

Governance Adjustments, Product Market Competition, and Firm Value

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We study whether and how firms adjust their governance structures after the passage of business combination (BC) laws in 1985-1991. Using a difference-in-difference approach, we find firms, on average, increase the fraction of outside directors, insider stock ownership, the size of the largest blockholder, and CEO compensation. However, firms in concentrated industries adjust their governance structures differently from firms in competitive industries. Firms in competitive industries, on average, only increase CEO compensation. We find that such an increase is positively related to firm value indicating that good governance is valuable even in competitive industries - at least when studying adjustments due to an exogenous shock. Governance adjustments made by the average firm in concentrated industries are mostly negatively related to firm value indicating that such firms do not adjust governance to try to overcome the loss of effectiveness of the market for corporate control - quite to the contrary.