BOARD CHARACTERISTICS AND ITS IMPACT ON SHARE PRICES OF PUBLICLY LISTED HOLDING COMPANIES IN THE PHILIPPINES

Mc Reynald S. Banderlipe II
De La Salle University

Abstract

The need to intensify the corporate governance mechanism in the Philippines after the revision of the 2002 Philippine SEC Code of Corporate Governance triggers this study to determine the impact of selected governance variables related to a company's board of directors on firm performance, measured in terms of share prices. Using financial and governance-related disclosure information from 36 listed holding companies in the Philippines, the results revealed that board size and board independence negatively influences the share prices of these firms. Among the control variables, firm size positively influences share prices as a result of increased investor confidence to well-established companies. Because of the limited focus of this study, further endeavors should study the overall impact of corporate governance among all Philippine companies using different measures of performance as well as the introduction of other relevant governance-related parameters to better assist the decision making of the company's stakeholders.

Keywords: corporate governance, firm performance, disclosures, investors' decision making, board of directors

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Introduction

Much has already been said about corporate governance. Numerous research literatures on corporate governance has surged over the next few years after a series of debacles like Enron, World Com, and Tyco stirred the quest for restoring trust and confidence of shareholders to the company and to the capital market. While efforts to manage the government of a corporation would address the relational aspects entered into by the management, the board of directors, and the shareholders in general, the need to advocate for greater accountability, honesty, integrity, and proper ethical conduct that corporate governance requires is a must to ensure sustainability of the long-term partnership between the company and its shareholders.

The call for increased and more restrictive corporate governance mechanism in the Philippines have stemmed after the World Bank (2006) issued a Report on the Observance of Standards and Codes regarding the country's compliance with the corporate governance regulations by the Organization for Economic Cooperation and Development (OECD, 2004). In the report, majority of the guidelines set by the OECD have been partially observed in the Philippines, which triggers the need to intensify the implementation of corporate governance in the country. As a result, the Philippine Securities and Exchange Commission (SEC) revised its SEC Memorandum Circular No. 2 series of 2002 which became SEC Memorandum Circular No. 6 series of 2009, presently known as the "Revised Code of Corporate Governance."

The Revised Code of Corporate Governance (RCCG) has stated that "the essence of corporate governance is transparency" (p.18). Such transparency must be evident in the timely disclosure of information which may adversely affect the viability and interests of the shareholders. This requirement aims to strengthen the regulatory framework for Philippine institutions wherein strict monitoring, board

independence, surveillance, transparency, and accountability are of great importance. Samontaray (2010) noted that in the advent of globalization, preference is given towards companies who maintain high levels of transparency in their disclosures.

Moreover, Samontaray (2010) prognosticated that transparency in business organizations influence the reaction of the stake holders in the organization, which is eventually reflected in the company's share prices. As shareholders value the importance of good governance in making their investment decisions, this study attempts to determine if corporate governance affects share prices of Philippine companies, particularly those in the Holdings sector. The experiment focused on the Holdings sector for the moment because of the great number of listed holding firms in the Philippine Stock Exchange (PSE). In addition, these holding companies could possibly influence the governance practices of their subsidiary companies considering that the financial statements of these subsidiaries are consolidated to the parent company at the end of the reporting period.

Emphasis of this study is on the use of corporate governance variables related to the board of directors (BOD), since this is the most important element in corporate governance where significant attention is given and reforms are exercised (Abdullah, 2004). Having learned the art and science of managing a corporation (Santos, 2005), the BOD is given the Herculean task of governance in the organization, where leading and directing should be geared towards shareholder protection and increased shareholder wealth (Abdullah, 2004). The question about their effectiveness to carry out their responsibilities in corporate governance might reflect in the stock prices of the entity.

The challenge in implementing good corporate governance in the Philippines is heightened by the nature of its ownership structure (Galvez, 2003). For one, most companies in the country are either family owned or are managed by individual or groups of shareholders who share control and management. This structure, similar to governance models in other Asian countries, poses a challenge to fully embrace the provisions of sophisticated corporate governance rules implemented in the U.S. or U.K. In addition, the same ownership structure also casts doubt about promoting independence in the board of directors of Philippine companies.

Furthermore, when the first edition of the Code of Corporate Governance was issued in 2002, Galvez (2003) noted that some companies in the Philippines treated its obedience to the Code as a mere regulatory compliance. With the emergence of various scandals concerning unscrupulous acts of some people that affected both the government and the business community at present, the Philippines is still struggling to defy the odds to attain the true state of corporate governance where the only way of doing business is by doing the right thing.

The remainder of this study is structured as follows. First, the paper provides the problem statements and a literature review on the selected corporate governance variables to come up with hypotheses that can be tested using the empirical approaches. Next, the paper outlines the methodology for the research. Lastly, a section documenting the results and discussions, as well as the conclusions thereof, is to be presented.

Statement of the Problem

Given the circumstances mentioned above and the need to further explore the impact of corporate governance on firm performance; measured in terms of share prices, among publicly-listed holding companies in the Philippines, this study attempts to find answers to the following research questions:

1. To what extent does board size affect share prices of the publicly-listed holding companies in the Philippines?

2. Does board independence affect share prices among Philippine holding companies?

3. Does the separation or duality of the Chairman of the Board and Chief Executive Officer roles affect share prices of publicly-listed holding companies in the Philippines?

4. Does the busyness of directors in other corporate boards affect share prices among the listed holding companies in the Philippines?

5. Does board ownership affect share prices of publicly-listed holding companies in the Philippines?

Literature Review and Hypothesis Development

The RCCG stated that the BOD is responsible for governing the firm through an objective, independent check on its management. They are responsible to ensure that the company will succeed in the long run through sustained competence and profitability which must also be parallel to the objectives set to protect the interests of the shareholders. More than just assuming responsibility for the financial statements, a functioning corporate body should be aware of the vital signs of corporate health through the free flow of accurate information in and out of the board (Solomon, 2007).

According to Hawkins (1997), institutional investors push the need for strong, independent corporate boards because such boards create shareholder value to these external capital providers. Mashayekhi and Bazaz (2008) added that the BOD should undertake steps to evaluate the appropriateness of management's approaches towards better firm performance and increased shareholder value in the long run. However, given the separation of ownership and control by shareholders and management in a company (Fama and Jensen, 1983), principal-agent conflicts arise because of their self-interest pursuits that compromise teamwork and goal congruence. There is a potential problem about the management's pursuit of their own objectives when the welfare of the stakeholders is at stake (Berle & Means, 1932; as cited in Millstein & MacAvoy, 1998). This is where the intervention of corporate governance is very important, as it prevents the creation of an environment where potential fraud may occur.

Because investors have the authoritative voice in an organization, as dictated by social construct, Hawkins (1997) argued that they are willing to pay premiums for companies whose corporate governance mechanisms are found to be good. Not to mention that those premiums result to increased attractiveness of the stock, regardless of its price.

The topic relating BOD characteristics and its impact on share prices has triggered the interest of many researchers in corporate governance. As the variables are discussed, this paper presents relevant studies that are noteworthy of being mentioned since they shed light in the formulation of our research hypotheses.

1. Board Size

There is a need to control costs arising from the agency problem arising from the separation of ownership and control (Fama and Jensen, 1983). This is where the BOD plays an active role in resolving governance issues. Dalton (1998; as cited by Mashayekhi & Bazaz, 2008) stated that the effectiveness of the BOD is influenced by the variety of experiences that the members incorporate in the decision making process. Thus, using the popular "strength in numbers" maxim, it is inferred that the size of the board greatly affects the corporate governance mechanism and results to better firm performance. Cheng (2008) noted that it takes more compromises to achieve board consensus that leads to less extreme decisions by large boards; hence, there is evidence of lower variability of firm performance on these companies.

Similar to this premise, Ehikioya (2009) observed a positive relationship between board size and firm performance in Nigeria, using data from 107 companies quoted in the Nigerian Stock Exchange (NSE) for the fiscal years 2008 to 2002. Another version of the study using sample from the NSE was conducted by Uadiale (2010) and reported the same results. It was also confirmed in the study of Jackling and Johl (2009) that having a positive relationship between the two variables supports the notion of better performance when a company has greater access to the external business environment through increased board size. Larmou and Vafeas (2010) also validated such relation when it used data from companies with history of poor operating performance, which supports their turnaround recovery in the market.

However, some studies also reveal that a smaller board size provides negative influence on firm performance. The study of Cheng, Evans, and Nagarajan (2008) using the passage of anti-takeover laws as the empirical setting indicated that firms with smaller board sizes perform better because of the presence of active corporate control. Rashid, De Zoysa, Lodh, and Rudkin (2010) added that board size significantly affects firm performance in a negative manner after using a set of accounting-based measures on Bangladesh companies. This observation was also confirmed in the paper of Mashayekhi and Bazaz (2008), using data from companies listed in the Tehran Stock Exchange (TSE) in Iran, which supports the contention that a closely monitored management is essential towards the pursuit of high performance by the entity. A negative relationship was also exhibited in Thai banks, which suggests that

smaller boards better oversees bank managers because of little tendency for agency and "free rider" problems to occur (Pathan, Skully, & Wickramanayake, 2007). No evidence of strong positive or negative association between board size and firm performance was shown in Di Pietra, Grambovas, Raonic, and Riccaboni (2008).

In the Philippines, the RCGG stated that the BOD shall be composed of at least five (5), but not more than fifteen (15), members who are elected by the stockholders" (p. 3). Given the maximum and the minimum number of members of the board, this study tested the impact of board size on firm performance, measured by the share price, using the following hypothesis:

Alternative Hypothesis (Ha$_1$): The size of the board is negatively related to share price.

2. Board Independence

Galvez (2003) stated that independent board members should act as the voice of minority shareholders and must work towards protecting the interests of this group. However, this person would most likely be selected by a shareholder or a group of shareholders who has control over the ownership of the company and thus, independence may be impaired. Thus, it is important to consider the integrity and personal values of the director so that s/he could be rightly identified as independent. Fama and Jensen (1983) identified the BOD as essential in the corporate governance mechanism through its management oversight role.

The pre-Enron era has already noted the importance of board independence and its impact on firm performance. In the study of Millstein and MacAvoy (1998), an economic analysis of potential returns to shareholders sans causation studies revealed that independent boards whose active participation leads to better performance than those non-independent and passive boards. It, however, was contrasted in the study of Erickson, Park, Reising, and Shin (2005), where a negative relationship between board independence and firm value, measured in terms of performance, was observed to exist among listed companies in Canada from 1993-1997.

Ushering to the post-Enron period, Ehikioya (2009) and Uadiale (2010) noted a positive relationship between board independence and firm performance among NSE-listed firms, as well as in Mashayekhi and Bazaz (2008) for TSE-listed firms. Pathan et al. (2007) explained that such association manifested because independent directors provide increased confidence on the oversight role which affects their reputation in the market, as in the case of Thai banks. In the case of Indian companies, Jackling and Johl (2009) presented a somewhat significant direct relationship between the two variables. Its apparent weakness can be explained by the strong familial relationships among members of the board which is usually observed in most Asian companies.

No evidence of significant relationship exists as observed by Abdullah (2004) and in Leng (2004) because short-term measures of performance were used in the study of Malaysian firms. It was also noted by Rashid et al. (2010) in studying Bangladeshi firms, which triggers the need to further explore this variable if independent directors can provide relevant and effective judgment to decision making.

This study wishes to examine the impact of board independence on firm performance, measured by share prices, of listed holding companies in the Philippines. Drawing insights from prior literature and considering that the RCCG stresses a good combination of executive and non-executive, independent directors to prevent domination in the decision making process using the 2 or 20% rule, the following hypothesis is formulated:

Alternative Hypothesis (Ha_2): The independence of the board is positively related to share price.

3. Duality of the Chairman's Role and the Chief Executive Officer's Role

There is a question about the practicality of separating the role of a Chairman of the Board (COB) and the role of a Chief Executive Officer (CEO) in the Philippines (Galvez, 2003). This can be attributed to the ownership structure of Philippine companies, where one family or a group of shareholders dominate the board and are usually involved in managing the day-to-day operations of the firm. This

study finds it important to examine the CEO-COB duality as prior literature provided evidence of its association with firm performance.

Dickins (2010) pointed out that the answer on the question "Does CEO duality matter?" depends upon the existence of the principal-agent problem considering no two companies are the same. In analyzing the impact of leadership structure to firm performance, he emphasized the importance to look into the firm-specific characteristics and conditions of individual firms. This was confirmed, for example, in Elsayed (2007) where the impact of CEO duality is present when the industry type of firms studied was controlled by the model although initially, he confirmed that no significant relationship exists between the duality and firm performance *per se*.

This variable also produced no significant relationship in the study by Mashayekhi and Bazaz (2008) as it was initially predicted that a separate CEO and COB will positively influence firm performance. The same observation was highlighted in Leng (2004) and Jackling and Johl (2009). However, Rashid et al. (2010) noted a strong association between the two when market-based measure of performance is used rather than accounting-based parameters. It was also observed in the paper of Abor and Biekpe (2007), where they concluded that combining the roles in one person results to better operating performance. Conversely, Abdullah (2004) observed a negative relationship between CEO duality and firm performance and concluded that the role of the BOD is said to be at the minimum because one person controls both the operating activities of management and the oversight role of the board. Hence, there exists an apparent weakness in the governance structure.

The RCCG of the Philippines stresses that the Chair and CEO roles should "as much as practicable, be separate to foster an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board" (p. 3). With the mixed results presented by prior literature, this study draws the following hypothesis with an *a priori* expectation of a negative relation between COB-CEO duality and firm performance, measured in terms of stock price.

Alternative Hypothesis (Ha₃): The CEO-COB duality is negatively related to share price.

4. Multiple Directorial Positions

At present, an active market exists that provides additional incentives to board members who constantly upgrade his/her competence and competitiveness through exposure in other corporate boards (Chtorou, Bedard, & Courteau, 2001; as cited in Banderlipe, 2009). This was validated by Di Pietra et al. (2008), who argued that directors serving on many corporate boards are most likely to have the best connections and linkages with the business community and are highly regarded by investors to signal success of corporate activities in the capital markets.

However, Jackling and Johl (2009) provided an opposite conclusion, as their study revealed that holding of many directorial posts would lower their effectiveness to perform the board oversight role. In their study of Indian companies, there might be busy directors who may have not possessed the competence and integrity to help a company realize greater benefits.

This study aims to provide additional insight on the impact of the "busyness" of BOD members on firm performance in the Philippine context. The RCCG's proviso is that the board should set an optimum number of directorships of a member in other stock and non-stock corporations taking into consideration the capability of the director to carry out diligently and effectively his/her duties and responsibilities. Hence, the following hypothesis is formulated:

Alternative Hypothesis (Ha$_4$): Multiple directorships are positively related to share price.

5. Board Ownership

Limited studies have been identified with this variable, which presents contradicting results. Uadiale (2010) found no significant relationship between board ownership and firm performance, which is also evident in the paper of Rashid et al. (2010). However, the study by Ehikioya (2009) exhibited the strength of association between board ownership and performance measured by Return on Assets (ROA). When industry type is controlled, the same study revealed that the Price-Earnings (P/E) ratio also became significant. Considering that board members are also owners of the firm, they also act in behalf of the

shareholders such that they are less likely to support actions that will not improve firm performance because such will be detrimental to the shareholders, resulting to an inverse relationship between managerial ownership and agency conflicts (Uadiale, 2010).

In addition, Abor and Biekpe (2007) argued that a direct relationship can be established because owners are perceived to be knowledgeable about firm operations and thus, it can lead the company to perform better. Furthermore, it increases the motivation of managers to steer the company to meet its goals because they are also owners of the business who aspire for increased shareholder value. This was observed by studying the performance of Small and Medium Enterprises in Ghana.

Because control in most Philippine companies rests in either one family or a group of shareholders who are also members of the board, this study believes in the uncertainty of the BOD's intention to facilitate control over the company as they would also prevent any decisions that will instigate the diffusion of their wealth. Thus, our *a priori* hypothesis for this study is:

Alternative Hypothesis (Ha$_5$): Board ownership is negatively related to share price.

Methodology

The study utilized a causal and evaluative approach in business research to determine the impact of selected BOD characteristics on firm performance, measured in terms of share price. These attributes are believed to influence the way corporate governance is carried out by the BODs so that operating effectiveness and efficiency can be achieved; thus, creating shareholder value to its investors.

For the moment, only the holding firms listed in the PSE were included in the study. Its great number is highly regarded by the PSE and considering that they are the management firm of subsidiaries who are widely-known Philippine companies, the uniqueness of the Asian model on corporate governance is likely to be visible. As of March 2011, there are 41 holding firms listed in the PSE, comprising 15.83% of the total companies listed in the exchange which already numbers to 259 firms. It is assumed that listed entities are expected to comply with the policies set by regulatory agencies as part of their operations

(Ehikioya, 2009), not to mention that they are also mandated by the SEC to publish firm-related information which are made available to the public. After eliminating 3 holding companies because their fiscal year ends on a date other than December 31, 2009 and 2 holding companies whose data are not available for statistical testing to push through, this study draws inference from 36 holding companies, which is equivalent to 87.8% of the total holding companies listed in the PSE. This study will utilize the most recent information available from the 2009 SEC Form 17-A (Annual Report) which is filed by listed companies to SEC, a copy of which is forwarded to the PSE and can be accessed through the PSE website (http://www.pse.com.ph).

In addition to descriptive statistics and correlation analysis across variables, a multivariate analysis using cross-sectional regression was employed to test the linearity between the BOD variables of interest and firm performance, measured in terms of share prices. Thus, the empirical model for this study is presented as:

$$SHP_{it} = \beta_0 + \beta_1 \underset{(-)}{BSIZE_{it}} + \beta_2 \underset{(+)}{BPIND_{it}} + \beta_3 \underset{(-)}{CCDUAL_{it}} + \beta_4 \underset{(+)}{MDIRPS_{it}} + \tag{1}$$
$$\beta_5 \underset{(-)}{MOWN_{it}} + \beta_6 \underset{(+)}{FSIZE_{it}} + \beta_7 \underset{(-)}{LEV_{it}} + \beta_8 \underset{(+)}{AGE_{it}} + \varepsilon_{it}$$

where:

SHP_{it} = Average share price for the 4th quarter of firm i in year t;

$BSIZE_{it}$ = Board size of firm i in year t;

$BPIND_{it}$ = Percentage of independent directors of firm i in year t;

$CCDUAL_{it}$ = A dummy variable equal to 1 if the Chairman of the Board is also the CEO (or vice versa) of firm i in year t, 0 if otherwise;

$MDIRPS_{it}$ = A dummy variable equal to 1 if firm i has at least one independent director who holds three or more outside directorial positions, 0 if otherwise;

$MOWN_{it}$ = Percentage of managerial ownership of the board of directors and key management

personnel of firm i in year t;

$FSIZE_{it}$ = A control variable measured as the $\log_{10}$ of 2009 total assets of firm i;

LEV_{it} = A control variable measured as the leverage ratio of firm i in year t; and

AGE_{it} = A control number measured as the number of years the stock is traded at the PSE up to

December 31, 2009.

Control variables such as leverage, firm size, and age, were included in the model because these parameters minimize specification bias in defining the model and are considered to be the standard in research models using performance as the dependent variable (Abor & Biekpe, 2007). It is important to control the effects of increased variability in a company's total assets and trigger heteroscedasticity issues; hence firm size (FSIZE) of firm i was defined in the model as the $\log_{10}$ of total assets. Leverage (LEV), measured as total liabilities over total assets, affects firm performance as its activities are closely monitored by debt holders. Age (AGE) may find its noteworthiness since share prices have been largely affected by the length of time the company is trading its shares in the PSE. Except for LEV, the *a priori* expectation is that control variables positively affect the company's share price.

Empirical Findings

This study aims to determine the impact of board characteristics on share prices of publicly-listed holding companies in the Philippines. Drawn from 36 listed holding firms, all data for governance and control variables were encoded in an Excel spreadsheet and applicable statistical tests were conducted using the MegaStat and EViews 4.0 software.

Table 1 presents the descriptive statistics for this study. As can be seen, there is a high level of variation among SHP and LEV variables, whose coefficients of variation is greater than 300%. It is also

seen that the mean and the median percentages for BPIND is somewhat close, with 22% of the board

seats occupied by independent, non-executive directors.

Table 1

Descriptive statistics

Measure	SHP	BSIZE	BPIND	CCDUAL[1]	MDIPRS[2]	MOWN	FSIZE	LEV	AGE
Count	36	36	36	36	36	36	36	36	36
Minimum	0.00	5.00	0.00	0.00	0.00	0.00	5.88	0.00	3.05
Mean	19.8231	8.6667	0.2267	0.4722	0.7500	0.1520	8.9810	0.8270	27.9041
Median	1.9500	8.0000	0.2222	0.0000	1.0000	0.0351	8.9957	0.3263	22.2645
Maximum	312.5000	15.0000	0.5000	1.0000	1.0000	0.7707	11.5336	16.5932	61.6850
Skewness	4.0228	0.7965	-0.0402	0.1162	-1.2055	1.6390	-0.0236	5.8845	0.4035
Kurtosis	15.1138	0.1398	0.9932	-2.1069	-0.5823	1.4046	-0.4727	35.0392	-1.0458
Variance	5,011.0773	6.6286	0.0116	0.2563	0.1929	0.0559	2.0968	7.3962	261.2898
Standard Deviation	70.7890	2.5746	0.1076	0.5063	0.4392	0.2364	1.4480	2.7196	16.1645
Coefficient of Variation	357.10%	29.71%	47.46%	107.22%	58.55%	155.52%	16.12%	328.84%	57.93%

Note. [1]For CCDUAL, 17 firms were observed to have observed the COB-CEO duality in a single individual, while 19 firms have appointed different persons to occupy the COB and the CEO positions.
[2]For MDIRPS, 27 firms were observed to have at least one (1) independent director hold outside directorships in more than 3 companies, while 9 firms have independent directors who do not have more than 3 directorships outside the company.

In addition, the same table shows presents that the ownership of the BOD in the company

averages to 15.20%, as most of the shares owned are intended for the BOD members' exercise of voting

rights. Except for BPIND, MDIRPS, and FSIZE, all other variables are skewed to the left when presented

in a probability distribution function (PDF) with asymmetric evidence. On the other hand, only SHP and

LEV have leptokurtic PDFs with kurtosis values greater than 3. In terms of variance and standard

deviation, BPIND registered the lowest variance among all variables, while SHP has the highest variance

and standard deviation values. The longest period for a company to be listed in the PSE is almost 62

years, while another company with the shortest listing period has just started trading its shares for 3.05

years. It is also seen from the table that there is a big difference between the means of the dummy

variables CCDUAL and MDIRPS. These statistics were obtained as a result of diverse observations

culled from the actual data gathering process.

Table 2

Summary of regression results

Class	Variable	OLS Estimate	Std. Error	*t*-stat	*p*-value
Constant	Intercept	-60.0940	83.0946	-0.723	.4758
Governance	BSIZE	-11.1418	5.8501	-1.905	.0675*
	BPIND	-291.2480	131.4049	-2.216	.0353**
	CCDUAL	-27.9881	25.4576	-1.099	.2813
	MDIPRS	7.5116	30.7089	0.245	.8086
	MOWN	29.7679	53.7715	0.554	.5844
Control	FSIZE	28.1109	9.4238	2.983	.0060***
	LEV	-3.2943	4.8427	-0.680	.5021
	AGE	-0.1493	0.7155	-0.209	.8362

Std. Error of Regression = 64.557; *R*-squared = 0.358; Adjusted *R*-squared = 0.168.

Note: * statistically significant at $\alpha = 0.10$.
　　　** statistically significant at $\alpha = 0.05$.
　　　*** statistically significant at $\alpha = 0.01$.

Applying the Ordinary Least Squares (OLS) multiple regression analysis for the governance variables of interest, the control variables, and share prices of holding companies, Table 2 summarizes the estimation results. As seen in the table, BSIZE, BPIND, and CCDUAL exhibited negative coefficients, with BPIND showing a higher negative parameter estimate of -291.248. The same direction was exhibited by LEV and AGE. MDIRPS, FSIZE, and LEV exhibited positive coefficients. However, among the variables studied, only BSIZE, BPIND, and FSIZE exhibited significance from $\alpha = 0.10$ for BSIZE to $\alpha = 0.01$ for FSIZE. The two corporate governance vectors will fall in the region of accepting the alternative hypothesis, while FSIZE meets the *a priori* expectation that it will positively affect the share price. It is still important, though, that even though some variables became not significant, their difference in the signs of the OLS estimates may still warrant a discussion of possible insights.

The table also shows that only 35.8% of the variation in the stock price can be explained by the variation in the independent variables. When adjusted for the degrees of freedom, the variation in the governance and control vectors can only explain almost 17% of the differences in share prices. This is expected to happen, given the limited data that was used for the study. Such limitation should serve as the

motivation for future studies regarding firm performance after the RCCG has been implemented for a good number of observation years. Having included the variables that are normally used in firm performance research, this study believes that no misspecification took place because appropriate parameters have been defined and have been measured in the model.

To explain this premise, the study performed individual regression of the variables, which is found in Appendix 1 of this study. It was revealed that only FSIZE is significant when regressed alone with SHP. Auxiliary regression analysis of the variables implies the weakness of some variables, except FSIZE, to assess its impact on share prices of listed holding companies. Hence, its predictive power can only be manifested when they are integrated in a single model because interaction among the parameters can take place.

Table 3

ANOVA table for joint testing of governance and control variables

Source	SS	df	MS	*F*-stat	*p*-value
Regression	62,861.1012	8	7,857.6376	1.89	.1042
Residual	112,526.6048	27	4,167.6520		
Total	175,387.7060	35			

Table 3 presents the ANOVA table of the joint testing for all governance and control variables. It can be inferred that the overall model does not yet exhibit total significance, with the *p*-value falling close to the 0.10 level of significance. Such occurrence is probably driven by the limited data used in the study, considering that only 36 of the 41 companies were used. To increase the power of the model would entail considering other potential governance-related and control variables to be included, not to mention that future researches must also consider using a bigger sample of firms from diverse industries where the models can incorporate the effects of industry affiliation by the company can also be controlled similar to the study of Wang and Yen (2009), who used industrial clustering based on their geographical locations. After applying the tests for plausibility and robustness for similar cross-sectional econometric models, this study finds no evidence of multicollinearity and autocorrelation in the empirical model.

Discussion

Empirical findings suggest that only BSIZE and BPIND significantly influence the share prices of publicly-listed holding companies in the Philippines. Supporting our alternative hypothesis, an increase in the number of BOD members leads to a possible decline in share price by P11.80. Exhibiting a negative relationship exists for BSIZE makes the observation in consonance with those of Pathan et al. (2007); Cheng et al. (2008); Mashayekhi and Bazaz (2008), and Rashid et al. (2010). It, therefore, suggests that the investors would prefer companies where the oversight power over management is greatly exercised by a small number of board members who work closely together. The Asian perspective on corporate governance is clearly visible since most of the members of a corporate board in publicly-listed Philippine holding companies are related with one another by consanguinity. The main caveat is that this study has not yet tested the variable on familial relationships among BOD members and hence, can be subjected for further scrutiny.

BPIND, on the other hand, also has shown a negative behavior towards SHP as it could possibly decrease share prices by almost P300.00. It is interesting because none of the post-Enron studies on firm performance cited in the literature had revealed indirect relationship with firm performance. However, the results are in line with the observation of Erickson et al. (2005) when they used the pre-Enron data for their study. It can be inferred that similar to Galvez (2003), most of the Philippine holding companies see the independence rule of the RCCG as mere compliance, as most of the studied annual reports would indicate that independent directors were appointed "in compliance" with the rules set forth in the RCCG. Such scenario could probably lead to a negative reaction by the shareholders; hence, resulting to potential decreases share prices. There is still the need to retool the BOD about the importance of corporate governance and embrace board independence wholeheartedly since it will be very crucial for conducting objective and rational decision making for the welfare of the company and its stakeholders.

The negative reaction would also be explained in CCDUAL because even though the variable is not significant, it might imply that investors are skeptical about the presence or absence of COB-CEO duality. Although some of the companies studied whose COB and CEO are handled by two different

individuals, these individuals are related to one another by familial relationships as well. Thus, concentration of power and authority among family members might be present. For MDIRPS, it is no doubt that hiring non-executive directors with outside directorships would be beneficial as most of the best governance practices from other firms can be infused to the company. The positive behavior of MOWN could imply that increased managerial ownership, in consonance with prior literature, provides sense of belongingness of BOD and its officers to the company which will motivate them to exert more effort to achiever better corporate performance which benefits the shareholders like themselves.

For the control variables, FSIZE is found to be positively related with share prices as a measure of performance. In contrast with the observation by Abor and Biekpe (2007), bigger holding firms significantly perform better than those small holding companies in the country, since investor confidence is gained when a company is already established in terms of operating effectiveness and efficiency. Should LEV become significant, it might imply that its negative behavior would heighten the lack of investors' trust to lend their capital to firms who are having difficulty to manage their debt, thereby reducing the share prices. AGE, on the other hand, exhibits a negative behavior which could mean that if the variable becomes significant, then investors would prefer companies who are still young in the exchange since their listing in the stock exchange would enable them to raise capital and sustain their better performance in the long run. However, because of the insignificance of some variables and the insignificance of the overall model, no absolute conclusion is being provided until future studies could prove its significance to influence share prices.

Conclusions and Recommendations

Having achieved the objectives of this initial attempt to study the impact of BOD characteristics on the share prices of holding companies in the Philippines, this study concludes that board size and board independence are the most influential variables to affect share prices of the said firms in an indirect fashion. In addition, firm size is also noted to manifest significant negative relationship with share prices among the control variables used in this research.

However, this undertaking will remain inconclusive of what will be the overall behavior of corporate governance variables related to the board of directors because the focal point of this study is only on the holding companies, plus the fact that the 2009 Revised Code of Corporate Governance was still very young and it will take ample time before the full realization of a firm with good corporate governance can be achieved. This should motivate every member of the business community and the regulatory bodies to intensify monitoring activities in promoting good governance across Philippine companies not just for compliance purposes.

With the overall model still considered to be insignificant, this study recommends that future research endeavors should also focus on studying the impact of board of director characteristics on firms belonging to different industries. In addition, it is also suggested that an overall analysis of firm performance across all companies should be conducted over time, where the behavior of share prices can be observed to a greater extent. Moreover, this study encourages the use of other governance variables that may be present in extant prior literature and the use of other accounting-based and market-based measures of performance towards supporting the shareholders and all stakeholders' aims to make better and informed business decisions.

Author's Note

All potential errors in this study are claimed solely by the author. For further information and

other inquiries, the author can be contacted through the following details:

MC REYNALD S. BANDERLIPE II
DLSU Jesse M. Robredo Institute of Governance

De La Salle University
Manila, Philippines
E-mail: mcrey.banderlipe@gmail.com

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Appendix 1

Summary results of individual regressions

Variable	OLS Estimate	Std. Error	*t*-stat	*p*-value
Intercept	49.8264	42.2448	1.179	.2464
BSIZE	-3.4619	4.6778	-0.740	.4643
Intercept	33.3936	28.1274	1.187	.2434
BPIND	-59.8526	112.3635	-0.533	.5977
Intercept	18.2963	16.4728	1.111	.2745
CCDUAL	3.2333	23.9714	0.135	.8935
Intercept	4.3728	23.7445	0.184	.8550
MDIPRS	20.6004	27.4178	0.751	.4576
Intercept	10.9172	14.0147	0.779	.4414
MOWN	58.5901	50.3642	1.163	.2528
Intercept	-160.9889	69.4759	-2.317	.0266
FSIZE	20.1327	7.6399	2.635	.0126**
Intercept	20.4988	12.5206	1.637	.1108
LEV	-0.8170	4.4618	-0.183	.8558
Intercept	39.7376	23.8123	1.669	.1043
AGE	-0.7137	0.7410	-0.963	.3423

Note. Statistically significant at α = .05.