



# Does Corporate Governance Affect the Corporate Performance Persistence by Economic Value Added in Listed Companies of Malaysian Stock?

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## ABSTRACT

Corporate governance is a mechanism used to reduce the conflict of interests and agency costs. It consists of intrinsic and extrinsic mechanisms. Company ownership structure is one of the most important extrinsic mechanisms of corporate governance and shareholders are able to monitor and control the company's directors' performance enabling them to reduce the costs and increase the firm value. This study aims to check whether corporate governance effect by economic value added (EVA) on the corporate performance persistence in listed companies of Malaysian stock and also to investigate the corporate governance practices in the registered companies in Bursa MY and their outcome on the relationship amongst corporate productivity and the extent practicing company set of rules and mechanisms. The sample includes the top 100 companies in Malaysia (FTSE Bursa MY Top 100 Index), registered in the Bursa MY, during 2009-2013 and because it is a comparative study, the final sample consisted of 84 companies. The statistical findings suggested that there is a correlation amongst corporate governance mechanisms and performance persistence, as measured by approximate EVA.

**Keywords:** Company Performance, Corporate Governance Practices, Economic Value Added, Malaysian Stock, Ownership Structure

**JEL Classifications:** G32, G34

## 1. INTRODUCTION

By comparing developed countries with developing ones, it is observed that a lot of progresses have been made in establishing corporate governance system through legislation and surveillance. Investors and shareholders are informed about the necessity and significance of the corporate governance. They have been persuaded to follow and establish this system in the firms. Several experimental studies suggest the positive relationship between corporate governance and company performance and productivity. In a nutshell, corporate governance controls and directs the company. It is a system that determines and controls the relationships between the company and stakeholders. Corporate governance follows to achieve the company goals in micro level. In macro level, it pursues to optimally allocate resources.

The equity theory in organizational behavior concentrates on the impact of feelings of unfairness and inequities in corporations

on the actions and perceptions of investor (Reinganum, 2009). The equity theory has a prediction of the contrast amongst corporate executives and investor in the case of inequity in public corporations. In that case, investors lose self-assurance in corporate executives and financial markets and hesitate investing. Some activities must be done to decline these events. Internal and external factors in corporate executive behavior are related to significant extent of risk taking, lack of transparency, inappropriate board observation, and payroll systems with no relationship with strategy and risk. Good corporate governance is necessary for modern corporations to grow up and survive.

Good corporate governance makes corporations to seem attractive to wealthy and institutional investors as well as an attractive business for alliance partner so that the corporation could get profit in investment opportunities corporate governance raises responsibility, trustworthiness, and certainty of making decisions. Whether the company follows the stakeholder structure or follows

the shareholder structure the practice of corporate governance is increasingly becoming vital.

Numerous meanings of corporate performance were introduced in the studies (Barney, 2002). For example, accounting and market descriptions have been utilized to investigate the interrelation of company governance, corporate social responsibility and corporate productivity (Orlitzky et al., 2003). Moreover, stakeholders' sights have been attracted to corporate performance for the reason that the overall wealth produced through company prior to distributing for the different stakeholder as opposed to the accounting profit, which is assigned to the shareholders (Riahi-Belkaoui, 2003).

Measuring a company's performance is traditionally done by looking at the earnings that a firm achieved in a given timeframe. Earnings are also used in valuation structures to price securities, to assess possible outcomes, and to predict future performance (Watts and Zimmerman, 1986). Incomes also served as a summary measure of firm operation, and could give an inside look to a company's current state (Ball and Brown, 1968; Beaver, 1968). Furthermore, the central role of earnings reports as a source of information impacted both access to and cost of capital (Ashbaugh-Skaife et al., 2006). Many processes of financial efficiency been used in authority researches. Bhagat and Black (2006) evaluated business's productivity using Tobin's Q, profit on resources and the fraction of sales to resources.

The purpose why emanating markets must be considered in external corporate governance is to make the investor to be confident and bring potential internal and external investors due to effects on the growth of economy. Worldwide contributor companies like the IMF and Globe Financial Institution together with establishments such as the Organization for Economic Co-operation and Development, in a roundabout way affect undeveloped nations to enhance their external corporate governance elements and regulating structure. The impact of the modifications is observable from the investors' activities that are getting more certain about acquiring some marketplaces that were regarded unsafe at one particular period. The corporate portions within growing nations do appear to lag regarding the actual standard to get good corporate governance (Mobinus, 2002).

The recession that struck the economy of the South East Asia during 1997-1998 ended up to some extent connected with poor corporate governance in the area, that motivated government authorities to think about methods for increasing governance structures within their locations (Mobinus, 2002). This led to governance changes within the emerging marketplaces for repairing customers' confidence via. presenting a good uniform system to construct an ideal investing marketplace (Aguilera and Cuervo-Cazurra, 2004). Consequently, regulations of company set of rules and mechanisms were actually founded by many of these countries to enhance a constant movement of resources as well as improve investors' assurance within their capital marketplaces (Haniffa and Hudaib, 2006). Although growing marketplaces understand the idea of corporate governance, setting up corporate governance ways has not been efficient (Mobinus, 2002). The requirements that have been resulting from referrals

in civilized world, most likely are not relevant to be able to third world countries due to the nations aspect, also economical and societal objectivity. Consequently precisely what is proficient at one particular country might not be in some other. Similarly, every company has their special features due to the background, business conditions, culture and desired goals. For this reason all of these factors must be considered with their attempts to change company set of rules and mechanisms (Haniffa and Hudaib, 2006).

A capital market is a place for trading together with issue debts and also resources funds, which is essential to international economic methods as well as the growth in addition to survival of nation's economic systems. Corporations was not able to run or survive when they're incapable having access to main funds, whereby corporate governance could stop being related since there could be no suppliers of money. The economic progress and development of an organization is dependent upon its function within developing efficient, secure and also aggressive economies. The real arteries of capital markets is certainly the investment capital which is offered by shareholders and must be shielded by proper restrictions, efficient company set of rules and mechanisms and the optimum industry process (Donnelly and Mulcahy, 2008). Globalization has led to the movement of investment capital from overseas markets, allowing companies to get into funds originating from a bigger share of brokers. To gain from the international investment capital marketplaces, along with the draw in enduring investment capital, corporate governance methods have to be trustworthy and properly recognized all over borders. Even though countries do not tend to count on overseas assets, sticking with company set of rules and mechanisms strategies will heighten the self-assurance of domestic investors, decrease the capital expenses and stimulate a considerably more secure supply of investment capital. Lynn Turner, previous head accountants of SEC in America claims.

The power of capital marketplace to acquire funds relies on customers finding assurance within the strength and also clarity from the marketplaces. Assurance is gained during certain time via. trustable trading markets, investors with all the fabric data, which they must make a knowledgeable conclusion.

Several essential factors of economic development of a nation tend to be investors self-assurance as well as its capital market segments (Rezaee, 2008). The effectiveness of stock exchange trading has significant effects regarding investors and also regulators. As a result, effectiveness within information distribution makes sure that funds tend to be applicable into projects, which will result in improved outcomes with needed changes in risk. Durability of open companies is regarded as a step to individual self-assurance that needs precise economic information for customers to create knowledgeable purchase decisions. Economic information and facts, that could be reputable, transparent and accurate, is essential for the performance, integrity and safety of funds in stock markets.

Overall corporate performance in prior studies refers to corporate value. Research shows that company set of rules and mechanisms influences firm worth on account of lowered seizure through partners along with enhancement from the envisioned

income flows that could be given to customers. Several diverse approaches to company worth that are already discovered within the corporate financing literature. These include the fiscal control strategy that will pinpoint the diagnosis of cash investing and flows ranges prior to determining and also assessing the impact of financing on company worth; the capital structure method that analyses the influence of investment capital composition alterations over the need for company and just how various factors influence specifically or contrariwise, the debt along with value part of the company capital framework; the source structured technique that clarifies the price of business being an consequence of corporation’s sources; lastly, the sustainable growth is actually an overview of the aforementioned 3 ways to corporate worth, considering the company’s functioning efficiency, its expense and funding requires, the loans resources, as well as results and financing regulations for sustainable growth and progression of company’s maximization and also resources of corporation profit. Besides the over factors that enhance the corporation worth, the marketplace for commercial takeovers and for executive director assumes that the produced information is to decrease the capital cost and enhance the company’s value (Deegan, 2004).

Derived on studies which have been done derived on researching the marketplace, worth of a firm is identified as the current price of anticipated upcoming cash flows that discounted with the proper risk and return’s rate (Kothari, 2001). Reveal price ranges respond to the details given by the accounting methods and also represent info utilized by the capital trading markets (Deegan, 2004). Performance of investment capital marketplaces and also the investors’ assurance tend to be vital elements of economic, development and also economic stableness. As a result, elevated customer assurance leads to increased share price rates (Rezaee, 2008). Reveal rates and also profits are regarded as adjustments to costs plus returns. Moreover, share costs explain a standard way to measure organization worth, when share value measures the company productivity in a standard way (Deegan, 2004).

## 2. METHODOLOGY

To research the association among corporate governance methods and company performance in Malaysia, this study utilize methods implemented in previous related studies. Several studies have already checked out some of these associations and used a deductive approach and quantitative methods to analyze the information being gathered from secondary sources. To inquire the magnitude that corporations in Malaysia had implemented codes of ideal workout on corporate governance prior to 2012 and also the modifications to corporate governance methods subsequently after 2012, a comparison evaluation is carried out.

Analysis is carried out using STATA software. Descriptive statistics are applied to determine the mean distinction for the years 2009-2013. T-tests are carried out to measure the value of the distinctions within 2009 and 2013. Correlation analysis determines the probable correlation amongst governance factors and corporate productivity. Lastly, variance is analyzed for 5 years to discover any substantial interactions amongst corporate

governance practices and corporate productivity in short and long period by using panel assumption test.

Information is gathered from secondary resources such as annual reviews, publications (FTSE best 100) and the Bursa MY’ data. The test of financial performance information is chosen from top 100 registered companies for a period of 4 years from 2009 to 2013 for comparative evaluation. All information related to corporate governance factors are gathered from companies’ annual report.

## 3. RESULTS

The present study adopts descriptive as well as inferential statistical methods for examining the data. Descriptive statistics was used to sum up, systematize, as well as simplify the numerical information of the sampled firms. Frequency distribution tables and measures of central tendencies including mean are 2 examples of descriptive statistics. Range and standard deviation measured quantitatively the degree of information distribution or clustering together.

Table 1 practices frequency distribution table to review quantity of companies with definite detailed corporate governance appearances.

### 3.1. Hypothesis Test

#### 3.1.1. Relationship amongst corporate governance and economic value added (EVA)

According to the EVA as the dependent variable and the corporate governance mechanisms as the independent variables, the regression equation for the model is.

##### 3.1.1.1. Model 1

$$ROE_{it} = \alpha_0 + B_1 ROE_{it-1} + B_2 Board\ size_{it} + B_3 independent\ director_{it} + B_4 board\ meeting_{it} + B_5 woman\ on\ board_{it} + B_6 non-independent\ directors_{it} + B_7 CEO\ duality_{it} + B_8 executive\ share_{it} + B_9 supervisory\ Board_{it} + B_{10} foreign\ ownership_{it} + B_{11} CMSR_{it} + B_{12} AMG_{it} + B_{13} NRC_{it} + B_{14} market\ value_{it} + B_{15} lev_{it} + B_{16} mtb_{it} + e_{it}$$

The general capability of the non-dependent company rules and policies are to clarify EVA is examined by Wald distribution test

**Table 1: VIF result**

Variables	First model	Second model
Board size	2.18	2.29
Board independence	2.42	2.5
% Independent director	1.83	1.5
Board meeting	1.48	1.48
Woman on board	1.37	1.38
% Non-independent Directors	1.3	19.05
CEO duality	1.12	1.13
% Executive share	1.04	1.04
Supervisory board	3.65	3.67
% Foreign ownership	1.19	1.21
CMSR	1.21	1.22
AMG	1.13	1.15
NRC	1.3	1.3
Market value	1.33	1.4
LEV	1.21	1.23
mtb	1.61	1.67

and generalized method of moments (GMM) at alpha stage of 5%. The void and other theories are respectively as:

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \dots = \beta_{17} = 0$$

$$H_1: \text{All } \beta_i (i = 1 \dots 17) \text{ are not zero.}$$

The examination was conducted by state and the generalized method of moment's results and calculated GMM table for Wald test are shown in Table 2. The overall generalized method of moment's equation with approximate EVA as the dependent variable is presented as:

$$\text{EVA} = 0.463 + 0.266 * \text{woman on board} + 0.119 * \text{non-independent directors} + 0.067 * \text{executive share} + 0.512 * \text{supervisory board} - 0.483 * \text{LEV} - 0.221 * \text{mtb} + \epsilon$$

The Wald value = 29340.37 is "Wald critical region = 2.2256, P = 0.000" 0.05 alpha level. I must drop the void theories (each coefficient is zero) and accept the alternative theories (Table 2). Therefore, evidence supports a linear relationship amongst at one of the corporate governance mechanisms and estimated EVA.

Generalized method of moment's results for independent variables (n = 90), y = approximate EVA.

A theories test for the individual variables of the regression model would determine which of the slope coefficients are different from zero. A Z-test explains the variation in approximate EVA and the variables with no explanatory power so they're removed from the regression model.

The impact of Roe L1 on financial performance is inconclusive. For EVA 11<sup>th</sup> the theories are:

**Table 2: EVA test**

Variables	Coefficient	z	P value
EVA 11	0.149	5.31	0.000
Board size	-21580.58	-3.54	0.000
Board independence	-599316.9	-5.22	0.000
Independent director	600804.3	4.86	0.000
Board meeting	-14374.67	-1.03	0.305
Woman on board	13328.91	2.03	0.042
Non-independent directors	31859.42	2.72	0.007
CEO duality	142194.6	0.35	0.728
Executive share	8825.112	3.00	0.003
Supervisory board	138124.7	5.43	0.000
Foreign ownership	60713.31	7.55	0.000
CMSR	-15103.05	-3.36	0.001
AMG	23926.52	3.93	0.000
NRC	-9966.07	-0.87	0.384
Market value	-122676.6	-16.19	0.000
LEV	-542075.4	-4.35	0.000
Mtb	138863	27.98	0.000
con	-542075.4	-1.20	0.228
Wald stat			4270000
P (wald stat)			0.000
Sargan test			36.979
P (Sargan test)			0.993
Autocorrelation test			0.039
P (autocorrelation test)			0.968

EVA: Economic value added

$$H_0: \beta_0 = 0$$

$$H_1: \beta_0 \neq 0$$

The GMM regression results in Table 2 show that the P value for EVA L1 is 0.000, which is <0.05 alpha level of significance. Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.98. The rejection region at 95% level of confidence shows that the calculated Z-test statistic value of absolute 5.31 is the critical t of 1.980 so the null theories ( $\beta_1$  is 0) is rejected. Thus, EVA11 is analytically important and can be utilized to explicate and predict approximate EVA L1.

The impact of board size on financial performance is inconclusive. For board size the theories are:

$$H_0: \beta_1 = 0$$

$$H_1: \beta_1 \neq 0$$

The GMM regression results in Table 2 shows that the P value for size of the board is 0.000, which is <0.05 alpha level of significance. Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.98 the rejection region at 95% level of confidence shows that the calculated Z-test statistic value of absolute -3.54 is < the critical t of 1.980 so the null theories ( $\beta_1$  is 0) is rejected. Thus, size of the board is analytically important and can explain and predict approximate EVA.

Board independence is expected to increase financial performance. For board independence the theories are:

$$H_0: \beta_2 = 0$$

$$H_1: \beta_2 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.98. Measured z statistic of -5.22 is critical z of 1.98 the P = 0.000 is <0.05 significant level. So the null theories (the beta coefficient is zero) are rejected. Thus the coefficient of independence is analytically irrelevant and explains approximate EVA.

Independent director is expected to increase financial performance. For independent director the theories are:

$$H_0: \beta_3 = 0$$

$$H_1: \beta_3 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.98. Calculated z statistic of 4.86 is < critical z of 1.98. The P = 0.000 is < 0.05 significant level. Thus, the null theories (the beta coefficient is zero) are rejected. Thus the coefficient of independence is analytically important and can be utilized to explicate approximate EVA.

The impact of board meeting on financial performance is inconclusive. For board meeting the theories are:



$$H_0: \beta_4 = 0$$

$$H_1: \beta_4 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.98. Calculated z statistic of absolute  $-1.03$  is critical t of 1.98. The  $P = 0.305$  is  $> 0.05$  significant level. Thus, coefficient of board meeting is significant and couldn't be utilized to explicate approximate EVA. So I couldn't reject the null theories in favor of  $H_1$ .

The impact of woman on board a firm has on its financial performance. For woman on board the theories are:

$$H_0: \beta_5 = 0$$

$$H_1: \beta_5 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 2.03 is  $>$  critical z of 1.980. The  $P = 0.042$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of women on board is analytically important and can be utilized to explicate EVA.

The impact of non-independent directors a firm has on its financial performance. For non-independent directors the theories are:

$$H_0: \beta_6 = 0$$

$$H_1: \beta_6 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 2.72 is critical z of 1.980. The  $P = 0.007$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of Non-independent Directors is analytically important and can be utilized to explicate EVA.

The impact of Chief Executive Officer Duality a firm has on its financial performance. For Chief Executive Officer Duality the theories are:

$$H_0: \beta_7 = 0$$

$$H_1: \beta_7 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 0.35 is critical z of 1.980. The  $P = 0.728$  is  $> 0.05$  so I couldn't reject  $H_0$ . So the beta coefficient of Chief Executive Officer Duality is analytically irrelevant and couldn't be utilized to explicate EVA.

The impact of executive share a firm has on its financial performance. For executive share the theories are:

$$H_0: \beta_8 = 0$$

$$H_1: \beta_8 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 3 is  $>$  critical z of 1.980. The  $P = 0.000$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of executive share is analytically important and can be utilized to explicate EVA.

The impact of Supervisory Board a firm has on its financial performance. For Supervisory Board the theories are:

$$H_0: \beta_9 = 0$$

$$H_1: \beta_9 \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 5.43 is critical z of 1.980. The  $P = 0.000$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of Supervisory Board is analytically important and can be utilized to explicate EVA.

The impact of foreign ownership a firm has on its financial performance. For foreign ownership the theories are:

$$H_0: \beta_{10} = 0$$

$$H_1: \beta_{10} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 7.55 is critical z of 1.980. The  $P = 0.000$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of foreign ownership is analytically important and can be utilized to explicate EVA.

The impact of CMSR a firm has on its financial performance. For CMSR the theories are:

$$H_0: \beta_{11} = 0$$

$$H_1: \beta_{11} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of  $-3.36$  is critical z of 1.980. The  $P = 0.001$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of CMSR is analytically important and can be utilized to explicate EVA.

The impact of AMG a firm has on its financial performance. For AMG the theories are:

$$H_0: \beta_{12} = 0$$

$$H_1: \beta_{12} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of 3.93 is critical z of 1.980. The  $P = 0.000$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of AMG is analytically important and can be utilized to explicate EVA.

The impact of NRC a firm has on its financial performance. For NRC the theories are:

$$H_0: \beta_{13} = 0$$

$$H_1: \beta_{13} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of  $-0.87$  is critical z of 1.980. The  $P = 0.384$  is  $0.05$  so I couldn't reject  $H_0$ . So the beta coefficient of NRC is analytically irrelevant and couldn't be utilized to explicate EVA.

The impact of market value a firm has on its financial performance. For market value the theories are:

$$H_0: \beta_{14} = 0$$

$$H_1: \beta_{14} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of  $-16.19$  is critical z of 1.980. The  $P = 0.000$  is  $< 0.05$  so I can reject  $H_0$ . So the beta coefficient of market value is analytically important and can be utilized to explicate EVA.

The impact of LEVA firm has on its financial performance. For LEV the theories are:

$$H_0: \beta_{15} = 0$$

$$H_1: \beta_{15} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of  $-4.35$  is critical z of 1.980. The  $P = 0.000$  is  $0.05$  so I can reject  $H_0$ . So the beta coefficient of LEV is analytically important and can be utilized to explicate EVA.

The impact of mtba firm has on its financial performance. For mtb the theories are:

$$H_0: \beta_{16} = 0$$

$$H_1: \beta_{16} \neq 0$$

Using Z-test, the critical points of z distribution at  $\alpha = 0.05$  is 1.980. Calculated z statistic of absolute value of  $27.98$  is critical z of 1.980. The  $P = 0.000$  is  $0.05$  so I can reject  $H_0$ . So the beta coefficient of mtb is analytically important and can be utilized to explicate EVA.

#### 4. CONCLUSION

The present research aimed to examine the company governance practices on the continuation of the corporate performance with

EAV of the registered companies in Malaysia. The reason why companies in Bursa MY were selected is that they have means and inspiration to utilize the opportunities for fulfilling virtuous company rules and mechanisms. The statistical findings proved that there was a correlation amongst corporate governance mechanisms and performance persistence, as measured by approximate  $EVA_{t+1}$ . The Wald test and P values as well as adjusted  $R^2$  provided supportive statistical evidence of a relationship amongst corporate governance and approximate  $EVA_{t+1}$ . Nonetheless, of all the significant corporate governance mechanisms Board meeting, woman on board, Supervisory Board, non-dependent director, executive share, Non-independent Directors, foreign ownership are positively related to  $EVA_{t+1}$  but size of the board, NRC, CMSR, board independence are badly related to  $EVA_{t+1}$ . Board meeting, woman on board, Supervisory Board, non-dependent director, executive share, Non-independent Directors, and foreign ownership were measured by corporate governance practices. The understanding from the literature is that the greater the Board meeting, woman on board, Supervisory Board, non-dependent director, executive share, Non-independent Directors, foreign ownership due to minority investors in the decision making process and the performance persistence. This suggests that the market rewards corporations that improve Board meeting, woman on board, Supervisory Board, non-dependent director, executive share, Non-independent Directors, foreign ownership.

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