ABSTRACT

This dissertation aims to examine the effectiveness of ‘good’ governance policies that are commonly benchmarked in shaping Corporate Governance (CG) policies across countries. Specifically, I examine the firm level internal mechanisms of Monitoring CG and Incentive CG and the country level external mechanisms of legal rules and disclosure provisions. The origin of these CG policies is rooted in the Anglo-Saxon countries, where stand-alone firms are mostly owned by the dispersed shareholders, and Type I agency problem is common between company owners and top managers. For precisely examining the generalizability of ‘good’ CG principles, I have conducted my investigation in an empirical setting, where organizational form, governance concern, and institutional context are different compared to those common in the Anglo-Saxon environment. I concentrated on the closely-held firms with ultimate controlling owners (UCOs) from Europe, Asia, and Latin America and analyzed how the suggested CG policies address potential agency problems evident in these firms.

There is a longstanding debate among the governance scholars in regard to the generalizability of ‘good’ CG principles. While some scholars recommend/promote a set of standardized CG mechanisms, others question the effectiveness of such uniform means in diverse settings. I define these perspectives as the Universal View of CG and Embedded View of CG, respectively. Theoretically, I hypothesize that UCOs’ excessive control negatively affects minority shareholders’ wealth – a conflict that manifests in Type II agency problem in the closely-held firms. Based on the Universal View vs.
Embedded View, I then develop a set of alternative hypotheses to examine whether commonly recommended ‘good’ CG policies govern the UCOs and thereby, attenuate expropriation of the minority shareholders. Both the views present their arguments on the basis of two core issues – first, the issue of policy-goal alignment of the firm level CG mechanisms in addressing Type II agency problem and second, the role of country level CG institutions in implementing firms’ internal mechanisms. Inferences of the two views, however, differ substantially.

For conducting the empirical analyses, I collected data on 1109 publicly traded closely-held firms from 40 European, Asian, and Latin American countries. The cross-sectional dataset is developed for the year 2016 (the data period of company ownership structure ranges in between 2015 to 2017). Since information availability is limited on the closely-held firms, I collected/calculated data on majority of the measures manually from the sources of Bureau van Dijk-Orbis, Capital-IQ, and company annual reports. Empirical findings of the analyses consistently indicate the presence of Type II agency problem in the concentrated firms. Results are also consistent in supporting the Embedded View based policy analysis. The study postulates, while the firm and country level CG policies improve firms’ valuation, these commonly recommended ‘good’ CG policies cannot attenuate the negative effect of excessive control. That is, the suggested CG policies cannot safeguard their value creation from being expropriated by the UCOs. These findings are robust across the tests conducted with alternative measures and ad-hoc analyses.
This investigation contributes to the literature on International CG. In many countries, ownership concentration is one of the dominant forms of organizational structure, where the actors deal with complex agency problem. Hence, a thorough investigation of these firms’ governance structure is critical to advance the research agenda. This dissertation also generates important managerial and policy implications. Institutional actors should revisit the existing CG policies, utilize them in accordance with their functionality, or even substitute them given the problem specificities. In depth analysis of the recent dataset indicates that the internal mechanisms of CEO-Duality and Multiple Blockholders are effective ‘niche’ mechanisms to check on the UCOs. Future research can focus on developing additional goal-aligned/targeted means and extend the policy analyses to examining the concentrated firms from the Anglo-Saxon countries.