Corporate Governance and Dividend Policy in Southeast Asia
Pre- and Post-Crisis

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Abstract

We trace corporate governance practices in five East Asian countries: Hong Kong, Indonesia, Malaysia, Singapore and Thailand, over the period 1994 to 2003, documenting substantial improvements following the Asian financial crisis. There is some evidence that dividends act as a substitute for other corporate governance mechanisms prior to the crisis, however a strong positive relationship between governance and dividends emerges post-crisis. The relationship is incremental to the effect of legal regime, confirming that shareholder protection at the firm level is important to forcing firms to disgorge cash in an outcome model of dividends.

Key Words: Corporate Governance; Financial Crisis; Dividends; Emerging Markets

JEL Classification: G34, G35, K22

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1 Introduction

Poor corporate governance is often cited as a major cause of the breakdown of several economies during the Asian financial crisis of 1997-98. The period leading up to the crisis was marked by rapid GDP growth, large capital inflows and overextension of credit. The collapse demonstrated that most economies had moved quite far in terms of trade liberalization, but failed to strengthen the needed institutions. Emphasis on macroeconomic fundamentals such as low budget deficits, low inflation, and high GDP growth rates hid weak structures at the microeconomic level. Improper corporate governance practices inconsistent with open economies prevailed with ownership often concentrated in the hands of patriarchs who bound themselves to traditional ‘imperial’ practices. The lack of proper disclosure and auditing exacerbated the exposure of minority shareholders to abuses by controlling families or governments.

Several monitoring and control practices can act as governance mechanisms which protect minority shareholders from expropriation by corporate insiders. Their effectiveness, especially in countries with weak institutions and little protection of property rights, is not well researched or understood. Dividend payout is of particular interest in unraveling the effect of external and internal corporate governance. Several roles for dividend policy have been proposed and tested, including signaling, pre-commitment of cash flows, reputation, and the result of good governance.

This study explores various aspects of corporate governance at both the firm- and the country-level, providing unique insight into effects of the East Asian economic shock of 1997. We document changes in firm-level corporate governance in countries affected to varying degrees: Singapore, Hong Kong, Thailand, Indonesia and Malaysia. The study covers a ten year period, 1994 to 2003, providing a picture of the practices pre- and post-crisis, and enabling a cross-sectional and time series comparison of differences. In addition to documenting changes in governance practices over the period, we specifically investigate dividend payout and its role as a mechanism in protecting minority shareholders.

The results indicate that the Asian financial crisis stimulated substantial firm-level governance improvements in all countries, especially regarding board independence and audit. Dividend policy also changed markedly. Many firms responded to the crisis by cutting dividends. The evidence indicates that pre-crisis dividend payout is negatively related to firm size and governance, suggesting that dividends substitute for other governance mechanisms.. This reverses post-crisis when a significant positive relationship between governance quality and dividend payout emerges, suggesting that improvements in shareholder protection empowered minority shareholders' with the ability to extract cash from corporate insiders. We also find that country-level governance is significantly related to payout, illustrating the importance of legal regime where common-law countries' better protection of investor rights is associated with higher dividends.

An important aspect of our results is that firm-level governance is incremental to legal regime effects. We find that prior to and during the crisis legal regime is related to dividend payout, whereas firm-level governance differences are not significant during that period. Both levels of governance are significant post-crisis, suggesting that improvements in internal governance are important in shaping the nature of investor protection. This result is important in establishing that dividends are an outcome of both legal and internal mechanisms protecting minority shareholders' interests.

The paper proceeds with a discussion in the following section of the literature relevant to the Asian financial crisis and governance theme of our paper with particular focus on dividend policy. Part Three describes the data and methodology, followed by results of the trend / comparative analysis and regression tests of factors influencing dividend policy in section Four. Section Five concludes with an overview of our findings, limitations of the study and suggestions for future research.

2 Background

A variety of definitions have been put forth for corporate governance, stressing for example accountability and shareholder democracy. Apropos to the dividend focus of this paper is Shleifer and Vishny (1997): ". . (governance is) a mechanism that the suppliers of finance use to ensure a proper return from the enterprise". At the firm level, it encompasses several mechanisms that serve to protect shareholders' interests and reduce agency conflicts arising from the separation of ownership and control, such as: board independence, proper audits, nomination and remuneration committees; as well as capital structure and dividend payout policies.

Claessens and Fan (2002) provide a comprehensive picture of corporate governance in Asia, confirming that the lack of protection of minority rights is a major issue, and exacerbated by low transparency, rent-seeking and relationship-based transactions, extensive group structures and risky financial structures. In a series of papers, La Porta, et al. (1997, 1998, 1999, 2000a and 2000b) demonstrate that across countries corporate governance is an important factor in financial market development, firm value and dividends. Vojta (2000) documents a strong correlation between firm performance and good governance and Gompers, et al. (2003) find that stronger shareholder rights are positively related to firm value, profits and sales growth. Gompers, et al. also form portfolios using a governance index and find that a strategy of buying the strongest shareholder rights firms and selling the weakest shareholder rights firms earns abnormal returns of 8.5 percent per year. This is questioned by Core, Gompers, et al. (2005), who argue that the abnormal returns are period specific and/or due to differences in expected returns. They do, however, corroborate that poor governance is associated with poor operating performance. In a study looking at governance and investor protection in emerging markets, Klapper and Love (2004) confirm that better operating performance and valuation are related to better governance in these countries as well.

Many studies report evidence of the role of corporate governance in the Asian Financial Crisis (eg., Stiglitz, 1998; Greenspan, 1999; and Johnson et al., 1999). Johnson, et. al. (2000) provide a direct link between governance and exchange rate and stock market depreciation, showing that governance measures provide a stronger explanation for the currency and equity declines than standard macroeconomic measures. Lemmon and Lins (2003) use a cash flow leverage measure (the ratio of cash flow rights to control rights) to capture the potential for expropriation by insiders and find a positive relation between the cash flow leverage and value erosion during the crisis.

In general terms, financial economists find dividend policy puzzling and even more so in its corporate governance role: are dividends complements to or substitutes for other measures, or perhaps is the relationship more complex? Rozeff (1982) is one of the first to propose a role for dividends in reducing agency-related losses, substituting for other bonding and auditing costs incurred by the firm. He finds that ownership concentration is negatively related to payout, which is consistent with the argument that greater insider concentration results in better monitoring thus reducing the need to pay dividends. Jensen et. al. (1992) corroborate this using a system of equations to capture the simultaneous determination of ownership structures, debt, and dividend policy. Their results show that high insider ownership firms choose lower levels of both debt and dividends. Other agency related roles for dividends include: visibility (Easterbrook, 1984) where firms subject themselves to the scrutiny of capital markets by paying dividends and increasing frequency of capital raising; and committing free cash flows (Jensen, 1986) where dividends (or debt retirement) force managers to operate more efficiently and avoid unprofitable projects.

Ownership concentration has also been shown to be negatively related to dividends in Asia (Faccio, Lang and Young, 2002), however this has been interpreted as a result of agency conflicts, rather than an alignment of interest. In the preceding examples, agency problems are modeled in a traditional shareholder versus manager conflict where dividends act as a monitoring and control mechanism. However, in East Asia an alternative view is more pertinent. In countries where family and state ownership are common, outsiders have cash flow rights but few control rights and need to protect themselves from expropriation by controlling shareholders. As LaPorta et al (2000b) point out, in many countries the real conflict is between outside investors and controlling shareholders who control the managers, a view further supported by their evidence (LaPorta et al, 1999) that management of family controlled firms is dominated by family members. Claessens et al (2002) further show that risk of expropriation is the major principal–agent problem for firms in East Asia as opposed to empire building.

An additional consideration in investigating the agency conflict role of dividends is governance provided by legal mechanisms protecting the interests of minority shareholders, as argued by Shleifer and Vishney (1997). LaPorta et al (2000a) provide an argument for why a legal view yields a better understanding of corporate governance than the conventional bank / market distinction. In another paper they (LaPorta et al, 2000b) posit two agency models of dividends. In the outcome model, minority shareholders with strong shareholder rights force dominant shareholders to hand over cash. As an alternative, they posit a substitute model, where insiders interested in raising future equity pay dividends as a means of establishing trust. In the latter scenario, dividends are expected to vary inversely with the minority shareholder protection. Their results support the former model; firms in countries with better minority shareholder legal protection pay higher dividends. Supporting evidence is provided by Mitton (2004) who uses composite scores of corporate governance for firms in nineteen emerging markets and finds that good governance is associated with higher dividend payout; however this relationship is significant only in countries with good investor protection.

In this paper, we further the investigation of the relationship between corporate governance and dividend payout using a unique time-series, cross-sectional data set for firms in East Asia. The period of study spans 1994 to 2003, providing insight into pre- and post crisis practices and effects. The following section describes the data and methodology of our study.

3 Data and Methodology

3.1 Sample Selection

Five countries are represented in this study: Hong Kong, Indonesia, Malaysia, Singapore and Thailand. The countries in our sample were affected by the Asian financial crisis to varying degrees and differ with respect to corporate culture, national personality and priorities. Data for twenty listed firms of each country cover a ten year period, 1994 - 2003. Firm selection is based on three criteria: 1) the current market capital (USD) of each firm greater than the country median; 2) availability of annual reports from databases, external sources or company's website; 3) financial data on dividend payout ratio, ROI, profit margin, beta, sales, total asset and equity reported in the Thomson One analytical database. Larger companies are chosen as these firms are likely to be of greater interest to investors. In addition, they are more likely to improve their governance after the crisis, given their resources.

3.2 Measuring Corporate Governance

We construct a governance index based on nine criteria which capture various aspects of a firm's structure, policies and practices that constitute good governance practices identified in Table 1.

insert table 1 about here

Appendix A provides details on theoretical and empirical substantiation of the measures as contributors to better corporate governance. A total score for each firm is calculated each year. Each question is constructed in a manner such that the answer 'yes' adds one point to the governance score. Thus, the rating is on a scale of zero to nine, with a higher score indicating better governance. All of the information is from the annual report and a company is deemed not to have followed a practice if the fact is not explicitly stated in the annual report or can be clearly inferred from other information provided in the annual report.

Table 2 provides descriptive statistics of the data by country classified into: pre-crisis (1994-1996), crisis (1997-1998) and post-crisis 1999-2003.

insert table 2 about here

The mean corporate governance scores of the firms in the three periods are 3.08, 3.48 and 5.66 respectively, indicating an improvement of corporate governance over the ten years. Malaysia's 3.85 average is the highest rating in the first period, whereas Thailand's average 2.12, ranking last. From period two, Singapore achieves the top spot 3.98 and Indonesia falls to the lowest rating, where they remain. The average payout ratios fall from 31.4 percent pre-crisis to 27.2 percent post-crisis, changing dramatically for Thailand and Indonesia. These two countries went from having the highest average payout ratios (36.1 and 29.3 respectively) to the lowest average payout ratios (14.3 and 13.8 respectively). Slight payout ratio increases are seen post-crisis for the other countries. Post-crisis profitability and sales growth are lower post-crisis in all counties.

3.3 Model Specification

The following model is used to test the relationship between corporate governance and dividends:

$$\begin{aligned} \textit{Dividend Payout}_{i,t} &= a + b_1(\textit{Gov}_{i,t}) + b_2(\textit{Profi}_{i,t}) + b_3(\textit{Risk}_i) + b_4(\textit{Growth}_{i,t}) \\ &\quad + b_5\,(\textit{Size}_{i,t}) + b_5\,(\textit{Legal}) + b_6\,(\textit{Industry}) + b_7(\textit{Period}) + e_{i,t} \end{aligned} \tag{1}$$

where:

$$\text{Dividend Payout} \quad = \quad \frac{\textit{Dividends (Cash)}}{\textit{Net Income} - \textit{Preferred Dividend}} \times 100 \tag{2}$$

Gov = index score year t determined by measures described in 3.2

Profit = net income year t / average shareholders’ equity

Risk = beta

Growth = percentage change in total assets year t

Size = logarithm of common equity (USD millions) year t-1

Legal = binary variable to distinguish between common and civil law regime

Industry = binary variable to distinguish between industries

Period = binary variable partitioning the ten years into pre (1994-1996), crisis (1997-1998) and post (1999-2003) periods.

Pearson correlation coefficients (not reported) indicate a low to moderate degree of correlation between the independent variables. Robustness checks include use of alternative measures of profitability (profit margin and ROA), risk (standard deviation of earnings and sales), growth (percentage change in total assets) and size (log of total assets). The results of the regressions are similar to the original test.

4 Results

4.1 Trend Analysis

Country level governance scores are calculated by adding the firm level scores. The maximum score for each country annually is 180 points (each firm can have a maximum score of 9 points and there are 20 firms in each country). A summary of the overall corporate governance scores is depicted in Chart 1 and the scores for the individual proxies are provided in Appendix B.

insert chart 1 about here

The general level of governance was relatively poor in the earlier years (1994 to 1997), with all countries having scores below the halfway mark of 90 points. Malaysia led in those three years with scores of 79, 76 and 78. Thailand on the other hand, has the lowest scores of 43, 42 and 48. The differentiating factors were greater board independence and all the firms were using the 'Big Six' auditors.

The financial crisis in 1997 appears to have acted as a 'wake up call' prompting improvements in governance by increasing the independence of the board, switching to 'Big Six' auditors and setting up audit committees. By 1998, Singapore replaced

Malaysia as the leader with 83 points, although Malaysia's score was not far behind at 79. Thailand's governance also improved tremendously from 48 in 1997 to 70 in 1998, leaving Indonesia with the lowest ranking of 60 points.

Governance scores continue to increase for all the countries after the crisis. Indonesia remains in last place, only surpassing the halfway mark in 2002 with a score of 108. Thailand rose from last position in 1997 to become the leader for two consecutive years, 1999 and 2000, being the first country to break the 100 points barrier. This is likely due to the rapid restructuring of the economy and governmental emphasis on governance improvements after the crisis. In 2002, Singapore took top spot, scoring 154 out of the total 180 points advancing further in 2003 to 162 points.

In later years, the driving factors are no longer the existence of audit committees and having 'Big Six' auditors. Independence of the board remains one of the differentiating factors but of greater importance are the existence of nominating and remuneration committee, the frequency of audit meetings and the expertise of audit members.

Nominating and remuneration committees do not directly affect operations and perhaps explains why some of the firms initially overlooked these aspects. Although the frequency of audit meetings and the expertise of audit committees should be directly related to the existence of audit committees, they are not good proxies of internal control. The lack of information in annual reports on the frequency of meetings and expertise, points to poor disclosure. Hence, the scores for frequency of meeting and expertise of audit committee are significantly lower in countries where disclosure is poor, for example, Indonesia.

At different stages of governance development, different aspects appear to be more important than others. At the initial stage, independence and audit committees may be the basic improvements as they affect operations directly. After that, more subtle aspects of governance will be improved, like setting up of remuneration committee and disclosure.

An interesting trend appears for Hong Kong. The substantial improvements immediately following the crisis stall in 2001, while all the other countries' scores continue to improve. By 2003 it had fallen far behind Singapore, Malaysia and Thailand and is on par with Indonesia.

In general, the evidence is consistent with the belief that governance was an important factor in the crisis as the worst hit countries (Thailand and Indonesia) had the lowest pre-crisis scores. Indonesia's lack of action in improving governance may be a contributing factor in its slow recovery. With the exception of Hong Kong's stalled improvement, the evidence also supports Doidge, Karolyi and Stulz's (2004) model which predicts that the incentives to improve firm-level governance increase with a country's financial and economic development.

4.2 Corporate Governance and Dividend payout

We further investigate changes in governance by focusing on its effect on dividend policy over the decade. Of particular relevance in these tests are the LaPorta et. al. (2000b) "outcome" and "substitute" models of dividends. In the former, dividends are expected to be related positively to governance quality which gives minority shareholders power to force insiders to hand over cash. The latter model predicts a negative relationship where dividends substitute for the lack of other governance mechanisms. Parameter estimates of equation (1) are reported the in Table 3.

insert table 3 about here

The first two columns report results of estimating the model over the entire period. Governance is insignificant when no distinction between pre- and post-crisis is made (column 1), but it is significant and positive when the period controls are added (column 2). Investigating further, we estimate the separate regressions for the pre-crisis (1994 to 1996) and post-crisis (1999 to 2003) periods. The negative governance coefficient in column 3 is consistent with a substitute role for dividends. However when country control variables are added (column 4), governance is insignificant indicating that the relationship does not hold at the firm level. The negative relationship at the country level is driven by the fact that the countries paying the highest dividends prior to the crisis (Indonesia and Thailand) tend to have the lowest governance scores.

The payout patterns reverse post-crisis crisis. Thailand and Indonesia were hit hardest by the capital flight and currency depreciation, and many firms responded by drastically cutting dividend payments. The post-crisis positive governance coefficient in column five is consistent with the poor governance countries now paying lower dividends than the other countries. Column 6 indicates that the positive relationship also holds at the firm level and is consistent with the outcome role of dividends where better governance is associated with higher dividends.

In all tests, beta is negative and highly significant, consistent with Rozeff's (1982) findings of an inverse relationship between dividend payout and beta, confirming that high risk firms need a 'cushion' and pay lower dividends. (Earnings and sales volatility were also used as proxy for risk and we find similar results, not reported here.) ROI is not significant, unlike other studies that find a positive relationship explained by the fact that profitable firms have more cash available for dividends, (Rozeff, 1982; Fama and French, 2001; Mitton, 2004).

The growth coefficient is negative in the pre-crisis period, consistent with the reasoning that high growth firms retain cash for expansion, confirmed in other studies. The positive relationship post-crisis could point to a lack of forward-looking investment opportunities during this period, or the fact that firms with the highest governance scores are good firms with sufficient cash to payout dividends while also adding to their asset base.

The coefficient for size is insignificant when estimated over the entire period. In separate period regressions, however, it is negatively related to payout in the pre-crisis period, indicating that the smaller the firm, the higher the payout. This contradicts the expectation that the greater stability and cash reserves of large firms support a higher dividend level (Fama and French, 2002) and common empirical findings that size and payout are positively related (eg, Mitton, 2004; Rozeff, 1982). In the context of the Thai and Indonesian economic bubble, it may be rationalized by smaller firm's greater susceptibility to the exuberance and optimism of the period, and a willingness to distribute earnings freely. This is also consistent with substitute model which posits that the payment of dividends helps insiders interested in raising equity in the future establish a reputation for decent treatment of minority shareholders. A crucial element of the substitute view is the need for firms to come to the market to raise external funds. Smaller firms with higher levels of expected growth, as well as lower level of reinvested earnings, would have a greater need to 'assure' investors thus leading to a negative relationship between size and payout. The post-crisis size coefficient is positive but insignificant after controlling for country. This is driven by the fact that the largest firms are in the highest dividend paying countries. The results after adding the country controls indicate that countries, the variation does not hold at the firm level.

We continue the investigation by testing the impact of legal regimes on payout ratio. As La Porta et. al. (1999) argue, legal structure is very important to investor protection, which they test with country random effects using dummy variables for legal origin (civil versus common law) and shareholder protection (level of antidirectors rights). Using a similar approach, we use a binary variable to distinguish between civil law (Thailand and Indonesia) and common law (Singapore, Malaysia and Hong Kong) countries in estimating the regression. The results are reported in Table 4.

insert table 4 about here

The governance index is not significant when estimated across the entire period, which contrasts with the pooled regression results in Table 3 where the result turns positive after adding the period dummies. The control for law regime appears to have replaced the explanatory power of the governance index, with a coefficient of 0.115 at significance level of one percent.

Sub-period estimates are reported in columns 3, 4 and 5. As before, beta is negative and significant in all periods. Similar to earlier tests, the negative pre-crisis size coefficient reverses when the crisis hit, and becomes significant post-crisis. The negative relationship between size and payout is not significant pre-crisis with legal regime usurping the size effect. The a negative legal coefficient reverses to positive, consistent with the dividend payout in common law countries higher (lower) post- (pre-) crisis as the descriptive statistics and earlier tests indicate.

The significant, positive post-crisis legal coefficient is consistent with LaPorta et. al's (2000b) findings and lends support to the outcome model of dividends. It is also reflective of the fact that the common law countries were also less affected by the crisis and their recovery was much smoother than countries in the civil law regime.

An important result of these tests is the evidence provided by the governance coefficient. Its relationship to dividend payout pre-crisis is insignificant, however post-crisis it is significant at one percent level with a coefficient of 0.122. This result reinforces the view that governance began to have significant influence on payout only after implementation of good practices. It also indicates that both country-level and firm-level governance are important to dividends paid out to shareholders. Although country-level governance sets the overall tone for the economy, each firm can choose to ignore the prescribed code of governance or even implement additional measures. The significance of both the governance and legal variables confirms that both levels of governance play complementary roles in improving transparency, accountability and protection.

4.3 Limitations and Extensions

The sample firms are the largest market capitalization and of greatest interest to investors. Therefore the results presented may only be applicable to larger, more visible firms and may not be extrapolated to other companies, especially the smaller firms, or in other countries. Given that these firms have survived the crisis unscathed, they might already have a certain degree of governance or proprietary skills in place. This will influence the findings in a few ways and prevent a comprehensive documentation of the development of corporate governance. It also reduces the explanatory power of the variables used in our regression since there is the variation among the firms is limited. The limited sample size of 100 companies also hinders the ability to generalize the results. Further study could expand the data to include a more firms and countries.

All information is collected from the annual reports. Although information from annual reports provides objectivity, the amount of information available is affected by the amount of disclosure in the annual reports. “Disclosure” is another aspect of corporate governance and hence, our results may be directly correlated to the disclosure standards practiced by each firm. Also, the number and kind of variables used in our tests are also limited by the amount of data available in the annual reports.

The scoring system is based on nine variables measuring corporate governance. Although, these variables are widely citied and used as proxies of governance, the ratings may not accurately measure the dynamic nature of corporate governance. In addition, an equal weight is placed on the variables when computing the scores of corporate governance of each firm. Although this helps to reduce subjectivity, the higher emphasis on certain elements of governance may be justified, for example, where a particular aspect of governance is be considered to be a basic component or pre-requisite to implementing others it should be given more weight.

Compliance with a code of governance may not imply that a company is well governed in actual fact. Companies may treat the corporate governance principles as mere paper compliance resulting in a score only manages to capture paper compliance aspects. More depth could help produce more accurate measures, such as conducting surveys and interviews.

The findings indicate that both country and firm level governance are significantly associated with dividend payout, further investigation on the relationship between country level and firm level governance could examine the interaction between them and their influence on firm performance and agency problems, etc. Another investigation could follow Doidge, Karolyi and Stulz (2004) who use firm and country characteristics to explain the variation in governance scores. Other extensions include: looking at firm characteristics in explaining dividend levels and changes; using other proxies for the expropriation problem, and studying simultaneously dividends, valuation and governance.

5 Concluding Remarks

The corporate governance system of any individual country is a result of the interplay of many factors including economic, political, legal, cultural and historical. This study investigates the developments of firm level corporate governance over the period of 1994 – 2003, in five East Asian countries impacted to varying degrees by the Asian Financial Crisis of 1997. We also investigate dividend policy, focusing on the effects of governance and legal regime on payout over the period.

Nine variables belonging to three major categories comprise the index used to trace the changes in corporate governance reflect practices with respect to: board of directors, audit, and remuneration / nomination. The index levels indicate that across all countries, governance was relatively poor from 1994 – 1997. Subsequent to the financial crisis in 1997, good governance practices were adopted and scores rose substantially, with Singapore emerging top and Indonesia falling to last.

Our investigation into dividend policy focuses on the expropriation problem that minority shareholders face in countries with the ownership structure and the separation of control and cash flow rights typical of firms in this study. We find some evidence that dividends substitute for the absence of governance in the pre-crisis period, with firm size negatively related to payout as predicted by the reputation building and capital needs upon which the model is founded. The governance changes prompted by the crisis are accompanied by support for an alternative model in the post-crisis period. We find that governance at the firm level is associated with higher dividends after reforms were instituted, supporting the outcome model and indicating the influence of governance in protecting minority rights by forcing more cash to be returned to investors. Finally, the findings confirm that dividends are higher in common law countries and that within these countries higher dividends are associated with better governance practices at the firm level. Although country and firm governance operate at different levels, the results show that both play a part in shaping the corporate structure and investor protection.

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Table 1

Criteria Used in Estimating the Governance Index

This table identifies the criteria used in constructing the governance index. A total score for each firm is calculated each year. Each question is constructed in a manner such that the answer 'yes' adds one point to the governance score. Thus, the rating is on a scale of 0 to 9, with a higher score indicating better governance.

Board of Directors	One-third independence of the board, as measured by the number of independent directors divided by total number of directors.
	Chairman and CEO separation.
	Largest director's shareholding (as measured using direct interest and deemed interest divided by total issued shares) below 5% of issued capital.
Audit	Existence of an Audit Committee.
	Disclosure of frequency of Audit Committee meeting.
	Expertise of Audit Committee.
	Engagement of Big Six auditors.
Remuneration / Nomination	Existence of a Remuneration Committee
	Existence of a Nomination Committee

Table 2

Descriptive Statistics by Country

This table reports descriptive statistics of the governance score, payout, profitability, growth and size of the firms in each country.

1994-1996	**Governance Score**	**Dividend Payout Ratio (%)**			**Profitability (ROI)**	**Sales Growth**	**Equity $US**
Pre Crisis	**Mean**	**Mean**	**Median**	**S.D**	**Mean**	**Mean**	**Mean**
Thailand	2.12	36.1	37.1	22.2	11.46	0.33	676.09
Indonesia	2.72	29.2	26.6	14.9	17.94	0.27	782.29
Hong Kong	3.07	39.1	36.4	16.1	11.26	0.14	7300.02
Singapore	3.67	29.0	23.2	21.1	8.22	0.20	1735.37
Malaysia	3.85	23.3	17.3	17.7	17.15	0.67	1271.29
Total	3.08	31.4	27.1	19.4	13.09	0.32	2412.89
Crisis *1997-1998*							
Thailand	2.95	13.3	0	23.6	-6.80	-0.003	419.90
Indonesia	2.93	17.1	12.7	19.8	-3.47	-0.18	137.19
Hong Kong	3.60	48.4	49.3	24.0	9.34	0.14	7959.08
Singapore	3.98	33.1	27.7	22.6	8.55	-0.0005	1892.03
Malaysia	3.93	24.1	25.1	13.8	11.25	0.06	1117.38
Total	3.48	28.6	26.7	24.2	3.80	0.01	2359.25
Post Crisis *1999-2003*							
Thailand	5.92	14.3	0	23.8	8.29	0.10	564.85
Indonesia	4.36	13.8	0	21.1	-1.44	0.20	351.08
Hong Kong	5.36	46.6	42.9	22.9	10.34	0.08	9923.07
Singapore	6.45	36.6	33.5	23.8	6.85	0.05	2266.24
Malaysia	6.19	27.6	23.3	19.2	7.93	0.09	1349.82
Total	5.66	27.2	23.4	25.5	6.46	0.10	2903.90

Table 3

Governance and Dividend Payout

This table reports regression coefficients estimated with the model:

$$Dividend\ payout = a + b_1 (Gov) + b_2 (Profit) + b_3 (Beta) + b_4 (Growth) + b_5 (Size) + b_6 (Country) + b_7 (Industry) + b_8 (Period) + e$$

Governance is a score on scale of 0 to 9 rating quality, profitability is return on investment, beta is systematic risk, growth is the 1 year growth rate of assets and size is the log of common equity. Country, industry and period are 0,1 variables.

	Entire Period		**Pre-Crisis**		**Post-Crisis**	
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Governance	0.04	0.12**	-0.14	0.03	0.14**	0.17**
	(1.10)	(2.64)	(-2.01)	(0.43)	(2.97)	(3.66)
Profitability	0.05	0.04	-0.023	-0.039	0.055	0.039
	(1.48)	(1.31)	(-0.32)	(-0.56)	(1.26)	(0.95)
Beta	-0.23**	-0.23**	-0.27**	-0.27**	-0.27**	-0.24**
	(-6.63)	(-6.59)	(-4.02)	(-4.05)	(-6.01)	(-5.35)
Growth	-0.05	-0.06	-0.07	-0.06	0.077	0.087*
	(-1.65)	(-1.76)	(-1.12)	(-1.01)	(1.79)	(2.10)
Size	0.02	0.01	-0.11	-0.24**	0.28**	0.03
	(0.37)	(0.20)	(-1.45)	(-2.83)	(5.93)	(0.44)
Industry	Yes	Yes	Yes	Yes	Yes	Yes
Country	Yes	Yes	No	Yes	No	Yes
Period	No	Yes	No	No	No	No
Adjusted R^2	0.22	0.22	0.13	0.23	0.25	0.32

* 5% level of significance

** 1% level of significance

t-statistics in parentheses

Table 4

Dividend Payout and Legal Regime

This table reports regression coefficients estimated with the model:

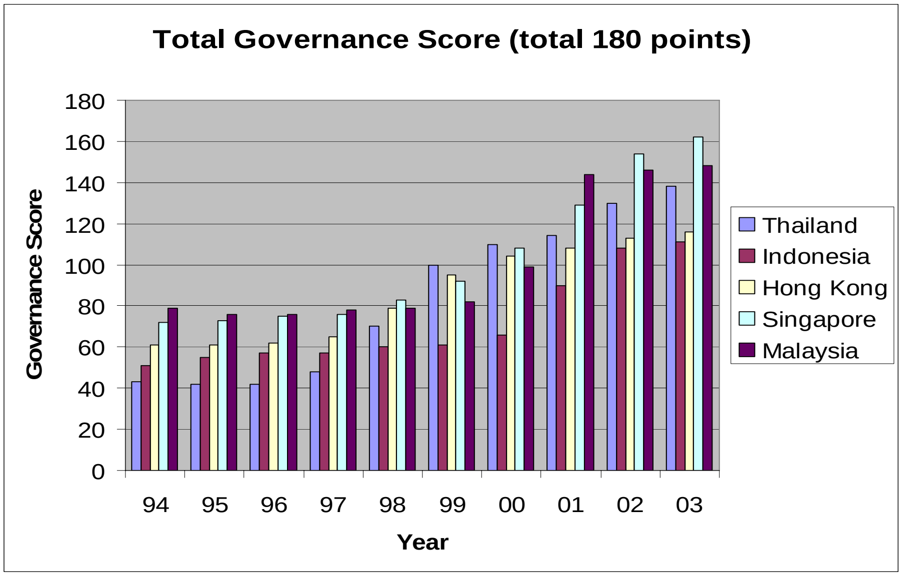
$$\textit{Dividend payout} = a + b_1 (Gov) + b_2 (Profi) + b_3 (Beta) + b_4 (Growth) + b_5 (Size) + b_6 (Industry) + b_7 (Legal) + e$$

Governance is a score on scale of 0 to 9 increasing with quality, profitability is return on investment, beta is systematic risk, growth is the 1 year growth rate of assets and size is the log of common equity. Country, industry, period and legal are 0,1 variables.

	Entire Period		**Pre-Crisis**	**Post-Crisis**
	(1)	**(2)**	**(3)**	**(4)**
Governance	0.007	0.067	-0.087	0.122**
	(0.21)	(1.52)	(-1.20)	(2.70)
Profitability	0.051	0.047	-0.019	0.045
	(1.54)	(1.41)	(-0.268)	(1.06)
Beta	-0.24**	-0.24**	-0.290**	-0.236**
	(-6.87)	(-679)	(-4.240)	(-5.03)
Growth	-0.05	-0.05	-0.062	0.078
	(-1.56)	(-1.65)	(-0.977)	(1.84)
Size	0.41**	0.41**	-0.044	0.149**
	(3.42)	(3.38)	(-0.551)	(2.65)
Legal	0.12**	0.11**	-0.162*	0.252**
	(2.92)	(2.66)	(-1.98)	(4.42)
Industry	Yes	Yes	Yes	Yes
Period	No	Yes	0.142	0.285
Adjusted R^2	0.18	0.19	0.13	0.25

* 5% level of significance   ** 1% level of significance   t-statistics in parentheses

Chart 1



Total Governance Score (total 180 points)
Governance Score
180
160
140
120
100
80
60
40
20
0
94
95
96
97
98
99
00
01
02
03
Year
Thailand
Indonesia
Hong Kong
Singapore
Malaysia

APPENDIX A

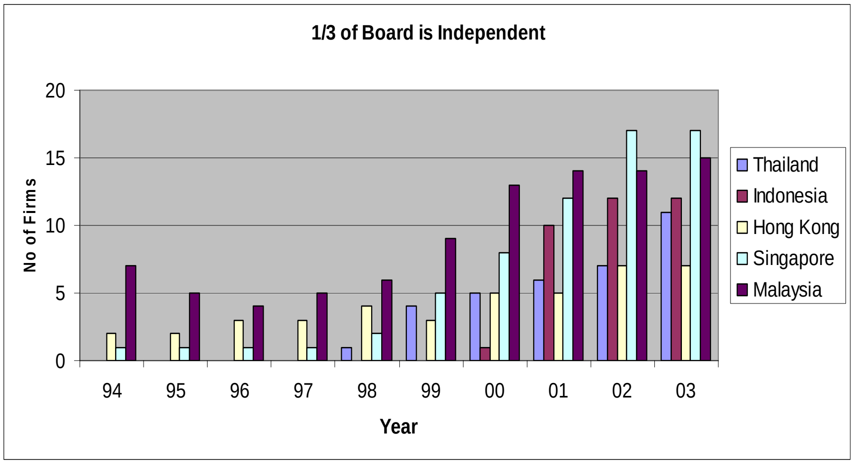
Variable	Theory and Prediction	Evidence
1)Board Independence	Independent directors are in a better position to protect shareholders' interest from managerial opportunism due to their independence from management influence (Fama and Jensen, 1983).	Dahya, et. al. (2005): firms with a smaller percentage of allied (non-independent) directors have higher market valuation Morck, et.al. (1988): the fraction of stock held by the Board of Directors positively influences Tobin's Q at lower levels of ownership and declines at higher levels of inside ownership.
2)CEO Duality	One person with a dual role as chairman and CEO faces conflicts of interest in carrying out these separate roles (Conyon and Peck, 1998). Combined roles concentrate too much power in the hands of the CEO, constraining board independence and reducing its ability to execute its oversight and governance roles (Finkelstein and Aveni, 1994).	There exists a rich literature which shows that independent directors of the board perform a valuable role in mitigating the agency conflicts and protecting minority shareholders' interests Dalton and Daly (1999), Davis et al. (1997), and Johnson et al (1996).
3) Percentage of Largest Director Ownership	At a high level of equity ownership, mangers become entrenched and pursue private benefits, as they are less subject to board governance. Managerial ownership insulates top executives from internal monitoring efforts (Denis et al., 1997).	Turnover is less sensitive to performance when officers and directors own 5 to 25% of the firm's shares, than when they own less than 5%. At high levels of ownership the effects of managerial entrenchment exert a negative influence on firm value. (Denis et al., 1997).

4) Audit Committee	There exists a rich literature in the accounting area on the constitution and effectiveness of audit committees and their role in reducing agency costs. Audit committees were first recommended by the New York Stock Exchange as early as 1939. SEC followed suit only in 1972 in advocating the establishment of audit committees. Members should be equipped with the necessary skills, be financially literate and at least one member should have experience in the preparation of financial statements (Dallas, 2004).	An effective audit committee is a salient feature of a sound corporate governance system. Audit committee should have qualified members with the authority and resources to protect the interest of minority shareholders by ensuring adequate and reliable financial reporting, internal controls, and risk management. DeZoort (2002) and Vera-Munoz (2005) The audit committee is legally bound to protect shareholder investment (Wagner, 2000). Hence the existence of audit committee is inseparable element of corporate governance.

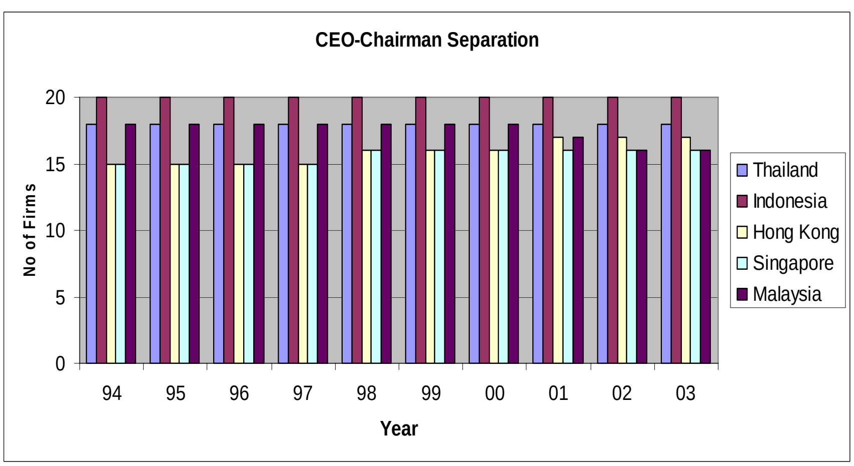
Variable	Theory and Prediction	Evidence
5) Auditor Type	External auditors have the role of 'ensuring reliability and fairness of the financial statements prepared by management' (Hu, 1997). The Big Six accounting firms are more likely to ensure transparency and eliminate mistakes in a firm's financial statements because they have a greater reputation to uphold (Michaely and Shaw, 1995).	Reed et.al. (2000): A firm has better disclosure if its auditor is one if the Big Six international accounting firms. Titman and Trueman (1986) higher audit quality associated with Big Six auditors with
6) Remuneration Committee	The absence of independent remuneration committees would appear to allow executives to write their own contracts with one hand and sign them with the other (Williamson, 1985).	Conyon (1997) Companies which have introduced remuneration committees between 1988 and 1993 have lower rates of growth in top director pay.
7) Nomination Committee	Companies should establish a Nominating Committee to make recommendations to the board on all board appointments (Singapore Code of Corporate of Governance, 2001).	A Nominating Committee provides an independent opinion and recommendations for the best candidates to the board. In addition, its existence indicates a formal and transparent process for the re-appointment of existing directors and new directors (Singapore Code of Corporate of Governance, 2001).

Appendix B: Detailed Description of Corporate Governance Proxies

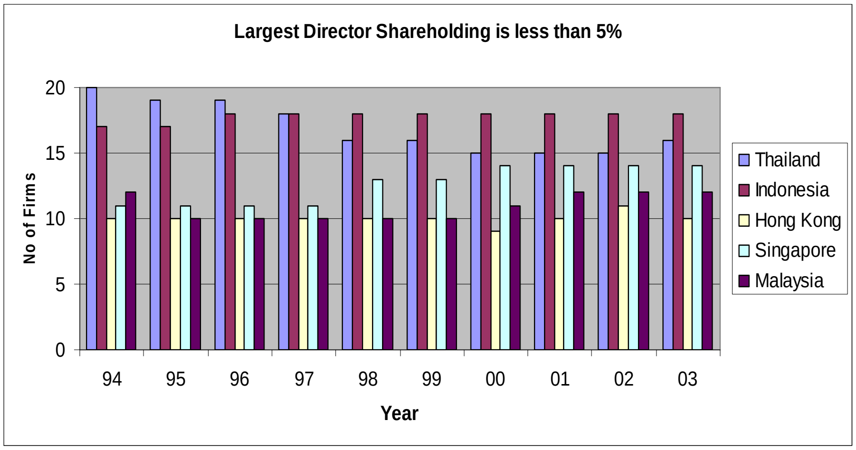
5.1 Independence of the board



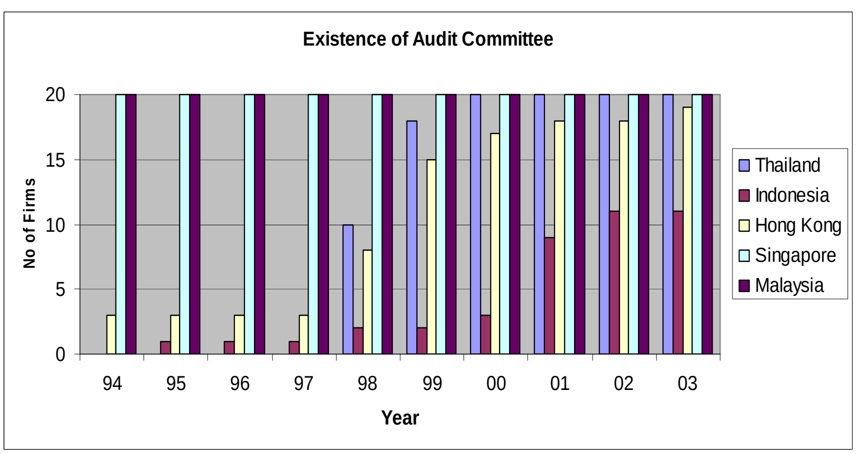
5.2 CEO-Chairman separation



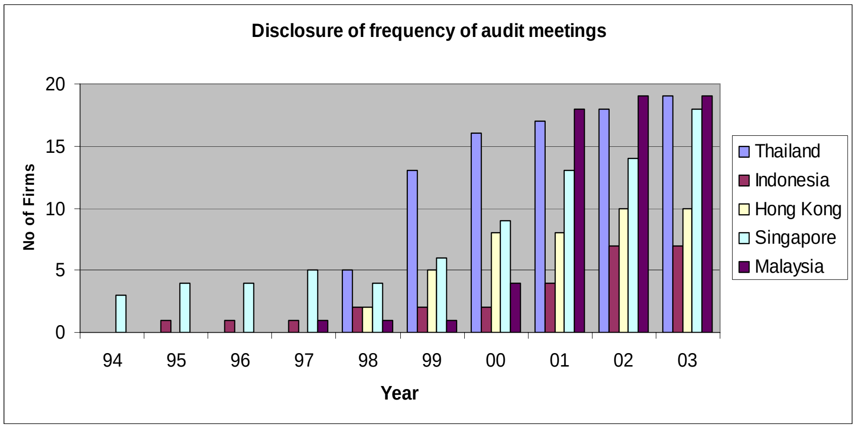
5.3 Director shareholding



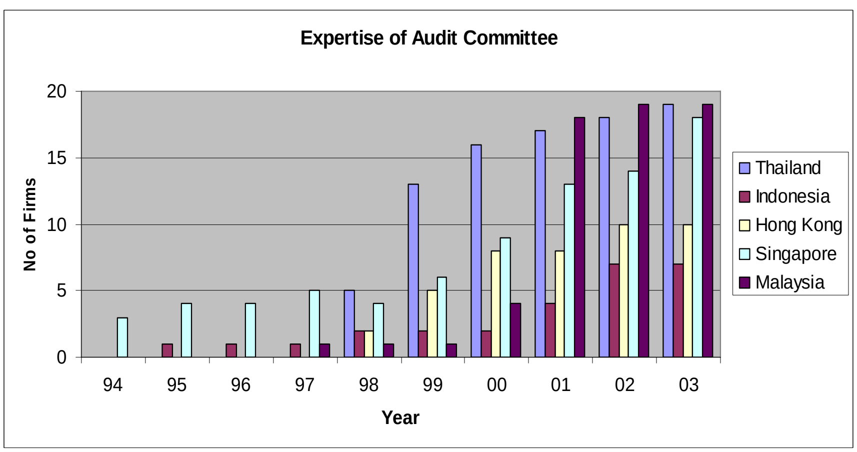
5.4 Existence of audit committee



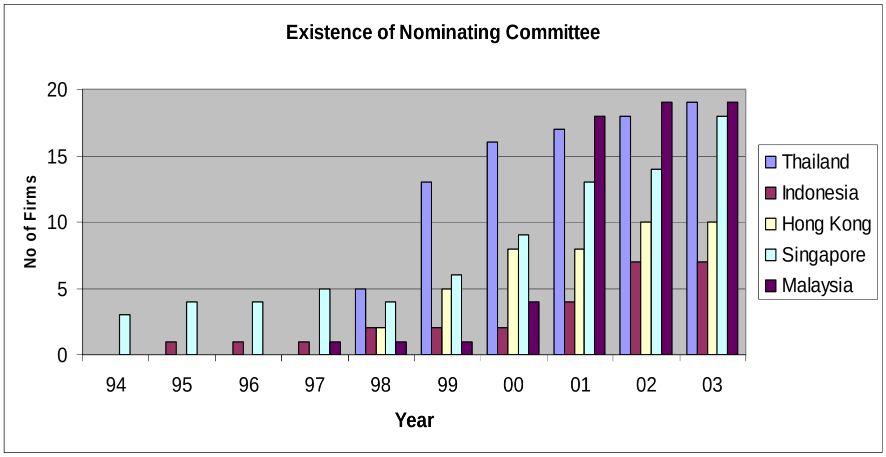
5.5 Frequency of audit committee meetings



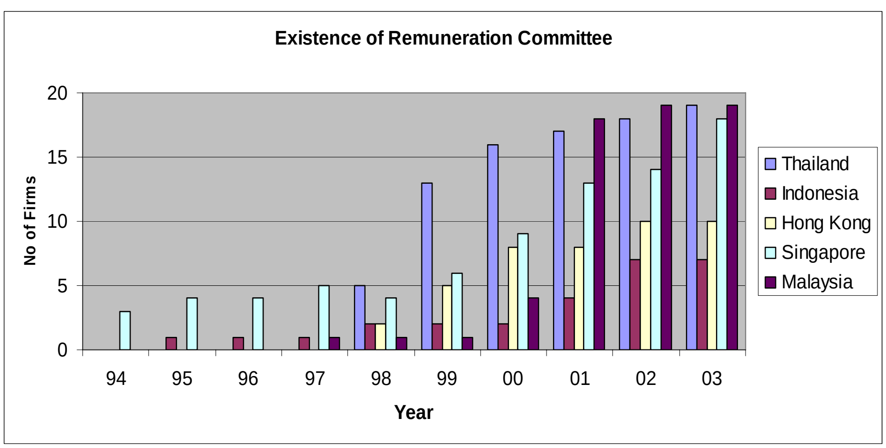
5.6 Expertise of audit committee members



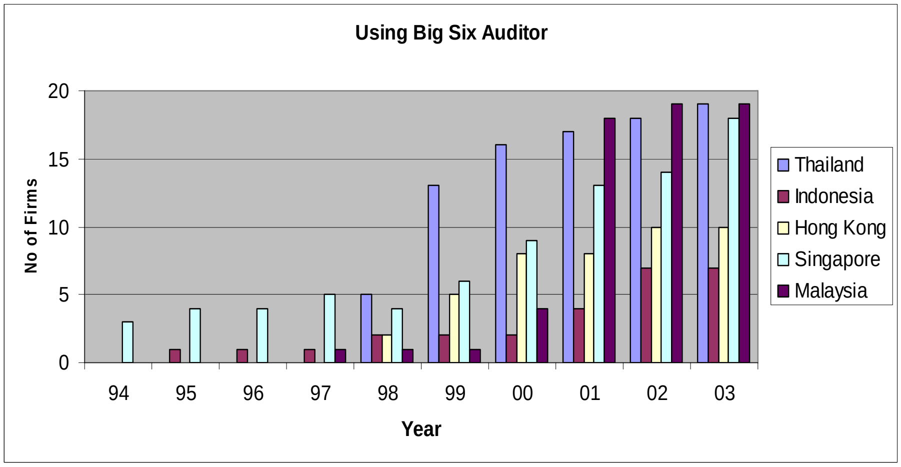
5.7 Existence of nominating committee



5.8 Existence of a remuneration committee



5.9 Auditor



Using Big Six Auditor
20
15
10
5
0
No of Firms
94
95
96
97
98
99
00
01
02
03
Year
Thailand
Indonesia
Hong Kong
Singapore
Malaysia