INSTITUTIONAL INVESTORS, STEWARDSHIP CODE, AND CORPORATE PERFORMANCE: INTERNATIONAL EVIDENCE

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Abstract

This study investigates if stewardship code enhances monitoring activities of institutional investors on their portfolio firms. Stewardship Codes aim to enhance the quality of engagement between institutional investors and companies. Since institutional investors who typically hold diversified portfolio should have little incentive to monitor their portfolio firms due to free-rider problem, the stewardship code, which is designed to motivate institutional investors to monitor, becomes important in countries with high institutional ownership. We construct comprehensive financial panel data of listed firms in 56 countries between 2005 and 2016 and examine the effects of the introduction of stewardship codes in 13 countries in different timings by difference-in-difference analyses. More specifically, we test the effects of the introduction of stewardship code on market value and pay-out policy of firms in the country, and its relation with the institutional ownership of respective firms. Our results show that introduction of the code in a country increases value of the firms with high institutional ownership. We confirm our results are

robust to potential endogeneity issues by various robustness tests. Consistent with the observed value effects, introduction of the codes mitigates free cash flow problem of the firms in the country. We find that firms with higher institutional ownership increase pay-out ratio and decrease cash holding after the introductions of the codes only when the firms belong to industries with low growth opportunity. In our knowledge, this is the first study which provides international evidence of the effectiveness of stewardship code.