

Initial Public Offering and Corporate Governance
in China's Transitional Economy

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Abstract

This paper empirically investigates the performance of Chinese initial public offerings (IPOs). The data used covers the period from mid-1995 to mid-1999 with the sample including 884 companies (both in the A and B-share markets). 437 of the companies are listed on the Shanghai Stock Market, and 447 on the Shenzhen Stock Market. In an examination of growth, profitability and stability of listed companies either individually or as a combination, it can be seen that the only industries in which listed companies in China display strong performance are public utilities, transportation and finance; that is to say, China's 'sunrise' industries. The overall operational performance of other industries is clearly unsatisfactory.

If one examines the changes in listed companies' financial indicators following the IPO, it becomes apparent that with the exception of earnings related indicators (EPS and ROE) there are no significant changes. What's more, the financial indicators tend to fall rapidly year on year. This means that the IPO is of little obvious help to companies' operational performance, and may actually make things worse. One of the reasons for this is that in order to implement the IPO and secure stock market listing, companies tend to submit inflated figures in the financial statements that they are required to provide. Another possible factor is the poor corporate governance characteristics of Chinese enterprises.

One way to improve the quality of listed companies is to select for listing those companies which display strong performance, have strong development potential, and which occupy a leading or advantageous position within their industry, encouraging hi-tech enterprises and companies in other emerging industries to make use of the capital markets.

Key words: China, IPO, corporate governance

JEL classification: G1,G3,P3