

# **Corporate Governance in Publicly Traded Canadian Companies**

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## **ABSTRACT**

We investigate the effectiveness of corporate governance practices in this paper, focusing on the corporate governance practices implemented by TSX listed companies in Canada. We analyze the determinants of the effectiveness of corporate governance practices and test whether corporate governance mechanisms relate to quality of accounting earnings and company performance. We obtain mixed results from regression analyses indicating that corporate governance mechanisms are not significantly related to earnings quality and the market value of the company.

**Keywords** – Corporate governance, Canadian, disclosure, Earnings quality,

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# 1. INTRODUCTION

Corporate governance is a means of limiting managers' (the agents) ability to profit at the expense of shareholders (the principals) (Gupta et al. 2009). From an agency theory perspective, separation of ownership from control leads to problems of incomplete or asymmetry information, moral hazard, and conflict of interest. Adequate and effective monitoring and control mechanisms protect the wealth of the suppliers of capital.

Over the past two decades, the corporate governance issues have attracted more and more attention due to the increase in educated public investors in the equity markets and the unveiling of large corporate scandals occurred in the US and Canada. The effectiveness of corporate governance mechanisms has been questioned and has led to continuing research evaluations of governance effectiveness in today's business environment (Bartholomeusz and Tanewski 2006; Adams et al. 2010).

In 1995, Toronto Stock Exchange (TSX) adopted 14 corporate governance best practices guidelines which public traded Canadian companies were recommended to follow. Implementation of the guidelines is voluntary. Canadian companies were only required to present in their annual report or in their proxy circulars a statement of corporate governance practices with a description of their corporate governance system. The TSX guidelines did not initially prescribe a standard format for the presentation of the statement of corporate governance practices. Managers retained a great discretion to choose the medium, the extent as well as the quality of the corporate governance disclosures (Bujaki and McConomy 2002).

To improve the quality of the information disclosure on corporate governance practices, the Ontario Securities Commission adopted the national instrument 58-101 "Disclosure of corporate governance practices", with effective from June 30th 2005. This instrument is intended

to standardize the information disclosure provided by TSX-listed companies regarding their corporate governance practices. It states that all TSX and TSX Venture firms are required to disclose their corporate governance practices in accordance with the instrument. Thus, after 2005, the corporate governance disclosures became mandatory.

The purpose of this paper is to research the corporate governance practices of TSX listed companies prior to the adoption of the national instrument 58-101 in June 2005, when the Canadian firms were not required to adopt or disclose the TSX governance guidelines. Prior to 2005, voluntary adoption and disclosure should vary across firms as both adoption and disclosure of corporate governance were left to individual companies' management. Therefore, the period allows us to better examine governance practices in relation to the management behaviour of individual companies when they still reserved certain degree of autonomy to determine their desired level of corporate governance practices. The variation in corporate governance practices among firms also facilitates our study, helping us to find out the influencing factors of voluntary corporate governance practices and helping to determine whether voluntary corporate governance practices enhance quality of accounting earnings or firm performances.

Previous researches on the relationship between corporate governance and firm value in Canadian companies have generated mixed results (i.e. Gordon et al. 2011; Klein et al. 2005; Gupta et al. 2009). Therefore, instead of posing directional hypotheses, we state research questions in our paper. Most of prior literature samples relatively large Canadian firms with governance data available from the investor service of the *Global and Mail*, which annually publishes governance ranking for about 300 companies contained in the Canadian S&P/TSX Index. Some studies, such as Gordon et al. (2011), focus on smaller companies traded on TSX-Venture in 2004.

The major contribution of our study is the data we used. In this paper, we utilize governance data for all 880 TSX listed companies disclosed before 30 June 2005, when disclosure according to corporate governance guidelines was still not a compulsory requirement. The comprehensive sample we investigate consists of all TSX firms that none of previous literatures have fully covered. This provides us a chance to study governance characteristics of a wide range of Canadian companies including many small and medium sized businesses, as well as large enterprises.

We follow the methodology of Gordon et al. (2011) to address the research questions, to process data, and to select regression variables. We compare our TSX data with data collected for TSX Venture companies within the same period and analyze the determinants of the effectiveness of corporate governance. We also intend to test the relationships between corporate governance practices and the integrity of financial reporting, as well as the corporate value. The tests are done along three dimensions.

First, we run regression to determine the relationship between corporate governance practice and several selected corporate, financial and industrial characteristics. We find that larger board size and larger firm size are associated with more effective corporate governance. We also note that companies in Bio Tech industry tend to do better in terms of corporate governance as compared to those in mining industry. Most of our findings are consistent with prior literature (Gordon et al. 2011).

Second, we focus on another important question: do stronger governance mechanisms provide greater monitoring of the financial accounting process? To answer this question, we test whether firms' quality of accounting earnings is enhanced by better governance practices. We derive accrual quality (AQ) from accounting data as a measure of earnings quality, and then

estimate regression of AQ on corporate governance and a few other variables. However, different from prior literature (Gordon et al. 2011; Niu 2006), the regression results do not confirm strong relationship between corporate governance variables and the financial reporting qualities.

Last, we consider whether effective governance practice improve corporate performance and enhance corporate market value. We calculate Tobin's Q as a representative of companies' value and find that Tobin's Q is not significantly related to governance practices. This result stands in the contrast to the prior literature (Gordon et al. 2011; Klein et al. 2005)

Rather than concluding that good governance does not matter in Canadian capital markets, we believe additional research is needed to explore how to measure governance practices, earnings quality, and firm value in a better way. In our research, we use AQ and Tobin's Q as proxies for earnings quality and firm performance respectively, according to the availability of data and for easy calculation. It is possible that they are not the most suitable measurements.

The rest of the paper proceeds as follows. The next section is literature and research questions. Then we focus on data and methodology in the third section, explaining our numerical methods in detail. Section 4 presents the results of our regression analysis, and we draw conclusions of the paper in the final section.

## **2. LITERATURE REVIEW AND RESEARCH QUESTIONS**

The Canadian approach to corporate governance is influenced by the unique characteristics of its market (Niu 2006). First, unlike in the U.S., the security laws are enforced by a central securities

commission; in Canada, the securities commissions are decentralized to the provinces and territories. Second, the Canadian market comprises of large number of small-cap public companies with limited abilities to attract competent independent directors. Third, Canadian companies are more likely to have one controlling shareholder which is different from companies in the U.S. and this raises the issue of board independence. Moreover, Canada uses a flexible method to address matters of corporate governance. Until recently, corporate governance practices disclosures were voluntary.

Our paper is mainly motivated by a prior literature released by Gordon et al. (2011). They analyze corporate governance in Canadian small businesses, which have generally escaped analysis in the corporate governance literature. Gordon et al. (2011) study previous literatures examining corporate governance in small businesses from other countries (e.g. Eisenberg et al.1998; Parsa et al. 2007; Switzer 2007; Malin and Ow-Yong 2009). The studies provide background of analysis in terms of voluntary corporate governance compliance and disclosure by small and medium sized companies. They also suggest the firm characteristics that influence voluntary disclosures, such as size of the company, board size, profitability, and competition for scarce capital. Based on these findings, Gordon et al. (2011) analyze the extent of voluntary corporate governance disclosure of small firms listed on TSX Venture Exchange. They study governance data for all companies traded on the TSX Venture before 2005 because prior to that date the governance disclosure was voluntary. They employ measures of the possible influential factors and analyze the determinants of voluntary governance practices. They further examine the relationship between voluntary governance practices and the quality of reported accounting earnings (as measured by accrual quality), and whether the determinants of voluntary disclosures of governance practices enhance firm performance (as measured by Tobin's Q).

Gordon et al. (2011) find that more effective corporate governance practices are related to firm characteristics including the size of their boards, the ownership structure of the company (whether there are large blocks of shareholdings and who holds these blocks), leverage, market value equity, and the nature of the auditor. They also find that firms in the biotech industry have more effective corporate governance practices, both in terms of board composition and governance disclosure. They provide evidence that earnings quality is positively related to corporate governance and that effective corporate governance practices positively affect the value of companies' value.

Following the methodology deployed by Gordon et al. (2011), we extend the tests to all companies listed on TSX. We intend to find out whether their findings fit for all the TSX listed companies, which have not been tested by previous studies. We focus on governance data in year 2004 and 2005 before disclosure was mandatorily required, and conduct analysis on the determinants of voluntary corporate governance disclosure. The analysis employs the same firm characteristics used by Gordon et al. (2011).

We then study the implications of effective corporate governance practices on earnings quality and firm value in terms of voluntary governance practices for all TSX companies. Our study is also enlightened by several other previous literatures, although most of them only focus on corporate of large Canadian firms reported by the *Global and Mail* rankings. These are discussed in paragraphs below.

Motivation to analyze the relationship between corporate governance and the accrual (earnings) quality also come from a few other studies. The evidence to date suggests that stronger governance mechanisms reduce opportunistic management behavior, thus improving the quality and reliability of financial reporting (e.g. Morck et al. 1988; Gompers et al. 2003). Niu

(2006) examines the association between corporate governance mechanisms and the quality of accounting earnings. She looks at corporate governance mechanisms and earnings quality for large Canadian firms. Her tests demonstrate that overall governance quality is negatively related to the level of abnormal accruals and positively influences the return-earnings association. In addition, the magnitude of abnormal accruals is negatively associated with the level of independence of board composition, the extent of alignment of management compensation with interests of shareholders, and the strength of shareholder rights. The results from the returns and earnings analysis are consistent with these findings. Following her motivation, we compute accrual quality (AQ) as the measure of earnings quality, and explore the relationship between quality of earnings and corporate governance.

Past literature which studies the association between the attributes of governance mechanisms and firm performance also supports our analysis. Gupta et al. (2009) investigate governance ranking for more than 200 companies represented on the TSX/S&P index to explore whether there is an association between the composite or sub-category corporate governance scores and various measures of firm value. Overall, they do not find an association between the composite or sub-category corporate governance scores and the various measures of firm performance. Klein et al. (2005) analyze the relationship between firm value, as measured by Tobin's Q, and newly released indices of effective corporate governance for a sample of 263 Canadian firms. The results indicate that corporate governance does matter in Canada. However, not all elements of the measured governance are important and the effects of governance do differ by ownership category. For the entire sample of the firms, they find no evidence that a total governance index affects firm performance. This is mainly because they find no evidence that board independence, the most heavily-weighted sub-index, has any positive effect on firm

performance. Indeed, for family-owned firms, they find that the effect is negative. In general, sub-indices measuring effective compensation, disclosure and shareholder rights practices enhance performance and this is true for most ownership. We follow Klein et al.'s (2005) study and use Tobin's Q as a proxy of firm performance to evaluate whether more effective corporate governance increases firm's value in the equity market.

We elaborate the data processing and the numerical methods we use to solve our research questions in detail in the next section.

### **3. DATA AND METHODOLOGY**

We follow the methodology of Gordon et al. (2011) to process the collected data, define the variables used in the regression analysis, and design the regression tests.

The raw governance data of all 880 companies listed on TSX are collected from the companies' proxy statements issued in year 2004 and 2005, the last period during which the disclosure of corporate governance remained voluntary. These data cover all aspects of 14 relevant TSX guidelines (described in the Appendix). In addition to these governance variables, descriptive variables, including company name, industry classification and market capitalization, are also compiled.

Table 1 provides the descriptive statistics used in the analysis. Panel A shows the corporate governance scores, other board characteristics, and company industrial classifications for all 880 companies. In order to run meaningful regression analysis, we require that companies have certain financial variables (e.g. assets, equity, revenue, net income, and cash flow). This requirement reduces the number of companies from 880 to 672. Variables derived from firm's accounting data are reported in Panel B. We also need to deploy market based information of

these public traded companies to compute variables such as market value of equity and leverage (shown in Panel C). Number of companies with available market price is further decreased to 335. Data are processed through numerical methods such as log transformation and winsorizing when necessary to reduce the effect of possible outliers.

Our tests employ regression analysis to analyze the determinants of the corporate governance scores and to determine the extent to which effective corporate governance affects earnings quality and firm's market value. Table 2 presents the corresponding correlation matrix of all the variables. In general significant correlations exist among our chosen variables. Given these correlations, all variables are used in one or more of our regressions.

## Table 1: Descriptive Statistics

This table summarizes descriptive statistics of the variables used in subsequent regression analysis.

### Panel A: Corporate governance scores, board characteristics, and industrial classifications

Variable	Mean	Standard deviation	Median	Minimum	Maximum	N
CG Score	12.395	3.892	13.000	0.000	18.000	880
Composition	7.602	2.814	8.000	0.000	12.000	880
Disclosure	4.793	1.824	5.000	0.000	8.000	880
Board Size	7.450	2.620	7.000	3.000	21.000	880
Block	1.032	0.951	1.000	0.000	5.000	880
Mining	0.227	0.419	0.000	0.000	1.000	880
Bio Tech	0.176	0.381	0.000	0.000	1.000	880
Industrial	0.080	0.271	0.000	0.000	1.000	880

Data reported for all 880 TSX traded companies includes corporate governance scores, board characteristics, and industrial classifications.

The overall CG Score is equal to the sum of scores according to the 14 relevant TSX guidelines (Appendix). Composition, a subset of CG Score, is defined as a sum of scores for the following criteria related to board composition (coded one if: the majority of the board is independent of management; the audit committee consists entirely of independent directors; the compensation committee consists entirely of independent directors; the nominating committee consists entirely of independent directors; the board chair is separate from the CEO; the board has a lead director; there is a process for assessing the performance of the board, its committees and its members; the directors are able to meet independently of management; the board chair is an independent director; the company has a nominating committee; the company has a compensation committee; and if the company has a corporate governance committee. Disclosure, a subset of CG Score, is defined as the CG Score less the score for Composition (i.e. the score related to the firm's disclosure policy). Block is the number of entities with voting rights greater than 10%; Board size represents the number of board directors.

Mining is coded one if a firm belongs to one of the following industries (as listed on [www.sedar.com](http://www.sedar.com)): gold and precious metals, junior natural resource – mining, metals and minerals (integrated mines, metal mines, mining and non-based metal mining). Bio Tech is coded one if a firm belongs to one of the following industries: consumer products – biotechnology, industrial products (technology hardware and software). Industrial is coded one if a firm belongs to the following industries: industrial products (autos and parts, building materials, chemicals and fertilizers, fabricating and engineering, transportation equipment), and junior industrial.

**Table 1 - continued**

## Panel B: Variables computed using accounting data

Variable	Mean	Standard deviation	Median	Minimum	Maximum	N
Debt Issue	0.336	0.473	0.000	0.000	1.000	672
Log(TA)*	5.142	2.235	4.906	-4.573	12.657	672
$\Delta$ REV $\diamond$	0.078	0.231	0.042	-1.000	1.000	672
AQ $\diamond$	-0.107	0.180	-0.048	-1.000	-0.001	672
Auditor	0.845	0.362	1.000	0.000	1.000	672

\* Variable (\$mil) are log transformed for the correlation and regression analysis;  $\diamond$  variables are winsorised to be no greater than 1 in absolute value.

Variables displayed for 672 TSX traded companies with available financial and accounting data include debt issuance, firm size, growth, accrual (earnings) quality, and auditor information.

Debt Issue is a dummy variable equal to one if the company issued long-term debt in the year of interest. Log(TA) is log transformed total assets in million dollars, representing the proxy for firm's size.  $\Delta$ REV, defined as a change in revenue scaled by average total assets, is the proxy for growth. AQ is proxy for accrual (earnings) quality, defined as the negative of the absolute value of difference between total accruals for the year of interest and for the previous year (total accruals are computed as net income less cash flow), scaled by total assets. Auditor is a dummy variable equal to one if the company was audited by one of the big four auditors.

## Panel C: Variables computed using market price data

Variable	Mean	Standard deviation	Median	Minimum	Maximum	N
Log(MVE)*	5.606	2.049	5.417	-2.486	10.358	335
Tobin's Q $\ddagger$	2.357	2.555	1.485	0.594	15.186	335
Leverage $\ddagger$	0.966	1.715	0.337	0.001	9.011	335

\* Variable (\$mil) are log transformed for the correlation and regression analysis;  $\ddagger$  variables are winsorised at the extreme 1 percent;  $\diamond$  variables are winsorised to be no greater than 1 in absolute value.

Variables displayed for 335 TSX traded companies with available market price data include market value of equity, Tobin's Q, and leverage.

Log(MVE) is log transformed market value of equity in million dollars, defined as share price at the fiscal year end times the number of shares outstanding. It is another proxy for firm's size. Tobin's Q is defined as book value of liabilities plus market value of common equity, scaled by the book value of assets. Leverage is represented by the book value of debt divided by market value of common equity.

**Table 2: Correlation Matrix for variables used in subsequent regression analysis**

(Pearson correlation; n = 335; Numbers in the brackets represent p-values)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV	XV	XVI
I CG Score	1.00															
II Composition	0.90 (0.00)	1.00														
III Disclosure	0.75 (0.00)	0.39 (0.00)	1.00													
IV Board Size	0.49 (0.00)	0.48 (0.94)	0.30 (0.00)	1.00												
V Block	-0.06 (0.00)	-0.06 (0.00)	-0.03 (0.00)	-0.04 (0.00)	1.00											
VI AQ	0.08 (0.00)	0.04 (0.00)	0.10 (0.00)	0.14 (0.00)	0.05 (0.00)	1.00										
VII Log(TA)	0.41 (0.00)	0.38 (0.00)	0.30 (0.00)	0.69 (0.00)	-0.06 (0.00)	0.34 (0.00)	1.00									
VIII Debt Issue	0.22 (0.00)	0.20 (0.00)	0.17 (0.00)	0.37 (0.00)	0.04 (0.00)	0.16 (0.00)	0.37 (0.00)	1.00								
IX $\Delta$ REV	-0.01 (0.00)	-0.04 (0.00)	0.05 (0.00)	-0.07 (0.00)	0.11 (0.00)	0.09 (0.00)	-0.03 (0.00)	0.11 (0.00)	1.00							
X Tobin's Q	-0.10 (0.00)	-0.07 (0.00)	-0.11 (0.00)	-0.20 (0.00)	-0.16 (0.00)	-0.11 (0.00)	-0.33 (0.00)	-0.09 (0.00)	-0.01 (0.00)	1.00						
XI Leverage	0.08 (0.00)	0.09 (0.00)	0.03 (0.00)	0.28 (0.00)	0.09 (0.00)	0.11 (0.00)	0.42 (0.00)	0.18 (0.00)	-0.01 (0.00)	-0.27 (0.00)	1.00					
XII Log(MVE)	0.37 (0.00)	0.34 (0.00)	0.27 (0.00)	0.56 (0.00)	-0.19 (0.00)	0.28 (0.00)	0.81 (0.00)	0.27 (0.00)	-0.04 (0.00)	0.10 (0.00)	-0.05 (0.00)	1.00				
XIII Auditor	0.22 (0.00)	0.22 (0.00)	0.14 (0.00)	0.21 (0.00)	0.01 (0.00)	-0.04 (0.00)	0.28 (0.00)	0.16 (0.00)	0.02 (0.00)	-0.02 (0.00)	0.09 (0.00)	0.23 (0.00)	1.00			
XIV Mining	-0.31 (0.00)	-0.30 (0.00)	-0.20 (0.00)	-0.27 (0.00)	-0.22 (0.00)	-0.04 (0.00)	-0.29 (0.00)	-0.22 (0.00)	-0.07 (0.00)	0.20 (0.00)	-0.27 (0.00)	-0.10 (0.00)	-0.24 (0.00)	1.00		
XV Bio Tech	0.10 (0.00)	0.13 (0.00)	0.02 (0.00)	-0.10 (0.00)	-0.04 (0.00)	-0.15 (0.00)	-0.21 (0.00)	-0.13 (0.00)	-0.14 (0.02)	0.09 (0.00)	-0.12 (0.00)	-0.13 (0.00)	0.11 (0.00)	-0.25 (0.02)	1.00	
XVI Industrial	0.02 (0.00)	0.02 (0.00)	0.01 (0.00)	0.01 (0.00)	0.09 (0.00)	0.07 (0.00)	-0.04 (0.00)	0.11 (0.00)	0.10 (0.21)	-0.12 (0.00)	0.02 (0.00)	-0.14 (0.00)	-0.06 (0.00)	-0.17 (0.00)	-0.13 (0.00)	1.00

### 3.1. Variables from proxy statements

In Canada, the most utilized comprehensive corporate governance index ranking comes from the Report on Business section (ROB) of the *Globe and Mail* newspaper. The *Globe and Mail* rankings measure wide range of governance indicators which include board composition, shareholding and compensation policy, shareholder rights policy, and disclosure policy. One of the shortfalls of the *Global and Mail* rankings is that ROB assigns weights to these indicators on rather arbitrary basis. Also, they are only available for a small number of large companies contained in the Canadian S&P/TSX Index. Therefore, the *Globe and Mail* rankings are not used in our study because we focus on governance data of all companies listed on TSX.

Based on the previous literatures (Gordon et al. 2011; Bujaki and McConomy 2002), we construct a scoring system to measure the extent of adoption of the 14 TSX corporate governance guidelines based on 22 key dimensions of the guidelines, using data collected for the 880 TSX listed companies. Each of the dimensions is coded as 1 if the company disclosed having implemented the guideline, and 0 otherwise. The overall corporate governance score (CG Score) is equal to the sum of scores across all 14 relevant TSX guidelines. Unlike the *Global and Mail* rankings, our method avoids bias that may arise from arbitrarily assigned variable weightings.

Following previous studies that rely on the *Globe and Mail* rankings (e.g. Klein et al. 2005), we further divide the CG Score into two sub-indices. Composition, the first sub-index, is defined as a sum of scores across 12 elements related to board composition. These elements are: the majority of the board is independent of management; the audit committee consists entirely of independent directors; the compensation committee consists entirely of independent directors;

the nominating committee consists entirely of independent directors; the board chair is separate from the CEO; the board has a lead director; there is a process for assessing the performance of the board, its committees and members; the directors are able to meet independently of management; the board chair is an independent director; the company has a nominating committee; the company has a compensation committee; and if the company has a corporate governance committee. For each element coded as 1, these are summed to determine the Composition score.

Disclosure, the second sub-index, is defined as the CG Score less the score for Composition (i.e. the score related to the firm's disclosure of its effective governance policies). We also utilize additional governance data, such as Block and Board Size which may impact on the governance scores. Block refers to number of entities holding more than 10% of the voting rights. Board Size refers to the number of board directors.

From Table 1, we note that the 880 TSX listed companies have a mean CG Score of 12.4 with 7.6 contributed by Composition and 4.8 by Disclosure components (the maximum values for CG Score, Composition, and Disclosure are 22, 12, and 10 respectively). The average Board Size is 7.5 directors. The number of large blocks (10% or greater) of shares held by investors ranges from 0 to 5 with an average of 1.

Table 2 shows that the total CG Scores, Composition, and Disclosure are all positively correlated to the firm size, which is measured by logarithm of market value of equity in million dollars ( $\text{Log}(\text{MVE})$ ) and logarithm of book value of total assets in million dollars ( $\text{Log}(\text{TA})$ ). We note that larger companies on average tend to have higher corporate governance scores than smaller companies. This is also true for Board Size because larger companies are have more

resources and needs to employ larger boards. However, Block is found to be negatively correlated to firm size.

### **3.2. Variables from financial statements and stock prices**

To analyze the determinants of the effectiveness in implementing corporate governance standards and to assess its impact on financial performance and market prices, accounting and financial data are collected from companies' financial statements published on SEDAR. The financial statements of these companies are available for the financial year for which the corporate governance disclosure was made (denoted as year 0), and the subsequent financial year (denoted as year t+1). Market-based data (e.g., share prices) at the respective financial year ends are extracted from Yahoo finance (<http://ca.finance.yahoo.com>). For the total of 880 companies, we are able to gather the financial statement data of 672 companies and market price data of 335 companies.

Growing firms, which mainly depend on external finance such as debt, are more likely to comply with strict governance standards. This is because creditors need to be assured that their interests are protected and therefore may require more stringent corporate governance practice. To control for the firm's financing needs, we include Debt Issue as a dummy variable which is equal to one if the company issued long-term debt in year t+1, and Leverage defined as book value of debt divided by market value of common equity. Our data reported in Table 1 show that these companies on average have moderate leverage level (0.966); and 36% of the companies issued debt in year t+1.

To address the financial characteristics of the firms, we also include average sales growth ( $\Delta REV$ , defined as a change in revenue scaled by average total assets) and firm size, measured

by logarithm of total assets in million dollars (Log(TA)) and by logarithm of market value of equity in million dollars (Log(MVE)). Market value of equity is defined as share price at the fiscal year end times the number of shares outstanding. From the financial and market data collected, we note that the average market value of the 335 firms is C\$1.75 billion and the average size of total assets of the 672 companies is approximately C\$3.36 billion.

Consistent with prior literature (e.g. Gordon et al. 2011), we measure firm value by Tobin's Q. It is computed as the sum of book value of liabilities and market value of common equity, divided by the book value of assets. Tobin's Q measures the firm's performance in relation to valuation from the market investors' perspective. As shown in Table 1, the mean of Tobin's Q for our sample is 3.354. Tobin's Q in excess of one indicates that most of these companies are growing firms as the market value reflects some unmeasured growth potential of the company.

We also define Auditor as a dummy variable equal to one if the company was audited by one of the big four auditors. The previous findings reveal that companies audited by larger audit firms tend to disclose more information (e.g. Wallace et al. 1994). As reported in Table 1, among the 672 companies, 85% used one of the big four auditors.

Finally, we include a set of industry dummies. The companies in the same industry may have common features in terms of corporate governance practice.<sup>1</sup> Table 1 shows that the largest industry grouping is Mining (23%), followed by Bio Tech (18%) and Industrial (9%) firms.

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<sup>1</sup> We follow industry classification categories provided by the CIBC Centre for Corporate Governance and Risk Management in association with the University of Toronto's Capital Markets Institute. Specifically, Mining is coded one if a firm belongs to one of the following industries (as listed on [www.sedar.com](http://www.sedar.com)): gold and precious metals, junior natural resource – mining, metals and minerals (integrated mines, metal mines, mining and non-based metal mining). BioTech is coded one if a firm belongs to one of the following industries: consumer products – biotechnology, industrial products (technology hardware and software). Industrial is coded one if a firm belongs to one of the following industries: industrial products (autos and parts, building materials, chemicals and fertilizers, fabricating and engineering, transportation equipment), and junior industrial.

### **3.3. Proxies for accrual (earnings) quality**

Since managers may have incentives to manage earnings either upward or downward, we use the absolute value of the abnormal accruals as a proxy for earnings quality. To the extent that better monitoring of the financial reporting process leads to greater financial transparency, firms are expected to have a lesser degree of earnings management, and thus fewer abnormal accruals (Niu 2006).

We measure accrual quality (AQ) as proxy of earnings quality. It is calculated as the absolute value of the difference between total accruals for year  $t+1$  and year  $0$ . Total accruals are computed based on the income statement approach (following Hribar and Collins 2002) as net income less cash flows from operations. This value of AQ is then scaled by total assets of the firm and multiplied by negative one for regression purpose. Therefore, increasing in AQ (i.e. closer to zero) represents higher accrual quality. Refer to Table 1, the mean of AQ is  $-0.107$  after winsorizing.

## 4. EMPIRICAL FINDINGS

We draw a comparison between the basic descriptive statistics of the governance data for TSX companies and TSX Venture companies (extracted from Gordon et al. 2011) collected within the same period. The data are displayed below:

	Variable	Mean	Standard deviation	Median	Minimum	Maximum
TSX companies	CG Score	12.395	3.892	13.000	0.000	18.000
	Composition	7.602	2.814	8.000	0.000	12.000
	Disclosure	4.793	1.824	5.000	0.000	8.000
TSX Venture companies	CG Score	3.223	3.936	1.000	0.000	19.000
	Composition	1.959	2.075	1.000	0.000	11.000
	Disclosure	1.265	2.487	3.000	0.000	9.000

We note that the average corporate governance score and its Composition and Disclosure components of TSX companies are considerably higher than those of TSX Venture companies. While the average governance score of TSX companies are about three times higher than those of TSX Venture companies, the weights distributed to the two sub-indices are roughly identical. Composition contributes 60% of the CG Score and the rest of 40% comes from Disclosure. The standard deviations of the two set of data, however, are comparable. This shows that the performance of companies listed on TSX Venture Exchange in terms of effective corporate governance is more widely dispersed, comparing to the standard achieved by TSX companies.

These findings are consistent with our expectation to a large extent. These governance data are collected for year 2004 and 2005, before the disclosure of corporate governance practices became mandatory for all companies. The companies listed on the TSX Venture Exchange, which typically are small businesses, are relatively free to choose the desired level of governance on voluntary basis. The TSX companies, on the other hand, are required to disclose

their corporate governance practices according to the 14 best practices on an annual basis. Many TSX firms are also cross-listed on the U.S. exchanges and thus are affected by the U.S. mandatory governance practices (Anand et al. 2006; Charitou et al. 2007). In addition, larger companies have more resources to implement the suggested guidelines. These factors lead to higher rankings and lower variance in governance measures across TSX firms when compared to TSX Venture companies. It provides an indication of the importance of the compulsory disclosure requirements imposed by regulatory bodies in enhancing the standard of corporate governance practices.

We further compare our corporate governance scores with the *Global and Mail* rankings for the same period. The *Global and Mail* rankings, which originally have a maximum value of 100, are scaled by our index's maximum score of 22.

Variable	Mean	Standard deviation	Median	Minimum	Maximum
CG Score	12.395	3.892	13.000	0.000	18.000
<i>Global and Mail</i> ranking	15.301	3.144	15.180	6.160	20.680

We find that the average *Global and Mail* rankings are higher than our average CG score by three points. In particular, the minimum value for the *Global and Mail* index is reported 6 points higher than the minimum value of our CG score. In contrast, the variance for *Global and Mail* rankings is slightly smaller than the variance of our index. As the *Global and Mail* rankings only contain the corporate governance data for companies which are components of Canadian S&P/TSX Index. These data represent the largest companies listed on TSX. Consistent with our early findings, larger companies tend to receive higher score in terms of corporate governance

rankings. They face higher requirements and expectations from the market and regulators to perform better in corporate governance practices and possess more resource to do so.

We perform linear regression analysis on determinants of corporate governance, earnings quality (represented by AQ), and firm's value (represented by Tobin's Q) by using the "least squares" method to fit a line through a set of variables. It is to analyze how a single dependent variable is affected by the values of one or more independent variables. The coefficient and p-value of the control variables are summarised in Tables 3, 4 and 5. All variables are defined in the preceding tables.

These regression results provide evidence of what are the significant factors influencing corporate governance scores, whether better corporate governance practices result in higher earnings quality, and whether more effective corporate governance practices contribute to firm value.

#### **4.1. Determinants of corporate governance scores**

Table 3 demonstrates regression results for corporate governance (CG Score) and its components on different control variables. Panel A provides results for regression analysis of CG Score and its sub-indices, Composition and Disclosure, for 335 companies with available market price data. The control variables are Board Size, Block, Debt Issue, Leverage,  $\Delta$ REV, Log(MVE), Auditor, Mining, Bio Tech and Industrial. Panel B displays regression results of CG Score, Composition and Disclosure, for 672 companies with available accounting data. Control variables employed are similar to those used in Panel A, expect for the removal of Leverage and replacement of Log(MVE) by Log(TA) as proxy of firm size.

**Table 3: Determinants of Corporate Governance**

Panel A: The table shows the regression results of CG Score and its components on various variables for the sample of 335 TSX traded companies, which have available market price data. All variables are defined in the preceding tables.

Variables	CG Score		Composition		Disclosure	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Intercept	7.198	0.000	3.826	0.000	3.372	0.000
Board Size	0.510	0.000	0.392	0.000	0.119	0.010
Block	-0.210	0.297	-0.159	0.276	-0.051	0.628
Debt Issue	0.192	0.640	0.056	0.851	0.137	0.527
Leverage	-0.110	0.348	-0.057	0.499	-0.052	0.393
$\Delta$ REV	0.536	0.566	0.034	0.959	0.502	0.307
Log (MVE)	0.252	0.029	0.129	0.123	0.123	0.043
Auditor	0.704	0.195	0.545	0.165	0.158	0.579
Mining	-1.503	0.003	-0.939	0.010	-0.564	0.034
Bio Tech	1.182	0.031	1.058	0.008	0.124	0.666
Industrial	0.376	0.581	0.347	0.480	0.028	0.937
Adjusted R <sup>2</sup>	29.02%		28.06%		10.60%	
Observations	335		335		335	

**Table 3 - continued**

Panel B: The table shows the regression results of CG Score and its components on various variables for the sample of 672 TSX traded companies, which have available accounting data only. Thus Leverage is excluded and Log(TA) replaces Log(MVE) as one of the control variables. All variables are defined in the preceding tables.

Variables	CG Score		Composition		Disclosure	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Intercept	7.846	0.000	4.285	0.000	3.560	0.000
Board Size	0.357	0.000	0.269	0.000	0.087	0.011
Block	-0.380	0.008	-0.343	0.001	-0.037	0.615
Debt Issue	0.385	0.190	0.223	0.297	0.162	0.285
ΔREV	0.178	0.754	0.195	0.636	-0.018	0.952
Log (TA)	0.362	0.000	0.221	0.000	0.140	0.002
Auditor	0.347	0.351	0.436	0.107	-0.090	0.641
Mining	-0.801	0.025	-0.692	0.008	-0.109	0.555
Bio Tech	1.736	0.000	1.440	0.000	0.296	0.150
Industrial	0.657	0.162	0.578	0.091	0.079	0.746
Adjusted R <sup>2</sup>	23.92%		24.33%		7.62%	
Observations	672		672		672	

From both Panel A and Panel B, we note that corporate governance (CG Score) and its sub-indices, Composition and Disclosure, are significantly related to Board Size. Larger board size results in better corporate governance practice. This is reasonable because larger boards possess more resources and balance of power to implement more effective corporate governance mechanisms. Also, companies that are more concerned with corporate governance naturally would equip themselves with a larger board. This result is consistent with prior literature (i.e. Gordon et al. 2011).

We also find from Panel B with sample of 335 companies that Block is negatively related to CG Score and its Composition components. That is, larger blocks of shares held by investors in general lead to lower corporate governance scores. This result is contrary to the findings of Gordon et al. (2011) who conclude the positive relationship between corporate governance and larger blocks. It also differs from our expectation that a significant number of external shareholders will influence the firm to adopt higher governance standards. However, the smaller number of Block in our case is possibly interpreted as the existence of a larger number of minority public investors who hold less than 10% of the shares, as our study focus on larger companies listed on TSX. This may render our result explainable since minority shareholders are eager to require better governance practice of the company.

Firm size, represented by market value of equity (Log(MVE)) in the test of the 335 samples and by book value of assets (Log(TA)) in the test of the 672 samples, also influences corporate governance significantly. The larger the firm size, the better the corporate governance practice would be. Probably larger companies are more pressurized by public investors and regulatory bodies to keep good corporate governance records. An exception is the Composition sub-index in the 335-sample setting, where the firm size is found to be statistically insignificant.

With respect to industry classifications, CG Scores and its Composition components are positively contributed by Bio Tech industry and negatively affected by Mining industry. Bio-Tech firms are more likely to be growth firms that require more capital injunction than other companies. Therefore, they may need to employ better corporate governance practice to satisfy the constraints imposed by external investors and creditors. On the other hand, the companies in mining industry are more likely to be privately funded, thus are less stringent on this aspect. For the Disclosure component of corporate governance, the only significant influence from industry classification is the negative relationship with Mining in the 335-sample setting.

Unlike the prior literature (i.e. Gordon et al. 2011), Leverage and Auditor are not significant influential factors of the governance of TSX companies. Leverage loses its significance probably because TSX companies are required to publish their corporate governance disclosures annually no matter whether they are involved in debt financing. Also the statistics show that 85% of TSX companies are audited by one of the big four auditors, while merely 23% of TSX Venture firms engage big four auditors (Gordon et al. 2011). Auditor then turned to statistically insignificant in our analysis because most of TSX firms have been audited by one of the big four auditors already.

#### **4.2. The relationship between earnings quality and corporate governance**

The regression results for accrual (earnings) quality (AQ) on CG Score and its two sub-indices, Composition and Disclosure, are reported in Table 4. These regressions attend to the research question of whether effective governance practices reduce opportunistic manager behaviour.

Panel A provides the results of analysis for the 335 companies with market price data. Other financial control variables include Auditor, Leverage, Log(MVE), Mining, Bio Tech, and Industrial. Panel B shows the results of analysis for the 672 companies with accounting data only. Therefore, Debt Issue and Log(TA), instead of Leverage and Log(MVE), were used as control variables to represent indebtedness and firm size.

We run two regression tests for the 335 companies and the 672 companies respectively. In the first test, we use CG Score as one of the independent variables. In the second test, we replace CG Score by its two sub-indices, Composition and Disclosure, as independent variables. We present the results of the two regression tests parallel in Panel A and Panel B.

**Table 4: Determinants of Accrual (Earnings) Quality**

Panel A: This table displays regression results of accrual (earnings) quality on CG Score and various control variables for the sample of 335 TSX traded companies, which have available market price data. All variables are defined in the preceding tables.

Variable	AQ		AQ	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Intercept	-0.151	0.000	-0.155	0.000
CG Score	-0.001	0.669		
Composition			-0.003	0.239
Disclosure			0.003	0.385
Auditor	-0.036	0.052	-0.035	0.056
Leverage	0.009	0.023	0.009	0.019
Log(MVE)	0.018	0.000	0.018	0.000
Mining	-0.003	0.875	-0.003	0.875
Bio Tech	-0.022	0.231	-0.019	0.282
Industrial	0.038	0.097	0.039	0.090
Adjusted R <sup>2</sup>	10.59%		10.72%	
Observations	335		335	

**Table 4 - continued**

Panel B: This table displays regression results of accrual (earnings) quality on CG Score and various control variables for the sample of 672 TSX traded companies, which have available accounting data only. Debt Issue and Log(TA), instead of Leverage and Log(MVE), are used as control variables to represent indebtedness and firm size. All variables are defined in the preceding tables.

Variable	AQ		AQ	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Intercept	-0.245	0.000	-0.248	0.000
CG Score	-0.002	0.206		
Composition			-0.004	0.115
Disclosure			0.001	0.814
Auditor	-0.014	0.433	-0.013	0.470
Debt Issue	0.000	0.991	0.000	0.995
Log (TA)	0.034	0.000	0.034	0.000
Mining	0.034	0.046	0.034	0.051
Bio Tech	-0.020	0.307	-0.018	0.356
Industrial	0.015	0.534	0.015	0.509
Adjusted R <sup>2</sup>	15.38%		15.37%	
Observations	672		672	

In both cases, we note that the coefficients of CG Score, Composition and Disclosure are statistically insignificant in the regression analysis. Contrary to prior literature (Gordon et al. 2011), we are unable to conclude that effective corporate governance significantly improves the earnings quality. The validity of the test results is possibly affected by the low variance of corporate governance data for TSX companies. Also we use a simplified method to calculate accrual quality. The accuracy of AQ as proxy of quality of accounting earnings is not confirmed.

Our findings show that the most relevant determinants of accrual (earnings) quality appear to be Leverage and Log(MVE) (for 335 companies with market price data). Consistent with prior literature (Gordon et al. 2011), it indicates that larger firm size and higher leverage lead to higher earnings quality. These results are explainable as the larger companies tend to have more comprehensive control measures in place for managing accruals. Companies with higher leverage normally are prevented from manipulating earnings via accrual due to close monitoring by creditors.

The analysis for 335 companies points out that companies audited by the big four audit firm tend to demonstrate lower earning quality. This does not make sense since big four auditors are supposed to improve level of information disclosure and monitoring of corporate governance practice. As discussion in section 4.1, this may be attributable to the fact that most of TSX firms (85%) uses big four auditors. The low variation in choice of auditors among TSX firms causes less meaningful regression results.

The analysis for 672 companies with accounting data shows that mining firms experience significantly higher quality of accruals, as compared to other industries.

### **4.3. The relationship between firm value and corporate governance**

The regression analysis for Tobin's Q on CG Score and its two sub-indices, Composition and Disclosure, are carried out for the 335 companies with market price data. Other control variables included Auditor,  $\Delta$ REV, Leverage, Log(TA), Mining, Bio Tech, and Industrial. The results are reported in Table 5. These regressions provide evidence to the research question of whether more effective corporate governance practices affect firms' value.

Similar to section 4.2, we run two regression tests on Tobin's Q. We use CG Score as one of the independent variables in one test, and replace CG Score by its two sub-indices, Composition and Disclosure, as independent variables in the other test. We present the results of the two regression tests in the same table.

Our results do not confirm that corporate governance does matter in Canada. Neither the CG Score nor its components are statistically significant. Thus there is little evidence that effective corporate governance affects the firm's value (Tobin's Q). This finding stands in contrast to the results in Gordon et al. (2011).

It is possible that Tobin's Q is not the most suitable proxy representing firm's value. Rather than conclude that corporate governance does not affect firm value, we should explore further to identify other measurements that may better reflect firm's performance.

However, we find that some of the financial control variables are statistically significant in the analysis. Firm leverage and firm size are negatively related to firm's value. It is consistent with prior literature (i.e. Gordon et al. 2011). Performance is also negatively related to whether the company is an industrial company at 5% significant level.

**Table 5: Determinants of Tobin's Q**

The table shows regression results of Tobin's Q on CG Score and other control variables for the sample of 335 TSX traded companies, which have available market price data. All variables are defined in the preceding tables.

Variable	Tobin's Q		Tobin's Q	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Intercept	3.416	0.000	3.492	0.000
CG Score	0.030	0.444		
Composition			0.080	0.151
Disclosure			-0.059	0.465
Auditor	0.553	0.168	0.537	0.180
ΔREV	-0.043	0.949	0.012	0.986
Leverage	-0.198	0.022	-0.202	0.020
Log (TA)	-0.325	0.000	-0.326	0.000
Mining	0.603	0.099	0.606	0.098
Bio Tech	0.118	0.770	0.077	0.850
Industrial	-0.989	0.045	-1.006	0.041
Adjusted R <sup>2</sup>	13.80%		13.96%	
Observations	335		335	

## 5. CONCLUSION

We focus on governance and financial data for all TSX listed companies collected for the year 2004 and 2005, before the governance disclosure became mandatory. We analyze factors that affect voluntary corporate governance practice and test whether corporate governance is related to both corporate management and corporate value.

First, we run regressions to determine which corporate, financial and industrial characteristics are related to corporate governance variables. We find that corporate governance score (CG Score) and its sub-indices, Composition and Disclosure, are significantly positive related to board size. Also the larger the firm size, the better the corporate governance practice would be. More importantly, Bio Tech industry focuses more on corporate governance than the mining industry.

The second question we address is whether effective governance practices reduce opportunistic manager behaviour. However, the results from regression are unable to conclude that effective corporate governance significantly improves the earnings quality. The most relevant determinants of accrual (earnings) quality appear to be leverage and firm size. Our results indicate that larger firm size and higher leverage lead to higher earnings quality.

Finally, we run regressions to determine whether stronger governance mechanisms improve corporate performance. We calculate Tobin's Q as a representative of companies' value. Our results are not able to confirm that corporate governance does matter in Canada. Neither the CG Score nor its components are statistically significant. The results reflect that some of the financial control variables such as firm leverage and firm size are statistically significant and have negatively related to firm's value.

This study has several limitations. First, among all the 880 TSX traded companies, only 672 companies have available accounting or financial information and 335 companies have available market price data. The insufficient sample size may have negative effects on the reliability of the regression results. Second, we rely on disclosed proxy data. Proxy disclosures may not represent all aspects of corporate governance practices. It is possible that some companies may have strong practices in some area, but received lower scores because the details are not disclosed in their proxies (Niu 2006). In addition, our analysis is primarily based on a single year of disclosures rather than constant years. It may cause data biases not reflecting all the reality. Also, our governance data collected for TSX firms are relatively similar across different companies, mainly because the TSX listed companies have been required to make relevant corporate governance disclosures even before the implementation of compulsory disclosure of TSX guidelines in 2005. The low variation in governance practices scores of our sample data may prevent us from deriving the meaningful results from the regression analysis.

Despite our test results, it is premature to announce that good governance does not matter in Canadian capital markets. We use AQ and Tobin's Q as proxies of earnings quality and firm performance respectively. However, they may not be the most suitable measurements for the purpose of our analysis. We believe additional research is needed to explore better measurements of governance practices, earnings quality, and firm value.

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## APPENDIX

### TSX Guidelines on Corporate Governance Practice and Scoring for Companies listed on TSX:

Relevant TSX guideline	Scoring*	Max Score
1. The board of directors of every corporation should explicitly assume responsibility for stewardship, specifically for <ul style="list-style-type: none"> <li>• the adoption of a strategic planning process;</li> <li>• identification of risk and risk management systems;</li> <li>• succession planning,</li> <li>• communications policy; and</li> <li>• integrity of internal control and management information systems.</li> </ul>	Coded 1 if the disclosures explicitly state that: <ul style="list-style-type: none"> <li>- the Board assumes responsibility for stewardship.</li> <li>- the Board has established a strategic planning process.</li> <li>- the Board assumes responsibility for identification of risk.</li> <li>- the Board has a clear succession policy.</li> </ul>	4
2. The board of directors should be constituted of a majority of individuals who qualify as unrelated directors. <sup>2</sup>	Coded 1 if disclosures state that: <ul style="list-style-type: none"> <li>- the majority of the Board is independent of management.</li> <li>- the Board reviews the status of a director with respect to significant shareholder.</li> </ul>	2
3. The circumstances of each individual director should be examined in determining their relationship. Firms should disclose annually whether a majority of directors are unrelated.	Coded 1 if disclosures indicate for each director who is independent.	1
4. Firms should have a committee of directors for nominating new directors and assessing directors on an ongoing basis; members of this committee should be non-management.	Coded 1 if disclosures indicate that: <ul style="list-style-type: none"> <li>- the company has a Nominating committee.</li> <li>- the Nominating committee is comprised completely of independent directors.</li> </ul>	2
5. Firms should implement a process for assessing the effectiveness of the board, its committees, and individual directors.	Coded 1 if disclosures indicate that there is a process for assessing the performance of the Board, its committees and its members.	1
6. An orientation and education program should be provided to new board members.	Coded 1 if disclosures indicate that the company has a formal orientation program.	1

<sup>2</sup> An unrelated director is a director who is independent of management and is free from any interest and any relationship which could materially interfere with the director's ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A significant shareholder is a shareholder with the ability to exercise a majority of the votes for the election of the board.

7. The board should consider its size and the potential for reduction.	N/A	0
8. The board should review the adequacy and form of director's compensation.	Coded 1 if disclosures indicate that the company has a Compensation committee.	1
9. Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors.	Coded 1 if disclosures indicate that the all committees described are comprised completely of independent directors.	1
10. Firms should have a committee with responsibility for governance issues.	Coded 1 if disclosures indicate that the company has a corporate governance committee.	1
11. The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities.	Coded 1 if disclosures indicate that <ul style="list-style-type: none"> <li>- the company has a Code of business conduct / ethics.</li> <li>- the company has a written charter.</li> </ul>	2
12. Firms should have structures and procedures so that the board can function independently of management. <sup>3</sup>	Coded 1 if disclosures explicitly state that: <ul style="list-style-type: none"> <li>- the Board Chair is separate from the CEO.</li> <li>- the company has a lead director.</li> <li>- the Board Chair is an independent director.</li> <li>- directors are able to meet independently of management.</li> </ul>	4
13. The audit committee should: be composed only of outside directors; have its roles and responsibilities specifically defined; have direct communication channels with the internal and external auditors; and have oversight responsibility for management reporting on internal control.	Coded 1 if disclosures explicitly indicate that the audit committee consists entirely of independent directors.	1
14. The board of directors should implement a system which enables an individual Director to engage an outside adviser at the expense of the corporation in appropriate circumstances.	Coded 1 if disclosures indicate that there is a formal process for allowing directors to engage outside advisors at company's expense.	1

\*0 = no or not mentioned; 1 = yes (explicitly stated or if the answer yes can be determined from the information disclosed).

<sup>3</sup> An appropriate structure would be to (i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director". Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board's relationship to management to a committee of the board.