

ABSTRACT

PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND THEIR EFFICACY IN DEVELOPING COUNTRIES: A CARIBBEAN PERSPECTIVE

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Adoption of principles of “good” corporate governance is generally associated with better managed and more profitable corporations, positioned to attract low cost financing to facilitate firm growth and economic development. Although publicly-listed companies in the Caribbean Community (CARICOM) have over time, adopted principles of good corporate governance, growth in the capital markets have been generally anaemic. Separation of ownership and control with widely dispersed shareholdings and the discernible need to protect shareholders from managements’ indiscretions influenced the development of corporate governance codes. Similar self-serving decision making concerns also exist in companies with controlling shareholders. This type of ownership structure is dominant in CARICOM publicly-listed companies. Additionally, extant literature recognizes that although macro-economic factors are influential in location investment decisions, country governance quality takes precedence. CARICOM countries’ governance quality is considered to be weak and ineffective. This study investigates the effect of the adoption of principles of corporate governance on firm value of CARICOM publicly-listed companies and its sensitivity to the influence of controlling shareholders and country governance on firm value. Quantitative research methodology, using panel data for the period 2004 to 2011 on publicly-listed companies in Barbados, Jamaica and Trinidad & Tobago was analysed. The results indicate that the adoption of principles of good corporate governance by publicly-listed CARICOM companies negatively affect firm market-to-book value and has no significant effect on Tobin’s q and dividend-pay-out ratio, however, companies listed in a country with a strong country governance structure and high ownership concentration does improve firm value. In this study, average ownership structure (0.477) and average Country Governance Score (0.35) are below their mean threshold values of 0.58 and 0.69 respectively, indicating that ownership concentration and level of country governance are not strong enough to positively impact the effect of the adoption of corporate governance principles on firm value in CARICOM listed companies.

Keywords: Marjorie Muranda Fyffe Campbell; CARICOM; Corporate Governance; Firm Value; Controlling Shareholders; Country Governance.