THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Corporate Governance Data and Measures Revisited

By Larcker, Reiss and Xiao

09 June 2017

Discussant: Tom Kirchmaier

The Paper

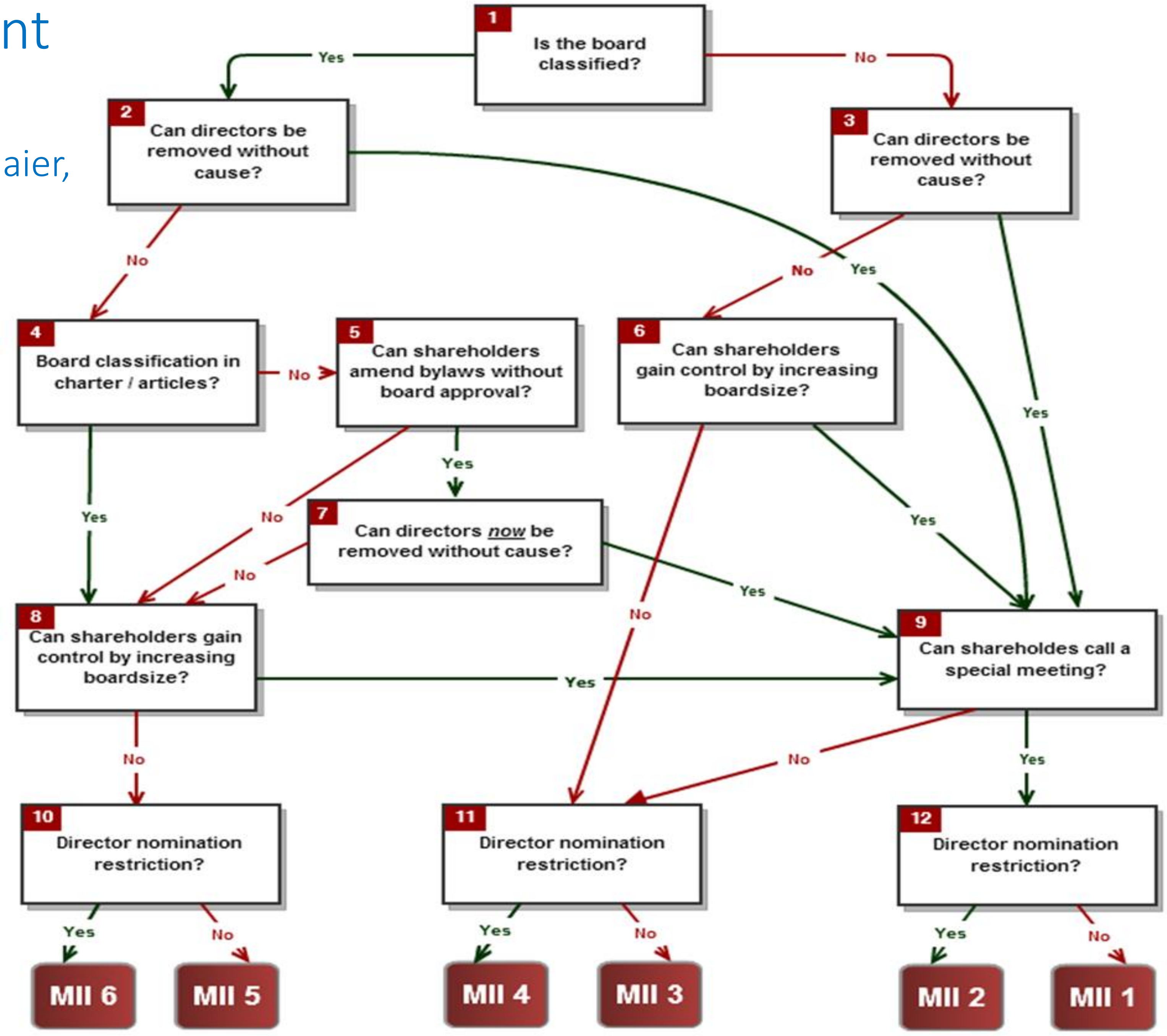
- Claims (convincingly) that IRRC coded governance provisions wrongly, in particular in the early years of the dataset
- FactSet codes many of the provisions differently, leading to fundamentally different conclusions
- The data was used to code the data G index (Gompers, Ishii, and Metrick (2003)) and E index (Bebchuk, Cohen, and Ferrell (2009)).
- Some subsequent papers could not confirm the findings of the earlier papers, as …
- As could the researchers for E index portfolio returns (finds significant differences)
- In general, coding legal governance provisions retrospectively is difficult (as documents are not always accessible), time consuming, and require at times judgement
- Results based on IRRC data might need to be re-examined and future research needs to treat IRRC with caution

General Issue with an Index

1. Coding flaws
   - Document not always accessible, and/or provisions by reference
   - Needs at times expert judgement
2. Index construction
   - Additive construction of legal indexes not very sensible (see next slide)
3. Econometrics
   - Much of the earlier work did not survive scrutiny

FKKS* Management Insulation Index

* Ferreira, Kershaw, Kirchmaier, Schuster



Questions

- You finish your paper by presenting two possible takeaways: (1) IRRC data could be too noisy as a measure of corporate governance or (2) corporate governance provisions may not be value relevant. Where do you stand?
- The IRRC data is flawed. Yet studies find an association between corporate governance structures and risk-adjusted return using E index portfolio while your corrected E index results in insignificant result. Is the bias in the original data systematic? What is going on?
- Given the limitations of the available documents required to fully assess the corporate governance structure and the electronic identification and interpretation of provisions, how confident are you in your own review?