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Exploration Study on Shareholder Wealth and Ownership Structure in China and Korea

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Abstract

Numerous studies have examined the relationship between firm performance and governance measures adopted by firms and find that generally there is a positive relationship between good governance and firm values. Ownership structure which is the base of corporate governance is mainly related to two aspects, concentration of ownership and composition of ownership. Ownership structure determines concentration of ownership and roles of different share owners thereby influences economic behaviors of share owners and behavior effects. Ownership structure directly influences inter surveillance mechanisms.

In this paper, we examine (i) the effect of governance variables and firm characteristics such as ownership structure, leverage, size on the firm value (stock return) and (ii) the determinants of the change of firm value during post-crisis down period in Korea and China. And as a result, we find that ownership structure can be the main force to the changes in firm value in emerging markets.

To the extent that corporate governance affect in expected return on investment, our results will support the view of a link between corporate governance and firm value in East Asia such as China and Korea.

JEL classification: G14, G15, G21, G32, G33, G34

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1. Introduction

Corporate governance structure refers to the system which assorts with the benefit relationship between shareholders and other stakeholders. Mechanisms of corporate governance include internal corporate governance and outside corporate governance. Internal corporate governance mainly refers to clarify the effect of ownership structure, right and responsibility of manager, director and shareholder and restrict and balance benefit among them. External corporate governance includes external market mechanism such as CEO market, external government management mechanism and external social governance mechanism.

Ownership structure mainly related to two aspects, concentration of ownership and composition of ownership. Ownership structure is the base of corporate governance. Ownership structure determines concentration of ownership and roles of different share owners thereby influences economic behaviors of share owners and behavior effects. Ownership structure directly influences inter surveillance mechanisms.

Because of difference in culture, society and economy and social evolution path, companies in different countries or companies in same country but different regions, structure of corporate governance is different. Models of corporate governance mainly include American model, Japanese model and German model. In United States, institutional investors are main big shareholders. Institutional investors mainly include pension fund, life Insurance Company, and University fund and beneficence organizations. Early of nineteenth centenary, institutional shareholders owned 40% of common shares of large and middle size of American companies and 40% of long or middle term bond of large size companies. Although the total number of holding shares by intuitions is big, share holding percentage of one company is not more than 1%. American companies have diversified shareholder ownership structure. Their impacts on manager are very weak. Institutional investor does not hold shares for longtime. If institutional investor holds the shares issued by a company and the company is underperformed, institutional investor will adjust their portfolio rather than directly intervening management. Behavior of institutional investor enhances the fluctuation of share price. Corporate governance structure in Japan is different from that it in United States. Legal persons, that is, financial institution and enterprise, are main controlling shareholders. Shareholder ownership structure is concentrated. Internal disciplines by financial institutions and large shareholders are central to Japan's corporate governance. Under financial institution's holding and interlocking shareholding system, the holding purpose is for keeping stabilization of shareholding structure and forming support and restriction mechanism among Japanese enterprises rather than getting capital gain and dividends. Financial institutional shareholders and interlocking shareholders rarely trade shares in secondary market. Impact of secondary market on managers is very small.

The important feature of corporate governance in Germany is dual committee system, surveillance committee and director committee. In Germany, the largest shareholder is corporation, family and bank.

Ownership concentration is very high. Germany Bank is allowed to hold the shares issued by enterprises. Cross shareholding is very common.

Japanese and German concentrated shareholder ownership system has been regarded as an effective corporate governance model. However, Prowse (1995) shows that banks in Japan and German is not consistent with the findings in prior studies since they do not concern the performance of invested companies.

Concerning the relationship between ownership structure and company performance, there is no an identical view. Demsetz and Lehn (1985) examine 511 Amercian companies, and find no relationship between profit and the fraction of shares held by large shareholders. Mehran (1995) indicate the same result. Cho (1998) investigated the relationship among ownership structure, company performance and investment. Study showed that ownership structure influenced on investment first, thereby influenced on value of company. Shleifer and Vishny (1986) study showed the positive impact of large share ownership on company value. Claessens (1997) investigated the companies in Czechic and Slovakia and Claessens, Djankov, and Lang (1998) investigated the companies in Eastern Asian. Their studies showed that ownership structure was concentrated in these countries and concentration of ownership had a positive impact on company value. Lins (1999) investigated companies in 18 emerging countries and supported the positive impact of large shareholder on company value. Morck et al (1988) examined the relationship between insider ownership, and company performance. They found a significant non-monotonic relationship. Tobin's Q increases when the insider ownership is below 5% and above 25%, but declines in between these two levels. McConnell and Servaes (1990) investigated the impact of both block ownership and insider ownership on company performance. Study shows a nonlinear relationship. They found a significant positive influence of insider ownership and an insignificant positive affect of block ownership on firm performance. Makhija and Spiro (2000) investigated the companies in Czechic. They found that company value is positively correlated with fraction of foreign ownership and insider ownership. They also found if Fund Company is the largest shareholder, it creates negative impact on company value. However, if bank involves in fund management, it reduced the negative impact. Some researchers choose special period to study the influence of ownership structure on company value. Burkart Gromb and Panuniz (1997) study showed concentrated ownership structure reduced the company value. Mitton (2000) documented that firm-specific measures of corporate governance affected company performance during a crisis. Baek (2004) study showed during financial crisis the firms, which large shareholders are foreigners had a smaller reduction in share value. Chaebal firms which ownership is concentrated in owner-managers and or affiliated firms showed a big reduction in equity value.

Concerning the influences of ownership structure on company value, some empirical studies have been conducted. Gao and Yang (2002) investigate the impact of ownership concentration on company

performance listed in 2001. Their study showed that fraction of state ownership, legal person ownership, tradable ownership and employee ownership was not significant correlated with company performance. Zheng and Shen (2002) show concentration of state ownership was weakly correlated with performance of listed companies. Xu (1997) examine that the influence of stated ownership was negatively correlated with the performance of listed company. Legal person positively influenced the company performance. Sun and Tong (2003) use all companies listed on Shanghai and Shenzhen stock market over the period 1994-1997. They find an inverted U-shape relationship between government ownership and firm performance. They conclude that some state ownership is beneficial, but holding excessive equity shares is detrimental for the firm. Wei et al (2005) analyze data of 5284 firm years over the period 1991-2001. Their findings are a statistically significant negative influence of state and legal person ownership on company performance. Their research indicates U-shaped between ownership and performance.

Using a sample of firms from nine East Asian countries, Claessens, Djankov, Fan, and Lang (2002) show that higher cash flow rights of the controlling shareholder are associated with higher market valuation, but higher voting rights correspond to lower market valuation.[1] Johnson, Boone, Breach, and Friedman (2000) find that the effectiveness of protection for minority shareholders in 25 emerging markets explains more of the variation in exchange rates and stock market performance during the Asian crisis. In a similar vein, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002) show that firms in countries with better shareholder protection have higher Tobin's q than those where such protection is weaker.

Even though the studies listed above have used cross-country analysis to demonstrate the first-order importance of corporate governance characteristics in determining firm value, few researchers investigate individual countries in depth. Three notable exceptions are Wiwattanakantang (2001), Mitton (2002), Baek, Kang, and Park (2004). They use firm-level data from East Asian countries to show that several firm-specific measures of corporate governance had a significant effect on performance before and during the Asian crisis. They argue that corporate governance becomes more critical in explaining cross-firm differences in performance before and during financial crisis.

Based on a unique database of Thai firms before financial crisis, Wiwattanakantang (2001) shows that the presence of controlling shareholders is associated with higher performance in Thailand. She does not find the evidence that controlling shareholders expropriate corporate assets. Wiwattanakantang (2001) also reveals that family controlled firms display significantly higher performance. Foreign controlled firms as well as more than one controlling shareholder also have higher performance, relative to firms with no controlling shareholder.

Mitton (2002) uses firm-level data from five East Asian countries to show that several firm-specific

[1] Cash flow rights means direct ownership by controlling shareholders, while voting rights includes direct and indirect ownership by controlling shareholders through pyramidal structure.

measures of corporate governance had a significant effect on performance during the Asian crisis. He argues that corporate governance becomes more critical in explaining cross-firm differences in performance during a financial crisis for two reasons. First, as also argued in Johnson, Boone, Breach, and Friedman (2000), expropriation of minority shareholders could increase since the incentive for controlling shareholders to do so tends to go up as the expected return on investment falls. Second, the relationship-based financial system in East Asia worked well during the boom period since outside investors did not have full information on whether or not their funds were being deployed appropriately, and the crisis triggered greater investor awareness of weaknesses in corporate governance in the region and led to them pull out (Rajan and Zingales, 1998). Consistent with these arguments, Mitton (2002) finds that firms with higher disclosure quality, greater transparency, higher outside ownership concentration, and corporate focus experienced better stock price performance during the crisis. Lemmon and Lins (2001) also show that during the crisis, firms in which controlling owner-managers owned more of the control rights, but fewer cash flow rights, suffered more loss of share values.

Baek, Kang, and Park (2004) also shows that during the 1997 Korean financial crisis, firms with higher ownership concentration by unaffiliated foreign investors experienced a smaller reduction in their share value. Firms that had higher disclosure quality and alternative sources of external financing also suffered less. In contrast, chaebol firms with concentrated ownership by controlling family shareholders experienced a larger drop in the value of their equity. Firms in which the controlling shareholders' voting rights exceeded cash flow rights and those who borrowed more from the main banks also had lower returns. These results suggest that change in firm value during a crisis is a function of firm-level differences in corporate governance measures.

In this study, we test that firm-specific measures of corporate governance affect firm performance looking at Korean and Chinese companies. Focusing on Korean and Chinese firms in this way allows us to examine corporate governance measures at a level of detail that would be hard to aggregate across countries. Afterwards, we compare the results with the results and suggest the implication for two countries.

Korean data have a number of other characteristics that make them particularly suited to my investigation. First of all, many Korean firms belong to business groups known as *chaebols*. Although a great deal of theoretical and empirical research is devoted to understanding the role of business groups in a range of countries, it is not entirely clear whether such entities always perform a valuable function for their shareholders. [2]

From our perspective, one notable feature of the chaebol is that ownership is heavily concentrated,

[2] In this view, Thai firms also have an ideal setting. Wiwattanaknatang (1999, 2001) explains that there exist two types of firms in Thailand: one is characterized by concentrated ownership, and the other is less concentrated ownership. In addition, in about 75% of the firms, the controlling shareholders are involved in the firms' management as officers and directors. Furthermore, there are large numbers of firms that are totally controlled by a single family.

inasmuch as one individual has almost complete control over all firms within the group. Such a structure gives the owner-managers involved strong incentives to diversify their wealth and human capital (Amihud and Lev, 1981) and to expand their chaebol into several different industries. Despite the significant contribution chaebols have made to the rapid growth of the Korean economy during the last 40 years, critics claim that much of their business expansion has resulted from excessive borrowing and that owner-managers have expropriated other investors by investing the firm's resources to maximize their own or the group's welfare. At the end of 1998, the top 30 chaebols accounted for 11.97% of total GNP, 47.79% of total corporate assets, and 46.54% of total corporate revenues. Previous study on Thai firms also show concentrated ownership by persons with the same family name, their close relatives, as well as companies that are owned and controlled by the same ultimate owner. So this feature of ownership structure is similar to those of Thai firms (Charumilind, Kali, and Wiwattanakantang, 2006).[3] So it will be interesting to see whether or not the tendency towards concentration of ownership in chaebol firms has an adverse effect on firm value.

In sum, in this paper, we examine the following main hypothesis.

1) Explore and compare the ownership structure in China and Korea.

2) Relationship between shareholder wealth and ownership structure is same (or different) in China and Korea. Since two countries are emerging market in the world

3) Firms with higher ownership by largest shareholder (controlling shareholder) have higher (or lower) stock return during down period in China and Korea. Since largest shareholder's expropriation incentives rise as their investment return fall during down period. And/or as the study of Jensen and Mecking (1976), concentrated ownership by controlling shareholder increase the firm value.

4) Firms with higher ownership by unaffiliated investor (or affiliated firm) have higher (lower) stock return during boom period in China and Korea. Since unaffiliated investor (such as foreigner) can play an important monitoring role to prevent agency problem, so firm value might be good. And/or State ownership has significantly and positively affect to the firm value since it can help the firm as prop during down period.

This paper proceeds as follows. Section 2 describes data, key variables and sample characteristics. In Section 3, we show the results of my empirical analysis. Section 4 summarizes and concludes the paper.

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[3] There is an interesting study on Thai big business owners. Bunkanwanicha and Wiwattanakantang (2007) report that politically connected big business firms are able to seize more market share because big owners in top office use their policy-decision powers to implement regulations and public policies favorable to their firms. They also show that such policies hinder not only domestic competitors but foreign investor. Also, by collecting wedding announcements for the offspring of big business owners in Thailand, Bunkanwanicha, Fan, and Wiwattanakantang (2008) shows that family networks provide reputation capital and reliable information, thus reducing frictions faced by entrepreneurs

2. Data, Key Variables, and Sample Characteristics

2.1. Data

To test the goal, initial sample consists of non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. We obtain the stock price data for the firms from the daily return files of the Korea Investors Service-Stock Market Analysis Tool (KIS-SMAT) and Stock Database of the Korea Securities Research Institute (KSRI), both of which include all firms listed on the KSE and is normally used for stock return study in Korea. Financial data are obtained from the Listed Company Database of the Korean Listed Companies Association. We identify each firm's chaebol affiliation using the KFTC (Korea Fair Trade Committee)'s *Annual Statistics*.

The 2000-2001 periods are the down periods considering Korean Composite Stock Price Index (KOSPI). The KOSPI is a market capitalization weighted price index of all firms listed on the KSE (Korea Stock Exchange) and is the most widely used index to evaluate the market performance.

We set the period from January 2000 to March 2001 as a down period. Since January 2000, the Korean stock market loosed its previous profits. In particular, during the year of 2000, the pessimism gained momentum and the stock market performance became falls. At the end of March 2001, the KOSPI reached its point of 523 from 944 in January 2000. This movement in the KOSPI suggests that the investors would have realized the holding period return of about -50% if they had invested in the market portfolio from January 2000 to March 2001.

Similarly, we choose the period 2001 to 2003 for Chinese sample periods. During the period 2001 to 2003, Shanghai component index (SSE composite) dropped from 2103 to 1497, the down period, again.

2.2. Key Variables Related to Main Hypotheses

To evaluate the hypotheses discussed in the previous section, we use holding period returns (HPRs) during shock and recovery periods as the measures of firm performance (dependent variables) and following variables as explanatory variables for each hypothesis.

We compute the HPR of firm We between *t1 and t2* as

$$HPR_i\ (t1,\ t2) = (1 + R_{i,t1})(1 + R_{i,t1+1})(1 + R_{i,t1+2})(1 + R_{i,t1+3}) \text{ ----- } (1 + R_{i,t2}) - 1$$

Where $R_{i,\,t}$ is the daily return of firm at time *t*. As past holding period returns for the shock and boom periods, respectively.

The key variable we consider in ownership structure is equity ownership by controlling (largest) shareholders. To the extent that owner-managers with less concentrated ownership have a greater agency problem that arises from the separation of ownership and control (Jensen and Meckling, 1976), we expect that these owner-managers have stronger incentives to expropriate other shareholders.

In Korea, a large business group is often referred to as a *chaebol*. Chaebol firms operate in many different industries, are bound together by a nexus of explicit and implicit contracts, and maintain substantial business ties with other firms in their group. They are also characterized by an extensive arrangement of pyramidal or multi-layered shareholding agreements and the existence of cross-debt guarantees among member firms. If risk sharing among chaebol firms and the operation of an internal capital market within chaebols allows its members to survive the external shock, the structure of diversified business groups can have a positive effect on the value of their members. To examine this issue, we use a dummy variable that equals one if a firm belongs to one of the 30 largest business groups.

Control variables:

We control for several other variables that may affect firm performance during the crisis and recovery periods. We consider equity ownership by foreign investors and institutional investors. As Shleifer and Vishny (1986), outside investor such as foreigners can play an important monitoring role to prevent agency problem that may arises from the separation of ownership and control. In addition, Khanna and Palepu (2000) show that foreign institutional investors serve a valuable monitoring function as emerging markets integrate with the global economy. We therefore expect that the fall in the firm value is smaller when foreign investors hold larger amount of shares during down period.

It can be argued that large firms generally find it easier to secure external finance, are less likely to rely on bank borrowing for their financing, will have smaller informational asymmetries, and are more established than smaller firms. They also tend to have a large asset base that can be used as collateral. All these factors suggest that large firms are less vulnerable to external shock. We measure firm size as the logarithm of total assets.

Lang and Stulz (1992) and Opler and Titman (1994) find that firms that maintain a high leverage ratio and have specialized business lines tend to experience more difficulties during economic downturns. Since highly leveraged firms would have more difficulty obtaining external financing during down period, we would expect such firms to experience a larger drop in equity value. We measure leverage as the ratio of total debt to total assets.

The ability of firms to secure foreign capital through American Depository Receipts (ADR) can affect firm value in a positive way. For example, firms that can raise capital through ADR will experience a smaller drop in share value during the crisis, since these firms have access to alternative sources of financing when the domestic capital markets do not function well. Moreover, Mitton (2002) argues that firms with a listed ADR have higher disclosure quality. Reese and Weisbach (2002) also argue that one reason why non-U.S. firms choose to cross-list in the U.S. is the protection of minority shareholder rights associated with S.E.C. registration. This increasing transparency and investor protection are expected to

have a positive effect on stock price performance during down period. To examine the effect of having a listed ADR on firm value, we use a dummy variable that takes the value of one if the firm has an ADR listed in the United States.

We use beta as the key measure of firm risk, which is estimated by the slope of the market model regression. To estimate beta before down period, we use one-year daily stock returns during 1999-2000 period.

When firms experience a shock in the stock market, they may turn to external capital markets and/or internally generated cash flows as well as curtailing new investments. Less financially constrained firms or firms with internal sources of financing should therefore suffer fewer difficulties. As a measure of liquidity, we use the ratio of cash flow (or EBIT) to total assets. We compute cash flow as the sum of operating income and depreciation.

The next measure we consider is the extent of a firm's diversification. Mitton (2002) argues that diversified firms suffer more loss of value during down period than focused firms since expropriation of minority shareholders is likely to be more severe. Lins and Servaes (2002) also argue that the severe market imperfections found in emerging markets increase the potential agency costs associated with diversification and that greater asymmetric information allows management and large shareholders to exploit minority shareholders more easily. To measure this effect, we use an interaction variable between the diversification dummy variable and the diversity of investment opportunities. The diversification dummy variable is set to equal to zero if 90% or more of a firm's sales come from one three-digit SIC. Following Rajan, Servaes, and Zingales (2000), We identify competing undiversified firms for each segment of diversified firms at a three-digit SIC level.

Finally, we control for other factors such as a firm's future investment opportunity and industry effects. We use Tobin's Q (book value of debt plus market value of equity/total assets) and industry dummy variables to control for future investment opportunity and industry effects, respectively.

2.3. Sample Characteristics

2.3.1 Korea Stock Exchange (KSE)

Table 1 (Panel A) shows industry distribution of total samples. We exclude financial firms from the samples. The first-largest sector is chemicals and the second-largest sector is electronic equipment. These two industries account for 25% of total samples.

Table 2 and Table 3 provide summary statistics of my sample firms as of the end of fiscal years 2000 and 2001, respectively. We obtain the daily stock return data from the Stock Database of the Korea Securities Research Institute, which includes all firms listed on the KSE. Financial data are obtained from

the Listed Company Database of the Korean Listed Companies Association which is usually used for the financial study in Korea.

Panel A of Table 3 summarizes the descriptive statistics for ownership structure and other governance characteristics of the sample firms. We divide the sample firms into chaebol and non-chaebol firms, where chaebol firms are those that belong to any of the top 30 business groups as of the end of fiscal year. Chaebols account for about 25% of sampled firms.

The equity ownership by controlling shareholder has a lower mean and median value for chaebol firms than for non-chaebol firms. The further breakdown of the controlling shareholder concentration shows that affiliated firms hold a substantial portion of ownership in chaebol firms, but owner-managers and their families hold a substantial portion of ownership in non-chaebol firms. The average ownership by owner-managers and their family members in chaebol firms is only 8% as opposed to 23% in non-chaebol firms. The test of the difference in mean ownership across the two sub samples rejects the null hypotheses of equal ownership. The relatively small ownership by owner-managers and their family members in chaebol firms is supplemented by the relatively large contribution of affiliated firms. These results suggest that cross-shareholding is more prevalent among chaebol than non-chaebol firms. The mean controlling shareholder concentration by unaffiliated investors is also larger for chaebol than non-chaebol firms. The medians show a similar pattern.

The average total equity ownership by domestic institutional investors not affiliated with the firm is 17%-22% for the sample as a whole, being larger for chaebol than non-chaebol firms. Equity ownership by foreign investors across the total sample averages 6%. Again, this is larger for chaebol than non-chaebol firms.

Leverage, which we measure by the ratio of total debt to total assets, is also significantly different between the two groups. The mean leverage ratios for chaebol and non-chaebol firms are 67%-72% and 66%-71%, respectively. For the total sample, the average ratio of bank debt to total assets is 27%-34%. The average ratios of loans from the bank to total assets for chaebol firms are larger than non-chaebols. The differences in mean and median ratios are statistically significant, indicating that non-chaebol firms tend to borrow more from banks than their chaebol counterparts and that such loans are an important source of their financing.

The ratios of cash flow (operating income + depreciation) to total assets for chaebol and non-chaebol firms are on average 4%-6% and 2%-4%, respectively. The average ratios of liquid assets to total asset for chaebol and non-chaebol firms are 4%-6% and 6%-7%, respectively. It can be seen that chaebol firms are substantially larger than non-chaebol firms when measured in terms of total asset. The average total asset size of chaebol firms is more than five times that of non-chaebol firms. This difference in firm size is statistically significant at the 0.01 level. The medians show a similar pattern.

The performance variable measured by Tobin's q is significantly higher for non-chaebol than chaebol firms. This indicates that on average, non-chaebol firms were outperforming chaebol. The comparison of risk variables reveals that beta is significantly higher for chaebol firms.

2.3.2 Shanghai Stock Exchange (SSE)

The Shanghai Stock Exchange (SSE) was founded on Nov. 26th, 1990. Table 1 (Panel B) shows industry distribution of data. From this table, we can see that the largest sector is machine, electronic equipment and instrument. It accounts for 14.79%. Following are retail, pharmaceutical, petroleum and chemical and plastic sectors. They account for 10.65%, 5.96% and 10.45% separately.

Panel B in Table 2 shows the size development of Shanghai stock market over the period 2001 to 2003. From table 2, we can see that in 2001, there are 690 stocks listed on Shanghai stock exchange. In 2003, there are 824 stocks listed. Growth rates are 10.00% and 8.56% separately. However, increase rates of market value of were different from growth rates of stock listed. Increase rate of market value over the period 2001 to 2002 was -8.07%. It indicates that share prices of major listed companies during this period declined. Increase rate of market value 2002 to 2003 was 17.51%. Trading volume in A share market during period 2001 to 2002 experienced a drop, from 1987.68 billion RMB in 2001 to 1644.71 RMB in 2002. In 2003, trading volume recovered to the trading volume, 2054.124 RMB in 2003. Panel B in table 2 shows the changes of individual investors and institutional investors over the period 2001 to 2003. From the table, we can see that there was no big increase on number of individual investors and institutional investors in A shares market and B shares market. Shanghai stock exchange classifies industry of listed companies into four main industries, Agriculture, Commercial, real estate and public services.

Table 3 (Panel B, C, D) shows ownership structure of all listed companies during the period since 2001 to 2003. Most listed companies on Chinese stock market issue state-owned shares, legal person shares and shares for public due to political and historical reasons. This classification is according to characters of assets which owners can invest in listed company and if shares can be traded in secondary market.

State-owned shares and legal person shares can not transfer ownership in the secondary market, but can be transferred outside of secondary market by signing transfer agreements with qualified institutional investors after the approval of Security Surveillance institution.

Legal person shares and state-owned shares are called untradeable shares. State-owned shares refer to the shares owned by departments or organizations that are authorized to invest state-owned asset in listed company or the shares that are converted based on value of state-owned asset. Legal person shares refer to the shares owned by corporation, enterprise or social organization. These organizations use their own assets to invest in listed companies. Foreign institutional investors can hold legal person shares. Accordingly, shareholder owner can be classified into two main types, state-owned share owner and legal person share

owner. Foreign institutional investor is one type of legal person share owner.

Chinese listed company also issues shares to the public. Shares for the public are called tradable shares. Ownership of shares for public can be transferred in secondary market. Foreign natural person and foreign legal person are allowed to invest in Chinese companies by purchasing the shares listed on B shares market in Mainland, H shares on Hongkong stock market in Hongkong or the shares listed on foreign stock markets. So far, only foreign institutional investors are allowed to purchase legal person shares. Foreign natural person and most legal persons are not allowed to purchase A shares which are listed on mainland stock markets-Shanghai and Shenzhen stock market. Types of A shares owner mainly include Chinese natural person, domestic legal person organization, domestic fund company, bank, pension fund and Security Company. From table 3, we can see that share owners of listed companies include tradable share owner and untradeable share owner. Tradable share owners include mainly state-owned share, legal person owned shares, foreign investors. Untradeable share owners mainly refer to A shares, B shares and H shares. The unique ownership structure provides particular environment to test the relationship between ownership structure and firm performance.

From table 3 (Panel C), we can see that in 2001 market value of state-owned shares was 1387.06 billion RMB. It accounted for 50.27% of total market value. In 2002, market value of state-owned shares was 1327.49 billion RMB, accounting for 52.34% of total market value. In 2003, market value of state-owned shares was 1720.28 billion RMB, accounting for 57.72% of total market value. Market value of state-owned shares had an increase during the period 2001 to 2003. In 2001, market value of legal person owned shares was 319.13 billion RMB. It accounted for 11.57% of total market value. In 2002, market value of legal person owned shares was 245.06 billion RMB. It accounted for 9.66% of total. In 2003, market value of legal person owned shares was 226.33. It accounted for 7.59%. Market value of legal person-owned share shows a descendent tendency. Market value of shares owned by foreigners did not have a big change. The percentage decreased from 1.18% to 1.04%. Market value of A shares decreased from 7726.61 Billion RMB in 2001 to 779.69Billion RMB in 2003. Percentage of Market value of A share in total decreased from 28% in 2001 to 26.16% in 2003. It indicates that market value of state-owned shares accounted for average 53.44% of total market value. Market value of shares owned by legal person accounted for average 9.60% of total market value. Market value of shares owned by foreign investors accounted for average 1.12% of total market value. Market value of A shares accounted for average 27.08% of total market value.

Further analysis is conducted on the base of collected data. We conduct analysis with non-financial companies on Shanghai Stock Exchange over the period 2001 to 2003. We also exclude companies which issue B shares or H shares. We choose 507 companies listed in or before 2001 on Shanghai stock exchange to conduct further analysis.

We collect closing share price and share ownership from Qianlong database. Other information is collected from monthly or yearly reports issued by Shanghai stock exchange.

We choose size, leverage ratio (Total debt/ Total asset, EBIT ratio (EBIT/Total asset) and NI ratio (Net income/Total asset) to measure the financial status of sample companies. Panel B in table 2 shows average changes of data on size, leverage ratio, EBIT ratio and NI ratio. Average size of sample companies increased from 1608452034 RMB in 2001 to 3672137870 RMB in 2003. However leverage ratio has the same change trend. Leverage ratio increased from 0.368 in 2001 to 0.435 in 2002. From 2002 to 2003, leverage ratio increased from 0.435 to 0.474. It reflected a debt financing change over this period. Because the average leverage ratio over the three years is 0.426, it reflects a low reliance on debt financing. EBIT ratio and NI ratio are employed to measure the profitability of sample companies. Change of EBIT ratio and NI ratio showed the same trend. They experienced a decrease from 2001 to 2002 and experienced an increase from 2002 to 2003. However the change percentage of EBIT ratio and NI ratio are different. Change percentage of NI ratio is greater than that of EBIT ratio. Because averages of EBIT ratio and NP ratio are 0.0309 and 0.0213 separately, it reflects that profitability of sample companies is low.

We can see that government owns majority of issued shares over the period 2001 to 2003 in Panel C in table 3. Based on data in 2003, we can see the main share ownership structure of top one included state-owned ownership, legal person ownership, and foreign ownership. They own untradeable shares. Share ownership structure of top one also includes Legal person ownership which owners owned A shares. Average percentage of untradeable shares owned by government was 57.72%, by legal person was 7.59%, and by foreign legal person was 1.03 in 2003. In 2003, the percentage of companies which have state ownership was 70%; the percentage of companies which have legal person ownership was 24%; the percentage of companies which have foreign ownership was 5.3%. It reflects the concentration of share ownership.

Panel D in table 3 shows the ownership structure of different share ownership over the period 2001 to 2003. Fraction of state ownership was 0.506 in 2001, 0.502 in 2002 and 0.489 in 2003. Fraction of legal person ownership was 0.254 in 2001, 0.254 in 2002 and 0.255 in 2003. Fraction of A share ownership was 0.366 and 0.373 and 0.365. Changes of different types of ownership are not distinct.

3. The Determinants of Stock Return Performance

3.1. Univariate Test

To examine the change in firm value, we partition my sample period into boom and down period as shown in Table 4 and then compare the HPRs during sample period (January 2000 to March 2001).

In Panel A of Table 4 shows Korean stock return. An average (median) HPR is -38.4% (-43.8%). And

then we use equity ownership by controlling shareholders as a key ownership variable. HPR with higher equity ownership by controlling shareholders has -33.7% (-48.6%), while HPR with lower equity ownership by controlling shareholder realize an average (median) HPR of -45.9% (-40.5%). The differences in mean and median HPRs between these two sub samples are significant at the 1% level. This means that firms with lower equity ownership by controlling shareholders suffer more during down period, supporting the hypothesis that controlling shareholders have more incentive to raise the agency problem during boom period.

Regarding Chinese stock market, table 4 (Panel B) shows top 1 (first-largest) ownership structure and the returns of the companies which are owned by top 1 shareholder. Average of HPRs during the period 2001 to 2001 was -26.5%. Average percentage of top 1 share ownership was 48.55%.

3.2. Cross-Sectional Variation in HPRs

In this section, we attempt to evaluate the relative importance of governance variables. Our empirical strategy is to run cross-sectional regression of HPRs on firm-specific variables that capture the importance of ownership structure, controlling for various other variables that may affect firm value.

Table 5 shows the results from the cross-sectional regression during sample period. As dependent variable, regressions (1) through (6) use the HPRs. The equity ownership by controlling shareholder has significant and positive coefficient in all regression and these effects are mostly from the ownership by individual and family members as regression (2). These results are consistent with the results from table 4. Regression (3), (4) include the interaction variables such as (chaebol dummy*controlling shareholder ownership) as a key explanatory variable. The coefficient estimate on this variable is partly negative and significant, showing that chaebol firms with high controlling shareholder ownership do not perform well during down period. We find that the coefficient estimates on equity ownership by controlling shareholder is still significant and positive. These results during down period are same as the results of Baek, Kang, and Park (2004) and those of Thai firms (Wiwattanakantang, 2001). The adjusted R^2 of the regressions are 12%-13%. These results indicate that governance variables have explanation power.

In all regression, we control for other variables. We add top 30 chaebol dummy, the logarithm of total assets, total debt over total assets, equity ownership by foreign investors, ADR dummy, Tobin's q, and the ratio of cash flow to total assets. We also include industry dummy variables (construction, manufacturing, wholesale and retail, and transportation and services) to control for a possible industry effect. To conserve space, we do not report coefficients on these industry dummies. Dividing controlling shareholder ownership into individual and affiliated firm ownership and adding the interaction variables such as (chaebol dummy*controlling shareholder ownership) increase the adjusted R^2 of the regression to 14% in regression (3), (4), suggesting that they capture the variation of the holding period returns with success.

Adding these variables does not affect the significance of the key variables.

Among the control variables, as expected, the leverage variable is negatively and significantly related to HPRs. The coefficient estimate on the chaebol dummy is significant, suggesting that firms belonging to business groups are better able to perform during down period. In addition, firms with higher past performance (Tobin's Q) have better stock return during down period.

We check the robustness of our results for by using top 100^{th} chaebol dummy instead of top 30^{th} chaebol dummy in regression (5), (6). The results are consistent with the results using 30^{th} chaebol, further supporting the hypothesis that ownership can be important factor in firm value.

Panel B in Table 5 shows Chinese results. For single regression and multiple-regression, we use annual return (HPR) as dependent variable. Financial ratios and ownership fractions and top 1 to 5 ownership are independent variables. Table 5 shows the influences of ownership structure and ownership concentration on return of company over the period 2001 to 2003 by using cross-sectional data to conduct single regression and multi-regression. We choose the companies which issue both state-owned and legal person owned shares as sample data. From unreported single regression results, we find that coefficients of financial ratios, log (size), NI ration, EBIT ratio and leverage ratio, are significant at 1% level. They are positively correlated with yearly return. Single regression results also show that the fractions of top 1 (top 2, 3, 4) share ownership are positively (negatively) and significantly related with yearly return. Fractions of state-owned are positively correlated with yearly return. But the fractions legal person shareholders are negatively correlated with annual return. We choose log(total asset), leverage and EBIT as control variables to conduct multi-regression. Multi-regression results are not significant from the results which we obtained from single regressions.

4. Summary and conclusion

In this paper, using a large sample of Korean and Chinese firms, we examine the importance of ownership structures in determining firm value in emerging market. As a result, we find that firms that have low equity ownership by controlling (largest) shareholders suffer more during down period in both countries. This is consistent with the previous study (Baek, Kang, and Park, 2004).

Korean chaebol firms where ownership is concentrated in owner-managers and/or affiliated firms exhibit a larger drop in equity value during down period.

We also find that Korean firms with higher foreign ownership drop less during down period. These results indicate that firms with larger equity ownership by foreign investors experience a smaller reduction in their share value during down period. This is consistent with the results on other Asian country such as Thai firms (Wiwattanakantang, 2001). Korean firms that have higher disclosure quality (DR firms),

undiversified firms, those with high leverage, and those that are small and risky suffer more during down period.

The existence of such systematic evidence on the extent to which firm value is related to several key indicators of corporate governance suggests that differences in governance practice at the firm level play an important role in determining firm value

For Chinese firms, we also review the theories concerning corporate governance as well as the empirical studies related to the influence of ownership structure on company value. First, we analyze the development and status of companies listed on Shanghai stock exchange over the period 2001 to 2003 from four aspects, size, financial status and ownership structure. We find that the development pace during the period 2001 to 2003 was slower than that before 2000 although there was an increase in number of listed company and small growth in number of investor. Our study also shows that during the period 2001 to 2003, Chinese listed company listed on Shanghai had low debt ratio. Profitability of these companies was low as well. Government was the largest share owner and share ownership was concentrated. Single regressions and multi-regressions show that firm size, EBIT and NI are positively correlated with yearly return. State ownership is positively correlated with yearly return. Legal ownership is negatively correlated with yearly return. Because majority shares are owned by state ownership, the influence of top 1 share ownership on yearly return is in line with state ownership.

Overall, these results are consistent with the main hypothesis that ownership structure can be important factor to the changes in firm value in East Asia such as Korea and China.

Finally, this study focuses on the cross-sectional relation among the variables. Further investigation using panel data certainly should give us better understanding about the effects of ownership on the firm value.

[Table 1] Industry Distribution

Panel A. KSE

The sample includes non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. Industry classification follows the criteria which are enacted by Korea Stock Exchange. This statistic reflects industry distribution of sample companies at the end of 2002.

Name of industry	Number of company
Service	49
Retail, logistics	53
Transportation	41
Architecture	37
Power, gas and water production	10
Pharmaceuticals	36
Machine, electronic equipment and instrument	43
Metal	40
Electrical equipment	69
Paper and printing, Wood and furniture	24
Clothing and Textiles	33
Food and beverages	38
Mining, and nonmetal	23
Petroleum chemical and plastics	85
Integrated, etc	42

Panel B. SSE

The sample includes non-financial companies, but excludes the companies which issued B shares or H shares. Sample companies were listed on Shanghai Stock Exchange (SSE) in or before 2001. Industry classification follows the criteria which are enacted by Shanghai Stock Exchange. This statistic reflects industry distribution of sample companies at the end of 2003.

Name of industry	Number of company
Agriculture	14
Media	5
Social service	11
Retail	54
Information technology	35
Transportation	23
Architecture	8
Power, gas and water production	25
Pharmaceuticals	42
Machine, electronic equipment and instrument	75
Metal and nonmetal	42
Electrical equipment	16
Paper and printing	13
Wood and furniture	1
Clothing and Textiles	26
Food and beverages	26
Mining	3
Petroleum chemical and plastics	53
Integrated, etc	37

[Table 2] Financial Characteristics

Panel A. KSE

The sample includes non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. Financial data are obtained from the Listed Company Database of the Korean Listed Companies Association. The summary statistics are the values at the end of fiscal except for beta, which are estimated using one-year daily returns during 2000 and 2002. Tobin's q is measured as the book value of debt plus market value of equity divided by total assets. We identify each firm's chaebol affiliation using the Korea Fair Trade Committee (KFTC)'s Annual Statistics. Numbers in brackets denote the medians.

Year (n=Number of Firms)	Total Sample		By Chaebol affiliation			
			2000		2001	
	2000 (n=606)	2001 (n=623)	Chaebol (n=131)	Non- Chaebol (n=475)	Chaebol (n=134)	Non- Chaebol (n=489)
Leverage: Total debt / total assets	0.712 [0.578]	0.669 [0.557]	0.694 [0.644]	0.717 [0.548]	0.719 [0.639]	0.656 [0.521]
Bank loans / total assets	0.292 [0.271]	0.272 [0.259]	0.226 [0.183	0.309 [0.306]	0.219 [0.196]	0.289 [0.292]
Cash flow (operating income + depreciation) / total assets	0.042 [0.051]	0.028 [0.035]	0.059 [0.057]	0.036 [0.048]	0.037 [0.041]	0.017 [0.022]
Liquid assets (cash + securities) / total assets	0.051 [0.034]	0.063 [0.058]	0.035 [0.021]	0.055 [0.037]	0.053 [0.048]	0.066 [0.065]
Size: Total asset (100mil. Korean Won)	8,934.0 [1,811.5]	8,620.1 [1,809.7]	23,860.1 [9,358.3]	4,935.3 [1,349.5]	20,818.7 [8,246.3]	5,451.9 [1,363.4]
Tobin's Q	0.948 [0.781]	0.843 [0.686]	0.888 [0.768]	0.964 [0.782]	0.919 [0.767]	0.824 [0.656]
Beta	0.562 [0.561]	0.594 [0.587]	0.763 [0.750]	0.504 [0.522]	0.744 [0.712]	0.523 [0.541]

Panel B. SSE

The sample includes non-financial companies, but excludes the companies which issued B shares or H shares. Sample companies were listed on Shanghai Stock Exchange (SSE) in or before 2001. Accounting data are collected from Shanghai Stock Exchange annual and monthly reports. This statistics covers the period from 2001 to 2003. Statistics summary shows averages of each financial ratio of sample companies at the end of each fiscal year.

Year (n=Number of Firms)	2001 (n=646)	2002 (n=715)	2003 (n=780)
Number of Shares Listed	690 of which A shares: 690 B shares: 54	759 of which A shares: 705 B shares: 54	824 of which A shares: 770 B shares: 54
Market Value (billion RMB)	2759.06 of which Tradable : 838.21	2536.37 of which Tradable : 746.73	2980.49 of which Tradable : 820.11
Trading volume (billion RMB)	A shares: 1987.68 B shares: 283.5	A shares: 1644.71 B shares: 51.738	A shares: 2054.124 B shares: 28.289
Size: Total asset (RMB)	1608452034	3241676904	3672137870
Leverage: Total debt / total assets	0.3675	0.4349	0.4740
EBIT / total assets	0.0355	0.0215	0.0357
Net Income / total assets	0.0304	0.0100	0.0236

[Table 3] Ownership Structure

Panel A. KSE

The sample includes non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. Financial data are obtained from the Listed Company Database of the Korean Listed Companies Association. The summary statistics are the values at the end of fiscal except for beta, which are estimated using one-year daily returns during 1999 and 2000. Equity ownership by controlling shareholders is the sum of equity ownerships by controlling families and affiliated firms. Tobin's q is measured as the book value of debt plus market value of equity divided by total assets. We identify each firm's chaebol affiliation using the Korea Fair Trade Committee (KFTC)'s Annual Statistics. Numbers in brackets denote the medians

Year (n=Number of Firms)		Total Sample		By Chaebol affiliation			
		2000 (n=606)	2001 (n=623)	2000		2001	
				Chaebol (n=131)	Non- Chaebol (n=475)	Chaebol (n=134)	Non- Chaebol (n=489)
Ownership Structure							
Equity ownership by controlling shareholders (%)	owner-managers and their family members (A)	19.55 [18.93]	21.26 [19.05]	7.69 [1.36]	22.80 [22.97]	7.91 [1.42]	24.95 [23.02]
	Affiliated firm (B)	14.67 [7.08]	15.03 [7.73]	25.09 [22.09]	11.82 [3.78]	25.45 [22.09]	12.12 [3.78]
	Total Equity ownership by all controlling shareholders (C = A+B)	34.22 [32.83]	36.29 [33.64]	32.77 [31.42]	34.62 [34.24]	33.36 [31.35]	37.07 [35.95]
Institutional Ownership (%)	Banking firms	4.35 [1.12]	3.88 [0.44]	6.06 [1.61]	3.88 [0.16]	5.45 [1.46]	3.46 [0.27]
	Other unaffiliated firms	19.22 [12.24]	22.08 [17.55]	28.81 [26.26]	16.57 [10.24]	29.58 [29.41]	20.03 [14.94]
	Foreign investors	5.34 [1.27]	5.54 [1.24]	10.31 [1.95]	3.98 [0.16]	10.37 [1.58]	4.25 [0.15]
Others (%)		36.87 [52.54]	32.21 [47.13]	22.05 [38.76]	40.95 [55.20]	21.21 [36.20]	35.19 [49.14]

Panel B. SSE (Number of shareholder)

The sample includes non-financial companies, but excludes the companies which issued B shares or H shares. Sample companies were listed on Shanghai Stock Exchange (SSE) in or before 2001. Data are collected from Shanghai Stock Exchange annual and monthly reports and Qianlong database. This statistics covers the period from 2001 to 2003.

Year (n=Number of Firms)	2001 (n=646)	2002 (n=715)	2003 (n=780)
Total number of shareholder (million)	34.78	35.58	36.44
Individual A shareholder (million)	33.70	34.44	35.27
Individual B shareholder (million)	0.92	0.96	0.98
Institutional shareholder (million)	0.16	0.18	0.19

Panel C. SSE (Tradable and Untradeable)

			Total Capitalization (billion RMB)	Percentage (%)	Total Market Value (billion RMB)	Percentage (%)
2003	Total		451.90	100.00	2980.49	100.00
	Untradeable	Total	301.33	66.68	2160.38	72.48
		State-owned	242.97	53.77	1720.28	57.72
		Legal person	31.06	6.87	226.33	7.59
		Foreign investors	3.49	0.77	30.92	1.03
		Others	23.80	5.27	182.85	6.14
	Tradable	Total	150.57	33.32	820.11	27.52
		A shares	106.23	23.51	779.69	26.16
		B shares	9.49	2.099	40.43	1.356
		Listed in overseas	34.86	7.714	0.00	0
2002	Total		405.89	100.00	2536.37	100.00
	Untradeable	Total	273.53	67.39	1789.64	70.56
		State-owned	218.16	53.75	1327.49	52.34
		Legal person	28.74	7.08	245.06	9.66
		Foreign investors	3.05	0.75	29.18	1.15
		Others	2.36	5.808	18.791	7.41
	Tradable	Total	132.36	32.61	746.73	29.44
		A shares	90.02	22.18	702.5	27.70
		B shares	9.24	2.28	44.23	1.74
		Listed in overseas	33.10	8.16	0.00	0.00
2001	Total		346.74	100.00	2759.06	100.00
	Untradeable	Total	232.69	67.11	1920.85	69.62
		State-owned	183.74	52.99	1387.06	50.27
		Legal person	29.39	8.48	319.13	11.57
		Foreign investors	2.56	0.74	32.46	1.18
		Others	1.71	4.911	158.61	6.60
	Tradable	Total	114.04	32.89	383.21	30.38
		A shares	74.69	21.54	772.61	28.00
		B shares	9.07	2.62	65.61	2.38
		Listed in overseas	30.29	8.74	0.00	0.00

Panel D. SSE (State-owned and legal person)

Year (n=Number of Firms)		2001 (n=646)	2002 (n=715)	2003 (n=780)
State-owned ownership	Mean	0.5061	0.5015	0.4887
	Median	0.5565	0.5548	0.5545
	Maximum	0.8858	0.9808	0.9808
	Minimum	0.0040	0.0040	0.0040
Legal person ownership	Mean	0.2544	0.2536	0.2545
	Median	0.1774	0.1782	0.1794
	Maximum	0.9131	0.9131	0.8469
	Minimum	0.0005	0.0005	0.0005
A share ownership	Mean	0.3656	0.3728	0.3645
	Median	0.3521	0.3597	0.3639
	Maximum	1.0000	1.0000	1.0000
	Minimum	0.0868	0.0868	0.0257

[Table 4] Holding Period Returns (HPRs)

Panel A. KSE

The sample includes non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. The stock return data are from the daily return files of the Korea Investors Service-Stock Market Analysis Tool and Stock Database of the Korea Securities Research Institute. Numbers in brackets denote the medians. ***, **, and * denote significance of the parameter estimates at the 0.01, 0.05, and 0.10 levels, respectively.

Stock Return (HPR) (2000.1 ~ 2001.3)	Equity ownership by controlling shareholders		Test of difference (p-value)	
	High	Low	t-test	Wilcoxon z-test
-38.4%*** [-43.8%]***	-33.7% [-48.6%]	-45.9% [-40.5%]	0.00***	0.00***

Panel B. SSE

The sample includes non-financial companies, but excludes the companies which issued B shares or H shares. Sample companies were listed on Shanghai Stock Exchange (SSE) in or before 2001. Stock return and top 1 ownership data are collected from Qianl ong database. This statistics covers the period from 2001 to 2003

Stock Return (HPR) (2001.1 ~ 2003.12)	Equity ownership by largest shareholders (Top 1)		Test of difference (p-value)	
	High	Low	t-test	Wilcoxon z-test
-22.2%*** [-26.5%]***	-7.4%*** [-14.8%]***	-37.1%*** [-34.3%]***	0.00***	0.00***

Top 1 Ownership (2001.1 ~ 2003.12)	Top 1 ownership during the period 2001 to 2003		Test of difference (p-value)	
	High	Low	t-test	Wilcoxon z-test
47.55%*** [50.80%]***	55.99%*** [58.27%]***	39.04%*** [35.64%]***	0.00***	0.00***

[Table 5] Cross Sectional Regression

Panel A. KSE

The sample includes non-financial firms listed on the Korean Stock Exchange (KSE) during 2000-2002. Financial data are obtained from the Listed Company Database of the Korean Listed Companies Association. The stock return data are from the daily return files of the Korea Investors Service-Stock Market Analysis Tool and Stock Database of the Korea Securities Research Institute. The summary statistics are the values at the end of fiscal except for beta, which are estimated using one-year daily returns during 1999 and 2000. Equity ownership by controlling shareholders is the sum of equity ownerships by controlling families and affiliated firms. Tobin's q is measured as the book value of debt plus market value of equity divided by total assets. Numbers in parentheses are *t*-statistics. ***, **, and * denote significance of the parameter estimates at the 0.01, 0.05, and 0.10 levels, respectively.

	Stock Return (HPR)					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.876** (2.50)	0.772** (2.23)	0.892** (2.59)	0.754** (2.12)	0.992** (2.42)	0.701** (2.11)
30th Chaebol dummy (A)	0.171** (2.26)	0.158* (1.93)	0.199** (2.42)	0.161** (1.99)	0.176** (2.18)	0.163** (2.01)
100th Chaebol dummy						
Controlling shareholder Ownership (B = C + D)	0.218** (2.15)		0.224* (2.22)		0.254* (1.88)	
Individual (family) ownership (C)		0.394** (2.44)		0.388** (2.36)		0.364** (2.05)
Affiliated firm ownership (D)		0.098 (0.55)		0.086 (0.46)		0.068 (0.55)
Equity ownership by other unaffiliated firms	0.355*** (2.75)	0.416*** (2.82)	0.353*** (2.71)	0.418*** (2.82)	0.333*** (2.68)	0.411*** (2.72)
Foreign ownership	0.624*** (2.77)	0.672*** (3.18)	0.606*** (2.62)	0.688*** (3.22)	0.528*** (2.64)	0.611*** (3.28)
Log (total asset)	-0.061* (-1.72)	-0.057 (-1.52)	-0.067* (-1.78)	-0.058 (-1.54)	-0.062 (-1.65)	-0.050 (-1.52)
Total debt / total assets	-0.079*** (-3.88)	-0.069*** (-3.67)	-0.072*** (-3.75)	-0.068*** (-3.67)	-0.073*** (-3.78)	-0.065*** (-3.49)
Depository Receipt dummy	0.444*** (3.52)	0.432*** (3.46)	0.439*** (3.47)	0.435*** (3.47)	0.408*** (3.10)	0.401*** (3.02)
Cash flow (operating income + depreciation) / total assets	0.918*** (3.71)	0.929*** (3.95)	0.919*** (3.71)	0.932*** (3.95)	0.927*** (3.75)	0.939*** (3.98)
Liquid assets (cash + marketable securities) / total assets	0.797** (2.95)	0.659** (2.56)	0.794** (2.93)	0.670** (2.58)	0.784** (2.88)	0.666** (2.55)
Diversification dummy	-0.017 (-0.40)	-0.015 (-0.35)	-0.123* (-1.75)	-0.115* (-1.73)	-0.122* (-1.75)	-0.116* (-1.74)
Tobin's Q	0.109*** (2.65)	0.089** (2.24)	0.109*** (2.65)	0.089** (2.24)	0.118*** (2.74)	0.097** (2.20)
Beta	-0.225** (-2.37)	-0.249*** (-2.59)	-0.223** (-2.32)	-0.240*** (-2.52)	-0.227** (-2.45)	-0.238*** (-2.79)
(E) = A × B			-0.225* (-1.76)			
(F) = A × C				-0.401* (-1.87)		
(G) = A × D				-0.166 (-0.84)		
Industry dummies	Included	Included	Included	Included	Included	Included
Adjusted R^2	0.128	0.120	0.131	0.132	0.126	0.127
F-value	5.74	5.20	5.85	5.69	4.68	4.89
No. of observations	518	518	518	518	518	518

Panel B. SSE

The sample includes non-financial companies, but excludes the companies which issued B shares or H shares. The companies which only have state-owned shares or legal person shares are also excluded. Sample companies were listed on Shanghai stock exchange in or before 2001. This statistics covers the period from 2001 to 2003. Annual rates and ownership fractions are collected from Qianlong database. Other data are collected from Shanghai Stock Exchange. "***" represents the significance level of the parameter estimates at the 0.01. Holding period return is calculated by using year-end price minus beginning price and the outcome is divided by beginning price. For single regression and multiple-regression, yearly stock return is dependent variable. Financial ratios and ownership fractions and top 1 to top 5 ownership are independent variables. Top 1 ownership means equity ownership by largest shareholder and top 5 means equity ownership by fifth-largest shareholder. Numbers in parentheses are *t*-statistics. ***, **, and * denote significance of the parameter estimates at the 0.01, 0.05, and 0.10 levels, respectively.

	Stock Return (HPR)					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-2.740*** (-8.26)	-2.561*** (-5.66)	-2.642*** (-7.94)	-2.540*** (-6.83)	-2.756*** (-8.37)	-2.308*** (-5.77)
Top 1 ownership	0.190*** (3.33)	0.207*** (3.32)				
Top 2 ownership		-0.314*** (-5.24)				
Top 3 ownership		-0.188 (-0.44)				
Top 4 ownership		-0.386 (-0.38)				
Top 5 ownership		-0.751 (-0.54)				
(Top1+Top2+Top3 +Top4+Top5) ownership			0.300*** (4.42)			
State-owned ownership				0.840*** (4.41)		0.009*** (3.86)
Legal person ownership					-0.110*** (-4.41)	-0.006*** (-3.05)
Log (total asset)	0.280*** (7.56)	0.258*** (5.23)	0.277*** (7.63)	0.263*** (4.86)	0.287*** (7.96)	0.263*** (5.45)
Total debt / total assets	-0.067 (-0.85)	-0.072 (-0.91)	-0.073 (-0.95)	-0.010 (-0.37)	-0.086 (-1.13)	-0.101 (-0.98)
EBIT / total assets	0.364*** (4.24)	0.368*** (2.86)	0.372*** (2.93)	0.387*** (4.52)	0.360*** (2.90)	0.736*** (4.58)
Adjusted R^2	0.210	0.247	0.221	0.200	0.292	0.245
F-value	24.42	45.25	24.95	34.40	55.43	13.19
No. of observations	646	646	646	646	646	646

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