Contents

	oreword Andrei Shleifer	xvii
Α¢	knowledgments	xix
A	cronyms and Abbreviations	xxi
O.	verview: Corporate Governance in Latin America Alberto Chong and Florencio López-de-Silanes	1
1	Insider Trading and Corporate Governance in Latin America Juan J. Cruces and Enrique Kawamura	85
2	Corporate Governance, Ownership, and Dividend Policies in Argentina Ricardo Bebczuk	157
3	Corporate Governance and Value in Brazil (and in Chile) Ricardo P. C. Leal and André L. Carvalhal-da-Silva	213
4	Corporate Governance, Market Valuation, and Payout Policy in Chile Fernando Lefort and Eduardo Walker	289
5	Corporate Governance and Firm Valuation in Colombia Luis H. Gutiérrez and Carlos Pombo	353
6	Corporate Governance and Firm Value in Mexico Alberto Chong and Florencio López-de-Silanes	397

CONTENTS

7	CEO AND DIRECTOR TURNOVER IN REPÚBLICA BOLIVARIANA DE VENEZUELA	483
	Urbi Garay and Maximiliano González	
Įn	dex	545
Fr	GURES	
1	Market Capitalization Relative to GDP, 1990,	_
	1994, 2005	5
2	Listed Companies, 1990, 1994, and 2005	6
3	Trading Value Relative to GDP, 1994 and 2004	6
4	Concentration of the Cash Flow Rights of	
	Controlling Groups	39
5	Block Premium Relative to Firm Equity	40
6	Listed and Sampled Firms	46
7	Market Capitalization of Listed Firms and Total	
	Market Capitalization	47
8	Effect of Corporate Governance on Tobin's q	50
9	Effect of Corporate Governance on	
-	Dividend Payout	51
10		
•	Stock Exchange	55
1		55
1:		57
1		58
1		59
1		60
	6 ADR Holders as a Share of Listed Firms	61
	7 ADR Market Capitalization as a Share of Total	
•	Market Capitalization	62 -
1	8 ADR Value Traded as a Share of Total Value Traded	62
	.1 The Probability Structure of Trade	90
	.2 ITP around Corporate Announcements,	
•	by Volume Quintile	117
1	.3 ITP around Corporate Announcements, by Country	119
	.4 ITP around Corporate Announcements,	
1	by Industrial Sector	120
1	5 ITP around Corporate Announcements,	
1	by Security Type	121
1	.6 ITP around Corporate Announcements,	
1	by ADR Status	122
4	A Temporal Distribution of Announcements	145

 \boldsymbol{x}

1B	Temporal Distribution of Earnings Announcements	
	by Country and Date	146
1C	ITP around Corporate Announcements by Security	
	Type, 10 Trading Days	147
1D	ITP around Corporate Announcements	
	by ADR Status, 10 Trading Days	148
3.1	Example of Ownership Structure: CELPE	232
3.2	CGI and Tobin's q in 2002	238
3.3	The CGI and the Log of Asset Size in 2002	239
4.1	Ownership Concentration and the Coincidence of	
	Control and Cash Flow Rights	324
4.2	Coincidence of Cash and Control Rights and Effective	
	Company Control (Rule 67, Corp. Law)	334
4.3	Tobin's q and Ownership Concentration	335
4.4	Audit Committees and the Size of Equity in Firms	346
4.5	Tobin's q and the Size of Equity in Firms	346
5.1	Histogram of the Top Four Shareholders (CR4), 1996	361
5.2	Histogram of the Top Four Shareholders (CR4), 2002	362
5.3	The Colombian Index Fund and Net Capital Flows	377
6.1	Ratio of Market Capitalization to GDP	401
6.2	Listed Domestic Companies per Million People	401
6.3	Ratio of Trading Volume to GDP	402
6.4	Ratio of Trading Volume to Market Capitalization	402
6.5	Public Offerings and ADRs	404
6.6	Price-to-Book Value of Equity	405
6.7	Firm Migration by Legal System and in Mexico	429
6.8	Share of Recommendations of the Code of Best	
	Practices Met by the Average Firm	434
6.9	CGI Density, 2003 and 2004	435
6.10	Distribution of Compliance with the Code of	
	Best Practices	436
6.11	Partial Regression Plot of the CGI and Tobin's q	452
6.12	Partial Regression Plot of the CGI and	
	the Price-to-Book Ratio	452
6.13	Partial Regression Plot of the CGI and the ROA	456
6.14	Partial Regression Plot of the CGI and the ROE	457
7A	Scatter Plots: Value Measures and Subindexes	
	of the CGI	529
7B	Scatter Plots: Tobin's q and Subindexes of Corporate	-00
	Governance	530
7C	Scatter Plots: Price-to-Book Ratio and Corporate	-04
	Governance	531

xii	•	CONTENTS

7D	Scatter Plots: Dividend Payout and Corporate	532
	Governance	332
Tables		
1	Shareholder Protections in the 1990s	9
2	Enforcement of Laws in the 1990s	14
3	Legal Reforms in Latin America	1 7
4	Shareholder Protections in 2005	19
5	Securities Laws in 2001	22
6	Anti-Self-Dealing Regulations in 2005	24
7	Market Outcomes	28
8	Regressions of External Financing in the Mid-1990s	
	and Legal Origin	30
9	Regressions of External Financing in Recent Years	
	and Legal Origin	31
10	Regressions of External Financing in the Mid-1990s	
	and Investor Protection Indicators	32
11	Regressions of External Financing in Recent Years and	
	Investor Protection Indicators	33
12	External Finance, Legal Origins, and Investor	
	Protection Indicators	34
13	Principal Components	36
14	Questions in Each Category on the Corporate	
	Governance Questionnaire	45
1.1	Distribution of the ITP by Group of Stock	99
1.2	Distribution of the ITP by Volume Quintile	102
1.3	Quarterly Distribution of the ITP	103
1.4	Categorical Decomposition of the ITPs	106
1.5	ITP and Investor Protection Environment	109
1.6	ITP around Corporate Announcements	115
1.7	The Market Value of Informed Trading, Raw Data	126
1.8	The Market Value of Informed Trading,	
	Industry-Adjusted Data	127
1 A	Traded Volume in Latin American Stocks	131
1B	Number of Tickers by Country and Sector	133
1C	Number of Sample Stocks by Liquidity Range,	
_	Home Market	135
1D	Number of Sample Stocks by Liquidity Range,	
	ADR Market	137
1E	Statistics of the Liquidity of Sample Stocks,	
-	Home Market	139
1F	Statistics of the Liquidity of Sample Stocks,	
_	ADR Market	141

CONTENTS	xii:
----------	------

	•	
1G	Dollar Volume of Trading by Exchange and Quintile	143
2.1	Capital Market Indicators on Argentina and Selected	
2.2	Regions, 1997–2001	162
2.3	Structure of the Transparency and Disclosure Index	164
2.4 ·	Variable Definitions	166
2.4	Corporate Governance and Ownership: Descriptive Statistics	168
2.5	Corporate Governance and Ownership: Deciles	169
2.6	Corporate Governance and Ownership:	102
	Correlation Matrix	170
2.7	Performance and Control Variables: Descriptive	1.
	Statistics	171
2.8	Performance and Explanatory Variables:	
	Correlation Matrix	172
2.9	The ROA and the TDI without Additional Controls	173
2.10	Q and the TDI without Additional Controls	174
2.11	The ROA and the TDI with Controls	174
2.12	Q and the TDI with Controls	176
2.13	The ROA and Alternative TDI Measures	177
2.14	Q and Different TDI Measures	178
2.15	The ROA, Q, and Alternative Corporate Governance	
	Measure, 1	180
2.16	The ROA, Q, and Alternative Corporate Governance	
	Measure, 2	181
2.17	The ROA, the TDI, and Interaction Regressors	182
2.18	Q, TDI, and Interaction Regressors	183
2.19	The ROA, Q, and Instrumental TDI, 1	184
2.20	The ROA, Q, and Instrumental TDI, 2	185
2.21	The ROA, Q, and Instrumental TDI, 3	186
2.22	The ROA, Q, the TDI, and Trading Intensity:	
	Simultaneous Equations	187
2.23	The ROA, the TDI, and Ownership Variables	189
2.24	Q, the TDI, and Ownership Variables	190
2.25	The ROA, the TDI, and Ownership: Interaction	
	Regressors	191
2.26	Q, the TDI, and Ownership: Interaction Regressors	192
2.27	Dividend Measures by Year, 1996-2003	193
2.28	Balance Sheet Variables by Year, 1996-2003	195
2.29	Mean Difference Tests for Balance Sheet Variables	195
2.30	Mean Difference Tests for Corporate Governance	
	and Ownership	196
2.31	Cash Dividends to Cash Flow: Balance Sheet	
	Determinants	197

CONTENTS

	·	
2.32	Cash Dividends to Cash Flow and Instrumented	
	Q and Debt	198
2.33	Cash Dividends to Cash Flow: Balance Sheet	
	Determinants and Lagged Dividends, 1996-2003	200
2.34	Cash Dividends to Cash Flow: Balance Sheet	
	Determinants and Lagged Dividends, 2000-03	202
2.35	Cash Dividends to Cash Flow: TDI and Balance	
	Sheet Determinants	203
2.36	Cash Dividends to Cash Flow and TDI, 2000-03	205
2.37	Cash Dividends to Cash Flow and Ownership	
	Variables, 2000-03	205
3.1	Index Questions Applied to Brazilian Companies	222
3.2	Direct and Indirect Shareholding Composition of	
	Brazilian Companies, 1998-2002	231
3.3	Ownership Characteristics of the 1998, 2000,	
	and 2002 Samples	233
3.4	Descriptive Statistics on All Variables	235
3.5	Score Distribution for the CGI and Four Subindexes,	
010	1998, 2000, and 2002	237
3.6	Correlation among Selected Variables	240
3.7	Control and Corporate Governance Variables	242
3.8	OLS Regressions of Tobin's q on Corporate	
 .	Governance Measures, 2002	244
3.9	OLS Regressions of Tobin's q on Corporate	
0.0	Governance Subindexes, 2002	247
3.10	OLS Regressions of the Dividend Payout on Corporate	
0.20	Governance Measures, 2002	252
3.11	OLS Regressions of Tobin's q and the Dividend Payout	
J	on the CGI, 2002	256
3.12	OLS Regressions of the P/B on Corporate Governance	
J.12	Measures, 2002	259
3.13	OLS Regressions of Tobin's q, Dividend Payout, and	
V.10	the P/B, 2002	263
3.14	Three-Stage Least Squares Regressions on Corporate	
J	Governance Measures, 2002	267
4.1	The Importance of Chilean Conglomerates	300
4.2	The Capital Structure of Chilean Conglomerates	301
4.3	The Control Structure of Chilean Conglomerates	302
4.4	Payout Ratios by Year	303
4.5	Payout Ratios by Conglomerate Affiliation	304
4.6	Questionnaire on Corporate Governance Practices,	
T.U	2003, Distribution	306
4.7	Questionnaire on Corporate Governance Practices,	
1.7	2003, Summary of Results	307
	2000, Calling of Comme	

CONTENTS xv

4.8	Index on Corporate Governance Practices, Chile, 2003	309
4.9	Descriptive Statistics on the Main Variables	315
4.10	Correlation Matrix of the Main Variables	322
4.1 1	OLS Pooled Regressions for the Coincidence of	
	Cash Flow and Control Rights on Tobin's q	326
4.12	OLS Pooled Regressions for the Coincidence of	
	Cash Flow and Control Rights on Firm Value and	
	Performance	328
4.13	OLS Cross-Sectional Regressions for the Coincidence	
	of Cash Flow and Control Rights on Tobin's q	329
4.14	Panel Regressions for the Coincidence of Cash Flow	
	and Control Rights on Tobin's q	331
4.15	OLS Pooled Regressions for the Coincidence of	
	Cash Flow and Control Rights on Tobin's q:	
	Nonlinear Relationships	333
4.16	Two-Stage Least Squares Estimation of Instrumental	
	Variables for Coincidence of Cash Flow and Control	
	Rights on Tobin's q	336
4.1 7	Dividend Payout and Coincidence of Cash Flow	
	and Control Rights: Generalized Least Squares	338
4.18	Dividend Payout, Coincidence of Cash Flow	
	and Control Rights, and the Panel Tobit	339
4.19	Pairwise Correlations of Key Variables	342
4.20	Ordered Logit Regressions of Corporate Governance	
	Subindexes on Control Variables	343
4.2 1	Corporate Governance Practices and the Market	
	Valuation of Firms	344
5.1	Ownership Statistics on the Sample of Stock Trading	
	Companies	360
5.2	Direct Ownership Stakes in the Sample, by Industry	363
5.3	Separation between Cash Flow Rights and	
	Voting Rights	365
5.4	Ultimate Shareholders and the Separation between	
	Ownership and Control	368
5.5	Descriptive Statistics on the CGI and Subcomponents	372
5.6	Descriptive Statistics, 1998–2002	375
5.7	Valuation Regressions	378
5.8	Performance Regressions	382
5.9	Cross-Sectional Regressions, Dependent Variable: CGI	385
6.1	Indexes of Shareholder Rights in 1995	409
6.2	Indexes of Shareholder Rights in 2005	411
6.3	Sample Management Proposals for Vote at Annual	
	General Meetings	413
6.4	Indexes of Securities Laws, December 2000	418

xvi	CONTENTS

6.5	Indexes of Anti-Self-Dealing Regulations	421
6.6	Market Outcomes	424
6.7	Descriptive Statistics	431
6.8	The Corporate Governance Code of Best Practices	437
6.9	Correlation Matrix of the Main Variables	446
6.10	Valuation Regressions	450
6.11	Performance Regressions	453
6.12	Dividend Regressions	455
6.13	Instrumental Variable Regressions	458
6.14	Correlation Matrix of Dependent Variables, the CGI,	
	and the CGI Components	461
6.15	Regressions for Corporate Governance Subindexes	463
7.1	Institutional Variables	488
7.2	Questionnaire Response	490
7.3	Questionnaire on Corporate Governance:	
	Open Questions	491
7.4	Variable Descriptions	493
7.5	Database Description	498
7.6	Summary Statistics for Selected Variables	500
7.7	Correlation Matrix for the Pooled Turnover and	
	Performance Variables	505
7.8	Panel Data Logit Regression on CEO Turnover	507
7.9	Panel Data Poisson Regression on the Number of	
	Director Turnovers	512
7.10	Panel Data OLS Regression on the Percentage of	
	Director Turnovers	516
7A	Pairwise Correlation Matrix for the CGI, Subindexes,	
	and Value Measures	525
7B	Spearman Rank Correlations among the CGI,	
	Subindexes, and Value Measures	527
7C	Tests of Equality of Means: Two-Sample t Test with	
	Equal Variances	528
7D	OLS Regressions of Tobin's q on Corporate	
	Governance Measures	534
7 E	OLS Regressions of the Price-to-Book Ratio on	
	Corporate Governance Measures	535
7 F	OLS Regressions of Dividend Payout on Corporate	
	Governance Measures	536
7G	OLS Regressions of Tobin's q, the Price-to-Book Ratio,	
	and Dividend Payout	537