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Institutional environment and value of companies

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Abstract

The article presents an empirical study of institutional maturity as a determinant of companies' value and well-being of countries as a whole. Regression models of value multiples with inclusion of institutional factors are developed. Value of companies is studied in terms of the following multipliers: Price-Earnings Ratio to Growth, Enterprise Value to Earnings before Interest and Tax, Price/Book Value ratio. Quantitative parameters were grouped on the basis of residency of public companies with market capitalization of \$5 million and higher. Level of property rights protection, degree of judicial independence, incidence of corruption, minority investors protection, efficiency of financial and goods markets, innovation activity of companies served as indicators of institutional environment development. Empirical analysis shows extreme sensitivity on the part of investors towards the performance of key market economy institutions: they demand significant premiums to required returns in jurisdictions, characterized by inadequate institutional environment. © IDOSI Publications, 2013.

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Keywords

Emerging markets, Institutions, Value multiples, Value of companies