

Regulatory Requirements and Board Composition

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CERTIFICATE OF AUTHORSHIP/ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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ABSTRACT

This thesis addresses the research question of regulatory requirements and board composition. Specifically it has two objectives: first, to provide evidence of the impact of the Principles of Good Corporate Governance and Best Practice (PGCG&BP) introduction in 2003 by the Australian Stock Exchange (ASX) on board composition. Second, to examine the association between board composition and continuous disclosure as a measure of governance effectiveness. Two of the main principles of the PGCG&BP were independent boards and greater accountability, and Australia provides a unique institutional setting to test accountability with the Continuous Disclosure Regime (CDR) because of the single portal announcement repository and the almost universal single topic announcements. This latter feature removes the confounding effect found in many other studies using annual reports. From a sample of 450 firms in 2001 and 2007, I find the number of firms with (majority) independent boards and committees increased following the PGCG&BP regulation (substantially in the case of the nomination committee), however the percentage of independent directors on boards increased only marginally, with firms that initially had a high percentage of independent directors often reducing their level of independence (mean reversion). Using ordinary least squares regression (OLS) I find the relation between board composition and firm characteristics reduced after the introduction of the regulation, adding weight to the proposition that boards were forced to become less 'efficient' or 'optimal'. Further testing with OLS and two-stage least squares regression to control for potential endogeneity issues finds more independent boards do not appear to be associated with more continuous disclosures but the association is significant with other corporate governance factors. These results bring into question some of the expected outcomes of this corporate governance regulation.