

**DOES CORPORATE GOVERNANCE MATTER IN WEAK GOVERNANCE ENVIRONMENT? EVIDENCE
ON STOCK PRICE INFORMATIVENESS**

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ABSTRACT

This study explores whether, and to what extent, internal corporate governance mechanisms matter in inducing more informative stock pricing in such an emerging market as China where external governance mechanisms are relatively weak. Empirical evidence indicates that insider ownership tends to discourage informed trading while board independence fosters the capitalization of value-relevant firm information. Earnings quality is found to have no significant impact on stock price informativeness. These findings suggest that emerging market investors tend to emphasize more on perceived corporate governance characteristics such as ownership structure and board composition when valuing stocks, while less attention has been paid on the level of corporate transparency and the quality of reported earnings.

Keywords: *Stock Price Informativeness, Corporate Governance, Earnings Quality, China*