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Corporate Governance in Publicly Listed Firms in Jamaica: A Risk Management Approach

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Abstract

Studies have shown that the type of ownership structure has implications for the management of the firm and also the performance of the firm. Jenkins (1976) suggests that the firm's industry to a large extent influences the firm's ownership structure. Demsetz and Villalonga 2001 & Bokpin 2011 posit that firm performance influences ownership structure and ownership structures may also be influenced by firm performance, that investors would, therefore, be attracted to high performing firms and highly performing firms would have the confidence to go public. Bokpin et al. (2011) also found that there was a positive and significant relationship between corporate performance and ownership structure. Ownership structure can also affect the riskiness of the firm as inside directors with large ownership stake are better positioned to take additional risk. On the other hand, large insider ownership stake could result in more risk averse decision-making. Studies in risk management also suggests that risk taking behavior is related to the individual traits and characteristics, for example male vs. female, young vs. old, naïve vs. experienced (Damodaran 2008).

This is one of the few studies that will examine the relationship between board composition, ownership structure and corporate performance of firms and risk levels of publicly traded from a developing country in the Caribbean. This has implications for firms in developing countries as they seek to expand their operations overseas, and to attract foreign investors. Bokpin (2011) who examined the ownership structure, corporate governance and dividend performance on the Ghana Stock exchange found that foreign share ownership had a positive influence on dividend payments. On the contrary, Ghazali (2010) found that corporate governance did not impact on the firm's performance. Gibson (2003) posits, however, that foreign investors are reluctant to invest in developing countries because of poor governance practices.

Thus, greater awareness and best practices of corporate governance is vital to ensuring investors' confidence and also confidence in the market.