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*Compliance and Impact of Corporate Governance Best Practice Code
on the Financial Performance of New Zealand Listed Companies*

A thesis presented in partial fulfilment of the requirements for the degree of

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Thesis Title

Compliance and Impact of Corporate Governance Best Practice Code on the Financial Performance of New Zealand Listed Companies

ABSTRACT

The corporate governance best practice code (Code) of the New Zealand Exchange (NZX) came into effect on October 29, 2003. However, so far there is no systematic study of compliance with and impact of NZX Code on the performance of NZX companies. This study attempts to provide some answers to the perceived knowledge gap. The NZX Code recommends certain governance mechanisms to enhance corporate performance. The mechanisms analysed in this study are the percentage of independent directors, duality, presence of board subcommittees (audit, remuneration, and nomination), and the performance evaluation of board and individual directors. This thesis examines the possible relationship between recommended governance structures and the performance of NZX companies for the years 2003 (pre-Code) and 2007 (post Code), using data from the same 89 companies for each year. Although the number of companies adopting the NZX structures has increased, the rate of full compliance of the Code remains disappointingly low, rising from 5.6% in 2003 to just 22.5% in 2007. Probably due to the small sample size relative to the number of independent variables, and the problem of co-linearity, the multiple linear regression results do not seem to be conclusive and may be unreliable as the basis to form any formal statistical inference. However, treating the 89 companies as the whole population (89 out of 90), and using a simpler and more descriptive statistical tool to analyse the impact of individual independent variables on firm performance, the 2007 results show a consistent pattern of a positive relationship between Code compliance and firm performance, assuming all other factors being constant. This positive relationship is further reinforced by dividing the population into the various industry groupings as classified by the NZX, which also results in a consistent pattern of companies which comply fully with the Code structures financially outperforming companies that only partially comply with the Code during 2007. Surprisingly, listed companies adhering to the Chairman/CEO dual role do not seem to have impacted negatively on firm performance, contrary to agency theory expectation.

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