

Small Cap Firm Performance and Corporate Governance: A Simultaneous Equations Approach

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ABSTRACT

This study extends the international evidence on small-cap governance to Canada, where unlike the U.S., 'best practice' guidelines are provided, but not mandated, there are two legal systems, and multiple class voting structures are common. We test for the optimal deployment of four governance mechanisms by estimating a simultaneous equation system linking them to firm performance. When taking endogeneity into account, we find Canadian small-cap firms appear to over utilise debt as a control mechanism. No significant discount is observed for Quebec firms, or for those with multiple voting class shares. However, there is a premium for U.S. cross-listing.

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