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# Corporate Governance and Firms' Performance of Mauritian Listed Companies

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**Abstract**
As the world is becoming a global village, companies need to constantly assess their corporate governance structures to remain competitive. This calls for better management and, eventually, better governance in the stewardship of shareholders' funds. Companies must understand that good governance is about balancing conformance with performance so as to create value. This study aims at examining the relationship between the level of corporate governance and corporate competitiveness of listed companies on the Stock Exchange of Mauritius. Relationship between corporate governance practices and financial performance focusing on the maximization of shareholders wealth and share prices movements of listed companies is another focus of the study. The corporate governance degree is expressed in terms of value through the corporate governance index. The present study examines how listed companies are conforming to good governance practices, using survey data and whether strong level of conformance to good corporate governance practices influences corporate competitiveness. The results of this study indicate that most listed companies view corporate governance as essential for the good management of the enterprise. It is also found that there is a positive correlation between the corporate governance index value and financial performance of firm. It is also deduced that there exists a strong correlation between corporate governance and corporate competiveness. One important implication of the study is that corporate governance is not just an emancipation of company law. In turn, shareholder primacy is a misleading conception in the institution of corporate governance even if it is a valid argument in the specific coverage of company law.

**Keywords:** corporate governance, listed companies, corporate governance index, financial performance, shareholders' value.

## Introduction

Corporate Governance is a topic of great interest in today's financial world. This has been the case since the collapse of the American Energy Company, Enron in 2001. Other major firms followed such as WorldCom, Xerox and Tyco. Mauritius has not been immune to such financial disasters when the Mauritius Commercial Bank Ltd found itself in a serious financial political scandal in the 2003. In that year the code of Corporate Governance was issued for Mauritius which involves various guidelines that listed and non listed firms should follow. Likewise, the Stock Exchange of Mauritius (SEM) issued guidelines of corporate governance that listed firms should follow as well as the Bank of Mauritius put forward regulations in corporate governance issues for the banking sector alongside the Financial Services Commission (FSC) which issued regulations for the non banking sector and the insurance sector.

This paper constructs the corporate governance index (CGI) which was developed by Gompers, Ishii, and Metrick (2003). The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders and lays down the rules and procedures for decision making. This index sheds some light to potential investors about some of the riskiness of investing in a particular company and be able to assess whether the company has a good level of conformance towards corporate governance issues.

Letza, Kirkbridge, Sun and Smallman (2008) in Freeman (1984) argued that the aim of corporate governance is to maximise wealth creation of the corporation as a whole by taking into account the interests of various groups in the society to which the corporation has an interest either direct or indirect.

Kapur (2004) argued that most of the studies have focused on corporate governance practices in firms across a wide range of industries and most of these studies have examined corporate governance and corporate social responsibility. To the best of our knowledge the majorities of studies conducted in this area are for developed economies and till now no such research has been conducted for a small island developing state such as Mauritius. We have also not come across such research for the African Continent assessing the relationship between corporate governance and shareholders' value. Hence there exists an important gap between developed and developing nations especially in the concept of corporate governance and shareholders' value. Therefore this study attempts to bridge this gap by investigating into the relationship between corporate governance and shareholders' value using the corporate governance indices.

## Study Objectives

The essence of this research paper is to gain an understanding of:

- The Mauritian listed companies level of awareness and interpretation of the concept of corporate governance.
- The corporate governance structure of companies and to assess whether listed firms consider that good governance practices influence corporate competitiveness.
- To assess the relationship between corporate governance and financial performance of listed firms.

The research findings are expected to have important implications for policy makers and business practitioners in Mauritius.

The paper is structured as follows: in the next section, we review the relevant literature in the area, including empirical evidences. Background information about corporate governance in

Mauritius is then presented. Section 3 describes the research methodology, which is then followed by the data analysis and results from the survey. The paper concludes with policy implications and limitations of the study.

## Literature Review

### Definition of Corporate Governance

Good governance is not a new concept. It has existed since the early days of civilisation. Both eastern and western civilisation recognised and preached the principles of good governance. The philosophy of good governance can be related also to various religious studies like the Hinduism, Islamism, Christianism, Judaism, Buddhism and others. In the modern business world, the concept of governance has been put in the context of business management, thus corporate management and control and to end up with nowadays highly used business word *"Corporate Governance"*

Corporate Governance is not a new issue. It has an ancient touch, since the formation of companies. The need for corporate governance arises because of the separation of management and ownership in modern corporation. In practice, the interest of those who have effective control over a firm can differ from those interests of the suppliers of external finance. The '*principal-agent*' problem as identified by Jensen and Meckling (1976) is reflected in management pursuing activities which may be detrimental to the interest of the shareholders and this problem can be mitigated through the protections derived from good corporate governance.

*"Corporate Governance refers to the set of systems and principles by which a firm is being directed, administered, or controlled and to the goals for which it is being governed."* Vallabhaneni (2013).

Boshkoska (2014) described a fundamental agency problem in modern firms where there is a separation of ownership and control. Jensen and Meckling (1976) further defined agency relationship and identified agency costs. Agency relationship is defined when a principal appoints an agent to undertake a specific task. The relationship is recognised under the law of agency. There is an inherent conflict of interest between managers and shareholders. If managers are to act in the best interest of owners, the managers must be monitored and rewarded with appropriate incentives.

According to OECD (2015) CG is a fundamental element for the success of the organisation. 0'Donovan (2003) defined corporate governance as an internal mechanism encompassing processes, policies and people who works for the benefit of stakeholders by coordinating sound management practices with integrity and business knowledge which will ultimately lead to a healthy board structure and hence creating a sound corporate structure within the organisation.

### Importance of Corporate Governance

Shleifer and Vishny (1997) suggested that good corporate governance increases the efficiency of capital allocation within and across firms. It also reduces the cost of capital for issuers, helps to broaden access to capital, reduces vulnerability to crises, fosters savings provisions, and renders corruption more difficult. Likewise, those companies that insist upon the highest standards of governance are aiming at reducing many of the risks inherent to an investment in a company. Aguilar (2014) supported that companies which actively promote robust corporate governance practices ultimately attract investors as investors provide capital that the business need to grow, succeed and create jobs.

More generally, well governed companies are better contributors to the national economy and society. They tend to be healthier companies that add more value to shareholders wealth, workers, communities and countries in contrast to poorly governed countries that may result in job losses, the loss of pensions, and even demoralize confidence in securities market. Jean Jacques du Plessis *et al.* (2005) suggested that these good governance practices enable corporations to use their capital efficiently, maintain the confidence of investors and attract more patient long-term capital. In accordance with OECD (2015) corporate governance enhances strategic focus, builds market confidence and business integrity, which in turn is vital for companies that need access to equity capital for investment.

Hence, the state of corporate governance in an economy is likely to be connected with the state of economic and political governance of that given country. Kaufmann (2003) argued that poor governance of financial institutions increases the liabilities of the financial system. They have distorting effect on public institution, deter foreign direct investment and can lead to future financial crisis.

**Corporate Governance Indices**

Of the notable Corporate Governance indices that have been formulated and mostly used is: the CGI developed by Gompers, Ishii and Metrick (2003). As per Gompers, Ishii and Metrick the index is constructed based on the main pillars and good determinants of corporate index. The following are the six sub index: Role of Board; Sub-Committees; Internal Control, Auditing and Risk management; Integrated Sustainability Reporting; Disclosure, Transparency and Communication and Relationship with stakeholders. These sub-indices are the main drivers of good corporate governance.

Empirical studies such as Varshney et al. (2012) constructed a CGI similar to that of Gompers, Ishii and Metrick, to investigate into the relationship between corporate governance and firm performance in India. Black *et al.* (2003) also constructed a CGI based on a survey carried out by the Korea Stock Exchange. The survey had six sub-indices which are shareholder rights, board of directors, outside directors, audit committee, internal auditor, disclosure to investors, ownership parity. They allowed each sub index to carry a maximum value of 20 with the overall Corporate Governance having a maximum value of 100. If a firm does not report on a particular question it is excluded from the index, in this manner it differs from others, particularly from Ananchotikul (2008) who uses the zero value to indicate that there is a lack of a corporate governance measure that should have been included by the firm.

**Corporate Governance and Corporate Competitiveness/Sustainability**

From the brief literature on corporate governance, it is seen that the effectiveness of corporate governance had been mainly gauged by performance measures in past studies. However such measures alone cannot fully reflect a company's competitiveness. Corporate competitiveness incorporates on the basis of the studies of Buckley (1998) a firm's potential and process of competitive advantage, ability to sustain performance such as market share and growth, employment and rewarding of its factors of production is based on the corporate governance practices being implemented in the firm. Likewise, as the economic environment becomes competitive, Allen and Gale (2000) came across firms which found themselves under greater pressure to eliminate inefficient governance systems and to provide better protection to investors. As a result, economies characterised by high level of competition should also enjoy a better corporate governance system and higher investor protection.

Although international guidelines argue that explicitly or implicitly that good governance practices is associated with corporate competitiveness, theoretical and empirical studies of corporate governance practices and their effects have not provided uniform or conclusive evidence to the fact but instead, most studies had been carried out on the relationship of corporate governance and financial performance. During the last decades, most theoretical studies have produced a series of conceptual models explaining the causal relationship between corporate governance and corporate performance.

**Literature Review**

The following studies have investigated into the relationship between corporate governance and corporate competitiveness. The research findings have revealed mixed results which are broadly classified under these sub-heading:

- Board Structure and firm performance
- Ownership and Control mechanisms
- Social responsibility and firm performance

**Board Structure and Firm Performance: negative to inconclusive results**

In addition, Moscu (2013) found that the presence of more outsiders on the board are negatively related to performance, one rationale was that the boards are expanded for political reasons to include politicians and environmental activists or consumer representatives and they either reduced firm performance or use their board positions for obtaining political seats. Similarly, Latif et al. (2013) found out that there is no convincing evidence whether increasing board independence would improve firm performance. Undeniably, Chatterjee (2011) found inconclusive and mixed relationship between board structure and firm performance.

**Ownership Concentration: mixed results**

Gulger (1999) did a survey by studying the US and UK firms and came to the conclusion that owner controlled firms with a single block of equality exceeding 5% or 10% significantly outperformed manager controlled firms. Johnson et al. (2000) evaluated that ownership concentration cause serious agency problems for minority shareholders when large shareholders become managers. Furthermore, Anderson (2003) affirmed that higher ownership concentration have higher leverage levels compare to minority shareholders. On the other hand, Agrawal and Knoeber (1996) found no significant relationship between performance and stockholders of block-holders.

**Social Responsibility and Firm Performance**

During the past years, companies corporate social responsibility have increased considerably with the rising of stakeholders' demands (González-Rodríguez et al., 2015). Veerchoor (1998) found that 26.8% of 500 US corporations with a commitment to ethical behaviour had a higher overall financial performance that those which did not assume explicit undertakings. Subsequently, Flammer (2012) argued that it is difficult to relate CSR to a company's financial performance. An example of how a company's stock price can be negatively affected by a company's environmental performance is the results of the British Pertroleum's oil spill in the Gulf of Mexico in 2010. The BP' stock price before the crash was 59.5 US dollar per share whereas three months later it had dropped to 28.9 US dollar per share (Flammer, 2012). Gompers, Ishii, and Metrick (2003) showed that companies with strong shareholder rights yielded annual returns that were 8.5% greater than those with weak rights. The more democratic firms enjoyed higher valuations, higher profits, higher sales growth and lower capital expenditures and in one word they are competitive.

**Good Corporate Governance is at the heart of investment decisions: but limited proven evidence**

McKinsey's 'Global Investor Survey Opinion' (2002) found that more than 80% of the more than 200 global institutional investors, together representing more than USD 3.25 trillion in assets, indicated a willingness to pay a premium for the shares of a well governed company over a one considered poorly governed but with a comparable financial record. The size of the premium varied by markets from 11% for Canadian companies to around 40% for less strict regulatory regimes like Egypt, and Russia and 30% in Eastern Europe and Africa.

In its survey McKinsey & Co., found that corporate governance is still at the heart of investment decisions. That is investors still put corporate governance at par with financial indicators when evaluating investment decisions and an overwhelming majority of investors are prepared to pay a premium for companies exhibiting high governance standards. Well governed companies may benefit from a lower cost of capital. The report put forward that there are a number of other research that sought to explain the relationship between corporate governance and investment decisions. However, the McKinsey's survey was opinion based and hence the findings are limitary.

Along the same line, Deutsche Bank over several years carried out various studies linking corporate governance and financial performance over various markets. According to the Hermes Pensions Management Ltd (2004), Deutsche Bank UK research is based on an assessment of corporate governance practices of the 350 FTSE companies at the end of 2003 and 2004 using 50 corporate indices. It found a direct relationship between share price of the companies and their corporate governance practices. Over the three years of study, the top 10% of the companies in terms of corporate governance practices outperformed those in the bottom by 10% to 25%. Following this study, Deutsche Bank ranked these companies according to their corporate governance indexes. Deutsche Bank research showed that there was a positive relationship between corporate governance standards and their ROE. The top 20% companies (average 2002 ROE of 15.9%) which were more that the bottom 20% (average 2002 ROE of 1.5%). However this research failed to establish a clear link between qualities of corporate governance and investors current market valuations, measured by share price over earnings and share price over cash flow as opposed to the historic share price performance.

Prof. Tong Lu (2006) of the Chinese Centre for Corporate Centre for Corporate Governance and the Chinese Academy of Social Sciences carried out researches on the assessment of corporate governance practices on the best 100 Chinese listed companies. For an assessment of good corporate governance the study was based on the basic principles of fairness of the board, accountability to its stakeholders, openness and transparency to the public and governmental agencies.

The research findings revealed that on the overall assessment for the top 100 Chinese listed companies showed that more improvement in corporate governance is needed in form rather in substance. Compared with the year 2005, the standard of Chinese corporate governance has generally improved in 2006 but the pace of improvement is minimal because the overall standard has increased by 4.25%. It was found that the score in *'responsibilities of board of directors'* is higher than that scored in '*roles of stakeholders*' and '*shareholders rights'*, in the year 2005.

**Corporate Governance in Mauritius**

Corporate governance issues are attracting worldwide interests. It is being actively involved and promoted in every sphere of life whether politics, business, social and environmental whereby all these issues are under '*good governance*' banner. The importance of corporate governance has gained momentum in many developed countries as it is important for enhancing productivity and competitiveness of various firms. Developed economies found that re-engineering of corporations based on good corporate governance practices improve the investment climate and raise stakeholders' confidence in the corporations. It encourages long-term investment flows by building market confidence and for those companies dealing on the international scene.

Mauritius being a global business centre, it is of utmost importance to follow international corporate governance practices so as to build the better repute of the country. Mauritius did not stay immune to such international changes and accordingly the Report on Corporate Governance for Mauritius was produced and even a Code of Corporate Governance for State-Owned Enterprises was developed. Unlike various other African Jurisdictions, Mauritius has an Office of Public Sector Governance that oversees corporate governance practices of state enterprises. While for listed and non-listed corporations, there is a Committee on Corporate Governance that sits at the Prime Minister's Office. The Committee on Corporate Governance was a recommendation from the Report of Corporate Governance for Mauritius (2003).

The Report on Corporate Governance for Mauritius (2003) was prepared by the joint effort of the National Committee on Corporate Governance, Mervyn King who provided advice and guidance and FIRST INITIATIVE, an organisation supporting corporate governance programmes worldwide. The code takes on a broad approach and develops guidelines concerning the main provisions which encompass compliance and enforcement; board and directors; board committees; role and function of the company secretary; risk management, internal control and internal audit; auditing and accounting; integrated sustainability reporting; communication and disclosure and relationship with shareholders.

According to Section 1.1 of the code, the latter shall apply to companies listed on the official list of the SEM, banks and non-banking financial institutions, large public companies, state owned enterprises and large private companies. Compliance with the code is on a '*comply or explain*' basis where companies acknowledge their compliance with the provisions or state their reasons for non-compliance in their annual reports. The SEM has clearly made rules concerning reporting procedures and financial reporting is an integral part of the corporate governance structure.

**Research Methodology**

The main focus of the study is to investigate the link between corporate governance, corporate competitiveness and corporate financial performance. To address the study objectives, a dual methodology is adopted and the broad research question is:

*Is there a relationship between firms implementing good corporate governance practices and corporate competitiveness (which is an intervening variable to maximize shareholder's wealth)?*

To assess the corporate governance practices of listed companies, a survey was conducted during the last quarter of the year 2015. Questionnaires were administered through personal interviews to chartered company secretaries, board directors and chairpersons of board of directors. Given the nature of the study only senior company officials were targeted. The questionnaire was pre-tested initially with some knowledgeable persons across in the field and accordingly amendments were made to the questionnaires. A total of 33 responses were obtained from a sample of 36 listed companies on the SEM.

The questionnaire is divided into 12 sections based on the Report of Corporate Governance for Mauritius (2003) comprising of board structure, stewardship role of the company, ownership concentration, social responsibilities, stakeholders view, external reporting, of audit operation, conflict of interest, and supervision. Similarly the last part of the questionnaire attempt to assess competitive potentials of the listed firms.

The study also made use of the CGI developed by Gompers, Ishii and Metrick (2003). The construction of the index is based on the sets of provisions found in the Report of Corporate Governance for Mauritius (2003). The CGI adds one point for each provision followed by that company. The provisions are based on 6 sub-indices as depicted in figure 1, namely the role of the board, sub-committees of the board, internal control, auditing and risk management, integrated sustainability reporting, disclosure and communication and finally relationship with stakeholders. Each sub index has a value between 0-10 score aggregated to reach the CGI (0-60). The data was hand collected from the annual reports of the 36 firms for the period 2010 to 2014. The variables of interest are earnings per share (EPS), overall CGI (OINDEX), the 6 sub-indices of the index and log of sale (lnsale) as a proxy for firm's size.

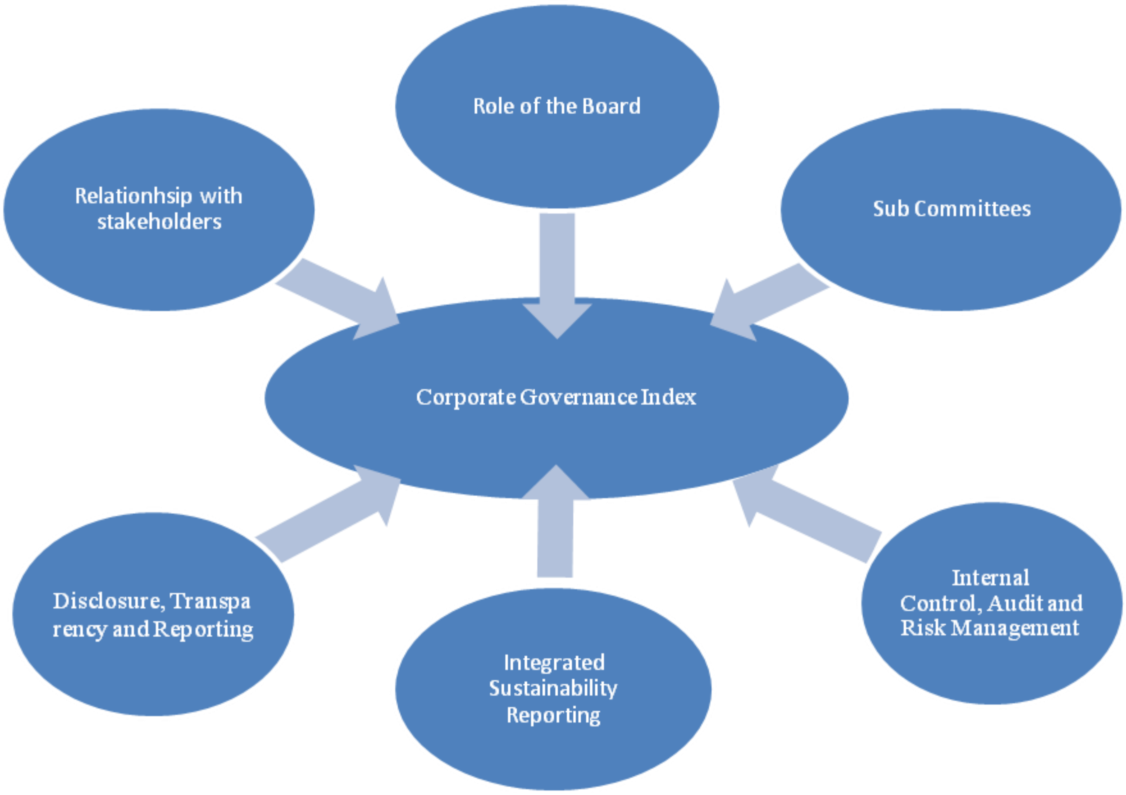


**Figure 1: Corporate Governance Index and its Sub-indices**
(Source: Adapted from Gompers, Ishii and Metrick ,2003)

Given the nature of the secondary data, a panel data framework is applied to test the hypothesized link between CGI and corporate performance. The data was compiled from the annual reports of the 36 listed companies for the period 2010 to 2014, giving a balanced panel data with 180 observations.

## Data Analysis and Discussion of Results

This section first analysed the survey results followed by the econometric model to test the link between CGI and shareholders' value. The data collected was validated prior to input on the SPSS version 22.0. First the adherences to the corporate governance provisions by the respondents are examined. This is followed by the analysis of the effect of corporate governance on the performance of these companies and whether adherence to good corporate governance leads to higher score of corporate competitiveness.

**Response Rate**

The highest response rate is from the Commerce sector given that this sector is more represented on the official SEM list. Similarly the Investments and mutual funds sector too has the second highest response rate and the plausible reason is that investment companies deal directly with people's money and as such, have to adhere by more rigorous disclosures.

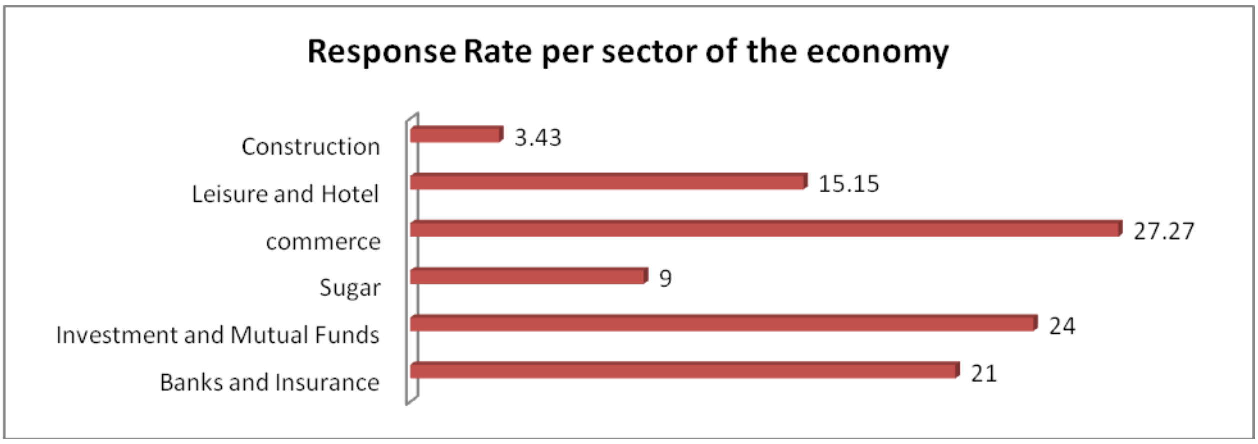


**Figure 2: Response Rate per sector**

**Board Structure**

Table 1 summarises the board structure of the listed firms. It is observed that 51.5% of the respondents have board members ranging from 5 to 10 while 33% have a range of 11 to 20. 15% of respondents have a board composition of less than 5. These companies are mostly small and are usually part of holding structures of large corporate and as such are run by few members. Mak and Yuanto (2003) echoed the above findings in firms listed in Singapore and Malaysia where they found that firms' valuation is highest with board's composition having at least five directors.

**Table 1: Board Structure**

| Board Composition | <5 | 5-10 | 11-20 |
|---|---|---|---|
| Members constituting boards | 15% | 51.5% | 33% |
| Number of Independent and Non Executive directors | 72% | 24.2% | 3% |

It also depicts that 72% of the listed firms' boards are composed of independent and non executive directors ranging less than 5 and 24.2% of the listed firms have around 5 to 10 independent and non executive directors. The need for such a strong presence of non executive directors and independent directors is held by the respondents that such directors have the ability to bring positive, impartial and objective judgments and to ensure that all shareholders interests are properly addressed.

**Board Committees**

The table below displays the presence of various committees within the companies and it is observed that 100% of the respondents have an audit, remuneration and nomination committee while 97% have a risk committee. The SEM listing rules clearly defines the statutory requirements for the existence of such committees. The Report of Corporate Governance for Mauritius (2003) laid down the importance of the various committees within a firm and yet it is found that 30% of the firms surveyed do not have a corporate governance committee and a corruption committee which are against SEM listing obligations.

**Table 2: Sub - Committees**

| Committees | Audit | Corporate Governance | Remuneration | Nomination | Corruption | Risk |
|---|---|---|---|---|---|---|
| Yes | 100% | 70% | 100% | 100% | 70% | 97% |
| No | | 30% | | | 30% | 3% |

**Appointment and Re-appointment of Board Members**

Appointment and re-election of board members is very important so as to ensure transparency in board matters relating to business development and management performance. The table below describes the present condition pertaining to renewal on contracts of board members.

**Table 3: Reappointment of board members**

| | Agree | Disagree |
|---|---|---|
| Board Members reelected regularly | 69% | 31% |
| The company board members are appointed on different boards | 90% | 10% |
| Formal and transparent procedure for election and reelection of directors | 87% | 13% |

It is observed that 69% of the quoted companies agree that their board members are re-elected regularly while 31% disagree with this statement. It can be observed that 90% of the respondents have their board members appointed on various boards and committees but this can lead to conflict of interest between different board members. Likewise, 87% of the respondents go in line with the fact that there exists a formal and transparent procedure for election and re-election of directors.

**Internal Control, Auditing, Risk Management and Disclosure**

The results in Table 4 show that 91% of the respondents have internal control procedures and 64% of the respondents have a separate internal audit department. Likewise, 94% of the listed firms go through external auditing on a yearly basis which is mandatory as per SEM listing rules (2010). All the respondents publish an objective and understandable annual report which includes Report on the Financial Statements, the Directors' responsibility for proper accounting records, and the Auditors' responsibility to express an opinion on the audited financial statements. Similarly, under SEM listing rules (2010) disclosures must be made relating to adoption of corporate governance practices and this is supported since all the respondents disclose their corporate governance structures and these disclosures in the annual reports must be signed by a chartered company secretary as per Companies Act (2001).

**Table 4: Internal Control, Auditing, Risk Management and Disclosure**

| | Yes | No |
|---|---|---|
| Internal Control Framework | 91% | 9% |
| The Company have a separate internal audit department | 64% | 36% |
| The company goes through external auditing regularly using independent reputable auditors | 94% | 6% |
| The company publishes an objective and balanced annual report | 100% | |
| Disclosure is made concerning corporate governance practices | 100% | |
| Identify, Assess and Mitigate risks | 97% | 3% |

**Analysis on competitive potential**

Table 5 gives an indication of the various endowment factors creating the competitive potential of a firm. It can be observed that 63% of the respondents have skilled and cheap labour resources and 100% of the respondents have high productivity employees. 60% of the respondents agreed on having material resources and this is mainly applicable for companies listed in the commerce, transport, construction and tourism sector.

**Table 5: Endowment factors leading to competitive potential**

| | Yes | No |
|---|---|---|
| Skilled and Cheap Labour Resources | 63% | 37% |
| Material Resources | 60% | 40% |
| Capital or Access to capital | 32% | 68% |
| High Productivity employees | 100% | |
| Undertake long term technology and R&D projects | 81% | 19% |
| Practice exporting and licensing | 48% | 52% |
| Exhibits marketing expertise, customer services and responsiveness | 100% | |

Only 32% of the respondents admitted that their companies have better access to capital. This is perhaps mainly for investment companies and commerce related companies because they rely heavily on capital and funds. Similarly, 81% of the firms agreed that by undertaking long term technology and R&D projects it allows to build up a better competitive edge. Likewise, 100% of the respondents exhibit marketing expertise, customer services and responsiveness. This is important because all listed companies have to be competitive to acquire higher market share.

**Analysis of EPS, CGI**

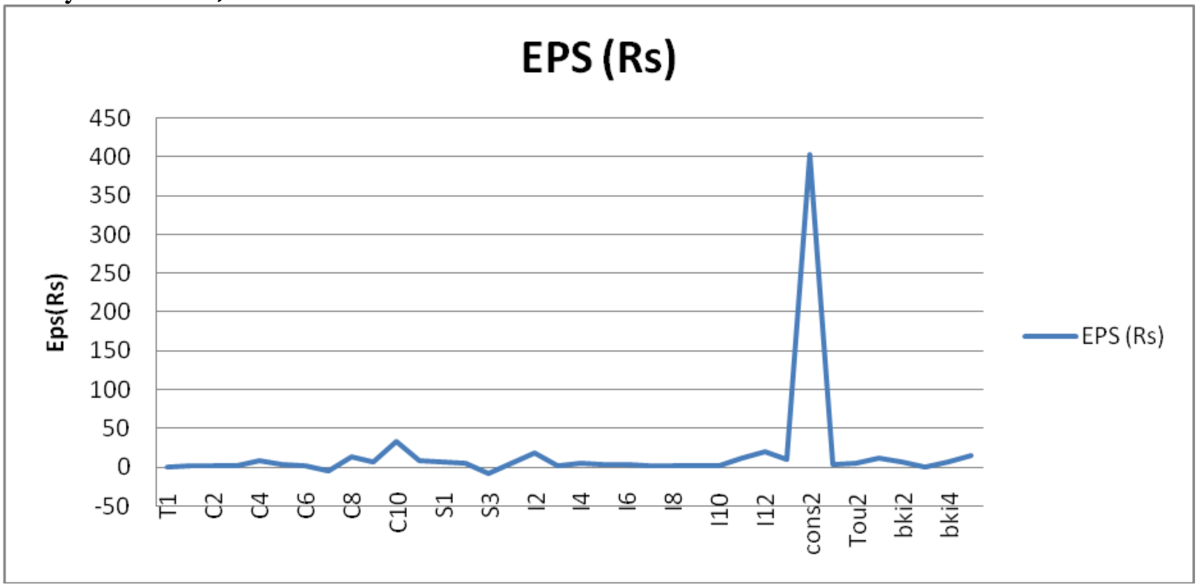


**Figure 3: Average EPS per sector**

*Key: T=Transport ; C=Commerce; S=Sugar; I=Investment and mutual funds; Cons=Construction Tou =Tourism and Bki= Banks and Insurance*

Figure 3 showed that there is not much variations in the EPS of the companies and companies belonging to a sector (eg. Investment) maintain the same trend in the earnings per share. The increase in the size of the EPS for the construction sector shows that the profit of the company has increased thus increasing shareholder's wealth. As such, it can be deduced that such companies are performing relatively well.

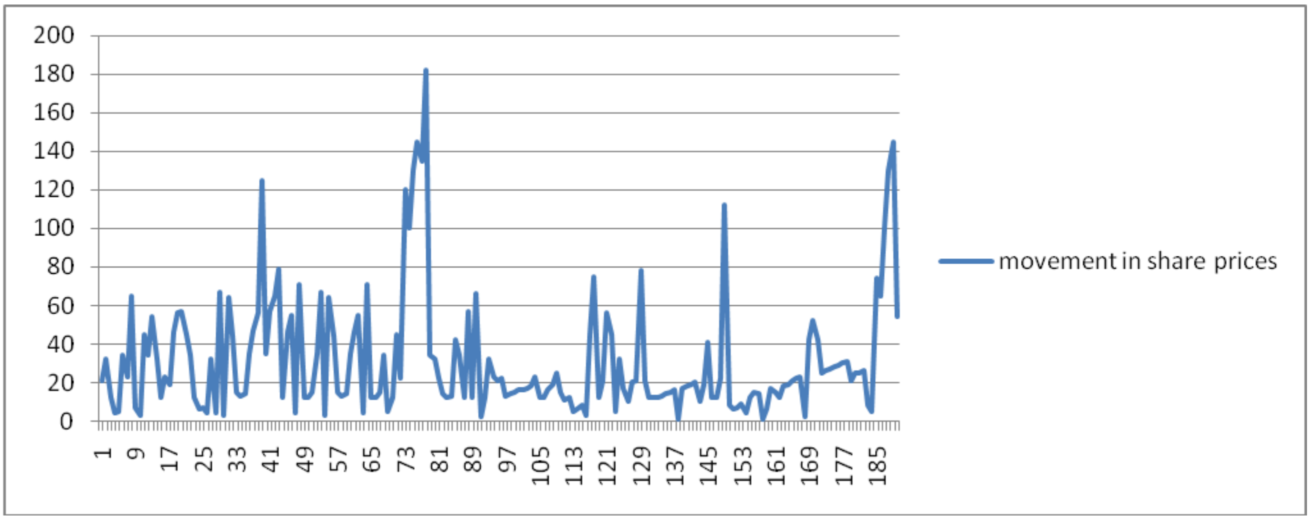


**Figure 4: Movement in average yearly share prices from 2010 to 2014**

Figure 4, shows that share prices of all the listed companies from year 2010 to 2014 were fluctuating almost at the same rate. From the year 2008 onwards, the Stock Market was faced with great market turbulences due to worldwide recession and the collapse of stock markets in the world. The highest share prices which have a significant impact on the overall movement in share prices of the companies were that of the Mauritius Commercial Bank Ltd and the State Bank of Mauritius. These companies have stringent regulatory support and hence they tend to have good corporate governance practices.

Share Prices are influenced by various factors namely the demand for the shares, purchasing power of investors, cash flow of investors and taxation laws. The world recession in year 2008 forced many investors to sell their shares especially in the offshore markets so as to escape share price losses. The sale of huge amounts of equities on the SEM has cascaded to a decline in the price of equity shares in Mauritius. Hence one reason for falling trends in share prices could be because of the effects of the world recession affecting various financial markets worldwide. Similarly it can be argued that the Tourism sector faced certain losses because of the worldwide financial imbalances especially in Europe and America whereby Mauritian hotels found a fall in their tourists' arrivals.

**Corporate Governance Index and Earnings per Share**

The corporate governance index is constructed making reference to the significant provisions of the code and suited to the existence or implementation of these provisions in the respective companies and adopting the methodology as given in the model of the index shown in *Appendix I*. The average index is computed for the 36 listed companies for the period of the study as shown in the graph.

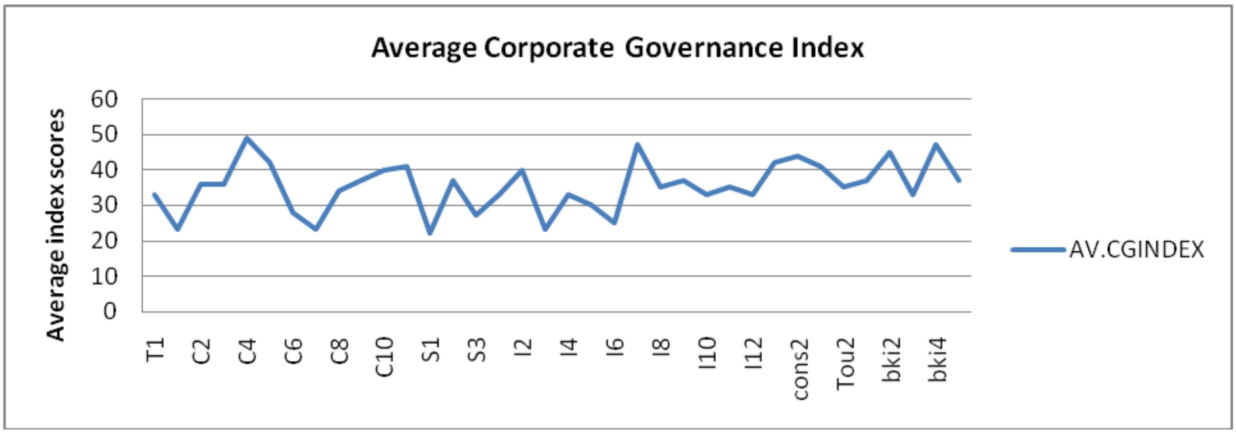


**Figure 5: Corporate Governance Index**

Figure 5 indicates the position of the company in terms of good governance practices relative to its index. The overall average index score is in range of 18 to 50 with a mean value of 36. This demonstrates the commitment of the Mauritian listed companies towards implementing Code of Corporate Governance for Mauritius (2003). We can also observe that the commerce sector represented by 'C' have the highest corporate governance value followed by the Banking and Insurance sector denoted by the symbol 'bki'. This is so because in the banking and insurance industry, much public money is involved hence regulatory authorities such as the Bank of Mauritius and the Financial Services Commission have laid down strict rules regarding corporate governance practices of these companies.

Likewise companies operating in the investment and mutual funds obtained high score which means that the concept of corporate governance is gaining more importance. However, some companies are still lagging behind in the implementation process, on the basis that they are small entities to implement such framework.

The relationship between CGI and corporate performance, as measured by EPS is next displayed in Figure 6. The graph clearly shows a positive correlation between the firms' CGI and the maximization of shareholders wealth, using EPS as an indicator.

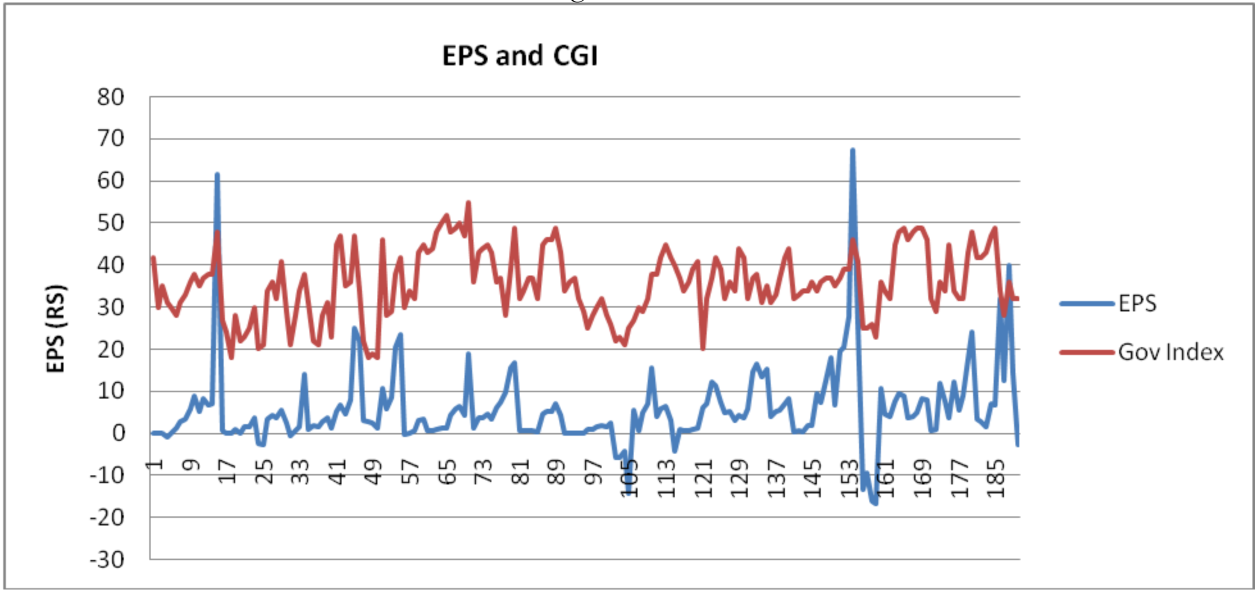


**Figure 6: EPS and Corporate Governance Index**

McKinsey's 'Global Investor Survey Opinion' (2002) found that there exists a positive relationship between corporate governance, EPS and ultimately investment decisions. It is observed that when CGI increases the EPS also increases and when index falls EPS also falls. Hence we can deduce that there exists a direct relationship between these two variables. Likewise, EPS can also be used as competitiveness indicator because if a firm has a higher EPS it will tend to attract more potential investors and hence, leading to a better competitive position as compared to other companies. EPS is a key performance indicator for the general public and as well for institutional investor. There is conclusive evidence as shown in Figure 6 that better implementation of corporate governance practices lead to higher EPS which thus contribute to the maximization of shareholders wealth.

**Multivariate Analysis**

The major part of the analysis in this section has examined the sample companies' practices to corporate governance, using non-econometric techniques. The corporate governance sub-indices and ratios of the 36 listed companies operating in five main sectors of the Mauritian economy have been worked out using the companies' annual report.

Given the panel nature of the data, there may be an argument to support the use of a static framework for examining the relationship between corporate governance and corporate performance of the sample firms. The lack of financial data points over time suggested that employing a static framework was more appropriate.

*Variables*

A brief definition of the variables and the expected relationship between the dependent variable and the explanatory variables are given below. The dependent variable is EPS, the ratio of earnings over number of shares and is used as a measure of financial performance.

OINDEX is used to denote the overall corporate index, made up of six sub-indices. The literature review section has provided both theoretical arguments and empirical evidences on the use of the corporate index. A firm's EPS is expected to increase where it scores high on the CGI. The variable OINDEX is further disaggregated into six sub-indices: BD, COM, RISK, DISC, REPORT and STAKE in order to assess the significance of each element on the sample firms EPS.

BD is a measure of the role board of directors, including board composition, NED, remuneration and re-appointment and election of directors. Studies have revealed the importance of transparency in the appointment of directors and thus where board members are elected regularly and follow the guidance set by the code of CG, it is expected to influence EPS positively. Empirical evidences examining the link between CG and financial performance supported this argument.

Com is a measure of the sub-committees and includes risk committee, audit committee and remuneration committee among others. Where a company has these committees in place and are operational, it would indicate that there are good CG practices and the survey results have provided evidence composition to that effect. Similarly a positive relationship is expected between EPS and the variable Com.

RISK is used to denote the existence of internal control, audit and risk management within the companies. A proper deployment of resources to these activities is a stepping stone to safeguard the shareholders' interest. Therefore, where these activities are carried out effectively, they are a pointer to good CG practices and are expected to influence earnings of the companies. DISC is a measure of the sample firms' disclosure, transparency and reporting system which if operational will positively impact on the firms' earnings. REPORT denotes the firms' integrated sustainability reporting and STAKE is a measure of the companies' relationship with stakeholders. Both variables are part of the sub-indices and are expected to positively influence the EPS.

SIZE is proxied by the natural logarithm of sales and is used as a control variable in the regression analysis. The dependent and independent variables as briefly discussed above are expressed in the econometric model, where the dependent variable is EPS and the subscript *i* denoting firms (cross-section dimension) ranging from 1 to 35 and *t* denoting years (time-series dimension), ranging from 1 to 5.

$$EPS_{it} = \beta_0 + \beta_1 \ln sales_{it} + \beta_2 bd_{it} + \beta_3 com_{it} + \beta_4 risk_{it} + \beta_5 report_{it} + \beta_6 disc_{it} + \beta_7 stake + \varepsilon_{it} \quad (1)$$

Table 6 provides a summary of the descriptive statistics of the dependent and independent variables. The mean earnings per share of the sample firms is 5.48 and the mean CGI (OINDEX) is 35.79 which suggests that on average the sample companies adhere to good CG practices. The individual sub index has a value which ranges from 4.9 (disc) to 7.3 (bd) and it is observed that companies operating in the banking and insurance sectors are the ones adhering to more stringent code of CG. Companies operating in the commerce and sugar sectors report the lowest index and also are the ones which display a low EPS value as showed in Figure 6. The role of the board has the highest score which testifies the importance which companies attached to this dimension of CG.

**Table 6: Summary Statistics**

| *Variable* | *Mean* | *Std. dev.* | *Min* | *Max* |
|---|---|---|---|---|
| Earnings per share (eps) | 5.74 | 9.88 | -16.7 | 76.42 |
| Role of board (bd) | 7.33 | 2.35 | 2 | 10 |
| Sub-committees (com) | 6.45 | 2.48 | 2 | 10 |
| Internal control and Audit risk (risk) | 5.89 | 2.29 | 1 | 10 |

| | | | | |
|---|---|---|---|---|
| Reporting (report) | 6.00 | 2.10 | 2 | 10 |
| Disclosures (disc) | 4.90 | 1.65 | 1 | 10 |
| Stakeholders (stake) | 5.23 | 2.78 | 0 | 10 |
| Corporate governance index (oindex) | 35.79 | 8.22 | 18 | 55 |

The correlation matrix between the dependent variables and the explanatory variables are shown in Table 7. Examining the bivariate relationships between the dependent variables and independent variables, of particular note is the consistent direction of the relationship, though not all of them are significant. The expected positive relationship between CGI sub-indices and EPS is confirmed. Most of the sub indices are highly correlated with the CGI and to avoid the problem of multicollinearity, the OINDEX is formulated separately as in Model 2. Strong correlation between REPORT and the sub-committees (COM) is observed which indicates the coherence that exists between the different elements of CGI.

**Table 7: Pearson Correlation Matrix between Variables**

| ***Variable*** | ***1*** | ***2*** | ***3*** | ***4*** | ***5*** | ***6*** | ***7*** | ***8*** | ***9*** |
|---|---|---|---|---|---|---|---|---|---|
| 1. eps | 1.000 | | | | | | | | |
| 2. bd | 0.156* | 1.000 | | | | | | | |
| 3. com | 0.304* | 0.442* | 1.000 | | | | | | |
| 4. risk | 0.278* | 0.138 | 0.284* | 1.000 | | | | | |
| 5. report | 0.212* | 0.271* | 0.409* | 0.148* | 1.000 | | | | |
| 6. disc | 0.149* | 0.085 | 0.197* | 0.025 | 0.021 | 1.000 | | | |
| 7. stake | 0.252* | 0.138 | 0.309* | 0.296* | 0.212* | 0.276* | 1.000 | | |
| 8. oindex | 0.384* | 0.591* | 0.756* | 0.547* | 0.574* | 0.390* | 0.663* | 1.000 | |
| 9. lnsale | -0.158* | -0.029* | -0.112 | 0.219* | -0.125 | 0.021 | 0.047 | 0.007 | 1.000 |

* denotes significance level at 5%.

## The regression models

When using a static panel framework, the decision to use either a fixed-effects model or a random-effects model arises. Panel data analysis allows the consideration of a firm-specific time-invariant effect. In order to determine which of these two regressions models should be run, the Hausman test is used to determine the appropriate model. The techniques examine whether difference between the estimators generated by random-effects regression and the estimators generated by fixed-effects regression approximates zero. The diagnostic tests favour a fixed-effects model and the results are reported in Table 8

The main focus of the study is to examine the link between CGI and financial performance. A *priori* it is expected that adherence to good CG practices would improve firms' bottom line results. The coefficient for all the sub indices with the exception of the variable *risk* is positive and significant which indicates that the sample firms' EPS improve when the companies' score for the sub-indices are high. The results for the main model which shows the separate effect of CGI sub-indices and the overall index (OINDEX, model 2) are displayed in the table together with *t-values* and statistical tests.

**Table 8: Static Panel Estimates (fixed-effects within) Regressions of Financial Performance**

*(Dependent Variable: EPS)*

| ***Variable*** | ***Model 1*** | ***Model 2*** |
|---|---|---|
| Constant | -88.99<br>(-4.38)*** | -81.39<br>(-4.05)*** |
| Bd | 0.941<br>(2.96)** | |
| Com | 0.732<br>(2.02)** | |
| Risk | -0.344<br>(-0.86) | |
| Report | 1.195<br>(2.73)** | |
| Disc | 0.880<br>(2.27)** | |
| Stake | 0.584<br>(2.09)** | |
| Oindex | | 0.704<br>(6.19)*** |
| Lnsale | 4.78<br>(3.38)** | 4.19<br>(2.98)** |
| *F value*<br>$R^2$ | *10.11(0.000)*<br>*34.06* | *30.80 (0.000)*<br>*30.26* |

The $R^2$ is sufficiently high for both models which explain 30 % to 34% of the variations in the dependent variable. The *F-statistic* is highly significant for the two models and is an indication that the data fits the model fairly well. The robust estimates for our second model confirm the positive association between CGI and profitability, measured by EPS of the Mauritian listed companies. The coefficient for the variable OINDEX (model 2) is positive and highly significant, which confirms the hypothesized link between good corporate governance practices and firms' performance. This was validated using the survey results (Figure 6) where companies with a high index score displayed a high value of EPS.

**Conclusions and Policy Implications**

The relationship between corporate governance and firms' performance has been mostly analyzed for the developed markets but very little has been done concerning corporate governance and corporate competitiveness leading to shareholders wealth maximization in small island developing states. In this study we filled this gap by analyzing corporate governance, corporate competitiveness and firm performance using EPS as a proxy for shareholders' wealth. To model for firm level of corporate governance we made use of the corporate governance index developed by Gompers, Ishii and Metrick (2003).

The study confirmed that the good corporate governance practices for listed companies in Mauritius are a driver for financial performance. The research findings confirmed a significant association between CGI and EPS. Companies with higher CGI reported better EPS and this was the case for the six sub-indices where all the coefficient were positive and significant. Along the same line it was observed that companies with better corporate governance structures were able to create a better competitive potential.

The survey results showed the relative importance attached to the role of board and its composition, in particular NEDs and to the corporate governance committees in companies. Likewise, more disclosure is needed for listed companies concerning election and re-election of directors. It was also found that competitive potential of listed firms is very important to sustain growth in the Mauritian capital markets.

However, despite our results showed that Report of Corporate Governance for Mauritius potentially improves the governance and decision making process of firms listed on SEM and yet institutional shareholders still have a tight grip of control on these blue chip companies.

From a policy perspective it can de deduced that corporate governance is not just an emancipation of company law but it is a blend of law, finance and management. The results of this study have important implications for the government at a time when the public sector is called upon to follow the code of good corporate governance, through the establishment of the office of public sector governance. For an effective implementation of corporate governance practices, the Mauritian Companies Act 2001 will need to be reviewed given that many listed companies follow the CA as the bible of governance and follow less the code of corporate governance.

The implementation of CG will have a far-reaching impact on Mauritius own economic development and integration on a global basis. Mauritius has a CG structure and is adopting rules laid down by the code of corporate governance which is beneficial from the point of view of shareholders' but also from a sociological and ideological way of doing business.

Further studies in corporate governance to investigate the link between CG and shareholders wealth is needed in Mauritius. Likewise, the growing number of companies listed on the DEM is a potential area of interest to empirically test the implementation of corporate governance structures and its linkages to financial performance and corporate competitiveness. As such the results of this study are purely based on the Mauritian listed companies CG structures and hence the applicability of the general findings in other countries cannot be easily asserted.

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## Appendix

corporate governance index model
1Yes
0No

| Company name | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SUB INDEX 1:Role of board | | | | | | | | | | | | | | | | | | | | | |
| 1.Appropriate mix of directors | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 2.Balance between executive directors and NEDS | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| 3.Appropriate board size | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 |
| 4.Role of NEDS | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 |
| 5.Disclosure of conflicts | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 |
| 6.Disclosure of director`s renumeration | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 1 |
| 7.Directors trainig and induction | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 |
| 8.Board Appraisal | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 0 |
| 9.Seperation of office of chairman and CEO | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 1 | 1 |
| 10.CEO is a member of board | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 0 |
| SUB INDEX 2 sub committee | | | | | | | | | | | | | | | | | | | | | |
| 1.Existence of an audit committee | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 2.Independence of an audit committee | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 |
| 3.Existence of corporate governance committee | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 4.Independence of corporate governance committee | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 0 | 1 | 0 | 0 |
| 5.Existence of corporate governance committee | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 6.independence of rennumeration committee | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| 7.Existence of risk committee | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0 |
| 8.Independence of risk committee | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 |
| 9.Existence of nomination committee | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 1 | 0 |
| 10.Independence of nomination committee | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 |
| SUB INDEX 3 Internal control,auditing and risk mgt | | | | | | | | | | | | | | | | | | | | | |
| 1.Existence of management system | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 1 |
| 2.Appropriate system of internal control | 1 | 1 | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 |
| 3.Adequate system of reporting in failure of internal control | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 0 |
| 4.Existence of an internal audit system | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 0 |
| 5.Cooperation of internal and external auditors | 1 | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 1 | 1 |
| 6.Compliance with Companies Act | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 7.Prpoer functioning of audit committee | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 1 |
| 8.Independence of external Auditors | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 1 | 1 | 1 |
| 9.Disclosure of Non-audit services of external audito | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 0 |

SUB INDEX 4: Integrated Sustainability Reporting

SUB INDEX 4: Integrated Sustainability Reporting

| | |
|---|---|
| 1. Recognition of Corporate Social Responsibility | 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 |
| 2. Existance of good social reporting standards | 1 1 1 1 1 1 1 1 1 1 1 1 0 1 0 1 1 1 1 0 1 |
| 3. Recognition of integrated Sustainability Reporting | 1 1 1 1 1 1 1 1 1 1 0 0 1 0 1 1 1 1 0 1 1 |
| 4. Adoption of Code of ethics | 1 1 0 1 1 0 0 1 1 1 1 1 0 1 1 0 0 1 1 1 1 |
| 5. Social activities | 1 0 1 0 0 1 0 0 1 0 1 1 0 1 0 1 1 0 1 1 1 |
| 6. Reporting on environmental, social and health and | 1 1 0 1 1 0 0 1 1 1 1 1 0 1 1 1 1 1 1 1 1 |
| 7. Environmental issues | 1 0 1 1 1 0 1 1 1 1 1 1 0 1 0 1 1 0 1 1 1 |
| 8. Employee welfare Activities | 1 1 0 0 1 1 1 1 0 1 1 1 1 0 1 1 0 0 0 1 0 |
| 9. Health and Safety Promotion Activities | 1 1 0 1 1 0 1 0 0 1 0 0 1 1 1 1 1 1 1 0 1 |
| 10. Existance of group core values | 0 0 0 0 1 0 1 1 0 0 0 0 0 1 0 1 1 1 0 1 1 |

Sub Index5: Disclosure, Transparency and Communication

| | |
|---|---|
| 1. Comprehensive annual Reports | 1 1 1 1 1 0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 |
| 2. Accessibility | 1 1 1 1 0 0 1 1 0 1 1 1 1 0 1 1 1 1 1 1 1 |
| 3. Inclusion of all reports in the annual report | 1 1 1 0 1 1 1 0 1 0 0 0 1 0 0 1 0 1 1 0 0 |
| 4. Disclosure of material information in the annual | 1 1 0 1 0 1 0 0 1 0 0 0 1 0 0 0 1 0 0 0 1 |
| 5. Timely and Accurate Disclosure of information | 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 |
| 6. Acounts prepared in accordance to IAS principles | 1 1 0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 |
| 7. Disclosure of Funding Details | 0 0 0 0 1 1 0 0 0 1 1 1 1 0 0 0 0 0 0 1 0 |
| 8. Existance of Political Funding | 0 0 0 0 0 1 0 0 0 0 0 0 0 0 0 1 1 1 1 0 1 |
| 9. Existance of charitable donation | 1 0 0 0 1 1 1 0 0 1 1 1 0 1 0 0 1 1 1 0 1 |
| 10. Additional Disclosure according to Stock Exchange | 0 0 0 1 0 1 1 1 1 1 1 1 0 0 1 1 0 1 1 1 0 |

Sub Index 6:Relationship with Stakeholders

| | |
|---|---|
| 1. Efective disclosures of all information to Stakeholders | 0 1 0 1 1 1 0 1 1 1 0 1 1 0 0 0 1 0 0 1 1 |
| 2. Protection of rights lovestors | 1 0 1 1 1 0 1 1 1 1 0 1 0 1 0 0 1 0 1 0 1 |
| 3. wealth and value creation for stakeholders | 1 1 1 1 1 0 1 1 1 1 1 1 1 1 0 1 1 0 0 1 1 |
| 4. Employment Creation | 1 1 0 1 1 1 1 1 0 0 0 1 1 1 1 1 0 1 1 1 0 |
| 5. Promotion of Sustainability of enterprise | 1 1 1 1 1 0 1 0 1 1 1 1 0 1 1 1 1 1 0 1 1 |
| 6. Decision making in line with stakeholder welfare | 0 1 0 0 0 0 1 1 0 0 1 0 1 1 0 0 0 1 1 0 0 |
| 7. Appropriate balance between performance and cor | 1 0 1 0 1 1 1 0 1 1 1 1 1 0 1 1 1 0 1 1 1 |
| 8. Compliance with relevant laws regarding stakeholders | 0 0 1 0 0 1 0 1 1 1 1 1 1 1 1 1 1 0 1 1 0 |
| 9. Encourage shareholder participation | 0 0 0 1 1 1 0 1 1 1 0 1 0 0 1 1 0 1 1 0 1 |
| 10. Encourage shareholder activism | 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 1 1 0 1 1 |

TOTAL score(maximum score is 60 points)