Corporate Governance, productivity and firm value

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Abstract

Most of the previous studies on the relation between corporate governance and firm value are based on agency theories and don’t explain what exact changes happen within a firm with different patterns of ownership structures. This study investigates the relationship between corporate governance, productivity and firm value, based on the arguments that sound corporate governance leads to higher productivity, which results in higher market values in firms. We first estimate the total productivity factors by using Cobb-Douglas function, and then explain the TFP with ownership structure as corporate governance proxies. We find that the ownership structure only partially explains the TFP. The third step is to use Sobel-Goodman mediation methods to test the bridging function of productivity between corporate governance and firm value in order to see whether productivity is the internal factor. Our initial results cannot confirm the mediating function of productivity. The significance of the study is to initiate the understanding of micro-process of corporate governance in determining the firm value.