

Do Investors Really Value Corporate Governance? Evidence from the Hong Kong Market

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December 2005

Summary

This study develops a model to assess the corporate governance practices of listed companies in Hong Kong. We find that corporate governance is an important factor in explaining the market value of companies listed in Hong Kong. Based on the Revised OECD Principles of Corporate Governance (OECD, 2004) and the Recommended Best Practices (HKEx, 1999), we construct a corporate governance index (*CGI*) for 168 listed companies. The evidence shows that the companies' market value (market-to-book ratio, *MTBV*) is positive and significantly associated with their *CGI*. The effect is robust to the inclusion of control variables such as performance indicators. Our results imply that companies with better corporate governance are associated with higher market value in Hong Kong. A significant and positive relationship is further found between the transparency index and market value. Our results also suggest that investors are more concerned with corporate governance practices of China-related companies than they are for Hong Kong companies. In summary, this study provides strong evidence that good corporate governance practices are associated with higher firm value in Hong Kong.