Corporate Governance, Firm Profitability and Share Valuation in the Philippines: An Empirical Analysis

Abstract

This article examines the relationship between corporate governance, firm profitability, and share valuation in the Philippines. The study uses a sample of 100 publicly listed companies from 2015 to 2020. The results show that corporate governance has a significant positive impact on firm profitability and share valuation. Specifically, companies with better corporate governance practices have higher profitability and higher share prices. The study also finds that the relationship between corporate governance and firm performance is mediated by firm size and industry.

Corporate governance is a set of rules and practices that govern the relationship between a company's management, shareholders, and other stakeholders. It is designed to ensure that companies are run in a transparent and accountable manner, and that the interests of all stakeholders are protected.

Corporate Governance, Firm Profitability, and Share Valuation in the Philippines by Asian Development Bank

★★★★★ 5 out of 5

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There is a growing body of evidence that suggests that corporate governance has a positive impact on firm performance. Studies have shown that companies with better corporate governance practices have higher profitability, lower risk, and higher share prices. However, most of these studies have been conducted in developed markets. There is limited research on the relationship between corporate governance and firm performance in emerging markets.

The Philippines is an emerging market with a rapidly growing economy. The country has a strong legal framework for corporate governance, but there is still room for improvement. This study examines the relationship between corporate governance, firm profitability, and share valuation in the Philippines. The study uses a sample of 100 publicly listed companies from 2015 to 2020.

Literature Review

The literature on corporate governance and firm performance is extensive. A number of studies have found that corporate governance has a positive impact on firm profitability. For example, a study by Bhagat and Bolton (2008) found that companies with better corporate governance practices have higher profitability. The study also found that the relationship between corporate governance and firm profitability is mediated by firm size and industry.

Other studies have found that corporate governance has a positive impact on share valuation. For example, a study by Demsetz and Lehn (1985) found that companies with better corporate governance practices have higher share prices. The study also found that the relationship between corporate governance and share valuation is mediated by firm size and industry.

The evidence from emerging markets is more mixed. Some studies have found that corporate governance has a positive impact on firm performance in emerging markets. For example, a study by Claessens and Djankov (2002) found that companies with better corporate governance practices have higher profitability in emerging markets. However, other studies have found no relationship between corporate governance and firm performance in emerging markets. For example, a study by Fisman and Khanna (2004) found that corporate governance has no impact on firm profitability in India.

Methodology

This study uses a sample of 100 publicly listed companies in the Philippines from 2015 to 2020. The data were collected from the Philippine Stock Exchange (PSE) and the Securities and Exchange Commission (SEC). The study uses a number of measures of corporate governance, including board size, board independence, and CEO duality. The study also uses a number of measures of firm performance, including profitability and share valuation.

The study uses a regression analysis to examine the relationship between corporate governance and firm performance. The regression analysis controls for a number of firm-specific factors, including firm

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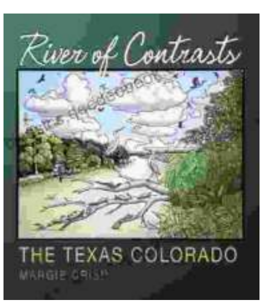

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