

Value Relevance of Good Governance: A Study on Listed Companies in the UK

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Abstract : The aim of this research is to find the relationship between good governance and shareholder wealth maximisation. The concept of good governance has become more objective in nature over time through various regulations, professionalisation, and practices. This has led to a number of methods for scoring and ranking corporate governance practices. Since shareholder wealth maximisation remains the key corporate goal for managers and governors alike, the effect of good governance in increasing the value of corporations is commented to be an important aspect. In measuring the value relevance of good governance, statistical measures of various yields of listed companies in the UK have been used in this research. Yields reflect required returns on investments from different investment tenets. Historical yields, calculated using historical fundamental data of such companies, reflect expected yields to a great extent. These yields, in turn, reflect the expected risk premium and growth associated with the stocks of the companies. Using fundamental data, the yields have been adjusted to reflect the risk premium required by the investors along various value paradigms. Good governance should naturally lead to lower required risk premium since good corporate governance provided assurance to the investors in terms of sustainability of future performance and desired financial conduct. This, in turn, increases the wealth of stockholders. The findings of this research confirm such nature of the relationship between good governance and value of the company in the long run.

Keywords : corporate governance, good governance practices, short-termism, shareholder value relevance, wealth maximisation, yield

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