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The Impact of Privatization on the
Micro-behaviour and Performance
of Chinese Banks
私營化對中國的銀行微行為和業績的影響

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ABSTRACTS

This paper examines the relationship between changes in performance and the process of privatization of state-owned commercial banks, joint-stock commercial banks and city commercial banks in Mainland China. Changes in performances are measured in terms of financial performance, corporate governance and risk-taking behaviour. Panel data collected between 2000 and 2007 from 104 banks with a total of 445 observations are analyzed. The empirical results indicate that city commercial banks out-performed state-owned commercial banks and joint-stock commercial banks, listed banks out-performed non-listed banks, and banks with foreign-ownership are generally more profitable. Foreign ownership and listing on stock exchanges added value to the Chinese banks. Ten cases provide insights into bank-specific behaviour and performance that cannot be captured in cross-sectional quantitative analysis. They further indicate that foreign-ownership brought about a positive impact on corporate governance by enhancing management through exposure to international market practices while it did not necessarily create the anticipated business opportunities. The objectives of introducing foreign strategic investors are examined; the outcomes and problems encountered are assessed. I conclude it is doubtful the original objectives of introducing foreign investors to resolve problems facing the Chinese banks and to open up new business opportunities to them have been achieved. The foreign strategic investors brought about improvements in corporate governance and risk-taking capability but the transfer of expert knowledge and state-of-art technical skills was limited. The domestic collaborations between foreign strategic investors and Chinese banks produced limited achievements. The major conclusions drawn are that privatization itself is insufficient to bring about performance improvements and needs other changes such as corporate governance and risk-taking behaviour, and with genuine changes in corporate culture. While foreign participation is better than no
foreign participation, the importance of choosing an appropriate foreign investor is equally important and a genuine change in corporate culture is a must, including the independent directors acting to provide a system of checks and balances with the external auditor as the third line of defence.