

# National Corporate Governance Conference Indonesia

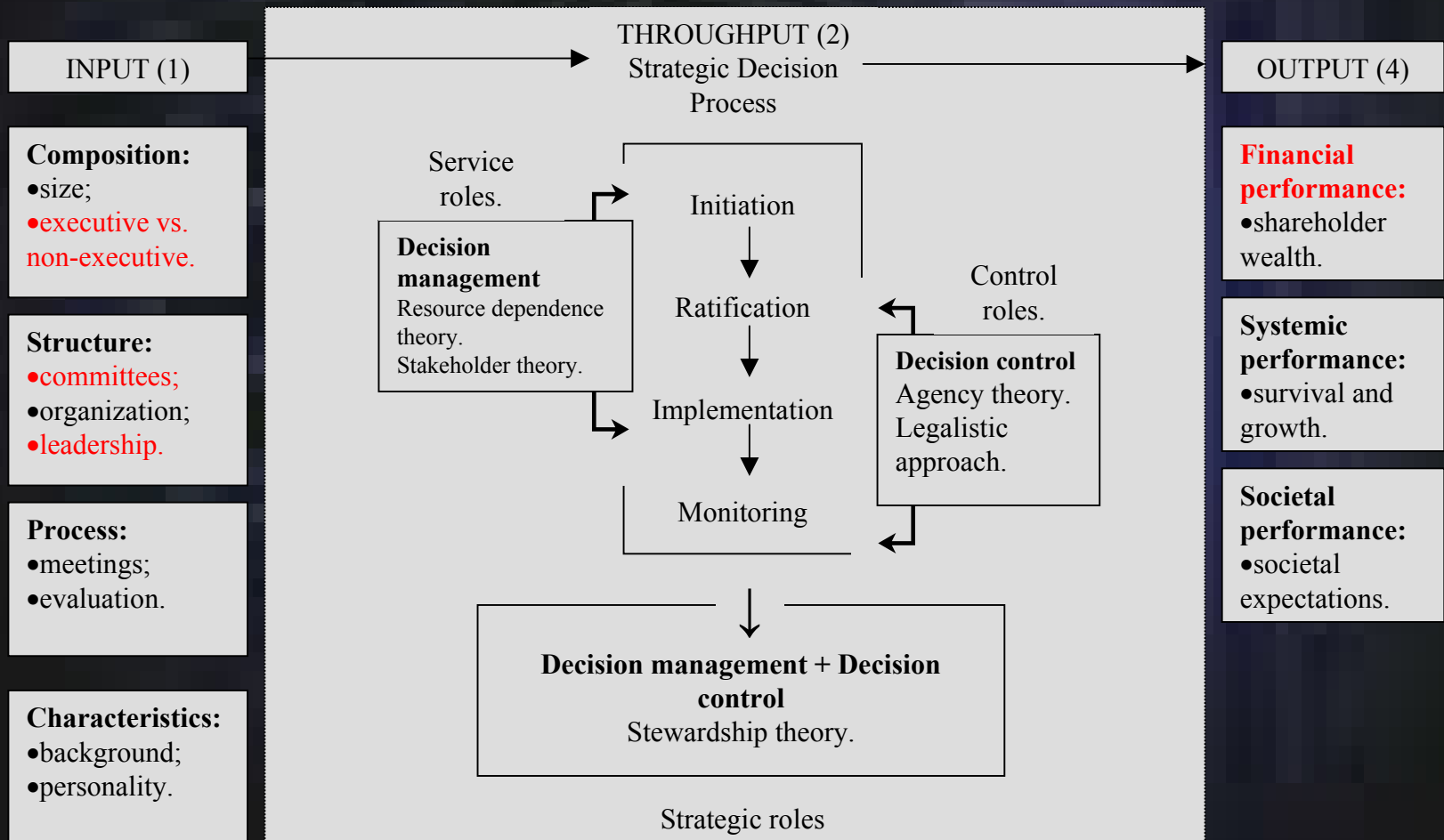
Corporate Governance and the Performance of  
Listed Corporations

**Dr. Gregory F. Maassen**

Erasmus University

# Corporate Governance and Corporate Performance

(3) CONTINGENCIES/ CONTEXT: legislation, ownership patterns, societal pressures, regulatory systems.



# The Board of Directors

Board Composition (No link with performance?)

**Bhagat and Black (1999)**

" "At the very least there is no convincing evidence that increasing board independence ... will improve firm performance.

And there is some evidence suggesting the opposite -- that firms with supermajority-independent boards perform worse than other firms, and that firms with more inside than independent directors perform about as well as firms with majority -- (but not supermajority) - independent boards."

# The Board of Directors

Design Composition (No link with performance?)

Bhagat and Black propose:

” . . . the burden of proof should perhaps shift to those who support the conventional wisdom that a monitoring board – composed predominantly of independent directors – is an important element of improved corporate governance.”

# The Board of Directors

Board Composition (No link with performance?)

Donaldson and Davis (1994) state: "We believe that it would be unwise at the present time to go along with calls to require boards of corporations to be dominated by non-executives."

# The Board of Directors

Board Leadership (No link with performance?)

Moscowga et al. (1996:51) report: “Our findings stand in sharp contrast to the recommendations of those who call for the abolition of duality as a primary way to improve firm governance and performance.”

# The Board of Directors

## Board Committees (No link with performance?)

Daily et al. (1988) found no evidence of a systematic relationship between the composition of compensation committees and levels of CEO compensation.

According to the authors, “these results are particularly intriguing given the emphasis both academics and the institutional investment community are placing on director independence” (Daily et al., 1988:215).

# The Board of Directors

Board Composition (No link with performance?)

A Great Source For the Latest Findings is the Patterson Report. Dr. D. Jeanne Patterson is a retired professor of finance and public policy at Indiana University.

<http://www.thecorporatelibrary.com/study/patterson.asp>

# The Board of Directors

Board Composition (No link with performance?)

**1. THE NUMBER OF STUDIES IS EXPANDING RAPIDLY**

**2. WE'VE GOT SURVEYS**

**3. EVERYONE IS STRUGGLING TO DEFINE PERFORMANCE**

**4. BE CAREFUL HOW YOU DEFINE CORPORATE GOVERNANCE; IT  
MAY DETERMINE YOUR VIEW OF SUCCESS (PERFORMANCE.)**

**5. "BOARDS AND DIRECTORS" IS A BIG CATEGORY AND INCLUDES  
MANY PERSPECTIVES**

# The Board of Directors

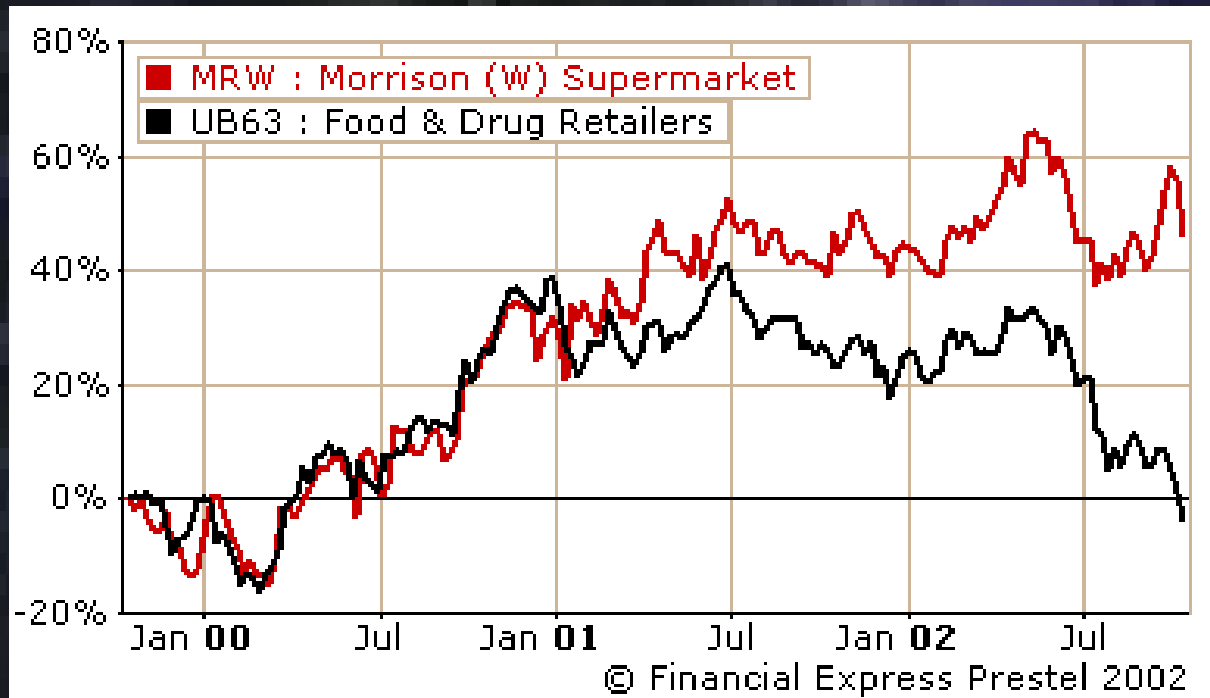
Design Strategies (No link with performance?)

“ Even so, it's hard to argue against adopting good governance. "You are never going to be guaranteed total success," says Charles Elson, a law professor and board member. "But good governance gives you protection when things go wrong. In the long run, that will play out." “

<http://www.businessweek.com>

# Morrison Supermarkets

The market does not care about the poor corporate governance of the company?



## Morrison Supermarkets

The market does not care about the poor corporate governance of the company?

**William Morrison** breaks many Combined Code guidelines as well (the supermarket employs *no* non-executives), yet has improved profits every year since 1967!

# The Value of Assets

These Graphs Are Important

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Company Performance is **Not Necessarily Bad** With Poor  
Corporate Governance

--

Company Performance is **Not Necessarily Good** With  
Good Corporate Governance

--

It Says Something About The Perception of Investors

+

How They Value Assets and Their Rights

# The Value of Assets

Three-quarters of investors say board practices are at least as important to them as financial performance when they are evaluating companies for investment. In Latin America, almost half the respondents consider board practices to be more important than financial performance.

McKinsey Investors Survey 2000

200 institutional investors managing \$3.25 trillion!!!

# The Value of Assets

Over 80 percent of investors say they would pay more for the shares of a well-governed company than for those of a poorly governed company with comparable financial performance.

McKinsey Investors Survey 2000

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# The Value of Assets

The actual premium investors say they would be willing to pay for a well-governed company differs by country.

Investors say they would pay 18 percent more for the shares of a well-governed UK company than for the shares of a company with similar financial performance but poorer governance practices. They would be willing to pay a 22 percent premium for a well-governed Italian company, and a 27 percent premium for one in Venezuela or Indonesia.

McKinsey Investors Survey 2000

200 institutional investors managing \$3.25 trillion!!!

# The Value of Assets

This finding is supported by a recent survey of investors in Europe and the US which found that approximately half of European investors, and 61% of US investors, have decided not to invest in a company, or have reduced their investment, because of poor governance practices

*Russell Reynolds Associates, Corporate Governance in the New Economy – 2000  
International Survey of Institutional Investors.*

*Copies of the survey can be requested from [www.russreyn.com](http://www.russreyn.com)*

# The Value of Assets

Independent Boards	+	Performance	?
Independent Committees	+	Performance	?
Independent Leadership	+	Performance	?
Certification	+	Performance	?
Disclosure Practices	+	Performance	?
Accounting Standards	+	Performance	?
Shareholder Rights	+	Performance	?
Compliance with Codes	+	Performance	?

# The Value of Assets

Independent Boards	+	Value	!
Independent Committees	+	Value	!
Independent Leadership	+	Value	!
Certification	+	Value	!
Disclosure Practices	+	Value	!
Accounting Standards	+	Value	!
Shareholder Rights	+	Value	!
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