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Corporate governance and market valuation in China

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Abstract

In this paper, we investigate empirically the relationship between governance mechanisms and the market valuation of publicly listed firms in China. We construct measures of corporate governance and market valuation for all publicly listed firms on the two stock markets in China from the firm's annual reports between 1999 and 2001. Using this three-year panel, we examine the effect of corporate governance variables on market valuation after controlling for factors commonly considered in market-valuation analysis. Our empirical results support several theoretical predictions; for example, we find that both high concentration of non-controlling shareholding and issuing shares to foreign investors have positive effects on market valuation, while a large holding by the largest shareholder, the CEO being the chairman or vice chairman of the board of directors, and the largest shareholder being the government have negative effects.

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G34; G32

Keywords

Corporate governance; Market for corporate control; Ownership; Market valuation

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