

Corporate Governance and Stock Return in Hong Kong: Carrots or Sticks?

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Agenda

- Based on the OECD corporate governance principles, we develop a corporate governance index (CGI) to measure the corporate governance practices of major listed companies
- Three years of CG ratings: 2003, 2005 and 2006 sponsored by HKIoD

Questions

- Will the market reward HK companies for good corporate governance?
- Will the market reward HK companies for improvement in corporate governance and penalize companies for deterioration in corporate governance ?

Answer (1)

- The result shows that corporate governance practices of Hong Kong listed companies have improved during these years
- A positive and statistically significant relation between stock return and the quality of corporate governance practices

Answer (2)

- We find an asymmetric response between stock returns and changes in corporate governance practice
 1. Stocks returns are less sensitive to improvement in CGI and more responsive to deterioration in CGI
 2. Investors reward low-CGI (bad) companies for improvement but no penalty for deterioration and penalize high-CGI (good) companies for deterioration but no reward for improvement

Thank You