

Global Corporate Governance Practices at Crossroads: Lessons for Fiji

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Abstract

This study examines the nature and efficacy of principle-based corporate governance initiatives in promoting better governance in the listed companies in the South Pacific Stock Exchange. The questions are addressed: (i) whether listed companies in Fiji have complied with the principle-based governance practices, and (ii) did compliance with principle-based recommendations lead to an improvement in the listed company's financial performance? Results show that listed companies have adopted the Capital Market Development Authority's recommendations, and that the recommendations of board sub-committees (Audit and Remuneration) have had positive influence on company performance measured by Tobin's Q and MB. The findings of this study give support to the principle-based corporate governance practices adopted in Fiji

Introduction

Both empirical and anecdotal evidence provide support to the view that good corporate governance practices leads to an improvement in company financial performance. However, the recent global financial crisis of 2007 is similar to the preceding Asian financial crisis of 1997, in that the root cause of the problem again has been attributed to the breakdown of shareholder monitoring and ill conceived managerial incentives (Erkens et al., 2009; Kashyap et al., 2008). Deficient risk management practices, weaknesses in board composition and the failure of non-executive directors and shareholders to effectively monitor and scrutinise decisions of boards are also being highlighted as key areas requiring reform to avoid future failures (Brown & Gladwell, 2009; White, 2005). As

a consequence, the effectiveness of self-regulation has been increasingly questioned by both the academia and as well as markets and regulators (Bianchi et al., 2010). In particular, self-regulatory initiatives on corporate governance have been put under scrutiny so as to assess whether, by favouring the actual adoption of best practices, these principles are really effective in promoting good governance.

The principle-based corporate governance guidelines have been adopted by a number of developed and emerging capital markets with a view to improve investors' confidence. The principle-based corporate governance guidelines are a voluntary recommendation for good governance where listed companies are required to clearly state the reasons for non-compliance. The view prevailing in countries that adopted principle-based guidelines was that a statutory regime similar to the Sarbanes-Oxley Act 2002 would lead to a box-ticking culture that would not allow companies to deviate from the set rule and therefore, would not foster investors trust (Arcot et al., 2009). It was believed that flexibility provided by principle-based approach will minimise compliance costs, given the small size of companies in these countries and as well as, encourage companies to adopt the spirit of the principles/code. It was assumed that comply or explain model would ultimately lead to better governance.

The South Pacific Stock Exchange (hereafter SPSE) adopted principle-based corporate governance code in 2009 with a view to enhance investor participation and confidence in listing in the capital market in Fiji. The SPSE listing rules Section 6.42 states that 'all listed companies are required to comply with the corporate governance code as stipulated under the Reserve Bank of Fiji (hereafter RBF) corporate governance principles and reporting guidelines' (SPSE, 2010a). However, no studies have been undertaken regarding the compliance of listed companies to the corporate governance code in Fiji. Also, little is said about the impact of compliance on a company's financial performance. Whether the listed companies in Fiji that have complied with the corporate governance code have improved financial performance, is an empirical question. If not, then the motivation for the shareholders' to be committed to voluntary recommendations remains questionable.

This study investigates the nature and efficacy of the principal-based corporate governance initiatives in promoting better governance in the listed companies in the South Pacific Stock Exchange in Fiji. Two important questions are addressed: (i) whether listed companies in Fiji have complied with the principal-based recommendations; and (ii) did compliance with principal-based recommendations lead to an improvement in the listed company's financial performance?

Background

The SPSE was established in 1979 as a subsidiary of the Fiji Development Bank and was known as the Suva Stock Exchange. It was renamed South Pacific Stock Exchange (SPSE) in November 2000, largely with the view to provide a common marketplace for companies and organisations in the South Pacific region.¹ The pursuit of an enlarged geographical market has met with little success; ten years later it continues to list solely Fiji-based entities with no representation from any other member nation of the Pacific Islands Forum countries. In 2009, only 16 companies were publicly listed with combined trading volume of only F\$44 million (US\$23 million) and market capitalisation declining by 10.06 percent from F\$1,002 million in 2008 to F\$901 million in 2009 (SPSE, 2010b). The figures for 2010 do not show any encouraging signs of recovery as up to May 2010, the trading volume was approximately F\$900,000 (about US\$400,000).

Different strategies implemented to grow capital market in Fiji has not been successful. In this regard questions regarding stability of the country and regulations protecting shareholder rights, in particular minority shareholder rights, and the quality of corporate governance need to be looked at. Past studies have suggested that strengthening legal institutions may be an essential pre-requisite for financial development and, through it, for stronger economic development (Sharma & Nguyen, 2010). This proposition has been suggested earlier by Asian Development Bank (2001) and Chand (2002). In support Sudhakar (2000) notes that when compared to the powers vested in the courts in Fiji, the courts in Australia have more powers in dealing with the offences relating to the breach of capital market regulations. In Fiji, it is the CMDA which conducts investigations and deals with the offenders, whereas in Australia, the courts seem to have more power to deal with the breaches/offences relating to capital markets. Although Fiji may have securities market regulations, the implementation of those regulations seem to be less visible. This is further supported by Sharma and Nguyen (2010), who report that ‘although shareholders in Fiji enjoy strong legal protection, both existing and potential shareholders do not have a very good knowledge of what these protective measures are.’ This suggests that no court action has been taken to date against perpetrators for breaching securities market regulations to make shareholders aware of the existence of such regulations and whether

these regulations are effective.

In addition, the existence of high percent of blockholding in the SPSE listed companies signal that minority shareholders are expropriated. The SPSE listing requirements allow up to 90% of equities to be held by directors of the company (Mala & White, 2006, 2009) and the listed companies overwhelmingly show a high degree of concentration of ownership with a controlling interest typically in the hands of a single shareholder (Patel, 2002). According to La Porta et al. (2002) the existence of concentrated shareholding is a reflection of weak minority shareholder rights. Shleifer and Vishny (1997) and Gugler (1999) provide empirical evidence that block shareholders do receive private benefits at the expense of minority shareholders. In addition, poor standard of corporate governance practices were akin to a number of private and public sector organisations during the period 1987 to 2000. As Lal and Vakatora (1997) state ‘accountability and principles of good governance were rapidly compromised as expectations of certain sections of the community as well as individuals had been raised; the easiest to meet these expectations and tastes was through cronyism, nepotism, patronage, etc., which became the norm.’ The untoward practices were discovered too late where vast amounts of money were already squandered. Examples of such practices have been of the National Bank of Fiji and some Fijian public sector corporate entities. These cases of poor governance practices, along with the coups of 1987, 2000 and 2006, led to the deterioration of Fiji’s image internationally and created a perception that Fiji is not a safe place for investment. This is not surprising as the Kaufmann et al. (2010) survey of worldwide governance indicators scored Fiji below zero in most of the governance categories. The governance score ranges between -2.5 and 2.5 and scores for Fiji for 2008 and 2009 are as follows: voice and accountability (-0.48, -0.72), political stability (+0.01, -0.22), government and stability (-0.84, -0.96), regulatory quality (-0.67, -0.95), rule of law (-0.55, -0.96) and control of corruption (-0.43, -0.74). In all categories, the governance scores have declined in 2009 compared to scores of 2008. Although these scores are not a direct indicator of the nature of governance practices in the private sector, it does have a negative effect on Fiji’s image internationally and also reflects on Fiji’s investment climate.

Empirical results support the view that the rule of law, control of corruption, regulatory quality, government effectiveness and political stability are strongly correlated with foreign direct investment (FDI). The findings that governance indicators are positively correlated with FDI provide more understanding of improving the achievements in these indicators. Countries striding to attract foreign capital, therefore, need to im-

¹ Includes the Cook Islands, Kiribati, Niue, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

prove and maintain various aspects of good governance as noted here so as to maximize long-run economic welfare, both for the would be foreign and domestic investors as well as the wider market participants (Gani, 2007). To improve market activity and investment climate in Fiji, the administration of the CMDA was transferred in 2009 to the Reserve Bank under the Capital Markets Decree 2009 (Reddy, 2010). In March 2010, the Capital Markets Development Taskforce was established within the Reserve Bank serving as a 'think tank' for the capital markets development. Fiji government has offered to reduce corporate tax of 20 percent to companies listing on SPSE and as well as improve the governance structures of companies (Reddy, 2010).

In June 2008, in line with the international development in corporate governance practices, CMDA in Fiji adopted corporate governance code for the capital markets. The motivation for CMDA to adopt 'comply or explain' policies is based on the perception that companies in Fiji are small, and tailoring corporate governance practices to individual company's circumstances will enable them to lower their compliance costs (CMDA, 2008). It is assumed that this approach will provide a balance between regulation and cost of compliance for Fijian companies (CMDA, 2008). Since principle-based governance approach is voluntary, flexible and non-binding, it will encourage companies in different industries to develop industry-specific corporate governance structures. Companies that are large and have complicated structures will be able to adopt more sophisticated governance structures compared to small size companies. The CMDA states:

These principles do not prescribe a 'one size fits all' approach to corporate governance but aims to set out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance framework. If a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it but the company is required to explain why (2008: 3).

However, it is argued that the 'comply or explain' policies are paradoxical. On one hand, it claims to be voluntary in nature, and on the other, it has been legitimised through incorporation into the SPSE listing requirement that companies are obliged to disclose any deviations from the set principles and guidelines. Furthermore, it emphasises that governance should be tailored for each company's circumstances and on the other hand, it prescribes a uniform set of governance standards (for ex-

ample, separation of chair and CEO positions, at least thirty percent non-executive/independent directors, and board sub-committees) against which all listed companies should report their practices². The prescription of uniform standards implicitly makes the CMDA recommendations compulsory for listed companies and, therefore, will increase their compliance. Also, it does not provide any clarity to the investors' on how to judge what constitutes a good explanation for non-compliance that can be relied upon for decision making. As CMDA do not rank explanations provided by companies for non-compliance, it becomes difficult for the market to decide whether it is a good explanation or not. In absence of clear guidelines, it becomes much harder to determine if any offence is committed and difficult to prosecute, therefore, easier to escape liability. As Farrar (2005) sums up, principles-based corporate governance practices have a lot of roar but no teeth to bite.

Although initiatives undertaken by the CMDA has been welcomed by both the market and investors, there is a lack of evidence of any spectacular phase of growth in either investment or listing activity in the SPSE. The evidence from SPSE suggest that listed companies have complied with the corporate governance code, however no study has been undertaken to date that states: (i) how the companies have complied; and (ii) whether the compliance has improved listing companies' financial performance. If changes in corporate governance practices do not lead to an improvement in shareholder value, it remains questionable whether the shareholders of the listed companies will remain committed to the best practices in corporate governance practices. The next section outlines the theoretical basis for the study.

Theoretical basis

Most studies of corporate governance are largely ethnocentric and predominantly Anglo-American (Sarkar & Sarkar, 2000; Judge et al., 2008). The corporate governance legitimacy is very little studied and has been much less understood in a Fijian context. There have been calls for more research in the international nature of institutional theory (Dacin et al., 2002) and this study is a modest response to that call. Institutional theory posits that social systems and individuals do not only compete for resources but ultimately seek legitimacy (Suchman, 1995). From this per-

² The companies reporting on corporate governance practices in their annual reports will have to explain why they have deviated from the set guidelines. This will put pressure on companies to comply rather than explain to the investors.

spective, one of the keys to understanding social system is to study the forces within the institutional environment that guide or constrain legitimacy seeking. Organisations tend to incorporate norms from their institutional environment so that they can gain legitimacy, resources, stability and enhanced survival prospects (DiMaggio & Powell, 1983).

These organisational behaviours can be described in terms of isomorphism which is shaped by institutional pressures and expectations. Isomorphism is a constraining process that forces one unit in a population to resemble other units that take a similar set of environmental conditions (DiMaggio & Powell, 1983, 1991). Thus, institutional theory demonstrates how organisational behaviours response not only to market pressure but also to institutional pressure (e.g., pressure from general social expectations and the actions of leading organisations).

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

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

We argue that multiple institutions interact to influence the perceived legitimacy of corporate governance practices within a nation. Institutional theory argues that social systems and individuals not only compete for resources but ultimately seek legitimacy (Suchman, 1995). One of the keys to understanding social systems is to study forces within institutional environment that guide or constrain legitimacy seeking.

Judge et al. (2008) argue that corporate governance system makes

sure that corporate power is exercised well and for the good of the society (or the societies) in which corporations operate. One of the functions of institutions is to constrain and standardise social behaviour through regulative mechanisms. Therefore, regulative institutions set rules, monitor compliance, sanction certain activities and punish others. Force, fear and expedience are central elements of the regulative pillar (Scott, 1995).

DiMaggio and Powell (1983, 1991) argue that organizations have to appear legitimate to their broader constituencies and stakeholders in order to secure the resources they need for continued survival. To gain this legitimacy, organizations have to be seen to conform to what is expected of them (DiMaggio & Powell, 1983, 1991; Lounsbury, 2008).

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

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

Research Method

Empirical studies conducted overseas have looked at the effects that corporate governance practices have on company financial performance measured by Tobin's Q. However, these studies have not included mechanisms, such as board sub-committees (audit, remuneration and nomination), and dividends which if included, may influence the results. Therefore, this study broadens the scope of previous studies by including

a wider set of mechanisms in governance research. In addition, this study also addresses the issue concerning whether compliance with CMDA recommendations leads to an improved company financial performance.

The small size of Fiji's economy enables a comprehensive review of the listed companies' corporate governance procedures. The SPSE, being the only *bourse* in Fiji, acts as the data source for this study. Annual reports for the sixteen companies from 2007 to 2009 and ten companies in 2010 were drawn from SPSE website. SPSE annual report was also collected for 2007 to 2009. In addition, qualitative data was also gathered through interviews with the SPSE CEO and other staff between 2007 and 2008 over corporate governance issues. The use of multiple data sources allow a more comprehensive and valid portrayal of the phenomena compared to a single source of data (Jick, 1979; Modell, 2005). The interviews lasted between an hour and two. The topics selected for interviews were mainly on the corporate governance practices in Fiji's capital market. Most questions were asked in an open-ended manner to encourage interviewees to respond in their own ways. The aim was to generate a rich source of field evidence.

Dependent Variables

Similar to Agrawal and Knoeber (1996), Chung and Pruitt (1994), Hossain et al. (2001), Kang and Stulz (1996), Loderer and Peyer (2002), Perfect and Wiles (1994) and Reddy et al. (2008), we also use futuristic and forward-looking performance measure Tobin's Q as a dependent variable. Tobin's Q is estimated as:

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

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

Demsetz and Villalonga (2001) argue that although the numerator of Tobin's Q partly reflects value that investors assign to a company's intangible assets, the denominator of Tobin's Q does not include investment that companies have made in intangible assets, such as advertisement and research and development. These items are simply treated as expenses. This distorts performance comparison of companies that rely on the dif-

fering degrees of intangible capital (see Demsetz, 1979; Telser, 1969; Weiss, 1969). To overcome this problem recent studies have used depreciated book value of tangible assets. Tobin's Q is estimated in the same way for this study as well.

Some researchers have also used accounting-based performance measure return on assets (Demsetz & Villalonga, 2001; Finch & Shivadasani, 2006; Thomsen et al., 2006). However, Demsetz and Villalonga (2001) argue that both performance measures have pitfalls. The accounting-based profit measure is criticised as being backward-looking and only partially estimating future events in the form of depreciation and amortization. Considering the above concerns and to have alternative results, the accounting-based performance measure return of assets (ROA) is also used in this study.

The ratio of market value to book value of assets (MB) is also used in this research, which is measured as follows:

$$MB = \frac{\text{Stock Price} * \text{No. of Shares}}{\text{Total Equity (TE)}}$$

where TE is equal to net assets, that is, assets less debt (TE=Assets-Liabilities).

Independent Variables

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

- Managerial ownership (MOWN) is the proportion of shares held by all members of the board of directors including top officers of the company who are members of the board divided by total ordinary shares outstanding.
- Blockholding (BLKOWN) is the proportion of shares held by the 20 largest shareholders of the company.
- Non-Executive/Independent Directors (NED) is the proportion of the non-executive/independent directors on the board.

Although board independence is regarded as an important element in good governance, there is a general lack of consensus in terms of what constitutes 'independent'. The annual reports of listed companies have not explicitly identified directors as either 'executive' and 'non-executive' directors, and have disclosed very little information regarding the directors to external stakeholders. This leads to inconsistencies in interpreting the definition of independence. The general lack of disclosure of such information by companies in their annual reports and in other

forms of corporate communication means these inconsistencies cannot be corrected retrospectively. Empirical studies examining director independence also find it difficult to compare one company's definition of director independence to another company. Some previous researchers have avoided the word 'independence' by using 'outside directors' to describe directors who are presumed to be independent from management (Ajinkya et al., 2005; Hossain et al., 2001), or simply consider potential differences between 'non-executive' and 'executive' directors. Other studies acknowledge a director's independence when he/she is independent from senior management of the company (Anderson et al., 2004; Dulewicz & Herbert, 2004; Hooghiemstra & van Manen, 2004). Notwithstanding the lack of consensus on the definition of outside or independent directors, it is still perhaps the most 'recommended' practice of good corporate governance that corporations should, in an effort to enhance the effectiveness of the board, constitute a board with a majority of outside directors. The publication of the CMDA principles and guidelines clarifies what constitutes an independent director. Consequently, there will be some consistency in the reporting of independent directors after 2004. Due to inconsistencies in reporting, a director may have been reported to be independent but is not and a director may have not been reported to be independent, but in fact is. To reduce the effect of any bias arising from the inconsistent reporting of independent directors, non-executive/independent directors (NED) are used, that is, directors that are reported to be either non-executive and/or independent.

- The board size (BDS) is the natural log of the total number of directors on the board.
- Leverage (LEV) is the proportion of the debt defined as long term liabilities plus short-term liabilities divided by total assets.
- Company size (Log (TA)) is the natural log of total assets which is a proxy for size.
- Dividend (DIV2TA) is the dollar amount of the dividend paid by the company divided by book value of the total assets.
- The CMDA recommends that publicly listed companies should establish board sub-committees, that is, an audit committee, a remuneration committee and a nomination committee. To study the effect these committees have on companies' financial performance, three dummy variables are created. The Audit Committee (ACOM) is the dummy variable set equal to 1 if companies have an audit committee; otherwise it is set equal to 0. A Remuneration committee (RCOM) is the dummy variable set

equal to 1 if companies have a remuneration committee; otherwise it is set equal to 0.

- Company level risk (FMRISK) is the standard deviation of the quarterly stock price for the period 2008 through to 2010.
- To study the effect of the growth/decline of the Fijian economy have had on company financial performance, a variable RGDP is created. RGDP is the yearly real growth rate.
- In practice, each company has different corporate governance structures and those structures are assumed to be similar for companies that are in the same industry. Previous studies have looked at the industry effect on company's financial performance. To study the effect corporate governance practices of different industries have on financial performance, four industry dummy variables are created. SPSE listed companies are divided into four sectors, viz, goods (food, textile & apparel, intermediate & durables), property, service (transport, port, leisure & tourism, media & communication, finance & other services), and investment. Therefore four industry dummy variables are introduced. IND1 is the dummy variable equal to 1 if the company belongs to goods industry, otherwise equal to 0. IND2 is the dummy variable equal to 1 if the company belongs to property industry, otherwise equal to 0. IND3 is the dummy variable equal to 1 if the company belongs to service industry, otherwise equal to 0. IND4 is the dummy variable equal to 1 if the company belongs to investment industry, otherwise equal to 0.

Model Specification

Most of the literature uses univariate or multivariate regression analysis to test the relationship between corporate governance factors and company financial performance. These studies consider ownership as an exogenous variable. Based on prior studies, an ordinary least squares regression (OLS), allowing ownership to have a simple linear relationship to establish if governance and control mechanisms have an effect on firm financial performance is employed. The models estimated are:

$$\begin{aligned}
 FP = & \alpha_1 + \beta_{11}MOWN + \beta_{12}BLKOWN + \beta_{13}NED + \beta_{14}BDS + \beta_{15}LEV + \beta_{16}DIV2TA \\
 & + \beta_{17}\text{Log}(TA) + \beta_{18}ACOM + \beta_{19}RCOM + \beta_{20}FMRISK + \beta_{21}IND1 + \beta_{22}IND2 \\
 & + \beta_{23}IND3 + \beta_{24}IND4 + \beta_{25}RGDP + e \quad \text{---(1)}
 \end{aligned}$$

$$\begin{aligned}
 FP = & \alpha_2 + \beta_{21}MOWN + \beta_{22}BLKOWN + \beta_{23}NED + \beta_{24}BDS + \beta_{25}LEV + \beta_{26}DIV2TA \\
 & + \beta_{27}\text{Log}(TA) + \beta_{28}ACOM + \beta_{29}RCOM + \beta_{30}FMRISK + \beta_{31}IND1 \\
 & + \beta_{32}IND2 + \beta_{33}IND3 + \beta_{34}IND4 + \beta_{35}LESS20 + \beta_{36}OVER20 + e \quad \text{---(2)}
 \end{aligned}$$

Equation (1) determines the relationship between financial performance and governance mechanisms of companies that were in compliance with CMDA recommendations since 2008. This is undertaken for the three company financial performance measures. Equation (2) estimates whether a piecewise linear relationship exists between managerial ownership and company financial performance. This is undertaken for MOWN less than 20 percent and over 20 percent. Dummy variable LESS20 is equal to 1 if MOWN is less than 20 percent otherwise equal to 0. Dummy variable OVER20 is equal to 1 if MOWN is over 20 percent otherwise equal to 0.

Empirical Results

Descriptive statistics

Table 1 provides a summary of the sample descriptive statistics for the panel data. The mean Tobin's Q ratio is 1.03, with a median of 1.09. A Tobin's Q ratio greater than one is favourable, indicating the company did create value for the shareholders. The mean MB is 1.87 and median is 1.84 indicating that market value of companies' shares are more than its book value. The mean of ROA ratio is 2% with a median of 6% indicating that companies on average have positive performance. All financial performance measures are positive. The mean proportion of managerial ownership (MOWN) is 18% but the median is only 1%, indicating that in majority of the listed companies managerial ownership is close to zero. The 25th percentile is 0% and 75th percentile is 69%. This indicate that in some companies managerial ownership is very high which may be a reflection of the trend towards linking managerial remuneration with the company's financial performance.

Table 1: Sample descriptive statistics for selected variables

Variable	Mean	Median	Min	Max	Inter-quartile range
Q-ratio	1.03	1.09	0.07	2.01	0.26 – 1.81
MB	1.87	1.84	-0.17	4.06	0.53 – 3.61
ROA	0.02	0.06	-1.25	0.25	-0.09 – 0.15
MOWN	0.18	0.00	0.00	0.70	0.00 – 0.69
LOWN	0.45	0.45	0.01	0.90	0.14 – 0.75
BLKOWN	4.50	4.56	3.42	5.71	3.59 – 5.52
NED	0.22	0.00	0.0	2	0 – 1
BDS	5.68	5	3	9	4 – 8
FD	0.15	0.00	0.00	2	0 – 1
LEV	0.40	0.36	0.04	1.44	0.13 – 0.68
DIV2TA	0.04	0.03	0.00	0.12	0.00 – 0.10
Log(TA)	4.50	4.56	3.42	5.71	3.59 – 5.52
FMRISK	0.23	0.07	0.00	1.49	0.0 – 1.05
ACOM	0.76	1.00	0	1	
RCOM	0.24	1.00	0	1	
NCOM	0.00	0.00	0	0	

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

The mean (median) proportion of stock held by the 20 largest shareholders (BOWN) is 92% (95%). The inter-quartile range for BOWN is 82%-99%. In comparison basis, block holding in New Zealand is 76.3%

(Reddy et al., 2010). In the US, the non-controlling shareholders hold 80 per cent of the shares and in the UK, the figure is around 90 percent for the top 20 companies (Kapopoulos & Lazaretou, 2007). In Fiji, the non-controlling shareholders hold a dismal proportion. This indicates that in Fiji there is a need to have a strong protection of minority shareholder rights to safeguard their interest which may in turn increase liquidity in the stock market. In summary, there is evidence that insiders own large proportions of companies and blockholding is relatively high. This suggests managerial ownership is not a strong mechanism itself to deal with agency problems in Fiji listed companies.

The mean (median) proportion of non-executive/independent directors is 4% (0%) with an inter-quartile range of 0%-20%. The typical (median) board has 5.68 directors with a narrow inter-quartile range of four to eight members. The board size in Fiji is similar to the New Zealand where Fox (1996) notes that board size declined in from 7 members in 1970 to 6 members in 1983. On average, 76% of the companies have an Audit Committee and 24% have a Remuneration Committee. None of the companies have reported having a nomination committee in their annual reports. It is also to be noted that not all companies reported having board committees nor any explanation was provided in the annual reports for not providing such information.

The mean (median) dividend to total assets is 4% (3%) and inter-quartile range of 0%-10%, indicating that dividend payout is not high. This may be attributable to the fact that these listed companies are retaining high proportion of the profits for investments purposes as the small nature of capital market makes it difficult to raise capital otherwise.

The mean (median) leverage is 40% (36%). This shows that companies are not highly leveraged, thus supporting the view that companies use retained earnings as a source of funds for investments. The mean (median) Log(TA) is 4.50 (4.56).

The mean (median) firm level risk is 0.23 (0.07) and the inter-quartile range of 0.00-1.05. On average, 49% of the companies in the sample belong to goods industry, 2% property, 32% service and 17% investment. This provides an opportunity to study the differences in the corporate governance practices in different industries.

Correlation Analysis

Table 2, presents a pair-wise correlation matrix for independent variables. Governance variables are not highly correlated with each other. There is a positive correlation between BLKOWN and MOWN and also

between LOWN and MOWN, indicating block owners tends to be insiders of the company. BDS is negatively correlated with MOWN, BLKOWN and LOWN, indicating larger board size which is associated with low level of managerial, block and also the proportion of shares held by a single large owner. On the other hand, NED is positively associated with MOWN, indicating managerial ownership is in companies that also have independent directors on boards. FD is positively correlated with BDS, indicating large boards tend to have female board members. Company size is positively correlated with BOWN, LOWN, BDS, FD and ACOM. The highest correlation of the independent variables is between Log(TA) and BDS at -0.57 and between FD and BDS at -0.53. The other high correlations are between BDS and LOWN at 0.43, FMRISK and RCOM at 0.40, and between FMRISK and ACOM at 0.40. None of the pair-wise correlations between independent variables are above 0.57, indicating that the likelihood of multicollinearity issues arising in the OLS regressions is low.

Table 2: Correlation matrix for independent variables

	MOWN	BLK OWN	LOWN	BDS	NED	FD	ACOM	RCOM	LEV	DIV2TA	Log(TA)	FM RISK
MOWN	-											
BLK OWN	0.104 (0.578)	-										
LOWN	0.052 (0.747)	0.315** (0.045)	-									
BDS	-0.282 [†] (0.074)	-0.153 (0.340)	-0.425** (0.006)	-								
NED	0.265 [†] (0.094)	-0.196 (0.220)	-0.071 (0.6610)	-0.170 (0.287)	-							
FD	-0.160 (0.316)	-0.084 (0.600)	-0.231 (0.147)	0.529*** (0.000)	-0.132 (0.412)	-						
ACOM	0.019 (0.905)	-0.181 (0.258)	-0.032 (0.844)	0.103 (0.521)	0.209 (0.190)	0.203 (0.203)	-					
RCOM	-0.019 (0.805)	0.181 (0.248)	0.032 (0.944)	-0.103 (0.581)	-0.209 (0.203)	-0.203 (0.233)	-0.455 (0.355)	-				
LEV	0.305 [†] (0.053)	0.018 (0.914)	-0.032 (0.842)	0.202 (0.206)	0.005 (0.974)	-0.026 (0.872)	0.147 (0.360)	-0.147 (0.360)	-			
DIV2TA	-0.253 (0.111)	0.112 (0.485)	-0.076 (0.637)	0.079 (0.637)	-0.208 (0.192)	0.246 (0.121)	-0.162 (0.3010)	0.166 (0.301)	-0.122 (0.448)	-		
Log(TA)	-0.251 (0.113)	0.103 (0.522)	0.001 (0.993)	0.568*** (0.000)	-0.179 (0.263)	0.225 (0.158)	0.084 (0.600)	-0.843 (0.602)	0.370** (0.017)	0.085 (0.598)	-	
FM RISK	0.012 (0.941)	0.096 (0.547)	-0.078 (0.627)	-0.033 (0.836)	-0.046 (0.775)	-0.132 (0.410)	-0.402** (0.009)	0.403** (0.009)	-0.156 (0.331)	-0.093 (0.564)	-0.536 (0.137)	-

*** Correlation is significant at the 0.001 level (2-tailed) **Correlation is significant at the 0.01 level (2-tailed); †Correlation is significant at the 0.05 level (2-tailed)

OLS Regression Dependent and Independent variables

Table 3 presents the OLS regression of equation 1. Column 2, 4 and 6 of Table 3 provide coefficients of independent variables that are used in equation 1. Table 3, column 2 provides coefficients of the independent variables using Tobin's Q as a dependent variable. The independent variables ACOM and RCOM have positive coefficients, indicating that these variables have a positive effect on firms' financial performance measured by Tobin's Q. Both these variables are statistically significant at 5% level. This evidence supports the view that both audit and remuneration committee are providing monitoring of managers' performance which has a positive effect on performance measured by Tobin's Q. DIV2TA also have a positive effect on performance measured by Tobin's Q, indicating that the payment of dividend is regarded by the market to be a better utilisation of firm's cash flows.

Both managerial ownership (MOWN) and largest owner (LOWN) have negative coefficients and are statistically significant at 1% level. This indicates that the ownership is not at optimal level in the companies.

Board independence (NED) and female directors on boards (FD) both have negative coefficient and are statistically significant at 1% level. This result indicates that neither board independence nor female board members are adding value to the company. It was difficult to establish whether board members were independent from limited information provided in the companies' annual reports. However, for companies we could establish the nature of board independence, the results do indicate that both board independence and female directors have a negative effect of Tobin's Q.

A negative coefficient of Log(TA), which is statistically significant at 5% level, indicates that size has a negative effect on Tobin's Q. This raises questions about the size of firms in Fiji as to whether it has been increased to derive personal benefits for the managers. The coefficients of all the industry dummy variables are positive and statistically significant at 1% level. This indicates that governance practices in these industries contribute positively towards Tobin's Q. The coefficient of the RGDP (real annual GDP) is negative and statistically significant at 5% level indicating that the Fijian economy during the period contributed negatively towards Tobin's Q. This is not surprising as after each coup Fijian economy declined considerably.

Table 3: OLS Regression of Tobin's Q, MB and ROA on Governance and Control variables (Equation 1)

Independent Variable	Q		MB		ROA	
	Coefficient	SE ¹	Coefficient	SE ¹	Coefficient	SE ¹
Constant	2.48++ (2.76)	0.99	2.34 (1.58)	1.48	0.17 (0.79)	0.210
MOWN	-0.18*** (-3.42)	0.05	-2.12*** (-5.89)	0.36	-0.41*** (-3.24)	0.127
LOWN	-0.63*** (-3.40)	0.19	-1.11*** (-8.63)	0.13	-0.20++ (-2.28)	0.089
BLKOWN	0.13 (0.30)	0.42	0.54 (1.60)	0.34	-0.27 (-1.61)	0.166
BDS	-0.22 (-0.18)	1.22	-1.50 (-0.49)	1.57	-0.46++ (-2.32)	0.199
NED	-1.80*** (-3.24)	0.56	-3.70*** (-10.46)	0.34	-0.16 (-0.30)	0.424
FD	-4.34*** (-2.42)	1.81	-7.66† (-1.85)	4.14	-0.13 (-0.30)	0.424
ACOM	2.48++ (2.31)	1.07	2.57+ (1.75)	1.46	0.19 (0.71)	0.273
RCOM	2.38++ (02.76)	0.88	2.47+ (1.75)	1.58	0.17 (0.79)	0.207
LEV	-0.28 (-0.88)	0.32	-0.67*** (-3.50)	0.19	-0.76*** (-3.87)	0.200
DIV2TA	3.89++ (2.46)	1.58	11.65*** (2.80)	4.16	2.87*** (3.80)	0.753
Log(TA)	-0.23++ (-2.75)	0.083	-0.05 (-0.51)	0.10	0.13*** (6.56)	0.020
FMRISK	-0.20 (-0.97)	0.21	0.08 (0.31)	0.27	-0.52 (-1.25)	0.417
Dep2TA	-0.72 (-0.53)	1.36	-4.95++ (-2.64)	1.87	0.39 (0.52)	0.745
Int2TA	4.52++ (2.69)	1.68	7.84*** (6.67)	1.17	0.08*** (3.14)	0.025
RGDP	-12.59++ (-2.31)	5.31	-8.95++ (2.59)	3.46	2.64*** (4.47)	0.591
Industry Dummy	Yes		Yes		Yes	
F Stats (p value)	17.20 (0.000)		91.25 (0.000)		136.02 (0.000)	
R2 (Adj. R2)	0.94 (0.88)		0.98 (0.97)		0.99 (0.98)	
N	41		41		41	

1: SE = Standard error after adjusted for clustering. *** Significance at the 0.001 level (2-tailed), ** Significant at the 0.01 level (2-tailed), † Significant at the 0.05 level (2-tailed)

Table 3, column 3 provides coefficients of independent variables for equation 1 using MB as a dependent variable. The results are very similar to column 2 apart from LEV that has a negative coefficient and is statistically significant at 1% level. This shows that leverage contributes negatively towards firm financial performance measured by MB. This could be that faced with poor economic climate companies were not able to capitalise on borrowing. The other statistically significant results are for ACOM, RCOM and DIV2TA, each having positive coefficients. The results indicate that board sub-committees and dividends payouts contribute positively towards firm performance measured by MB. Firm size (log (TA)) also has a negative coefficient. This confirms earlier findings that size is not optimal for listed companies in Fiji. The coefficient of the RGDP (real annual GDP) is negative and is also statistically significant at 5% level.

Table 3, column 4 provides coefficients of independent variables for equation 1 using ROA as a dependent variable. The results are similar to columns 2 and 3. The coefficient of DIV2TA is positive and statistically significant at 1% level. However, coefficient of LEV is negative and is statistically significant at 5% level. The coefficients for both MOWN and LOWN are negative and statistically significant at 1% and 5%, respectively. This confirms earlier findings of Tobin's Q and MB as dependent variables that ownership is not at the optimal level for the listed companies in Fiji.

OLS Regression with Dependent and Ownership, Governance and Control Variables

In Table 3, variable MOWN has a negative coefficient and studies undertaken in the US, UK and New Zealand (see Hossain et al., 2001; McConnell & Servaes, 1990; Morck et al., 1988) suggest that lower level of insider ownership may be more suitable to listed companies. Based on this reasoning, we have tested whether managerial ownership less than 20% and over 20% are statistically significant. Table 4 presents the OLS regression of equation 2. Column 2, 4 and 6 of Table 4 provide coefficients of independent variables that are used in equation 2. Table 4, columns 2, 4 and 6 provides coefficients of the independent variables using Tobin's Q, MB and ROA as a dependent variables. The independent variable MOWN has a negative coefficient, indicating that insider ownership is too high and has a negative effect on firms' financial performance measured by Tobin's Q, MB and ROA.

Table 4: OLS Regression of Tobin's Q, MB and ROA on Ownership, Governance and Control variables (Equation 2)

Independent Variable	Q		MB		ROA	
	Coefficient	SE ¹	Coefficient	SE ¹	Coefficient	SE ¹
Constant	1.14 (1.15)	0.98	0.21 (0.25)	0.84	0.38 (0.99)	0.40
MOWN	-0.65++ (-2.10)	0.31	-3.75*** (-8.37)	0.43	-0.40+++† (-2.22)	0.14
Less20	0.63*** (3.220)	0.196	2.08*** (4.28)	0.49	0.03† (2.28)	0.02
Over20	-0.05 (-0.35)	0.20	-0.24 (-0.95)	0.26	-0.01 (0.18)	0.06
LOWN	-1.40*** (-5.69)	0.25	-0.62† (-1.82)	0.34	-0.07 (-1.31)	0.05
BLKOWN	-0.26† (-2.31)	0.11	-2.06++ (-3.64)	0.56	-0.36† (-1.97)	0.18
BDS	0.44 (0.33)	1.35	-1.03 (-0.74)	1.39	-0.65** (-2.24)	0.29
NED	0.18† (1.74)	0.10	-0.41 (-0.44)	0.93	-0.32 (-1.06)	0.30
FD	-2.44† (-1.68)	1.45	-3.26 (-1.39)	2.35	-0.03 (-0.28)	0.11
ACOM	0.98 (0.94)	1.04	0.14 (0.20)	0.68	0.44 (0.99)	0.45
RCOM	1.13 (1.15)	0.98	0.21 (0.25)	0.84	0.38 (0.90)	0.42
LEV	0.38† (1.87)	0.21	-0.32† (-1.940)	0.16	-0.75*** (-4.28)	0.16
DIV2TA	4.23*** (3.47)	1.22	10.96*** (10.10)	1.08	2.52*** (5.29)	0.48
Log(TA)	-0.28*** (-7.09)	0.04	-0.17† (-1.76)	0.10	0.14 (0.21)	0.62
FMRISK	-0.21++ (-2.51)	0.08	0.18++ (2.69)	0.07	0.07*** (11.87)	0.01
Dep2TA	4.23*** (3.47)	1.22	-11.24++ (-2.22)	5.07	-1.73++ (-2.52)	0.69
Int2TA	3.86*** (6.92)	0.56	5.46*** (11.53)	0.47	0.13 (0.21)	0.62
RGDP	-6.51*** (-5.56)	1.17	5.78 (0.94)	6.12	-0.32 (-0.11)	2.89
Ind. dummy	Yes		Yes		Yes	
F Stats (p value)	3.47 (0.003)		6.67 (0.000)		5.84 (0.000)	
R2 (Adj. R2)	0.76 (0.54)		0.86 (0.73)		0.84 (0.70)	
N	41		41		41	

1: SE = Standard error after adjusted for clustering. ***Significance at the 0.001 level (2-tailed), **Significant at the 0.01 level (2-tailed), †Significant at the 0.05 level (2-tailed)

This is not surprising as the coefficient of the variable LOWN (proportion of shares held by the largest owner) and block owners (BLKOWN) both have negative coefficient which is statistically significant at 1% and 10% respectively. This evidence suggests that largest owner and the block owner may be the original owner that started the business; such owners are holding a high proportion of the shares after going public. However, the variable Less20 indicates that insiders owning less than 20% is seen to be contributing positively towards firms' financial performance measured by Tobin's Q, MB and ROA. The variable over20 is not statistically significant. Other results in column 2, 4 and 6 are similar to that reported in Table 3.

Having discussed OLS regression with dependent and ownership governance and control variables, the next section outlines the main findings and implications of this study.

Main Findings and Implications

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

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

The results have implications for academics who want to extend the research on corporate governance to other non-listed companies in Fiji and other Pacific Island states. The results inform Fijian managers, regulators and policy analysts who are seeking to evaluate the success of past reforms and determine path to further enhance both governance and performance. The next section discusses the results and examines the role of

Asian Development Bank and South Pacific Stock Exchange in corporate governance practices in Fiji.

Discussion

This section examines the role of the Asian Development Bank in Fiji's capital market and the part SPSE plays in terms of formulating and implementing policies relating to good corporate governance practices. This section also presents analysis of the qualitative information gathered through interviews.

Role of Asian Development Bank

The Asian Development Bank (ADB) is a major donor agency for Fiji; Fiji received F\$326.6 million in loans since joining ADB in 1970 (Asian Development Bank, 2001). ADB recommended to the Fiji government to support establishment of CMDA whose functions have been transferred to the Reserve Bank of Fiji. ADB findings revealed that there was a limited range of savings and investment instruments available to the public and a corresponding lack of financing mechanisms available to support private sector investment. The ADB report (1996) reflected that there is a high liquidity and intermediate margins in the banking system, but low levels of capital investment in the economy. Following ADB's recommendations, since 1996 Fiji provided tax incentives to encourage companies to list on the Stock Exchange and exempted dividend incomes from taxes for local residents.

The ADB report identified the operation and functioning of a capital market as a central means of enabling the government to effectively carry out its privatisation program and introduce domestic private sector shareholding in conjunction with foreign investors in the privatisation of several enterprises. However, an interview with a senior manager at SPSE revealed that there is absence of overseas investors to participate in the local market. Political uncertainty after the 2006 military coup forced the Reserve Bank to tighten monetary policy, thus making it difficult for overseas investors to remit funds overseas. Overseas investors require a local bank account to have sales transactions proceeds deposited into their account. But overseas investors' find it difficult to open a local bank account as the local commercial banks need formal documentation such as local address of account holder, phone bills, local drivers licence, and occupation in Fiji amongst other things to enable a bank account to be opened. However, some overseas investors have kept their accounts in a

Trust by a local broker, Kontiki Capital Limited. The efforts to increase international investor participation in the local market has been difficult as tight monetary policy somewhat inhibits despite interest shown by overseas investors in Fiji's capital market.

Most of the investments in listed companies are held by company directors themselves and institutional shareholders. Interview evidence suggests that very few individuals participate in the stock market and even those who do so are mainly business people. To promote greater public participation, the SPSE has been holding multiple workshops in various centres in the country, although the turnout at such workshops has not been so encouraging. Attempts to get more indigenous Fijian shareholders participation were done through radio and television advertisements. For example, prominent Fijian figures were used on television who spoke in I'Taukei language about the importance of their participation in the capital market and the benefit reaped through capital growth and dividend payment. One such example was the use of the previous Vice Chancellor of the University of the South Pacific and former Reserve Bank governor, Mr Savenaca Siwatibau. Also the South Pacific Stock Exchange had some impact by running workshops at indigenous provincial council levels.

The ADB has provided instrumental support for the development of capital markets in Fiji. The technical assistance from ADB in 1996 met the cost of a senior advisor who provided technical advice to the locally recruited chief executive of CMDA for a period of 16 months. ADB also provided CMDA to secure the input of up to four short-term international technical advisers for a total input of up to four months (Asian Development Bank, 1996). The total cost of technical assistance by ADB was US\$630,000 (ADB, 1996: 5). Individual consultants were internationally recruited for the technical assistance.

Role of SPSE in Corporate Governance

SPSE requires listed companies to submit six monthly reports on a timely basis and to comply with listing rules. Companies have to disclose immediate announcement of any information which may include takeover, reduction in earnings or anything else that may have some impact on the business. Annual reports must be prepared in line with the Fiji Institute of Accountants requirement. The first six monthly interim reports need to be audited as well as the final report.

In terms of shareholder disclosure, SPSE requires make up of shareholders to be reported such as 0-500, 501-1000, etc. Any direct or indirect

involvement of the board of directors has to be disclosed. This may be in terms of directors' ownership of shares. Normal business performance reporting is needed. If a company, for example, underperforms, then the reasons why it has underperformed needs to be disclosed as well.

Companies are required to follow stringent reporting requirements.. Despite all the rules, evidence shows that companies are still very reluctant to report any bad news. An interviewee at SPSE noted that all the information they get are disclosed to the market. Companies are encouraged to come up with all the information. Another manager at SPSE noted that normally companies are upfront when it comes to good news but not so with the bad news.

An accountant with SPSE expressed some scepticism of capital market. According to the accountant, people seemed to be still uninformed of capital markets. He also noted that relatively low proportion of the shares is in public hands. *Since* banks are tightening interest rates, investments in banks tends to be less viable in terms of return on investment. However, people are still choosing to invest in banks; this is one of the challenges faced in the development of the capital markets. According to the CEO of SPSE, there appears to be excess liquidity in the economy, and in banks. However, people are unaware of the alternative investment opportunities, which is one of the toughest challenges faced by SPSE.

For the annual reports, companies have to follow sections 6.30 and 6.31 of the listing requirements. Section 6.30 of the listing rule states: "A company must send one copy to each shareholder and eight copies to the SPSE, its annual report as soon as the report is available or no later than four months after the end of annual accounting period" (p.21).

Further section 6.31 specifies the content of annual report such as the audited financial statements have been prepared and presented in accordance with the accounting standards in force in Fiji; a statement by the chairman, discussing the outlook for the company and any developments that might be expected in the industry in the next twelve months, supplementary information which in the opinion of the Directors is necessary for a reasonable appreciation of results amongst others.

Analysis

This study explained the nature and efficacy of corporate governance practices of the companies in the SPSE. Whether the listed companies in Fiji that have complied with the corporate governance code have improved financial performance remains an empirical question. In Fiji, the non-controlling shareholders hold a very small proportion of share-

holding in listed companies. There may be a need to have rigorous protection of minority shareholders' rights to safeguard their interests which may in turn increase liquidity in the stock market. There is evidence that insiders own large proportion of the company and blockholding is relatively high.

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

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

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

Conclusion

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

For our knowledge, this is an initial systematic study of institutional theory applied to corporate governance legitimacy study in Fiji. To date, no study has been undertaken regarding compliance of listed companies with the corporate governance code in Fiji. Our study intends to extend the literature on corporate governance practices in Fiji's financial market. The study is based on corporate governance legitimacy.

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

Future research examining corporate governance may like to examine how other cognitive institutions such as ADB membership might influence corporate governance structure and practices. Such research could also be aimed at exploring corporate governance initiatives in non-listed companies in Fiji or extending the study to cover other parts of the Pacific Islands region. The study offers insights for policy makers interested in stock exchange listing requirements / regulatory issues. The results inform Fijian managers, regulators and policy analysts who are seeking to evaluate the success of past reforms and determine path to further enhance both governance and performance. Our research also offers some practical insights to executives of multinational firms that are seeking to do business in Fiji.

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