

THE VALUE-RELEVANCE OF CORPORATE GOVERNANCE: AUSTRALIAN EVIDENCE

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Abstract

This study provides stakeholders with an understanding of the effectiveness of corporate governance practices by demonstrating the link between corporate governance and firm valuation. It is proposed that the presence of good corporate governance practices enhances the reliability of financial statement information, thereby increasing the market's reliance on this information to value the firm. The specific focus of this research is to determine the impact of corporate governance practices on the value-relevance of earnings and the book value of equity as reported in a firm's financial statements. Results indicate that corporate governance is not value-relevant in its own right. However, good corporate governance practices enhance the value-relevance of earnings but reduce the value-relevance of the book value of equity.

Keywords: corporate governance, value-relevance, valuation

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1. Introduction

A key function of accounting is to provide information that it is both reliable and relevant to decision-makers. Investors are just one of many users of accounting information and for them information relevance is reflected in the ability of the financial statements to capture information that affects share value. The published financial statements of a firm contain summary measures that act as signals to the market. The importance of these measures is highlighted by the broad economic impact of failures such as Enron and WorldCom. Undoubtedly, the extent of the signaling effect of accounting information is linked to the perception of the reliability of that information.

In 1989, Arthur Levitt, Chairman of the Securities and Exchange Commission, challenged the financial community to take action against the erosion of the quality of financial reporting (Levitt, 1989). One response to this call for reform was the development of corporate governance guidelines in a number of countries. While their acceptance and legal enforceability vary across jurisdictions, these guidelines serve a common purpose; to raise governance standards. Furthermore, legislation such as the Sarbanes-Oxley Act of 2002 and the Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Act of 2004 have been enacted

with the primary purpose of protecting investors by improving disclosure and thereby the integrity of the financial reporting process.

Current and future investors require information to make effective investment decisions. A primary source of information is management, who theoretically should be well informed regarding the firm's activities and performance. Much of this information is passed on to the market through a firm's financial statements. The main measures of accounting information presented in the financial statements are the earnings figure, as reported on the Income Statement, and the book value of equity, or net assets, as reported on the Balance Sheet. It is proposed that the reliance placed on each of these measures by the decision-maker is moderated by the perceived reliability of the information contained in the measure.

The impetus behind corporate governance practices is the desire to effectively monitor and control the behavior of management. Using a board of directors as a monitoring mechanism is aimed at reducing agency costs that arise from the misalignment of objectives between management and shareholders (Jensen, 1993). Thus, corporate governance practices that are perceived to improve the ability of the board to monitor management can be seen as a benefit to investors by enhancing the integrity of the financial reporting process.

2. The Value-Relevance of Corporate Governance

Generally Accepted Accounting Principles (GAAP) allow a degree of freedom that may be exploited by management. As management may be motivated by self-interest, incentives exist to manipulate the information released. For example, there is evidence that firms manipulate the earnings figure through the use of discretionary accruals to reach an earnings target (Dechow *et al.*, 1996; Wu, 1997; Teoh *et al.*, 1998; Holland and Ramsay, 2003). Such opportunistic behavior may reduce the reliability and thus the usefulness of the information contained in the summary measures presented in the financial statements. Effective monitoring of management through good corporate governance practices should reduce the incidence of opportunistic behavior.

“Good” corporate governance is not easily defined. There have been numerous committees established to write reports on this very issue, with no clear set of guidelines emerging (Blue Ribbon Commission; IFSA, 2002; OECD, 2004; Committee on Corporate Governance, 2000; Joint Committee on Corporate Governance, 2001; Institute of Directors of Southern Africa, 2002; Business Roundtable, 2005). However, there are certain common characteristics that have emerged from these proposals. Despite the prevalence of such guidelines and associated disclosure requirements (Sarbanes-Oxley, 2002; CLERP, 2004), there is still no guarantee that adhering to the recommendations will reduce fraudulent behavior or actually improve the quality of the financial statement information. The outcome is more likely to be the development of a climate of ethical behavior, which may improve investors’ perceptions that firms are attempting to “do the right thing”.

Much of the existing literature focuses on the impact of corporate governance attributes on firm performance (Daily and Dalton, 1993; Yermack, 1996; Bhagat and Black, 1999; Dalton *et al.*, 1999; Ellstrand *et al.*, 1999; Klein, 2002; Gompers *et al.*, 2003). Attributes examined include board independence, board size, leadership structure, director competence, existence of committees, committee independence, and frequency of meetings. Generally, the results have been inconclusive, in part due to the variety of performance measures used in these studies. The conflicting results commonly found in corporate governance research can also be attributed to the endogeneity of the variables studied. For example, while firm performance may be influenced by the activities of the existing board of directors, past performance may have influenced the size and composition of the current board. Hermalin and Weisbach (2001) provide an interesting discussion of this issue.

The difficulty in finding significant relationships may also be explained by the fact that most studies attempt to analyze the relationship between corporate

governance attributes and firm performance cross-sectionally using a univariate approach. Although these studies investigate one mechanism at a time, no convincing argument has been put forward that a specific level of any given corporate governance attribute is optimal for all firms. For example, the optimal board size for a new entrepreneurial firm may be four directors whereas a mature firm may be best served by a board with nine directors. Furthermore, the interdependence among corporate governance mechanisms implies that the market may examine the combination of mechanisms rather than individual mechanisms when assessing the monitoring capabilities of the board. Thus, the effect of each mechanism may depend on the other governance mechanisms in place, the characteristics of the firm, and the environment in which it operates (Matolcsy *et al.*, 2001).

The 2002 Global Investor Opinion Survey (McKinsey and Co, 2002) indicated that investors are willing to pay a premium for shares in companies with “good” corporate governance practices, assuming comparable financial performance. More recently, the 2006 ISS Global Investor Study reported that institutional investors worldwide view governance as a business imperative that translates into a competitive advantage. Over two-thirds of the shareholders surveyed believe that corporate governance offers value, but acknowledge that it is difficult to quantify (ISS, 2006).

These survey results suggest that corporate governance practices are value-relevant; however, the nature of the relationship is unclear. Corporate governance may be directly value-relevant or may indirectly influence firm value through the perception that financial statement information is more reliable in the presence of good corporate governance practices. This study investigates the relationship between corporate governance practices and the quality of financial reporting, which can be examined by assessing the capital market reaction to the summary measures contained in the financial statements of firms.

3. Hypothesis Development

The summary measures examined in this study are earnings and book value of equity. Both earnings and book value have been shown to be value-relevant with the exclusion of one or the other leading to the misspecification of the valuation model (Easton and Harris, 1991; Ohlson, 1995; Burgstahler and Dichev, 1997; Barth *et al.*, 1998). Investigation of changes in the value-relevance of these measures since the late 1950’s found that the incremental value-relevance of earnings has declined, but that this has been offset by the increased value-relevance of book value (Collins *et al.*, 1997; Francis and Schipper, 1999). Overall, the combined value-relevance of the two measures has not declined. With the increasing awareness of investors to the possibility of earnings manipulation,

it is not surprising that the market's reliance on earnings figures has declined. Therefore, in the current environment of financial fraud, there is a need to identify the circumstances in which the summary measures presented in financial statements can be relied upon for valuation purposes.

Good corporate governance practices may act as a signal to stock market participants that management is being effectively monitored, thereby reducing the likelihood of opportunistic behavior. Consequently, in the presence of good corporate governance the integrity of the financial statements should be enhanced, thereby increasing the value-relevance of earnings and book value. Conversely, the absence of good corporate governance may indicate opportunistic behavior, thus reducing the reliability and value-relevance of the summary measures.

Hypothesis 1: *Corporate governance practices are value-relevant.*

Hypothesis 2: *The value-relevance of earnings is greater for firms with good corporate governance practices.*

Hypothesis 3: *The value-relevance of book value of equity is greater for firms with good corporate governance practices.*

4. Methodology

4.1 Empirical Model

Value-relevance research investigates the association between accounting information and some measure of value. The objective is to provide an assessment of the usefulness to investors of accounting information in valuing the firm. Ohlson (1995) proposed a valuation framework that links firm value to earnings and book value of equity, with both measures contributing to the value of the firm. Following the work of Ohlson (1995), the relationship between stock prices, earnings, and book value of equity is estimated as:

$$P_t = \beta_{0t} + \beta_{1t}E_t + \beta_{2t}BV_t + \nu_t \quad (1)$$

Where P_t = price of common stock at time t , adjusted for dividends

E_t = earnings per share for the year ending time t

BV_t = book value of equity per share at time t

To assess the impact of corporate governance requires an adaptation of equation (1). The model captures the additional information provided by corporate governance practices through the inclusion of an intercept dummy and slope dummies for earnings and book value. The dummy variables in the corporate governance model assist in evaluating the impact of corporate governance on the value-relevance of earnings and book value in light of the market's perception of the integrity of the financial reporting process.

Corporate governance quality (G) is an explanatory variable for β_{0t} , β_{1t} , and β_{2t} such that

$$\beta_{0t} = b_0 + b_1G_t \quad (2)$$

$$\beta_{1t} = b_2 + b_3G_t \quad (3)$$

$$\beta_{2t} = b_4 + b_5G_t \quad (4)$$

Substituting (2), (3), and (4) in equation (1) gives

$$P_t = (b_0 + b_1G_t) + (b_2 + b_3G_t)E_t + (b_4 + b_5G_t)BV_t + \nu_t$$

$$P_t = b_0 + b_1G_t + b_2E_t + b_3G_tE_t + b_4BV_t + b_5G_tBV_t + \nu_t$$

$$P_t = \gamma_{0t} + \gamma_{1t}G_t + \gamma_{2t}E_t + \gamma_{3t}G_tE_t + \gamma_{4t}BV_t + \gamma_{5t}G_tBV_t + \omega_t \quad (5)$$

Another dominant factor influencing the value-relevance of earnings is the occurrence of reported losses (Hayn, 1995). To control for this effect, a dummy variable for negative earnings is added to equation (5).

$$P_t = \gamma_{0t} + \gamma_{1t}G_t + \gamma_{2t}E_t + \gamma_{3t}G_tE_t + \gamma_{4t}BV_t + \gamma_{5t}G_tBV_t + \gamma_{6t}NE_t + \omega_t \quad (6)$$

Where $NE_t = 1$ if earnings are negative, 0 if earnings are non-negative

Hypothesis 1 states that corporate governance is value-relevant. Therefore, it is expected that the coefficient on the corporate governance intercept variable (γ_1) will be significant. The slope coefficients on the corporate governance dummy variables for earnings (γ_3) and book value of equity (γ_5) represent the impact of corporate governance on the value-relevance of these accounting measures. Following Hypotheses 2 and 3, it is expected that both γ_3 and γ_5 will be positive, indicating an increase in value-relevance resulting from the positive effect of good corporate governance on the reliability of the financial statement measures.

4.2 Measurement of Variables

Assessing the value-relevance of financial statement information requires an examination of the extent to which this information is used by investors in valuing the firm. Market price per share is the dependent variable in the model and is the benchmark against which the accounting measures are compared. The stock price used in the regression is the price per share at the end of three months after the firm's balance date. This approach is used in numerous studies in order to ensure that the stock price fully reflects the information presented in the annual reports (Cheng *et al.*, 1996; Ou and Sepe, 2002). It is common practice in the valuation literature to define earnings as earnings before extraordinary items per share (Dechow, 1994; Hayn, 1995; Cheng *et al.*, 1996; Barth *et al.*, 1998; Ou and Sepe, 2002). Book value of equity is the book value of the firm as represented by net assets, or the difference between total assets and total liabilities. Earnings and book value of equity are measured at the balance date. Stock price data and financial statement data were obtained from the Australian Stock Exchange (ASX) website and company annual reports respectively.

Corporate governance data was drawn from the Horwath Corporate Governance Reports (2002 to 2005). The ratings provided in these reports are based on information from the previous year. Therefore, the 2002 corporate governance information will be linked to the 2001 market and financial statement data for each firm. The Horwath report provides both a ranking and a star rating for each firm with respect to

their corporate governance practices. The rankings range from one to 250 with one representing the highest ranked firm. The star ratings range from one to five stars, with five representing the best corporate governance practices. The model used to develop the ratings considers factors pertaining to the existence and structure of a company's board of directors, audit committee, remuneration committee, and nomination committee (Horwath, 2002). These factors were derived from published best practice guidelines. The information used in the model is objective, quantifiable, and publicly available. As such, the model may neglect to include other factors that may be relevant to the assessment of a firm's corporate governance practices.

The corporate governance quality variable (G) is measured by creating a binary dummy variable which has a value of one when the corporate governance quality is "high" and zero when it is "low". Firms will be assigned to these categories based on the median values for rankings and star ratings. Firms with a ranking from 1 to 119 were designated as high quality and firms with a ranking from 120 to 250 were designated as low quality. When the dummy variable was created based on the star ratings, firms with 1, 2, or 3 stars were designated as low quality, and firms with 3.5, 4, 4.5, or 5 stars were designated as high quality.

4.3 Sample Selection

The study covers the financial reporting periods from 2001 to 2004. The initial sample included the top 250 firms by market capitalization listed on the Australian Stock Exchange, excluding trusts and foreign companies. The sample is limited to 250 firms each year as the corporate governance ratings are only available for these firms. After removal of observations with missing data, the number of firm observations was 959. Outliers were identified using scatter plots and histograms. Only two outliers were identified and removed from the sample. Firm observations with negative book value per share were also excluded. Firms in the banking, insurance and finance industry were eliminated from the sample due to unique industry regulations imposed by the Australian Prudential Regulation Authority (APRA). A further reduction in the sample occurred with the removal of firms in the energy sector as the valuation of book value of equity for these firms may not be comparable to firms in other industries. This resulted in a sample with 732 firm observations.

4.4 Analysis

In this study, pooled regressions and yearly cross-sectional regressions will be estimated for the 4-year period from 2001 to 2004 inclusive. Consistent with research on the value-relevance of accounting information, Ordinary Least Squares (OLS) regression analysis will be used to test the hypotheses, with

value-relevance represented by a significant estimated regression coefficient. The pooling of firm observations may lead to bias in the t-statistics due to a lack of independence of the observations. This issue is addressed in two ways. The results are reported on an annual basis as well as for the pooled data. Although this reduces the power of the test due to the reduced sample size, it does overcome the estimation bias. Furthermore, to control for possible heteroscedasticity in the residuals, the significance of the coefficients is tested using White's heteroscedasticity-consistent standard errors.

5. Results and Discussion

5.1 Univariate Analysis

The descriptive statistics and correlation coefficients are presented in Table 1. Earnings and book value of equity are positively correlated with stock price. These correlations suggest that price will be higher when earnings or book value of equity are higher. Although the relationships are weak, corporate governance also displays significant correlation with earnings, book value, and price. This implies that the better the corporate governance practices the higher the earnings, book value, and share price.

[Insert Table 1 here]

Comparisons of means for earnings per share and book value of equity per share were made between the groups based on low and high quality corporate governance as measured by star ratings and rankings. The results are presented in Table 2. Higher mean earnings and book value of equity are reported for firms with higher corporate governance quality. This relationship holds for both measures of corporate governance quality. This suggests that firms with better corporate governance ratings experience higher earnings and book value of equity. These differences in mean earnings and book value of equity support the notion that corporate governance may affect firm value indirectly through its impact on earnings and the book value of equity.

[Insert Table 2 here]

5.3 Tests of Hypotheses

Regression analysis was used to formally test the stated hypotheses and thereby assess the impact of corporate governance quality on the value-relevance of financial statement measures. Equation (6) was estimated using the two different measures of G, the corporate governance quality dummy variable. The results of the regression estimations are presented in Table 3. Panel A exhibits the results for the equation estimated using the corporate governance quality dummy variable based on the star ratings. Panel B displays the results for the equation estimated using the corporate governance quality dummy variable

based on the rankings. The results are shown for the pooled sample and for each of the study years, 2001 to 2004 inclusive.

[Insert Table 3 here]

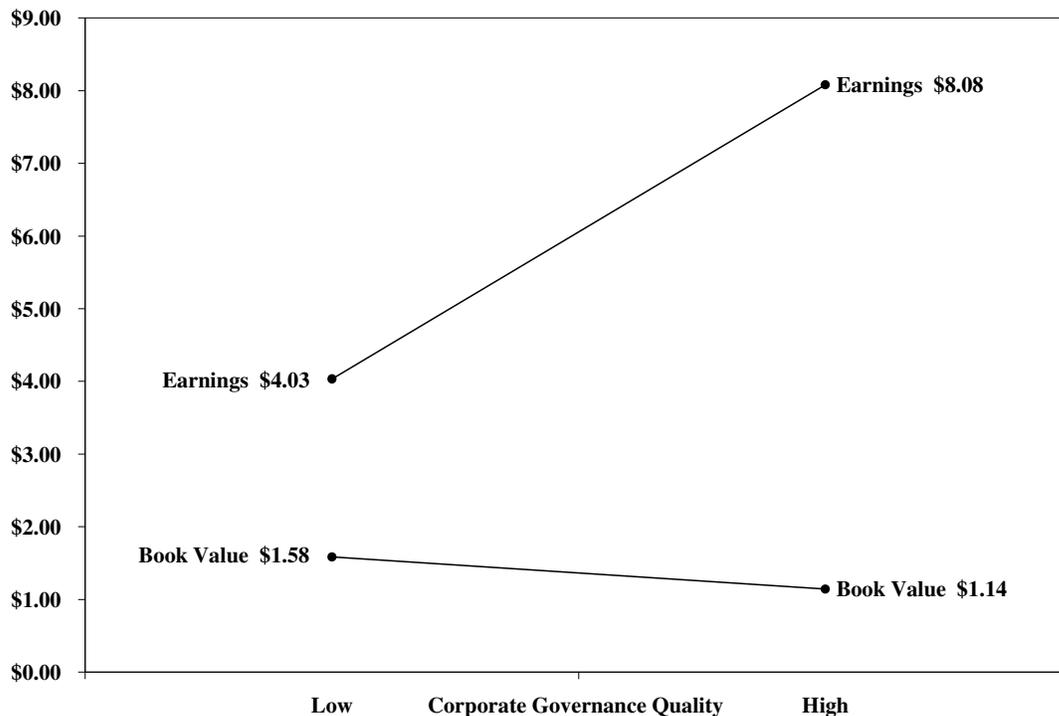
The adjusted R-square indicates that 55% of the variation in stock price can be explained by the model. This figure is similar for the pooled regressions based on both star ratings and rankings. The Adjusted R-square is lowest in 2001 and increases each year through to 2004. This may suggest that the market is placing greater reliance on financial statement measures in the valuation process in recent years.

The estimated coefficient (γ_1) on the corporate governance dummy variable is not significant for the pooled regression or any of the individual years. This indicates that corporate governance is not value-relevant as an independent variable. Therefore, Hypothesis 1 is not supported. However, when corporate governance is examined as an interaction variable, the results suggest that corporate governance is value-relevant in that it influences the market's

perception of the value-relevance of earnings and book value of equity.

Chart 1 shows the impact of corporate governance quality on the earnings response coefficients for earnings and book value. The chart is based on the results displayed in Table 3 Panel A for the estimation of Equation (6). Both earnings and book value are value-relevant as indicated by the positive significant coefficients γ_2 and γ_4 respectively. The earnings response coefficient (γ_2) indicates that the market values each dollar of earnings per share at \$4.03 when corporate governance quality is low. The estimated coefficient (γ_3) on the interaction variable for earnings is positive and significant. The earnings response coefficient increases by 4.048 ($p=0.000$) in the presence of high quality corporate governance. In other words, the market values each dollar of earnings per share at \$8.08 when corporate governance quality is high. These results support Hypothesis 2, which states that the value-relevance of earnings is greater for firms with good corporate governance practices.

Chart 1: Comparison of Estimated Response Coefficients



The book value response coefficient (γ_4) indicates that the market values each dollar of book value of equity per share at \$1.58 when corporate governance quality is low. The estimated coefficient (γ_5) on the interaction variable for book value is negative and significant. The book value response coefficient decreases by 0.444 ($p=0.013$) in the presence of high

quality corporate governance. In other words, the market values each dollar of earnings per share at \$1.14 when corporate governance quality is high. These results do not support Hypothesis 3, which states that the value-relevance of book value of equity is *greater* for firms with good corporate governance practices.

The results imply that the value-relevance of book value is reduced when firms have high quality corporate governance. This conclusion is contrary to Hypothesis 3. However, when viewed in conjunction with the behavior of the earnings response coefficient it becomes apparent that the market may be fixating on earnings. Earnings per share has long been the focal point for analysts and investors. Past research has shown that earnings reliability becomes questionable when motivation exists for the manipulation of earnings (Brown, 1999; Healy and Wahlen, 1999; Dechow and Skinner, 2000; Rosenfield, 2000; Duncan, 2001). For example, when a firm engages in earnings management, the earnings figure may no longer be a true and fair reflection of firm performance thus reducing the reliability of earnings. When information is unreliable it is unlikely to be useful as the basis for firm valuation, and the market may look to alternate measures, such as book value. Consequently, in the presence of good corporate governance, the perception of an increase in the reliability of earnings may lead to book value becoming less important in the valuation process.

Panel B of Table 3 shows that very similar results were found for the regression estimation using the corporate governance dummy variable based on rankings. Furthermore, the direction and significance of the estimated coefficients for each year are consistent with the pooled samples. Only two exceptions exist. The first exception relates to significance of the estimated coefficients. In 2002 the estimated coefficient (γ_3) on the interaction variable for earnings is not significant and in 2003 the estimated coefficient (γ_5) on the interaction variable for book value is not significant. The coefficients are significant in all other years.

The second exception relates to the direction of one of the coefficients. In 2002, the estimated coefficient (γ_5) on the interaction variable for book value is positive, whereas it is negative in all other years and for the pooled regression. Interestingly, this is the same year that the estimated coefficient (γ_3) on the interaction variable for earnings not significant. The magnitude of the earnings response coefficient for all firms in 2002 is similar to the earnings response coefficient for firms with high quality corporate governance in other years.

6. Conclusions

The influence of corporate governance is evident when examining the impact of corporate governance quality on the value-relevance of earnings and book value. The results suggest that the market views the role of corporate governance as enhancing the reliability of the earnings figure such that the value-relevance of earnings is greater for firms with high quality corporate governance practices. Contrary to expectations, the value-relevance of book value is not enhanced by higher quality corporate governance. This may possibly reflect the market's fixation on

earnings. As earnings is viewed to be more reliable in the presence of good corporate governance practices, the market may rely more on earnings and have less use for other measures, such as book value, as the basis for valuation.

A possible limitation of the model is the exclusion of variables that are known predictors of price. However, it should be noted that the purpose of the study was not to predict the share price through inclusion of all explanatory variables, but rather to investigate the value-relevance of corporate governance practices and their impact on the value-relevance of the two key summary measures, earnings and the book value of equity.

The limitations of this study relate primarily to the sample. The size of the sample was restricted by the use of the Horwath Corporate Governance Reports, which only provide ratings for the top 250 companies by market capitalization as listed on the Australian Stock Exchange. Corporate governance practices may vary considerably for smaller companies and those under less scrutiny from the investing public. Further research examining smaller companies, international markets, and specific industries would provide additional insight into the value-relevance of corporate governance practices.

Another area for future research concerns the endogeneity of corporate governance variables. The focus of this study was to examine the market's reaction to the quality of corporate governance practices. However, market behavior may influence future corporate governance practices.

While firms may view corporate governance primarily as a regulatory requirement, they should also be mindful of the market's perception of their actions. Considerable attention has been given to the relationship between corporate governance and firm performance, with few valuable insights being revealed. However, the results of this study clearly demonstrate that the market responds to the quality of a firm's corporate governance practices. In other words, corporate governance is value-relevant.

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Appendices

Table 1. Univariate Analysis

Panel A: Descriptive Statistics									
	P	EPS	BV	Stars	Rank	n			
Mean	4.505	0.200	2.010	3.275	122.470	732			
Median	2.750	0.150	1.360	3.500	119.500	732			
Minimum	0.040	-1.976	0.020	1.000	1.000	732			
Maximum	47.700	3.005	11.760	5.000	250.000	732			
Std Deviation	5.643	0.379	1.922	1.068	70.330	732			

Panel B: Pearson Correlation Coefficients									
	P	EPS	BV	Stars	Rank				
P	1.000								
EPS	0.615	***	1.000						
BV	0.675	***	0.560	***	1.000				
Stars	0.135	***	0.109	***	0.194	***	1.000		
Rank	-0.139	***	-0.107	***	-0.190	***	-0.961	***	1.000

NOTES:

*** Correlation is significant at the 0.01 level (2-tailed).

P = Price per share

EPS = Earnings per share

BV = Book value of equity per share

Stars = Corporate governance star rating from 1 (low) to 5 (high)

Rank = Corporate governance ranking from 1 (high) to 250 (low)

Table 2: Comparison of Means

Panel A: Groupings based on Stars					
Variable	Corporate Governance Quality	n	Mean	t-stat	
EPS	Low	336	0.158		
	High	396	0.235		
	Difference		0.077		2.758***
BV	Low	336	1.686		
	High	396	2.286		
	Difference		0.600		4.261***

Panel B: Groupings based on Rank					
Variable	Corporate Governance Quality	n	Mean	t-stat	
EPS	Low	366	0.165		
	High	366	0.234		
	Difference		0.069		2.473**
BV	Low	366	1.713		
	High	366	2.308		
	Difference		0.595		4.239***

NOTES:

*, **, *** Significant at 10%, 5%, 1%, two-tailed respectively.

EPS = Earnings per share

BV = Book value of equity per share

Low = Corporate Governance star rating of 1, 2, or 3; Corporate Governance ranking greater than 119

High = Corporate Governance star rating of 3.5, 4, 4.5 or 5; Corporate Governance ranking less than or equal to 119

Table 3: Regression Equation Estimation

Equation (6)	$P_{it} = \gamma_0 + \gamma_1 G_{it} + \gamma_2 E_{it} + \gamma_3 G_{it} E_{it} + \gamma_4 BV_{it} + \gamma_5 G_{it} BV_{it} + \gamma_6 NE_{it} + \omega_{it}$								
	Adj R ²	γ_0	γ_1	γ_2	γ_3	γ_4	γ_5	γ_6	n
Panel A: G based on Stars									
Pooled	0.555	0.192 (0.63)	0.150 (0.37)	4.033 (5.94)***	4.048 (4.55)***	1.584 (11.85)***	(0.444) (2.48)**	1.639 (3.76)***	732
2001	0.443	0.048 (0.06)	0.986 (0.90)	5.379 (2.91)***	4.921 (1.85)*	2.008 (5.82)***	(1.363) (2.65)***	1.625 (1.45)	177
2002	0.555	0.222 (0.33)	(1.142) (1.34)	8.242 (4.27)***	0.140 (0.06)	0.961 (3.19)***	0.735 (1.92)*	2.927 (3.04)***	185
2003	0.592	0.374 (0.74)	(0.351) (0.52)	3.083 (2.81)***	3.631 (2.68)***	1.363 (6.22)***	(0.069) (0.24)	1.504 (2.08)**	186
2004	0.762	0.315 (0.70)	0.797 (1.41)	1.882 (2.34)**	7.591 (6.58)***	1.515 (8.16)***	(0.857) (3.41)***	1.664 (2.64)***	184
Panel B: G based on Rank									
Pooled	0.553	0.203 (0.68)	0.174 (0.43)	4.240 (6.33)***	3.750 (4.21)***	1.527 (11.67)***	(0.359) (2.02)**	1.630 (3.73)***	732
2001	0.441	0.056 (0.07)	0.968 (0.88)	5.375 (2.89)***	4.816 (1.80)*	2.003 (5.75)***	(1.319) (2.56)**	1.597 (1.42)	177
2002	0.561	0.163 (0.25)	(0.971) (1.14)	8.709 (4.62)***	(0.809) (0.37)	0.875 (3.03)***	0.899 (2.34)**	2.920 (3.05)***	185
2003	0.591	0.425 (0.86)	(0.407) (0.60)	3.186 (2.92)***	3.471 (2.56)**	1.343 (6.20)***	(0.033) (0.12)	1.488 (2.05)**	186
2004	0.758	0.375 (0.91)	0.880 (1.56)	2.231 (2.83)***	7.411 (6.32)***	1.507 (8.61)***	(0.888) (3.55)***	1.637 (2.60)**	184

NOTES:

*, **, *** Significant at 10%, 5%, 1%, two-tailed respectively.

P = Price per share

EPS = Earnings per share

BV = Book value of equity per share

NE = Negative earnings (1 if earnings are negative, 0 if earnings are non-negative)

G = Corporate Governance Quality dummy variable (Low = 0; High = 1)

Low = Corporate Governance star rating of 1, 2, or 3; Corporate Governance ranking greater than 119

High = Corporate Governance star rating of 3.5, 4, 4.5 or 5; Corporate Governance ranking less than or equal to 119