Governance and performance revisited

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Abstract

Using rich and accurate data from Oslo Stock Exchange firms, we find that corporate governance matters for economic performance, insider ownership matters the most, outside ownership concentration destroys market value, direct ownership is superior to indirect, and that performance decreases with increasing board size, leverage, dividend payout, and the fraction of non–voting shares. These results persist across a wide range of single–equation models, suggesting that governance mechanisms are independent and may be analyzed one by one rather than a bundle. In contrast, our findings depend on the performance measure used and on the choice of instruments in simultaneous equations. The lack of significant relationships in tests allowing for endogeneity may not reflect optimal governance, but rather an underdeveloped theory of how governance and performance interact.

Keywords: Corporate Governance, Economic Performance, Simultaneous Equations.

JEL Codes: G3, L22

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