The Voice of Controlling Shareholder:
Effects on Corporate Governance and Firm Valuation

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Abstract

This thesis attempts to generate more understanding of how characteristics of the controlling shareholder, particularly the relation between the controlling shareholder and board members, influence the corporate governance practices of Hong Kong listed companies. In order to assess the overall corporate governance practice of major Chinese and Hong Kong listed companies, we employ a Corporate Governance Index (CGI), based on the Principles of Corporate Governance by the Organisation for Economic Co-operation and Development (OECD, 2004). Our study covers a period of five years, from 2002 to 2008. Using the CGI, the relation between characteristics of the controlling shareholder and corporate governance practices of the firm are reviewed and investigated. Next, we examine how characteristics of the controlling shareholder affect the market valuation of listed companies, using the Market to Book Value (MTBV). In addition, we investigate the backgrounds of the controlling shareholders, including voting rights and ownership types.

By using the proportion of directors on the board who are related to the controlling shareholder as a proxy in considering the influence of the controlling
shareholder on the board, we find that having a higher proportion of directors related
to the controlling shareholder lowers the quality of corporate governance practices as
well as the market valuation for most of the Hong Kong listed companies in our sample.
Also, the results indicate that the voting rights of the controlling shareholder are
negatively related to the quality of corporate governance practice and market valuation.
This study further finds a lower quality of corporate governance for both family firms
and Chinese enterprises.

This thesis provides sufficient evidence to support that the controlling shareholder
should reduce his influence on the listed company and the listed company should
increase the proportion of independent non-executive directors on the board, in order to
raise the corporate governance standard in Hong Kong market.
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