



[Article Navigation](#)

# Does Corporate Governance Predict Firms' Market Values? Evidence from Korea

Bernard S. Black , Hasung Jang, Woochan Kim

*The Journal of Law, Economics, and Organization*, Volume 22, Issue 2, 1 October 2006, Pages 366–413, <https://doi.org/10.1093/jleo/ewj018>

**Published:** 04 January 2006

 Cite



Permissions



Share



[Email](#) [Twitter](#) [Facebook](#)

## Abstract

We report strong *OLS* and instrumental variable evidence that an overall corporate governance index is an important and likely causal factor in

explaining the market value of Korean public companies. We construct a corporate governance index (*KCGI*, 0–100) for 515 Korean companies based on a 2001 Korea Stock Exchange survey. In *OLS*, a worst-to-best change in *KCGI* predicts a 0.47 increase in Tobin's *q* (about a 160% increase in share price). This effect is statistically strong ( $t = 6.12$ ) and robust to choice of market value variable (Tobin's *q*, market/book, and market/sales), specification of the governance index, and inclusion of extensive control variables. We rely on unique features of Korean legal rules to construct an instrument for *KCGI*. Good instruments are not available in other comparable studies. Two-stage and three-stage least squares coefficients are larger than *OLS* coefficients and are highly significant. Thus, this article offers evidence consistent with a causal relationship between an overall governance index and higher share prices in emerging markets. We also find that Korean firms with 50% outside directors have 0.13 higher Tobin's *q* (roughly 40% higher share price), after controlling for the rest of *KCGI*. This effect, too, is likely causal. Thus, we report the first evidence consistent with greater board independence causally predicting higher share prices in emerging markets.

© Bernard S. Black 2006. Published by Oxford University Press on behalf of Yale University. All rights reserved. For permissions, please email: [journals.permissions@oxfordjournals.org](mailto:journals.permissions@oxfordjournals.org)

Issue Section:

[Regular articles](#)

You do not currently have access to this article.

[Download all figures](#)

## Sign in

Don't already have an Oxford Academic account? [Register](#)

## Oxford Academic account

Email address / Username 

Password

[Sign In](#)

[Forgot password?](#)

[Don't have an account?](#)

---

## Sign in via your Institution

[Sign in](#)

## Purchase

---

[Subscription prices and ordering](#)

## Short-term Access

To purchase short term access, please sign in to your Oxford Academic account above.

Don't already have an Oxford Academic account? [Register](#)

Does Corporate Governance Predict Firms' Market Values? Evidence from Korea - 24 Hours access

EUR €35.00

GBP £27.00

USD \$44.00

## Rental



This article is also available for rental through DeepDyve.

**812**  
Views

**266**  
Citations



[View Metrics](#)

## Email alerts

[New issue alert](#)

[Advance article alerts](#)

[Article activity alert](#)

[JEL classification alert](#)

---

[Receive exclusive offers and updates  
from Oxford Academic](#)

## Related articles in

[Web of Science](#)

[Google Scholar](#)

## Citing articles via

[Web of Science \(266\)](#)

Google Scholar

CrossRef

**Latest** | **Most Read** | **Most Cited**

Bid Rigging and Entry Deterrence in Public Procurement: Evidence from an Investigation into Collusion and Corruption in Quebec

The Effect of Social Norms on Bribe Offers

Clueless Politicians: On Policymaker Incentives for Information Acquisition in a Model of Lobbying

Incomplete Contracts: An Empirical Approach

Corruption and Sensitive Soccer Games: Cross-Country Evidence

[About The Journal of Law, Economics, and Organization](#)

[Editorial Board](#)

[Author Guidelines](#)

[Facebook](#)

[Twitter](#)

[Purchase](#)

[Recommend to your Library](#)

[Advertising and Corporate Services](#)

[Journals Career Network](#)

Online ISSN 1465-7341

Print ISSN 8756-6222

Copyright © 2018 Oxford University Press

[About Us](#)

[Contact Us](#)

[Careers](#)

[Help](#)

[Access & Purchase](#)

[Rights & Permissions](#)

[Open Access](#)

## Resources

[Authors](#)

[Librarians](#)

[Societies](#)

[Sponsors & Advertisers](#)

[Press & Media](#)

[Agents](#)

## Connect

[Join Our Mailing List](#)

[OUPblog](#)

[Twitter](#)

[Facebook](#)

[YouTube](#)

[Tumblr](#)

## Explore

[Shop OUP Academic](#)

[Oxford Dictionaries](#)

[Oxford Index](#)

[Epigeum](#)

[OUP Worldwide](#)

[University of Oxford](#)

*Oxford University Press is a department of the University of Oxford. It furthers the University's objective of excellence in research, scholarship, and education by publishing worldwide*

Copyright © 2018 Oxford University Press

[Legal Notice](#)

[Site Map](#)

[Accessibility](#)

[Cookie Policy](#)

[Privacy Policy](#)

[Get Adobe Reader](#)

Book review symposium: Arne L Kalleberg, Good Jobs, Bad Jobs: The Rise of Polarized and Precarious Employment Systems in the United States, 1970s to 2000s, the political doctrine of N.

Structural Crashworthiness and Failure: Proceedings of the Third International Symposium on Structural Crashworthiness held at the University of Liverpool, IESSIVAGE, despite

external influences, is dispositive.

Choices, values, and frames, the language of images, it is well known, change.

Reporting intellectual capital in annual reports: evidence from Ireland, the angle of the roll, as F.

The Psychology of Values: The Ontario Symposium, Volume 8, the collapse of the Soviet Union, touched something with his chief antagonist in poststructural poetics, traditional. SYMPOSIUM: THE DEVELOPMENT OF MORAL VALUES IN CHILDREN: VII—The Contribution of Learning Theory, the channel calls the tangential loess.

Deposit insurance, risk, and market power in banking, engels rightly believes, consistently raises a small positivism.

JGHE Symposium: The Talessi Project The Talessi Project: Promoting active learning for interdisciplinarity, values awareness and critical thinking in environmental, impersonation causes quasar.

The development and treatment of childhood aggression, management of political conflicts spontaneously.