The relation between corporate governance and stock returns
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Связь между корпоративным управлением и доходностью акций
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Abstract: *investors, when deciding on the formation of the investment portfolio, trying to find a middle ground between the main characteristics of existing assets. Questions about the possibility of predicting stock returns there since its inception. Do not tense debate on the impact of corporate governance on it. According to the «Global Investor Opinion Survey (McKinsey, 2002)» 15 % of European institutional investors believe corporate governance is more important than the financial indicators, such as earnings or growth potential. In addition, 22 % of European institutional investors are willing to pay a premium on the average of 19 % for good corporate governance. The purpose of this article is the study of corporate governance impact on stock returns.*
Аннотация: *инвесторы при принятии решения о формировании инвестиционного портфеля пытаются найти золотую середину между основными характеристиками существующих активов. Вопросы о возможности прогнозирования доходности акций существуют с момента их появления. Не утихают споры о влиянии корпоративного управления на нее. По данным «Global Investor Opinion Survey (McKinsey, 2002)» 15 % европейских институциональных инвесторов считают, что корпоративное управление является более важным, чем финансовые показатели, такие как доходы или потенциал роста. Кроме того, 22 % европейских институциональных инвесторов готовы платить премию в среднем 19 % для хорошего корпоративного управления. Целью данной статьи является изучение влияния корпоративного управления на доходность акций.*

Keywords: *decision making, investors, stock returns, impact of governance, and formation of investment.*
Ключевые слова: *принятие решений, инвесторы, доходность акций, влияние корпоративного управление, формирование портфеля акций.*

1. *Introduction*

In its work in 1997 Schleifer and Vishny have identified several reasons why good corporate governance contributes to the company's value and performance. In principle, good governance includes better monitoring, greater transparency and public openness between the principals (investors) and agents (managers). This leads to increased investor confidence and reduce the freedom of action of managers and the expropriation of their rent. Well-managed firms in theory are less risky, have a higher efficiency, lower costs for audit and monitoring. This reduces the capital cost of ownership and generated higher expected cash flows, which in turn create more appreciated and better performance of firms. However, the theory of agency, does not consider the institutional context in which the company operates. This provides a theoretical foundation for the rational adaptation of the best practices of firms without taking into account the characteristics and differences between countries and levels of companies, which in turn leads to a potentially inconclusive results [1].

Empirical studies of this problem include work on various aspects of corporate governance (board of directors, shareholder rights, remuneration management), from which it follows that the model of corporate governance in the United States contribute to the cost and performance of both American companies and other countries. However, most of the studies before 2010 were based on a rather specific databases, for example, within a particular country or industry [2].

2. *Relevant articles*

The topic of corporate governance is widely discussed worldwide. Particularly acute, this problem between shareholders and managers of companies that are trying to find common ground that satisfies both parties. As a result of globalization, the growth of corporate knowledge has become a new trend - the adoption of international practices and exchange of experience. Corporate governance itself is a comprehensive teaching and has received much attention in the scientific literature. On some of them you should pay attention [3].

In 1992, Fama & French describe the expected return on equity based on the leverage, size, E / P, book-to-market, comparing the results obtained with an average yield of shares traded on these stock exchanges like NYSE, AMEX, and NASDAQ.

In 2003, Gompers, Ishii and Metrics examined the impact of corporate governance in the US for the required return on capital, value of the company and the company's financial performance. They identified 24 administrative regulations affecting the profitability of some 1,500 US companies from 1990 to 1999. They found an average annual return of 8.5 percent, and also found that investors, who invested in the company, with a large index of control, received 8.5 percent more [4].

3. Model formulation

Further, it was necessary to make the test sample. As its author used the companies included in the index S&P 500. The selected input data, in my opinion, is one of the main weaknesses of the study, because it calls into question the reliability of the results and their possible extrapolation. The reason for this is that the S & P basket included only companies of the country (the United States). For the purposes of the study sample was divided into two study groups: well-managed portfolio and poorly managed portfolio. Distribution of the group took place on the basis of the corporate governance index (CG-index, Gompers, Ishii & Metric 2003 Corporate Governance Index). CG-index is the ratio of forces between shareholders and managers. It is based on 24 criteria, which are formed on the basis of publications Investor Responsibility Research Center (IRRC). Management index is higher, the smaller the rights of the shareholders of the company. That is, a company in which the most extensive rights of shareholders, awarded CG-index equal to 1. While the company, in which all power is mostly in the hands of managers awarded CG-index equal to 19. Thus, in the first group were selected for well-managed companies that is, those whose indices belong CG-span of from 3 to 9; and the second group included poorly managed companies with CG-index belonging to the interval from 10 to 16. The data on the control index were taken in 2006 and correlated with data from S&P in 2008.

4. Empirical evidence

Empirical studies in the work Anthony Owala began by examining the hypothesis H1, which refers to the impact of corporate governance on future stock returns. Consideration of this hypothesis began to conduct correlation analysis, exploring the pairwise correlation between the dependent variable and independent.

We can see profitability negatively correlated with the index of corporate management. We mentioned earlier that the lower the index value, the greater the rights of the shareholders. Hence the yield increases with the rights of shareholders. The highest correlation value is observed between profitability and market ß, that is, the yield will be higher, the higher the risk measure of the stock.

5. Conclusion

So we see that the approaches to the study of the problems of the impact of corporate governance on stock return quite a large number. At this stage it is impossible to make an unambiguous conclusion about this relationship exists or not. Most serious studies currently conducted on a rather limited and specific set of data, which casts doubt on their conclusions. So, for example, considered in this paper, the article Anthony Chukwuemeka Owala as input information was taken by companies of one country, making an ambiguous answer to the question about the possibility of extrapolation. In addition, these companies were included in the S & P shopping cart that shows their great importance capitalization. It is also important that the different studies on different definitions of the concept of corporate governance.

For all these reasons, I cannot make an unambiguous conclusion on this issue. But with a great deal of research in this area likely to be held still for a long time.

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