Going (More) Public: Ownership Reform among Chinese Firms
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Abstract

During the past two years, Chinese joint-stock companies have been converting non-tradable stock held by the state and state-controlled institutions, which constitute two-thirds of all stock in Chinese firms, into stock that can trade on local exchanges. This ownership reform reduces direct state control over industrial enterprises. It also greatly increases the supply of stock, which threatens to depress stock prices because there is no corresponding increase in demand. For this reform to succeed, holders of tradable stock must be compensated for the expected stock-price depreciation. The most common form of compensation consists of stock grants. Despite huge differences in stock-price returns, stock-price volatility, and the amount of non-tradable stock outstanding, most Chinese firms set compensatory grants at about the same level: three shares for every ten shares of outstanding tradable stock. Our analysis demonstrates that, net of coercion from state owners, most of this surprising isomorphism is due to imitation of other firms, and that imitation effects are stronger when uncertainty is greater. Interestingly, we find little direct evidence of normative isomorphism due to professional advisors.