The Quest for Global Governance Standards

Directorship
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In the search for metrics to assess governance of public companies, Harvard Law School Professor Lucian Bebchuk and Hebrew University Professor Assaf Hamdani discuss the major shortcomings of current methods plaguing researchers on The Harvard Law School Forum on Corporate Governance and Financial Regulation blog.

Instead of searching for an all-in-one set of global governance standards, they argue that standards should be replaced by an effort to develop and implement separate methodologies for assessing governance in companies with and without a controlling shareholder.

The paper reviews the following points of contention:

Financial economists put forward two indices for measuring countries' level of investor protection: the Anti-Director Rights Index and the Anti-Self-Dealing Index. These indices have been applied by more than 100 academic studies have had a considerable amount of influence on corporate-governance research. RiskMetric's Corporate Governance Quotient (CGQ) system has been used for rating firms' corporate governance arrangements.

They also discuss the relationship between firm's ownership structures and the governance arrangements that would best protect investors. The allocation of power between directors and shareholders, the distribution of power among shareholders (i.e. the allocation of power between majority and minority shareholders), director independence, and corporate transactions that may divert value to insiders.

Antitakeover defenses such as the poison pill, for better or worse, are dependent on the market and shareholders. Major shareholders can make antitakeover measures impossible—ultimately concluding that takeover defenses can have repercussions for widely held firms, but are not nearly as important in controlled companies.

Professors Bebchuck and Hamdani seek to advance the project of developing governance metrics based on objective and generally applical criteria, not to abandon it altogether—which other critics have argued is necessary.

Both professors argue that academics and practitioners should seek to develop separate systems—one for controlled and another for widely held firms—with each based on a set of objective dimensions determing investor protection according to country. They argue that it is necessary to have separate scores for how a country protects investors in companies with and without a controlling shareholder; it is valuable for researchers, policymakers, and investors.