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An examination of the determinants of performance in relation to the divestiture of State-owned assets in China

A thesis presented in fulfilment of the requirements for the degree of Doctor of Philosophy

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Dedicated to the memory of my mother Jinlai Zhang

1939-2008
Abstract

Compared with other countries, China’s privatization has not been fully successful, as profitability decreased following share issue privatization. This thesis focuses on two features that affect post-privatization performance in China: regional disparity and the inefficiency of board structure.

It is argued that privatization does not mean just the transfer of ownership from the State to the private sector, but the combination of such ownership transfer with deregulation and the injection of domestic and foreign competition, as well as institutional changes. It is shown that performance varies with the extent of regional development proxies in China. In particular, the injection of foreign competition is significantly and positively related to Tobin’s Q.

On August 16, 2001, the China Securities Regulatory Commission (CSRC) issued the “Guidelines on Establishing an Independent Director System in Listed Companies” to protect small shareholders from expropriation by dominant shareholders. It has been noted that under the highly concentrated ownership structure and insider-dominated boards of listed firms, independent directors cannot work efficiently as monitors in China. Besides satisfying the government and signalling the market, the main contribution of independent directors is to provide advice to top management. The results of this thesis show that large and diversified firms prefer larger boards with more independent directors; moreover, for large and diversified firms, Tobin’s Q increases with board size and board independence.
It is found that Chinese-listed firms exhibit two types of connections provided by independent directors: 43.76% of the independent directors are university scholars or researchers, and 13.88% of them are politically connected. The empirical results show that the relationship between Tobin’s Q and the presence of scholars and politically connected outsiders on a board is significantly negative. But it has been found that scholars, commercial bankers, and politically connected independent directors can add value to large firms, highly leveraged firms, and firms without politically connected CEOs, respectively. Moreover, it is found that the recruitment of independent directors does not limit the related party transactions between the listed companies and their controlling shareholders.
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# Table of Contents

Abstract ........................................................................................................................................ iii
Acknowledgements .................................................................................................................. v
Table of Contents .................................................................................................................... vi
List of tables .............................................................................................................................. ix
List of figures ............................................................................................................................. xi

## Chapter One

### Introduction

1.1 Motivation of the study ........................................................................................................ 2
1.2 Essay One: Regional disparity and post-privatization performance ................................. 6
1.3 Essay Two: Board structure determinants and efficiency .................................................. 7
1.4 Essay Three: Independent directors’ characteristics and performance ............................ 8
1.5 Structure of the Thesis ......................................................................................................... 9

## Chapter Two

### Literature Review

2.1 Introduction ....................................................................................................................... 10
2.2 Share Issue Privatization (SIP) ........................................................................................ 11
  2.2.1 Post-privatization performance following SIP ............................................................. 11
  2.2.1.1 Multi-country studies .......................................................................................... 12
  2.2.1.2 Single-country studies ....................................................................................... 16
  2.2.2 Determinants of post-privatization performance ....................................................... 19
    2.2.2.1 Control relinquishment by the government ......................................................... 20
    2.2.2.2 Foreign ownership ............................................................................................ 22
    2.2.2.3 Changes in top management ........................................................................... 24
  2.2.3 “Profitability puzzle” in China .................................................................................... 26
2.3 Board structure and firm performance .............................................................................. 32
  2.3.1 The determinants of board structure ........................................................................ 32
    2.3.1.1 Scale and complexity of operations hypothesis ................................................. 33
      2.3.1.1.1 Firm size .................................................................................................... 33
      2.3.1.1.2 Business diversification ............................................................................ 36
      2.3.1.1.3 Firm age .................................................................................................... 38
      2.3.1.1.4 Leverage .................................................................................................... 39
    2.3.1.2 Monitoring costs and private benefits ............................................................... 39
      2.3.1.2.1 Monitoring costs ....................................................................................... 40
      2.3.1.2.2 Private benefits ....................................................................................... 42
    2.3.1.3 CEO influence ................................................................................................. 43
  2.3.2 Board composition and performance ......................................................................... 45
    2.3.2.1 Board size and firm performance ...................................................................... 45
    2.3.2.2 Board independence and firm performance ..................................................... 49

## Chapter Three

### Essay One

3.1 Introduction ....................................................................................................................... 54
3.2 China’s regional disparity ................................................................................................. 55
3.3 Regional disparity on post-privatization performance ........................................60
3.2.1 Economic development ........................................................................60
3.2.2 Institutional factors ..............................................................................63
  3.2.2.1 The development of the stock market in China ............................63
  3.2.2.2 Product market competition ............................................................66
  3.2.2.3 Government efficiency and law enforcement ............................67
3.4 Data, methodology, and empirical results .................................................68
  3.4.1 Data ........................................................................................................68
  3.4.2 Does firm performance improve after SIP in China? ..............................70
  3.4.3 Does regional disparity matter? .................................................................73
    3.4.3.1 The Mann-Whitney test .................................................................73
    3.4.3.2 Cross-sectional analysis .................................................................74
    3.4.3.3 Panel data analysis .........................................................................79
    3.4.3.4 Robustness test .............................................................................84
3.5 Conclusion ....................................................................................................87

Chapter Four  Essay Two ......................................................................................89

4.1 Introduction ..................................................................................................90
4.2 The independent director system in China .....................................................93
  4.2.1 Overview of Chinese corporate governance practices .........................93
  4.2.2 The establishment of an independent director system .........................96
4.3 Literature and hypotheses ............................................................................100
  4.3.1 Board size and the implementation of an independent director system 100
  4.3.2 Board structure determinants for Chinese listed firms .........................102
    4.3.2.1 China-specific determinants .........................................................103
    4.3.2.2 Firm size and business diversification .........................................104
      4.3.2.2.1 Firm size ................................................................................104
      4.3.2.2.2 Business diversification .........................................................105
  4.3.3 Board structure and firm performance ...................................................106
    4.3.3.1 Board size and performance .........................................................106
    4.3.3.2 Board independence and performance .......................................107
4.4 Data, methodology, and empirical results ....................................................108
  4.4.1 Data ........................................................................................................108
  4.4.2 The determinants of board structure .....................................................109
    4.4.2.1 Descriptive statistics ....................................................................109
    4.4.2.2 Differences between subsamples concerning board composition 112
    4.4.2.3 Panel data analysis – board structure determinants ....................116
    4.4.2.4 Robustness test ...........................................................................124
  4.4.3 Board structure and firm performance ....................................................126
    4.4.3.1 The advisory role of the board ......................................................126
    4.4.3.2 Robustness test ...........................................................................131
4.5 Conclusion .....................................................................................................133
Chapter Five       Essay Three .................................................................................135

5.1 Introduction .................................................................136
5.2 Literature and hypotheses ...............................................138
  5.2.1 Scholars on the board ..............................................138
  5.2.2 Politically connected outsiders .................................140
  5.2.3 Retired bureaucrats ..............................................142
  5.2.4 Commercial bankers ..............................................143
  5.2.5 Certified public accountants and certified lawyers ....144
  5.2.6 Executives with overseas working experience .........145
5.3 Data, methodology, and empirical results .........................146
  5.3.1 Data ........................................................................146
  5.3.2 Independent directors’ characteristics and firm efficiency........149
    5.3.2.1 Panel data analysis ..............................................149
    5.3.2.2 The interaction effect of independent directors on a board ........154
    5.3.2.3 Robustness test ...............................................158
  5.3.3 Independent directors’ characteristics and expropriation ........160
    5.3.3.1 The pre- and post-guidelines expropriation ..........161
    4.4.3.2 Do independent directors monitor related party transactions? ...163
5.4 Conclusion .................................................................166

Chapter Six       Conclusion ..............................................................................169

6.1 Major findings and implications ......................................170
  6.1.1 Essay One ..............................................................170
  6.1.2 Essay Two ..............................................................172
  6.1.3 Essay Three ..........................................................174
6.2 Future areas of research ................................................175
  6.2.1 Political connection - a ‘grabbing hand’ or a ‘helping hand’ ....175
  6.2.2 The supervisory board - a failure or an essential mechanism ....177

References ........................................................................................................178
List of tables

Table 3.1       Regional Development Performance in China, by Province ………………57
Table 3.2         Development Differences between Above and Below-Mean
Subsamples of Provinces in China ……………………………………….61
Table 3.3         Description of Sample Chinese Firms According to Categories of
Characteristics…………………………………………………………..69
Table 3.4         Performance Differences between Pre- and Post-Privatization
Periods for Sample Firms in China …………………………………72
Table 3.5         Comparison of the Performance between Above-Mean
Subsample and Others…………………………………………………..74
Table 3.6        Cross-Sectional Regression – Does Regional Disparity Matter? …….78
Table 3.7         Correlation Matrix Comparing the Characteristics and Performance
Outcome of Chinese Firms Privatized between 1996 and 2002……80
Table 3.8         Panel Data Analysis – Does Regional Disparity Matter ?……………….83
Table 3.9         Panel Data Analysis – Does Location Matter?………………………….85
Table 3.10       Panel Data Analysis – Do Education and Industrialization Matter?……..86
Table 4.1         Descriptive Statistics – t Test on Board Size Difference between before and
after Guidelines…………………………………………………………110
Table 4.2        t Test on Board Size Difference between Subsamples …………………..113
Table 4.3        t Test on Board Independence Difference between Subsamples ……..115
Table 4.4          Summary Statistics for Characteristics of Sample Chinese Firms ……118
Table 4.5         Panel Data Analysis - Determinates of Board Structure …………………120
Table 4.6         2SLS Regression - Determinates of Board Structure …………………….123
Table 4.7         Determinates of Board Structure – Robustness ………………………..125
Table 4.8        Correlation Matrix Comparison of Sample Firms in China ……………127
Table 4.9        An Analysis of Board Structure and Efficiency for Sample
Chinese Firms, 1999 - 2004 …………………………………………..129
Table 4.10       An Analysis of the Effect of the Scholar Variable on the Efficiency of Sample Chinese Firms ……………………………………………………………132

Table 5.1         Current and Previous Occupations of Independent Directors Recruited by Sample Chinese Firms …………………………………………………147

Table 5.2        Characteristics and Efficiency - Summary Statistics for the Variables…150

Table 5.3         A Fixed Effect Analysis of the Presence of Independent Directors with Different Characteristics on Board of Sample Chinese Firms and the Board’s Efficiency ……………………………………………………………152

Table 5.4        An Analysis of the Interaction Effect between Independent Director Characteristics and Efficiency …………………………………………………157

Table 5.5         Characteristics and Efficiency – Subsample Analysis………………159

Table 5.6         Independent Directors and Expropriation – Wilcoxon z test………..162

Table 5.7         A Random-Effects Regression Analysis on Independent Directors’ Characteristics and Expropriation for Sample Chinese Firms…………165
List of figures

Figure 3.1  Regional Development Proxy Scores for Subsamples of Chinese Provinces for the Period 1996-2005 .................................59