Independent Directors and Firm Financial Performance of H-share Companies in Hong Kong

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A dissertation submitted in fulfillment of the requirements for the degree of Doctor of Business Administration

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August, 2014
Statement of Originality

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This dissertation would not have been possible without the help and dedication of some people, whom I would like to thank dearly.

During my work on this dissertation, Dr. Lisa Barnes has guided and supervised me as a mentor. She has demonstrated a high degree of professionalism during the dissertation journey. Her encouragement, enthusiasm made the completion of the dissertation possible. I am indebted to her for allowing me to draw from her experience and knowledge. I would like to express my sincere appreciation to her supervision and professional guidance.

I would like to give thanks for all lecturers who have taught me during the DBA course, without the lectures they have conducted; I would not have completed my dissertation.

Definitely, specials thanks go to my family giving a peaceful environment for me to complete this dissertation.
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ABSTRACT

The aim of this research is to examine the relationship between board independence and firm financial performance found in the sample of 109 H-share companies in Hong Kong from 2008 to 2010. The objective of this study is to gain a better understanding on whether there is a relationship between board independence and firm performance measured by return on equity, Tobin’s Q and price-to-book ratio. This is undertaken by considering the impact on performance of: percentage of independent directors, leadership structure in terms of CEO duality, and board composition in terms of board age, board size and gender diversity. The results show that the H-share company’s market value is positively and significantly associated with the percentage of independent directors. The results support the proposition that the age of directors is positively and significantly related to both company profitability and market value. This implies that companies with a higher percentage of independent directors and higher director ages are associated with higher market values. Board size is shown to be positively and significantly correlated to profitability, but is negatively and significantly associated with market value. This implies that companies with higher director ages and larger board size are associated with higher profitability. This result indicates that investors should be concerned with the number of independent directors and board size of H-share companies in Hong Kong. As one of the mechanisms of corporate governance, the independent director system does not completely improve corporate governance and the interests of minority shareholders in H-share companies. However, investors equate the increase in the number of independent directors with market value. To protect all shareholder interests, the regulators of Hong Kong need to seek a governance system that addresses the deficiencies of the independent director system. This research highlights the policy issue of which board attributes concern most investors in the case of H-share companies.

Keywords: corporate governance, independent directors, financial performance