



Comments on:
**Does Corporate Governance Predict
Firms' Performance? The Case of
Ukraine**

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Paper About...

- Relationship between corporate governance and performance of a firm in transition economy
- Hypothesis to test:
 - Better corporate governance leads to better performance
- Country to test the hypothesis: Ukraine
- Sample definition
 - About 10000 observations
 - Unbalanced panel of years 2000-2002
 - Number of firms approx. 4300, 3300, 2500, respectively

Method

- LHS: Measure of performance
- RHS:
 - Measure(s) of corporate governance quality
 - Index
 - Sub-index (4)
 - Control variables
 - Production function
- IV for endogenous variables
- Different methods of estimation (OLS, IV, FE, RE, FD...)

Findings

- **Strong dependence of firm performance on CGQ measures**
- **Difference between worst-best is 40%**
- **1 point increase in the index will lead to 0.4%-1.9% increase in performance**

Literature:

- **Missing connections**
 - **Survey paper: Estrin, Hanousek, Kocenda, Svejnar**
 - **Effect of CEO replacement (Fidrmuc&Fidrmuc)**
 - **Effect of owners on performance and corporate governance**
 - Hanousek, Kocenda, Svejnar
 - Hanousek, Kocenda
 - **Reform issues and effect (J.Fanelli and G.McMahon)**

Measure of Performance

- In(Output)
 - Output
 - Revenue
 - Net revenue
- Not clear what is the exact definition

Measure of Performance

- **Other measures?**
 - **Socialist enterprise**
 - Max Output s.t. profit \geq 0, production function....
 - **LMF, profit-sharing schemes, insider-ownership**
 - Max Income per worker s.t.
 - **External ownership**
 - Max profit or dividend flow...
- **The objective function (and the related performance) the enterprise follows depends primarily on ownership structure**
 - **Not controlled for**

Time Evolution & Time Dependency

- 3 time-data points (2 for FD)
 - All indexes grow
 - No downward variation
 - Output grows as well?
 - Isn't the estimated effect just due to correlation of two independent growing series with no causality link?

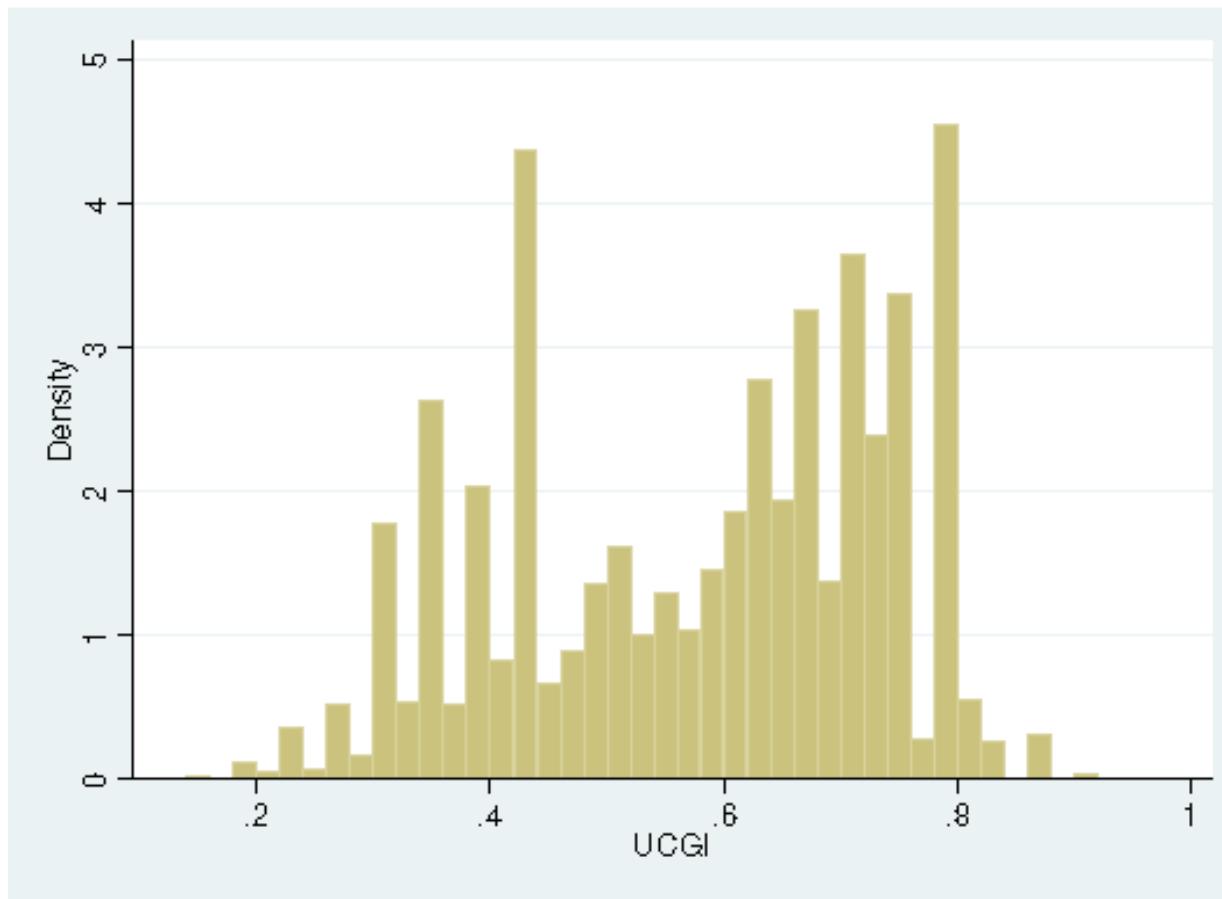
RHS, Indexes

- **Composite index(es)**

- **Mostly product of binary variables**
- **Step-wise increments; do all elementary components have the same effect?**
 - Imposed cardinality on measures that are ordinary
- **Continuous measures even reverted to binary indicators**
 - Percentage of “Yes” answers to Business Environment perception measure replaced with a dummy
 - => Loss of information
 - => Introduction of measurement error
- **Higher Index = better governance**
 - Really? Imagine 3 indicators, one of them having an effect two not...
 - Not monotonic relationship possible due to imposed cardinality on ordinal measures

Effect of Binary Elements?

- Every second index value is more probable than the others
 - Odd vs. even categories, peak pattern



Indexes

- **Suggestions?**

- **Commander-Svejnar**

- Evaluate the effect of the elements as well

- **Cross-product effect**

- Two measures has to be met together to get positive effect

- **Keep full information – gives power to the instruments**

Estimation

- Provide test of FE vs RE for panel estimation
- Is the time-span limiting the methods?
 - $T \ll k$
 - Discussion needed
- Survival bias
 - Number of firms approx. 4300 -> 3300 -> 2500

Thank you