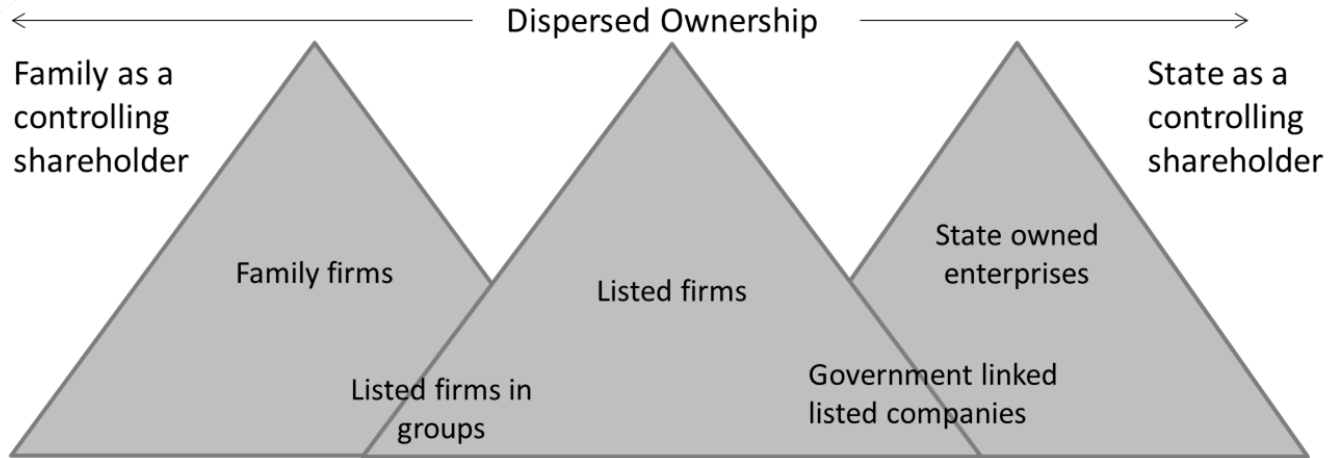


The Performance of SOEs in China: An Empirical Analysis of Ownership Control through SASACs

Professor Sea-Jin Chang

Corporate Governance of Asian firms



Target Audiences

- Family owners and management
- Family business associations and service providers (e.g. FBN, private banking)
- Investors & NGOs
- Industry associations (e.g. SID, ACGA, CIMA, CFA, etc.)
- Service providers (e.g. KPMG, SGX etc.)
- Regulatory agencies and governments (e.g. SGX, MAS, OECD)
- Governments
- Sovereign wealth funds (e.g. Temasek, SASAC)

The State as Shareholder: The Case of Singapore

Isabel Sim

Steen Thomsen

Gerard Yeong



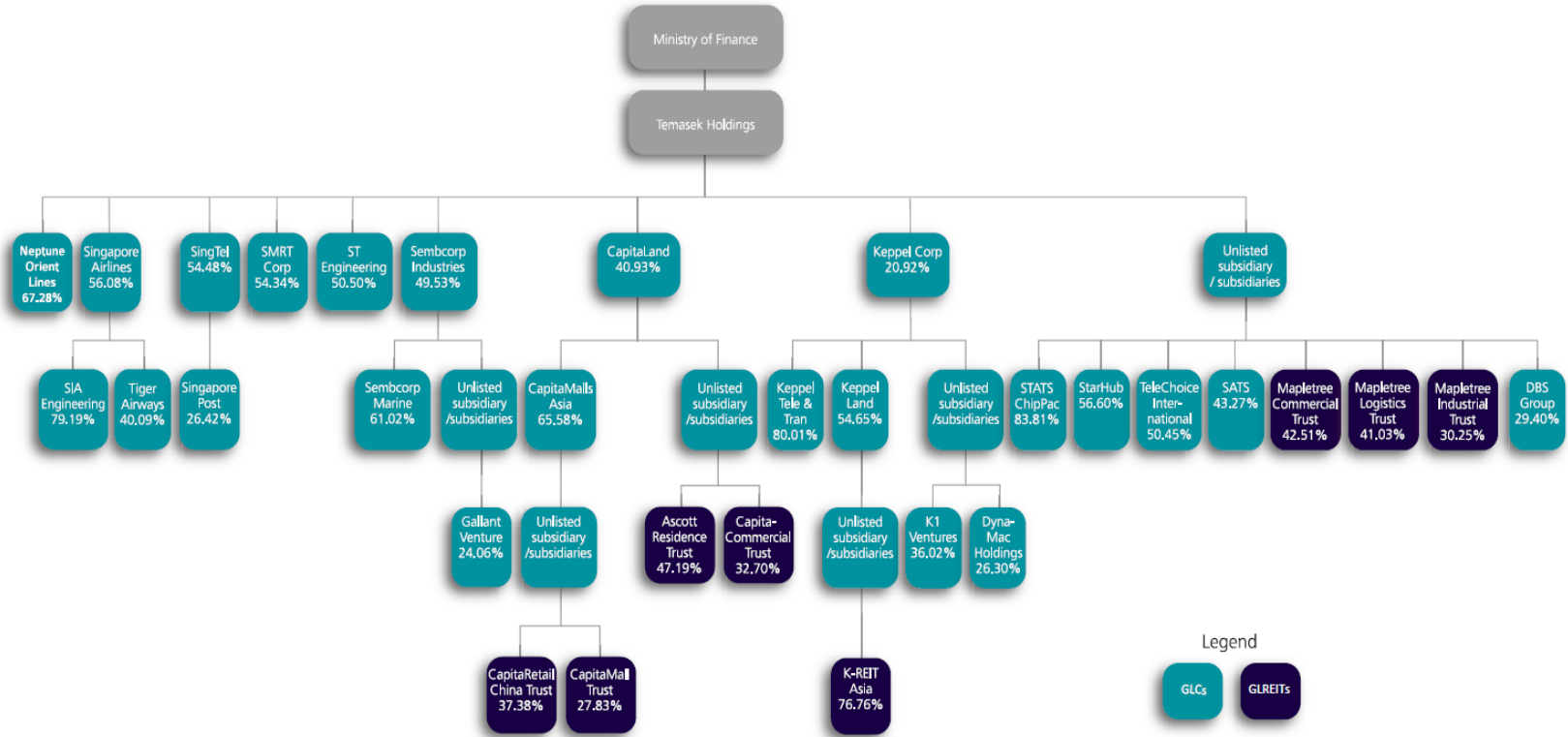
For more information, the 2014 report can be downloaded from CGIO website:

<https://bschool.nus.edu.sg/cgio>

GLCs in Singapore

- ▶ Government-linked companies (GLCs) represent 37% of the stock market value in 2013.
- ▶ Two representative SWFs are Temasek and GIC.

Temasek Holdings



Legend

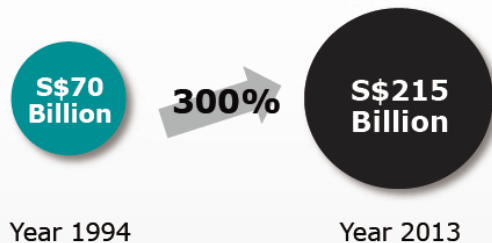


Sources: 2012 Annual reports of GLCs and GLREITs.

Investment Performance

Growth

Temasek's portfolio market value increased **300%** over the past 20 years.



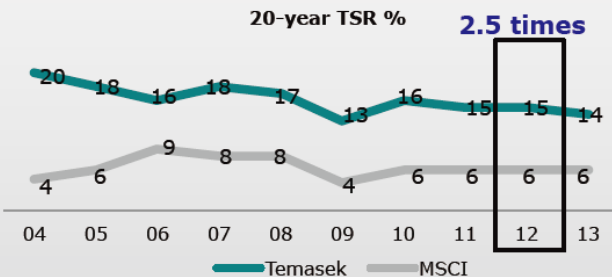
Active Investor

Temasek invested **S\$159 billion** and divested **S\$100 billion** over the last decade.



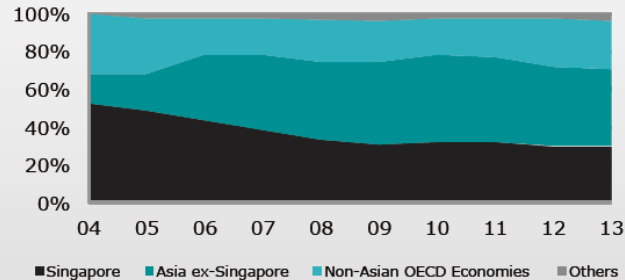
Shareholder Return

Temasek's 20-year Total Shareholder Return (TSR) was **2.5 times** MSCI Singapore in 2012.



International Portfolio

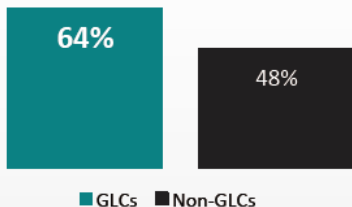
Non-Domestic Ownership of Assets increased **22%** over the last decade.



Comparison of Governance Practices: GLCs vs NON-GLCS

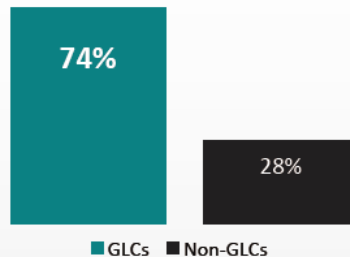
Board Independence

GLCs have **higher** percentage of independent directors on their boards.



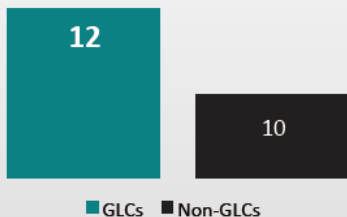
Chairman Independence

GLCs have **higher** percentage of Boards led by an independent/non-executive chairman.



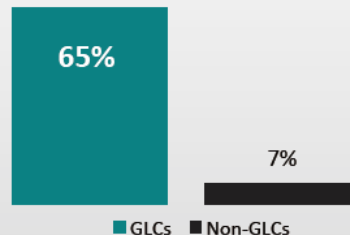
External Board Appraisal

GLCs hire **more** external consultants to conduct board appraisals.



Risk Governance

GLCs are **more likely** to have a Board Level Risk Committee.



Note: Analysis based on data from CGIO 's GTI 2009 -2013.

A billion dollar question: Can the Singapore model be replicated in China?



State-owned Assets Supervision and Administration Commission of
the State Council(SASAC), the People's Republic of China

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THE PERFORMANCE OF STATE OWNED ENTERPRISES IN CHINA:

An Empirical Analysis of Ownership Control
through SASACs

SEA-JIN CHANG | SANDY YUAN JIN



Current CIMA - CGIO report on SOE reforms in China

SOE Reforms in China

- ▶ Since its “Reform and Open Door Policy” of 1979, the Chinese government sought to reform its staggering state sector.
 - ▶ The Company Law was enacted in 1993. SOEs transformed into limited liability firms or joint stock companies, with state ownership converted to shares.
 - ▶ The SOE reform in 1995 with slogan, “Keep only large firms and let small ones go”.
 - ▶ Private firms were legalized in 1997.
- ▶ SASAC (State-owned Assets Supervision and Administration Commission of the State Council) was established in 2003, modeled after Temasek.
 - ▶ Central SASAC controlled 197 (106 as of 2016) key companies. Provincial governments created their own local SASACs.

Ownership Structure of Chinese SOEs

- ▶ 2,526 publicly listed firms in China for 2003-2013.
- ▶ Information on top 10 shareholders of these firms in the CSMAR database.
- ▶ The Company Law defines an immediate shareholder with more than 50% ownership or with enough voting rights to significantly affect company decision making.
- ▶ The ultimate shareholders are owners of these immediate shareholders.

The proportion of SOEs among listed firms has been declining...

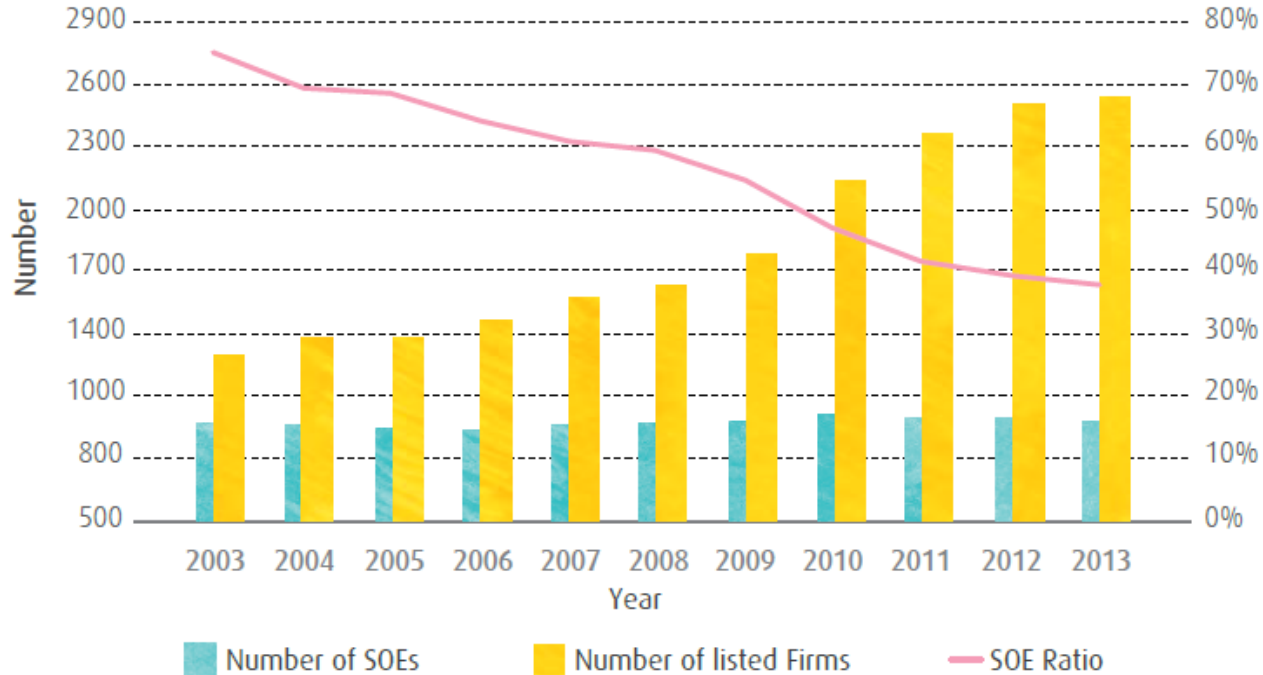


Figure 1: Number of SOEs 2003 - 2013

Surviving SOEs are large, representing more than 50% of market capitalization



Figure 2: SOEs' Market Capitalization 2003 - 2013

Typical Ownership Structure

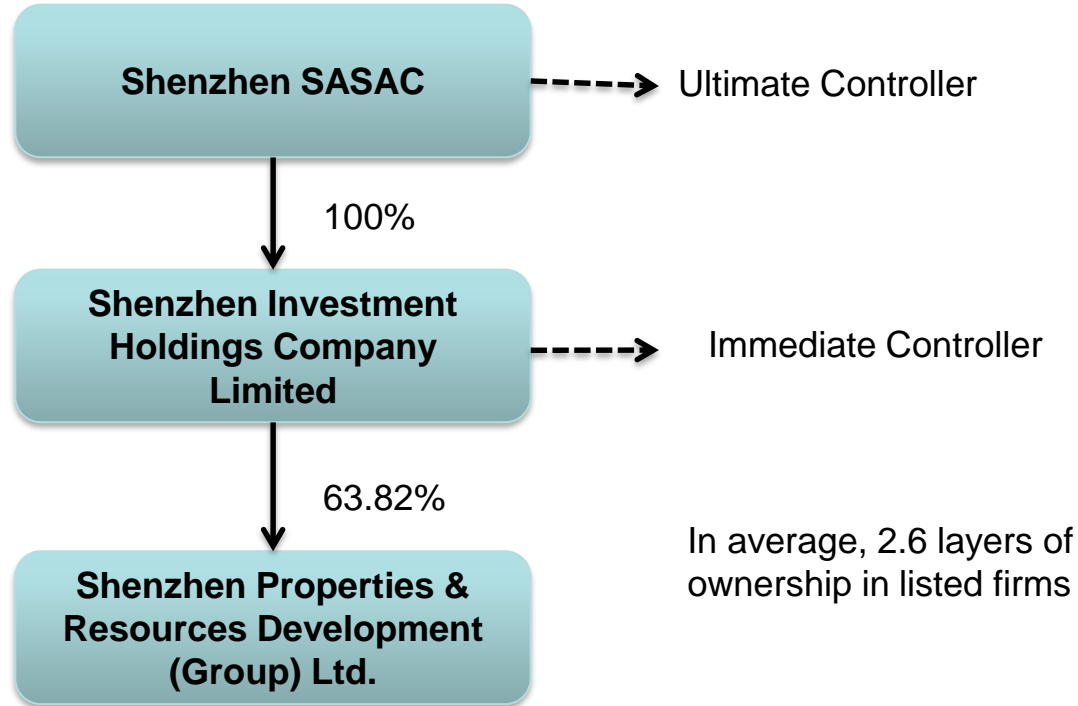


Figure 3. The Ownership Structure of Shenzhen Properties & Development in 2013

Ownership Stakes of Immediate Controllers

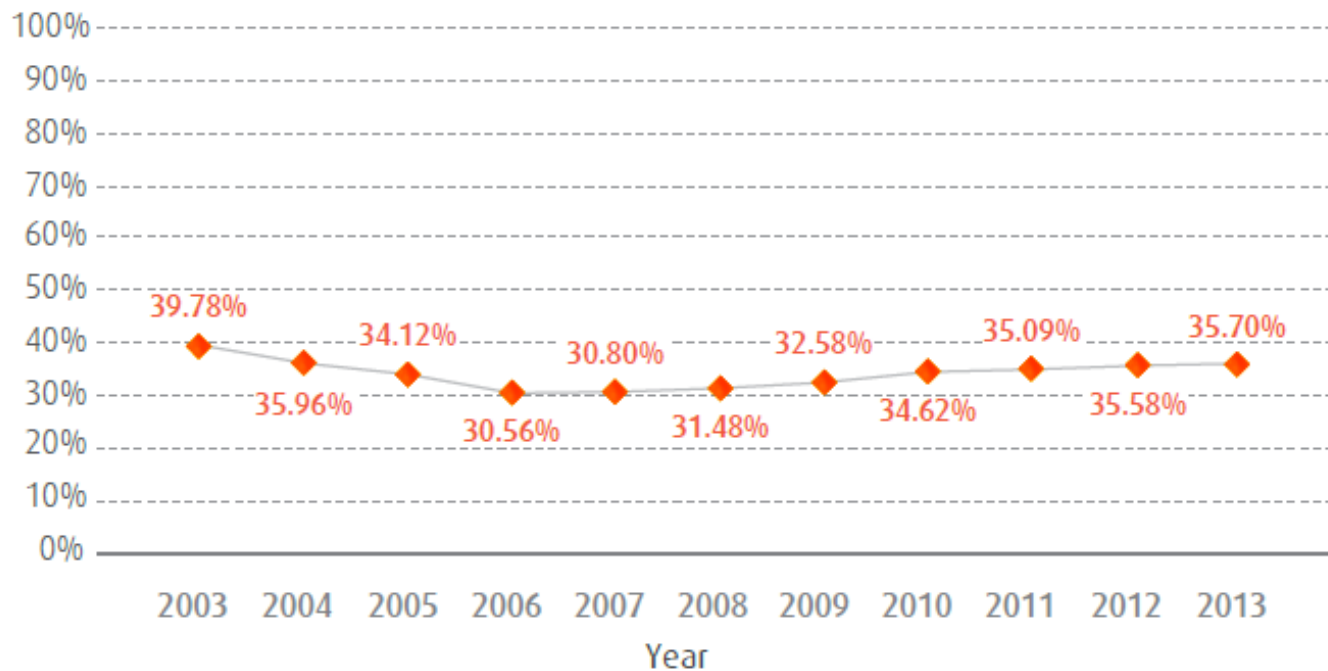


Figure 9: Average ownership stake of immediate controllers

Composition of Immediate Controllers

A large portion of immediate controllers are SOEs

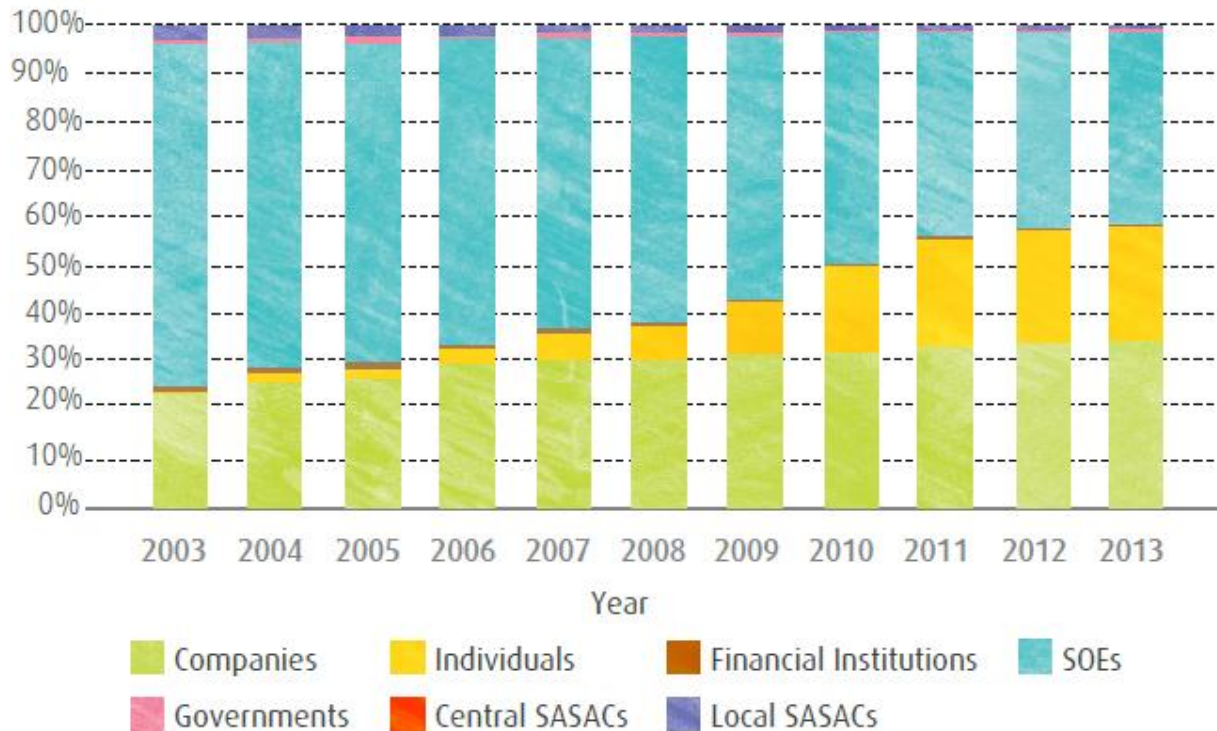
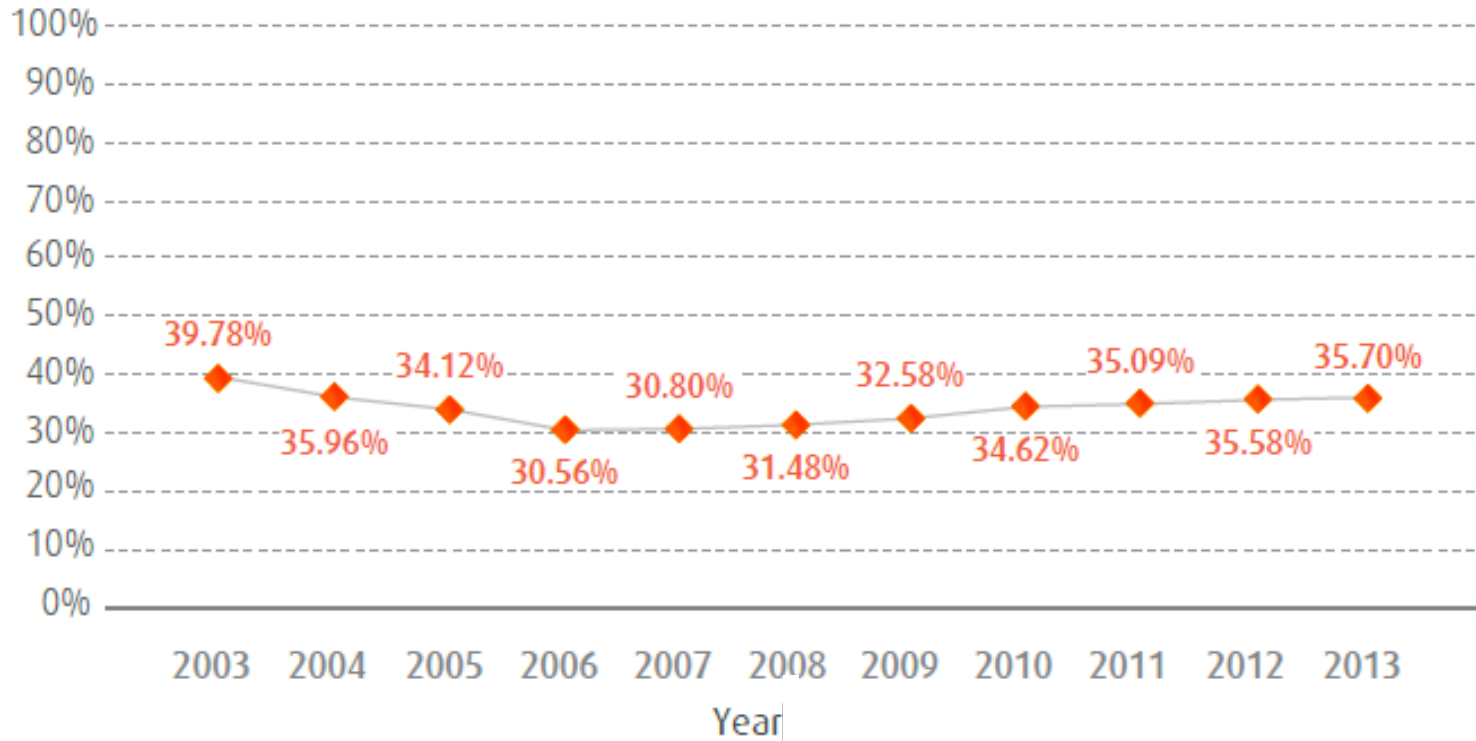


Figure 8: Composition of immediate controllers

Ownership Stakes of Ultimate Controllers



Composition of Ultimate Controllers

Local and central SASACs are ultimate controllers in more than 30% of listed firms, but they are not their immediate controllers. In other cases, ultimate controllers are governments or SOEs.

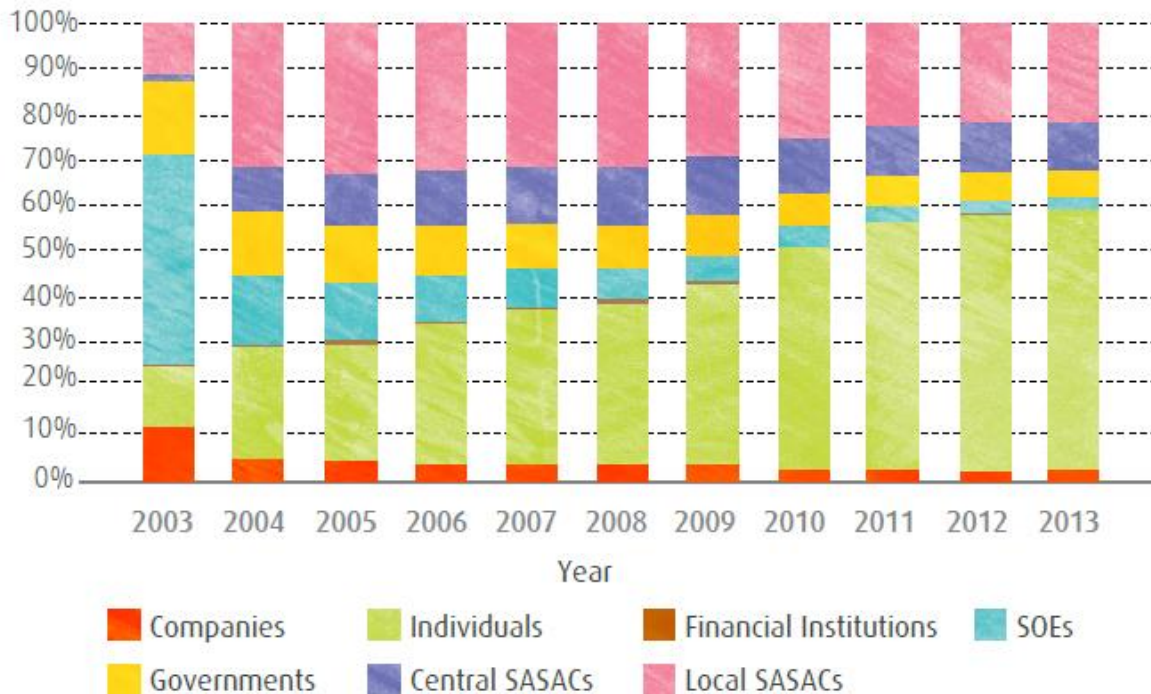


Figure 10: Composition of ultimate controllers

Comparison between Temasek and SASACs

Temasek

- ▶ Temasek is a commercial company, under the Singapore Company Act, paying taxes and dividends as well as having its own board.
- ▶ Its sole shareholder is MOF but the Ministry guarantees the integrity of board. Singapore separates the government's shareholder role from its regulatory and policy making functions.
- ▶ Run by a professional management team. Makes commercial decisions.
- ▶ Temasek directly involves with appointing CEOs and Boards.

SASACs

- ▶ State assets are much larger. SASACs own listed firms indirectly through SOEs
- ▶ SASAC is a government agency, an arm-length regulatory body representing the government.
- ▶ Run like a government branch. CEOs and board members of SOEs have political titles and ranks.
- ▶ Designate their functions as Bureaus. All staffs are government officials.
- ▶ CEOs of SOEs are appointed by the Party's Central Committee, not by SASACs

Financial Performance of Listed Firms

Financial performance of publicly listed firms in China

Dependent variables Independent variables	ROA		Tobin's Q	
	1	2	3	4
<u>Immediate controllers</u>				
Local SASACs	-0.328 (0.438)		-0.080 (0.051)	
SOEs	-0.980** (0.133)		0.016 (0.016)	
Governments	-2.083** (0.800)		-0.329** (0.094)	
Financial institutions	-2.168** (0.741)		0.376** (0.087)	
Individuals	0.834** (0.189)		-0.296** (0.022)	
<u>Ultimate controllers</u>				
Local SASACs		-0.358 (0.306)		-0.007 (0.036)
Central SASACs		-0.790* (0.335)		0.180** (0.039)
SOEs		0.268 (0.334)		0.130** (0.039)
Governments		-0.524 (0.338)		-0.016 (0.040)
Financial institutions		0.629 (0.729)		0.297** (0.086)
Individuals		0.884** (0.302)		-0.016 (0.035)

SASAC ownership does not improve firm performance

Control variables

Firm size	0.811** (0.051)	0.828** (0.052)	-0.280** (0.006)	-0.275** (0.006)
Firm age	-0.024* (0.011)	-0.030** (0.011)	0.012** (0.001)	0.014** (0.001)
Fixed asset intensity	-4.465** (0.367)	-4.491** (0.367)	-0.023 (0.043)	0.030 (0.043)
Intangible asset intensity	-7.045** (0.844)	-7.175** (0.845)	0.219* (0.099)	0.300** (0.099)
Leverage	-5.994** (0.158)	-6.112** (0.157)	0.265** (0.019)	0.299** (0.018)
Constant	-11.386** (1.210)	-12.507** (1.268)	7.130** (0.142)	6.923** (0.149)
Year fixed effect	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Observations	19039	19035	19039	19035
Number of firms	2501	2501	2501	2501
Adjusted R-squared	0.153	0.153	0.301	0.296

Note: Standard errors in parentheses. ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Conclusion

- ▶ Unlike the Singapore case, SASAC affiliated companies are underperforming, although not so poorly as those under direct state ownership.
- ▶ Future SOE reform in China should focus on reducing layers in pyramid ownership structure so that SASAC can function as active shareholder.
- ▶ Temasek is run like a private investment firm with own Board and CEOs, and hires people from private sector. SASACs are mainly staffed by bureaucrats. SASACs do not get involved with CEO appointment of portfolio companies.
- ▶ Clean government, transparency, and meritocracy would be needed.
- ▶ Make SOEs compete with others. See examples like Temasek vs. GIC. SMRT vs. Comfort, Singtel vs. Starhub.