Do Managers Affect Firm Value in an Emerging Market?

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ABSTRACT

This paper examines whether managers affect firm performance in an emerging market. Using information on managers in publicly traded firms in Korea, we find that managers with better academic credentials improve Tobin's Q and accounting profitability. The impact of manager ability is more evident when management decision making becomes more critical. Manager ability becomes more important as government interventions become weaker after the economic crisis. Management effects are stronger in firms with higher growth opportunities, higher risks, or under financial distress. Stand-alone firms and firms with better corporate governance scores show stronger impacts of managers on firm value. A positive impact of manager ability on firm performance is robust when endogeneity issues are controlled. These findings still hold regardless of choices of managers; executive directors, outside directors, and CEOs. Taken together, these results suggest that managerial ability matters more to firms when the firms face challenges and managers have more decision scope and power.

Keywords: manager ability, firm value, economic crisis, growth opportunity, financial distress, corporate governance