

**Are Close-by Investors Better Monitors? An Examination of the Link between
Investor Proximity and Corporate Governance**

Zhuola Bai

A Thesis in

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements

For the Degree of Master of Science (Finance)

at Concordia University

Montréal, Quebec, Canada

July 2020

© Zhuola Bai 2020

CONCORDIA UNIVERSITY

School of Graduate Studies

This is to certify that the thesis prepared

By: Zhuola Bai

Entitled: **Are Close-by Investors Better Monitors? An Examination of the Link
between Investor Proximity and Corporate Governance?**

and submitted in partial fulfillment of the requirements for the degree of

Master of Science (Option Finance)

complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signed by the final Examining Committee:

Saif Ullah Examer

Frederick Davis Examer

Thomas Walker Supervisor

Approved by: _____

Nilanjan Basu, Graduate Program Director

Anne-Marie Croteau, Dean of Faculty

Date: August 30, 2020

Abstract

Are Close-by Investors Better Monitors? An Examination of the Link between Investor Proximity and Corporate Governance

Zhuola Bai

In this thesis, we study whether the geographic proximity between institutional investors and firms affects the corporate governance characteristics of firms. Using indices that capture both a firm's external and internal governance quality as well as five individual governance mechanisms, we show that – compared to nonlocal institutional investors – the presence of local investors weakens a firm's internal governance but improves its external governance. The findings of this study offer important insights pertaining to the debate how investor proximity affects corporate governance quality. Specifically, they provide supporting evidence for the substitution theory that argues that internal and external governance are interchangeable – in this case with close-by investors making up for poorer internal governance. Finally, we investigate firms' preference for corporate governance mechanisms based on both their ex-ante firm characteristics and the presence of local investors. Our results suggest that smaller, less liquid firms have weaker boards and fewer antitakeover provisions if they are located in close proximity to their largest institutional investors.

Acknowledgements

First, I would like to express my genuine gratitude towards my professor Thomas Walker for providing timely, insightful and instructive guidance during my whole thesis developing process. Without his understanding and generous help when I face difficulties, I would not have finished my degree such smoothly. I would like to thank my committee members professors Saif Ullah and Frederick Davis too for providing their helpful comments.

Second, I want to appreciate my families for always supporting me no matter emotionally or financially. They encouraged me when I had stressful and anxious moments. And I would like to thank my friends who cared for me and companied me from the first day I arrived in Canada until now. It will be a much harder time for me if only I did not have their friendships and companions.

Last but not least, I would like to give thanks to my Lord and Savior Jesus Christ for giving me the best love I could possibly have. I am so blessed to have Him guiding me all the way to where I am now. The three years in Concordia has been an unforgettable and life-changing experience for me. I will carry forward everything that I have learned here to wherever I will go in the future, and hopefully, I can help this world to be a better place.

Table of Contents

List of Tables	vi
1. Introduction	- 1 -
2. Literature review and hypotheses.....	- 3 -
2.1 Prior research	- 3 -
2.2 Testable hypotheses	- 8 -
3. Methodology	- 9 -
3.1 Data.....	- 9 -
3.2 Variables	- 10 -
3.3 Descriptive statistics	- 13 -
3.4 Regression Model	- 14 -
4. Empirical Results	- 17 -
5. Local Institutions and the Governance of Firms	- 19 -
6. Robustness Tests	- 22 -
6.1 Endogeneity concerns	- 22 -
6.2 Other robustness tests	- 23 -
7. Conclusion.....	- 24 -
Reference	- 26 -

List of Tables

Table 1: Sample Overview: Variables by Year	- 33 -
Table 2: Descriptive Statistics	- 35 -
Table 3: Univariate Test.....	- 36 -
Table 4: Correlation Coefficients.....	- 37 -
Table 5: OLS Regression Analysis for the Non-matched Samples	- 38 -
Table 6: OLS & Logit Regression Analyses for the Non-matched Individual Mechanism Samples	- 39 -
Table 7: OLS Regression Analysis for the PSM Matched Samples	- 40 -
Table 8: OLS & Logit Regression Analyses for the PSM Matched Individual Mechanism Samples...	- 41 -
Table 9: The Relationship Between External and Internal Governance	- 42 -
Table 10: Logit Regression Analysis for Causality	- 43 -
Table 11: 2SLS Regression Analysis.....	- 44 -
Table 12: Robustness Tests.....	- 45 -

1. Introduction

"Distant water cannot put out a nearby fire" is a Chinese proverb to express the feeling of powerlessness when the resources that could save the day are too far away. The proverb also appears to apply in the corporate governance arena when institutional investors and their portfolio firms are geographically distant. For example, Chhaochharia et al. (2012) suggest that firms with high local ownership exhibit better internal governance and higher firm performance. Relatedly, Coval and Moskowitz (2001) show that local investors have an informational advantage, which helps their fund managers earn a 2.65% higher yearly return than they do on nonlocal investments. Indeed, according to the literature, having investors who are far away may be detrimental to various aspects of a firm's well-being (Chen et al., 2007; Gaspar & Massa, 2007; Chhaochharia et al., 2012; Coval & Moskowitz, 2001; Liu et al., 2018). As the separation of ownership and management becomes popular in large firms, the need to mitigate the principal-agent conflict between shareholders and CEOs increases. At the same time, the need for high quality corporate governance also rises.

Corporate governance is defined as a collection of mechanisms, processes, and structures, through which corporations are managed and operated. According to the literature, governance mechanisms are divided into two categories, external and internal. External governance includes laws and regulations, the labour market, and, most importantly, the market for corporate control that can cause poorly performing/poorly managed firms to be bought out. Internal governance applies to the internal controlling system, such as the control of the board of directors over the firms. The directors govern the firms through attending board meetings and voting for important decisions. For example, the board can vote to replace a CEO if he/she does not act in the best interest of the firm and its shareholders.

Various scholars have studied the relationship between external and internal governance, and two theories are frequently put forward: the substitution and the complement theory. The substitution theory argues that external and internal governance do not exist independently but that they act as substitutes, which means that using improvements in one type of governance can lower the other. In contrast, the complement theory considers internal and external governance to be complements, which could result, e.g., in a strong board and applying less antitakeover mechanisms simultaneously.

Some literature studies the relationship between corporate governance and the local bias of institutions in investing, meaning that institutional investors prefer investing in local companies instead of the remote ones. Some of the scholars investigated the reasons behind this investment phenomenon. Ayers et al. (2011) and Coval and Moskowitz (1999) suggest that by investing in local firms, institutions (e.g., banks, insurance companies, pensions, hedge funds, etc.) can acquire information at a lower cost. Researchers show that, using this information as an advantage, local ownership helps firms to make wise decisions in terms of increasing the firm value (Gaspar & Massa, 2007) and improve the effectiveness in the monitoring of the firms (Chhaochharia et al., 2012; Coval & Moskowitz, 2001; Liu et al., 2018).

We add to this literature by examining the impact of the distance between institutions and their portfolio firms on the firms' external and internal corporate governance. Specifically, we study whether having local institutional investors affects the firms' external and internal governance and whether there is any difference between them. In the end, we find that general and internal governance is weaker, while external governance is stronger when the firms and institutions are located closer to each other. Moreover, the results of the tests on individual governance mechanisms shows the same as the tests on governance indices.

We also examine different firm characteristics to explore whether local investors affect governance differently based on the portfolio firms' ex-ante characteristics. We find that larger and more liquid firms tend to have better boards and engage in more antitakeover tactics to deter hostile takeovers.

The remainder of this thesis is organized as follows. In section 2, We summarize the prior literature and propose our three hypotheses based on it. In section 3, we describe the data, the variables, and the models used in this paper. In section 4, we explain the results from the regressions. We explain the possible explanation for the results in section 5. Section 6 provides several robustness tests. Finally, we conclude in section 7.

2. Literature review and hypotheses

2.1 Prior research

A large amount of literature has discussed domestic securities' preference in international portfolios and the bias towards local firms in domestic investments as the scholars observed a superior performance of local firms compares to non-locals on average. To explain this phenomenon, Huberman (2001) suggests that individual investors make local investments because of their familiarity with companies and the influence of local media, even if the investment conflicts with the theory of portfolio diversification. However, Barber & Odean (2008) demonstrate that unlike individuals, institutional investors are not interested in attention-grabbing stocks, e.g. stocks in the news, because the news is not a scarce resource for institutions as they have many other tools to select stocks. Others argue that the asymmetry information advantage is the reason toward local bias. For example, Coval & Moskowitz (1999) suggest that local

investments tend to be in small, nontraded, goods-producing and high leverage firms, and these results provide evidence to the existence of information asymmetries in local firms. Ayers et al. (2011) indicate that geographic intimacy between firms and institutional investors is often used as a proxy for the cost of acquiring monitoring information. Furthermore, Gaspar & Massa (2007) show that being geographically close to the firm is an inexpensive way to obtain information. Besides, Hamberg et al. (2013) present that after the compulsory International Financial Reporting Standards (IFRS) adoption in Sweden, which caused uniform information, international ownership from countries that adopt the same standard increased. This result shows that bridging the information gap helps the nonlocal investors make investment decisions and reduces local bias.

In this age of accelerating technology, the world is becoming smaller through electronic communication tools, and the information is widely available through social media and the internet. Because of this change, some scholars think that the benefit of being a local investor compared to a remote investor could be different from what was previously argued. Petersen & Rajan (2002) suggest that because of the greater credit availability induced by information technology, the distance between small firm lenders and borrowers is increasing. This change leads to a broader range of firms, especially those in the distance, can now receive funding and to an improvement in bank productivity. Bernile et al. (2016) find that the local information advantage declines after 2000 because after turning into the new millennium, the Regulation Fair Disclosure (Reg FD) and the Sarbanes-Oxley Act (SOX) were enacted for “leveling the playing field” and improving the disclosed information quality.

Scholars who believe the information advantage still exists also document the usage of it. Hau (2001) finds evidence for a local institution’s high-frequency trading using information advantage. Kahn & Winton (1998) demonstrate that the institutional investors hold the information about the

firm to speculate or intervene and that a higher holding always increases the institution's desire for intervention. Chen et al. (2007) do further examination, showing that independent long-term institutions focus on monitoring and influencing instead of trading for profit. Hermalin & Weisbach (2012) show that having an informed principal, i.e. shareholders, is not in the agent's interest because the principals can use the information to make important decisions, including firing the agent. Focusing on mutual fund's investors, Gaspar & Massa (2007) show that local ownership improves the monitoring and stimulates value-enhancing decisions. Moreover, the firms with higher local ownership would improve governance and be more profitable, which leads to local investors being regarded as effective monitors (Chhaochharia et al., 2012; Coval & Moskowitz, 2001; Liu et al., 2018).

Questions about the types of information provided and their influence on local investors fuel some debates. Coval & Moskowitz (2001) and Ivković & Weisbenner (2005) claim that both individuals and institutions gain excess returns on local stocks by using local private information. Simultaneously, many studies show that local social networks also make it easier for local investors to access "soft information" (e.g. knowledge-based assets, company culture and CEO's managerial ability) from local managers. Wrigley et al. (2003) argue that the institutions tend to gain knowledge spillovers in the local business networks where they can build relationships with corporate elites. Chhaochharia et al. (2012) believe that this information causes corporate governance to be affected by local investors because Fracassi (2017) shows that social peers are influential to managers in making corporate policy decisions.

Because of the power-sharing relationship between shareholders and managers and the rise of hostile takeover offers, managers try to reserve power from shareholders through adopting governance provisions, such as bylaw and charter amendment limitations, that restrict shareholders'

rights (Gompers et al., 2003). At the same time, shareholders also fight to align the managers' interests with shareholders' by executive compensation etc. Using a self-constructed governance index, including 24 different governance provisions, Gompers et al. (2003) claim that firms with better corporate governance have better operating performance. Bhagat & Bolton (2008) also find that there is a significant relationship between better governance and better concurrent and subsequent firm performance. From the perspective of boards of directors, Hermalin & Weisbach (1998) show that the monitoring of the CEO is weaker when the CEO is entrenched by making themselves costly to replace. They run away from the internal and external governance mechanisms that can limit their power to entrench themselves. Consequently, it is hard for the board to identify problematic CEOs, which may decrease the firm value.

Some scholars further study the classification of governance mechanisms and different associations between them. For example, Jensen (1993) classifies control forces operating on a corporation into four categories: capital markets, legal/political/regulatory system, product and factor markets, and internal control system headed by the board of directors. Huson et al. (2001) and Weir et al. (2002) discuss that internal monitoring mechanism, including boards of directors and blockholders, and external mechanism, such as the market, are two ways to solve the agency problem.

For the role of internal and external governance mechanisms, there are two strands of theories. The first one argues that internal and external mechanisms are complements, which is explained in Shleifer & Vishny (1986) and Cremers & Nair (2005). They show, among other things, that large shareholders, as an internal governance mechanism, play an important role in takeovers because the takeover can hardly happen in firms that have no large shareholders, even without antitakeover provisions. Other researchers (Hadlock & Lumer, 1997; Mikkelsen & Partch, 1997)

further support this complement theory by showing that CEO turnover decreases, indicating weak internal governance, in environments where there is less threat of takeover, which means the external governance is weak. The second theory argues that external and internal governance are substitutes. Gillan et al. (2011) find that a powerful board can substitute the market for corporate control. They show that firms with stronger boards have more external governance provisions. Contrarily, firms whose boards are less powerful have fewer provisions, meaning the market for corporate control is playing a stronger monitoring role there. Guo et al. (2015) provide further evidence to the substitution theory by using the firms who comply with the NYSE and NASDAQ listing requirements of a majority of independent directors as an exogenous shock to study the exposure to the external governance mechanisms. They also document that boards and institutional investors are more effective at monitoring. However, Weir et al.(2002) believe that the market for corporate control is a key mechanism, and they also believe that it is a substitute for other governance mechanisms using a sample of UK listed companies.

The work of Gompers et al. (2003) has pioneered the discussion around the different methods to measure corporate governance and started an ongoing and significant academic conversation about corporate governance. Using a different period, methodology, and larger governance database of institutional investors than Gompers et al. (2003), Brown & Caylor (2006) investigate the relationship between firm value and the 51 ISS governance measures. They provide a firm-specific Gov-7 index by identifying seven critical drivers to the relationship out of fifty-one measures. Aggarwal & Williamson (2006) have created a GOV₆₄ Index, which is based on 64 ISS corporate governance standards. To be adaptable to both U.S firms and international firms, Aggarwal et al. have computed a GOV index using 44 measures on ISS in a further study (2009).

To investigate how internal and external governance mechanisms affect equity price, Cremers & Nair, (2005) use institutional blockholder ownership and public pension fund ownership to capture the internal governance mechanism. Byun et al. (2012) use an internal corporate governance index provided by a quasi-government organization, including the board of directors and four other factors. Unfortunately, the index only includes Korean companies on the KSE, but not the U.S companies, which we study in this thesis. Gao & Jia (2016) use seven variables as proxies of internal monitoring: board size, board independence, the percentage of more than four directorships, insider ownership, CEO duality, and two variables about the audit committee. Likewise, Bushee et al. (2014) construct a board characteristics index containing five similar variables as in (Gao & Jia, 2016).

In this thesis, we use one general governance index which is the GIM Index (P. Gompers et al., 2003), two external governance indices, which are the Alternative Takeover Index (Cremers & Nair, 2005) and the Entrenchment Index (L. Bebchuk et al., 2009), and one internal index, the Board Characteristics (Bushee et al., 2014). Section 3.3. provides descriptions of these indices.

2.2 Testable hypotheses

According to the literature discussed previously, geographic proximity can be an essential way to mitigate the asymmetry information, which means that institutions that are geographically closer to firms will get more information about the firm's actual operation. Using this information, the local institutions can thereby better monitor the firm. Following a few articles (Huson et al., 2001; Weir et al., 2002; Cremers & NAIR, 2005; Bushee et al., 2014), we divide corporate governance into two groups, internal and external governance, and we expect both of them to be stronger in the firms who have local institutional investors. Hence, my first hypothesis is as follows:

H1. Local institutional investors monitor firms better, leading to less managerial entrenchment. Specifically, the closer institutions are to the firms, the more influential the market for corporate control will be and the stronger the board will be.

H1.1 Firms with local investors apply fewer anti-takeover measures, and their boards will have higher quality, e.g. better board independence, less staggered boards, smaller board size, fewer dual CEO/chairman positions, and a lesser likelihood of dual-class stock.

Further, we focus on different firm characteristics and examine the impact of local institutional investors on corporate governance in different kinds of firms. As per the literature, we postulate this second hypothesis:

H2. The firms have better corporate governance in the presence of local investors when they are larger, and when they have higher sales growth rate, higher cash ratio, and higher blockholder ownership, lower firm age and higher firm risk.

We also want to examine the relationship between internal and external governance mechanisms in the condition of having the mean distance of the three biggest institutions in the proximity of the firms. Based on prior studies, we present the following competing alternative hypothesis:

H3. External and internal governance mechanisms are substitutes in the presence of local institutional investors.

3. Methodology

3.1 Data

We collect U.S data from January 1993 to December 2014 and get 79,924 firm-year observations from Thomson Reuters for firms and institutional investors' geographic data. After merging with the Governance variables, which are available on the Institutional Shareholder Services (ISS) database, we delete the observations with missing data. Finally, 4,502 observations remain.

3.2 Variables

We estimate the equally weighted average distance between the three biggest institutional investors and the firms as the indicator for geographic proximity (in hundreds of miles). Then, we generate a local dummy, which equals one if it is the first quintile of the distance, and zero if it is the fifth quintile.

We divide the governance indices into three groups. The first group is the general governance index GIM Index. The second group is the external governance index, which includes two indices that are focused on Entrenchment (EI) and Anti-takeover (AI). The third group is the internal governance index, denoted as Board Characteristics. It explains the extent to which directors monitor managers through the internal mechanism. The GIM Index is developed by Gompers et al. (2003), using the occurrence of 24 governance provisions for measuring the power balance between shareholders and managers. This governance index is sometimes used in the literature as a general measure of shareholder rights. Hellwig (2000) discusses that it includes protection for directors and managers (golden parachutes) and that effective voting power of shareholders (absence of confidential voting) indicates the bargaining ability of the managers compared to inside monitors. This index is also used as an antitakeover index (Cremers & NAIR, 2005). Hence, we use it as a broad index to denote corporate governance in a wide range. The GIM Index is only

available until 2006 on the ISS database. For this issue, we follow Li & Li (2018) to extend our sample until the end of 2014 as the GIM Index is regarded as “fairly stable”.

Another index we use is from the Alternative Takeover Index (ATI), created by Cremers & Nair (2005). The ATI focuses on narrow and key antitakeover provisions: staggered boards, poison pill, and restrictions on shareholder voting to call for special meetings or act through written consent. Since ATI is one point less here when a takeover provision is added, we do a linear transformation of ATI, AI (Antitakeover Index) = 3-ATI, to be consistent with the GIM index and for ease in exposition.

The third index is the Entrenchment Index, constructed by Bebchuk et al. (2009), which takes the top six percent of shareholders’ opposition to the 24 provisions included in the GIM Index. The six provisions, including classified board, poison pills, golden parachutes, supermajority provisions, limits on charter amendments, and limits on bylaw amendments, compose the Entrenchment Index. The creators of the Entrenchment Index also find that these provisions are negatively correlated with firm performance.

The internal governance index, called the Board Characteristics (Bushee et al., 2014), consists of board size, percentage of independent directors, whether the CEO/chairman duality, presence of board interlocks, and board meeting attendance (equals one if any director is absent for more than 75% of the board meetings). According to this paper, we group board size and board independence of a firm based on k-means cluster analysis. This index combines the internal governance mechanisms for monitoring managers.

All the indices mentioned above are created by adding one point when a specific defensive provision is adopted by the firm, indicating the degree of corporate governance of the firm. In other words, if the index is larger, the general governance (GIM) is worse, antitakeover measures

are increasingly adopted (AI), managers are more entrenched (EI), and the board is inadequate in monitoring the firm (Board Characteristics).

Besides using indices, we also study the individual governance mechanisms that have been most studied in the literature following the findings of Aggarwal et al. (2011) to have a closer look at how the geographic proximity affects corporate governance. Due to limited data access, we adopt five out of the seven attributes: board independence, board size, CEO/ chairman duality, the existence of a staggered board, and the existence of multiple share classes. Each one of these five provisions has much literature to back up its correlation to corporate governance. Brickley et al. (1994) report that independent directors serve the interests of shareholders. Jensen (1993) shows that a smaller board can perform more efficiently and monitor the CEO more effectively. Under the agency theory, which believes that CEO duality entrenches managers more and thus hampers the board monitoring effectiveness, the existence of duality is associated with poor governance and bad firm performance (Allegrini & Greco, 2013; Duru et al., 2016; Aktas et al., 2019). Bebchuk et al. (2002) demonstrate, using 1996-2000 data, that an effective staggered board is a strong antitakeover force by showing that not a single hostile bid succeeded in firms with a classified board. Another effective governance mechanism is the dual-class structure. It separates the cash-flow rights and voting rights of shareholders and provides insiders with more voting rights while holding disproportional shares. Gompers et al. (2010) find that firm value is positively correlated with insiders' cash-flow rights and negatively correlated with insiders' voting rights. For the calculation of these five variables, we define board size as the number of directors on the board, and board independence as the percentage of independent directors. The last three variables are dummy variables, which equal one if the provision exists.

Following previous research, we control for blockholder ownership, which is the stock ownership of the institutional investors whose holdings are more than 5% since blockholders are active shareholders. Cremers & Nair (2005) believe blockholder ownership affect corporate governance. Besides, several firm characteristics, such as Cash Ratio, Firm Size (log (Total Asset), million), Sales Growth Ratio, Firm Age and Firm Risk (Annualized Volatility) are used to control possible effect to corporate governance. In section 4, we do Propensity Score Matching using Return on Asset (ROA), Market to Book Ratio (MB), Fixed Asset Ratio, Leverage Ratio, and the high Bankruptcy Rate (Bad Z-score). Therefore, we include these variables as control variables when PSM is not applied. For the calculation of z-score, we follow the model proposed by Altman (1968) and identify Bad Z-score dummy equals to one if z-score is less than 1.81 and zero otherwise. We also control year and industry dummies in all the models.

3.3 Descriptive statistics

Table 1 provides an overview of the sample by year. There is no obvious change in distance between the institutional investors and the firms from 1993 to 2014. Except for the Entrenchment Index, which increases after 2006, the Antitakeover Index and Board Characteristics are gradually decreasing, while the GIM Index is generally stable. For individual mechanisms, Board Independence jumped from 0.5 in 1995 to 0.8 in 2014, and the existence of the Staggered Board is comparatively less in recent years, showing an improvement of corporate governance over the years. The firms are becoming larger and having a lower fixed asset ratio compared to the early years of the sample. The descriptive statistics of the variables we use are reported in Table 2. We winsorize on all the continuous variables, including the geographic distance before classifying it as a local dummy and dependent variables such as board independence.

We provide mean and median equality tests for variables between local and non-local investment in Table 3. Three out of the four indices as well as all the individual mechanisms, except for Board Independence, are significantly different at the 1% significance level between the two groups. More specifically, the indices are higher, which means that local firms are less governed both internally and externally compared to non-local firms. On average, local firms have one more director on the board than non-local firms. A large board is considered as less efficient and less effective in monitoring the firms than a small board since it is harder to reach an agreement with more people involved (Jensen, 1993). Besides, the possibility to adopt CEO/Chairman duality is 5% higher for local firms than non-locals, and the incidence of the staggered board and dual-class structure is 10% higher. Through adopting these provisions, CEOs can entrench themselves better and restrict the shareholders rights to vote and to remove directors. The results are contradictory to Hypothesis 1, which stipulates that the local firms would be better monitored.

Before going into a more in-depth analysis, we test the Pearson correlation between the variables. The correlation matrix is provided in Table 4. Except for board independence, all governance variables are negatively correlated with distance, indicating that the closer the investors are to the firms, the worse the firms are monitored. We do not find any strong correlation between the distance and other control variables, so there are no multicollinearity concerns.

3.4 Regression Model

To test Hypothesis 1, we do a series of regression on the local dummy, using different governance dependent variables and including year- and industry-fixed effects. We measure the dependent variable at time t , independent variables and control variables at time $t-1$ because the

explanatory variables will only impact corporate governance after the annual financial information is disclosed to the shareholders. We then estimate the basic regression as follows:

Where y_{it} is the four governance indices and two continuous individual mechanisms, board independence and board size. Local is the dummy variable that equals one if the mean of the distance between firms and its top three institutional investors is the first quintile of all the distance, and zero if it is the fifth quintile. Control variables are chosen based on prior, relevant studies. Year and two-digit SIC-code industry-fixed effects are adopted for controlling macroeconomics influence and differences among different industries.

$$y_{it} = \alpha + \beta_1 * local_{it-1} + \sum_{n=1}^N \delta_n * controls_{it-1} + year_t + industry_i + e_{it} \quad (1)$$

For the three individual governance dummy variables CEO/chairman duality, staggered board, and dual-class, we run the logit regression model, keeping other factors the same:

$$Log(y)_{it} = \alpha + \beta_1 * local_{it-1} + \sum_{n=1}^N \delta_n * controls_{it-1} + year_t + industry_i + e_{it} \quad (2)$$

Next, we reinforce the model by performing a propensity score matching analysis on local and non-local samples to alleviate possible endogeneity concerns in the underlying firm characteristics. This approach enables the clustering of a group of similar firms that expect proximity between the firms and the institutions. The firms with local institutions are grouped into the treated group. In contrast, those with non-local institutions are assigned to the control group. If there is a significant relationship between the local dummy and the governance mechanisms, we can conclude that the results are convincing.

Many financial characteristic dimensions are commonly used in propensity score matching analysis to control firm effects (Aggarwal et al., 2007; Ivashina et al., 2009), and we use them too. These characteristics are ROA, Market to Book ratio, Asset structure (PPE), Leverage, and with and without Bad z-score. Following the model in (Altman, 1968), we calculate z-score as:

$z=12*(\text{Working capital}/\text{Total assets}) + 1.4*(\text{Retained earnings}/\text{Total Assets}) + 3.3*(\text{EBIT}/\text{Total Assets}) + 0.6*(\text{Market value of equity}/\text{Book value of total liabilities}) + 1.0*(\text{Sales}/\text{Total assets}).$

We assign a bad z-score dummy variable that equals one if z-score<1.81 and zero otherwise. Next, we do the nearest neighbourhood matching using caliper of 0.1 (Ivashina et al., 2009). To improve matching efficiency, we allow ties option in STATA. According to Rosenbaum & Rubin (1985), the matching is regarded as effective when bias is less than 20%. In the untabulated matching, all matching bias is less than 10%, and most of it is less than 5%. Hence, we consider the matching to be effective. Afterwards, we redo the OLS and Logit regression using only the matched samples in treated and control groups this time.

To further examine how local investors' presence affects the relationship between firm characteristics and corporate governance (Hypothesis 2), we add interaction terms of the local dummy and block ownership, cash ratio, firm size, sales growth ratio, firm age, and firm risk. Keeping all other variables the same as in models (1) and (2), we obtain the following regressions:

$$y_{it} = \alpha + \beta_1 * local_{it-1} + \beta_2 * local_{it-1} * blockholder\ ownership_{it-1} + \beta_3 * local_{it-1} * cash\ ratio_{it-1} + \beta_4 * local_{it-1} * size_{it-1} + \beta_5 * local_{it-1} * sales\ growth\ ratio_{it-1} + \beta_6 * local_{it-1} * Firm\ Age_{it-1} + \beta_7 * local_{it-1} * Firm\ Risk_{it-1} + \sum_{n=1}^N \delta_n * controls_{it-1} + year_t + industry_i + e_{it} \quad (3)$$

$$Log(y)_{it} = \alpha + \beta_1 * local_{it-1} + \beta_2 * local_{it-1} * blockholder\ ownership_{it-1} + \beta_3 * local_{it-1} * cash\ ratio_{it-1} + \beta_4 * local_{it-1} * size_{it-1} + \beta_5 * local_{it-1} * sales\ growth\ ratio_{it-1} + \beta_6 * local_{it-1} * Firm\ Age_{it-1} + \beta_7 * local_{it-1} * Firm\ Risk_{it-1} + \sum_{n=1}^N \delta_n * controls_{it-1} + year_t + industry_i + e_{it} \quad (4)$$

4. Empirical Results

Table 5 and Table 6 show the test results for Hypotheses 1 & 2. More specifically, in the two tables, the odd columns belong to the first hypothesis, and the even columns belong to the second hypothesis. The test results in the odd columns of Table 5 demonstrate that the coefficients of three out of four governance indices are significantly positive, except for the Antitakeover Index, which is not significant at zero. This result indicates that the firms with local investors have more entrenchment mechanisms and weaker boards at work since the higher the indices are, the worse the external and internal governance is. The same results are found in Table 6. They show that if the mean distance between the biggest three institutional investors and a firm is comparatively shorter, the firm is less independent, the board is larger, and the likelihood of having a staggered board and dual-class structure is higher. These results are all at least significant at the 1% significance level. However, these outcomes are somewhat surprising because they contradict the hypotheses.

To exclude firm effects, we use a propensity score matching procedure to match firms with comparable financial characteristic dimensions. By removing the control variables used to match firms and using merely the matched samples, we regress again, with the other variables staying the same as before. The results are reported in the odd columns of Tables 7 and 8. CEO duality becomes significantly positive and all the other results keep the same as the non-matched samples in Tables 5 and 6. Therefore, we reject Hypothesis 1, which postulates that local institutional investors can help to monitor firms. Contrarily, the results illustrate that when the institutions are close to the firms, the firms are less monitored.

To discern the true relationship between corporate governance and the geographic proximity of a firm to its institutions, we use Models 3 and 4 including interaction terms of the local dummy

with blockholder ownership, cash ratio, firm size, sales growth ratio, firm age, and firm risk on top of Models 1 and 2. The results of unmatched samples appear in the even columns of Tables 5 and 6, while the matched results appear in the even columns of Tables 7 and 8.

In Table 5, comparing to the results of Model 1, the estimates of the local dummy in Model 3, changed from insignificant to significantly negative at the 5% level for the Antitakeover index and from significantly positive to insignificant for the Entrenchment index. The coefficients of the interaction terms provide more evidence on the relationship between local dummy and governance in different firms. For example, when the firms are in proximity of their institutional investors, the results show that the higher the cash ratio, the more antitakeover and entrenchment provisions are implemented. Blockholder ownership plays a vital role in the GIM index because an increase in block ownership is associated with a 1.139¹ decrease in provision use if the local dummy equals one. Comparing the even columns to the odd columns in Table 6, the coefficient of staggered board loses its significance while showing a statistically significant relationship with cash ratio interaction terms.

After the PSM procedure, the results of Models 3 and 4 using the matched samples in Tables 7 and 8 are consistent with Tables 5 and 6. Compare Model 3 with Model 1 in Table 7, the coefficient of the Antitakeover Index becomes negatively significant, having significant positive coefficients on cash ratio interaction term and size interaction term at the 1% level. In summary, these findings demonstrate that when firms have local institutional investors, governance is weaker in all the levels, but the external governance is stronger when the firm characteristics are included in the model.

¹ When local dummy equals 1 and when Blockholder ownership increases by 1%, an increase of $1.603 + (-2.742) = -1.139$ will be in the GIM index.

5. Local Institutions and the Governance of Firms

In Table 7, the significant negative coefficient on the Antitakeover Index demonstrates that when investors are located locally, they will adopt fewer anti-takeover defence provisions. The coefficient of the internal governance, on the other hand, is positive at the 1% significant level, which shows that the board is weaker when the firms and institutions are close. This positive correlation with internal governance is consistent with the result of the Board Independence in Table 8. On the other hand, staggered board has a significantly negative coefficient which is coherent with the coefficient of Antitakeover Index, because staggered board is acknowledged as an anti-takeover provision, and it is also the only one, out of the five individual variables, as a component in the external indices. Overall, the results reveal that when the institutions are close to the firms, the board is less independent, and classified board structure is less likely to happen. These results show that the firms with local institutions, have better external governance, but worse internal governance.

When it comes to Hypothesis 2, which claims that some firm characteristics (size, sales growth rate, cash ratio, blockholder ownership, firm age, and firm risk) affect the corporate governance of local institutions (even columns in Table 7), the results continually indicate opposite effects to external indices and internal index. For example, the coefficients of cash ratio interaction term on the two external indices are significantly positive, but the coefficient is negative on the internal index. Similarly, the coefficients of size interaction term are opposite on external and internal indices. These results show that local institutional investors' presence improves internal governance (stronger boards), but deteriorate external governance (more governance provisions) when the firms are larger and when their cash ratio is higher.

With the finding that remotely located firms accumulate cash to increase their private benefits, Boubaker et al. (2015) acknowledge that there are bigger agency conflicts, and it is less effective to monitor those firms because of the lower observability of managerial actions due to the remoteness. Gaspar & Massa (2007) and Kahn & Winton (1998) report that local ownership has a positive impact on governance and that larger firms intervene more because the cost of acquiring information is lower. Based on our results, which are the positive effect on internal governance and adverse effect on external governance for large local firms and high-cash-ratio local firms, we believe the findings of information asymmetry in these two articles apply to internal governance, not external governance.

The results of individual mechanisms in even columns of Table 8 also provide backup results for the adverse effects of local firm characteristics to internal and external governance. The results show that when the local firms are large, the boards of these firms are smaller and more independent, but the local firms are more likely to have a classified board. Similarly, local firms with higher cash ratios have less possibility of having a CEO as a board chair but present a higher chance of having a staggered board. As mentioned earlier, except for staggered board, which is an anti-takeover provision to protect the firms from unwanted external acquisitions, all the other four mechanisms (board independent, board size, CEO duality and dual-class) are internal governance mechanisms. This classification can explain why most of the coefficients of the staggered board and the external index go in the same direction, while the other four individual provisions and the internal index go in the opposite direction.

Because large shareholders are believed to be active and effective monitors to the managers (Shleifer & Vishny, 1986), Berger et al. (1997) assign a dummy variable that equals one if a firm has more than one blockholder, when investigating the relationship between managerial

entrenchment and capital structure. They use this dummy as an inverse measure of managerial entrenchment. In column (2) of Table 7, the coefficient of the interaction term of blockholder ownership is significantly negative on the GIM index, while others remain insignificant.

In summary, the results in Table 7 & 8 partially demonstrate that Hypothesis 2 is correct: with local investors, firms have better internal governance, but worse external governance when they are larger in size and have a higher cash ratio. Additionally, firms possess a lower chance of having classified boards with a higher blockholder ownership.

Finally, we turn to the analysis of Hypothesis 3, which explores the relationship between external and internal governance mechanisms. Hadlock & Lumer (1997) and Mikkelsen & Partch (1997) suggest that internal and external governance mechanisms are complements, while others (Gillan et al., 2011; Guo et al., 2015) argue that external and internal governance are substitutes. We run a regression of the GIM index and external indices on internal index board characteristics in Table 9. Before adding the interaction term of board characteristics and local dummy, the result shows no relationship between external and internal governance. When we include the interaction term, although the coefficients are positively significant on the Entrenchment index, the impact of board characteristics is very close to zero when the local dummy equals one (0.011 on EI)². Moreover, when the institutions are far from the firms, there is no significant relationship between internal and external governance. Considering the results in Tables 7 and 8, we believe a substitution relationship exists between internal and external governance. Specifically, firms with local investors have better external governance and weaker internal governance. At the same time, if the firms are large and have a high cash ratio, they will strengthen the board of council and allow less anti-takeover provisions.

² When local dummy equals 1 and when Board Characteristics increases by 1, a change of $-0.047+0.058=0.011$ will be on the EI.

The result that the boards are weaker when the institutions are close to the firms seems to be counterintuitive. Yes, as some scholars have discussed (Cai et al., 2016; Chhaochharia et al., 2012; Wrigley et al., 2003), being geographically closer to the firms enables the fund managers of institutions to build a personal relationship with the firm executives and officials. Such a situation lowers the cost of acquiring information and bridges the gap of information asymmetry. As a result, institutions are more likely to learn about the underlying events or changes happening in the firms through their local community, thereby influencing the firms' decisions through networking and personal connection. It makes being active on the board not that necessary, which leads to a weaker board. Because of the substitution effect, the strong external governance substitutes the weak internal governance.

6. Robustness Tests

6.1 Endogeneity concerns

In the corporate governance area, endogeneity is always a key point that requires attention. We perform a logit regression of local dummy on the governance indices. The results are presented in Table 10. The significant coefficients show that there is a possible causality issue in the model. To exclude this issue and omit variable concern, we use two stage-least squares (2SLS) and instrumental variables (IV). Although Gaspar & Massa (2007) state that proximity is reasonably exogenous, Boubaker et al. (2015) and Huang & Kang (2017) show that from the perspective of information advantage, remoteness from metropolitan cities also plays an important role in getting access to information. Moreover, Cai et al. (2016) present that besides proximity, the urban location of firms also plays a vital role in monitoring because soft information in

M&A transactions are hard to codify and transmit. Hence, following previous research (Ayers et al., 2011; Gaspar & Massa, 2007; Mazur et al., 2018), we use the metropolitan dummy which equals one if the firm is located in the 25 biggest metropolitan cities in the States, and the remote dummy for a firm located more than 250 km away from any of the 25 cities as the instrumental variables.

The results are shown in Table 11. Regressions (1), (3), (5), and (7) present the estimated local dummy from first-stage regression using the two instrumental variables. Regressions (2), (4), (6), and (8) show the results from the second-stage regressions of the governance indices on the estimated local dummy. The control variables are the same as those in the regressions in Table 7. We also perform a Wu-Hausman test on the regressions for an endogenous check. The null hypothesis is that the local dummy is exogenous. The results in the last row of Table 11 show that all the p-values are higher than 10%, which means that there is no endogeneity concern.

6.2 Other robustness tests

To ensure that the result is not limited to the conditions set in the model, we perform several robustness tests. We change the definition of the local dummy from quintile to quartile. The local dummy equals one if the mean distance between the three largest institutions and the firms is less than the first quartile, and it equals zero if the mean distance is in the lower quartile. The result is in Table 12 (Panel A).

In October 2000, the Regulation Fair Disclosure (Reg FD) was implemented to prevent listed companies from disclosing selective information. Bernile et al. (2014) suggest that the informational advantages for local institutional investors has declined after the adoption of Reg FD. In a subsequent article, Bernile et al. (2016) further validate their previous findings and argue

for a local information advantage decline after the year 2000. Huang & Kang (2017) contend that the spatial concentration of institutional investors mitigates the information asymmetry of the firms and that the concentration increases monitoring effectiveness. They only include observations after the implementation of the Regulation Fair Disclosure (October 2000) to confirm that institutional shareholders' geographic concentration is a cause of better corporate governance instead of the information advantage that is used to better-performing stocks. Hence, we limit the samples to post 2000 in Panel B.

Next, since we believe that local institutions use various approaches to receive private and soft information and since technology firms are regarded as better at acquiring all kinds of information, we use only the technology firms for the robustness test. Following Barton & Waymire (2004) and Laitinen (2002) we use the 3-digit SIC code³ to sort out technology firms samples. The results are in Panel C.

The results in Table 12 are robust to all the changes, especially the Antitakeover Index. The signs of the coefficients for the local dummy in the regression of AI and BC are continuously opposite, with negative coefficients in the AI regression and positive coefficients in the BC regression. These results are consistent with our findings in Table 7.

7. Conclusion

In this thesis, we have investigated the effect of geographic proximity between institutional investors and firms on corporate governance. It is documented by the scholars that compared to

³ We define technology firms as those in the following industries: computer equipment (357), software (737), medical technology (38, 873), communication (36, 481, 489), electrical work (173), and other (261, 286, 287, 289, 34, 351-356, 358-359, 371-373, 482, 491, 493, 781, 762, 871).

the non-local investors, the locals have the information advantage, which can help them to monitor the firms more effectively and efficiently. Moreover, we have further studied the different impacts by dividing corporate governance into internal and external two kinds. For the best of our knowledge, this thesis is the first study to investigate the relationship between local investors and corporate governance on internal and external level. We also provide evidence for the substitution theory between internal and external governance while studying the firms with local institutional investors.

The results demonstrate that the firms with local investors have weaker board of directors but, comparatively, superior external governance, especially in the antitakeover measure use. In our study, there is a clear pattern for the substitution relationship between internal and external governance because the coefficients of the internal and external indices always have opposite signs. This substitute effect is even stronger in the firms with a smaller size and a lower cash ratio. The reason for the weak internal governance could be that institutions can affect local firms' decisions through their personal relationships with the executive team of the firms since the local investors have more opportunities to build connections with the managers in business and other kinds of occasions. Plus, the threat from the market for corporate control to take over the firms also gives the managers a good amount of stress to operate the firms well. We also studied using individual governance mechanisms to have a closer look at the influence of local investors on corporate governance. The results again support the substitution relationship.

There are several aspects of future investigation. First, a more apparent distinction and better proxies of external and internal governance might improve the research accuracy. Second, more updated data in geographic proximity would enable the results to capture the evolving trends. Lastly, a more effective model can be used to tackle the endogeneity problem.

Reference

Aggarwal, R., Erel, I., Ferreira, M., & Matos, P. (2011). Does governance travel around the world? Evidence from institutional investors. *Journal of Financial Economics*, *100*(1), 154–181. <https://doi.org/10.1016/j.jfineco.2010.10.018>

Aggarwal, R., Erel, I., Stulz, R. M., & Williamson, R. (2007). Do U.S. Firms Have the Best Corporate Governance? A Cross-Country Examination of The Relation Between Corporate Governance and Shareholder Wealth. *NBER WORKING PAPER SERIES*. <http://www.nber.org/papers/w12819>

Aggarwal, R., Erel, I., Stulz, R., & Williamson, R. (2009). Differences in Governance Practices between U.S. and Foreign Firms: Measurement, Causes, and Consequences. *Review of Financial Studies*, *22*(8), 3131–3169. <https://doi.org/10.1093/rfs/hhn107>

Aggarwal, R., & Williamson, R. (2006). Did New Regulations Target the Relevant Corporate Governance Attributes? *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.859264>

Aktas, N., Andreou, P. C., Karasamani, I., & Philip, D. (2019). CEO Duality, Agency Costs, and Internal Capital Allocation Efficiency. *British Journal of Management*, *30*(2), 473–493. <https://doi.org/10.1111/1467-8551.12277>

Allegrini, M., & Greco, G. (2013). Corporate boards, audit committees and voluntary disclosure: Evidence from Italian Listed Companies. *Journal of Management & Governance*, *17*(1), 187–216. <https://doi.org/10.1007/s10997-011-9168-3>

Altman, E. I. (1968). Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy. *The Journal of Finance*, *23*(4), 589–609. JSTOR. <https://doi.org/10.2307/2978933>

Ayers, B. C., Ramalingegowda, S., & Yeung, P. E. (2011). Hometown advantage: The effects of monitoring institution location on financial reporting discretion. *Journal of Accounting and Economics*, *52*(1), 41–61. <https://doi.org/10.1016/j.jacceco.2011.03.003>

- Barber, B. M., & Odean, T. (2008). All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors. *Review of Financial Studies*, 21(2), 785–818. <https://doi.org/10.1093/rfs/hhm079>
- Barton, J., & Waymire, G. (2004). Investor protection under unregulated financial reporting. *Journal of Accounting and Economics*, 38, 65–116. <https://doi.org/10.1016/j.jacceco.2004.06.001>
- Bebchuk, L. A., Coates IV, J. C., & Subramanian, G. (2002). The Powerful Antitakeover Force of Staggered Boards: Theory, Evidence and Policy. <https://www.nber.org/papers/w8974>
- Bebchuk, L., Cohen, A., & Ferrell, A. (2009). What Matters in Corporate Governance? *Review of Financial Studies*, 22(2), 783–827. <https://doi.org/10.1093/rfs/hhn099>
- Berger, P. G., Ofek, E., & Yermack, D. L. (1997). Managerial Entrenchment and Capital Structure Decisions. *The Journal of Finance*, 52(4), 1411–1438. <https://doi.org/10.1111/j.1540-6261.1997.tb01115.x>
- Bernile, G., Kumar, A., & Sulaeman, J. (2014). Leveling the Playing Field: Financial Regulation and Disappearing Local Bias of Institutional Investors. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1808123>
- Bernile, G., Kumar, A., Sulaeman, J., & Wang, Q. (Emma). (2016). Has local informational advantage disappeared? *Research Collection Lee Kong Chian School Of Business*, 56. https://ink.library.smu.edu.sg/lkcsb_research/5218
- Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 14, 257–273.
- Boubaker, S., Derouiche, I., & Lasfer, M. (2015). Geographic location, excess control rights, and cash holdings. *International Review of Financial Analysis*, 42, 24–37. <https://doi.org/10.1016/j.irfa.2014.07.008>
- Brickley, J. A., Coles, J. L., & Terry, R. L. (1994). Outside directors and the adoption of poison pills. *Journal of Financial Economics*, 35, 371–390.

- Brown, L. D., & Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of Accounting and Public Policy*, 25(4), 409–434. <https://doi.org/10.1016/j.jaccpubpol.2006.05.005>
- Bushee, B. J., Carter, M. E., & Gerakos, J. (2014). Institutional Investor Preferences for Corporate Governance Mechanisms. *Journal of Management Accounting Research*, 26(2), 123–149. <https://doi.org/10.2308/jmar-50550>
- Byun, H. S., Lee, J. H., & Park, K. S. (2012). How Does Product Market Competition Interact with Internal Corporate Governance?: Evidence from the Korean Economy. *Asia-Pacific Journal of Financial Studies*, 41(4), 377–423. <https://doi.org/10.1111/j.2041-6156.2012.01077.x>
- Cai, Y., Tian, X., & Xia, H. (2016). Location, Proximity, and M&A Transactions: Location, Proximity, and M&A Transactions. *Journal of Economics & Management Strategy*, 25(3), 688–719. <https://doi.org/10.1111/jems.12159>
- Chen, X., Harford, J., & Li, K. (2007). Monitoring: Which institutions matter? *Journal of Financial Economics*, 86(2), 279–305. <https://doi.org/10.1016/j.jfineco.2006.09.005>
- Chhaochharia, V., Kumar, A., & Niessen-Ruenzi, A. (2012). Local investors and corporate governance. *Journal of Accounting and Economics*, 54(1), 42–67. <https://doi.org/10.1016/j.jacceco.2012.03.002>
- Coval, J. D., & Moskowitz, T. J. (1999). Home Bias at Home: Local Equity Preference in Domestic Portfolios. *The Journal of Finance*, 54(6), 2045–2073. <https://doi.org/10.1111/0022-1082.00181>
- Coval, J. D., & Moskowitz, T. J. (2001). The Geography of Investment: Informed Trading and Asset Prices. *Journal of Political Economy*, 109(4), 811–841. <https://doi.org/10.1086/322088>
- Cremers, K. J. M., & Nair, V. B. (2005). Governance Mechanisms and Equity Prices. *The Journal of Finance*, 60(6), 2859–2894. <https://doi.org/10.1111/j.1540-6261.2005.00819.x>
- Duru, A., Iyengar, R. J., & Zampelli, E. M. (2016). The dynamic relationship between CEO duality and firm performance: The moderating role of board independence. *Journal of Business Research*, 69(10), 4269–4277. <https://doi.org/10.1016/j.jbusres.2016.04.001>

Fracassi, Cesare (2017). Corporate Finance Policies and Social Networks. *Management Science* 63(8):2420-2438. <https://doi.org/10.1287/mnsc.2016.2433>

Gao, X., & Jia, Y. (2016). Internal Control over Financial Reporting and the Safeguarding of Corporate Resources: Evidence from the Value of Cash Holdings. *Contemporary Accounting Research*, 33(2), 783–814. <https://doi.org/10.1111/1911-3846.12164>

Gaspar, J.-M., & Massa, M. (2007). Local ownership as private information: Evidence on the monitoring-liquidity trade-off. *Journal of Financial Economics*, 83(3), 751–792. <https://doi.org/10.1016/j.jfineco.2005.10.010>

Gillan, S. L., Hartzell, J. C., & Starks, L. T. (2011). Tradeoffs in corporate governance: Evidence from board structures and charter provisions. *The Quarterly Journal of Finance*, 01(04), 667–705. <https://doi.org/10.1142/S2010139211000183>

Gompers, P. A., Ishii, J., & Metrick, A. (2010). Extreme Governance: An Analysis of Dual-Class Firms in the United States. *Review of Financial Studies*, 23(3), 1051–1088. <https://doi.org/10.1093/rfs/hhp024>

Gompers, P., Ishii, J., & Metrick, A. (2003). CORPORATE GOVERNANCE AND EQUITY PRICES. *The Quarterly Journal of Economics*, 118(1), 107–156. <https://doi.org/10.1162/00335530360535162>

Guo, L., Lach, P., & Mobbs, S. (2015). Tradeoffs between Internal and External Governance: Evidence from Exogenous Regulatory Shocks. *Financial Management*, 44(1), 81–114. <https://doi.org/10.1111/fima.12066>

Hadlock, C. J., & Lumer, G. B. (1997). Compensation, Turnover, and Top Management Incentives: Historical Evidence. *The Journal of Business*, 70(2), 153–187. <https://doi.org/10.1086/209714>

Hamberg, M., Mavruk, T., & Sjögren, S. (2013). Investment allocation decisions, home bias and the mandatory IFRS adoption. *Journal of International Money and Finance*, 36, 107–130. <https://doi.org/10.1016/j.jimonfin.2013.04.001>

- Hau, H. (2001). Location Matters: An Examination of Trading Profits. *The Journal of Finance*, 56(5), 1959–1983. <https://doi.org/10.1111/0022-1082.00396>
- Hermalin, B. E., & Weisbach, M. S. (1998). Endogenously Chosen Boards of Directors and Their Monitoring of the CEO. *The American Economic Review*, 88(1), 96–118. JSTOR. <https://www.jstor.org/stable/116820>
- Hermalin, B. E., & Weisbach, M. S. (2012). Information Disclosure and Corporate Governance. *The Journal of Finance*, 67(1), 195–233. <https://doi.org/10.1111/j.1540-6261.2011.01710.x>
- Huang, X., & Zhang, L. (2017). Do Geographic Concentration of Institutional Shareholders Affect Compensation Structure and Enhance Innovation?
- Huberman, G. (2001). Familiarity Breeds Investment. *The Review of Financial Studies*, 14(3), 22.
- Huson, M. R., Parrino, R., & Starks, L. T. (2001). Internal Monitoring Mechanisms and CEO Turnover: A Long-Term Perspective. *The Journal of Finance*, 56(6), 2265–2297. <https://doi.org/10.1111/0022-1082.00405>
- Hutchinson, Marion (2001), Firm risk, corporate governance and firm performance, in *Governance and corporate social responsibility in the new millennium: Governance and Social Responsibility Conference : proceedings of the 2001 Conference, 26th & 27th November 2001*, School of Accounting and Finance, Deakin University, Burwood, Vic., 1-16.
- Ivashina, V., Nair, V. B., Saunders, A., Massoud, N., & Stover, R. (2009). Bank Debt and Corporate Governance. *Review of Financial Studies*, 22(1), 41–77. <https://doi.org/10.1093/rfs/hhn063>
- Ivković, Z., & Weisbenner, S. (2005). Local Does as Local Is: Information Content of the Geography of Individual Investors' Common Stock Investments. *The Journal of Finance*, 60(1), 267–306. <https://doi.org/10.1111/j.1540-6261.2005.00730.x>

- Jensen, M. C. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance*, 48(3), 831–880. <https://doi.org/10.1111/j.1540-6261.1993.tb04022.x>
- Kahn, C., & Winton, A. (1998). Ownership Structure, Speculation, and Shareholder Intervention. *The Journal of Finance*, 53(1), 99–129. <https://doi.org/10.1111/0022-1082.45483>
- Kieschnick, Robert. (2018). Firm age, corporate governance, and capital structure choices. *Journal of Corporate Finance*, 48, 597-614. <https://doi.org/10.1016/j.jcorpfin.2017.12.011>
- Laitinen, E. K. (2002). Financial Rating of European Technology Companies: An International Comparison. *Journal of Business Finance & Accounting*, 29(7–8), 871–901. <https://doi.org/10.1111/1468-5957.00454>
- Li, D., & Li, E. X. N. (2018). Corporate Governance and Costs of Equity: Theory and Evidence. *Management Science*, 64(1), 83–101. <https://doi.org/10.1287/mnsc.2016.2570>
- Liu, C., Chung, C. Y., Sul, H. K., & Wang, K. (2018). Does hometown advantage matter? The case of institutional blockholder monitoring on earnings management in Korea. *Journal of International Business Studies*, 49(2), 196–221. <https://doi.org/10.1057/s41267-017-0093-9>
- Mazur, M., Salganik-Shoshan, G., Walker, T., & Wang, J. (2018). Proximity and litigation: Evidence from the geographic location of institutional investors. *Journal of Financial Markets*, 40, 60–74. <https://doi.org/10.1016/j.finmar.2018.05.002>
- Mikkelson, W. H., & Partch, M. M. (1997). The Decline of takeovers and disciplinary managerial turnover. *Journal of Financial Economics*, 44(2), 205–228. [https://doi.org/10.1016/S0304-405X\(97\)00003-2](https://doi.org/10.1016/S0304-405X(97)00003-2)
- Petersen, M. A., & Rajan, R. G. (2002). Does Distance Still Matter? The Information Revolution in Small Business Lending. *The Journal of Finance*, 57(6), 2533–2570. <https://doi.org/10.1111/1540-6261.00505>

Rosenbaum, P. R., & Rubin, D. B. (1985). Constructing a Control Group Using Multivariate Matched Sampling Methods That Incorporate the Propensity Score. *The American Statistician*, 39(1), 33–38. <https://doi.org/10.1080/00031305.1985.10479383>

Shailer, G. E. P. (2004). *An Introduction to Corporate Governance in Australia* (Pearson Education Australia, New South Wales)

Shleifer, A., & Vishny, R. W. (1986). Large Shareholders and Corporate Control. *Journal of Political Economy*, 94(3, Part 1), 461–488. <https://doi.org/10.1086/261385>

Weir, C., Laing, D., & McKnight, P. J. (2002). Internal and External Governance Mechanisms: Their Impact on the Performance of Large UK Public Companies. *Journal of Business Finance & Accounting*, 29(5–6), 579–611. <https://doi.org/10.1111/1468-5957.00444>

Wikipedia contributors. (2020, July 25). Corporate governance. In Wikipedia, The Free Encyclopedia. Retrieved 19:04, July 26, 2020, from https://en.wikipedia.org/w/index.php?title=Corporate_governance&oldid=969427966

Wrigley, N., Currah, A., & Wood, S. (2003). Investment Bank Analysts and Knowledge in Economic Geography. *Environment and Planning A: Economy and Space*, 35(3), 381–387. <https://doi.org/10.1068/a3638>

Table 1: Sample Overview: Variables by Year

Year	Independent Variable		General Governance Index		External Governance Index				Internal Governance Index				Individual Mechanisms							
	Distance (in 100s of miles)		GIM-Index		Antitakeover Index		Entrenchment Index		Board Characteristics		Board Independence		Board Size		CEO Duality		Dual Class		Staggered Board	
	mean	median	mean	median	mean	median	mean	median	mean	mean	mean	median	mean	median	mean	median	mean	median	mean	median
1993	12.154	12.535	8.769	9	1.308	1	1.769	1	.	.	.	.	.	.	.	.	0.462	0	0.154	0
1995	11.501	13.596	8.483	8	1.172	1	1.552	1	.	.	.	.	.	.	.	.	0.414	0	0.138	0
1996	12.589	14.303	.	.	.	.	.	.	1.562	1	0.535	0.519	9.25	9	0.562	1	.	.	.	.
1997	10.895	7.96	.	.	.	.	.	.	1.672	2	0.577	0.571	9.082	9	0.59	1	.	.	.	.
1998	13.5	15.239	7.603	7	1.052	1	1.466	1	1.789	2	0.57	0.571	8.561	8	0.807	1	0.397	0	0.19	0
1999	12.393	13.609	.	.	.	.	.	.	1.392	1	0.601	0.625	8.679	8	0.804	1	.	.	.	.
2000	12.933	14.885	8.493	8	1.442	1	2	2	1.792	2	0.61	0.636	8.641	8	0.788	1	0.521	1	0.126	0
2001	13.762	16.596	.	.	.	.	.	.	1.665	2	0.633	0.667	8.259	8	0.778	1	.	.	.	.
2002	13.709	15.801	8.688	9	1.762	2	2.123	2	1.635	2	0.651	0.667	8.374	8	0.831	1	0.565	1	0.115	0
2003	12.914	14.475	.	.	.	.	.	.	1.603	2	0.689	0.714	8.444	8	0.782	1	.	.	.	.
2004	13.211	15.754	8.785	9	1.774	2	2.222	2	1.525	1	0.708	0.714	8.711	8.5	0.77	1	0.567	1	0.088	0
2005	12.842	14.787	.	.	.	.	.	.	1.34	1	0.724	0.75	8.684	9	0.709	1	.	.	.	.
2006	13.539	16.728	8.61	8.5	1.649	2	2.058	2	1.386	1	0.727	0.75	8.943	9	0.642	1	0.516	1	0.101	0
2007	13.538	16.879	8.49	8	1.31	1	3.957	4	1.337	1	0.764	0.8	8.423	8	0.669	1	0.524	1	0.08	0
2008	12.917	15.092	8.732	9	1.276	1	3.842	4	1.395	1	0.766	0.778	8.698	8	0.707	1	0.543	1	0.081	0
2009	13.3	16.388	8.777	9	1.231	1	3.604	4	1.364	1	0.771	0.8	8.671	9	0.676	1	0.511	1	0.076	0
2010	13.2	16.69	8.783	9	1.184	1	4.067	4	1.361	1	0.779	0.8	8.568	8	0.705	1	0.491	0	0.064	0
2011	12.927	15.104	8.742	9	1.171	1	3.648	4	1.275	1	0.785	0.8	8.826	9	0.575	1	0.456	0	0.07	0
2012	12.625	13.765	8.781	9	1.14	1	3.57	4	1.245	1	0.794	0.818	8.969	9	0.598	1	0.416	0	0.052	0
2013	12.515	11.671	9.01	9	1.082	1	3.44	3	1.336	1	0.8	0.833	9.101	9	0.616	1	0.392	0	0.06	0
2014	12.989	15.367	8.851	9	1.05	1	3.382	3	1.231	1	0.791	0.818	9.118	9	0.576	1	0.315	0	0.071	0

Year	Control Variables																					
	Blockholder Ownership (%)		Cash Ratio		Size (log (Total Assets), \$million)		Sales Growth Ratio		ROA		MB		Fixed Asset Ratio		Leverage Ratio		Bad Z-Score		Firm Age		Firm Risk	
	mean	median	mean	median	mean	median	mean	median	mean	mean	median	mean	median	mean	median	mean	median	mean	median	mean	median	mean	median
1993	0.17	0.145	0.172	0.152	6.766	6.75	0.132	0.097	0.074	0.064	1.611	1.333	0.273	0.25	0.169	0.147	0	0	15.615	20	2.564	2.715
1995	0.158	0.132	0.127	0.049	6.889	7.147	0.114	0.082	0.073	0.06	1.456	1.303	0.29	0.266	0.184	0.157	0.034	0	20.517	22	2.44	2.406
1996	0.176	0.142	0.182	0.048	6.792	6.876	0.147	0.11	0.092	0.082	2.262	1.233	0.272	0.228	0.177	0.17	0.031	0	24.031	23	2.452	2.363
1997	0.175	0.159	0.108	0.039	6.709	6.55	0.043	0.074	0.045	0.057	1.511	1.23	0.28	0.237	0.211	0.207	0.016	0	24.393	24	2.493	2.343
1998	0.213	0.188	0.162	0.054	6.572	6.435	0.097	0.098	0.045	0.056	2.135	1.53	0.301	0.217	0.194	0.168	0.017	0	19.15	13.5	2.606	2.526
1999	0.198	0.184	0.178	0.079	6.835	6.77	0.09	0.087	0.039	0.065	2.319	1.542	0.284	0.219	0.22	0.191	0.017	0	19.042	14	2.892	2.950
2000	0.193	0.175	0.199	0.082	6.896	6.813	0.131	0.121	0.052	0.057	3.148	1.842	0.265	0.212	0.239	0.212	0.036	0	17.19	11	2.986	3.013
2001	0.201	0.18	0.213	0.097	6.924	6.807	0.181	0.146	0.038	0.061	2.66	1.534	0.247	0.184	0.219	0.172	0.084	0	17.326	11	3.344	3.344
2002	0.205	0.189	0.246	0.159	6.862	6.75	-0.032	0.046	-0.011	0.032	2.226	1.71	0.237	0.182	0.208	0.173	0.059	0	17.14	11	3.127	3.128
2003	0.198	0.183	0.229	0.149	7.046	6.972	-0.036	0.011	0.02	0.038	1.619	1.285	0.255	0.194	0.188	0.162	0.046	0	19.632	13	2.939	2.873
2004	0.182	0.162	0.267	0.194	6.988	6.924	0.074	0.091	0.014	0.042	2.068	1.65	0.222	0.153	0.208	0.202	0.026	0	18.881	12	2.595	2.590
2005	0.223	0.214	0.232	0.181	7.263	7.16	0.148	0.133	0.064	0.063	2.022	1.599	0.235	0.157	0.175	0.165	0.028	0	21.393	14	2.364	2.354
2006	0.23	0.214	0.234	0.169	7.195	7.068	0.109	0.107	0.054	0.059	2.159	1.622	0.23	0.15	0.199	0.165	0.047	0	19.399	13	2.324	2.301
2007	0.243	0.213	0.245	0.207	7.216	7.121	0.122	0.111	0.044	0.054	2.112	1.642	0.207	0.147	0.167	0.132	0.026	0	18.352	13	2.328	2.314
2008	0.257	0.235	0.225	0.172	7.299	7.25	0.104	0.097	0.052	0.058	2.012	1.485	0.203	0.132	0.18	0.158	0.039	0	19.185	13	2.402	2.386
2009	0.266	0.264	0.212	0.168	7.177	7.041	0.05	0.079	-0.001	0.048	1.39	1.116	0.201	0.138	0.184	0.155	0.047	0	20.32	15	3.178	3.119
2010	0.239	0.218	0.243	0.223	7.156	7.017	-0.099	-0.047	0.027	0.04	1.607	1.343	0.205	0.121	0.155	0.117	0.038	0	21.367	16	2.84	2.806
2011	0.237	0.218	0.227	0.202	7.337	7.249	0.117	0.102	0.067	0.065	1.844	1.492	0.211	0.133	0.165	0.126	0.028	0	23.439	17	2.373	2.344
2012	0.253	0.241	0.201	0.146	7.612	7.527	0.098	0.097	0.067	0.064	1.674	1.355	0.226	0.14	0.18	0.151	0.035	0	24.779	19	2.57	2.548
2013	0.262	0.261	0.2	0.155	7.783	7.645	0.039	0.052	0.06	0.056	1.694	1.326	0.213	0.133	0.188	0.161	0.017	0	26.11	20	2.23	2.218
2014	0.272	0.266	0.201	0.173	7.802	7.744	0.039	0.057	0.052	0.056	2.048	1.603	0.226	0.139	0.197	0.178	0.023	0	27.353	21	2.13	2.035

Table 2: Descriptive Statistics

Variables	N	mean	median	sd	min	max
Distance (in 100 of miles)	4,502	13.04	15.25	7.345	1.739	23.68
GIM-Index	2,830	8.698	9	2.488	1	17
Antitakeover Index	3,139	1.335	1	0.877	0	3
Entrenchment Index	3,139	3.089	3	1.366	0	6
Board Characteristics	3,996	1.435	1	0.838	0	5
Board Independence	3,996	0.721	0.75	0.155	0.2	0.923
Board Size	3,996	8.716	9	2.173	5	18
CEO Duality	3,996	0.696	1	0.46	0	1
Dual Class	3,139	0.481	0	0.5	0	1
Staggered Board	3,139	0.084	0	0.278	0	1
Blockholder Ownership (%)	4,502	0.228	0.211	0.127	0.051	0.632
Cash Ratio	4,502	0.219	0.155	0.207	0	0.899
Size (log(Total Asset), million)	4,502	7.202	7.06	1.396	3.12	11.29
Sales Growth Ratio	4,502	0.070	0.085	0.216	-1.126	0.704
ROA	4,502	0.041	0.055	0.122	-0.986	0.307
MB	4,502	2.013	1.473	1.696	0.149	11.69
Fixed Asset Ratio	4,502	0.231	0.16	0.202	0	0.888
Leverage Ratio	4,502	0.191	0.161	0.186	0	0.989
Bad Z-Score	4,502	0.036	0	0.187	0	1
Firm Age	4,502	20.87	15	17.44	0	88
Firm Risk	4,502	2.645	2.561	0.613	1.537	4.458

Table 3: Univariate Test

	Non-local			Local			Equality Tests (P-value)	
	N	Mean	Median	N	Mean	Median	T-test	Wilcoxon
GIM-Index	1,449	8.292	8	945	9.061	9	0.000***	0.000***
Antitakeover Index	1,597	1.329	1	1,039	1.317	1	0.727	0.953
Entrenchment Index	1,597	2.974	3	1,039	3.242	3	0.000***	0.000***
Board Characteristics	2,015	1.361	1	1,297	1.513	2	0.000***	0.000***
Board Independence	2,015	0.722	0.75	1,297	0.72	0.75	0.673	0.5524
Board Size	2,015	8.229	8	1,297	9.281	9	0.000***	0.000***
CEO Duality	2,015	0.668	1	1,297	0.72	1	0.002***	0.002***
Dual Class	1,597	0.433	0	1,039	0.541	1	0.000***	0.000***
Staggered Board	1,597	0.042	0	1,039	0.14	0	0.000***	0.000***
Blockholder Ownership (%)	2,317	0.234	0.217	1,428	0.223	0.202	0.015**	0.002***
Cash Ratio	2,317	0.275	0.243	1,428	0.16	0.096	0.000***	0.000***
Size	2,317	7.079	6.922	1,428	7.386	7.331	0.000***	0.000***
Sales Growth Ratio	2,317	0.074	0.093	1,428	0.069	0.075	0.503	0.007***
ROA	2,317	0.032	0.053	1,428	0.057	0.06	0.000***	0.000***
MB	2,317	2.172	1.574	1,428	1.882	1.442	0.000***	0.000***
Fixed Asset Ratio	2,317	0.213	0.129	1,428	0.241	0.196	0.000***	0.000***
Leverage Ratio	2,317	0.166	0.106	1,428	0.217	0.205	0.000***	0.000***
Bad Z-Score	2,317	0.035	0	1,428	0.046	0	0.073*	0.073*
Firm Age	2,317	17.52	14	1,428	25.1	18	0.000***	0.000***
Firm Risk	2,317	2.756	2.681	1,428	2.474	2.408	0.000***	0.000***

The symbols ***, **, and * denote significant differences between the local and non-local at the 1%, 5 %, and 10% levels, respectively. Differences in means (medians) are tested using t-tests (Wilcoxon rank sum tests).

Table 4: Correlation Coefficients

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	
Distance	(1)	1																				
GIM-Index	(2)	-0.173***	1																			
Antitakeover Index	(3)	-0.008	0.373***	1																		
Entrenchment Index	(4)	-0.091***	0.453***	0.374***	1																	
Board Characteristics	(5)	-0.097***	0.033	0.039**	-0.112***	1																
Board Independence	(6)	0.016	0.184***	-0.036*	0.322***	-0.468***	1															
Board Size	(7)	-0.237***	0.333***	0.024	0.110***	0.260***	0.125***	1														
CEO Duality	(8)	-0.062***	0.088***	0.032*	-0.051***	0.576***	-0.019	0.073***	1													
Dual Class	(9)	-0.109***	0.359***	0.623***	0.445***	0.054***	-0.063***	0.011	0.021	1												
Staggered Board	(10)	-0.158***	-0.201***	-0.133***	-0.194***	0.173***	-0.266***	0.009	0.066***	-0.076***	1											
Blockholder Ownership (%)	(11)	0.032**	-0.052***	-0.030*	0.153***	-0.170***	0.141***	-0.184***	-0.089***	0.038**	0.028	1										
Cash Ratio	(12)	0.289***	-0.153***	0.035*	-0.037**	-0.121***	0.008	-0.365***	-0.104***	0.007	-0.037**	0.076***	1									
Size (log (AT), million)	(13)	-0.093***	0.211***	-0.116***	0.063***	0.097***	0.244***	0.575***	0.101***	-0.150***	-0.006	-0.220***	-0.309***	1								
Sales Growth Ratio	(14)	0.023	0.01	0.003	-0.034*	0.047***	-0.093***	-0.005	-0.001	0.027	0.008	-0.065***	-0.004	0.037**	1							
ROA	(15)	-0.070***	0.066***	-0.082***	0.037**	0.034**	0.01	0.039**	0.046***	-0.002	-0.016	-0.085***	-0.091***	0.119***	0.269***	1						
MB	(16)	0.106***	-0.084***	0.040**	-0.109***	0.002	-0.097***	-0.211***	0.021	-0.011	0.003	-0.068***	0.411***	-0.177***	0.262***	0.212***	1					
Fixed Asset Ratio	(17)	-0.106***	0.109***	0.024	0.003	0.122***	-0.015	0.251***	0.120***	0.036**	-0.033*	-0.117***	-0.445***	0.231***	-0.034**	0.033**	-0.184***	1				
Leverage Ratio	(18)	-0.161***	0.081***	0.007	-0.031*	0.070***	0.01	0.291***	0.086***	-0.025	0.045**	-0.026*	-0.346***	0.291***	0	-0.163***	-0.133***	0.317***	1			
Bad Z-Score	(19)	-0.024	-0.012	-0.018	-0.022	0.033**	0.037**	0.142***	0.021	-0.047***	-0.003	-0.031**	-0.089***	0.132***	-0.046***	-0.154***	-0.108***	0.142***	0.183***	1		
Firm Age	(20)	-0.207***	0.330***	-0.049***	0.101***	0.028*	0.212***	0.428***	0.080***	-0.151***	-0.071***	-0.147***	-0.301***	0.461***	-0.106***	0.075***	-0.209***	0.275***	0.148***	0.052***	1	
Firm Risk	(21)	0.204***	-0.159***	0.061***	-0.129***	0.011	-0.236***	-0.355***	0.008	0.062***	0.01	0.009	0.313***	-0.387***	-0.01	-0.285***	0.219***	-0.169***	-0.102***	-0.007	0.363***	1

Table 5: OLS Regression Analysis for the Non-matched Samples

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	General Governance Index		External Governance Index				Internal Governance Index	
	GIM Index		Antitakeover Index		Entrenchment Index		Board Characteristics	
Local Dummy	0.223** (0.025)	1.603* (0.064)	0.020 (0.556)	-0.738** (0.016)	0.140*** (0.001)	-0.379 (0.334)	0.131*** (0.000)	0.530** (0.035)
Block. Own * Local Dummy		-2.742*** (0.000)		0.038 (0.880)		-0.391 (0.225)		-0.056 (0.794)
Cash Ratio * Local Dummy		0.734 (0.153)		0.879*** (0.000)		0.985*** (0.000)		-0.212 (0.163)
Size * Local Dummy		-0.129* (0.096)		0.063** (0.020)		0.010 (0.780)		0.071*** (0.002)
Sales Growth Ratio * Local Dummy		-0.250 (0.544)		0.128 (0.391)		0.194 (0.309)		0.135 (0.293)
Firm Age*Local Dummy		-0.008 (0.203)		-0.001 (0.632)		0.008*** (0.004)		0.005*** (0.009)
Firm Risk*Local Dummy		0.094 (0.583)		0.047 (0.446)		0.061 (0.442)		0.022 (0.655)
Blockholder Ownership (%)	0.405 (0.270)	1.635*** (0.001)	-0.051 (0.698)	-0.080 (0.651)	0.580*** (0.001)	0.777*** (0.001)	0.648*** (0.000)	0.619*** (0.000)
Cash Ratio	-0.050 (0.869)	-0.273 (0.435)	0.156 (0.148)	-0.164 (0.191)	0.230* (0.096)	-0.139 (0.388)	-0.118 (0.201)	-0.048 (0.660)
Size	0.044 (0.300)	0.096* (0.069)	-0.039*** (0.007)	-0.064*** (0.000)	-0.044** (0.017)	-0.043* (0.068)	0.066*** (0.000)	0.096*** (0.000)
Sales Growth Ratio	0.092 (0.672)	0.205 (0.439)	0.045 (0.568)	-0.006 (0.950)	0.026 (0.798)	-0.062 (0.624)	0.128* (0.066)	0.072 (0.387)
ROA	0.438 (0.267)	0.370 (0.355)	-0.410*** (0.006)	-0.362** (0.017)	-0.207 (0.280)	-0.142 (0.465)	0.050 (0.708)	0.031 (0.821)
MB	-0.048 (0.181)	-0.042 (0.237)	-0.007 (0.571)	-0.004 (0.751)	-0.035** (0.027)	-0.035** (0.031)	0.009 (0.356)	0.008 (0.419)
Fixed Asset Ratio	0.212 (0.579)	0.202 (0.596)	0.404*** (0.003)	0.392*** (0.004)	0.679*** (0.000)	0.663*** (0.000)	0.364*** (0.001)	0.358*** (0.002)
Leverage Ratio	-0.220 (0.438)	-0.226 (0.427)	-0.084 (0.417)	-0.065 (0.534)	0.014 (0.915)	0.035 (0.791)	-0.181** (0.043)	-0.175* (0.050)
Bad Z-Score	-0.179 (0.456)	-0.128 (0.593)	-0.100 (0.275)	-0.086 (0.346)	0.000 (0.998)	0.015 (0.901)	0.108 (0.167)	0.115 (0.142)
Firm Age	0.038*** (0.000)	0.043*** (0.000)	-0.002 (0.166)	-0.001 (0.692)	-0.000 (0.985)	-0.005** (0.025)	-0.001 (0.362)	-0.004** (0.013)
Firm Risk	-0.202* (0.069)	-0.218 (0.109)	-0.031 (0.449)	-0.062 (0.210)	-0.160*** (0.002)	0.204*** (0.001)	0.008 (0.808)	0.001 (0.989)
Constant	9.569*** (0.000)	8.897*** (0.000)	0.270 (0.753)	0.750 (0.388)	0.971 (0.376)	1.485 (0.182)	1.116 (0.168)	0.957 (0.242)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,781	2,781	3,078	3,078	3,078	3,078	3,932	3,932
Adj. R-squared / Pseudo R-squared	0.227	0.233	0.135	0.142	0.421	0.425	0.117	0.119
P-value > F / Chi ²	0	0	0	0	0	0	0	0

P-values in parentheses, *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$

Table 6: OLS & Logit Regression Analyses for the Non-matched Individual Mechanism Samples

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	OLS				Logit					
	Board Independence		Board Size		CEO Duality		Dual Class		Staggered Board	
Local Dummy	0.014*** (0.003)	-0.079* (0.053)	0.466*** (0.000)	0.431 (0.399)	0.134 (0.117)	0.897 (0.241)	1.505*** (0.000)	2.896* (0.087)	0.495*** (0.000)	-0.806 (0.330)
Block. Own * Local Dummy		0.011 (0.751)		-0.492 (0.263)		-0.180 (0.777)		1.325 (0.335)		-1.350** (0.047)
Cash Ratio * Local Dummy		-0.049** (0.047)		0.196 (0.526)		-1.019** (0.020)		0.941 (0.302)		2.477*** (0.000)
Size * Local Dummy		0.010*** (0.009)		0.150*** (0.001)		0.187*** (0.007)		-0.334** (0.022)		0.126* (0.086)
Sales Growth Ratio * Local Dummy		-0.018 (0.392)		0.314 (0.229)		0.011 (0.977)		-0.523 (0.487)		0.107 (0.792)
Firm Age*Local Dummy		0.000 (0.328)		0.008** (0.039)		0.032*** (0.000)		0.045** (0.013)		0.011* (0.089)
Firm Risk*Local Dummy		-0.001 (0.893)		0.387*** (0.000)		0.067 (0.658)		-0.047 (0.884)		-0.013 (0.940)
Blockholder Ownership (%)	0.131*** (0.000)	0.130*** (0.000)	-0.465** (0.042)	-0.252 (0.411)	-0.274 (0.401)	-0.108 (0.803)	1.485** (0.016)	0.678 (0.564)	0.219 (0.532)	0.891* (0.062)
Cash Ratio	0.021 (0.159)	0.039** (0.027)	0.720*** (0.000)	0.812*** (0.000)	0.681*** (0.009)	-0.355 (0.246)	0.284 (0.602)	-0.193 (0.806)	0.407 (0.154)	-0.475 (0.160)
Size	0.013*** (0.000)	0.010*** (0.000)	0.643*** (0.000)	0.704*** (0.000)	0.176*** (0.000)	0.260*** (0.000)	0.292*** (0.000)	0.505*** (0.000)	0.129*** (0.001)	0.170*** (0.001)
Sales Growth Ratio	0.032*** (0.005)	-0.025* (0.063)	0.191 (0.178)	0.073 (0.666)	-0.157 (0.441)	-0.204 (0.403)	-0.235 (0.540)	-0.001 (0.998)	0.271 (0.200)	0.228 (0.393)
ROA	-0.007 (0.765)	-0.006 (0.772)	-0.425 (0.120)	-0.503* (0.067)	0.857** (0.020)	0.816** (0.029)	-0.853 (0.200)	-0.843 (0.223)	0.145 (0.713)	0.340 (0.401)
MB	0.002 (0.296)	0.001 (0.420)	-0.025 (0.207)	-0.017 (0.402)	0.070** (0.015)	0.059** (0.043)	0.028 (0.643)	0.018 (0.766)	0.112*** (0.001)	0.111*** (0.001)
Fixed Asset Ratio	-0.003 (0.877)	-0.001 (0.943)	0.175 (0.450)	0.113 (0.624)	0.273 (0.430)	0.281 (0.420)	0.099 (0.878)	0.207 (0.747)	1.705*** (0.000)	1.708*** (0.000)
Leverage Ratio	0.015 (0.308)	0.011 (0.435)	0.594*** (0.001)	0.627*** (0.001)	-0.202 (0.442)	-0.202 (0.446)	-0.291 (0.558)	-0.209 (0.678)	-0.688** (0.014)	-0.654** (0.021)
Bad Z-Score	0.008 (0.537)	0.005 (0.668)	0.372** (0.019)	0.386** (0.015)	0.158 (0.504)	0.150 (0.527)	0.285 (0.576)	0.253 (0.630)	-0.594** (0.017)	-0.575** (0.022)
Firm Age	0.001*** (0.000)	0.000* (0.066)	0.014*** (0.000)	0.010*** (0.001)	0.007** (0.019)	0.013*** (0.005)	0.028*** (0.000)	0.066*** (0.000)	0.026*** (0.000)	0.034*** (0.000)
Firm Risk	0.017*** (0.002)	0.017*** (0.007)	0.361*** (0.000)	0.521*** (0.000)	-0.024 (0.811)	-0.061 (0.609)	0.245 (0.215)	0.190 (0.512)	-0.047 (0.668)	-0.072 (0.592)
Constant	0.399*** (0.002)	0.433*** (0.001)	5.740*** (0.001)	5.816*** (0.000)	-1.103 (0.200)	-1.475 (0.110)	6.499*** (0.000)	7.171*** (0.000)	0.867 (0.336)	1.153 (0.243)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,936	3,936	3,932	3,932	3,878	3,878	2,652	2,652	3,005	3,005
Adj. R-squared / Pseudo R-squared	0.314	0.319	0.452	0.457	0.0986	0.107	0.248	0.258	0.120	0.128
P-value > F / Chi ²	0	0	0	0	0	0	0	0	0	0

P-values in parentheses, *** = p < 0.01, ** = p < 0.05, * = p < 0.1

Table 7: OLS Regression Analysis for the PSM Matched Samples

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	General Governance Index		External Governance Index				Internal Governance Index	
	GIM Index		Antitakeover Index		Entrenchment Index		Board Characteristics	
Local Dummy	0.234** (0.039)	1.355 (0.181)	0.041 (0.284)	-0.880** (0.011)	0.147*** (0.003)	-0.625 (0.163)	0.178*** (0.000)	0.510* (0.079)
Block. Own * Local Dummy		-2.865*** (0.000)		-0.074 (0.794)		-0.506 (0.165)		0.006 (0.981)
Cash Ratio * Local Dummy		0.671 (0.251)		0.934*** (0.000)		1.042*** (0.000)		-0.293* (0.083)
Size * Local Dummy		-0.065 (0.473)		0.102*** (0.001)		0.058 (0.145)		-0.064** (0.016)
Sales Growth Ratio * Local Dummy		-0.674 (0.172)		0.060 (0.731)		0.031 (0.890)		0.056 (0.710)
Firm Age*Local Dummy		-0.015** (0.032)		-0.003 (0.256)		0.007** (0.023)		0.005*** (0.007)
Firm Risk*Local Dummy		0.098 (0.624)		0.020 (0.779)		0.037 (0.682)		0.024 (0.674)
Blockholder Ownership (%)	0.343 (0.411)	1.725*** (0.003)	0.028 (0.848)	0.064 (0.752)	0.564*** (0.003)	0.847*** (0.001)	-0.564*** (0.000)	-0.561*** (0.001)
Cash Ratio	-0.146 (0.652)	-0.448 (0.270)	0.064 (0.562)	-0.318** (0.022)	-0.003 (0.984)	-0.449** (0.012)	-0.188** (0.044)	-0.078 (0.514)
Size	0.094* (0.055)	0.114* (0.072)	-0.029* (0.071)	-0.071*** (0.001)	-0.032 (0.129)	-0.050* (0.066)	0.070*** (0.000)	0.098*** (0.000)
Sales Growth Ratio	-0.095 (0.713)	0.270 (0.428)	-0.036 (0.697)	-0.045 (0.721)	-0.070 (0.559)	-0.071 (0.661)	0.228*** (0.005)	0.190* (0.071)
Firm Age	0.033*** (0.000)	0.043*** (0.000)	-0.003** (0.014)	-0.002 (0.424)	-0.002 (0.187)	-0.007*** (0.007)	-0.001 (0.174)	-0.005*** (0.004)
Firm Risk	-0.282** (0.024)	-0.317** (0.046)	-0.011 (0.797)	-0.032 (0.559)	-0.129** (0.025)	-0.168** (0.018)	0.030 (0.416)	0.019 (0.677)
Constant	5.298** (0.024)	5.103** (0.032)	2.809*** (0.001)	3.227*** (0.000)	3.822*** (0.001)	4.295*** (0.000)	2.076*** (0.001)	1.921*** (0.002)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
PSM	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,082	2,082	2,410	2,410	2,410	2,410	3,096	3,096
Adj. R-squared	0.219	0.226	0.128	0.137	0.406	0.411	0.116	0.118
P-value > F	0	0	0	0	0	0	0	0

P-values in parentheses, *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$

Table 8: OLS & Logit Regression Analyses for the PSM Matched Individual Mechanism Samples

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	OLS				Logit					
VARIABLES	Board Independence		Board Size		CEO Duality		Dual Class		Staggered Board	
Local Dummy	-0.015*** (0.004)	-0.127*** (0.007)	0.520*** (0.000)	-0.093 (0.877)	0.255** (0.023)	0.776 (0.473)	1.544*** (0.000)	2.226 (0.269)	0.546*** (0.000)	-1.788* (0.063)
Block. Own * Local Dummy		0.029 (0.472)		-0.071 (0.890)		0.107 (0.900)		1.864 (0.259)		-1.238 (0.110)
Cash Ratio * Local Dummy		-0.066** (0.017)		0.271 (0.442)		-1.356** (0.024)		1.835* (0.097)		2.585*** (0.000)
Size * Local Dummy		0.012*** (0.004)		-0.101* (0.068)		-0.099 (0.302)		-0.230 (0.187)		0.260*** (0.002)
Sales Growth Ratio * Local Dummy		-0.016 (0.504)		0.329 (0.293)		-0.280 (0.599)		0.516 (0.589)		-0.300 (0.537)
Firm Age*Local Dummy		-0.000 (0.992)		0.008* (0.074)		0.028*** (0.000)		0.031 (0.112)		0.002 (0.738)
Firm Risk*Local Dummy		0.011 (0.225)		0.432*** (0.000)		-0.049 (0.821)		-0.148 (0.700)		0.063 (0.742)
Blockholder Ownership (%)	0.129*** (0.000)	0.119*** (0.000)	-0.369 (0.158)	-0.355 (0.329)	-0.578 (0.177)	-0.558 (0.347)	1.343* (0.052)	-0.080 (0.956)	0.475 (0.228)	1.161** (0.037)
Cash Ratio	0.023 (0.131)	0.055*** (0.005)	-1.090*** (0.000)	-1.236*** (0.000)	-0.438 (0.173)	0.088 (0.830)	0.148 (0.781)	-1.116 (0.246)	-0.103 (0.724)	-1.170*** (0.002)
Size	0.017*** (0.000)	0.011*** (0.000)	0.685*** (0.000)	0.730*** (0.000)	0.140*** (0.004)	0.190*** (0.002)	0.117 (0.186)	0.271* (0.060)	-0.122*** (0.006)	-0.226*** (0.000)
Sales Growth Ratio	-0.041*** (0.002)	-0.033* (0.052)	0.149 (0.375)	0.014 (0.950)	0.339 (0.233)	0.428 (0.257)	-0.411 (0.350)	-0.831 (0.310)	0.302 (0.225)	0.512 (0.140)
Firm Age	0.001*** (0.000)	0.001** (0.027)	0.011*** (0.000)	0.008** (0.024)	0.003 (0.512)	-0.014** (0.014)	-0.029*** (0.000)	-0.054*** (0.003)	-0.031*** (0.000)	-0.034*** (0.000)
Firm Risk	-0.016*** (0.006)	-0.021*** (0.003)	-0.270*** (0.000)	-0.468*** (0.000)	-0.266* (0.056)	-0.245 (0.157)	0.283 (0.195)	0.305 (0.379)	-0.134 (0.272)	-0.203 (0.188)
Constant	0.381*** (0.000)	0.436*** (0.000)	4.779*** (0.000)	5.217*** (0.000)	1.195 (0.353)	0.879 (0.527)	-5.225*** (0.000)	-5.447*** (0.003)	0.813 (0.427)	1.618 (0.156)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
PSM	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3,096	3,096	3,096	3,096	2,196	2,196	2,034	2,034	2,298	2,298
Adj.R-squared / Pseudo R-squared	0.319	0.322	0.425	0.429	0.107	0.117	0.221	0.228	0.123	0.133
P-value>F / Chi2	0	0	0	0	0	0	0	0	0	0

P-values in parentheses, *** = p < 0.01, ** = p < 0.05, * = p < 0.1

Table 9: The Relationship Between External and Internal Governance

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	GIM Index		Antitakeover Index		Entrenchment Index	
Board Characteristics	0.052 (0.485)	0.105 (0.238)	0.009 (0.708)	0.003 (0.927)	-0.012 (0.708)	-0.047 (0.219)
Board Characteristics * Local Dummy		-0.086 (0.283)		0.011 (0.667)		0.058* (0.083)
Blockholder Ownership (%)	0.600 (0.239)	0.557 (0.276)	0.144 (0.383)	0.149 (0.369)	0.776*** (0.000)	0.801*** (0.000)
Cash Ratio	0.227 (0.567)	0.155 (0.700)	0.059 (0.634)	0.065 (0.602)	0.003 (0.986)	0.035 (0.831)
Size	0.047 (0.417)	0.031 (0.606)	-0.036** (0.043)	-0.035* (0.052)	-0.039 (0.102)	-0.032 (0.175)
Sales Growth Ratio	-0.235 (0.465)	-0.241 (0.452)	0.017 (0.872)	0.018 (0.862)	-0.068 (0.619)	-0.061 (0.655)
Firm Age	0.034*** (0.000)	0.035*** (0.000)	-0.003** (0.011)	-0.003** (0.010)	-0.001 (0.459)	-0.002 (0.321)
Firm Risk	-0.631*** (0.000)	-0.641*** (0.000)	-0.054 (0.298)	-0.052 (0.312)	-0.181*** (0.008)	-0.174** (0.011)
Constant	6.213*** (0.007)	6.392*** (0.006)	2.841*** (0.001)	2.814*** (0.001)	5.750*** (0.000)	5.605*** (0.000)
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
PSM	YES	YES	YES	YES	YES	YES
Observations	1,466	1,466	1,816	1,816	1,816	1,816
Adj. R-squared	0.252	0.252	0.145	0.145	0.392	0.393
P-value > F	0	0	0	0	0	0

P-values in parentheses, *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$

Table 10: Logit Regression Analysis for Causality

	(1)	(2)	(3)	(4)
GIM Index	0.093*** (0.000)			
Antitakeover Index		0.021 (0.632)		
Entrenchment Index			0.125*** (0.000)	
Board Characteristics				0.191*** (0.000)
Blockholder Ownership (%)	-0.193 (0.570)	-0.383 (0.220)	-0.626** (0.049)	-0.290 (0.302)
Cash Ratio	-3.335*** (0.000)	-2.536*** (0.000)	-2.581*** (0.000)	-2.137*** (0.000)
Size	-0.195*** (0.000)	-0.142*** (0.000)	-0.151*** (0.000)	-0.152*** (0.000)
Sales Growth Ratio	0.030 (0.894)	0.082 (0.700)	0.106 (0.622)	-0.053 (0.768)
Firm Age	0.015*** (0.000)	0.017*** (0.000)	0.016*** (0.000)	0.018*** (0.000)
Firm Risk	-0.416*** (0.000)	-0.431*** (0.000)	-0.408*** (0.000)	-0.529*** (0.000)
Constant	1.931*** (0.000)	2.213*** (0.000)	1.937*** (0.000)	2.194*** (0.000)
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Observations	2,830	3,139	3,139	3,996
Pseudo R-squared	0.114	0.0781	0.0825	0.0836
P-value > F	0	0	0	0

P-values in parentheses, *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$

Table 11: 2SLS Regression Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	First stage	Second stage	First stage	Second stage	First stage	Second stage	First stage	Second stage
VARIABLES	Local Dummy	GIM Index	Local Dummy	Antitakeover Index	Local Dummy	Entrenchment Index	Local Dummy	Board Characteristics
Remote Dummy	-0.661*** (0.000)		-0.599*** (0.000)		-0.599*** (0.000)		-0.591*** (0.000)	
Metropolitan Dummy	-0.376*** (0.000)		-0.357*** (0.000)		-0.357*** (0.000)		-0.340*** (0.000)	
Local Dummy		-0.454 (0.152)		0.181 (0.131)		0.294* (0.056)		0.126 (0.233)
Blockholder Ownership (%)	-0.073 (0.278)	0.299 (0.412)	-0.124* (0.060)	-0.004 (0.977)	-0.124* (0.060)	0.649*** (0.000)	-0.120** (0.041)	-0.696*** (0.000)
Cash Ratio	-0.506*** (0.000)	-0.598* (0.070)	-0.407*** (0.000)	0.154 (0.166)	-0.407*** (0.000)	0.068 (0.632)	-0.356*** (0.000)	-0.132 (0.150)
Size	-0.036*** (0.000)	0.000 (0.993)	-0.026*** (0.000)	-0.039*** (0.008)	-0.026*** (0.000)	-0.041** (0.029)	-0.025*** (0.000)	0.060*** (0.000)
Sales Growth Ratio	-0.029 (0.454)	0.075 (0.718)	-0.032 (0.418)	-0.017 (0.820)	-0.032 (0.418)	-0.060 (0.538)	-0.037 (0.289)	0.139** (0.033)
Firm Age	0.004*** (0.000)	0.041*** (0.000)	0.004*** (0.000)	-0.002 (0.103)	0.004*** (0.000)	-0.000 (0.805)	0.004*** (0.000)	-0.001 (0.451)
Firm Risk	-0.072*** (0.000)	-0.317*** (0.003)	-0.066*** (0.001)	0.009 (0.824)	-0.066*** (0.001)	-0.134*** (0.008)	-0.088*** (0.000)	0.006 (0.856)
Constant	1.707*** (0.000)	6.776*** (0.004)	1.641*** (0.000)	0.347 (0.693)	1.641*** (0.000)	1.302 (0.247)	1.718*** (0.000)	0.937 (0.253)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Observations	2,781	2,781	3,078	3,078	3,078	3,078	3,932	3,932
Adj. R-squared	0.346	0.214	0.301	0.125	0.301	0.415	0.291	0.114
P-value > F	0	0	0	0	0	0	0	0

P-values in parentheses, *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$

Table 12: Robustness Tests

Panel A: Using First and Last Quartiles as Local Dummy

VARIABLES	General Governance Index		External Governance Index				Internal Governance Index	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	GIM Index		Antitakeover Index		Entrenchment Index		Board Characteristics	
Local Dummy	0.234** (0.039)	1.231 (0.220)	0.041 (0.284)	-0.878** (0.011)	0.147** *	-0.639 (0.153)	0.178*** (0.000)	0.527* (0.068)
Block. own* Local Dummy		-2.851*** (0.000)		-0.074 (0.793)		-0.504 (0.167)		0.004 (0.988)
Cash Ratio *Local Dummy		0.659 (0.259)		0.934*** (0.000)		1.041*** (0.000)		-0.291* (0.085)
Size*Local Dummy		-0.061 (0.503)		0.102*** (0.001)		0.059 (0.141)		-0.064** (0.015)
Sales Growth Ratio*Local Dummy		-0.666 (0.178)		0.060 (0.732)		0.032 (0.888)		0.056 (0.712)
Firm Age*Local Dummy		-0.014** (0.034)		-0.003 (0.256)		0.007** (0.023)		0.005*** (0.008)
Firm Risk*Local Dummy		0.132 (0.499)		0.019 (0.783)		0.041 (0.649)		0.019 (0.731)

Panel B: Using Samples After Regulation Fair Disclosure (2000)

VARIABLES	General Governance Index		External Governance Index				Internal Governance Index	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	GIM Index		Antitakeover Index		Entrenchment Index		Board Characteristics	
Local Dummy	0.178 (0.127)	1.220 (0.252)	0.064* (0.099)	-1.013*** (0.005)	0.136** *	-0.742 (0.110)	0.161*** (0.000)	0.741** (0.015)
Block. own* Local Dummy		-2.809*** (0.001)		0.071 (0.805)		-0.605 (0.105)		-0.039 (0.878)
Cash Ratio *Local Dummy		0.732 (0.224)		1.030*** (0.000)		1.230*** (0.000)		-0.225 (0.205)
Size*Local Dummy		-0.039 (0.681)		0.096*** (0.002)		0.049 (0.229)		-0.082*** (0.003)
Sales Growth Ratio*Local Dummy		-0.484 (0.347)		-0.117 (0.513)		-0.074 (0.751)		0.052 (0.744)
Firm Age*Local Dummy		-0.013* (0.061)		-0.001 (0.745)		0.009*** (0.006)		0.007*** (0.002)
Firm Risk*Local Dummy		0.026 (0.899)		0.066 (0.358)		0.086 (0.356)		-0.031 (0.607)

Panel C: Using Samples for Technology Companies

VARIABLES	General Governance Index		External Governance Index				Internal Governance Index	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	GIM Index		Antitakeover Index		Entrenchment Index		Board Characteristics	
Local Dummy	0.007 (0.968)	-2.056 (0.188)	0.039 (0.490)	-2.040*** (0.000)	0.127* (0.075)	-1.878*** (0.006)	0.244*** (0.000)	0.287 (0.501)
Block. own* Local Dummy		-0.897 (0.476)		0.862* (0.051)		0.595 (0.281)		-0.218 (0.551)
Cash Ratio *Local Dummy		3.016*** (0.001)		1.321*** (0.000)		1.586*** (0.000)		-0.289 (0.259)
Size*Local Dummy		0.078 (0.566)		0.224*** (0.000)		0.166*** (0.005)		-0.037 (0.328)
Sales Growth Ratio*Local Dummy		-0.249 (0.755)		-0.078 (0.772)		0.127 (0.709)		0.024 (0.910)
Firm Age*Local Dummy		0.000 (0.973)		-0.001 (0.847)		0.012*** (0.006)		0.005* (0.071)
Firm Risk*Local Dummy		0.422 (0.162)		-0.004 (0.972)		0.015 (0.908)		0.080 (0.320)