

Do 'Good' Boardrooms Boost Returns?

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Corporate governance advocates have long tried to persuade investors they can have it both ways: Do good, and you end up doing well too. New research suggests that advice may not hold true.

Some of corporate reformers' pet moves, like allowing shareholders to vote on directors each year and avoiding special provisions to thwart takeovers, can boost the value of a company, a new Harvard University study finds. But there's a big catch: The market may have already factored any benefits tied to these moves into the stock price. While at one time knowing whether a company had good governance might have been valuable information for investors, ever since a wave of public attention brought these issues to the fore in the 1990s, it hasn't been effective as a guide for picking stocks. "Just because something is a good governance provision doesn't mean it's a good investment," says co-author Lucian Bebchuk.

Bebchuk, who wrote the paper with two other researchers, Alma Cohen and Charles C.Y. Wang, is well-known for his criticism of the way public companies are run — in particular for his arguments that outsize executive pay reflects top executives' political sway within the corporate world rather than realistic prices set by the market.

The new take on corporate governance investing may ring a bell for investors familiar with other once-fashionable strategies like the so-called Dogs of the Dow. The idea behind that approach was to buy beaten down stocks in the Dow Jones Industrial Average on the assumption that other investors typically overreacted to bad news. It seemed to work — until the secret got out. Then too many investors vied to buy the same low-priced stocks, bidding the prices back up.

If even one of CEOs' toughest critics admits that tracking corporate governance moves doesn't translate into market-beating investment returns, that could be bad news for some popular mutual funds that follow 'socially responsible' investing strategies — unless they can continually stay ahead of the curve.

"Nothing works forever in the stock market," says Julie Gorte, head of sustainable investing for Pax World, one of the best-known fund companies in this group, which together hold about \$70 billion, according to Morningstar.

Gorte says Pax, which also weighs other factors like companies' environmental records, works hard to continually find fresh ways to judge companies. One of the new shibboleths: Whether companies separate chairman and chief executive jobs to dilute the top dog's sway over the board. "Stock picking is impossible if the world doesn't change," she says.