Which Aspect of Corporate Governance Affect Value (Across Emerging Markets)

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Talk based on


Multicountry governance to value: Some broad research questions

Focus on emerging markets

• Does firm-level corporate governance predict market value across firms but within countries?
• How do we measure corporate governance \((gov)\), anyway?
• How should governance indices vary across countries?
• Which aspects of gov “matter” (predict Tobin’s q; share price)

Different questions, not studied here

(LLSV etc.): Effect of country-level governance on firm value; economic development, etc.
Effect of gov on market value in developed markets
Array of “methods” issues

• Data limitations
  – Scarce data on governance, especially time-series
  – Limited data on control variables
  – Small samples in many countries

• “Construct validity” [term borrowed from education, psychology]
  – What is “good” corporate governance?
  – How does it vary across countries?
  – How good are our proxies?

• “Endogeneity”: Best known problem
  – But only get there if: have data; address construct validity
    • Principally omitted variable bias (OVB)
    • Also Reverse causation (value ➔ governance)

• Sample selection bias (in Brazil, India)
  – Because we run our own surveys to get data
• Boring, technical, and important enough to warrant a separate project:
  – [Same author team] (2017), Corporate Governance Indices and Construct Validity, Corporate Governance: An International Review
  – Which even our discussant, at last GCGC, thought was borng.
Also pass over “shock-based” studies

- “natural” or “quasi” experiments
- Stronger causal inference (aka “identification”)
- But local:
  - To particular country’s rules and institutions
  - And a particular reform
Prior emerging markets research: Two Approaches

• [Massively] Multicountry studies (broad and shallow)
  – Indices that include emerging markets: S&P disclosure (2002); CLSA (2001)
  – Overall Governance Papers: Klapper Love (JCF 2004); Durnev Kim (JF 2005); Aggarwal Erel Stulz Williamson (RFS 2009); Bruno Claessens (JFI 2010); Doidge Karolyi Stulz (JFE 2007)
  – Board independence across countries: Dahya Dimitrov McConnell (JFE 2008)
  – Weak research designs
    • Purely cross-sectional
    • “Common index”: Same elements in all countries
    • Someone else’s index (not well designed)
    • Limited covariates
Alternate approach: country studies

- Country studies (narrow and deep) with local indices
- Many with only cross-sectional or pooled OLS
- A few studies of overall *gov* with minimum credibility requirements: (i) panel data: (ii) “firm effects” (at least RE, prefer FE,); (iii) standard errors clustered on firm:
  - Korea (Black & Kim, JFE 2012)
  - Russia (Black, Love and Rachinsky, EMR 2006)
  - Turkey (Ararat, Black, and Yurtoglu, 2016)
- Generalizability is unclear
This (multi-paper) project: “Middle road”

• Careful country studies
  – 4 major emerging markets
  – Panel data: Firm RE and FE
    • Benefit from board structure shocks in Korea, Turkey

• Huge data collection effort

• Embrace construct validity
  – Seek to measure “same” underlying CG concepts using country-specific elements (constructs)

• Confidence bounds on FE estimates
Hierarchy of Research Designs

• Randomized trial
  – Rarely achievable in finance, management
• Shock-based (natural or quasi-experiment)
  – But often only one country; affect only part of gov
• **Firm FE (or at least RE)**
  – With extensive covariates
• Pooled or cross-sectional OLS
• We’re in the middle
  – This is still real progress (or so I think!)
  – For subindices project, referees have not yet agreed . .
Prior project: results for overall *gov*

- Governance elements vary greatly across countries
- Endogeneity matters:
  - firm FE vs RE vs pooled OLS estimates
  - extensive vs. few control variables
- Broad, *country-specific* indices predict Tobin’s $q$
  - common index has little or no power
- Next question (this project):
  - What aspects of governance drive the power of the overall index to predict governance
Research on aspects (subindices) of governance

• Such as board independence, disclosure
• Should start with broad governance index
  – Different aspects of governance correlate
  – Study one aspect, without control for rest $\rightarrow$ omitted variable bias (OVB)
  – Rest of $gov$ is omitted, but correlates with studied aspect and (perhaps) outcome, hence OVB
• Prior studies of aspects of $gov$ with (i) panel data, (ii) firm effects, (iii) firm clusters; and (iii) control for rest of $gov$:  
  – None! [that we have found]
Overview: results for subindices

- For subindices, within overall country indices:
  - Disclosure predicts Tobin’s $q$
  - Board Structure predicts in Korea, Brazil
    - But not India or Turkey
  - Nothing else predicts at all

- Within Board Structure (subsubindices)
  - Board independence predicts in Korea Brazil, Turkey
  - Board committees predicts little

- Within Disclosure (subsubindices)
  - Financial disclosure predicts strongly
  - Non-financial disclosure might matter also
Advice for firms (and maybe countries)

• If our results are causal
  – Likely given lower bounds analysis, but not certain
• Payoff in firm value if investing in disclosure
  – Especially financial disclosure
  – And perhaps board independence too
    • Within the ranges typical for these countries
    • Does not imply further payoff from the much higher independence levels typical in US firms
Methods issue 1: governance data

• No good multicountry index over time
  – ISS: US-centric; only developed countries
  – Asset4 and Thomson Reuters:
    • Cover emerging markets but
    • We show: no predictive value
    • Maybe because don’t address disclosure

• We build our own index, in each country
Collect data across countries, years

- Brazil surveys: 2004, 2006, 2009 (working on 2014)
- Korea: 1998-2004 (extending thru 2010)
  - Rely on KCGS
- Turkey: 2006-2012 (extending thru 2014)
Methods issue 2: construct validity

- In each country: build best **country-specific** overall governance index we can
- Based on subindices (where available) for:
  - Disclosure
    - Financial disclosure
    - Non-financial disclosure
  - board structure
    - Board independence
    - Board committees
  - board procedure
  - ownership structure
  - shareholder rights
  - RPTs
Very different elements

• Governance **elements** must be:
  – Measurable
  – Meaningful (in judgment of local coauthors)
    • attend to local rules, institutions
  – We *think* they might reflect “good” governance
    • *Lots of judgment here!*
  – Significant variation across firms
    • Not useful if required by law; nearly universal; or rare
  – Not too similar to another element
  – similar across countries **to extent feasible (often not)**
• Turns out: elements are **very different**.
Brazil Corp Gov Index (BCGI)

• Use Brazil to illustrate approach and complexities

• Subindices (each 0 ~ 100) for:
  – Board Structure (7 elements)
  – Ownership Structure (5 elements)
  – Board Procedure (6 elements)
  – Disclosure (11 elements)
  – Related Party Transactions (5 elements)
  – Minority Shareholder Rights (7 elements)

• $\text{BCGI} = [\sum(\text{subindices})/6]$
  – Range: [19, 92]
  – Each subindex: average of nonmissing elements

• $\text{BCGI}_{\text{norm}} = \text{normalized} [\sum(\text{normalized subindices})]$
What’s in BCGI?

Focus on Board Structure Subindex

<table>
<thead>
<tr>
<th>Element</th>
<th>Public data</th>
<th>2004 Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board has $\geq$ one independent director</td>
<td>0</td>
<td>0.73</td>
</tr>
<tr>
<td>Board has $\geq$ 30% independent directors</td>
<td>0</td>
<td>0.47</td>
</tr>
<tr>
<td>Board has $\geq$ 50% independent directors</td>
<td>0</td>
<td>0.20</td>
</tr>
<tr>
<td>CEO is NOT chairman of the board</td>
<td>1</td>
<td>0.71</td>
</tr>
<tr>
<td>Audit committee exists</td>
<td>1</td>
<td>0.14</td>
</tr>
<tr>
<td>Permanent or near-permanent fiscal board exists</td>
<td>0</td>
<td>0.68</td>
</tr>
<tr>
<td>Audit committee or permanent fiscal board exists and includes minority shareholder representative</td>
<td>0</td>
<td>0.47</td>
</tr>
</tbody>
</table>

Only 2/7 elements use public data

Guessing may not help: DDM (2008) on board independence
“guess” in 2002: 57% independent in Brazil
We find in 2004: 23% independent
Brazilian institution: fiscal board

- Can be permanent (in charter) or near-permanent (demanded regularly by minority shareholders)
  - We use (4 years out of 5) as measure of “near-permanent”
- Functional substitute for audit committee
  - Many firms have one or the other; few have both
  - Audit committees rare (mean = 0.14)
  - Fiscal board more common (mean = 0.68)
## Compare Brazil to Korea for Board Structure

<table>
<thead>
<tr>
<th>Brazil Element (NP = not public)</th>
<th>Korea Element</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board has ≥ 1 independent directors (NP)</td>
<td>Required</td>
</tr>
<tr>
<td>≥ 30% independent directors (NP)</td>
<td>Requires 25% indep. directors</td>
</tr>
<tr>
<td>≥ 50% independent directors (NP; mean = 0.20)</td>
<td>in KCGI</td>
</tr>
<tr>
<td>Strict majority of indep. directors</td>
<td></td>
</tr>
<tr>
<td>CEO is NOT board chairman</td>
<td>Not available</td>
</tr>
<tr>
<td>Audit committee exists (uncommon; mean = 0.14) in KCGI</td>
<td></td>
</tr>
<tr>
<td>Permanent or near-permanent fiscal board exists</td>
<td>Not meaningful</td>
</tr>
<tr>
<td>Audit committee or permanent fiscal board includes minority shareholder representative</td>
<td>Not available; rare</td>
</tr>
<tr>
<td>Rare (NP)</td>
<td>Compensation committee exists</td>
</tr>
<tr>
<td>Rare (NP)</td>
<td>Outside director nom. committee exists</td>
</tr>
</tbody>
</table>

**Only available** common elements are:
- 50% outside directors (uncommon in Brazil)
- audit committee (rare in Brazil; misleading alone)

**Only public** common element: audit committee
- Rare in Brazil, misleading alone
Lesson: CG index must be country-specific

• If require same elements in each country:
  – Can measure little
  – What we can measure may not be very relevant
  – Can help to explain why commercial indices have no power

• Problem gets worse if add more countries
Construct validity questions

• We’re not sure how to measure “governance”
  – Not sure what counts as “good” CG, for which firms, in which countries
  – We have. . .
    • Different overall indices in each country
    • Different subindices in each country
    • Very different subindex elements in each country
  – We hope:
    • CG indices & subindices proxy for similar concepts
Covariates

• Another boring but important topic
• Personal view: Most corporate finance projects use far too few covariates
  – Governance studies – results often weaken with more covariates
  – OVB (omitted variable bias)!
  – We use extensive covariates in each country
    • Can’t measure all of them in all four countries
Prior Results with Country CG Indices (t-stats in paren.)

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Brazil</th>
<th>India</th>
<th>Korea</th>
<th>Turkey</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm Random Effects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country CGI</td>
<td>0.117***</td>
<td>0.066**</td>
<td>0.054***</td>
<td>0.073***</td>
<td>0.094***</td>
</tr>
<tr>
<td></td>
<td>(3.03)</td>
<td>(2.63)</td>
<td>(6.51)</td>
<td>(3.17)</td>
<td>(6.22)</td>
</tr>
<tr>
<td>Breusch-Pagan</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Median λ</td>
<td>0.33</td>
<td>0.30</td>
<td>0.61</td>
<td>0.66</td>
<td>0.71</td>
</tr>
<tr>
<td><strong>Firm Fixed Effects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country CGI</td>
<td>0.074</td>
<td>0.079**</td>
<td>0.051***</td>
<td>0.074***</td>
<td>0.067***</td>
</tr>
<tr>
<td></td>
<td>(0.95)</td>
<td>(2.30)</td>
<td>(5.55)</td>
<td>(3.00)</td>
<td>(2.75)</td>
</tr>
<tr>
<td>No. of firms</td>
<td>81</td>
<td>186</td>
<td>668</td>
<td>190</td>
<td>99</td>
</tr>
</tbody>
</table>

All results: year dummies, extensive controls (best we can find in each country)
Then maybe a step too far . . .

• Push construct validity a step further
• Take governance index from each country
• Build multicountry index
  – Lose Russia
  – Separate “response surface” for each country
    • year*country dummies
    • Country specific control variables
<table>
<thead>
<tr>
<th>Dep. Variable</th>
<th>In(Tobin’s q), outliers excluded for each country-year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Pooled CGI</td>
<td>0.069***</td>
</tr>
<tr>
<td>Common Index</td>
<td>(5.82)</td>
</tr>
<tr>
<td>Non-common</td>
<td>0.062***</td>
</tr>
<tr>
<td>Common Index</td>
<td>(6.67)</td>
</tr>
<tr>
<td>Pooled CGI</td>
<td>0.063***</td>
</tr>
<tr>
<td>Common Index</td>
<td>(3.86)</td>
</tr>
</tbody>
</table>

Non-common GCI: Country CGI w/o Common Index elements
Common index predicts **nothing**
Coefficients small, often **negative**, if control for rest of CGI!
### Which Subindices Predict Tobin’s q?

<table>
<thead>
<tr>
<th>Regression</th>
<th>Brazil</th>
<th>India</th>
<th>Korea</th>
<th>Turkey</th>
<th>Pooled Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure</td>
<td>RE (1)</td>
<td>FE (2)</td>
<td>RE (3)</td>
<td>FE (4)</td>
<td>RE (5)</td>
</tr>
<tr>
<td>Disclosure</td>
<td>0.144 (4.14)</td>
<td>0.194 (3.74)</td>
<td>0.071 (2.22)</td>
<td>0.094 (2.23)</td>
<td>0.026 (3.91)</td>
</tr>
<tr>
<td>Board Structure</td>
<td>0.082 (3.09)</td>
<td>0.065 (1.57)</td>
<td>0.024 (0.97)</td>
<td>0.021 (0.59)</td>
<td>0.028 (4.37)</td>
</tr>
<tr>
<td>Board Procedure</td>
<td>-0.006 (-0.27)</td>
<td>-0.001 (-0.03)</td>
<td>-0.025 (-0.91)</td>
<td>-0.036 (-0.85)</td>
<td>0.007 (1.31)</td>
</tr>
<tr>
<td>Shareholder Rights</td>
<td>0.016 (0.48)</td>
<td>-0.028 (0.41)</td>
<td>0.011 (0.40)</td>
<td>0.025 (0.73)</td>
<td>0.001 (0.07)</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>-0.014 (0.50)</td>
<td>-0.099 (2.04)</td>
<td>-0.012 (1.68)</td>
<td>-0.015 (1.74)</td>
<td>-0.012 (1.68)</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>-0.018 (-0.84)</td>
<td>-0.033 (-1.32)</td>
<td>0.011 (0.42)</td>
<td>0.027 (0.95)</td>
<td>646</td>
</tr>
</tbody>
</table>

| No. firms | 159 | 81 | 401 | 199 | 646 | 644 | 195 | 193 | 5,175 | 5,175 |
| No. of obs. | 236 | 158 | 613 | 411 | 3,107 | 3,105 | 1,092 | 1,090 | 1,403 | 1,403 |
### Disclosure & Board Structure Structure vs. All Else

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>India</th>
<th>Korea</th>
<th>Turkey</th>
<th>Pooled</th>
<th>Pooled Weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined D-BS Index</td>
<td>0.176***&lt;br&gt;(5.83)</td>
<td>0.063**&lt;br&gt;(2.02)</td>
<td>0.045***&lt;br&gt;(6.21)</td>
<td>0.046**&lt;br&gt;(2.32)</td>
<td>0.057***&lt;br&gt;(5.69)</td>
<td></td>
</tr>
<tr>
<td>D-BS index complement</td>
<td>-0.015&lt;br&gt;(-0.59)</td>
<td>0.006&lt;br&gt;(0.24)</td>
<td>0.008&lt;br&gt;(1.14)</td>
<td>0.020&lt;br&gt;(1.02)</td>
<td>0.006&lt;br&gt;(0.77)</td>
<td></td>
</tr>
<tr>
<td><strong>FE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined D-BS Index</td>
<td>0.194***&lt;br&gt;(3.54)</td>
<td>0.074&lt;br&gt;(1.64)</td>
<td>0.046***&lt;br&gt;(5.85)</td>
<td>0.055**&lt;br&gt;(2.44)</td>
<td>0.050***&lt;br&gt;(4.85)</td>
<td>0.051***&lt;br&gt;(2.96)</td>
</tr>
<tr>
<td>D-BS index complement</td>
<td>-0.057*&lt;br&gt;(-1.81)</td>
<td>0.028&lt;br&gt;(0.95)</td>
<td>0.006&lt;br&gt;(0.86)</td>
<td>0.017&lt;br&gt;(0.82)</td>
<td>0.006&lt;br&gt;(0.65)</td>
<td>0.005&lt;br&gt;(0.38)</td>
</tr>
</tbody>
</table>

**Message:** Other aspects of governance predict nothing!

**All further results:** Firm FE only
Components of disclosure, board structure

<table>
<thead>
<tr>
<th>Index or subindex</th>
<th>Brazil</th>
<th>India</th>
<th>Korea</th>
<th>Turkey</th>
<th>Pooled</th>
<th>weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial disclosure</td>
<td>0.132***</td>
<td>0.016</td>
<td>0.024***</td>
<td>0.035*</td>
<td>0.035***</td>
<td>0.036***</td>
</tr>
<tr>
<td></td>
<td>(3.79)</td>
<td>(0.40)</td>
<td>(3.20)</td>
<td>(1.97)</td>
<td>(4.33)</td>
<td>(2.98)</td>
</tr>
<tr>
<td>Non-financial disclosure</td>
<td>0.024</td>
<td>0.062</td>
<td>0.002</td>
<td>0.034</td>
<td>0.015**</td>
<td>0.027**</td>
</tr>
<tr>
<td></td>
<td>(0.89)</td>
<td>(1.62)</td>
<td>(0.27)</td>
<td>(1.32)</td>
<td>(2.13)</td>
<td>(2.47)</td>
</tr>
<tr>
<td>Board independence</td>
<td>0.069***</td>
<td>0.031</td>
<td>0.016***</td>
<td>0.027</td>
<td>0.018***</td>
<td>0.020*</td>
</tr>
<tr>
<td></td>
<td>(3.03)</td>
<td>(1.12)</td>
<td>(3.39)</td>
<td>(1.56)</td>
<td>(2.63)</td>
<td>(1.80)</td>
</tr>
<tr>
<td>Board committees</td>
<td>0.042</td>
<td>0.006</td>
<td>0.019***</td>
<td>-0.006</td>
<td>0.007</td>
<td>-0.004</td>
</tr>
<tr>
<td></td>
<td>(1.53)</td>
<td>(0.23)</td>
<td>(2.90)</td>
<td>(-0.27)</td>
<td>(0.84)</td>
<td>(-0.28)</td>
</tr>
<tr>
<td>Other subindices</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>
Confidence Bounds on OVB

• OVB formula: \[ \beta_{\text{long}} - \beta_{\text{short}} = \rho(q,u)_{x,\text{CGI}} \times \rho(\text{CGI},u)_x \]
  
  – Long = short plus partial effect of omitted \( u \) on outcome * partial effect of \( u \) on included (CGI).

• We know power of covariates \( \mathbf{x} \) to: (i) predict outcome; (ii) predict governance

• Assume omitted variable(s) \( u \) have similar power

• Two approaches:
  – Altonji Elder Taber (2005), Oster (2014) (economics)
## HHH bounds for Overall CGI

<table>
<thead>
<tr>
<th>Coefficients on Pooled CGI</th>
<th>Omitted variable based on</th>
<th>( \beta_1 )</th>
<th>( \beta_{\text{lower}} )</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>common</strong></td>
<td></td>
<td>0.0633***</td>
<td>0.0624***</td>
</tr>
<tr>
<td>common*</td>
<td></td>
<td>0.0620***</td>
<td>0.0579***</td>
</tr>
<tr>
<td>country</td>
<td></td>
<td>(3.86)</td>
<td>(3.92)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.89)</td>
<td>(3.64)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.85)</td>
<td>(3.15)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.0829***</td>
<td>0.0825***</td>
</tr>
<tr>
<td>common</td>
<td></td>
<td>0.0813***</td>
<td>0.0809***</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4.91)</td>
<td>(4.84)</td>
</tr>
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<td></td>
<td></td>
<td>(4.77)</td>
<td>(4.69)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4.76)</td>
<td>(4.65)</td>
</tr>
</tbody>
</table>

But if we weaken the covariates (single response surface)

<table>
<thead>
<tr>
<th>common</th>
<th>0.0822***</th>
<th>0.0802***</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4.77)</td>
<td>(4.65)</td>
<td></td>
</tr>
</tbody>
</table>
Lower Bounds for D + BS

<table>
<thead>
<tr>
<th>Omitted power = same as strongest predictor of</th>
<th>Brazil</th>
<th>India</th>
<th>Korea</th>
<th>Turkey</th>
<th>Pooled</th>
</tr>
</thead>
<tbody>
<tr>
<td>q</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HHH</td>
<td>0.176*** (3.65)</td>
<td>0.065 (1.63)</td>
<td>0.031*** (5.19)</td>
<td>0.048 (2.14)**</td>
<td>0.042*** (5.85)</td>
</tr>
<tr>
<td>governance index</td>
<td>0.160*** (3.32)</td>
<td>0.057 (1.42)</td>
<td>0.041*** (6.76)</td>
<td>0.048 (2.14)**</td>
<td>0.042*** (5.85)</td>
</tr>
<tr>
<td>Both q and gov</td>
<td>0.150*** (3.12)</td>
<td>0.025 (0.63)</td>
<td>0.024*** (3.91)</td>
<td>0.048** (2.14)</td>
<td>0.042*** (5.85)</td>
</tr>
<tr>
<td>all covariates</td>
<td>0.153*** (3.16)</td>
<td>0.036 (0.91)</td>
<td>0.033*** (5.50)</td>
<td>0.009 (0.42)</td>
<td>0.032*** (4.43)</td>
</tr>
<tr>
<td>ACETO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>all covariates</td>
<td>0.174*** (3.61)</td>
<td>0.060 (1.51)</td>
<td>0.017*** (2.81)</td>
<td>0.027 (1.21)</td>
<td>0.042*** (5.87)</td>
</tr>
</tbody>
</table>
Individual elements?

- Power of individual elements
  - Control for rest of subindex
  - And for other subindices

- Little predictive power

- Subindex power comes from overall subindex
  - overall disclosure, not particular pieces
Does governance predict profitability?

- No consistent evidence
- For disclosure, we would not expect any
- More likely: investors pay more for same reported earnings (lower cost of capital)
  - Lower information costs for investors $\rightarrow$ greater liquidity (accord, Lang, Lins, Maffett, 2012)
  - Lower risk of self-dealing
Summary

• Single country (e.g., my Korea work):
  – Can sometimes find shocks (natural experiments)
    • stronger basis for “causal inference” (identification)
    • But weak generalizability

• This project: move toward causal inference
  – Four major emerging markets
  – FE with strong covariates
  – Moderate generalizability

• A good compromise?

• Evidence that disclosure matters; board structure matters in some countries