DOES ELECTRONIC ECONOMICS MATTER TO FINANCIAL TECHNOLOGY FIRMS?

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Abstract

Purpose: This paper investigates the performance and corporate governance quality of fintech companies, using data from the United States.

Methodology: We construct an index of governance quality for companies in the United States. There are four equally-weighted components: having an anti-bribery policy, separating Chief Executive Officer and board chair, board independence and executive directors' tenure. We assume that the latter two items are non-monotonically associated with governance quality. Our sample comprises 1,712 company-years, from 2010-2019. We investigate the association between performance and our governance quality index. We test the equality of the index means, between fintech and non-fintech observations. We use an interaction design to test whether the positive association between performance and governance quality is stronger for fintech companies.

Findings: Our Findings suggest that our corporate governance quality index accurately captures the institutional environment of the United States. Our evidence indicates that fintech companies have higher quality corporate governance than non-fintech companies. Our findings weakly suggest that compared to non-fintech companies, fintech companies rely more on internal versus external corporate governance mechanisms. The results indicate that support for the first and third hypotheses is not artefactual, due to correlation between our corporate governance quality index and priced risk factors.

Research limitations: The principal limitation of our paper relates to the research design. Our evidence is consistent with misspecification, in the model used to test the third hypothesis.

Implications: The suggestion for further research is to identify other determinants of corporate performance, not controlled for in our model and to develop suitable proxies for these determinants. An implication for the investment community is that analysts' earnings forecasts, for fintech companies, may be of lower quality (i.e., less precise, less accurate and less timely) than analysts' earnings forecasts for companies in other industries. It would be appropriate for further research to investigate this possibility. Our findings suggest that regulators and investors may be confident that management of fintech companies implements high quality governance mechanisms.

Keywords: Fintech, corporate governance, agency costs