

Corporate governance and firms financial performance in the United Kingdom

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Abstract

The objective of this study is to examine empirically the impact of good corporate governance on financial performance of United Kingdom non-financial listed firms. Agency theory and stewardship theory serve as the bases of a conceptual model. Five corporate governance mechanisms are examined on two financial performance indicators, return on assets and Tobin's Q, employing cross-sectional regression methodology. The conclusion drawn from empirical test so performed on 252 firms listed on London Stock Exchange for the year 2014 indicates a positive or a negative relationship, but also sometimes no effect, of corporate governance mechanisms impact on financial performance. The implications are discussed. Thereby, so distinguishing effects due to causes, we present a proof that, when the right corporate governance mechanisms are chosen, the finances of a firm can be improved. The results of this research should have some implication on academia and policy makers thoughts.

KEYWORDS

corporate governance, financial performance, return on assets, Tobin's Q, United Kingdom listed firms

1 | INTRODUCTION

The aim of this study is to examine the impact of "good" corporate governance on financial performance of firms in the United Kingdom. Turnbull (1997) defines corporate governance as all the influences affecting the institutional process, including those pointing to the controllers and/or regulators, involved in organising the production, sale of goods and services. According to Ehikioya (2009), corporate governance is concerned with processes and structures through which members interested in the firm take active measure to protect stakeholders' interest.

Corporate governance has become more relevant in contemporary times as companies grow and expand both in developed and emerging economies (Freeman, 1983,

2010). As companies expand, they use local raw materials, employ local workforce, sell to the community, pay taxes, and so forth, that supposedly benefit the community. In addition, recent corporation scandals have been blamed mainly on "bad" corporate governance. (It is almost a daily occurrence to hear news upon scandals ruining corporations.) Consequences of firms' failure are huge; they can be felt in every aspect of society. For instance, investors' capital can be wiped out overnight, job losses can occur, and so forth (Mallin, 2016).

There is another side to the story: interest groups known as stakeholders' activities can also affect the corporation. For instance, if some society is discontent with the operations of the corporation, it may react negatively towards the firm. Thus, one can boycott its products. As a

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Raw Data

Company Name	Year	Number	ROA	TO BIN	B S	A BI	Firm C	Size	Lverage
	20								
PT GOLDEN ENERGY MINES TBK	20	1	2,4639	1,30	8	0,4	4	20,5	0,9
	20								
	21	1	3,7558	1,20	6	0,5	4	20,5	1,0
	20								
	22	1	4,1233	1,20	6	0,3	5	20,8	0,7
	20						1		
PT ADARO ENERGY TBK	20	2	3,2696	2,60	5	0,4	0	3,27	0,5
	20						1		
	21	2	2,6101	2,80	6	0,3	0	2,61	0,5
	20						1		
	22	2	0,9163	2,70	6	0,3	0	0,92	0,5
	20								
PT BARAMULTI SUKSESSARANA TBK	20	3	2,4501	1,20	7	0,4	4	19,4	0,7
	20								
	21	3	3,8529	1,10	7	0,4	4	19,9	0,8
	20								
	22	3	4,0520	1,20	7	0,4	7	19,8	1,1
	20								
PT.BAYANG RESOURCES TBK	20	4	3,0587	1,10	7	0,3	7	21,2	1,5
	20								
	21	4	3,9512	1,20	7	0,3	7	21,6	0,2
	20						1		
	22	4	4,0656	1,30	0	0,2	7	22,1	0,1
PT.BUMI RESOURCES TBK	20						1		
	20	5	2,2865	1,90	1	0,3	0	22,0	0,4

	20					1	1		
	21	5	1,6658	1,70	1	0,3	0	22,2	0,4
	20					1	1		
	22	5	2,5177	1,80	0	0,4	0	22,2	0,4
	20								
	20	6	-0,3711	1,70	4	0,5	9	20,8	0,7
PT.BUMI	20								
RESOURCES	20							1	
MINERALSTBK	21	6	1,9629	1,60	4	0,5	0	20,7	0,8
	20							1	
	22	6	0,2390	1,60	4	0,5	0	20,2	1,1
	20							1	
	20	7	-1,8971	1,00	5	0,4	4	20,1	0,2
PT.DARMA HENWA	20							1	
TBK	21	7	-1,6909	1,00	5	0,4	5	20,2	0,2
	20							1	
	22	7	-1,2040	1,00	5	0,4	6	20,1	8,4
	20								
	20	8	-1,2040	2,00	3	1,0	4	20,7	0,7
PT.DELTA DUNIA	20								
MAKMUR TBK	21	8	-0,6993	2,00	3	1,0	3	21,2	0,7
	20								
	22	8	0,6419	1,70	4	0,8	5	21,2	0,8
	20								
	20	9	0,6931	1,80	4	0,8	7	21,8	1,3
PT.DIAN	20								
SWASTATIKA	20								
SENTOSA TBK	21	9	2,1748	2,20	6	0,5	6	21,8	1,8
	20								
	22	9	3,1060	1,90	6	0,7	8	22,6	1,8
	20								
PT.ENERGI MEGA	20	10	1,9373	1,60	2	1,0	4	20,6	0,4
PERSADA	20								
	21	10	1,3164	1,50	2	1,0	4	20,8	0,5

	20								
	22	10	1,7192	1,40	2	1,0	4	20,9	1,4
	20						1		
	20	11	-0,1054	1,20	4	0,8	1	20,8	0,4
PT.GUNUNG RAJA	20						1		
PAKSI TBK	21	11	1,7579	1,10	4	0,8	1	20,8	0,3
	20						1		
	22	11	1,5892	1,10	4	0,8	1	20,9	0,2
	20								
	20	12	3,0000	1,60	5	0,4	4	22,0	1,4
PT.INDIKA ENERGY	20								
TBK	21	12	3,0397	1,60	5	0,4	4	22,0	1,4
	20								
	22	12	3,5200	1,50	5	0,4	4	22,0	1,0
	20								
	20	13	3,3000	2,90	9	0,2	4	14,0	0,3
PT.INDO	20								
TAMBANGRAYA	20								
INDONESIA TBK	21	13	3,3300	2,40	9	0,2	4	14,3	0,3
	20								
	22	13	3,2600	2,20	9	0,3	4	14,8	0,3
	20								
	20	14	0,9243	1,80	5	0,4	4	20,5	0,9
PT.ESSA	20								
INDUSTRIES	20								
INDONESIA TBK	21	14	0,9439	1,80	5	0,4	4	20,5	1,0
	20								
	22	14	1,5000	1,60	5	0,4	4	20,5	0,5
	20								
	20	15	1,4816	1,80	8	0,3	4	20,7	0,5
PT.MERDEKA	20								
COPPER GOLD TBK	21	15	0,8800	1,90	8	0,3	4	21,0	0,5
	20								
	22	15	0,4100	1,80	8	0,3	4	22,1	0,7

Descriptive Statistics ROA and Tobin Q

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	45	-1,90	4,12	1,7910	1,63681
TOBIN'S Q	45	1,00	2,90	1,6578	0,49290
BS	45	2	11	5,91	2,324
BI	45	0,20	1,00	0,4842	0,23694
AC	45	3	16	6,87	3,448
Firm Size	45	0,92	22,58	19,3189	4,96514
Leverage	45	0,14	8,38	0,8887	1,22371
Valid N (listwise)	45				

Correlations ROA

		ROA	BS	BI	AC	Firm Size	Leverage
Pearson Correlation	ROA	1,000	0,432	-0,355	-0,402	-0,111	-0,204
	BS	0,432	1,000	-0,788	-0,010	-0,050	-0,147
	BI	-0,355	-0,788	1,000	-0,093	0,216	0,011
	AC	-0,402	-0,010	-0,093	1,000	-0,170	0,272
	Firm Size	-0,111	-0,050	0,216	-0,170	1,000	0,110
	Leverage	-0,204	-0,147	0,011	0,272	0,110	1,000
Sig. (1- tailed)	ROA		0,002	0,008	0,003	0,233	0,090
	BS	0,002		0,000	0,474	0,372	0,168
	BI	0,008	0,000		0,272	0,077	0,471
	AC	0,003	0,474	0,272		0,132	0,035
	Firm Size	0,233	0,372	0,077	0,132		0,236
	Leverage	0,090	0,168	0,471	0,035	0,236	

Correlations Tobin's Q

		TOBIN'S Q	BS	BI	AC	Firm Size	Leverage
Pearson Correlation	TOBIN'S Q	1,000	0,195	-0,151	-0,209	-0,658	-0,194
	BS	0,195	1,000	-0,788	-0,010	-0,050	-0,147
	BI	-0,151	-0,788	1,000	-0,093	0,216	0,011
	AC	-0,209	-0,010	-0,093	1,000	-0,170	0,272
	Firm Size	-0,658	-0,050	0,216	-0,170	1,000	0,110
	Leverage	-0,194	-0,147	0,011	0,272	0,110	1,000
Sig. (1- tailed)	TOBIN'S Q		0,100	0,161	0,084	0,000	0,101
	BS	0,100		0,000	0,474	0,372	0,168
	BI	0,161	0,000		0,272	0,077	0,471
	AC	0,084	0,474	0,272		0,132	0,035
	Firm Size	0,000	0,372	0,077	0,132		0,236
	Leverage	0,101	0,168	0,471	0,035	0,236	

Coefficients ROA and Tobin Q

Model	Unstandardized Coefficients				Standardize d		t		Sig	
DV	B		Std. Error		Beta					
	RO A	Tobin Q	RO A	Tobin Q	RO A	Tobin Q	RO A	Tobin Q	RO A	Tobin Q
(Consta nt)	2,96 5	2,646	1,72 0	0,418			1,72 4	6,322	0,09 3	0,000
BS	0,24 6	0,081	0,15 3	0,037	0,34 9	0,381	1,60 5	2,171	0,11 7	0,036

IB	- 0,60 4	0,590	1,52 3	0,371	- 0,08 7	0,283	- 0,39 7	1,591	0,69 4	0,120
IO	- 0,20 2	- 0,045	0,06 4	0,016	- 0,42 6	- 0,316	- 3,15 0	- 2,892	0,00 3	0,006
FS	- 0,04 8	- 0,075	0,04 5	0,011	- 0,14 5	- 0,757	- 1,06 3	- 6,860	0,29 4	0,000
LG	- 0,02 6	0,011	0,18 4	0,045	- 0,02 0	0,028	- 0,14 3	0,252	0,88 7	0,802

Coefficient Of Determination ROA and Tobin Q

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1 (ROA)	,611 ^a	0,373	0,292	1,37678741
2 (Tobin Q)	,768 ^a	0,590	0,538	0,335038331763483

ANOVA ROA and Tobin Q

Model		Sum of Squares	df	Mean Square	F	Sig.
1(ROA)	Regression	43,957	5	8,791	4,638	,002 ^b
	Residual	73,926	39	1,896		
	Total	117,883	44			
2 (Tobin Q)	Regression	6,312	5	1,262	11,246	,000 ^b
	Residual	4,378	39	0,112		
	Total	10,690	44			