

**EFFECTS OF CHINA'S NON-TRADABLE SHARES
REFORM ON FIRM OWNERSHIP CONCENTRATION,
PERFORMANCE AND DIVIDEND POLICY**

BY

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ABSTRACT

China has carried out two rounds of privatisation during the past 30 years along with its economic reform. The first round was marked by the establishment of the Shanghai and Shenzhen Stock Exchanges in 1990 and 1991, with the partial share issue privatisation (SIP) of its State-owned enterprises (SOEs). The second round was characterized by the Non-tradable Shares Reform (NTS reform) which started in 2005 and was eventually completed in 2014. With further privatisation of SOEs, NTS Reform was expected to unleash positive effects on China's stock market. This reform was aimed at making all non-tradable shares (NTS) tradable and realising the full and free circulation of all outstanding shares in the secondary market. Therefore, transfer of ownership resulting from trading of NTS would entail more concentrated ownership or even dispersed ownership of firms in the long run. Based on the theory of ownership structure, large blockholder ownership may have different effects on firm performance. Thus, changes in the ownership structure of listed firms may have effects on the performance of listed firms, their efficiency, as well as their dividend payout policies. The present study constructs dynamic panel regression model based on sample firms from 2000 to 2016, performs comparative study of the firms' performance in pre- and post-NTS reform period; and applies the estimator of Generalized Method of Moments (GMM) using STATA to investigate how the diminishing trend of the NTS ratio affects the propensity to change firm ownership concentration (OC) following the NTS Reform. This study also seeks to assess how the changes of NTS ratio and firm OC affect firms' financial performance in the pre- and post-NTS Reform period, and also to examine if the reform results in different cash dividend payout policies adopted by listed firms prior to and after the NTS reform. From the results of this study, it is found that the mean NTS ratio has dropped from 58.28 % in the pre-NTS reform period to 20.80 % in the post-NTS reform period, whereas the mean Top1 largest shareholder's equity share portion decreased from 41.65 % in the pre-NTS reform period to 36.07 % in the post-NTS reform period. Additionally, this study has shown the lock-up period implemented on NTS in the post-reform period results in stable ownership concentration of Top2 to Top5 largest shareholders' share portion. Furthermore, this study also confirms the traditional concepts of privatisation theory, and supports the notion that NTS reform has largely met the expectations of market stakeholders, and that the overall firms' performance have been improved in the post-NTS reform period. However, this study does not find any statistical and significant impact of NTS ratio and Top five largest shareholders' OC on firms' performance as measured by ROS, ROA and ROE in the long run. Lastly, the results also do not find any significant influence of Top1 to Top5 largest shareholders' OC on the firms' dividend policy. On the other hand, this study confirms that the NTS ratio has a significant positive influence on the dividend payout ratio (DPR) in the post-NTS reform period; whereas, the NTS ratio is not significantly related to the absolute level of cash dividends per share (DPS). Therefore, the results on dividend payout policy remain ambiguous. Present study also does not support the blockholder effect neither on firm performance, nor on firm cash dividend policy in post-NTS reform period. In conclusion, the listing rules of lock-up period which are imposed on NTS and controlling party's IPO helps to increase the DPR in post-NTS reform period, and would benefit the interests of minority shareholders in the long-run; nevertheless, the significant drop in DPR in post reform period should be of concern to the controlling parties of listed firms.

ملخص البحث

نفذت الصين جولتين من الخصخصة خلال الثلاثين عامًا الماضية جنبًا إلى جنب مع الإصلاح الاقتصادي. تميزت الجولة الأولى بإنشاء بورصتي شانغهاي وشنغشن للأوراق المالية في عامي 1990 و1991، مع الخصخصة الجزئية لإصدار الأسهم (SIP) للشركات المملوكة للدولة (الشركات المملوكة للدولة). تميزت الجولة الثانية بإصلاح الأسهم غير القابلة للتداول (إصلاح NTS) الذي بدأ في عام 2005 واكتمل في نهاية المطاف في عام 2014. مع مزيد من الخصخصة للشركات المملوكة للدولة، كان من المتوقع أن يطلق إصلاح NTS تأثيرات إيجابية على سوق الأسهم في الصين. يهدف هذا الإصلاح إلى جعل جميع الأسهم غير القابلة للتداول (NTS) قابلة للتداول وتحقيق التداول الكامل والحر لجميع الأسهم القائمة في السوق الثانوية. لذلك، فإن نتائج نقل الملكية من تداول NTS سوف يستلزم ملكية أكثر تركيزًا أو حتى ملكية مشتتة للشركات على المدى الطويل. استنادًا إلى نظرية هيكل الملكية، قد يكون للملكية أصحاب الاسهم الكبيرة تأثيرات مختلفة على أداء الشركة. وبالتالي، قد يكون للتغيرات في هيكل ملكية الشركات المدرجة تأثيرات على أداء الشركات المدرجة وكفاءتها، وكذلك سياسات توزيع الأرباح. تستخدم الدراسة الحالية نموذج انحدار اللوحة الديناميكي (dynamic panel regression model) بناءً على عينة من الشركات للفترة من 2000 إلى 2016، وتجري دراسة مقارنة لأداء الشركات في فترة ما قبل الإصلاح وبعده؛ وباستخدام طريقة Generalized Method of Moments (GMM) باستخدام برنامج STATA. من أجل التحقيق في كيفية تغير تركيز ملكية الشركة (OC) على المدى الطويل جنبًا إلى جنب مع الاتجاه المتناقض لنسبة NTS بعد إصلاح NTS. تسعى هذه الدراسة أيضًا إلى تقييم كيفية تأثير التغيرات في نسبة NTS و OC على الأداء المالي للشركات في فترة ما قبل الإصلاح وما بعده، وكذلك لفحص ما إذا كان الإصلاح يؤدي إلى سياسات توزيع أرباح نقدية مختلفة اعتمدها الشركات المدرجة قبل وبعد إصلاح نظام NTS. من نتائج هذه الدراسة، تبين أن متوسط نسبة NTS قد انخفض من 58.28٪ في فترة الإصلاح السابقة لـ NTS إلى 20.80٪ في فترة الإصلاح التي أعقبت NTS، في حين انخفض متوسط نصيب أكبر مساهم في المركز الأول من 41.65٪ في فترة الإصلاح قبل NTS إلى 36.07٪ في فترة إصلاح ما بعد NTS. بالإضافة إلى ذلك، أظهرت هذه الدراسة أن فترة الإغلاق المطبقة على NTS في فترة ما بعد الإصلاح أدت إلى تركيز ثابت للملكية من Top2 إلى Top5 أكبر حصة من المساهمين. علاوة على ذلك، تؤكد هذه الدراسة أيضًا المفاهيم التقليدية لنظرية الخصخصة، وتدعم أن إصلاح NTS قد حقق إلى حد كبير توقعات أصحاب المصلحة في السوق، وقد تم تحسين أداء الشركات بشكل عام في فترة إصلاح ما بعد NTS. ومع ذلك، لم تجد هذه الدراسة أي تأثير إحصائي وهام لنسبة NTS وأكبر خمسة مساهمين في OC على أداء الشركات كما تم قياسه بواسطة ROS و ROA و ROE على المدى الطويل. أخيرًا، لم تجد النتائج أيضًا أي تأثير كبير على OC من Top1 إلى Top5 أكبر المساهمين على سياسة توزيع أرباح الشركة. من ناحية أخرى، تؤكد هذه الدراسة أن نسبة NTS لها تأثير إيجابي كبير على نسبة توزيعات الأرباح (DPR) في فترة إصلاح ما بعد NTS؛ في حين أن نسبة NTS لا ترتبط بشكل كبير بالمستوى المطلق لتوزيعات الأرباح النقدية لكل سهم (DPS). لذلك، تظل نتائج سياسة توزيع الأرباح غامضة. لا تدعم الدراسة الحالية أيضًا تأثير مانع الحظر لا على أداء الشركة ولا على سياسة توزيع الأرباح النقدية الثابتة في فترة إصلاح ما بعد NTS. في الختام، تساعد قواعد الإدراج لفترة الإغلاق التي يتم فرضها على NTS والطرح العام الأولي للطرف المسيطر على زيادة DPR في فترة إصلاح ما بعد NTS، وستفيد مصالح مساهمي الأقلية على المدى الطويل؛ ومع ذلك، فإن الانخفاض الكبير في DPR في فترة ما بعد الإصلاح يجب أن يكون مقلقًا بشكل جدي من قبل الأطراف المسيطرة في الشركات المدرجة.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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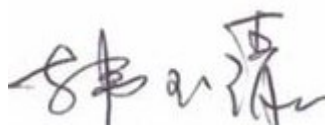
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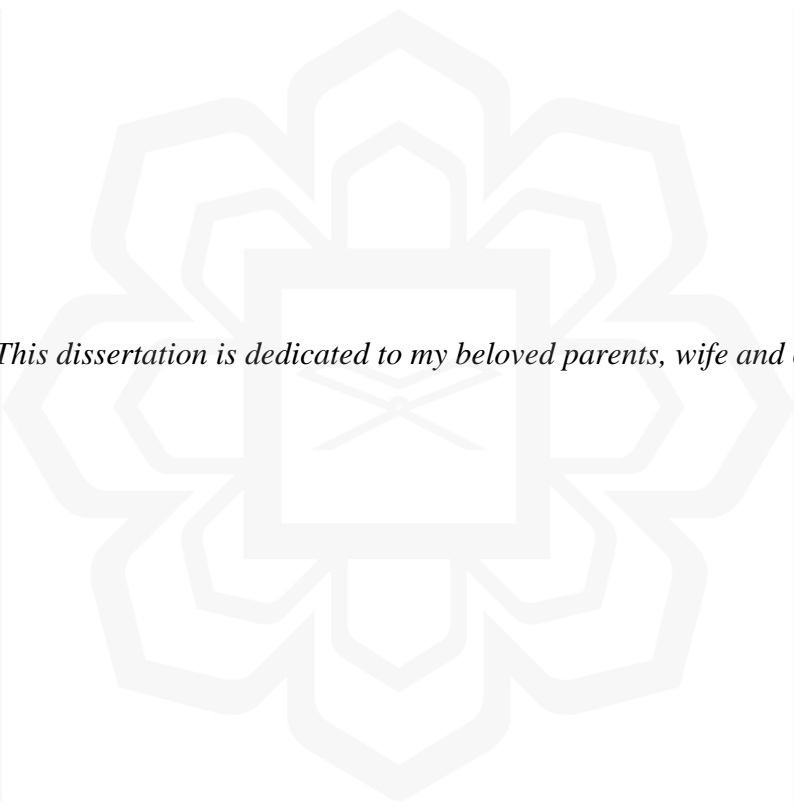
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This dissertation is dedicated to my beloved parents, wife and children

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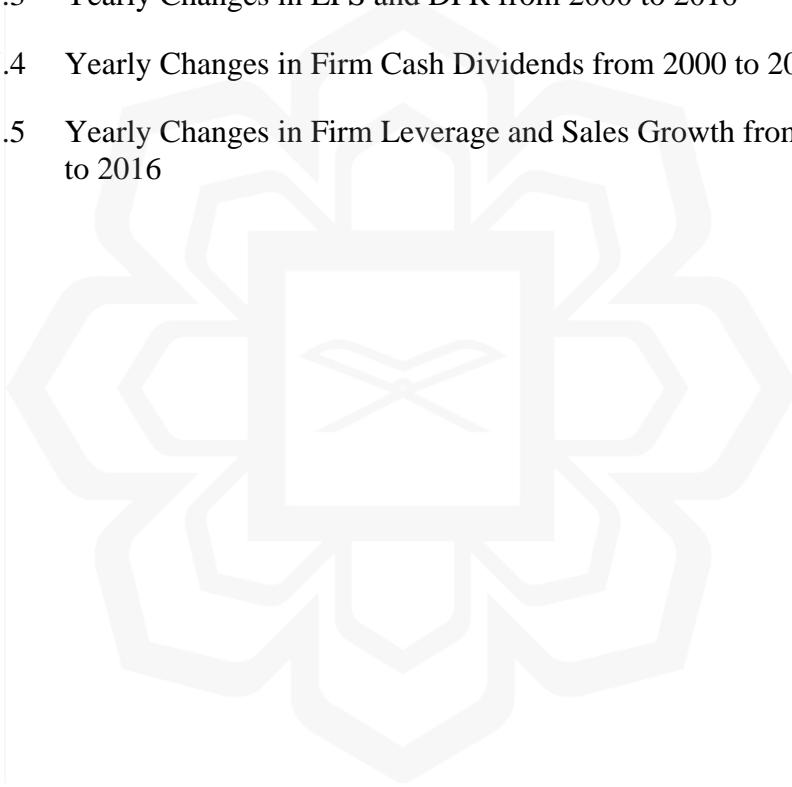
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LIST OF ABBREVIATIONS

CSRC	China Securities Regulatory Commission
DPR	Cash Dividend Payout Ratio
DPS	Cash Dividend Per Share
DY	Dividend Yield
EMPLOYMENT	Total Number of Full-time Employees
EPS	Earnings Per Share
FE	Fixed Effects
GDP	GDP Growth Rate
GLS	Generalized Least Squares
GMM	Generalized Method of Moments
IPO	Initial Public Offering
IV	Instrumental Variable
LEVERAGE	Financial Leverage
LSDV	Least Squares Dummy Variable
NETINCOME	Firm Net Income
NTS	Non-tradable Shares
NTS Ratio	Non-tradable Shares Ratio
NTS Reform	Non-tradable Shares Reform
OC	Ownership Concentration
POLS	Pooled Ordinary Least Squares
RE	Random Effects
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SALES	Firm Sales
SALESGROWTH	Firm Sales Growth
SHAREHOLDERS	Total Number of Shareholders
SHSE	Shanghai Stock Exchange
SIP	Share Issue Privatisation
SIZE	Firm Size
SME	Small & Medium Size Enterprise Board
SOEs	State-owned Enterprises
SSSR	Split-Share Structure Reform
SZSE	Shenzhen Stock Exchange
TOP1	Top1 largest shareholder's share portion
TOP2	Top2 largest shareholder's share portion
TOP3	Top3 largest shareholder's share portion
TOP4	Top4 largest shareholder's share portion
TOP5	Top5 largest shareholder's share portion
TS	Tradable Shares
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Prior to Non-tradable Shares Reform (NTS reform), the Chinese stock market adopted a special structure called the split share structure in which equity shares were divided into tradable and non-tradable shares (NTS). These NTS, which accounted for two thirds of the total number of outstanding shares and which could not be traded in the secondary market, were mainly held by state or state-related entities. Unlike listed companies in other markets, most of the companies listed in China were previously owned by the state or state-related legal entities. Therefore, a firm's ownership structure was a split-share structure in which a large portion of non-tradable shares were mainly held by the government and only a small portion of tradable shares were held by individual investors (Areddy et al., 2008; Joyce, 2008; Yeh et al., 2009; Wang et al., 2010; Syed et al., 2010). In the year 2005, the Chinese government initiated the NTS reform which promised to remove the restrictions on the trading of NTS, and gradually realised the full circulation of all outstanding shares in the Chinese stock market.

The reform aimed to gradually make all previously restricted non-tradable shares tradable with certain restrictions, for instance, NTS still remains non-tradable during the lock-up period even after the completion of NTS reform (Beltratti & Bortolotti, 2006). Consequently, the very nature of NTS is likely to have changed in different respects after the reform was initiated and completed by firms. These changes include the transfer of ownership from state to private entities by allowing NTS to be traded on the secondary market, which would then significantly alter the structure of ownership

and also the style of corporate governance. As a result, this would have changed the performance together with cash dividend pay-out policy of the listed firms in the post-reform period. Hence, the main interest of this study is to investigate the effects of privatisation leading NTS reform on the subsequent performance of listed firms from certain aspects. Particularly, to explore the evidence on the effects of ownership concentration induced by NTS Reform on firms' performance in the long run.

This chapter starts by introducing the research background, which mainly discusses the economic reforms of modern China, followed by the stages of reform of State-Owned Enterprises (SOEs) in China. Next, discussion progresses to privatisation of SOEs and the creation of non-tradable shares during the first round of privatisation. Then, the various issues regarding to the design of NTS and tradable share (TS) equity structures are explained under the subsection "Non-tradable Shares Reform". Next, the study elaborates on the research problem, the research questions and the research objectives, followed by highlighting the research gap to be filled by the current study. Lastly, the chapter is concluded with a discussion on the significance of the study.

1.2 RESEARCH BACKGROUND

1.2.1 Economic Reform of Modern China

China started the "Reform and Opening-up" policy in 1978, with the aim to promote modernisation and development through reforming its economic and political systems and opening its doors to foreign investment (Hassard et al., 2010; Xia & Cheng, 2017). Thus, a market economy, under the banner of socialism with Chinese characteristics, came into existence in the mainland China. As known as one of the most important elements of economic reform was the subsequent reform of SOEs, the reform strategy focused on making the SOEs market oriented, instead of planned by the central and

local government. Lan (2000) reveals that in order to bring the SOEs within the market economy without privatizing their ownership structure, China created a comprehensive legal framework aimed at the transformation of state-run enterprises into state-owned ones, in which the government would gradually pull out from running the SOEs, while still retaining control through a substantial ownership stake.

1.2.2 Reform Stages of State-Owned Enterprises in China

The reform of SOEs in China has gone through five stages (Xi, 2007). The first stage was from 1978 to 1980, which started with China's "Opening-up" policy. The main idea was to expand the SOEs' executive power, wherein they were given certain autonomous property and operating rights, while at the same time reducing their taxes.

The second stage was from 1981 to 1982. The main objective of the second stage was the trial operation of the economic responsibility system. Enterprises tried out various forms of responsibility systems of profit and loss contracting. For instance, scoring wages, piece-rate wages, and floating wages of workers were introduced during this stage. The purpose was to form an economic responsibility system by combining responsibility with rights gradually (Xi, 2007).

The third stage was from 1983 to 1986, in which the replacement of profits by taxes was introduced to SOEs by the central government. The main objective of this third stage was to change the turn-over profits to the state, into paying taxes to state, thereby promoting the growth of national fiscal revenue.

The fourth stage was from 1987 to 1991, the main mission being to improve the management mechanism of SOEs and to implement the contracting system, initiating the Development of Enterprise Production. Meanwhile, the Shanghai and Shenzhen stock exchange were established by the end of this stage (Yeung and Horace, 2009).

The fifth stage of SOEs' reform started in 1992 with the aim of establishing a modern enterprise system. The main intent of this stage was to promote the separation of government ownership and corporate management, thereby encouraging business enterprises to develop into market entities, especially the securitization of reformed SOEs were largely promoted.

1.2.3 The Privatisation of SOEs and Creation of Non-Tradable Shares

Under the guidance of the "Reform and Opening-up" policy, China has carried out two rounds of privatisation along with its SOEs reform. The first round started by the end of the fourth stage of the SOEs reform, marked by the establishment of the Shanghai and Shenzhen Stock Exchanges in 1990 and 1991, respectively. Subsequently, more SOEs started partial share issue privatisation (SIP) to get listed on these two stock exchanges. The second-round privatisation known as the Non-tradable Shares Reform (NTSR), also called the Split-Share Structure Reform started in the year 2005 with the aim of making all non-tradable shares tradable.

A study by Yeung and Horace (2009) concluded that the corporatisation campaign of SOEs in China has been a two-step process. First, SOEs were restructured into shareholding companies, and then they were listed on a stock exchange. The establishment of the two stock exchanges in China happened at around the same time. The Shanghai Stock Exchange (SHSE) was founded on 26 November 1990 and began its first trading day on 19 December 1990. Whereas the Shenzhen Stock Exchange (SZSE) was founded on 1 December 1990 and formally opened for trading on 3 July 1991. Both the SHSE and SZSE operate the Main Board, while the SZSE also runs the Small & Medium Size Enterprise Board (SME) and the ChiNext Board.

The main reason for the first round of privatisation was the heavy losses incurred by SOEs in the late 1980s, which pushed the government to take more drastic steps towards economic reform, whereby restructuring was initiated to transform SOEs into shareholding companies (Chi, Liao and Li, 2014). A study by Yeung and Horace (2009) reported that 9.6 % of all industrial SOEs in China declared losses in the year 1985, amounting to RMB 2.7 billion. In the year 1995, about 44 % of SOEs declared losses with the amounts rising to RMB 40.9 billion. This confirmed Carpenter and Whitelaw's (2017) view on the principal objective of establishing the stock market was to partially privatise the SOEs in order to provide them with an additional financing platform.

The government, eager to find new sources of capital for SOEs, while retaining its political (socialist) stance on public ownership, decided to launch a partial Share Issuing Privatisation (SIP) program. Partial here meant that upon the IPO, the shares of SOEs would be divided into two main categories: Tradable Shares and Non-Tradable Shares (Yeqin, 2007).

During the first round of privatisation, SOEs started transforming from state-owned enterprises into shareholding corporations, with the majority of shares being held by the state or state-owned legal entities in the form of non-tradable shares. The remaining shares were issued to the public as tradable shares (TS). This design of NTS and TS is called the Split-Share Structure System (Areddy et al., 2008; Joyce, 2008; Yeh et al., 2009; Wang et al., 2010; Syed et al., 2010; Chi, Liao, & Li, 2014). Under the Split-Share Structure System, which was a very unique characteristic of the Chinese stock market, tradable and non-tradable shares had different holding costs and were distinguishable by whether they can be traded. Despite these differences, both types had the same dividend rights and voting rights. However, as time moved on, this approach caused problems for listed SOEs in terms of the evaluation of firm value, firm

performance, liquidity, agency problems, and other issues, which impeded the development of China's stock market to some extent (Yang et. al., 2015).

Although the Split-Share Structure had many drawbacks, the first round of privatisation was a major step towards the modernisation of SOEs and is hailed as a significant milestone of economic reform. The modern stock market opened in Shanghai and Shenzhen in 1990, and the primary goal of this "stock market experiment" was to create a platform for the partial privatisation of China's SOEs. This objective significantly shaped the stock market's initial form and development (Carpenter & Whitelaw, 2017). The success of the first round of privatisation helped the quick development of China's stock market, followed by a dramatic growth of listed companies in most industries. The success continued until 2005, and the special feature of split-share-structure prevailed during the transition of China's economy from a regulation-oriented economy into a market-oriented economy.

Huang, He, and Zhang (2014) stated that the development of China's stock markets was closely linked with the privatisation of its SOEs. With the specific goal of helping SOEs to raise funds, China had rapidly developed its stock market since 1991, with more than 1600 companies listed by the end of 2008, most of them were former SOEs (Yeung & Horace, 2009). For the purpose of further understanding of Chinese stock market, the time trend on development of the Chinese stock market from 1991 to 2018 has been provided in Appendix IV, which reflecting the figures in pre-NTS reform, during NTS reform and post-NTS reform period. It summarised the number of SOEs that have been privatised into listed firms during the period. The number of listed firms on both the Shanghai and Shenzhen stock exchanges was 14 in the year 1991, which had increased to 1381 in the year 2005, and the total number of listed firms amounted to 3584 in year 2018.

1.2.4 Non-tradable Shares Reform

Being different from listed companies in other markets, most listed companies in China are those which were previously owned by the state or state-related legal entities. However, the majority of shares, which were held by different levels of government, were prohibited from being traded. Therefore, a firm's ownership structure was a split-share structure in which a large portion of non-tradable shares were mainly held by the government and only a small portion of tradable shares were held by individual investors (Aredy et al., 2008; Joyce, 2008; Yeh et al., 2009; Wang et al., 2010; Syed et al., 2010). A study by Green and Liu (2005) stated that since the early 1980s, the proposal and process of economic reform spanned three broad phases: the state's withdrawal from operational decision making on SOEs, followed by the loosening of the tight administrative oversight, and ultimately the relinquishing of ownership. The study concludes that during the SOEs' reform, the share of exclusively state-owned enterprises in the economy declined whilst hybrid structures, like companies co-owned by state entities and non-state actors, emerged. Table 1.1 summarised the different types of shareholders' portions in NTS before the inception of the NTS reform.

Table 1.1 Different Types of Shareholders' Portion in Non-tradable Shares (1997-2004)

Shareholder Type	State	Legal Person	Employee
Holding Range	32-47%	17-31%	<2%

(Source: Green and Liu, 2005)

The design of NTS and TS solved the SIP issue of SOEs and provided SOEs with a more modern form of corporate governance to some extent. As time moved on, however, several drawbacks of this split-share structure were identified by researchers.

First, a large fraction of the stocks of firms listed as NTS were not circulating in the Chinese stock market since they were held by government bodies as non-tradable shares, which could be only traded through over the counter deals at book value. This caused illiquidity, as well as the mispricing of firms' shares (Jiang et al., 2008; Chen, Jian, & Xu, 2009; Wang & Kong, 2010). Second, most of the listed firms were controlled by the state government via a large proportion of direct shareholdings resulting in individual shareholders having little influence over firms. Management decisions were made by the few controlling shareholders who held non-tradable shares, while the minority shareholders had little influence in decision making, which undermined the minorities' interests (Beltratti & Bortolotti, 2006; Benjamin et al., 2009; Kong, 2019). Third, due to trading restrictions, non-tradable shareholders did not care much about market price changes, or value maximisation, of the firm's tradable shares. Instead, related parties' transactions and channeling of the firm's wealth was their primary concern (Zou et al., 2008; Chen, Jian, & Xu, 2009; Jiang, Lee, & Yue, 2010). The split-share structure system was especially likely to engender expropriation problems in addition to a more concentrated ownership structure. And lastly, the illiquidity of NTS under the split-share structure caused excessive volatility in the Chinese stock markets. Other problems such as low liquidity, less dividend payout, and difficulties of market innovation were also highlighted by researchers (Zou et al., 2008; Jiang et al., 2008; Jiang, Lee, & Yue, 2010; Beltratti et al., 2012; Chi, Liao, & Qian, 2015; Tan, Tian, Zhang, & Zhao, 2016).

A study by Jiang et. al. (2008) reported that individual retail investors account for more than 60% of trading in China's market, compared to 38% in the U.S, and there was a 300% annual turnover rate of tradable shares on the Shanghai Stock Exchange as

compared to 125% and 140% on the New York Stock Exchange and the London Stock Exchange, respectively.

Studies reported that the total number of outstanding shares by the end of 2004 were 714.9 billion; 454.3 billion shares accounting for 64% of the total number of shares were non-tradable shares, and 74% of these non-tradable shares were state-owned (Liao, Liu, & Wang, 2014). As observed, a huge number of outstanding shares were non-tradable in nature, which consequently impeded the potential growth of the stock market. On 29 April 2005, the China Securities Regulatory Commission (CSRC) launched a stock market reform program (Non-tradable Shares Reform or Reform of the Shareholder Structure of listed companies) which was well known as the second-round of privatisation, in which all NTS gradually became tradable. The objective of the reform was to allow non-tradable shares to be converted into tradable shares to achieve market liquidity by making non-tradable shares' holders compensate tradable shares' holders. Subsequently, each firm was required to propose a reform plan to facilitate the change of status of NTS (Source: from CSRC website).

On 5 September 2005, the CSRC issued the first official document, "Measures on the Administration of Split-Share Structure Reform of Listed Companies," to provide a guideline for the implementation of the Non-tradable Shares Reform (Split-Share Structure Reform of listed companies). The reform program also addressed the concerns of price volatility and the price pressure effect owing to the massive future supply of shares (Yeh et al., 2009; Pan et al., 2014).

In order to prevent NTS shareholders from benefiting at the expense of TS shareholders, who would face a flood of shares in the secondary market, the announcement further specified that NTS shareholders must negotiate with TS shareholders the level of compensation, in the form of stock grants, or both cash and

stock grants, that they will pay to the latter for the right to sell their NTS in the future. To stabilise the stock market, the CSRC further imposed a 12-month lockup period to restrict NTS holders from selling their shares after the completion of the NTS reform. In the two years following the expiration of the lockup, the NTS shareholders owning more than 5% of a firm were allowed to sell only a maximum of 5% and 10% of the firms' total shares within a period of 12 and 24 months, respectively. In addition, the listed firms and the controlling shareholders were allowed to stabilise the stock market price through share repurchase from secondary market (Beltratti & Bortolotti, 2006).

According to various studies, the NTS reform involved 1315 listed firms. Most of the listed firms, however, underwent the reform between the years 2005 and 2007. There were 1260 firms that underwent the reform by the end of 2007. As of November 2014, only three out of the 1315 listed firms did not complete the NTS reform (Liao, Liu, & Wang, 2014). Yet, the effects of NTS reform causing on the changes of controlling parties' share portion remains an ongoing process even as of today. A study by Carpenter and Whitelaw (2017) showed that non-tradable shares still accounted for nearly 25% of the total shares in the year 2016.

1.3 RESEARCH PROBLEMS

It is reported that approximately 80% of NTS were converted to Lock-up NTS by the year end 2009. However, it is worth noting that controlling shareholders still held one-third of the total outstanding shares (Liu, Uchida, & Yang, 2014). After completion of the NTS reform in year 2014, the question that begs to be answered is whether the controlling shareholders are still willing to maintain a high proportion of their shareholdings in the long run when shares fully become tradable in the secondary market? In order for the overall firms' performance to remain stable, keeping the