



温州肯恩大学
WENZHOUCHEAN UNIVERSITY

The effect of shareholder rights on stock return of US companies

In Partial Fulfillment of the Requirements

for the Bachelor of Science in Finance

by

FANG Jiawen

1025600

May, 2020

19FAWZ_FIN_4998_W01 - 19/FAWZ: SENIOR THESIS

Thesis Score Site

Jiawen Fang

on Mon, Dec 09 2019, 2:37 AM

7% highest match

Submission ID: 823424f5-203f-44ae-bf1e-42bdd0ff6353

Attachments (1)

thesis-final version.docx 7%

Word Count: 4,179

Attachment ID: 2433842408

thesis-final version.docx

The Effect of Shareholder Rights on Stock Return of US Companies

FANG, Jiawen

The Effect of Shareholder Rights on Stock Return of US Companies

FANG, Jiawen

ABSTRACT

Corporate governance in America companies becomes a big issue. Strong shareholder rights highly related to significant stock market exceptional performance. The purpose of this paper is investigating whether shareholder rights in corporate governance are associated with a total stock return for Nasdaq's listed companies in America during 2018. The share prices of 101 American companies as samples are taken from Nasdaq's. The other variables (EPS, D/E, ROA) are collected from companies' financial statements during 2018. Shareholder rights score is gathered From Institutional Shareholder Services (ISS). For statistical modeling, linear regression analysis is used to examine the associations between dependent variable (stock return) and independent variables (EPS, D/E, ROA, shareholder rights score). This paper gets the result that companies with strong shareholder rights have a significant positive impact on stock prices. This paper can suggest firm managers improve their corporate governance since its suggestive effect on firms' stock returns.

Keywords: Shareholder Rights, Corporate Governance, Stock Return, Nasdaq's, America.

TABLE OF CONTENTS

INTRODUCTION	1
LITERATURE REVIEW	4
1. Current Situation	4
2. Corporate Governance in America	5
3. Shareholder Rights	7
METHODOLOGY&DATA	9
1. Dependent Variables:.....	9
1.1 Total Return, TR.....	9
2. Independent variables.....	10
2.1 Earnings Per Share, EPS	10
2.2 Debt to Equity Ratio, D/E.....	11
2.3 Return on Asset, ROA.....	11
2.4 Shareholder Rights Score, SRS.....	12
3. Regression Model.....	13
ANALYSIS & FINDINGS	15
1. Correlations Result (by SPSS)	15
1.1 Moderate Degree of Correlation	16
1.2 Low Degree of Correlation	16
1.3 No Correlation	17
2. Linear Regression Result (by SPSS).....	18
CONCLUSION.....	22
REFERENCES	25

INTRODUCTION

Since the last few years, corporate governance has been a social issue. Good corporate governance can achieve both risk rationalization and performance optimization goals in today's turbulent corporate environment. Corporate governance provides the basis for long-term trust between the company and its stakeholders.

Corporate governance has historically been the focus of the public in America, especially in the disclosure of a large number of corporate scandals and the emergence of crises. In 2002, the United States issued the Sarbanes-Oxley Act to eliminate the fiscal and administrative corruption of many American firms. Corporate governance plays an essential part in stabilizing financial markets and improving the competitiveness of publicly held firms.

Corporate governance is defined as a rule and incentive that promote profitability and long-term value. Unclear fiduciary duties, misalignment of audit procedures, and lack of information disclosure are undesirable factors caused by improper corporate governance practices. A good corporate governance practices in the company helps to increase the efficiency of resource allocation. It is thereby enabling companies to generate returns that are consistent with commitments to stakeholders. During the global financial crisis of 2007-2010, some large and influential banks and financial institutions in the United States were closed, causing widespread concern. The company's governance structure depends mainly on the business norms of its home

country, the requirements of the capital market, and the internal management mechanisms founded on the law.

Shareholder rights are an essential segment of corporate governance. If the company has various owners, its power may be in the hands of the company's CEO or a group of shareholders. Corporate governance includes how management measures shareholder rights. Shareholder rights means that shareholders can fully understand the company's financial performance. Corporate governance also involves opportunely and voluntary disclosure of events that may influence the profit of shareholders. Corporate governance reduces information asymmetry between managers and shareholders. It solves the agency problem caused by the separation of ownership and control of modern enterprises.

The Institutional Shareholder Service Group was established in 1985. ISS supports companies and investors by providing high-quality data, analytics, and insights. It provides data-driven scoring and screening method to support institutional investors know about a company's quality factors and assess risk. In this article, the shareholder right score gathered from ISS is used as a reliable source.

This study is linked to stock returns. In the US, the price of the NASDAQ index fluctuates from time to time. As with any other commodity, changes in stock prices also depend on various factors in the stock market. From the listed company to the complex environment of the entire economic system, numerous factors will cause the stock price

to rise or fall. The company's financial position, like corporate governance, is considered as a significant factor affecting stock prices.

Furthermore, this study will also obtain some accounting ratios in the company's financial statements. Much of the information is translated into changes in current stock prices. Fluctuations in stock prices in financial markets are sometimes severe to explain directly. Therefore, an appropriate model is needed in order to quantify these fluctuations. This paper seeks to investigate whether the corporate governance shareholder rights of listed companies in the US Nasdaq in 2018 are related to stock returns.

LITERATURE REVIEW

1. Current Situation

There are countless academics concerned about corporate governance all over the world. Many experts and scholars claim that a company needs adopt good corporate governance to maintain a normal operation, Triole (2001) claims that ensuring that large corporations are managed appropriately is the primary purpose of corporate governance. One of the widely agreed reasons for adopting good corporate governance is a more favorable treatment to stakeholders (Mohamed, and Elewa, 2016). Corporate governance conditions influence investors' evaluation of the firm's stock return (Teker and Yuksel, 2014). If a company is regarded as having superior corporate governance, it is usually trusted by investors. Investors tend to have a higher expectation of stock return with companies which have better corporate governance. Tsangarakis (1996) states that shareholder rights issues in Greece are "highly associated with statistically significant positive abnormal stock returns." So that investors can be confident that their funds are invested rightly, it is beneficial for increasing investment rates and safeguarding shareholders rights or even the right of small investors.

Many academics were doing researches about corporate governance in different countries. Drobertz, Schillhofer, and Zimmermann (2004) investigated the effect of corporate governance on the stock return between 1998 to 2002 in Germany. Lack of data, they assume constant historical data. They got a result that corporate governance is positively related to the stock return between 1998 to 2002 in Germany. With the

sending of questionnaires to firms from different market segments, Owala (2010) construct his sample firms, either well-governed or poorly governed. After regression analysis, their result corresponds with a positive effect of corporate governance on the stock return. With a large number of analyses and long-time efforts, the outcome shows that the portfolio of effective governance outperformed the bad (Owala, 2010). In Egypt, Mohamed, and Elewa (2016) gathers information from firms of 4 market segments on the Egyptian Stock Exchange during 2007-2014. An analysis of the Modified Jones Model, the finding comes out that good corporate governance generates positive change on stock price (Mohamed and Elewa,2016). From the above information, a positive relationship occurs between stock return and corporate governance. In both developed and developing countries, weak corporate governance is a significant variable for the decrease of the stock market.

2. Corporate Governance in America

In America, Corporate governance owns massive attention because of high profile scandals (Brown and Caylor, 2006). Several firms collapse because of fraud and false reports. Firms like Adelphia, Enron, and WorldCom facilitate the Sarbanes–Oxley Act of 2002, which sweeps the regulation of corporate governance in America during the past 70 years. In the US, consecutive debates between the relationship of stock returns with corporate governance happen among scholars all the time. Extensive and rigorous research is required on such matters in America (Owala, 2010). Keep with such attention over corporate governance, and data providers rise to give advice to American companies and evaluate the scope of corporate governance (Bauer, et al. 2003). In his

way, the condition of corporate governance can be easily quantified. The existence of data providers is also essential to regulators since it provides a tractable corporate governance framework for improving corporate information disclosures in America.

Plenty of previous researches applied the Investor Responsibility Research Center data, which is based on six factors underlying G-Index. (Brown and Caylor, 2006). It helps to build up the “Governance Index” to stand for the shareholder rights level. From the angle of the company performance, Core, Guay, and Rusticus (2006) drive their valuation result that weak governance leads to reduced stock returns. Another authoritative data provider of corporate governance is Institutional Shareholder Services (ISS). It devotes to provide a steady level governance index.

This paper adopts the framework developed by Institutional Shareholder Services for rating firms’ corporate governance structures and practices. Using this index, Brown and Caylor (2006) show that this certain governance measure is significantly negatively related to the stock return. They prove that shareholder rights in corporate governance are significantly positively related to the stock return of the company. LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (2000) provided evidence of 539-firms from over 27 countries and proved their investigation. In some of these companies, shareholders control over 10 percent of the voting right. Their result shows that firms that provide more better governance standards are the most likely to have an increasing stock return. Ashbaugh, Collins, and LaFond (2004) also state in their article that firms with strong corporate governance can take advantage of relatively higher general credit ratings. Teker and Yuksel(2014) investigate the stock return reaction of firms with announced

corporate governance score between 2007 to 2013 and gets the result that corporate governance score can rightly reflect the company's condition and influence the stock return.

3. Shareholder Rights

Within four main variables (Board structure, Compensation, Audit & Risk Oversight, and Shareholder rights) in Institutional Shareholder Services (ISS) system, Shareholder rights are always a typical hot topic. Corporate governance can control conflicts between bondholders and shareholders. A popular topic in some academic literature links stock returns with such agency conflicts. Jiraporn and Davidson (2005) suggests that the CEOs of companies with weak shareholder equity gain a higher degree of potential management disputes. Besides, CEOs with governance provisions may enjoy increasing compensation with weak shareholder rights. As a result, many of the governance functions are intended to cut down the agency conflict between shareholders and bondholders. Ashbaugh, Collins, and LaFond (2004) explain that some mechanisms of corporate governance can give higher power to shareholders or "selected subsets of shareholders" who can obtain adequate treatment at the expense of others. LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (2000) provided evidence of 539-firms to prove their investigation that firms provide more Shareholder rights are the most likely to have an increasing stock return. Ashbaugh, Collins, and LaFond (2004) also state in their article that firms with legitimate shareholder rights can take advantage of relatively higher general credit ratings. The public has criticized some managers or agencies for appearing to be overpaid, while stockholders do not enjoy

generous returns. (Jiraporn and Davidson, 2005) Moreover, shareholders can use their power and push managers to make risky investments that may harm bondholder's interest.

The corporate governance mechanism will take plenty of advantages in enhancing the shareholders' stock value (Samontaray, 2010). According to Samontaray (2010), 78% of his survey respondents consider good corporate governance will generate increasing long-term shareholder value. However, Ashbaugh, Collins, and LaFond (2004) suggest that governance policy tilted to management may lower overall stock value. According to Core, Guay, and Rusticus, (2006), firms with weak shareholder rights show noticeable operating underperformance. The common stock price reaction is highly related to the announcements of typical stock offerings. Gompers, Ishii, and Metrick (GIM, 2003) find that, compared with companies with weak shareholder rights, firms with substantial shareholder rights gain higher risk-adjusted share returns from 1990 to 1999. Tsangarakis(1996) indicates that shareholder rights issue announcements are considered important news. In the corporate governance mechanism, shareholder rights' specific effect still needs further exploration.

METHODOLOGY&DATA

The research used the dataset from 101 American companies that issued IPOs. These companies are taken from NasdaqGS. Shareholder Rights Score is gathered From Institutional Shareholder Services (ISS). The extra three independent variables (Earnings Per Share, Debt to Equity Ratio, Return on Asset), and one dependent variable (company's share return) are collected from companies' financial statements during 2018. The regression is derived from models present in research by Mohamed et al. (2016), Owala. (2010), Samontaray. (2010).

1. Dependent Variables:

1.1 Total Return, TR

In this research, the dependent variable is the total return during 2018 of 101 American companies.

The total return is a measurement of the performance of different companies' stocks and shares over time. Total Return data for the periods 2018Q1 to 2018Q4 was taken from the Yahoo Finance website, of 101 American companies. It is calculated by the capital growth rate during 2018, making the assumption that the dividends are always reinvested meanwhile they are paid. The dataset includes companies listed on the NASDAQ index. Its 100 constituent stocks all have high-tech, high growth, and non-financial characteristics, which can be said to be the representative of the United States technology stocks. It is worth noting that the excellent performance of these high-

growth stocks in the NASDAQ 100 index is due to the high growth of their endogenous growth, especially innovation business, rather than external growth such as asset injection. Tables 1 present the descriptive statistics on the dependent variable, total return, in the US during the period 2018Q1 to 2018Q4.

Tables 1: Summary Statistics of Total Return

	N	Minimum	Maximum	Mean	Std. Deviation
Total Return	101	-46.94	174.11	9.7803	32.90338

2. Independent variables

In this research, the independent variables are the earnings per share, debt to equity ratio, return on asset, and shareholder rights score during 2018 of 101 American companies.

2.1 Earnings Per Share, EPS

Earnings per share is a company's profit divided by the number of common stock shares outstanding. The resulting number can be regarded as the indicator of the profitability of a company. EPS is usually measured on a quarterly and annual basis. The Earnings Per Share data for the periods 2018Q1 to 2018Q4 of 101 American companies is taken from Bloomberg. This paper used the quarterly average earnings per share during the year 2018.

2.2 Debt to Equity Ratio, D/E

The debt-to-equity (D/E) ratio is computed by dividing a company's total liabilities with its shareholder equity. It is an important indicator used to assess a company's financial leverage in corporate finance. It can measure how well a company finances its business through debt and wholly-owned funds. Especially, it shows the ability to use equity to pay all outstanding debt during a business downturn. The D/E ratio data for the periods 2018Q1 to 2018Q4 of 101 American companies are from each companies' balance sheet during 2018. This paper used the quarterly averaged debt-to-equity ratio during the year 2018.

2.3 Return on Asset, ROA

Return on assets (ROA) is usually defined as net income divided by total assets. It is an indicator of the profitability of a company relative to its total assets. ROA enables the manager, investor, or analyst to know how efficient a company's management is when using its assets to generate incomes. Net income is from a company's income statement. Assets are derived from the balance sheet and include the value of intellectual property such as receivables, inventory, land, depreciated capital equipment, and patents. My ROA ratio data for the periods 2018Q1 to 2018Q4 of 101 American companies is also gathered from each companies' financial statement during 2018. This paper used the quarterly average return on assets during the year 2018.

2.4 Shareholder Rights Score, SRS

Common shareholders have voting rights, ownership, right to transfer ownership, dividends, right to review company documents, and the right to sue for wrongdoing. The degree of takeover defenses, voting formalities, and other issues in each company will determine the Shareholder rights score. My Shareholder Rights Score data is gathered From Institutional Shareholder Services (ISS). ISS is the world's leading provider of corporate governance and responsible investment solutions. Governance Quality Score uses a decimal-based numeric score that shows a company's governance risk relative to its index or area. Scores in the 1st decile (QS: 1) represent relatively higher quality corporate governance practices. In contrast, scores in the 10th decile (QS: 10) represent relatively high corporate governance risks. This paper used the Shareholder Rights Score during the year 2018.

Tables 2 present the descriptive statistics on the dependent variable, total return, in the US during the period 2018Q1 to 2018Q4.

Tables 2: Summary Statistics of all independent variables.

	N	Minimum	Maximum	Mean	Std. Deviation
EPS	101	-23.05	99.64	7.4234	18.69552
D/E	101	1.04	340.19	65.0944	64.69691
ROA	101	-9.72	35.34	11.1007	8.81234
SRS	101	1.00	10.00	5.6634	2.93693

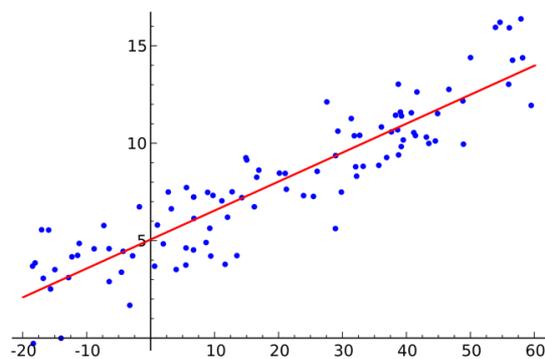
3. Regression Model

In this part, the researcher will use the collected data above to run a linear regression analysis, identifying the variables that have a significant impact on the company's stock return.

Here is the fundamental explanation of linear regression. In linear regression, the model states that the dependent variable y_i is a linear combination of parameters. (but not necessarily linear in the independent variables). For example, in a simple linear regression modeling n data points, there is one independent variable: x_i , and two parameters, β_0 and β_1 :

$$\text{Straight line: } y_i = \beta_0 + \beta_1 x_i + \varepsilon_i, i=1, \dots, n.$$

Table 3: linear regression



Put all the variables in the equation, the multiple regression model is comprised in the form of the following equation.

$$\text{Total Return} = C + (X1).EPS + (X2).D/E + (X3).ROA + (X4) SRS$$

Wherein, 'C' is constant and X1, X2, X3 and X4 are coefficients of the independent variables.

Based on the previous statement, this paper will investigate the relationship between independent variables and dependent variables.

Therefore, null hypotheses are:

- 1.H₀: Earning Per Share has no impact on Total Return of the company.
- 2.H₀: Debt to Equity Ratio has no impact on Total Return of the company.
- 3.H₀: Return on Asset has no impact on Total Return of the company.
- 4.H₀: Shareholder Rights Score has no impact on Total Return of the company.

ANALYSIS & FINDINGS

This section explains the linear regression analysis result. The factors that influence total stock return of US companies will be expressed by EPS, D/E, ROA, and SRS. Statistic Package for Social Science (SPSS) Data Analysis Software is used to get reliable and professional results.

1. Correlations Result (by SPSS)

In the first step, the researcher conducts the correlation analysis. Correlation analysis is a statistical method used to evaluate the strength of the relationship between two quantitative variables.

Table 4 presents the Correlations result of TR (dependent variable), EPS, D/E, ROA, and SRS (independent variables). The researcher blackened the boxes of significant numbers for easy reading.

Table 4: Correlations

		<i>TR</i>	<i>EPS</i>	<i>D/E</i>	<i>ROA</i>	<i>SRS</i>
TR	Pearson Correlation	1	.471**	.610**	-.050	-.469**
	Sig. (2-tailed)		.000	.000	.620	.000
EPS	Pearson Correlation	.471**	1	.314**	-.048	-.118
	Sig. (2-tailed)	.000		.001	.635	.238
D/E	Pearson Correlation	.610**	.314**	1	-.162	-.085
	Sig. (2-tailed)	.000	.001		.105	.397
ROA	Pearson Correlation	-.050	-.048	-.162	1	-.139
	Sig. (2-tailed)	.620	.635	.105		.165
SRS	Pearson Correlation	-.469**	-.118	-.085	-.139	1
	Sig. (2-tailed)	.000	.238	.397	.165	

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

1.1 Moderate Degree of Correlation

When the correlation coefficient range is between 0.50 to 0.75, it shows a moderate degree of correlation between the variables. The correlation coefficient between the Total Return and Debt to Equity Ratio is 0.610.

So, the first hypothesis: “1.H01: Earning Per Share has no impact on Total Return of the company” should be rejected. It indicates that there is a moderate degree of correlation between Total Return and Debt to Equity Ratio of American companies. Correlation is all significant at the 0.01 level (2-tailed).

This result is constant with the research finding of Samontaray (2010) that “EPS as a significant variable.” Earning is always having an impact on the share price, so the annual earnings per share will influence the annual stock return on a certain level.

1.2 Low Degree of Correlation

When the correlation coefficient range is between 0.25 to 0.50, it is called a low degree of correlation. The correlation coefficient between Total Return and Earnings per share is 0 .471, between Total Return and Shareholder Rights Score, is 0 .469.

So, the second and fourth hypothesizes: “2.H₀: Debt to Equity Ratio has no impact on Total Return of the company” and “4.H₀: Shareholder Rights Score has no impact on Total Return of the company” should be rejected. There is a low degree of correlation between Total Return and Earnings per share, Total Return and Shareholder Rights Score. Correlation is all significant at the 0.01 level (2-tailed).

This result is not constant with the research finding of Samontaray (2010). Samontaray (2010) states that Corporate governance will significantly influence the stock price of companies and therefore becomes a significant predictor. In this case, a lower degree of correlation may result from the difference in the model. Samontaray (2010) made a cross-sectional regression analysis in his paper, which reducing the number of variables each time to limit them to the only significant variables. In Owala's (2010) paper, Debt to Equity Ratio is a relatively important variable. It is understandable because the financial leverage used in corporate finance cannot fully represent the profitability of the company, so does the stock return.

1.3 No Correlation

When the correlation coefficient range is below 0.25, it is called no correlation. The correlation coefficient between Total Return and Return on Asset is below 0.25, So for the time being, there is no correlation between these two variables.

So, the third hypothesis, "3.H₀: Return on Asset has no impact on Total Return of the company," should be accepted. Return on Assets will be removed in the model. It is consistent with the result of Samontaray (2010). How profitable a company is not only relative to its total assets, but also related to the management inside the company. In most cases, the total assets cannot measure the profitability of the company.

2. Linear Regression Result (by SPSS)

In the second step, the researcher conducts the Linear Regression analysis. Regression analysis is used to estimate the relationship between the dependent and independent variables in statistical modeling.

Tables 5 to 7 present the Linear Regression Result of TR (dependent variable), EPS, D/E, ROA, and SRS (independent variables). The researcher blackened the boxes of significant numbers for easy reading.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783 ^a	.613	.596	20.90091

a. Predictors: (Constant), EPS, D/E, ROA, SRS

This table presents the R and R Square values. The R-value represents the multiple correlation coefficient and is 0.783, which, in this example, indicates the right level of prediction. The R² value is also called the coefficient of determination. In this case, our independent variables, total return, explain 61.3% of the variability of our dependent variable, EPS, D/E, ROA, and SRS.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66325.826	4	16581.456	37.957	.000 ^b
	Residual	41937.427	96	436.848		
	Total	108263.253	100			

a. Dependent Variable: Total Return

b. Predictors: (Constant), EPS, D/E, ROA, SRS

The table shows the statistically significant predictive dependent variable of the independent variable $F(4,96) = 37.957, p < 0.05$. Here, the statistical significance is less than 0.05, which indicates that the regression model predicts the outcome variables statistically significantly.

Table 7: Coefficients

Model		Unstandardized Coefficients			
		B	Std. Error	t	Sig.
1	(Constant)	15.793	6.389	2.472	.015
	EPS	.475	.118	4.019	.000
	D/E	.249	.035	7.200	.000
	ROA	-.048	.243	-.197	.844
	SRS	-4.450	.727	-6.125	.000

The Coefficient table provides us with the necessary information to predict total return from independent variables. Unstandardized coefficients indicate how much the independent variable changes with the independent variable while all other independent variables remain constant. By looking at "t" column, we can test whether the coefficient of the independent variable is significant at the specified significance level. The "t" value of EPS, D/E, and SRS are more than 2; the "t" value of constant is more than 1.6 and the "Sig." value of EPS, D/E, and SRS are less than 0.01.

So, three of the hypotheses are rejected.

1.H₀: Earning Per Share has no impact on Total Return of the company.

2.H₀: Debt to Equity Ratio has no impact on Total Return of the company.

4.H₀: Shareholder Rights Score has no impact on Total Return of the company.

By contrast, one of the hypotheses is accepted.

3.H₀: Return on Asset has no impact on Total Return of the company.

We can infer, under the significance level of " $t(df)0.01$ ", the independent variables EPS, D/E, and SRS contribute statistically significantly to the model. EPS and D/E ratio has a significantly positive effect on total return, while Shareholder Right Score has a significantly negative effect on the total.

- The result that earnings per share have a significantly positive effect on total return is consistent with Samontaray's (2010) statement. Earnings per share can be regarded as the indicator of the profitability of a company. Higher profitability will have a positive impact on the income of the company, as well as investors' expectations of the stock price. As a result, the annual return will thereupon be higher.

- The result that D/E ratio has a significantly positive effect on total return is consistent with Drobetz, Schillhofer, and Zimmermann's (2004) research findings. The debt-to-equity (D/E) ratio shows the ability to use equity to pay all outstanding debt during a business downturn. A high such ability indicates that the company can finance its business well through debt and wholly-owned fund. Therefore, a substantial annual return can be ensured.

- Shareholder Right Score has a significantly negative effect on the total. Scores in the 1st decile (QS: 1) represent relatively higher quality governance practices and relatively lower governance risks. Therefore, better Shareholder Right will result in higher total

stock return. This result is not constant with the result of Jiraporn and Davidson (2005). They claim that the CEO of firms where shareholder rights are weak obtain a higher return. Their data focus more on the right holding by a single group of CEOs, but the criteria in this paper is more related to the overall shareholder's rights. This result is otherwise constant with the result with Ashbaugh, Collins, and LaFond (2004). Firms with legitimate shareholder rights can benefit from their higher credit ratings. Good corporate governance can achieve both risk rationalization and performance optimization goals in today's turbulent corporate environment. As a result, firms with better shareholder rights will tend to have a higher return.

The regression analysis is comprised in the form of following equation.

$$TR = 15.793 + .475*EPS + 0.249*D/E - 4.450*SRS$$

Note:

TR, Total Return. EPS: Earnings Per Share. D/E, Debt to Equity Ratio. SRS:

Shareholder Rights Score.

CONCLUSION

This paper finds that the stock return of Nasdaq 100 index listed companies during 2018 is related to the shareholder's right condition in the companies. Lower shareholder right score, which means better shareholder right allocation performance, will lead to higher stock return. In a world, shareholder rights have a significant positive influence on stock returns.

The variables found to affect the Nasdaq share return significantly are as follows: Earnings Per Share, Debt to Equity Ratio and Shareholder Rights Score.

Earnings per share is an important variable. Earnings per share is profit/share return. Higher profitability will have a positive impact on the income of the company. Earnings per share will create a stock return of superior importance.

The debt-to-equity ratio is an important variable. A high Debt-to-equity ratio indicates that the company can finance its business well through debt and wholly-owned fund. Therefore, a substantial annual return can be ensured.

Shareholders' rights as an important variable: Corporate governance has a significant impact on the stock returns of American companies and is a significant predictor of the value of their stocks. If common shareholders' right in the company is functionally operated, the stock return will tend to growth.

The final equation thus formed is:

$$TR = 15.793 + .475*EPS + 0.249*D/E - 4.450*SRS$$

Note: TR=Total Return. EPS=Earnings Per Share. D/E=Debt to Equity Ratio. SRS=Shareholder Rights Score.

There are some limitations to this article. Due to the limitation of the research cycle, the researcher can only narrow the time range in 2018. During this period, the relationship between stock returns and shareholder rights, earnings per share, and other two independent variables of each company in the Nasdaq 100 index are studied. First of all, the research can research in a larger time frame. For an example, if the data starting from 2012, when the Sarbanes-Oxley Act valued corporate governance in the United States to 2017 are also be studied, it can make the results more Persuasive. At the same time, adding independent variables, such as NFA, SALES, and other variables used by some authors in other literature, may make the model more complete. This article quotes data from the NASDAQ 100 index. Most stocks are technology stocks, which have certain limitations. More comprehensive relationships can be obtained through research in other markets.

This article also has some valuable contributions. This paper can suggest that company managers improve corporate governance through the analysis of data. The theoretical discussion and data analysis in this article can more convincingly show that shareholder rights in corporate governance have a significant positive impact on company stock returns. At the same time, this article can make the company realize the importance of shareholders' rights and establish a reasonable mechanism from one share / one vote, acquisition defense, voting issues, voting procedures, and other issues. At the same time, this article also guides the study of other factors (Board structure, Compensation, and

Audit & Risk Oversight) in corporate governance. Through similar methods, the impact of other factors (Board structure, Compensation, and Audit & Risk Oversight) on the company's stock price can also be studied. Besides, this research is vital for regulators. This paper provides a tractable corporate governance reference for improving US corporate information disclosure. Given its significant impact on the company's stock returns, regulators can supervise companies with abnormal stock fluctuations to monitor the shareholder rights department to create an excellent corporate governance atmosphere.

REFERENCES

- Ashbaugh, H., Collins, D. W., & LaFond, R. (2004). The Effects of Corporate Governance on Firms' Credit Ratings.
- Bauer, R., Guenster, N., & Otten, R. (2004). Empirical evidence on corporate governance in Europe: The effect on stock returns, firm value and performance. *Journal of Asset management*, 5(2), 91-104.
- Black, B. (2001) 'Does Corporate Governance Matter? A Crude Test Using Russian Data', *University of Pennsylvania Law Review*, 149, 2131–50.
- Brown, L. D., & Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of accounting and public policy*, 25(4), 409-434.
- Core, J., Guay, W., Rusticus, T., (2006). Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *Journal of Finance* 61, 655–687.
- Drobetz, W., Schillhofer, A., & Zimmermann, H. (2004). Corporate Governance and Expected Stock Returns: Evidence from Germany.
- Gompers, P., Ishii J. & Metrick A. (2003). Corporate governance and equity returns. *Quarterly Journal of Economics* 118:1, 107-155.
- Jiraporn, P., Kim, Y. S., & Davidson, W. N. (2005). CEO compensation, shareholder rights, and corporate governance: An empirical investigation. *Journal of Economics and Finance*, 29(2), 242-258.

- Mohamed, W. S., & Elewa, M. M. (2016). The Impact of Corporate Governance on Stock Return and Trade Volume. *International Journal of Accounting and Financial Reporting*, 6(2), 27-44.
- Owala, A. (2010). Corporate Governance And Stock Returns: Evidence From The S&P 500.
- Samontaray, D. P. (2010). Impact of corporate governance on the stock returns of the Nifty 50 Broad Index listed companies. *International Research Journal of Finance and Economics*, 41, 7-18.
- Teker, S. and Yuksel, A.H. (2014). Stock Return Reaction for Scoring on Corporate Governance. *Procedia – Social and Behavioral Sciences*. 150: 985-992.
- Triole, J. (2001). "Corporate Governance." *Economertica* 69(1): 1-35.
- Tsangarakis, N. V. (1996). Shareholder wealth effects of equity issues in emerging markets: Evidence from rights offerings in Greece. *Financial Management*, 21-32.

APPENDIX

Table 8: correlation result

Correlations

[DataSet0]

		Correlations				
		VAR00001	VAR00002	VAR00003	VAR00004	VAR00005
VAR00001	Pearson Correlation	1	.471**	.610**	-.050	-.469**
	Sig. (2-tailed)		.000	.000	.620	.000
	N	101	101	101	101	101
VAR00002	Pearson Correlation	.471**	1	.314**	-.048	-.118
	Sig. (2-tailed)	.000		.001	.635	.238
	N	101	101	101	101	101
VAR00003	Pearson Correlation	.610**	.314**	1	-.162	-.085
	Sig. (2-tailed)	.000	.001		.105	.397
	N	101	101	101	101	101
VAR00004	Pearson Correlation	-.050	-.048	-.162	1	-.139
	Sig. (2-tailed)	.620	.635	.105		.165
	N	101	101	101	101	101
VAR00005	Pearson Correlation	-.469**	-.118	-.085	-.139	1
	Sig. (2-tailed)	.000	.238	.397	.165	
	N	101	101	101	101	101

** . Correlation is significant at the 0.01 level (2-tailed).

Table 9: linear regression result

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783 ^a	.613	.596	20.90091

a. Predictors: (Constant), VAR00005, VAR00003, VAR00004, VAR00002

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	66325.826	4	16581.456	37.957	.000 ^b
	Residual	41937.427	96	436.848		
	Total	108263.253	100			

a. Dependent Variable: VAR00001

b. Predictors: (Constant), VAR00005, VAR00003, VAR00004, VAR00002

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.793	6.389		2.472	.015
	VAR00002	.475	.118	.270	4.019	.000
	VAR00003	.249	.035	.489	7.200	.000
	VAR00004	-.048	.243	-.013	-.197	.844
	VAR00005	-4.450	.727	-.397	-6.125	.000

a. Dependent Variable: VAR00001