
2023 Global Corporate Governance Colloquium

Catan & Kahan

Corporate Governance and Firm Value

discussion by:

Pedro Matos



“Corporate Governance and Firm Value”?

Healthy skepticism/examination of dominant empirical approaches ...

Q1. But who is the paper’s audience? And is the paper only about corporate governance studies?

-> *Contribution?*

- *Law: Bartlett & Partnoy, 2020, “The Misuse of Tobin’s q” (“Simple q” = market-to-book: measurement problem)*
- *Finance: Erikson & Whited, 2000 “Measurement Error and the Relationship between Investment and q” (“Margin q”)*

-> *Helping academics (or practitioners)?*

-> *Are these methodological issues more of an issue for corporate governance research (vs. other corporate finance topics)?*

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Q2. If 1., whose definition of “corporate governance”?

-> Corporate Law? ...

... Theory? Delaware doctrine (☺!) ? ... Lund and Pollman (2021)

“Corporate Governance Machine”: Law (Delaware, congress, SEC, DOL), Institutions (investors, proxy advisors, stock exchanges, etc.)

... Empirics? I was looking for it in pages 1-5 (btw, 28 footnotes in the first pages ☺!) but what connects all of these? What’s really important?

“ ... Among the topics analyzed are independent directors,³ director terms,⁴ withhold campaigns,⁵ majority voting,⁶ empty voting,⁷ time-phased voting,⁸ proxy access,⁹ reimbursement rules in proxy contests,¹⁰ antitakeover statutes,¹¹ takeover defenses generally,¹² regular poison pills,¹³ anti-activist poison pills,¹⁴ staggered boards,¹⁵ lockups,¹⁶ greenmail,¹⁷ one share-one vote rules,¹⁸ controlling shareholders,¹⁹ long-term shareholders,²⁰ shareholder quality,²¹ institutional shareholders,²² index funds voting rights,²³ hedge fund activism,²⁴ pension fund activism,²⁵ director exculpation statutes,²⁶ exclusive forum bylaws,²⁷ and the Sarbanes-Oxley Act.²⁸”

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-> *Corporate Finance?* ...

... *Theory?* Shleifer & Vishny (1997): “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” ... or Berle & Means (1932) or Adam Smith (1776) 😊 ?!

... *Empirics?* “G index” (Gompers, Ishii & Metrick, 2003), “E index” (Bebchuk, Cohen & Ferrell, 2009) ... Post-1990s (Bebchuk, Cohen & Wang, 2013) ... see also reviews by Gillan & Starks (2003), Gillan, Koch & Starks (2021) ...

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-> *Let’s not forget practitioners? ...*
... common elements? (Matos, 2020)

<https://www.cfainstitute.org/en/research/foundation/2020/esg-and-responsible-institutional-investing>



ENVIRONMENTAL	SOCIAL	G OVERNANCE
<ul style="list-style-type: none"> Climate change and carbon emissions Natural resource use and energy and water management Pollution and waste Ecodesign and innovation 	<ul style="list-style-type: none"> Workforce health and safety, diversity, and training Customer and product responsibility Community relations and charitable activities 	<ul style="list-style-type: none"> Shareholder rights Composition of boards of directors (independence and diversity) Management compensation policy Fraud and bribery

... dispersion (Berg, Koelbel, and Rigobon, 2022) vs convergence?



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Q3. If 1., 2. and 3., is it only U.S.-style corporate governance?

-> Governance around the world (we’re at GCGC 😊)? ...

... ex: “Gov₄₁” (Aggarwal, Erel, Ferreira & Matos, 2011), KCGI (Black, Jang & Kim, 2006), etc.

... one-size fits all? main conflict: management vs. shareholder or controlling vs. minority shareholders? what about country institutional factors?

... many governance mechanisms: see reviews by Becht, Bolton & Röell (2003), Denis & McConnell (2003), Claessens & Yurtoglu (2013)

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Q4. If 1., 2., 3. and 4., is it only about equity (vs. “firm”) value?

-> what to do about other securities beyond equities? And beyond suppliers of capital (ESG)?

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Q5. If 1., 2., 3., 4. and 5., is the market learning?

...
*-> this paper: Appendix A / B / C [post-2012 ; work progress]
... use textual analysis to do meta-analysis of Top 3 Finance journals?
And tabulate articles (and results) from each method over time? ...
Or just ask ChatGPT 😊?*

Short-Term Event Studies

- Short-term changes in stock prices pick up effect if a G change on the market's expectations of future share values
- Value-weighting instead of Equal-weighting
- Firm value focus => beyond just returns experienced by shareholders

-> clustering of events?

-> how to value-weight events occurring in different time periods: inflation / time value of \$?

-> multiple share classes, preferred, debt ... plus going beyond capital providers, other stakeholders?

Long-Term / Calendar Time Portfolio Regressions

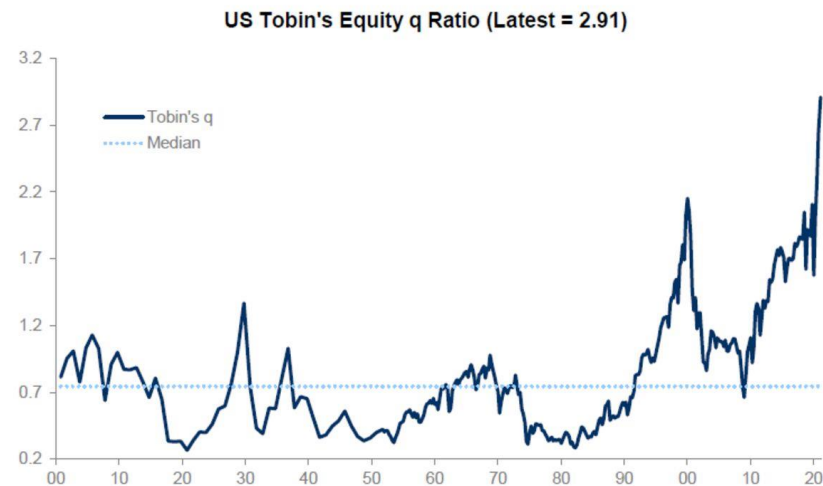
- Treatment can affect probability of firm exit (acquired / bankrupt/ delist)?
- State contingency: effect a G change on shareholder value are contingent on future state of the world
- Return calculation: periodic rebalancing
- Calculating abnormal returns

-> international : markets with short time series data? asset pricing models? ...

Tobin's Q Regressions

- Q naturally evolves over time with profitability (affected by G event)
- Capital market transactions (debt, stock, dividends, ...)
- Changes in Q vs. returns
- Proper matching
- Other ratios (ex: ROA)

-> *plot some data!*



<https://www.bloomberg.com/opinion/articles/2021-04-27/pandemic-recover-earnings-are-hot-so-is-inflation-chatter?sref=qpbhckVU>

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-> measurement issues: marginal Q (not average Q) ... and it varies across markets?

-> in practice, many using M/B as proxy for Tobin's Q? Using only book value of debt?