The Cost of Well-Run Companies

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Shareholders are revolting, and not the way Occupy might claim. On both sides of the Atlantic, companies face embarrassing shareholder rebellions over pay. They are long overdue.

Investors might reasonably hope that clamping down on the excesses of badly run boards will help share prices. Consider Chesapeake Energy, the US shale gas producer, which produced a great example of corporate excess when it paid chief executive Aubrey McClendon $12m for his map collection.

Chesapeake has been in new trouble over its corporate governance since it emerged Mr McClendon had borrowed $1.1bn to fund co-investments in company wells. On Tuesday it said it would end the co-investments, and stripped him of the chairman role. Its shares rose 11 per cent.

It is not only Wednesday's plunge in the shares, on yet more revelations about Mr McClendon, that should give investors reason to doubt the benefits of better corporate governance. It seems shares of better-governed companies do no better than the worst.

Harvard Law School academics Lucian Bebchuk, Alma Cohen and Charles Wang found last year that during the past decade the previously strong link between corporate governance and share price performance broke down. They argue this is because investors understood the importance of good corporate governance, so it was already in the price.

Other data suggests there is still a difference: better-run companies have less volatile shares, which fits the idea that good corporate governance reduces risk. Sadly, lower risk means less chance of shoot-the-lights-out gains. All but one of the S&P 500 companies that returned an annualised 25 per cent above their sector over the past 10 years is in the bottom half of the Institutional Shareholder Services' ranking, including Apple. At least investors in well-run companies need worry less about them vanishing overnight.