An Index for Board Watchers

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Researchers have long tried to assess the impact of good governance on stock returns. On Nov. 1, proxy adviser **Glass Lewis** will introduce a stock index that links the two. Based on research from **Harvard Law School** professor Lucian Bebchuk, the Shareholder Rights Index reweights the **Standard & Poor's** 500-stock index, giving more heft to companies with less-entrenched boards.

Bebchuk's innovation is to home in on six provisions that hurt shareholder value. Black marks are give to companies with: staggered boards, which protect against proxy fights; limits to amend by-laws; supermajority requirements for mergers; limits to amend the company charter; poison pills; and golden parachutes.

The lower occurrence of any of these, the more weight a company receives in the index. **Southern Co., First Data,** and **CVS**, for instance have a much larger position in the Shareholder Rights Index than thy do in the S&P 500 according to Greg Taxin, CEO of Glass Lewis.

Taxin has confidence in Bebchuk's research, which has shown that the absence of the six "bad guys," as Bebchuk says, correlates with increased shareholder value. From 1990 to 2003, Bebchuk says, an investor holding stocks with none of the six bad indicators, while shorting stocks with five of six of them, got an annual 7% premium on his returns.

Bebchuk cautions that past results don't always reflect future returns. But he thinks the research may be a guidepost to make institutional investors more effective watchdogs. "It's a better identification of what provisions institutions should target, other than going after provisions that are innocuous," Bebchuk says. And for companies, it's a measure of how to do good, and do well.

-*Brian Hindo*