Corporate Governance Impact on Chinese Bank Performance and Profitability

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The Chinese government started the privatization process of its different economic sectors and companies within those sectors in the late 1970s. The banking sector was one of those sectors where the government implemented reform measures at a very slow pace. Throughout the early years of its modern history, China had only one bank, the People's Bank of China which had numerous locations and branches throughout the country and acted as both central and commercial bank. In 1978, the Chinese government started reforming the banking system by allowing other banks to exist along with Bank of China. The four specialized state-owned banks, the Bank of China (BOC), the Agriculture Bank of China (ABC), the Construction Bank of China (CBC), and the Industrial and Commercial Bank of China (ICBC) were allowed to operate and become more profit oriented within their respective sectors of the Chinese economy. In the 80s and 90s, the Chinese government implemented additional reforms to allow for gradual foreign bank entry into China. Furthermore, the process of ownership reform was introduced during this time albeit at a slow rate of implementation. The government allowed for Chinese-foreign joint equity banks to operate in China and gradually, Chinese bank ownership became a mix of the state, state-owned enterprises, and in some cases, private capital and foreign investors. Currently, the Chinese banking system is a three tiered system with fully state-owned, national level joint-equity banks and mixed ownership commercial banks.

During the last decade, there has been a keen interest in the corporate governance and banking literature about the impact of ownership structure on bank performance. In general, those studies focus on the effect of ownership structure on the efficiency of operations, profitability and performance of banks. One of the general findings in this line of research is the superiority of foreign banks with operations in developing countries. This superiority is due to better managerial expertise, better access to large capital markets, possession of cutting-edge technology and comparatively better skills with regard to risk diversification and mitigation. Another general finding in the body of corporate governance research compares efficiency among different types of banks based on comparative differences in ownership structure. This research indicates increased efficiency of foreign banks compared to private domestic banks and state-owned banks (Berger et.al, 2009).

In this paper, we investigate a number of important hypotheses concerning the relationship between corporate governance and ownership structure and Chinese Bank efficiency and performance. The study covers the period from 2000 to 2016, during which Chinese banks adopted many of Western practices and concepts related to board composition, board size, and managerial ownership. We explore the determinants of bank performance by examining the quality of assets, profitability and liquidity of Chinese banks. Our preliminary results indicate that foreign banks tend to have better quality of assets and higher performance, while state-owned banks tend to have higher liquidity.