The influence of Institutions, Investor Protection and Corporate Block-shareholders in Asset Pricing by Hearn, Phylaktis and Piesse:
A discussion

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Summary of the paper

- Quality of institutions and investor protection matter in the asset pricing
- Investor protection adjusted for ownership concentration
- Augmented CAPM: two factor investor protection model
External mechanisms of corporate governance- Legal origin, institutions, investor protection - international differences have received much attention.

Investor protection hypothesis: better protection against the opportunistic behaviour of managers encourages supply of external equity to firms, and thereby translates into dispersed ownership (La Porta, Lopez-de-Silanes, Shleifer and Vishny 1997, 1998, 1999)

Direction of causality - Higher investor protection translates into higher firm valuation (Klapper and Love 2005) and lower cost of equity capital (Chen et. al. 2009)

Investor protection and firm level CG act as substitutes for reducing cost of equity capital (Chen et. al. 2009)
Observations I

- Direct test of blockholding - insider shareholding?
- Premium for poor institutions but fairly good markets - substitutes or complements?
- Systemic risk - liquidity crisis
- Limitations of cross country studies - good CG could earn higher investor premium (McKinsey and co. 1999, Coombes and Watson 2000)
- CAPM variability - country effects?
Observations II: Data

- Number of companies at country level and distribution
- Distribution of ownership concentration by region
Free float

- Measurement error
- Asian economies have higher free float than developed economies (e.g. median FF in India is 100% vs 59% in US)
- To be calculated from shareholding information
Thank you.