



**University of
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Faculty of Economics
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Master Thesis

The Effect of Ownership on Performance in Chinese
Public Listed Enterprises

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Executive Summary

This thesis explores the effect of ownership on performance in Chinese listed enterprises. China is one of the fastest growing economies worldwide and on the course to become larger than the currently leading United States. Despite the rapid growth and development, there are still concerns about the effectiveness of the institutions, especially when it comes to minority shareholder protection and transparency (Berkman, Cole and Fu (2010)); Huyghebaert and Wang (2012)).

The Chinese economy emerged from a situation with a corporate landscape dominated by government ownership. In a series of reforms, the ownership of Chinese enterprises was spread and partially privatized. Especially for listed enterprises the latest Split Share Structure Reform in 2005 lead to a substantial decrease in government ownership (Yu (2013)). However, in comparison to western economies China is still characterized by a large government share (Phung and Mishra (2016)) and a high ownership concentration (Hess, Gunasekarage and Hovey (2010); Yu (2013)). This situation offers an attractive case for corporate governance research with regard to firm ownership.

Existing literature on the topic of the relationship of ownership and performance in China is focused on the impact of government ownership, where the general consensus indicates a U-shaped relation. Additionally to analyzing the impact of ownership categories, this thesis examines the effects of ownership concentration and managerial ownership, which have not been fully resolved for the case of China.

In a first stage, related literature is reviewed, a range of ownership variables are described and the predicted impact of ownership on performance in Chinese listed enterprises is analyzed. The chosen variables represent shareholding concentration, ordinary government ownership, market-oriented government ownership, private ownership and managerial ownership. The proxies for performance are return on equity, return on assets and Tobin's Q. For each ownership variable, a hypothesis about its nexus with performance is derived from theory.

In a second stage, the hypotheses are empirically tested. The statistical analysis uses an unbalanced panel data set of 570 firm-year observations of Chinese listed enterprises over the time span from 2009 to 2016. The explanatory variables representing ownership, alongside a selection of control variables are regressed

on the performance proxies. Depending on the combination of variables either fixed effects or random effects model is employed. This is followed by a series of statistical tests.

The examination leads to the conclusion that there are various relations of ownership and performance in Chinese public listed enterprises. The results indicate that Ownership concentration and performance have a U-shaped relationship. The shape of this relation can be explained by the threat of minority shareholder expropriation, which is predicted to be most severe at intermediate levels of ownership concentration. Another U-shaped relationship characterizes the found link of government ownership and performance. This result applies for both the ordinary and the market-oriented type of government ownership, but the relationship for the latter appears to be less pronounced. The found U-shape implies that government ownership and ownership concentration are associated with inferior performance at lower levels and superior performance at higher levels. For private ownership the analysis yields no significant results.

Managerial ownership has an inverse U-shaped relation with Tobin's Q. Hence, there appears to be an optimal level of managerial ownership. Tobin's Q is predicted to increase with managerial ownership up to an inflection point and thereafter to decrease with incremental managerial ownership. In general, the rationale for the observed non-linear effects of ownership types on performance is, that their positive and negative impacts depend on the level of their proportion.

This thesis has the following implications for policy; China's privatization process should be continued, managerial ownership encouraged and minority shareholder protection improved. The empirical analysis is limited by the relatively small sample size. Extension of this research by employing a larger sample or even the full population of Chinese listed enterprises should be promising, since there are still issues, concerning the nexus of ownership and performance in China, to be investigated.