University of Newcastle

Performance of Chinese Listed Companies

With Respect to Ownership Structure, Concentration and CEO Characteristics

By

Tsui, Che Yin Frank

Student No. 3034763
Synopsis

In this dissertation, I aim to examine the performance of Chinese listed companies with respect to ownership structure, ownership concentration and CEO characteristics. This research study differs from previous studies in two major aspects. Firstly, it is not entirely based on the agency theory. For example, the socialized approach assumes that there is a positive relationship between state ownership and agency cost (Chizema and Le, 2011). Therefore, a negative relationship exists between the performance of a firm and its ownership by the state (Saunders and Travlos, 1990). In contrast, it can be argued that state ownership has a positive impact on the performance of a firm (Chizema and Le, 2011). As privatization in China is not in the strict institutional context, the state may still interfere with the firm in a subjective manner (Bachiller, 2009). Secondly, it explains the relationship between the performance of a firm (accounting returns) and the value of a firm (return based on market), proposing an effect that moderates the state ownership. It is argued that state ownership has a positive effect on the performance of a firm, and a negative effect on the market value of a firm.

Ownership concentration is also found to have an impact on a firm’s performance. In the context of China the background of the ownership may also have an impact on firm performance. Concentration of ownership in the hands of the state may have a different effect on firm performance than ownership concentration by institutions or private individuals.

As the Chinese economy continues to develop and transition from a centrally planned one to a market based one, corporatization also goes along. Government
interference on day to day management of government companies gradually subsides. The reliance on professional management also increases with the power of the CEO getting stronger. This research study aims to study the effect of CEO characteristics on firm performance as it relates to China. The impact of CEO characteristics is worth further study as the focus of corporate governance at Chinese listed firms gradually evolves from being dictated by ownership structure and concentration to more involvement of the CEO.

This research study aims to answer the following research questions.

1. Is the ownership structure significantly associated with the performance of Chinese listed companies?

2. Is the ownership concentration significantly associated with the performance of Chinese listed companies?

3. Are the CEO characteristics significantly associated with performance of Chinese listed companies?

Regression analysis has been used to test the hypotheses that are established based on these research questions. Research data adopted are based on all listed firms on the Shanghai and Shenzhen Exchanges that have issued “A” shares and been consistently trading for the period from 2010 to 2012.

Quantitative analysis returns a conclusion that there exists a positive impact on the performance of a firm government with respect to its ownership structure, ownership concentration as well as CEO characteristics. It is anticipated that going forward the
role of the CEO in Chinese companies will become more significant although most Chinese listed companies, both state and privately owned companies alike, still have a controlling shareholder. How the CEOs of Chinese listed companies discharge their duties in a heavy ownership concentration situation where the controlling shareholders are still actively involved in company operations and decisions will be an interesting topic for further study.
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Abbreviations

SOE ........... State-Owned Enterprises
CEO .......... Chief Executive Officer
CFO .......... Chief Financial Officer
AROA .......... Adjusted Return on Assets
CSRC .......... China Securities Regulatory Commission
GDP .......... Gross Domestic Product
GVIO .......... Gross Value of Industrial Output
IPO .......... Initial Public Offering
MNC .......... Multi-national Corporations
ROA .......... Return on Assets
ROE .......... Return on Equity
SCRES .......... State Commission for Restructuring the Economic System
SEZ .......... Shenzhen Special Economic Zone
SHX .......... Shenzhen Stock Exchange
SZX .......... Shanghai Stock Exchange
TFP .......... Total-factor Productivity
TVE .......... Township-Village Enterprises