The UNIVERSITY of NEWCASTLE
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A CORPORATE GOVERNANCE DISCLOSURE INDEX
AS PROXY OF CORPORATE GOVERNANCE QUALITY:
AN EMPIRICAL STUDY ON
THE PROPERTY & CONSTRUCTION COMPANIES IN HONG KONG

by

FUNG, Pak Hong Horatio
Student number: 3136253
BBA (Hons), MBA (distinction), M eCommerce

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Supervisor: Dr. Marcus Craig RODRIGS

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Declaration

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List of Abbreviations

AC	Audit Committee
ADR	American Depositary Receipt
ANOVA	Analysis of Variances
ASX	Australian Securities Exchange
ASX CGC	Australian Securities Exchange, Corporate Governance Council
CEO	Chief Executive Director
CG	Corporate Governance
CGD	Corporate Governance Disclosure
CGI	Corporate Governance Index
CGR	Corporate Governance Report
CSR	Corporate Social Responsibility
DV	Dependent Variable
ED	Executive director
ESG	Environmental, Social and Governance
FC	Family Controlled
GMI	GovernanceMetrics International
HSI	Hang Seng Index
HSICS	Hang Seng Industry Classification System
HKBU	Hong Kong Baptist University
HKD	Hong Kong Dollar
HKEx	Hong Kong Stock Exchange
HKICPA	Hong Kong Institute of Certified Public Accountants
HKIOD	Hong Kong Institute of Directors
HSHKCI	Hang Seng Hong Kong Composite Index
ICD	Institute of Corporate Directors (Philippines)
INED	Independent Non-Executive Director
IV	Independent Variable
NC	Nomination Committees
NED	Non-Executive Director
NFC	Non-Family Controlled
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-Operation And Development
P&C	Property & Construction
PCAOB	Public Company Accounting Oversight Board
PRC	People Republic of China
RC	Remuneration Committee
RMB	Chinese Yen
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
SPSS	Statistics Package for Social Science, now "IBM SPSS Statistics"

Remarks: Meanings of variables, please refer to Chapter 3 or Appendix E.

Abstract

Many corporate scandals have broken out all over the world in the past decades. Researchers blame poor corporate governance (CG) as the major cause and study the relationship between the quality of CG, measured with a CG index (CGI), and corporations' performance. Complicated CGIs have been developed but the research results vary from weak to non-existent or even inverse, leading to no consistent conclusion.

This study takes an alternative approach by constructing a corporate governance disclosure (CGD) score system based on the Hong Kong Stock Exchange (HKEx) code on CG 2005. It attempts to measure CG disclosure, instead of the quality of CG. The purpose of this study is to investigate whether this CGD score can show a significant relationship to firms' performance, work as a proxy to CG quality and function as a tool for investment decision making.

65 property and construction companies listed in HKEx in FY 2010-11 form the sample to test the new CGD score system. Companies under different groupings such as sizes, country of origin and familial control are analyzed for any significant differences in CGD scores using the statistical tool ANOVA. The following are analyzed with statistical tools such as Multiple Regression: the relationship between the CGD scores and firms' performance; CGD scores and other independent variables such as INED percentage and firms' size in term of market capitalization; and dummy variables like the appointment of a non-executive chairman, whether or not the company is a PRC one or trades as ADR.

The CGD scores are found to have a significant positive relationship with firms' performance, especially their market to book value (MTBV), and be comparable or even stronger than the results of similar studies with CGI. In other words, companies with higher CGD score are showing better financial performance. Bigger (in term of market capitalization) firms are displaying higher CGD scores. All the sample companies show weak scores in the optional disclosure items but still bigger companies are achieving higher scores. PRC companies are showing lower scores but companies with non-executive chairman and separate CEO are showing higher scores. CGD scores are not affected by factors like familial control or the percentage of INED, ROA, ROE, leverage, and dividend payout. Moreover, the length of the CG report is found to be positively related to the CGD scores.

All the results indicate that a CGD score can serve as a proxy for CG quality, which means it establishes a positive relationship with corporate financial performance. In other words, CGD scores can serve as a tool for investors' decision making support.

This dissertation concludes with suggestions for further research and recommendations for the improvement of CG and CG disclosure for HKEx, focusing on practical reporting practice and improvement in inferability.

Keywords: Corporate governance, disclosure, transparency, corporate performance, HKEx, independent board, non-executive chairman.