

# Corporate Governance in China

Fuxiu Jiang & Kenneth A. Kim



# Disclaimer

---

This presentation was produced solely by Fuxiu Jiang and Kenneth A. Kim. The opinions and statements expressed herein are those of Fuxiu Jiang and Kenneth A. Kim and are not necessarily the opinions of any other entity, including UBS AG and its affiliates. UBS AG and its affiliates accept no responsibility whatsoever for the accuracy, reliability or completeness of the information, statements or opinions contained in this presentation and will not be liable either directly or indirectly for any consequences, including any loss or damage, arising out of the use of or reliance on this presentation or any part thereof.

Reproduced with permission.

We assess the efficacy of the following governance mechanisms in China:

- Large shareholders
- Institutional investors
- Boards
- Executive compensation
- Debt
- Dividends

# Ownership concentration



中國人民大學  
RENMIN UNIVERSITY OF CHINA

商学院  
SCHOOL OF BUSINESS



- Classic view suggests that concentrated owners or large shareholders are effective monitors of their firms.
- Idea is simple: large shareholders have both the incentive and the ability to monitor the firm.

# Ownership concentration



Panel A: Percent shares held by largest shareholder					
year	# of obs	25th percentile	mean	median	75th percentile
1999	947	0.2995	0.4550	0.4505	0.5975
2000	1108	0.2977	0.4519	0.4472	0.5985
2001	1163	0.2950	0.4424	0.4358	0.5883
2002	1229	0.2907	0.4360	0.4313	0.5819
2003	1289	0.2868	0.4264	0.4134	0.5711
2004	1377	0.2856	0.4189	0.3991	0.5616
2005	1375	0.2795	0.4046	0.3792	0.5425
2006	1456	0.2439	0.3655	0.3406	0.4797
2007	1569	0.2359	0.3610	0.3434	0.4762
2008	1626	0.2374	0.3637	0.3471	0.4840
2009	1765	0.2379	0.3641	0.3402	0.4858
2010	2122	0.2379	0.3655	0.3452	0.4850
2011	2362	0.2388	0.3625	0.3437	0.4750
2012	2491	0.2392	0.3642	0.3452	0.4778
2013	2532	0.2375	0.3618	0.3423	0.4738
2014	2647	0.2328	0.3553	0.3358	0.4606
2015	2841	0.2267	0.3445	0.3251	0.4464
2016	3133	0.2213	0.3393	0.3184	0.4384
2017	3510	0.2235	0.3374	0.3164	0.4309
2018	3606	0.2234	0.3352	0.3108	0.4287

# Ownership concentration



Panel B: Percent shares held by top 5 largest shareholders

<u>year</u>	<u># of obs</u>	<u>25th percentile</u>	<u>mean</u>	<u>median</u>	<u>75th percentile</u>
1999	947	0.5074	0.5992	0.6118	0.7036
2000	1108	0.5097	0.5966	0.6100	0.6957
2001	1163	0.4988	0.5870	0.6000	0.6859
2002	1229	0.5008	0.5886	0.6043	0.6861
2003	1289	0.5003	0.5869	0.6040	0.6821
2004	1377	0.5086	0.5897	0.6071	0.6819
2005	1375	0.4880	0.5756	0.5895	0.6721
2006	1456	0.4324	0.5306	0.5316	0.6263
2007	1569	0.4182	0.5237	0.5216	0.6264
2008	1626	0.4077	0.5217	0.5198	0.6366
2009	1765	0.4001	0.5247	0.5192	0.6441
2010	2122	0.4090	0.5401	0.5399	0.6700
2011	2362	0.4165	0.5441	0.5528	0.6766
2012	2491	0.4213	0.5449	0.5544	0.6708
2013	2532	0.4200	0.5387	0.5422	0.6609
2014	2647	0.4136	0.5305	0.5305	0.6462
2015	2841	0.4136	0.5301	0.5321	0.6450
2016	3133	0.4225	0.5385	0.5382	0.6476
2017	3510	0.4332	0.5458	0.5478	0.6590
2018	3606	0.4324	0.5441	0.5469	0.6575

# ROEs from large shareholders



Panel A: Median ROE based on largest shareholder ownership

Year	SOEs					
	Top1<0.3		0.3=<Top1<0.5		Top1>=0.5	
	# of obs	median	# of obs	median	# of obs	median
2003	202	0.043	299	0.050	427	0.065
2004	213	0.037	312	0.051	419	0.068
2005	227	0.037	308	0.041	387	0.060
2006	284	0.040	353	0.063	254	0.082
2007	293	0.069	370	0.080	245	0.108
2008	304	0.048	383	0.054	272	0.081
2009	300	0.058	383	0.069	276	0.086
2010	325	0.067	395	0.083	285	0.094
2011	321	0.071	401	0.079	286	0.092
2012	316	0.057	400	0.064	295	0.087
2013	320	0.052	395	0.062	299	0.076
2014	305	0.046	403	0.060	276	0.075
2015	314	0.040	407	0.054	256	0.064
2016	324	0.055	429	0.058	254	0.067
2017	334	0.050	427	0.067	257	0.081
2018	361	0.048	427	0.065	257	0.078

# ROEs from large shareholders



Panel A: Median ROE based on largest shareholder ownership

Year	Non-SOEs					
	Top1<0.3		0.3=<Top1<0.5		Top1>=0.5	
	# of obs	median	# of obs	median	# of obs	median
2003	200	0.053	74	0.061	47	0.068
2004	235	0.043	98	0.066	58	0.077
2005	229	0.036	97	0.064	55	0.067
2006	257	0.058	144	0.074	43	0.076
2007	277	0.089	186	0.104	59	0.120
2008	286	0.059	220	0.087	77	0.116
2009	336	0.071	244	0.091	90	0.107
2010	450	0.074	372	0.082	148	0.091
2011	563	0.075	487	0.080	198	0.086
2012	643	0.064	543	0.073	229	0.080
2013	673	0.062	531	0.066	206	0.083
2014	706	0.060	574	0.068	196	0.090
2015	812	0.059	665	0.077	189	0.086
2016	989	0.060	719	0.080	200	0.099
2017	1164	0.068	907	0.090	227	0.106
2018	1277	0.055	1011	0.080	255	0.100



# ROEs from multiple large shareholders



Year	Highly balanced		In-Between		Unbalanced	
	Mean	Median	Mean	Median	Mean	Median
1999	0.0277	0.0967	0.0593	0.0937	-0.0076	0.0861
2000	-0.0004	0.0754	0.0360	0.0804	0.0205	0.0732
2001	-0.0455	0.0583	-0.0155	0.0634	-0.0106	0.0608
2002	-0.0101	0.0510	-0.0059	0.0602	-0.0582	0.0431
2003	0.0073	0.0596	0.0299	0.0547	-0.0070	0.0415
2004	-0.0912	0.0512	-0.0458	0.0465	-0.0685	0.0493
2005	-0.0818	0.0417	-0.1018	0.0391	-0.0555	0.0448
2006	-0.0032	0.0620	-0.0225	0.0599	0.0371	0.0562
2007	0.1183	0.0965	0.1031	0.0864	0.0762	0.0687
2008	0.0325	0.0776	0.0182	0.0575	0.0167	0.0483
2009	0.0797	0.0887	0.0634	0.0765	0.0144	0.0539
2010	0.1012	0.0842	0.0899	0.0803	0.0661	0.0716
2011	0.0812	0.0821	0.0775	0.0778	0.0547	0.0674
2012	0.0719	0.0718	0.0741	0.0722	0.0494	0.0516
2013	0.0582	0.0680	0.0683	0.0659	0.0361	0.0510
2014	0.0523	0.0683	0.0555	0.0637	0.0403	0.0504
2015	0.0528	0.0657	0.0533	0.0639	0.0236	0.0494
2016	0.0645	0.0691	0.0636	0.0690	0.0519	0.0564
2017	0.0669	0.0743	0.0587	0.0741	0.0543	0.0704
2018	-0.0265	0.0669	-0.0588	0.0639	-0.0588	0.0609

- Classic (albeit contentious) view is that institutional investors actively and effectively monitor firms in which they own stock.
- Idea is simple: institutional investors as large shareholders have both the incentive and the power to monitor firms.

# Institutional investors



	Year=2014				
	<u># of obs</u>	<u>25th percentile</u>	<u>Mean</u>	<u>Median</u>	<u>75th percentile</u>
All institutions	87076	0.0015	0.1989	0.0115	0.1022
QFII	353	0.4207	1.2299	0.7680	1.3946
Insurance firms	589	0.5682	1.8095	1.0245	1.8187
Financial firms	44	0.8130	1.4469	1.1689	2.1583
Supplementary pensions	26	0.4982	0.8042	0.7657	0.9075
Securities companies	400	0.6457	1.5540	1.1416	1.9331
Social insurance funds	829	0.7182	1.6519	1.3191	2.1271
Trust companies	66	0.5732	3.3737	1.2343	4.3056
Mutual funds	84769	0.0014	0.1595	0.0103	0.0848
	Year=2016				
All institutions	188192	0.0020	0.1058	0.0056	0.0323
QFII	399	0.4144	1.1181	0.8123	1.3149
Insurance firms	967	0.6977	2.0143	1.1952	2.0028
Financial firms	30	0.6615	1.4867	1.1335	1.8813
Supplementary pensions	150	0.0167	0.1686	0.0254	0.0459
Securities companies	384	0.5741	1.3295	1.0188	1.8336
Social insurance funds	961	0.8603	1.6971	1.3831	2.0872
Trust companies	66	0.7189	3.0653	1.3441	3.0305
Mutual funds	185235	0.0020	0.0815	0.0055	0.0287
	Year=2018				
All institutions	190828	0.0007	0.0781	0.0042	0.0236
QFII	335	0.5493	1.5043	1.0193	1.8416
Insurance firms	620	0.7501	2.5149	1.3146	2.3953
Financial firms	25	0.8067	1.7600	1.2537	1.9638
Supplementary pensions	18	0.2049	1.1014	0.8566	1.5846
Securities companies	176	0.7104	1.6729	1.2989	2.2693
Social insurance funds	857	0.8611	1.8583	1.4434	2.3440
Trust companies	59	0.9847	3.8155	1.8374	4.0579
Mutual funds	188738	0.0007	0.0564	0.0041	0.0220

- Classic view is that independent directors are better monitors of managers than inside directors.
- Idea is simple: independent directors are more objective at evaluating managers than inside directors.

# Board size



<u>Year</u>	<u># of obs</u>	<u>25th percentile</u>	<u>Mean</u>	<u>Media</u>	<u>75th percentile</u>
1999	948	7.0000	9.6181	9.0000	11.0000
2000	1104	7.0000	9.4203	9.0000	11.0000
2001	1158	7.0000	9.3722	9.0000	11.0000
2002	1218	9.0000	9.8612	9.0000	11.0000
2003	1283	9.0000	9.8581	9.0000	11.0000
2004	1371	9.0000	9.7031	9.0000	11.0000
2005	1368	9.0000	9.5658	9.0000	11.0000
2006	1443	9.0000	9.4290	9.0000	11.0000
2007	1535	9.0000	9.3961	9.0000	11.0000
2008	1577	9.0000	9.2689	9.0000	10.0000
2009	1760	8.0000	9.1511	9.0000	9.0000
2010	2106	8.0000	9.0783	9.0000	9.0000
2011	2350	8.0000	8.9898	9.0000	9.0000
2012	2492	8.0000	8.9675	9.0000	9.0000
2013	2536	8.0000	8.8502	9.0000	9.0000
2014	2652	7.0000	8.6983	9.0000	9.0000
2015	2842	7.0000	8.5739	9.0000	9.0000
2016	3135	7.0000	8.5697	9.0000	9.0000
2017	3513	7.0000	8.4993	9.0000	9.0000
2018	3589	7.0000	8.4714	9.0000	9.0000

# # of independent directors



<u>year</u>	<u># of obs</u>	<u>Mean</u>	<u>Median</u>	<u>75th percentile</u>	<u>90th percentile</u>
2003	1283	3.2042	3.0000	4.0000	4.0000
2004	1371	3.3012	3.0000	4.0000	4.0000
2005	1368	3.3092	3.0000	4.0000	4.0000
2006	1443	3.2973	3.0000	4.0000	4.0000
2007	1535	3.3466	3.0000	4.0000	4.0000
2008	1577	3.3266	3.0000	4.0000	4.0000
2009	1760	3.3051	3.0000	4.0000	4.0000
2010	2106	3.2944	3.0000	4.0000	4.0000
2011	2350	3.2826	3.0000	3.0000	4.0000
2012	2492	3.2837	3.0000	3.0000	4.0000
2013	2536	3.2658	3.0000	3.0000	4.0000
2014	2652	3.1995	3.0000	3.0000	4.0000
2015	2842	3.1795	3.0000	3.0000	4.0000
2016	3135	3.1668	3.0000	3.0000	4.0000
2017	3513	3.1489	3.0000	3.0000	4.0000
2018	3589	3.1580	3.0000	3.0000	4.0000

# Independence ratio



<u>year</u>	<u># of obs</u>	<u>Mean</u>	<u>Median</u>	<u>75th percentile</u>	<u>90th percentile</u>
2003	1283	0.3277	0.3333	0.3636	0.3750
2004	1371	0.3421	0.3333	0.3636	0.4000
2005	1368	0.3481	0.3333	0.3636	0.4000
2006	1443	0.3524	0.3333	0.3636	0.4286
2007	1535	0.3589	0.3333	0.3750	0.4286
2008	1577	0.3617	0.3333	0.3750	0.4286
2009	1760	0.3646	0.3333	0.3846	0.4286
2010	2106	0.3667	0.3333	0.3846	0.4286
2011	2350	0.3691	0.3333	0.4000	0.4286
2012	2492	0.3704	0.3333	0.4000	0.4286
2013	2536	0.3735	0.3333	0.4286	0.4286
2014	2652	0.3731	0.3333	0.4286	0.4286
2015	2652	0.3767	0.3636	0.4286	0.4286
2016	2842	0.3753	0.3571	0.4286	0.4286
2017	3135	0.3763	0.3636	0.4286	0.4286
2018	3513	0.3789	0.3636	0.4286	0.4286
2018	3589	0.3675	0.3333	0.4000	0.4286

- Classic (albeit contentious) view is that executive compensation can incentivise managers to work hard.
- Idea is simple: managers that get paid more, or have the chance to get paid more, will work harder and shirk less.



# Managerial compensation in China



Panel A: Compensation of top manager (in 0000 s RMB)

Year	# of obs	SOEs		Non-SOEs		
		Mean	Median	# of obs	Mean	Median
2003	914	16.2705	12.3617	331	17.0195	11.0888
2004	948	20.1834	15.1108	408	19.6897	13.6847
2005	944	21.7807	16.5033	423	20.1987	14.0000
2006	936	26.4235	20.0000	501	22.4498	15.6167
2007	970	37.4459	25.9550	598	38.7520	19.0000
2008	983	41.6864	28.8000	636	35.4801	22.7867
2009	998	43.8365	31.9983	771	40.6702	25.7416
2010	1038	52.8704	38.5167	1089	44.7913	31.8133
2011	1037	61.8137	44.3733	1323	48.3709	36.1667
2012	1037	62.7575	47.9533	1450	52.7995	38.9170
2013	1027	66.4898	50.5800	1505	58.3894	41.3333
2014	1028	70.9067	52.3333	1619	62.0423	44.6367
2015	1031	74.3448	55.3333	1805	70.0275	48.7800
2016	1057	78.0012	57.4300	2076	76.0269	54.2917
2017	1079	88.6849	63.7233	2425	82.1191	59.3900
2018	1095	99.7727	69.5000	2486	93.0596	66.1367

- Debt financing can be a governance (i.e., disciplinary) mechanism.
- Idea is simple: when firms have to service debt, they need to generate sufficient operating cash flow.

# Debt ratio



## Leverage ratios

<u>Year</u>	<u># of obs</u>	<u>25th percentile</u>	<u>Mean</u>	<u>Median</u>	<u>75th percentile</u>
1998	929	0.2988	0.4261	0.4168	0.5463
1999	1030	0.3074	0.4412	0.4232	0.5534
2000	1175	0.3062	0.4519	0.4261	0.5562
2001	1258	0.3081	0.4762	0.4392	0.5710
2002	1319	0.3330	0.4909	0.4571	0.5969
2003	1381	0.3531	0.5150	0.4866	0.6255
2004	1469	0.3695	0.5439	0.5092	0.6346
2005	1464	0.3913	0.5698	0.5360	0.6601
2006	1547	0.3990	0.5967	0.5443	0.6651
2007	1660	0.3774	0.5681	0.5226	0.6619
2008	1715	0.3667	0.5582	0.5175	0.6593
2009	1863	0.3374	0.5313	0.5083	0.6700
2010	2217	0.2771	0.4815	0.4647	0.6428
2011	2452	0.2421	0.4518	0.4457	0.6230
2012	2580	0.2478	0.4428	0.4382	0.6193
2013	2624	0.2662	0.4499	0.4417	0.6210
2014	2739	0.2693	0.4506	0.4408	0.6205
2015	2927	0.2606	0.4373	0.4231	0.6017
2016	3221	0.2509	0.4240	0.4048	0.5818
2017	3598	0.2477	0.4209	0.4036	0.5715
2018	3690	0.2709	0.4396	0.4249	0.5854

- Dividend payouts can be a governance (i.e., disciplinary) mechanism.
- Idea is simple: when firms pay dividends, managers do not have much chance to expropriate or overinvest cash inflows.

# Dividend policy



year	# of firms	# of dividend.	dividends per share		dividend/eps		dividend/price	
		payers	mean	median	mean	median	mean	median
1998	842	254	0.1765	0.1500	0.6337	0.5158	0.0204	0.0165
1999	941	305	0.1601	0.1250	0.5896	0.4851	0.0178	0.0135
2000	1084	688	0.1331	0.1000	0.5034	0.4195	0.009	0.0071
2001	1160	708	0.1203	0.1000	0.4906	0.4304	0.0103	0.0082
2002	1222	632	0.1325	0.1000	0.5438	0.4803	0.0145	0.012
2003	1285	615	0.1399	0.1000	0.7266	0.4294	0.0167	0.0145
2004	1376	743	0.1527	0.1000	0.5796	0.4284	0.0232	0.0184
2005	1373	624	0.1499	0.1000	0.5075	0.4333	0.028	0.0226
2006	1432	697	0.1498	0.1000	0.4469	0.3865	0.0187	0.0149
2007	1534	787	0.158	0.1000	0.3378	0.2987	0.0072	0.0058
2008	1596	846	0.1493	0.1000	0.467	0.3006	0.0178	0.0141
2009	1693	938	0.1568	0.1000	0.4287	0.2936	0.0085	0.0066
2010	2037	1262	0.1959	0.1200	0.3645	0.2858	0.0095	0.007
2011	2316	1574	0.187	0.1200	0.3946	0.2931	0.0145	0.0113
2012	2474	1798	0.1639	0.1000	0.435	0.3086	0.0143	0.011
2013	2487	1818	0.1397	0.1000	0.4003	0.2958	0.0124	0.0082
2014	2611	1852	0.1423	0.1000	0.37	0.2784	0.0093	0.0061
2015	2825	1955	0.1476	0.1000	0.4739	0.296	0.007	0.004
2016	3045	2271	0.1509	0.1000	0.4118	0.2927	0.0084	0.0051
2017	3479	2716	0.1735	0.1000	0.3679	0.2964	0.0104	0.007
2018	3578	2547	0.1905	0.1070	0.4193	0.2959	0.0171	0.0116

- Majority shareholder and multiple large shareholders seem to provide effective governance in China.
- However, institutional investors, boards, compensation, debt, and dividends do not appear to be effective governance mechanisms in China.
- This is why strong laws and effective securities regulations are important in China, especially to minority shareholders and outside investors.



中國人民大學  
RENMIN UNIVERSITY OF CHINA

商学院  
SCHOOL OF BUSINESS



• 谢 谢!