The correlation between the corporate governance and the financial performance of the companies within islamic financial system. *EMPIRICAL EVIDENCE FROM MALAYSIA*

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Abstract

In the light of the economies development, there is an ever increasing attention on corporate governance mechanisms. When it comes to the islamic financial system, the corporate governance embraces a deeper meaning as it is correlated to islamic rules derived from Qurann. This paper examines the impact of corporate governance variables on companies' financial performance. The influence of the corporate governance attributes on the financial performance of the company quantified by the indicators ROE, ROA, EBITDA/Total Assets and EPS is proved using the companies traded in FTSE Bursa Malaysia EMAS Sharia'ah Index. This paper finds that all of the used corporate governance variables do influence the firms' performance. What can be remarked from the islamic perspective are the negative relationships between the leverage, CEO duality, percentage of independent directors and financial performance of the company.

Keywords: corporate governance, islamic financial system, financial performance, Shariah Law

Introduction

The corporate governance became a deep research field in the last decades, capturing the attention of various professionals, managers, investors, institutions with power of decision and academicians too. The corporate governance is not the only way a company can be run successfully but it offers a high degree of confidence by monitoring and controlling the company's activity. Many articles were performed in order to prove that mechanisms of corporate governance do enhance the company's performance and transparency.

Within the islamic financial system, the corporate governance principles rely on the standard corporate governance practices but there are adjustments applied according to the

Shariah Law's requirements. The islamic financial system promotes the honesty, justice and the society's equilibrium as revealed from the islamic rules.

The present paper aims to prove to what extent the corporate governance's attributes have an impact upon the company's performance based on the literature framework and an own study case.

This paper's theme is current, being intensely debated by researchers. The originality of this paper constitutes of proving the corporate governance attributes's impact on the financial performance of the companies activating in the islamic financial system. I chose The Malaysia Stock Exchange as the majority of the companies listed there are compliant with Shariah Law which influences both the private life of the individuals and community as a whole.

The aim of the present paper is to understand the impact which the corporate governance attributes have on the company's financial performance, this paper being addressed to the potential investors, the board of the respective companies and to any other individuals interested in this theme. This paper is divided in five parts as follows: Section 1 presents the relevant characteristics of Shariah Law , followed by the literature review and the development of the hypothesises in the section 2. The sections 3 presents the empirical study of the relation between the corporate governance and the performance of the companies using data for companies listed in the FTSE Bursa Malaysia EMAS Shari'ah Index and section 4 presents the concluding remarks.

1. Incursion into Shariah Law

Malaysia is a country where a wide variety of ethnicities, cultures and religions melds, the majority of the population being represented by muslims (61.3%), the rest of it being represented by budhists (19.8%), christians (9.2%), hinduists (6.3%) and others (1.3%).

The islamic financial system has fastly developed in the recent years. According to a report issued by Thomson Reuters in 2013, Malaysia is at the top of the islamic financial systems, having a market share of 30.5%, being followed by Saudi Arabia (20%) and Iran (13.70%). Malaysia benefits of the most developed islamic financial system from all around the world, its system functioning at the same time with the conventional financial system. Starting from 2002, Malaysia becomes the main player in the global islamic financial system, having the most liquid internal market.

Malaysia owns approximately 59% from the global market of islamic bonds compared to Gulf Cooperation Council which owns 31%. The countries constituent of GCC are Saudi Arabia, EAU, Kuwait, Bahrain and Oman. Moreover, the annual sale of bonds tripled in the last ten years, Malaysia attracting international investors as Tokyo Mitsubishi UFJ Bank Ltd. Although the states from Gulf and Saudi Arabia have the largest islamic banks, Malaysia still stays the leading centre of the islamic financial system.

The companies listed at Malaysia Stock Exchange are divided into two groups: the ones compliant with Shariah law and the ones non-compliant with Shariah Law. The companies compliant with Shariah Law are small and large, public and private, coming from various activity sectors. According to the information provided on Malaysia Stock Exchange's website, 825 companies are classified as according to Shariah Law, representing 89% of the total companies listed at Malaysia Stock Exchange.

The islamic financial system operates on the basis of Shariah Law. This law derives from the divine revelation of the prophet. The islamic financial system concept comes from the principles promoted in the islamic religion with regard at ownership right, economic and social justice and wealth's distribution. One of the main characteristics of this system is the prohibition of the interest rate's use (riba) and ambiguous contracts' use (gharar). The gharar is prohibited in order to avoid any type of fraud and excessive uncertainty within contracts. In addition to these, the islamic financial system relies on the following principles revealed by Shariah Law:

1. It eliminates the debt instruments from the financial system, replacing the interest rate with the return rates earned due to the contracts exchange or sharing the risks;
2. The banking deposits operate based on the sharing profit/loss principle, priorly not being established a certain level of the interest rate;
3. It promotes the financing of the trade in order to ensure a strong connection between the real economy and the financial sector because all the financial contracts must be supported by assets and/or transactions in the real economic sector;
4. It respects the ownership rights of the individuals and society and sets the individual ownership sources;
5. It prmotes the respecting of the contracts signed within the commodity and service trading and the transfer of the ownership and the honoring of the receivables;
6. It emphasizes the morality and ethics in business, prohibiting the illicit activities according to Shariah Law;
7. It promotes the sharing loss/profit principle between the poor and rich people by using specific redistribution instruments.

As it can be concluded from above, the main characteristic of the islamic financial system is the equilibrium; every action that is performed within the financial system must be beneficial for society. It is about an equilibrium of spiritual and material needs and an equilibrium of the social and individual needs too. The financial system is equitable because both the investors/partners contribute to the final result of the partnership, no matter if it is profit or loss. Therefore, either both partners contribute to the capital formation and have the right to manage the project (musharakah) or one of the partners offers the capital and the other partner manages the project (mudarabah), it is emphazised the equitable allocation of the risk among the partners.

Using the interest rate (riba), speculations (gambling) and uncertainty (gharar) is considered involvement in forbidden practices which represent a serious sin. As nowadays it is impossible that a company not to call on the services of a financial institution and this way to win or pay interest, it is accepted a certain level up until the companies are allowed to be involved in this kind of practices.

For this purpose, in order to decide which companies are compliant with Shariah Law, a screening procedure is applied. The aim of this procedure is to eliminate the ineligible actions for investments. At the beginning of the islamic financial system's development, the screening procedure was not applied as the investments in stocks were according to islamic principles since the majority of investors was muslim. But the development of the associations and partnerships in the islamic commercial space between muslim and non-muslim individuals made necessarily that muslim investors to ensure themselves that their partners behave accordingly to Shariah principles.

Compared to the OECD principles, the corporate governance principles for the islamic countries are deeper, presenting a wider horizon. The islamic religion does not mean only a divine service, like Judaism or Christianity, but it involves a Code of Conduct too which regulates the humanity in both the spiritual and material life. Therefore, the corporate governance structures in islam differs from the common practices in the sense that standardization of the rules must respect what is written in Quran and Sunnah and it should satisfy the muslim investors' expectations, offering financing methods compliant with Sharia Law.

Abu-Tapanjeh (2009) prepares an analysis of the corporate governance principles within the islamic financial system based on four pillars: ethics in business, decision process, transparency and financial dimension.

Regarding the ethics in business, the islamic financial system is guided by same principles like OECD, promoting transparency, consistency and the equality rule of law.

Regarding the decision process, the islamic perspective is wider where not only the board's members and senior managers are involved in the decision process but the other stakeholders too. Islam encourages the business participants to cooperate freely and honestly.

The islamic system promotes transparency. Firstly, muslim individuals should be transparent towards Allah. They believe that all the resources must be available to individuals, relying on confidence. Therefore, a transparency of the financial data must exist and the relevant information must be freely available to users.

Further, concerning the financial dimension, Abu-Tapanjeh mentions that every financial transaction must be found in the balance sheet and therefore each possession of certain assets outside of law is forbidden. The Muslims consider that Allah knows everything and anyone who hides will be responsible in the Judgement Day. The islamic ethics do not admit the cheating. The cheating is considered a moral problem without any solution compared to the conventional system for which the cheating is a deficiency of the external law or a problem related to the poor corporate governance.

2. Literature review and the hypothesis development

There exists a well number of studies which prove a link between the corporate governance and firm performance. These empirical studies mainly focus on the following corporate governance attributes: manager's gender, manager's age, independent directors, CEO duality, board size, board meetings, Audit Committee, Independence of Audit Committee, Muslim directors within the Audit Committee, training and the education level of directors, professional qualifications, ethnicity, institutional investors and family members on the board.

Alowaihan (2004) mentions that women even with a larger background than man's background obtain a lower financial performance of the companies run by them. This is due to the fact that women are not able to manage the unexpected situations, the lack of experience being a barrier in this sense. According to Quran, the woman has to obey the man, her place in the society being inferior to the one for man.

Regarding the relationship between the *manager's age* and firm performance, Cornet el al. (2008) proved a positive link between them. Choi et al. (2007), Abor and Adjasi (2007) and Awan (2012) proved a positive relationship between the financial performance of the company and the percentage of the *independent directors* in the board. They consider that the presence of the independent directors enhances the company's competitiveness and ensures new strategies for companies. Regarding the *CEO duality* variable, the Corporate Governance Code of Malaysia recommends the role of the President to be different from the role of CEO. It is preferred that not only one person to dominate the decision process. Chen et al. (2006) and Shukeri et al. (2012) demonstrated a direct link between the *board size* and financial performance of the company. This is due to the fact that a broader board is more efficient in monitoring the company's activity. The *board meetings* influence positively the financial performance of the companies as Brown and Caylor (2004) demonstrated.

The companies with an *Audit Committee* obtain a better performance. According to Krishnan (2003), the audit services ensure a higher degree of confidence for the corporate governance processes and reporting. Xie et al (2003) claim in their study that a more *independent Audit Committee* ensures a better corporate governance compared to a less independent committee. More *muslim directors* within the Audit Committee increase the diversity of the backgrounds, abilities and experiences which at the end positively influence the decision process. The islam is against opportunism and prohibits the opportunist behaviours (Abdul Rahman et al. 2005).

Malaysia is among the Asian countries which requires the *training and the education of the managers*. Training is important in order to ensure a high degree of corporate governance and ethics among directors. Therefore, Malaysia recommends the trainings and courses as mandatory for the managers. The *professional qualifications* of the directors ensure that they are able to face various external shocks and to offer a better monitoring of the company (Erickson et al. 2005). Hoefstede claims that risk aversion for Malaysian is high. Malaysian people encourage the collectivism but at the same time they are reserved which does not imply a very good transparency. Therefore the *ethnicity* of the directors (Malaysian directors) is expected to have a positive influence on the financial performance of the companies compared to Chinese directors.

The presence of the *institutional investors* has a positive impact on the monitoring mechanism of the company. Transparency is more emphasised when institutional investors exist, the asymmetry of information being reduced. Wahab et al. (2008) proved a positive relationship between the corporate governance and the presence of the institutional investors. Amran and Ahmad (2010) proved that the *family members* on the board of company influence positively the financial performance of the company.

Cornet at al. (2008), Salehi et al. (2011) and Latif et al. (2013) proved a positive relationship between the *company size* (total assets) and the company's performance. The *leverage* influences positively the financial performance of the company (Leng 2005, Jeanings 2005). The company's age has a positive impact on the company's performance (Amran and Ahmad 2009).

Starting from the literature, we developed the following hypothesises:

1. Manager's gender	The male mangers influence positively the company's financial performance.
2. Manager's age	There is a direct relationship with the company's financial performance.
3. Independent directors	There is a direct relationship with the company's financial performance.
4. CEO duality	There is a negative relationship with the company's financial performance.
5. Board size	There is a positive relationship with the company's financial performance.
6. Board meetings	There is a positive relationship with the company's financial performance.
7. The Audit Committee	There is a positive relationship with the company's financial performance.
8. The independence of the AC	As the degree of independence of the AC is higher, the financial performance of the company is higher.
9. The muslim directors within the AC	As the proportion of the muslim directors is higher, the financial performance of the company is higher.
10. Training and the level of education	Managers with a higher level of education obtain a better financial performance of the company.
11. The professional qualification	Directors with professional qualifications obtain a better financial performance of the company.
12. Ethnicity	The Malaysian directors obtain a better financial performance of the company.
13. Institutional investors	There is a positive relationship between the percentage of shares owned by the institutional investors and the financial performance of the company.
14. Family members	There is a positive relationship between the proportion of the family members on the board and the financial performance of the company.

3. Study case

Sample data and variables

For the study we used empirical data for 174 companies listed in FTSE Bursa Malaysia EMAS Shari'ah Index. The data used are panel observations that capture the evolution of the same companies over the time. The reason we used data from 174 out of 184 companies listed in Malaysian stock index was the lack of complete observations for the entire period under review for some companies. The time horizon for this analysis is 2011-2013. The data were collected manually from Reuters platform and from the companies' annual reports available on their website.

Methodology, empirical results

In order to determine the impact of the corporate governance on the financial performance of the company there were developed various multiple regression models considering the dependent variables as ROA, ROE, EBITDA/Total Assets and EPS.

A summarised form of the model is as follows:

$Perf = \alpha + \beta_i X_i + \gamma_i GC_i + e_i$, where

Perf = {ROA, ROE, EBITDA/Active, EPS},where Perf means performance

X_i = {Total assets, Leverage, Company's age}, where X_i is control variable

CG_i = {CEO's age, CEO-duality, the percentage of male directors, the precentage of independent directors, board size, board meetings, ethnicity, the percentage owned by the institutional investors, the percentage of the family members on the board, the number of the Audit Committe's members divided by the minimum recommendation of the CG and the degree of independence of the AC}, where CG_i is the corporate governance variable.

There were estimated two models of regression for each of the dependent variables (ROA, ROE, Ebitda/Assets) and one model having EPS as dependent variable. A summary of the results is shown below:

Independent variables	*Company's performance*		
	Hypothesises	**Results**	
LN_total_assets	+	+	√
Lev	+	-	X
Company_age	+	+ / -	X
CEO_age	+	-	X
CEO_duality	-	-	√
Dir_male	+	+	√
Dir_indep	+	-	X
Board_size	+	+	√
Board_meetings	+	-	X
Ethnicity	+	-	X
Invest_percentage	+	+	√
Family_percentage	+	+	√
Grad_audit	+	+	√
Indep_audit	+	-	X

Tabel 3.1 A summary of the utilized hypothesises vs. results obtained; Source: own processing

As it can be seen, all the 14 hypothesises were statistically validated. Seven hypothesises out of fourteen were validated with the initially established sign. Except of the CEO duality variable which influences negatively the financial performance of the company, the others attributes of corporate governance influence positively the company's performance. As a result, the companies from Malaysia are situated very well with regard to respecting the used attributes of corporate governance.

The other seven hypothesises are validated too but with the sign opposed to the one initially set. In the anglo-saxon models, the *leverage* influences positively the financial performance of the company as it is considered that the indebtedness contributes to the increase of performance by attracting new investments in sustainable projects which give an added value. This negative relationship can be explained by the islamic financial context where using the banking debt in order to finance an investment is forbidden by Shariah Law. The relationship between the company's age and its performance varies. If for the model with EPS as a dependent variable the relationship between these two variables is a positive one, for the other models the relationship is negative. Therefore, as the results are not consistent, it should be given more attention for this attribute of corporate governance. As a solution for the following studies, the increase of the sample may ensure a better accuracy of the result.

Further, *CEO's age* influences negatively the financial performance of the company. In my opinion, this result is not necessarily specific for the islamic world but it is a frequent met characteristic for another financial systems, especially for the current period when the Y generation (the generation for youth) is obvious. The proportion of independent directors influences negatively the financial performance of the company which should be an alarming sign for the board of the companies. An increasing number of the board meetings can lead to a reduction of the Malaysian companies' financial performance and the Malaysian directors obtain lower financial performances than directors with other nationalities. Regarding the directors' ethnicity it may be a perspective for the future that the Malaysian corporate environment to take into consideration the enlargement of the opportunities by accepting on the board directors with various nationalities. This way, it can be benefited from the diversity of the knowledge and background which can help in finding various solutions for probable issues.

The independency of the AC should have a positive impact upon the financial performance of the company. For the Malaysian companies, this impact is negative. It should be given an adequate attention to this attribute for the following studies.

In my opinion, a characteristic of the islamic financial system from the corporate governance perspective is the negative relationship between leverage and the financial performance of the company. In addition to it, it was proved that the islamic financial system is level-headed, which emphasizes the equilibrium and prohibits the risk and uncertainty in the business activity. As it could be seen, the Malaysian directors who have strong risk averison obtain lower financial performance of the company.

The Shariah Law promotes the moral ethics in business which do not admit the cheating. CEO duality variable reveals this idea. According to the Quran, the women are inferior to men. The significance of the large percentage of male on the board reveals this aspect of the islamic world. Moreover, the islamic system promotes the collectivism. We saw that the Malaysian society promotes the collectivism, the islamic society trying to avoid the interest conflicts between the society's members.

According to the obtained results within this paper, we can conclude that the corporate governance has an impact upon the companies' financial performance. As a proof, all the fourteen hypothesises were validated but it still should be given a proper attention to the ones validated with opposite sign to the initially established sign.

4. Conclusions and recommendations

In the context of economies development corporate governance is considered an important comparative advantage for companies as it increases the confidence of investors in the private sectors. The corporate governance is not the only way a company can be lead but it offers a higher degree of confidence by monitoring and controlling the business activity. There are some words saying that corporate governance is for modern companies what democracy was for the ancient states. Corporate governance can be seen as the application of the fundamental democratic principles in an organizational typology as a company.

Within the islamic financial system, the corporate governance principles are based on the standard corporate governance practices but with the right adjustemnts regarding the Sharia Law's requirements. The islamic financial system promotes honesty, justice and the society's equilibrium as it is revealed from the islamic rules.

The aim of this paper is to prove to what extent the corporate governance attributes have an impact on the financial performance of the Malaysian companies. In line with the previous studies, the corporate governance factors which influence the company's performance are grouped as follows: company's characteristics, CEO and board's characteristics. Although there were many studies undertaken in order to test the corporate governance's impact on the financial performance of the Malaysian companies, there are not many papers revealing the islamic implications on the corporate governance and further on financial performance of the company. In this sense, this paper comes up with added value in terms of corporate governance principles from the islamic perspective.

Based on the results of this study it can be concluded that the corporate governance has an impact on the company's financial performance. As a proof, all the tested hypothesises were validated.

One of the limitations of this paper is the reduced number of use corporate finance variables. For instance, in the case of the model having ROE as the dependent variable, none of the corporate finance variables used were statistically significant. This affects the regression model in the sense that there is not a very good starting basement. At the end, the role of the corporate governance is to improve the financial performance of the company, not to create it from the zero level. There must be a starting basement. This limitation involves a low coefficient of determination.

The availability of the source data is another limitation. Taking into account the fact that in order to create the database each of the variables was introduced manually, the possibility of making some slight errors may exist. In this sense, for further directions there is needed to consult corporate governance databases which permit the downloading of the data in a more facile way.

The increase of the sample represents another further direction of the study. It may be taken into consideration a larger sample in terms of time and analysed variables. In addition to it, it may be prepared an analysis based on the activity sectors which companies belong to. In this way, it can be identified the sectors where the corporate governance has a more and less significant impact on the company's financial performance.

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Annexes

Table 1.1 Models for ROA

Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/30/15 Time: 19:58
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.052529	0.026242	2.001743	0.0458
LEV	-0.096590	0.021832	-4.424288	0.0000
COMPANY_AGE	-0.000313	0.000140	-2.240701	0.0255
CEO_DUALITY	-0.023437	0.008884	-2.638239	0.0086
INVEST_PERC	0.036263	0.018510	1.959140	0.0506
FAMILY_PERC	0.030291	0.015166	1.997230	0.0463
BOARD_SIZE	0.005298	0.001619	3.272584	0.0011
INDEP_AUDIT	-0.029787	0.022752	-1.309200	0.1911

R-squared	0.089587	Mean dependent var	0.061598
Adjusted R-squared	0.077188	S.D. dependent var	0.079721
S.E. of regression	0.076582	Akaike info criterion	-2.285698
Sum squared resid	3.014522	Schwarz criterion	-2.220446
Log likelihood	604.5671	Hannan-Quinn criter.	-2.260140
F-statistic	7.225551	Durbin-Watson stat	0.887773
Prob(F-statistic)	0.000000		

Dependent Variable: ROA
Method: Panel Least Squares
Date: 05/30/15 Time: 20:04
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.105258	0.033309	3.160043	0.0017
LEV	-0.087784	0.021801	-4.026651	0.0001
CEO_AGE	-0.000679	0.000398	-1.705016	0.0888
DIR_INDEP	-0.070798	0.027941	-2.533861	0.0116
GRAD_AUDIT	0.034382	0.018016	1.908409	0.0569

R-squared	0.050666	Mean dependent var	0.061598
Adjusted R-squared	0.043321	S.D. dependent var	0.079721
S.E. of regression	0.077975	Akaike info criterion	-2.255329
Sum squared resid	3.143397	Schwarz criterion	-2.214547
Log likelihood	593.6410	Hannan-Quinn criter.	-2.239356
F-statistic	6.898015	Durbin-Watson stat	0.850776
Prob(F-statistic)	0.000021		

Source: own processing Eviews

Table 2.2 Models for ROE

Dependent Variable: ROE
Method: Panel Least Squares
Date: 05/30/15 Time: 20:08
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.228951	0.067972	3.368323	0.0008
COMPANY_AGE	-0.000636	0.000270	-2.359896	0.0187
INDEP_AUDIT	-0.146352	0.044214	-3.310119	0.0010
INVEST_PERC	0.094567	0.035178	2.688223	0.0074
CEO_AGE	-0.001553	0.000762	-2.039389	0.0419
BOARD_SIZE	0.011404	0.003058	3.728882	0.0002
BOARD_MEETINGS	-0.005072	0.002986	-1.698184	0.0901
DUMMY1	3.599657	0.147649	24.37977	0.0000
DUMMY2	-1.369085	0.147750	-9.266227	0.0000

R-squared	0.589625	Mean dependent var	0.098290
Adjusted R-squared	0.583226	S.D. dependent var	0.228020
S.E. of regression	0.147205	Akaike info criterion	-0.976888
Sum squared resid	11.11638	Schwarz criterion	-0.903480
Log likelihood	263.9677	Hannan-Quinn criter.	-0.948136
F-statistic	92.13468	Durbin-Watson stat	1.069130
Prob(F-statistic)	0.000000		

Dependent Variable: ROE
Method: Panel Least Squares
Date: 05/30/15 Time: 20:09
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.077096	0.065133	1.183668	0.2371
COMPANY_AGE	-0.000484	0.000276	-1.754526	0.0799
GRAD_AUDIT	0.122042	0.034288	3.559329	0.0004
INVEST_PERC	0.100606	0.035177	2.859974	0.0044
CEO_AGE	-0.001228	0.000762	-1.611421	0.1077
DIR_INDEP	-0.173018	0.053940	-3.207575	0.0014
DUMMY1	3.589445	0.148045	24.24566	0.0000
DUMMY2	-1.376449	0.148076	-9.295548	0.0000

R-squared	0.586211	Mean dependent var	0.098290
Adjusted R-squared	0.580576	S.D. dependent var	0.228020
S.E. of regression	0.147672	Akaike info criterion	-0.972434
Sum squared resid	11.20886	Schwarz criterion	-0.907183
Log likelihood	261.8054	Hannan-Quinn criter.	-0.946877
F-statistic	104.0257	Durbin-Watson stat	1.074240
Prob(F-statistic)	0.000000		

Source: own processing Eviews

Table 2.3 Models for EBITDA/Assets

Dependent Variable: EBITDA_ACTIVE
Method: Panel Least Squares
Date: 05/16/15 Time: 19:16
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.116816	0.026337	4.435408	0.0000
LEV	-0.071965	0.024565	-2.929551	0.0035
COMPANY_AGE	-0.000316	0.000163	-1.930771	0.0541
CEO_DUALITY	-0.020099	0.010061	-1.997776	0.0463
DIR_INDEP	-0.095428	0.031817	-2.999261	0.0028
ETHNICITY	-0.030561	0.008551	-3.573924	0.0004
GRAD_AUDIT	0.067518	0.020055	3.366736	0.0008
DUMMY_EBITDA	0.703643	0.062325	11.28993	0.0000

R-squared	0.262236	Mean dependent var	0.104766
Adjusted R-squared	0.252189	S.D. dependent var	0.100667
S.E. of regression	0.087053	Akaike info criterion	-2.029403
Sum squared resid	3.895164	Schwarz criterion	-1.964152
Log likelihood	537.6743	Hannan-Quinn criter.	-2.003846
F-statistic	26.10003	Durbin-Watson stat	0.496139
Prob(F-statistic)	0.000000		

Method: Panel Least Squares
Date: 05/16/15 Time: 19:54
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.050636	0.025909	1.954378	0.0512
LEV	-0.088769	0.024862	-3.570504	0.0004
COMPANY_AGE	-0.000415	0.000160	-2.601365	0.0096
CEO_DUALITY	-0.018411	0.010018	-1.837734	0.0667
BOARD_SIZE	0.007460	0.001885	3.956752	0.0001
ETHNICITY	-0.030699	0.008497	-3.612992	0.0003
GRAD_AUDIT	0.038958	0.020285	1.920495	0.0553
DUMMY_EBITDA_M2	0.712912	0.062028	11.49333	0.0000

R-squared	0.271514	Mean dependent var	0.104766
Adjusted R-squared	0.261593	S.D. dependent var	0.100667
S.E. of regression	0.086503	Akaike info criterion	-2.042058
Sum squared resid	3.846183	Schwarz criterion	-1.976806
Log likelihood	540.9771	Hannan-Quinn criter.	-2.016501
F-statistic	27.36752	Durbin-Watson stat	0.505228
Prob(F-statistic)	0.000000		

Source: own processing Eviews

Table 2.4 Model for EPS

Dependent Variable: EPS
Method: Panel Least Squares
Date: 05/16/15 Time: 23:02
Sample: 2011 2013
Periods included: 3
Cross-sections included: 174
Total panel (balanced) observations: 522

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.895934	0.237232	-3.776610	0.0002
LEV	-0.527923	0.103252	-5.112960	0.0000
LN_TOTAL_ASSETS	0.067405	0.012736	5.292547	0.0000
DIR_MALE	0.198531	0.118426	1.676415	0.0943
BOARD_SIZE	0.016090	0.006873	2.341011	0.0196
INVEST_PERC	0.118302	0.075628	1.564251	0.1184
INDEP_AUDIT	-0.095863	0.093290	-1.027582	0.3046
CEO_DUALITY	-0.039644	0.038648	-1.025781	0.3055
CEO_AGE	-0.001789	0.001712	-1.044929	0.2965
COMPANY_AGE	0.001042	0.000589	1.768977	0.0775

R-squared	0.118888	Mean dependent var	0.205681
Adjusted R-squared	0.103399	S.D. dependent var	0.332035
S.E. of regression	0.314400	Akaike info criterion	0.542672
Sum squared resid	50.60994	Schwarz criterion	0.624236
Log likelihood	-131.6373	Hannan-Quinn criter.	0.574618
F-statistic	7.675974	Durbin-Watson stat	0.625709
Prob(F-statistic)	0.000000		

Source: own processing Eviews