTA	2319391	211415	12176287	LGSZTA	5.4888	5.3238	0.7295
GEAR	0.4700	0.5000	0.2346	GEAR	0.4700	0.5000	0.2346
OWND	0.3513	0.3000	0.2354	SQOWND	0.5632	0.5477	0.1857
NEXDR	0.7435	0.7500	0.1650	NEXDR	0.7435	0.7500	0.1650

Correlations

Table 6.7 shows the correlation results of the relationship of selected corporate characteristics to ASX suggested governance items by mining companies for 1995. As shown, OWND is negatively correlated to TGD_{ASX}, this is not in the expected direction, however, this correlation is not significant. The following variables in 1995 are significantly positively correlated to ASX governance disclosures LGSZTA ($p<0.01$), LGNEXDR ($p<0.05$) and AUD6 ($p<0.01$). Correlations of ASX suggested governance items and additional governance related disclosures (TGD_{+ASX}) to the corporate characteristics shown in Table 6.8, are consistent with ASX suggested disclosures (Table 6.7), with the same variables having the same level of significance for 1995.

Table 6.7

Pearson correlation matrix of corporate characteristics and ASX suggested governance items by mining companies in 1995

	LGSZTA	SQGEAR	OWND	LGNEXDR	AUD6	TGD_{ASX}
LGSZTA	1.000					
SQGEAR	0.065	1.000				
OWND	-0.083	-0.183*	1.000			
LGNEXDR	0.215*	-0.177*	-0.053	1.000		
AUD6	0.492**	-0.178*	-0.194*	0.218*	1.000	
TGD_{ASX}	0.724**	0.055	-0.015	0.194*	0.365**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.8

Pearson correlation matrix of corporate characteristics and ASX suggested items and additional governance items by mining companies in 1995

	LGSZTA	SQGEAR	OWND	LGNEXDR	AUD6	TGD_{+ASX}
LGSZTA	1.000					
SQGEAR	0.065	1.000				
OWND	-0.083	-0.183*	1.000			
LGNEXDR	0.215*	-0.177*	-0.053	1.000		
AUD6	0.492**	-0.178*	-0.194*	0.218*	1.000	
TGD_{+ASX}	0.751**	0.053	0.042	0.221*	0.413**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.9 shows the correlation results of the corporate characteristics and ASX suggested items of governance disclosure by mining companies in 1996. As shown, TGD_{ASX} is significantly related to LGSZTA (p<0.01), GEAR (p<0.01), and AUD6 (p<0.01). SQNEXDR and OWND were not been found to be significant. Table 6.10 shows the correlation results of the corporate characteristics and ASX suggested items plus additional items of governance disclosure. As shown, TGD_{+ASX} is significantly related to LGSZTA (p<0.01), GEAR (p<0.01), and AUD6 (p<0.01) and OWND (p<0.05). NEXDR was not found to be significant.

Table 6.9

Pearson correlation matrix of corporate characteristics and ASX suggested governance items by mining companies in 1996

	LGSZTA	GEAR	OWND	SQNEXDR	AUD6	TGD_{ASX}
LGSZTA	1.000					
GEAR	0.281**	1.000				
SQOWND	-0.091	0.007	1.000			
SQNEXDR	0.235**	0.078	-0.234*	1.000		
AUD6	0.428**	0.019	-0.188*	0.381**	1.000	
TGD_{ASX}	0.565**	0.251**	0.131	0.087	0.304**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.10

Pearson correlation matrix of corporate characteristics and ASX suggested governance items and additional governance items by mining companies in 1996

	LGSZTA	GEAR	OWND	SQNEXD	AUD6	TGD_{+ASX}
LGSZTA	1.000					
GEAR	0.281**	1.000				
SQOWND	-0.091	0.007	1.000			
SQNEXDR	0.235**	0.078	-0.234*	1.000		
AUD6	0.428**	0.019	-0.188*	0.381**	1.000	
TGD_{+ASX}	0.663**	0.272**	0.191*	0.146	0.367**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Correlations between the corporate characteristics and governance disclosures suggested by the ASX for 1997 are shown in Table 6.11. TGD_{ASX} was significantly correlated to LGSZTA (p<0.01), SQGEAR (p<0.01) and AUD6 (p<0.01) and all results were in the expected direction. OWND and SQNEXDR were not significant in 1997. Correlations between the corporate characteristics and ASX suggested items and additional items of governance related disclosures (TGD_{+ASX}) for 1997 are shown in Table 6.12. TGD_{+ASX} was significantly correlated to LGSZTA ($p<0.01$), SQGEAR ($p<0.01$) and AUD6 ($p<0.01$).

Table 6.11

Pearson correlations matrix of corporate characteristics and ASX suggested governance items by mining companies in 1997

	LGSZTA	SQGEAR	OWND	SQNEXD	AUD6	TGD_{ASX}
LGSZTA	1.000					
SQGEAR	0.215	1.000				
OWND	-0.058	-0.201	1.000			
SQNEXDR	0.143	0.018	-0.073	1.000		
AUD6	0.443**	0.099	-0.129	0.176*	1.000	
TGD_{ASX}	0.557**	0.290**	0.062	0.052	0.382**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.12

Pearson correlations of corporate characteristics and ASX suggested items and additional governance items by mining companies in 1997

	LGSZTA	SQGEAR	OWND	SQNEXD	AUD6	TGD_{+ASX}
LGSZTA	1.000					
SQGEAR	0.215	1.000				
OWND	-0.058	-0.201	1.000			
SQNEXDR	0.143	0.018	-0.073	1.000		
AUD6	0.443**	0.099	-0.129	0.176*	1.000	
TGD_{+ASX}	0.664**	0.269**	0.142	0.121	0.418**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Tables 6.13 to 6.18 show the correlation results for industrial companies. As shown in Table 6.13, results for 1995 indicate that LGSZTA ($p<0.01$), GEAR ($p<0.05$), SQOWND ($p<0.01$), and SQNEXDR ($p<0.05$), are significantly positively related to TGD_{ASX}. AUD6 is not in the expected direction, however this result is not significant. Results of correlations of ASX and additional governance disclosures

TGD_{+ASX} to the selected corporate characteristics in 1995 are shown in Table 6.14. Significant correlations were between TGD_{+ASX} and LGSZTA ($p<0.01$), GEAR ($p<0.01$), SQOWND ($p<0.01$), and SQNEXDR ($p<0.05$).

Table 6.13

Pearson correlations of corporate characteristics and ASX suggested governance items by industrial companies in 1995

	LGSZTA	GEAR	SQOWND	SQNEXDR	AUD6	TGD_{ASX}
LGSZTA	1.000					
GEAR	0.518**	1.000				
SQOWND	0.180*	-0.145	1.000			
SQNEXDR	0.160	-0.060	0.100	1.000		
AUD6	-0.113	0.113	-0.111	-0.069	1.000	
TGD_{ASX}	0.524**	0.210*	0.328**	0.196*	-0.104	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.14

Pearson correlations of corporate characteristics and ASX suggested items and additional governance items by industrial companies in 1995

	LGSZTA	GEAR	SQOWND	SQNEXDR	AUD6	TGD_{+ASX}
LGSZTA	1.000					
GEAR	0.518**	1.000				
SQOWND	0.180*	-0.145	1.000			
SQNEXDR	0.160	-0.060	0.100	1.000		
AUD6	-0.113	0.113	-0.111	-0.069	1.000	
TGD_{+ASX}	0.579**	0.257**	0.342**	0.179*	-0.138	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Correlation results for TGD_{ASX} to selected corporate characteristics in 1996 are shown in Table 6.15. TGD_{ASX} was found to be significantly positively related to LGSZTA ($p<0.01$), GEAR ($p<0.01$), and AUD6 ($p<0.05$). ASX and additional governance disclosures TGD_{+ASX} in 1996 was significantly related to LGSZTA (p<0.01), GEAR (p<0.01), LGOWND (p<0.05), and AUD6 (p<0.05) as shown in Table 6.16.

Table 6.15

Pearson correlations of corporate characteristics and ASX suggested governance items by industrial companies 1996

	LGSZTA	GEAR	LGOWND	SQNEXDR	AUD6	TGD_{+ASX}
LGSZTA	1.000					
GEAR	0.519**	1.000				
LGOWND	0.106	-0.164	1.000			
SQNEXDR	0.085	-0.036	-0.004	1.000		
AUD6	0.360**	0.115	0.072	0.097	1.000	
TGD_{+ASX}	0.360**	0.281**	0.111	0.072	0.229*	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.16

Pearson correlations of corporate characteristics for ASX and additional governance items by industrial companies 1996

	LGSZTA	GEAR	LGOWND	SQNEXDR	AUD6	TGD_{+ASX}
LGSZTA	1.000					
GEAR	0.519**	1.000				
LGOWND	0.105	-0.164	1.000			
SQNEXDR	0.085	-0.036	-0.004	1.000		
AUD6	0.360**	0.115	0.072	0.097	1.000	
TGD_{+ASX}	0.467**	0.321**	0.170*	0.100	0.309*	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Tables 6.17 and 6.18 summarise results for industrial companies in 1997. As shown in Table 6.17, TGD_{ASX} was significantly positively correlated to LGSZTA (p<0.01), GEAR (p<0.01), and AUD6 (p<0.05). NEXDR is negatively correlated, however this result is not significant. Additional governance disclosure TGD_{+ASX} in 1997 was significantly related to LGSZTA ($p<0.01$), GEAR ($p<0.01$), SQOWND ($p<0.05$), and AUD6 ($p<0.01$) as shown in Table 6.18. NEXDR was not found to be significant.

Table 6.17

Pearson correlations of corporate characteristics and ASX suggested governance items by industrial companies 1997

	LGSZTA	GEAR	SQOWND	NEXDR	AUD6	TGD_{ASX}
LGSZTA	1.000					
GEAR	0.507**	1.000				
SQOWND	0.090	-0.265**	1.000			
NEXDR	0.181*	0.068	0.091	1.000		
AUD6	0.350**	0.123	0.103	0.092	1.000	
TGD_{ASX}	0.360**	0.240**	0.127	-0.085	0.235*	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.18

Pearson correlations of corporate characteristics for ASX and additional governance items by industrial companies 1997

	LGSZTA	GEAR	SQOWND	NEXDR	AUD6	TGD_{+ASX}
LGSZTA	1.000					
GEAR	0.507**	1.000				
SQOWND	0.090	-0.265**	1.000			
NEXDR	0.181*	0.068	0.091	1.000		
AUD6	0.350**	0.123	0.103	0.092	1.000	
TGD_{+ASX}	0.455**	0.271**	0.185*	0.014	0.294**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

In summary, for mining companies LGSZTA and AUD6 are significant for all 3 years for both models. LGNEXDR is significant in 1995 for both models but not significant in 1996 and 1997. GEAR is significant in 1996 and 1997 for both models but not 1995. OWND is significant in 1996 when ASX and additional governance items are included (model 2), but is not significant in 1995 or 1997.

In summary, for industrial companies LGSZTA, GEAR were significant for all 3 years for both models. SQOWND was significant for both models in 1995 and also significant in 1996 and 1997 for model 2 when additional items of governance disclosure items are included. AUD6 is significant in 1996 and 1997 but not 1995. SQNEXDR was significant in 1995 but not in 1996 or 1997.

These significant positive correlations for both mining and industrial companies lend support to the appropriateness of multivariate regression analysis. However, some of the independent variables for both mining and industrial companies appear to be significantly correlated, consequently additional testing was performed to ensure that multicollinearity was not present. As the correlations for mining or industrial companies have not reached 0.8 harmful multicollinearity among the independent variables is not present (Lewis-Beck, 1987). Results of tolerance levels and variable inflation factors (VIF) support this inference. Tables 6.19 to 6.30 show tolerance levels and VIF's for each variable. Tests for multicollinearity are provided in a forthcoming section.

OLS Multiple Regression

Regression analysis is applied in the current study to determine if a relationship exists between governance related disclosures and selected corporate characteristics. Results of OLS multiple regression for mining and industrial companies are outlined. There are two models to be tested for mining and industrial companies for 1995, 1996, and 1997 resulting in the following 12 regressions that are tested;

Model 1

(a) $TGD_{(MINASX95)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(b) $TGD_{(MINASX96)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(c) $TGD_{(MINASX97)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (SQNEXDR) + \beta_5(AUD6) + e$

(d) $TGD_{(INDASX95)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(LGOWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(e) $TGD_{(INDASX96)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(LGOWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(f) $TGD_{(INDASX97)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(SQOWND) + \beta_4 (NEXDR) + \beta_5(AUD6) + e$

Model 2

(g) $TGD_{(+MINASX95)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(h) $TGD_{(+MINASX96)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(i) $TGD_{(+MINASX97)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (SQGEAR) + \beta_3(OWND) + \beta_4 (SQNEXDR) + \beta_5(AUD6) + e$

(j) $TGD_{(+INDASX95)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(LGOWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(k) $TGD_{(+INDASX96)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(LGOWND) + \beta_4 (LGNEXDR) + \beta_5(AUD6) + e$

(l) $TGD_{(+INDASX97)} = \alpha + \beta_1 (LGSZTA) + \beta_2 (GEAR) + \beta_3(SQOWND) + \beta_4 (NEXDR) + \beta_5(AUD6) + e$

Where

$TGD_{(MINASX95)}$ = Total governance disclosures by mining companies in 1995 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(MINASX96)}$ = Total governance disclosures by mining companies in 1996 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(MINASX97)}$ = Total governance disclosures by mining companies in 1997 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(INDASX95)}$ = Total governance disclosures by industrial companies in 1995 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(INDASX96)}$ = Total governance disclosures by industrial companies in 1996 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(INDASX97)}$ = Total governance disclosures by industrial companies in 1997 where disclosures are those suggested by the ASX through listing rule 4.10.3.

$TGD_{(+MINASX95)}$ = Total governance disclosures by mining companies in 1995 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

$TGD_{(+MINASX96)}$ = Total governance disclosures by mining companies in 1996 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

$TGD_{(+MINASX97)}$ = Total governance disclosures by mining companies in 1997 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

$TGD_{(+INDASX95)}$ = Total governance disclosures by industrial companies in 1995 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

$TGD_{(+INDASX96)}$ = Total governance disclosures by industrial companies in 1996 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

$TGD_{(+INDASX97)}$ = Total governance disclosures by industrial companies in 1997 where disclosures are those suggested by the ASX through listing rule 4.10.3 plus additional governance disclosures.

LGSZTA = Measures firm size as Log 10 of total assets.

GEAR = Measure for gearing as calculated by total liabilities divided by total assets.

SQGEAR = Measure for gearing being the square root of total liabilities divided by total assets.

OWND = Measure for ownership diffusion being the percentage of shares held by shareholders other than the top twenty shareholders.

SQOWND = Measure for ownership diffusion being the square-root of the percentage of shares held by shareholders other than the top twenty shareholders.

LGOWND = Measure for ownership diffusion being Log 10 of the percentage of shares held by shareholders other than the top twenty shareholders.

NEXDR = Measure for proportion of non-executive directors calculated as the number of non-executive directors divided by total number of directors.

SQNEXDR = Measure for proportion of non-executive directors calculated as the square root of the number of non-executive directors divided by total number of directors.

LGNEXDR = Measure for proportion of non-executive directors calculated as Log 10 of the number of non-executive directors divided by total number of directors.

AUD6 = Measure for the companies external auditor being one of the Big 6 audit firms. This is a categorical variable where disclosure receives a score of 1 and otherwise 0. (The Big 6 auditors include Price Waterhouse, Arthur Anderson, Coopers and Lybrand, Deloitte Touche Tohmatsu, Ernst and Young and KPMG.

Regression assumptions and tests for multicollinearity

Prior to running multiple regression, it is necessary for the regression model to fulfil a number of assumptions to ensure that results from the model can be interpreted with reliability. Francis (2001, p.120-122) highlights these assumptions and are summarised as follows:

1) Dependent variables must be measured on a metric scale and all of the predictors must be either metric or dichotomous.

2) Each observation in the sample is assumed to be independent of all other observations.

3) In the population, at each combination of values of the independent variables, the distribution of residuals has the same spread.

4) Multiple regression assumes that the independent variables are all linearly related to the dependent variables, and that there is no interaction between the predictors. That is no multicollinearity

5) Independent variables need to be normally distributed.

The current study has taken various steps to ensure that all these assumptions are met. Firstly the dependent variable is measured on a metric scale, an unweighted dichotomous index of governance related disclosures is used, as described in Chapter 4. In addition tests for normality of independent variables was undertaken and necessary data transformations completed as described earlier.

Multicollinearity is a potential problem in multiple regression applications arising when some or all independent variables are highly correlated. When multicollinearity exists, "the estimated regression coefficients can fluctuate widely from sample to sample, making it risky to use the coefficients as an indicator of the relative importance of predictor variables" (Emory, 1985, p. 399). There is no definitive answer as to what constitutes an acceptable level of multicollinearity. There are differing views in that Francis (2001, p. 122) highlights that a VIF greater than 3 is cause for concern, while Stevens (1992) suggests that where any VIF is greater than 10, indicates the presence of multicollinearity and variables should be removed or alternative statistics sought. In all of the regressions examined, the VIF are less than 1.713 and all tolerance levels are close to one, indicating there is no evidence of harmful multicollinearity.

Regression results of governance disclosures suggested by ASX listing rule for mining companies

This purpose of this section is to provide regression results for governance disclosures suggested by the ASX for mining companies over the periods 1995 to 1997. The results of regression models 1(a), 1(b) and 1(c) are provided. Tables 6.19 to 6.21 show the regression results for 1995 to 1997.

Table 6.19 displays the results for model 1(a) that examined the relationship of mining company governance disclosures as suggested by the ASX to selected corporate characteristics for 1995. As shown, the regression has an adjusted R^2 of 0.462 (F=16.436; p = 0.000) which is statistically significant. Only one variable, LGSZTA[31] (p<0.01), is significant and in the expected direction. Consequently, hypothesis H5(a) is supported and hypotheses H1(a), H2(a), H3(a) and H4(a) are rejected.

Table 6.19

Results of multiple regression for model 1(a) – ASX suggested governance disclosures by mining companies in 1995

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
LGNEXDR	1(a)	0.065	0.918	1.090	0.808	0.211
SQGEAR	2(a)	0.022	0.844	1.185	0.259	0.398
OWND	3(a)	0.074	0.936	1.068	0.930	0.178
AUD6	4(a)	0.000	0.708	1.413	-0.005	0.498
LGSZTA	5(a)	0.684	0.793	1.261	7.875	0.000***

Adjusted r^2 = 0.462 (F= 16.436: p=0.000)
*** Significant at 0.01 level

[31] Additional testing measuring size by market capitalisation did not produce significantly different results.

Table 6.20 shows the results for model 1(b) that examined the relationship of mining company governance disclosures as suggested by the ASX to selected corporate characteristics for 1996. As shown, the regression has an adjusted R^2 of 0.416 ($F=14.683$; $p = 0.000$) which is statistically significant. The variables LGSZTA ($p<0.01$), GEAR ($p<0.1$), SQOWND ($p<0.01$), and AUD6 ($p<0.1$) are significant and in the expected direction. The proportion of non-executive directors is not in the expected direction, however the result is not significant. Hypotheses H2(b), H3(b), H4(b), and H5(b) are supported, and H1(b) is rejected.

Table 6.20

Results of multiple regression for model 1(b) – ASX suggested governance disclosures by mining companies in 1996

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(b)	-0.012	0.828	1.208	-0.145	0.443
GEAR	2(b)	0.122	0.914	1.095	1.498	0.069*
SQOWND	3(b)	0.202	0.933	1.072	2.503	0.007***
AUD6	4(b)	0.129	0.718	1.392	1.405	0.082*
LGSZTA	5(b)	0.557	0.753	1.329	6.192	0.000***

Adjusted $r^2 = 0.416$ ($F= 14.683$: $p=0.000$)
* Significant at 0.1 level
*** Significant at 0.01 level

Table 6.21 shows the results for model 1(c) that examined the relationship of mining company governance disclosures as suggested by the ASX to selected corporate characteristics for 1997. As shown, the regression model has an adjusted R^2 of 0.447 ($F= 16.534$; $p = 0.000$) which is also statistically significant. The variables LGSZTA ($p<0.01$), SQGEAR ($p<0.01$), OWND ($p<0.05$), and AUD6 ($p<0.05$) are significant and in the expected direction. The proportion of non-executive directors is not significant for 1997. Hypotheses H2(c), H3(c), H4(c), and H5(c) are supported, and H1(c) is rejected.

Table 6.21

Results of multiple regression for model 1(c) – ASX suggested governance disclosures by mining companies in 1997

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(c)	0.001	0.967	1.034	0.009	0.497
SQGEAR	2(c)	0.222	0.921	1.086	2.801	0.003***
OWND	3(c)	0.160	0.943	1.060	2.051	0.022**
AUD6	4(c)	0.184	0.787	1.271	2.148	0.017**
LGSZTA	5(c)	0.512	0.780	1.283	5.962	0.000***

Adjusted r^2 = 0.447 (F= 16.534: p=0.000)

** Significant at 0.05 level

*** Significant at 0.01 level

Regression results of governance disclosures suggested by ASX listing rule for industrial companies

This purpose of this section is to provide regression results for governance disclosures suggested by the ASX for industrial companies over the periods 1995 to 1997. The results of the following regression models are provided, model 1(d), 1(e) and 1(f).

Table 6.22 shows the results for model 1(d) that examined the relationship of industrial companies governance disclosures as suggested by the ASX to selected corporate characteristics for 1995. As shown, the regression model has an adjusted R^2 of 0.312 (F= 9.170; p = 0.000) which is statistically significant. The variables LGSZTA (p<0.01), SQNEXDR (p<0.1), and OWND (p<0.01), are significant and in the expected direction. GEAR and AUD6 were not found to be significant for industrial companies in 1995. Notably AUD6 is not in the expected direction, however, the result is not significant. Hypotheses H1(d), H3(d), and H5(d) are supported, and H2(d) and H4(d) are rejected.

Table 6.22

Results of multiple regression for model 1(d) – ASX suggested governance disclosures by industrial companies in 1995

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(d)	0.136	0.910	1.098	1.482	0.071*
GEAR	2(d)	0.010	0.617	1.619	0.092	0.464
SQOWND	3(d)	0.335	0.883	1.132	3.596	0.001***
AUD6	4(d)	-0.015	0.923	1.083	-0.162	0.436
LGSZTA	5(d)	0.360	0.584	1.713	3.146	0.001***

Adjusted $r^2 = 0.312$ (F= 9.170: p=0.000)
* Significant at 0.1 level
*** Significant at 0.01 level

Table 6.23 shows the results for model 1(e) that examined the relationship of industrial companies governance disclosures as suggested by the ASX to selected corporate characteristics for 1996. The regression model has an adjusted R^2 of 0.119 (F= 3.587; p = 0.000) which is statistically significant. The variables LGSZTA (p<0.05), and GEAR (p<0.1) are significant and in the expected direction. LGOWND, SQNEXDR and AUD6 were not found to be significant for industrial companies in 1996. Hypotheses H2(e), and H5(e) are supported, and H1(e), H3(e) and H4(e) are rejected.

Table 6.23

Results of multiple regression for model 1(e) – ASX suggested governance disclosures by industrial companies in 1996

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(e)	0.042	0.950	1.053	0.427	0.335
GEAR	2(e)	0.177	0.676	1.480	1.517	0.067*
LGOWND	3(e)	0.110	0.921	1.085	1.099	0.138
AUD6	4(e)	0.119	0.865	1.157	1.153	0.126
LGSZTA	5(e)	0.206	0.599	1.669	1.661	0.050**

Adjusted $r^2 = 0.119$ (F= 3.587: p=0.000)
* Significant at 0.1 level
** Significant at 0.05 level

Table 6.24 shows the results for model 1(f) that examined the relationship of industrial companies governance disclosures as suggested by the ASX to selected corporate characteristics for 1997. The regression model has an adjusted R^2 of 0.156 ($F = 4.556$; $p = 0.001$) which is also statistically significant. The variables LGSZTA ($p<0.01$), and SQOWND ($p<0.1$) are significant and in the expected direction. NEXDR ($p < 0.05$) is also significant for 1997, but is not in the expected direction. GEAR, and AUD6 were not found to be significant for industrial companies in 1997. Hypotheses H3(f), and H5(f) are supported, and H1(f), H2(f), and H4(f) are rejected.

Table 6.24

Results of multiple regression for model 1(f) – ASX suggested governance disclosures by industrial companies in 1997

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
NEXDR	1(f)	-0.195	0.920	1.087	-1.991	0.025(**)
GEAR	2(f)	0.131	0.648	1.542	1.127	0.132
SQOWND	3(f)	0.140	0.858	1.166	1.387	0.085*
AUD6	4(f)	0.122	0.875	1.143	1.216	0.114
LGSZTA	5(f)	0.297	0.596	1.679	2.447	0.008***

Adjusted R^2 = 0.156 (F=4.556: p= 0.001)
* Significant at 0.1 level
(**) Significant at 0.05 level (but not in expected direction)
*** Significant at 0.01 level

Regression results of governance disclosures suggested by ASX listing rule and additional items of governance disclosure for mining companies.

This purpose of this section is to provide regression results for governance disclosures suggested by the ASX and additional items of disclosure for mining companies for 1995 to 1997. The results of the following models are provided, model 2 (g), (h) and (i).

Table 6.25 shows the regression results for ASX and additional items of disclosure for mining companies in 1995. The model 2(g) has an adjusted R^2 of 0.510 ($F=19.714$; $p = 0.000$) which is statistically significant. The variables LGSZTA ($p<0.01$) and OWND ($p<0.05$), are significant and in the expected direction. Gearing, proportion of non-executive directors and Big 6 external auditor were not found to be significant in 1995. The following hypotheses are supported, H3(g) and H5(g). Hypothesis 1(g), 2(g) and 4(g) are rejected.

Table 6.25

Results of multiple regression for model 2(g) - ASX and additional items of governance disclosures by mining companies in 1995

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
LGNEXDR	1(g)	0.077	0.918	1.090	1.005	0.159
SQGEAR	2(g)	0.055	0.844	1.185	0.691	0.246
OWND	3(g)	0.149	0.936	1.068	1.959	0.026**
AUD6	4(g)	0.086	0.708	1.413	0.985	0.164
LGSZTA	5(g)	0.666	0.793	1.261	8.033	0.000***

Adjusted $r^2 = 0.510$ ($F= 19.714$: $p=0.000$)
** Significant at 0.05 level
*** Significant at 0.01 level

Table 6.26 shows the regression results for ASX and additional items of disclosure for mining companies in 1996. The model 2(h) has an adjusted R^2 of 0.547 ($F=24.155$; $p = 0.000$) which is statistically significant. The variables LGSZTA ($p<0.01$), OWND ($p<0.01$), AUD6 ($p<0.05$) and GEAR ($p<0.1$) are significant and in the expected direction. Proportion of non-executive was not found to be significant in 1996. The following hypotheses are supported, H2(h), H3(h), H4(h), H5(h). Hypothesis 1(h) is rejected.

Table 6.26

Results of multiple regression for model 2(h) – ASX and additional items of governance disclosures by mining companies in 1996

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(h)	0.025	0.828	1.208	0.337	0.369
GEAR	2(h)	0.109	0.914	1.095	1.519	0.066*
SQOWND	3(h)	0.281	0.933	1.072	3.955	0.000***
AUD6	4(h)	0.155	0.718	1.392	1.917	0.029**
LGSZTA	5(h)	0.616	0.753	1.329	7.772	0.000***

Adjusted $r^2 = 0.547$ (F= 24.155: p=0.000)
* Significant at 0.1 level
** Significant at 0.05 level
*** Significant at 0.01 level

Table 6.27 shows the regression results for ASX and additional items of disclosure for mining companies in 1997. Model 2(i) has an adjusted R^2 of 0.527 (F=22.405; p = 0.000) which is statistically significant. All the variables LGSZTA ($p<0.01$), OWND ($p<0.01$), AUD6 ($p<0.1$), SQGEAR ($p<0.1$), and SQNEXDR ($p<0.1$) are significant and in the expected direction for 1997. The following hypotheses are supported, H1(i) H2(i), H3(i), H4(i), H5(i).

Table 6.27

Results of multiple regression for model 2(i) - ASX and additional items of governance disclosures by mining companies in 1997

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
SQNEXDR	1(i)	0.108	0.967	1.034	1.517	0.067*
SQGEAR	2(i)	0.102	0.921	1.086	1.397	0.083*
OWND	3(i)	0.306	0.943	1.060	4.228	0.000***
AUD6	4(i)	0.126	0.787	1.271	1.590	0.058*
LGSZTA	5(i)	0.597	0.780	1.283	7.511	0.000***

Adjusted $r^2 = 0.527$ (F= 22.405: p=0.000)
* Significant at 0.1 level
** Significant at 0.05 level
*** Significant at 0.01 level

Regression results of governance disclosures suggested by ASX listing rule and additional items of governance disclosure for industrial companies.

This purpose of this section is to provide regression results for governance disclosures suggested by the ASX and additional items of disclosure for industrial companies for 1995 to 1997. The results of the following models are provided, model 2 (j) (k) and (l).

Table 6.28 shows the regression results for ASX suggested items and additional items of disclosure for industrial companies in 1995. The model 2(j) has an adjusted R^2 of 0.366 (F=11.370; p = 0.000) which is statistically significant. The variables LGSZTA (p<0.01), LGOWND (p<0.01) are significant and in the expected direction for 1995. Gearing and proportion of non-exexutive directors are not significant. AUD6 is not in the expected direction, however the result is not significant. The following hypotheses are supported, H3(j) and H5(j). Hypotheses H1(j), H2(j), and H4(j) are rejected.

Table 6.28

Results of multiple regression for model 2(j) - ASX and additional items of governance disclosures by industrial companies in 1995

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
LGNEXDR	1(j)	0.099	0.910	1.098	1.127	0.132
GEAR	2(j)	0.034	0.617	1.619	0.318	0.376
LGOWND	3(j)	0.325	0.883	1.132	3.636	0.000***
AUD6	4(j)	-0.043	0.923	1.083	-0.487	0.314
LGSZTA	5(j)	0.422	0.584	1.713	3.837	0.000***

Adjusted r^2 = 0.366 (F= 11.370: p=0.000)
*** Significant at 0.01 level

Table 6.29 shows the regression results for ASX suggested items and additional items of disclosure for industrial companies in 1996. The model 2(k) has an adjusted R^2 of 0.238 (F=7.012; p = 0.000) which is statistically significant. The variables LGSZTA (p<0.01), LGOWND (p<0.05), GEAR (p<0.1) AUD6 (p<0.05) are significant and in the expected direction for 1996. Proportion of non-exexutive directors is not significant. The following hypotheses are supported, H2(k), H3(k), H4(k), and H5(k). Hypothesis H1(k) is rejected.

Table 6.29

Results of multiple regression for model 2(k) – ASX and additional items of governance disclosures by industrial companies in 1996

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
LGNEXDR	1(k)	0.052	0.950	1.053	0.565	0.287
GEAR	2(k)	0.172	0.676	1.480	1.591	0.057*
LGOWND	3(k)	0.156	0.921	1.085	1.677	0.049**
AUD6	4(k)	0.167	0.865	1.157	1.744	0.042**
LGSZTA	5(k)	0.297	0.599	1.669	2.580	0.006***

Adjusted r^2 = 0.238 (F= 7.012: p=0.000)
* Significant at 0.1 level
** Significant at 0.05 level
*** Significant at 0.01 level

Table 6.30 shows regression results for ASX suggested items and additional items of governance disclosure for industrial companies in 1997. The model 2(l) has an adjusted R^2 of 0.236 (F= 6.939; p=0.000) which is statistically significant. The variables LGSZTA (p<0.01), SQOWND (p<0.5) and AUD6 (p<0.1), are significant and in the expected direction. Gearing and proportion of non-executive directors are not significant. The relationship of NEXDR in 1997 to governance disclosures is negatively related, this is not in the expected direction, however the result is not significant. The following hypotheses are supported H3(l), H4(l) and H5(l). Hypotheses H1(l) and H2(l) are rejected.

Table 6.30

Results of multiple regression for model 2(l) – ASX and additional items of governance disclosures by industrial companies in 1997

Variable	Hypothesis	Beta	Tolerance	VIF	T	Significance One-tailed
NEXDR	1(l)	-0.116	0.920	1.087	-1.249	0.108
GEAR	2(l)	0.127	0.648	1.542	1.149	0.127
SQOWND	3(l)	0.181	0.858	1.166	1.881	0.032**
AUD6	4(l)	0.148	0.875	1.143	1.556	0.062*
LGSZTA	5(l)	0.364	0.596	1.679	3.146	0.001***

Adjusted R^2 = 0.236 (F=6.939: p= 0.000)
* Significant at 0.1 level
** Significant at 0.05 level
*** Significant at 0.01 level

Discussion of results

A summary of the significant variables are shown in Table 6.31. The findings indicate that independent variables are significant in a number of the models tested. All significant results are in the expected direction. Results will be discussed under two headings. Firstly the regression results of the relationship of ASX suggested governance disclosures to corporate characteristics, namely, regressions for model 1 will be elaborated. This is followed by a discussion of the regression results for model 2 that examined ASX suggested disclosures and additional governance related disclosures.

Model 1: Regression results for ASX suggested governance disclosures

Models 1(a) to 1(f) examine the results for mining and industrial companies disclosing governance items suggested by the ASX for 1995 to 1997. Proportion of non-executive directors (NEXDR) is not significant in 1995, 1996, or 1997 for mining companies. NEXDR is not significant in 1995 and 1996 for industrial companies, namely, models 1(d) and 1(e). NEXDR is significant at the ($p<0.05$) level in 1997 for industrial companies (model 1(f)), but, the relationship is not in the expected direction. Results are consistent with Carson and Simnett (1997) who did not find NEXDR to be significant when they examined industrial companies annual reports in 1995, however, this variable has become significant in 1997 in the current study. This negative relationship implies that with industrial companies, as the proportion of non-executive directors to total director's increases, governance disclosures as suggested by the ASX become less. This inference is of concern as this result is contrary to literature that implies that non-executive directors are likely to encourage more governance related disclosures. This result also adds weight to the guidelines provided by the AIMA that state that the majority of board members should be independent[32] rather than just non-executive as proposed by the Bosch Committee.

Gearing (GEAR) which measures the degree to which the firm uses debt capital is notably more significant for mining companies than for industrial companies. GEAR is significant for mining companies for 1996 ($p<0.1$) and 1997 ($p<0.01$) as shown in results for Models 1(b) and 1(c). GEAR is not significant in 1995 for mining companies. With industrial companies GEAR is significant in 1996 ($p<0.1$) and is not significant in 1995 and 1997. Results are consistent with Carson and Simnett (1997) and Evans and Christopher (1999) who did not find gearing to be significantly related to governance disclosures in 1995 for industrial and mining companies respectively. Gearing does however become significant in 1996 and 1997 for mining companies and for industrial companies in 1996 in the current study. This implies that for mining companies as gearing increases, the level of governance disclosures

[32] Refer to Appendix E for AIMA guidelines on independent directors

suggested by the ASX appears to be increasing. This indicates the possibility that creditors in the mining industry due to the risks involved have more influence over what the companies disclose with regards to governance issues. Or perhaps it is that the directors of mining companies in engaging in the stewardship function, inherent risks of the industry obligate them to be more diligent with their governance practices and subsequent disclosures. Support for this inference is provided by examining Table 6.32 in Appendix D that shows results of correlations between the individual categories of governance disclosures and the independent variables. The table shows that GEAR in 1997 is significantly correlated at the (p=0.01) level to risk related disclosures in mining companies.

Ownership diffusion (OWND) as measured by the percentage of shares held by shareholders other than the top twenty shareholders is significant for both mining and industrial companies. OWND is not significant for mining companies in 1995, but is significant in 1996 ($p<0.01$) and 1997 ($p<0.05$). As shown, the significance for mining companies emerged after the introduction of the listing rule in 1996. OWND diffusion is significant for industrial companies in 1995 ($p<0.01$), is not significant in 1996, but became significant again for 1997 ($p<0.1$). Results are consistent with Evans and Christopher (1999) who examined mining companies and did not find OWND to be significantly related to governance disclosures in 1995. However results are not consistent with Carson and Simnett (1997) who did not find this variable to be significant with industrial companies in 1995. The current study examines a smaller sample, but OWND is significant in 1995 for industrial companies.

External auditor being one of the Big 6 (AUD6) is not significant for both mining and industrial companies in 1995[33] before the listing rule was introduced. The relationships found in 1995 were not in the expected direction, however, the negative relationship was not significant. AUD6 is significant and in the expected direction for 1996 ($p<0.1$) and 1997 ($p<0.05$) for mining companies. This highlights that for mining companies at least, companies that had an external Big 6 auditor disclosed more governance related disclosures suggested by the ASX. AUD6 was not significant for industrial companies over all three years of the study.

SZTA is the most significant variable for both mining and industrial companies for model 1. For mining companies size is significant at ($p<0.01$) for 1995, 1996 and 1997. Industrial companies are significant at ($p<0.01$) for 1995 and 1997, however significance in 1996 is at ($p<0.05$) level. Size is positively related to governance disclosures suggested by the ASX. This demonstrates that firms that are larger in size make a greater number of governance related disclosures and is consistent with previous findings by other Australian studies by Carson and Simnett (1997), and Evans and Christopher (1999).

In summary model 1 demonstrates the relationship of governance related disclosures suggested by the ASX to five selected corporate characteristics. Prior to the introduction of the listing rule, in 1995 firm size was found to be significant for mining companies indicating that H5(a) was supported. For industrial companies in 1995, ownership diffusion and firm size were found to be significant. Indicating that H3(d) and 5(d) are supported. In the periods after the introduction of the listing rule

33 Results are consistent with Carson and Simnett (1997) with insignificant results in 1995.

namely 1996 and 1997, the following variables were found to be significant for mining companies, gearing, ownership diffusion, Big 6 external auditor and firm size. The following hypotheses were accepted for mining companies, H2(b), H3(b), H4(b), H5(b), H2(c), H3(c), H4(c), and H5(c). For industrial companies in 1996 firm gearing and size were significant therefore H2(e) and H5(e) were accepted. In 1997 ownership diffusion, firm size and proportion of non-executive directors were significant. Proportion of non-executive directors was not in the expected direction. Therefore H3(f) and H5(f) are accepted. The following hypotheses are rejected for model 1, H1(a) to H1(f), H2(a), H2(d), H2(f), H3(a), H3(e), H4(a), and H4(d) to H4(f).

Model 2: Regression results for ASX suggested and additional items of governance disclosures

NEXDR is not significant for mining companies in 1995 and 1996. However, NEXDR does become moderately significant at the (p<0.1) level in 1997. NEXDR is not significant for industrial companies in any of the years of the study. It should however be noted that NEXDR was negatively related to ASX and additional items of governance disclosure in 1997 for industrial companies. This was not in the expected direction, however, the result was not significant. It appears that mining companies that have a greater proportion of non-executive directors influence additional items of disclosure in 1997.

GEAR for mining companies is moderately related to ASX and additional items of governance disclosure in 1996 and 1997 ($p<0.1$). GEAR is not significant in 1995. For industrial companies, GEAR is related to TGD_{+ASX} in 1996 ($p<0.1$), but not in 1995 or 1997.

OWND is significantly related to ASX and additional items of governance disclosure for mining companies in 1995 ($p<0.05$), 1996 ($p<0.01$) and 1997 ($p<0.01$). This significance is similar for industrial companies where in 1995 ($p<0.01$), 1996 ($p<0.05$) and 1997 ($p<0.05$).

AUD6 is significant for mining companies in 1996 ($p<0.05$) and 1997 ($p<0.1$), but not significant in 1995. This significance is the same for industrial companies where 1996 ($p<0.05$) and 1997 ($p<0.1$) and 1995 is not significant. It should be noted that AUD6 is negatively correlated in 1995 for industrial companies, which is not in the expected direction, but the result is not significant.

Firm size is significant at ($p<0.01$) level for both mining and industrial companies for all three years of the study. This indicates that ASX and additional items of governance disclosure are highly correlated to firm size.

In summary model 2 demonstrates the relationship of governance related disclosures suggested by the ASX plus additional items of governance disclosure to five selected corporate characteristics. Before the listing rule, in 1995 firm size and ownership diffusion were found to be significant for mining companies and industrial companies. Therefore H3(g), H5(g), H3(j), and H5(j) are supported. After the introduction of the listing rule in 1996, the following variables, gearing, ownership diffusion, Big 6 external auditor and firm size were found to be significant for mining companies and industrial companies. Therefore, the following hypotheses were accepted, H2(h), H3(h), H4(h), H5(h), H2(k), H3(k), H4(k), and H5(k). In 1997 all independent variables were significant for mining companies. These hypotheses were accepted, H1(i), H2(i), H3(i), H4(i), and H5(i). For industrial companies in 1997 ownership diffusion, Big 6 external auditor and firm size were significant. Therefore, H3(l), H4(l) and H5(l) were accepted. The following hypotheses are rejected H1(g), H1(h), H1(j) to H1(l), H2(g), H2(j), H2(l), H4(g), H4(j).

Summary

This chapter has provided results of empirical tests performed to support the hypotheses. Overall the results indicate that, firstly, governance disclosures have increased from 1995 to 1997. In addition, differences exist with disclosures made by mining and industrial companies. Governance disclosures are significantly related to GEAR, OWND, AUD6 and SZTA for mining companies and OWND and SZTA for industrial companies. Most notable was the significant negative relationship found between governance disclosures and NEXDR for industrial companies. Although no significant relationships were found, the negative relationships with AUD6 were not expected. The following chapter summarises the main findings, implications and limitations of the study. Some areas for future research are also provided.

Table 6.31

Summary of significant variables

		MINING						INDUSTRIAL					
		Models						Models					
		ASX			+ ASX			ASX			+ ASX		
Variable	**Hypothesis No.**	**1995** 1(a)	**1996** 1(b)	**1997** 1(c)	**1995** 2(g)	**1996** 2(h)	**1997** 2(i)	**1995** 1(d)	**1996** 1(e)	**1997** 1(f)	**1995** 2(j)	**1996** 2(k)	**1997** 2(l)
NEXDR	1	0	0	0	0	0	*	0	0	(**)	0	0	(0)
GEAR	2	0	*	***	0	*	*	0	*	0	0	*	0
OWND	3	0	***	**	**	***	***	***	0	*	***	**	**
AUD6	4	(0)	*	**	0	**	*	(0)	0	0	(0)	**	*
SZTA	5	***	***	***	***	***	***	***	**	***	***	***	***

0 Not significant
(0) Not significant negative relationship
* Significant at 0.1 level
** Significant at 0.05 level
*** Significant at 0.01 level
(*) Significant at 0.1 level but not in expected direction
(**) Significant at 0.05 level but not in expected direction

CHAPTER 7

CONCLUSIONS

Summary

The objective of this study has been to examine the annual reports of mining and industrial companies to empirically determine if there is a relationship between governance related disclosures and selected corporate characteristics within a political cost theory framework. Two types of governance disclosures were examined. Firstly, governance disclosures suggested by the ASX in Appendix 4A of listing rule 4.10.3[34] and secondly, actual governance disclosures made in addition to the suggestions of the listing rule.

Chapter 2 highlights Australian governance related research conducted prior to and after the introduction of the listing rule and some indirectly related overseas studies. Chapter 3 elaborates political cost theory, the theoretical framework for the study, and provides support for the inclusion of the independent variables and subsequent hypotheses development. There are five independent variables including firm size,

[34] "The indicative list of corporate governance practices that was in Appendix 4A has been relocated to be an attachment to the new Guidance Note 9 'Disclosure of Corporate governance practices: Listing rule 4.10'. ASX has stated it will conduct a review of the indicative list in Guidance note 9 although the timing for this is uncertain. New matters to be included in the guidance note are the inclusion of a statement in the annual report: concerning the main practices and procedures for ensuring compliance in Listing rules 3.1 and 15.7 and about the company's policies in relation to securities trading by directors and employees, including trading windows" (Hempel, S. and Brown, L. 2002, p. 27).

gearing, proportion of non-executive directors, Big 6 external auditor and ownership diffusion.

Chapter 4 incorporates the research methodology, outlining the sample selection, data sources, definitions for dependent and independent variables and statistical analysis to be conducted. The primary data source was the annual report with data collected for 100 mining and 100 industrial companies for the years 1995, 1996 and 1997. Governance disclosures comprised eight categories relating to disclosure of directors, board membership, appointment and retirement of directors, ability to seek independent advice, remuneration, audit, business risk and ethics. An unweighted dichotomous index comprising a total of 55 items was applied to scoring governance disclosures. These 55 items were divided into 30 items that related to items suggested by the ASX and an additional 25 items found in annual reports of the sample of companies. Companies that disclosed an item received a score of one and non-disclosure received a score of zero. Individual scores were summed to obtain a total score for each company. This total score was used in subsequent multivariate regression analysis.

Chapter 5 provided an analysis of governance disclosures. The results indicated that although governance disclosures are being made and have consistently increased, findings have highlighted some areas where disclosures are lacking. Improvements in disclosure could be encouraged in areas of reviewing the boards and directors performance, procedures for reviewing membership of the board of directors, disclosure of compensation arrangements for executives and non-executive directors, and the provisions of information on the procedures for nominating external auditors and examining the scope and quality of the external auditor.

Chapter 6 provides results of statistical tests. Raw data were transformed to allow data to be used in Ordinary least squares (OLS) multiple regression. Two regression models were constructed namely governance disclosures suggested by the ASX and, secondly, including additional items of governance disclosures. A total of twelve regressions were tested within theses two models.

Findings

Overall results clearly indicate that governance related disclosures have increased as a result of the introduction of listing rule 4.10.3. Most disclosures have more than doubled from 1995, the period prior to the introduction of the listing rule to 1996 and 1997, the periods after the introduction of the listing rule. In 1995, the most prevalent categories of governance disclosure as suggested by the ASX, relate to audit and remuneration governance disclosures for both mining companies and industrial companies. When additional items of governance disclosure are included, risk information also becomes prevalent. After the introduction of the listing rule, the most prevalent categories of governance disclosure remain audit and remuneration information for both industry groups. The highest ranked item for both industry groups was item 2.1 that examined the break-up of directors into executive and non-executive directors. The presence of an audit committee and the acknowledgment that risk exists were also highly ranked. There was a lack of disclosure for a number of governance items for both mining and industrial companies. Some of these included, disclosure of procedures for reviewing the performance of directors, acknowledgment that companies have a formal review of the boards or directors performance, procedures for reviewing the membership of the board of directors, the main procedures for establishing and reviewing the compensation arrangements for non-executive directors and procedures for nominating external auditors.

The findings of OLS multiple regression model 1 show the relationship of ASX suggested governance disclosures to the five selected corporate characteristics. In 1995 the year prior to the introduction of the listing rule, firm size was significant for mining and industrial companies. Ownership diffusion was also significant for industrial companies in 1995, but not mining companies. In the year after the introduction of the listing rule, 1996, firm size and ownership diffusion, external auditor and gearing were significant for mining companies. Firm size and gearing were significant for industrial companies in 1996. In 1997 firm size, and ownership diffusion were significant for mining and industrial companies. Gearing and Big 6 external auditor were significant for mining companies and not industrial companies. Proportion of non-executive directors was significantly negatively related to governance disclosures for industrial companies in 1997, this was not expected.

The findings of OLS multiple regression model 2 show the relationship of ASX suggested disclosures and additional items of actual disclosure to the five corporate characteristics. In 1995 the year prior to the introduction of the listing rule, firm size and ownership diffusion were significant for both mining and industrial companies. In 1996 the year the listing rule was introduced, gearing, ownership diffusion, Big 6 external auditor and size were significant for mining and industrial companies. In 1997 firm size, ownership diffusion and Big 6 external auditor were significant for mining and industrial companies. Gearing and proportion of non-executive directors were significant for mining companies in 1997 but not for industrial companies.

Implications

The implications of the findings are, firstly, that gearing may be considered to be more significant within the mining companies due to the inherent risks associated with the industry and consequent political visibility of these firms. Directors in mining companies appear to be making a conscious choice to voluntarily disclose risk related governance information. Additional guidelines or more stringent legislation may encourage more consistent risk related disclosures within and between industry groups. Further it highlights that any proposed changes to disclosure requirements should take into consideration the different risks associated with the different industry groups.

The negative relationship that was found between the proportion of non-executive directors and governance disclosures in industrial companies was not expected. This does, however, highlight that additional research may be required. This result lends weight to the comments provided by Stapledon and Lawrence (1996) who provided valuable commentary on the notion of independent non-executive directors. The author's highlight that detached monitoring may be difficult for independent non-executive directors due to inherent affiliations and close allies with management. For instance, non-executive directors commonly owe their positions to the chairperson or CEO. In addition, some of these non-executive directors are themselves executives with other listed companies and it is not uncommon for them to socialise in the same circles and this represents potential barriers to vigorous effective monitoring. The AIMA recognise this problem and have made recommendations that boards should appoint a nomination committee with a chair who is an independent non-executive director (1995, para 3.5). It may be time for authorities to encourage more independent directors or place more stringent requirements on the role of independent non-executive directors and subsequent disclosures in the annual report. With this in mind it should be highlighted that all companies have their own circumstances. By conforming to the view of the majority as to what constitutes good governance, and implementing widely acceptable policies, can often result in over governance. This can be expensive and often counter productive to the best interests and efficient operations of a company. For example, of what use is an audit committee to a small company where all directors already sign off on the accounts (Barnier 2001).

The recent corporate collapses of large US and Australian based companies has raised shareholders concerns with corporate governance. In addition to this, recent media attention on the large salaries and bonuses received by corporate executives in these failed companies has focussed attention in remuneration and audit related information. The current study highlights that information in relation to remuneration and audit information was not adequate. Although a large number of companies acknowledged that procedures existed for determining the remuneration of executives and non-executives a significant number of mining and industrial companies provided no information of the main procedures for determining remuneration of executives and non-executives.

With audit related information a large number of companies had audit committees and disclosed the members of this committee, and the main procedures and policies of the committee, but few disclosed policies on the procedures for nominating an external auditor. Further, a large number of companies failed to provide information on reviewing the adequacy of external audit arrangements.

Shareholders are becoming reluctant to trust company directors and are demanding improved standards of corporate governance in an effort to reduce this gap in trust. This will have implications on the expectations of regulatory bodies to take action to protect shareholders and improve governance disclosures. A recent proposal in the US has seen legislation introduced to increase fines and jail terms for directors found guilty of fraud. Similar proposals have been made in Australia. In an effort to improve director accountability in Australia it may also be useful for regulatory authorities to examine and suggest improvements in remuneration and audit related information. In a final note, as proposed by the Treasurer Mr Peter Costello, "tougher regulation was not enough to stamp out corporate misbehaviour, and that executives need to take responsibility for maintaining confidence in business practices" (Davis and Fabro, 2002).

Limitations

This study is subject to a number of limitations. Firstly, the sample size may be considered to be biased towards larger companies as the majority of companies were taken from the C4 database, which has the annual reports for the top 500 companies by market capitalisation. Results are, therefore, only generalisable to larger mining and industrial companies. Secondly this study acknowledges that firms may engage in various governance related activities, however, these are not disclosed in the annual report. This study had a purpose of examining governance disclosures in the annual report only. This may be considered a limitation as companies may disclose governance information using media other than the annual report such as press releases, and other publications for the benefit of shareholders, these are not easily accessible. The annual report is readily available and remains one of the most useful tools to obtain governance information. Thirdly, a single researcher undertook the content analysis in the annual report and that might result in bias. Nevertheless it is possible results may be more consistent by having one researcher. Fourthly, the disclosure index used is unweighted which assumes that each item of disclosure is of equal importance. While equal ranking may be considered a deficiency, misranking of disclosure items is avoided. Finally, the 55 items examined in this study represent those suggested by the ASX listing rule together with additional items of disclosure found in the annual reports of the companies included in the sample. This list of items it not an exhaustive list of governance related disclosures for all companies and may be perceived as a limitation.

Suggestions for future research

Future research can be undertaken in a number of directions. Consideration for adopting a weighted index of governance disclosure items including additional items required by other stakeholders may be considered. A longitudinal study focusing on more recent governance disclosure practices and comparisons with trends overseas may be beneficial for regulators in the current climate where directors have been found to be misleading stakeholders.

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APPENDIX A

ASX Listing Rule 4.10.3

"For annual reporting periods ending on or after 30 June 1996, a statement of the main corporate governance practices that the company has had in place during the reporting period. Where the statement identifies a corporate governance practice that has been in place for only part of the reporting period, the part of the period for which it has been in place must be disclosed. *To assist companies, an indicative list of corporate governance practices is set out in Appendix 4A*"

Appendix 4A

1. Whether individual directors, including the Chairman, are executive or non-executive directors.

2. The main procedures that the company has had in place for –
   i. devising criteria for board membership
   ii. reviewing the membership of the board, and
   iii. nominating directors

   If any of these procedures involve a nomination committee, a summary of the main responsibilities of the committee, and the names of committee members. If one or more of the members are not directors of the company, their positions in the company.

3. The companies policies on the terms and conditions relating to the appointment and retirement of non-executive directors.

4. The main procedures, if any, by which directors in the furtherance of their duties can seek independent professional advice at the company's expense.

5. The main procedures for establishing and reviewing the compensation arrangements for-

   i. the Chief Executive Officer and other senior executives and
   ii. non-executive members of the board

   If these procedures involve a remuneration committee, a summary of the main responsibilities and core rights of the committee, and the names of committee members. If one or more members are not directors of the company, their positions in the company.

6. The main procedures that the company has in place for-

   i. the nomination of external Auditors, and
   ii. reviewing the adequacy of existing external Audit arrangements, with particular emphasis on the scope of the quality of the Audit.

If any of these procedures involves an Audit committee, a summary of the main responsibilities and core rights of the committee, and the names of committee members. If one or more members are not directors of, their positions in the company.

7. The board's approach to identifying areas of significant business risk and putting arrangements in place to manage those risks.

8. The company's policy on the establishment and maintenance of appropriate ethical standards.

APPENDIX B

List of mining and industrial companies

Mining companies

NO	COMPANY NAME	ASX CODE	IND CODE	INDUSTRY NAME	YEAR END	DATA SOURCE	CURRENCY
1	Abefoyle Ltd	ABF	2	Other Metals	30-Jun	C4	AUS
2	Acacia Resources	AAA	1	Gold	31-Dec	C4	AUS
3	Allgas Energy Ltd.	AGE	4	Energy	30-Jun	C4	AUS
4	Anglo Pacific Resources	AGP	2	Other Metals	31-Dec	AGSM	POUNDS
5	Ashton Mining Ltd	ASH	2	Other Metals	31-Dec	C4	AUS
6	Atlas Pacific Ltd	ATP	1	Gold	31-Dec	C4	AUS
7	Aurora Gold	AUG	1	Gold	31-Dec	C4	AUS
8	Australian Gold and Resources Ltd	AGR	1	Gold	30-Jun	C4	AUS
9	Australian Mining Investments	AUM	4	Energy	30-Jun	HARD	AUS
10	Australian Oil and Gas	AOG	4	Energy	30-Jun	C4	AUS
11	Australian Resources Ltd	ARS	1	Gold	30-Jun	C4	AUS
12	Ballarat Consolidated	BTD	1	Gold	30-Jun	HARD	AUS
13	Battle Mountain	BMG	1	Gold	31-Dec	HARD	$US
14	Bougainville Copper Ltd	BOC	2	Other Metals	31-Dec	C4	$KINA
15	Broken Hill Proprietory Company Ltd	BHP	3	Diversified Res	31-May	C4	AUS
16	Caltex Australia Ltd	CTX	4	Energy	31-Dec	C4	AUS
17	Capral Aluminum	CAA	2	Other Metals	31-Dec	C4	AUS
18	Centaur Mining and Exploration	CTR	1	Gold	30-Jun	C4	AUS
19	Centennial Coal Company Ltd	CEY	4	Energy	30-Jun	C4	AUS
20	Central Norseman Gold Corp Ltd	CNG	1	Gold	30-Jun	C4	AUS
21	CIM Resources Ltd	CIM	4	Energy	30-Jun	C4	AUS
22	Climax mining Ltd	CMX	1	Gold	30-Jun	C4	AUS
23	Coal and Allied Industries Ltd	CNA	4	Energy	31-Dec	C4	AUS
24	Comalco Ltd	CMC	2	Other Metals	31-Dec	C4	AUS
25	Consolidated Rutile Ltd	CRT	2	Other Metals	30-Jun	C4	AUS
26	Cudgen RZ Ltd	CUD	2	Other Metals	30-Jun	C4	AUS
27	Cumnock Coal Ltd	CMK	4	Energy	30-Jun	C4	AUS
28	Denehurst Ltd	DHU	2	Other Metals	30-Jun	C4	AUS
29	Devex Ltd	DEV	1	Gold	30-Jun	C4	AUS
30	Dominion Mining Ltd	DOM	1	Gold	30-Jun	C4	AUS
31	Eastern Aluminium Ltd	EAM	2	Other Metals	31-Dec	C4	AUS
32	Electrometals Mining Ltd	EMM	1	Gold	30-Jun	HARD	AUS
33	Emperor Mines	EMP	1	Gold	30-Jun	C4	AUS
34	Energy Equity Corporation	EEC	4	Energy	30-Jun	C4	AUS
35	Energy Resources of Australia Ltd	ERA	4	Energy	30-Jun	C4	AUS
36	Esmeralda Exploration	ESE	1	Gold	30-Jun	ASX	AUS
37	Geographe Resources	GHR	1	Gold	30-Jun	HARD	AUS
38	Ghana Gold Mines Ltd	GGS	1	Gold	30-Jun	C4	AUS
39	Gold Mines of Australia Ltd	GMA	1	Gold	30-Jun	C4	AUS
40	Gold Mines of Sardinia	GMS	2	Other Metals	30-Jun	HARD	AUS
41	Goldfields Ltd	GLD	1	Gold	30-Jun	C4	AUS
42	Goldrim Mining Australia	GRM	1	Gold	30-Jun	ASX	AUS
43	Gwalia Consolidated Ltfd	GWC	2	Other Metals	30-Jun	C4	AUS
44	Herald Resources	HER	1	Gold	30-Jun	C4	AUS

NO	COMPANY NAME	ASX CODE	IND CODE	INDUSTRY NAME	YEAR END	DATA SOURCE	CURRENCY
45	HomeStake Mining	HSM	1	Gold	31-Dec	C4	$US
46	Intermin Resources	IRC	1	Gold	30-Jun	HARD	AUS
47	Kidston Gold Mines Ltd	KGM	1	Gold	31-Dec	C4	AUS
48	Kiwi Gold	KIW	1	Gold	31-Mar	GA	$NZ
49	Lihir Gold	LHG	1	Gold	31-Dec	GA	$US
50	Macmahon Holdings	MAH	2	Other Metals	30-Jun	C4	AUS
51	Macraes Mining Company Ltd	MMC	1	Gold	31-Dec	C4	$NZ
52	Magellan Petroleum Australia Ltd	MAG	4	Energy	30-Jun	C4	AUS
53	Meekatharra Minerals	MKA	4	Energy	30-Jun	HARD	AUS
54	MIM Holdings Ltd	MIM	2	Other Metals	30-Jun	C4	AUS
55	Mt Leyshon Gold Mines Ltd -NLY	MLG	1	Gold	30-Jun	C4	AUS
56	New Zealand Oil and Gas	NZO	4	Energy	30-Jun	C4	$NZ
57	Newcrest Mining Ltd	NCM	1	Gold	30-Jun	C4	AUS
58	Niugini Mining Ltd	NML	1	Gold	31-Dec	C4	$US
59	Normandy Mining Ltd	NDY	1	Gold	30-Jun	C4	AUS
60	North Flinders	NFM	3	Diversified Res	30-Jun	C4	AUS
61	North Ltd	NBH	1	Gold	30-Jun	C4	AUS
62	Novus Petroleum Ltd	NVS	4	Energy	31-Dec	C4	AUS
63	Nullabor Holding	NLB	1	Gold	30-Jun	HARD	AUS
64	Oil Company of Australia Ltd	OCA	4	Energy	30-Jun	C4	AUS
65	Oil Search Ltd	OSH	4	Energy	31-Dec	C4	$KINA
66	Olympus Resources	OLP	2	Other Metals	31-Dec	GA	AUS
67	Otter Gold Mines	OTR	1	Gold	30-Jun	C4	$NZ
68	Pacific Mining	PFM	2	Other Metals	30-Jun	ASX	AUS
69	Paget Mining	PGT	1	Gold	30-Jun	GA	AUS
70	Pancontinental Mining	PCM	2	Other Metals	30-Jun	AGSM	AUS
71	Pasminco Ltd	PAS	2	Other Metals	30-Jun	C4	AUS
72	Perseverance Corp	PSV	1	Gold	30-Jun	C4	AUS
73	Petsec Energy	PSA	4	Energy	31-Dec	C4	AUS
74	Placer Dome Inc	PDG	2	Other Metals	31-Dec	C4	$US
75	Portman Mining Ltd	PMM	4	Energy	31-Dec	C4	AUS
76	Precious Metals	PMA	1	Gold	30-Jun	C4	AUS
77	QCT Resources Ltd	QRL	4	Energy	30-Jun	C4	AUS
78	QNI Ltd	QNI	2	Other Metals	30-Jun	C4	AUS
79	Queensland Metals Corp	QMC	2	Other Metals	30-Jun	C4	AUS
80	Range Resources	RRS	1	Gold	30-Jun	ASX	AUS
81	Resolute Ltd	RSG	1	Gold	30-Jun	C4	AUS
82	RGC Ltd	RGC	1	Gold	30-Jun	C4	AUS
83	Rio Tinto- CRA	RIO	3	Diversified Res	31-Dec	C4	AUS
84	Santos Ltd	STO	4	Energy	31-Dec	C4	AUS
85	Savage Resources Ltd	SVR	2	Other Metals	30-Jun	C4	AUS
86	Sons of Gwalia Ltd	SGW	1	Gold	30-Jun	C4	AUS
87	St Barbara Mines Ltd	SBM	1	Gold	30-Jun	C4	AUS
88	Straits Resources Ltd	SRL	2	Other Metals	31-Dec	C4	AUS
89	Tasmania Mines	TMM	2	Other Metals		GA	AUS
90	Ticor Ltd	TOR	3	Diversified Res	31-Dec	C4	AUS
91	Triako Resources	TKR	2	Other Metals	30-Jun	HARD	AUS
92	Valiant Consolidated	VLT	1	Gold	31-Dec	C4	AUS
93	Werrie Gold	WER	1	Gold	30-Jun	HARD/C4	AUS
94	Western Metals	WMT	2	Other Metals	30-Jun	C4	AUS
95	Western Reef	WRF	1	Gold	30-Jun	HARD	AUS
96	Westralian Sands Ltd	WSL	2	Other Metals	31-Dec	C4	AUS
97	WMC Ltd	WMC	2	Other Metals	30-Jun	C4	AUS

NO	COMPANY NAME	ASX CODE	IND CODE	INDUSTRY NAME	YEAR END	DATA SOURCE	CURRENCY
98	Woodside Petroleum	WPL	4	Energy	31-Dec	C4	AUS
99	Xenolith Gold	XEN	1	Gold	30-Jun	ASX	AUS
100	Zeolite Australia	ZEL	2	Other Metals	30-Jun	ASX	AUS

C4 = Connect 4 Database
AGSM = Australian Graduate School of Management disks (library)
HARD = Hard copy from ECU Library
GA = Global Access - UWA library - www.primarkga.co.uk/
ASX = Australian Stock Exchange
IND = Industry

Industrial companies

NO	COMPANY NAME	ASX CODE	IND CODE	INDUSTRY NAME	YEAR END	DATA SOURCE	CURRENCY
1	Adelaide Bank Ltd	ADB	16	Banks and Finance	30-Jun	C4	AUS
2	Adelaide Brighton Ltd	ABC	7	Building Materials	30-Jun	C4	AUS
3	Amalgamated Holdings Ltd	AHD	24	Tourism and Leisure	30-Jun	C4	AUS
4	Amcor Ltd	AMC	12	Paper and Packaging	30-Jun	C4	AUS
5	AP Eagers Ltd	APE	22	Misc. Industrials	31-Dec	C4	AUS
6	Asia Pacific Specialty Chemicals Ltd	APY	10	Chemicals	30-Jun	C4	AUS
7	Atkins Carlyle Ltd.	AKC	22	Misc. Industrials	30-Jun	C4	AUS
8	Atlas Pacific Ltd	ATP	22	Misc. Industrials	30-Jun	C4	AUS
9	Ausdrill Ltd	ASL	22	Misc. Industrials	30-Jun	C4	AUS
10	Auspine Ltd	ANE	7	Building Materials	30-Jun	C4	AUS
11	Australian Chemical Holdings	ACH	10	Chemicals	30-Jun	C4	AUS
12	Australian Consolidated Investments Ltd	AUC	19	Inv and Fincl Serv	30-Jun	C4	AUS
13	Australian Foundation Investment	AFI-	19	Inv and Fincl Serv	30-Jun	C4	AUS
14	Australian Gas Light Company, The	AGL	5	Infrast and Util	30-Jun	C4	AUS
15	Australian National Industries Ltd	ANI	11	Engineering	31-Dec	C4	AUS
16	Australian Provincial Newspapers Holdings	APN	15	Media	31-Dec	C4	AUS
17	Austrim Ltd	ARL	23	Div Industrials	30-Jun	C4	AUS
18	AWA Ltd	AWA	24	Tourism and Leisure	30-Jun	C4	AUS
19	Bank of Queensland	BQD	16	Banks and Finance	30-Jun	C4	AUS
20	Biota Holdings Ltd	BTA	21	Misc. Services	30-Jun	C4	AUS
21	Blackmores Ltd	BKL	21	Misc. Services	30-Jun	C4	AUS
22	Boral Ltd	BOR	7	Building Materials	30-Jun	C4	AUS
23	BT Equity Management	BTE	19	Inv and Fincl Serv	31-Dec	C4	AUS
24	BT Resources Management Ltd	BTM	19	Inv and Fincl Serv	30-Jun	C4	AUS
25	BTR Plc	BTL	23	Div Industrials	30-Jun	C4	AUS
26	Burns, Philp and Company Ltd	BPC	9	Food and Hshld goods	30-Jun	C4	AUS
27	Cadbury Schweppes Public Ltd Company	CBS	9	Food and Hshld goods	30-Jun	C4	AUS
28	Cambooya Investments Ltd	CBI	19	Inv and Fincl Serv	31-Dec	C4	AUS
29	Carlton Investments Ltd	CIN	19	Inv and Fincl Serv	30-Jun	C4	AUS
30	Chatham Investment Co. Ltd	CTM	19	Inv and Fincl Serv	30-Jun	C4	AUS
31	Coles Myer Ltd	CML	13	Retail	30-Jun	C4	AUS
32	Commonwealth Bank Of Australia	CBA	16	Banks and Finance	30-Jun	C4	AUS
33	Consolidated Paper Industries	CPI	12	Paper and Packaging	30-Jun	C4	AUS
34	Coventry Group Ltd	CYG	23	Div Industrials	30-Jun	C4	AUS
35	Crevet Ltd	CRV	11	Engineering	30-Jun	C4	AUS
36	CSL Ltd	CSL	21	Misc. Services	30-Jun	C4	AUS
37	Davids Ltd	DVD	13	Retail	30-Jun	C4	AUS
38	Delfin Property Group Ltd	DPG	6	Develop and Contr	30-Jun	C4	AUS
39	Development Capital of Australia Ltd	DVC	19	Inv and Fincl Serv	30-Jun	C4	AUS
40	Diversified United Investment Ltd	DUI	19	Inv and Fincl Serv	30-Jun	C4	AUS
41	Djerriwarrh Investments Ltd	DJW	19	Inv and Fincl Serv	30-Jun	C4	AUS
42	Email Ltd	EML	23	Div Industrials	30-Jun	C4	AUS
43	Energy Developments Ltd	ENE	5	Infrast and Util	31-Dec	C4	AUS
44	Enterprise Solutions Asia Pacific Ltd	ESA	18	Telecommunications	30-Jun	C4	AUS
45	FAI Insurance Group Ltd	FAI	17	Insurance	30-Jun	C4	AUS
46	Fernz Corporation Ltd	FZC	10	Chemicals	30-Jun	C4	AUS
47	Finemore Holdings Ltd	FMH	14	Transport	30-Jun	C4	AUS
48	Foodland Associated Ltd	FOA	13	Retail	30-Jun	C4	AUS
49	Forrester and Parker Group Ltd	FRP	6	Develop and Contr	30-Jun	C4	AUS

NO	COMPANY NAME	ASX CODE	IND CODE	INDUSTRY NAME	YEAR END	DATA SOURCE	CURRENCY
50	Goodman Fielder Ltd	GMF	9	Food and Hshld goods	30-Jun	C4	AUS
51	Gowing Bros Ltd	GOW	13	Retail	30-Jun	C4	AUS
52	Greenchip Investments Ltd	GRI	19	Inv and Fincl Serv	31-Dec	C4	AUS
53	Green's Foods Ltd	GFD	9	Food and Hshld goods	30-Jun	C4	AUS
54	Hancock and Gore Ltd	HNG	23	Div Industrials	31-Dec	C4	AUS
55	HIH Winterthur Insurance	HIH	17	Insurance	31-Dec	C4	AUS
56	Holyman Ltd	HLN	14	Transport	30-Jun	C4	AUS
57	Hydromet Corporation Ltd	HMC	22	Misc. Industrials	30-Jun	C4	AUS
58	Intellect Holdings Ltd	IHG	22	Misc. Industrials	30-Jun	C4	AUS
59	Ipoh Ltd	IPH	6	Develop and Contr	31-Dec	C4	AUS
60	Jardine Matheson Holdings Ltd	JMH	23	Div Industrials	31-Dec	C4	AUS
61	Lemvest Ltd	LEV	19	Inv and Fincl Serv	30-Jun	C4	AUS
62	Matine Ltd	MAT	19	Inv and Fincl Serv	30-Jun	C4	AUS
63	MaxiLink Ltd	MAX	19	Inv and Fincl Serv	30-Jun	C4	AUS
64	McConnell Dowell Corporation Ltd	MDC	6	Develop and Contr	30-Jun	C4	AUS
65	Memtec Ltd	MET	22	Misc. Industrials	30-Jun	C4	AUS
66	Metal Manufactures Ltd	MMF	23	Div Industrials	31-Dec	C4	AUS
67	Metalcorp Ltd	MTL	22	Misc. Industrials	30-Jun	C4	AUS
68	MMI Ltd	MMU	17	Insurance	30-Jun	C4	AUS
69	Perpetual Trustees Australia Ltd	PPT	19	Inv and Fincl Serv	30-Jun	C4	AUS
70	Petaluma Ltd	PLM	8	Alcohol and Tobacco	30-Jun	C4	AUS
71	Pioneer International Ltd	PNI	7	Building Materials	30-Jun	C4	AUS
72	Pirelli Cables Australia Ltd	PRL	18	Telecommunications	31-Dec	C4	AUS
73	Primac Holdings Ltd	PRH	22	Misc. Industrials	30-Jun	C4	AUS
74	Prime Television Ltd	PRT	15	Media	30-Jun	C4	AUS
75	QBE Insurance Group Ltd	QBE	17	Insurance	30-Jun	C4	AUS
76	QUF Industries Ltd	QUF	9	Food and Hshld goods	30-Jun	C4	AUS
77	R.M. Williams Holdings Ltd	RMW	13	Retail	30-Jun	C4	AUS
78	Reece Australia Ltd	REH	7	Building Materials	30-Jun	C4	AUS
79	Rock Building Society Ltd, The	ROK	16	Banks and Finance	30-Jun	C4	AUS
80	Rural Press Ltd	RUP	15	Media	30-Jun	C4	AUS
81	Seven Network Ltd	SEV	15	Media	30-Jun	C4	AUS
82	SGIO Insurance Ltd	SGI	17	Insurance	30-Jun	C4	AUS
83	Simsmetal Ltd	SMS	22	Misc. Industrials	30-Jun	C4	AUS
84	Spectrum Network Systems Ltd	SNM	18	Telecommunications	30-Jun	C4	AUS
85	Spicers Paper Ltd	SCP	12	Paper and Packaging	30-Jun	C4	AUS
86	Spotless Group Ltd	SPT	22	Misc. Industrials	30-Jun	C4	AUS
87	Spotless Services Ltd	SPS	22	Misc. Industrials	30-Jun	C4	AUS
88	Sunraysia Television Ltd	STV	15	Media	30-Jun	C4	AUS
89	Techniche Ltd	THE	18	Telecommunications	30-Jun	C4	AUS
90	Telecasters Australia Ltd	TCA	15	Media	30-Jun	C4	AUS
91	Telecom Corporation Of New Zealand Ltd	TEC	18	Telecommunication	30-Jun	C4	AUS
92	Television and Media Services	TMS	15	Media	30-Jun	C4	AUS
93	Tempo Services Ltd	TEM	22	Misc. Industrials	30-Jun	C4	AUS
94	Tiger Investment Company Ltd	TIG	19	Inv and Fincl Serv	30-Jun	C4	AUS
95	Tooth and Co. Ltd	TTH	19	Inv and Fincl Serv	30-Jun	C4	AUS
96	Wako Kwikform	WKM	7	Building Materials	30-Jun	C4	AUS
97	Walker Corporation	WKC	6	Develop and Contr	30-Jun	C4	AUS
98	Wattyl Ltd	WYL	7	Building Materials	30-Jun	C4	AUS
99	Wesfarmers Ltd	WES	23	Div Industrials	30-Jun	C4	AUS
100	Whitefield Ltd	WHF	19	Inv and Fincl Serv	30-Jun	C4	AUS

APPENDIX C

Exchange rates

SOURCE: Reserve Bank of Australia Bulletin

DATE	£0.00	$A	$US	$A	$NZ	$A	$KINA	$A
30/06/95			$0.7086	1.4112	$1.0621	0.9415		
30/06/96			$0.7890	1.2674	$1.1552	0.8657		
30/06/97			$0.7455	1.3414	$1.0996	0.9094		
31/12/95	£0.4814	$2.0773	$0.7450	1.3423	$1.1400	0.8772	0.962	1.0395
31/12/96	£0.4710	$2.1231	$0.7965	1.2555	$1.1255	0.8885	1.0549	0.9480
31/12/97	£0.3937	$2.5400	$0.6527	1.5321	$1.1219	0.8913	1.1077	0.9028

APPENDIX D

T able 6.32

Pearson correlations matrix - Mining companies 1997 – Categories of ASX disclosures (One-tailed)

	LGSZTA	SQGEAR	OWND	SQNEXDR	AUD6	EXEC	BMEM	APRET	INADV	REM	AUD	RSK	ETHIC	TGD
LGSZTA	1.000													
SQGEAR	0.215*	1.000												
OWND	-0.580	-0.201*	1.000											
SQNEXDR	0.143	0.018	-0.730	1.000										
AUD6	0.443**	0.099	-0.129	0.176*	1.000									
EXEC	0.184*	0.154	-0.148	0.507**	0.178*	1.000								
BMEM	0.409**	0.121	0.165	0.100	0.343*	0.058	1.000							
APRET	0.219*	0.079	-0.118	-0.085	0.070	-0.101	0.287**	1.000						
INADV	0.056	0.093	0.171*	-0.410	-0.088	0.033	0.279**	0.092	1.000					
REM	0.503**	0.380**	0.043	-0.029	0.359**	0.121	0.514**	0.288**	0.320**	1.000				
AUD	0.332**	0.065	0.034	0.070	0.252**	0.061	0.350**	0.231*	0.239**	0.438**	1.000			
RSK	0.467**	0.300**	-0.096	0.006	0.351**	0.137	0.251**	0.294**	0.125	0.502**	0.331**	1.000		
ETHIC	0.332**	0.143	0.079	-0.101	0.123	-0.118	0.311**	0.327**	0.162	0.308**	0.188*	0.316**	1.000	
TGD	0.557**	0.290**	0.062	0.052	0.382**	0.156	0.749**	0.492**	0.451**	0.841**	0.666**	0.603**	0.471**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

T able 6.33

Pearson correlations matrix - Mining companies 1997 – Categories of +ASX disclosures (One-tailed)

	LGSZTA	SQGEAR	OWND	SQNEXDR	AUD6	EXEC	BMEM	APRET	INADV	REM	AUD	RSK	ETHIC	TGD
LGSZTA	1.000													
SQGEAR	0.215*	1.000												
OWND	-0.058	-0.201*	1.000											
SQNEXDR	0.143	0.018	-0.073	1.000										
AUD6	0.443**	0.099	-0.129	0.176*	1.000									
EXEC	0.184*	0.154	-0.148	0.507**	0.178*	1.000								
BMEM	0.398**	0.083	0.202*	0.095	0.347**	0.021	1.000							
APRET	0.219*	0.079	-0.118	-0.085	0.070	-0.101	0.287**	1.000						
INADV	0.056	0.093	0.171*	-0.410	-0.088	0.033	0.279**	0.092	1.000					
REM	0.555**	0.339**	0.072	0.063	0.391**	0.164	0.527**	0.227*	0.330**	1.000				
AUD	0.407**	0.027	0.055	0.129	0.367**	0.104	0.369**	0.259**	0.213*	0.483**	1.000			
RSK	0.591**	0.286**	0.153	0.102	0.296**	0.151	0.370**	0.097	0.030	0.546**	0.294**	1.000		
ETHIC	0.406**	0.139	0.072	-0.012	0.051	0.035	0.191*	0.208*	0.174*	0.323**	0.203*	0.233**	1.000	
TGD	0.664**	0.269**	0.142	0.121	0.418**	0.178*	0.722**	0.357**	0.367**	0.855**	0.670**	0.699**	0.472**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.34

Pearson correlations matrix - Industrial companies 1997 – Categories of ASX disclosures (One-tailed)

	LGSZTA	GEAR	SQOWND	NEXDR	AUD6	EXEC	BMEM	APRET	INADV	REM	AUD	RSK	ETHIC	TGD
LGSZTA	1.000													
GEAR	0.507**	1.000												
SQOWND	0.090	-0.265**	1.000											
NEXDR	0.181	0.068	0.091	1.000										
AUD6	0.350**	0.123	0.103	0.092	1.000									
EXEC	0.235*	0.139	0.118	0.386**	0.146	1.000								
BMEM	0.260*	0.140	0.142	-0.056	0.186	-0.018	1.000							
APRET	0.206*	-0.042	0.094	-0.015	0.071	0.141	0.219*	1.000						
INADV	-0.134	-0.148	0.037	-0.106	0.000	-0.219*	0.289**	0.187	1.000					
REM	0.346**	0.273**	0.065	-0.108	0.243*	0.055	0.420**	0.203*	0.277**	1.000				
AUD	0.167	0.235*	-0.027	-0.004	0.000	0.212*	0.251*	0.190	0.142	0.410**	1.000			
RSK	0.266**	0.307**	0.044	-0.161	0.224*	0.190	0.288**	-0.035	0.138	0.367**	0.249*	1.000		
ETHIC	0.202*	-0.012	0.211*	-0.060	0.168	-0.041	0.299**	0.248*	0.186	0.299**	0.254*	0.183	1.000	
TGD	0.360**	0.240*	0.127	-0.085	0.235*	0.154	0.738**	0.422**	0.448**	0.795**	0.625**	0.514**	0.486**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

Table 6.35

Pearson correlations matrix - Industrial companies 1997 – Categories of +ASX disclosures (One-tailed)

	LGSZTA	GEAR	SQOWND	NEXDR	AUD6	EXEC	BMEM	APRET	INADV	REM	AUD	RSK	ETHIC	TGD
LGSZTA	1.000													
GEAR	0.507**	1.000												
SQOWND	0.090	-0.265**	1.000											
NEXDR	0.181	0.068	0.091	1.000										
AUD6	0.350**	0.123	0.103	0.092	1.000									
EXEC	0.235*	0.139	0.118	0.386**	0.146	1.000								
BMEM	0.344**	0.163	0.132	-0.006	0.197*	0.040	1.000							
APRET	0.206*	-0.042	0.094	-0.015	0.071	0.141	0.229*	1.000						
INADV	-0.134	-0.148	0.037	-0.106	0.000	-0.219*	0.260**	0.187	1.000					
REM	0.354**	0.293**	0.059	-0.093	0.278**	0.110	0.442**	0.175	0.237*	1.000				
AUD	0.212*	0.253**	-0.013	0.135	0.010	0.335**	0.271**	0.152	0.075	0.418**	1.000			
RSK	0.439**	0.257**	0.278**	0.050	0.299**	0.151	0.359**	0.178	-0.014	0.328**	0.203*	1.000		
ETHIC	0.163	0.009	0.155	-0.006	0.182	0.002	0.288**	0.228*	0.218*	0.246*	0.195	0.407**	1.000	
TGD	0.455**	0.271**	0.185	0.014	0.294**	0.204*	0.755**	0.387**	0.323**	0.763**	0.578**	0.652**	0.552**	1.000

* Significant at 0.05 level (one-tailed)
** Significant at 0.01 level (one-tailed)

APPENDIX E

AIMA guidelines on independent directors

AIMA (1995, para. 3.2) defines an independent director as a non-executive director who:

- is not a substantial shareholder of the company or an officer of or otherwise associated directly or indirectly with a substantial shareholder of the company;
- has not been employed within the last 3 years in any executive capacity by the company or any other group member;
- is not retained as a professional adviser to the company or any other group member or a principal of a firm or company so retained;
- is not a significant supplier or customer of the company or any other group member or an officer of or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relations3hip with the company or any other group member other than as a director of the company; and
- is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors ability to act with a view to the best interests of the company (the residual category)