

Corporate Governance and the Returns on Investment

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Abstract:

We analyze the impact of corporate governance institutions and ownership structures on company returns on investment by using a sample of more than 19,000 companies from 61 countries across the world. We show that the origin of a country's legal system proves to be the most important. Companies in countries with English-origin legal systems earn returns on investment that are at least as large as their costs of capital. Companies in all countries with civil law systems earn on average returns on investment below their costs of capital. Furthermore, differences in investment performance related to a country's legal system dominate differences related to ownership structure. We also present considerable evidence that managerial entrenchment worsens a company's investment performance.

Keywords: corporate governance, external capital markets, ownership structure, returns on investment

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