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CORPORATE GOVERNANCE AND PERFORMANCE: THE WEAKEST LINK?

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ABSTRACT

We examined the impact of corporate governance on firm performance using a sample of Canadian firms listed on Toronto Stock Exchange over the period 2002-2005. We first identified a group of firms showing a high performance as defined by return on equity (ROE) higher than 10 % in at least four consecutive years. We then compared this group with a second group composed of the other firms (low performance firms). The univariate analysis has revealed that the high performance firms are larger in terms of size, have better governance as measured by a score index, and have a higher debt ratio as well as a lower risk. We also conducted multivariate analysis by testing a regression where all the variables are included in the same model. Interesting empirical results emerge: high performance seems to be statistically and significantly explained by firm size and market risk, the impact of corporate governance is not significant. Our empirical results could be explained by different ways. First, corporate governance plays a little role in explaining corporate profitability. The latter seems to be related to economic fundamentals. Indeed, higher profits of larger size firms could be justified by economy of scale, entry barriers, and capital market imperfections and, as shown by Caves and Porter (1977) and Porter (1979), by strategic groups.

Keywords: *corporate governance, performance, agency costs.*