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Does governance travel around the world? Evidence from institutional investors

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Abstract

We examine whether institutional investors affect corporate governance by analyzing portfolio holdings of institutions in companies from 23 countries during the period 2003–2008. We find that firm-level governance is positively associated with international institutional investment. Changes in institutional ownership over time positively affect subsequent changes in firm-level governance, but the opposite is not true. Foreign institutions and institutions from countries with strong shareholder protection play a role in promoting governance improvements outside of the U.S. Institutional investors affect not only which corporate governance mechanisms are in place, but also outcomes. Firms with higher institutional ownership are more likely to terminate poorly performing Chief Executive Officers (CEOs) and exhibit improvements in valuation over time. Our results suggest that international portfolio investment by institutional investors promotes good corporate governance practices around the world.



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