# 中国研究问题之初探

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# Some interesting “things” in our country

- Formal vs informal finance
- Short selling
- Split share reform
- Tunneling vs. propping
- Corporate Income Tax Law reform
- Cross-listing
- SOE vs. non-SOE
- Family controlled firms

# Some interesting "things" in our country (cont'd)

- Information asymmetry
- Concentrated ownership (minority shareholder expropriation)
- External corporate governance
- Political uncertainty/connections
- Accounting misstatement/fraud
- Bank ownership
- Innovation
- Confucius

# Several papers

- 1. Formal versus informal finance: Evidence from China, Meghana et al. (2010) RFS
    - The fast growth of Chinese private sector firms is taken as evidence that informal finance can facilitate firm growth better than formal banks in developing countries. We examine firm financing patterns and growth using a database of twenty-four hundred Chinese firms. While a relatively small percentage of firms utilize bank loans, bank financing is associated with faster growth whereas informal financing is not. Controlling for selection, we find that firms with bank financing grow faster than similar firms without bank financing and that our results are not driven by bank corruption or the selection of firms that have accessed the formal financial system. Our findings question whether reputation and relationship-based financing are responsible for the performance of the fastest-growing firms in developing countries.

# Several papers (cont'd)

Tunneling or propping: Evidence from connected transactions in China, Peng, Wei, and Yang (2011), JCF

- Friedman et al. (2003) develop a model in which, in equilibrium, controlling shareholders may choose either tunneling or propping of their listed companies depending on the magnitude of an adverse shock and the magnitude of the private benefits of control. In this paper, we employ connected transaction data from China to test the implications of their model. We hypothesize that, when listed companies are financially healthy (in financial distress), their controlling shareholders are more likely to conduct connected transactions to tunnel (prop up) their listed companies and the market reacts unfavorably (favorably) to the announcement of these transactions. Our empirical findings strongly support our hypotheses. We also find that all of the transaction types in our sample can be used for tunneling or propping depending on different financial situations of the firms. Finally, political connection is negatively associated with the announcement effect. Overall, our analysis supports Friedman et al.'s (2003) model by furnishing clear evidence for propping and tunneling to occur in the same company but at different times.

# Several papers

Tunneling through intercorporate loans: The China experience, Jiang, Lee and Yue (2010), JFE

- This study investigates a particularly brazen form of corporate abuse, in which controlling shareholders use intercorporate loans to siphon billions of RMB from hundreds of Chinese listed companies during the 1996–2006 period. We document the nature and extent of these transactions, evaluate their economic consequences, examine factors that affect their cross-sectional severity, and report on the mitigating roles of auditors, institutional investors, and regulators. Collectively, our findings shed light on the severity of the minority shareholder expropriation problem in China, as well as the relative efficacy of various legal and extra-legal governance mechanisms in that country.

# Several papers (cont'd)

- Formal finance and  trade credit during China's transition, Cull et al., (2009) JFI
- Financial development, bank discrimination and trade credit, Ge and Qiu (2007) JBF

# Several papers (cont'd)

Minority Shareholders' Control Rights and the Quality of Corporate Decisions in Weak Investor Protection Countries: A Natural Experiment from China, Chen, Ke and Yang (2013), TAR

- Using a 2004 Chinese securities regulation that requires equity offering proposals to obtain the separate approval of voting minority shareholders, we examine whether giving minority shareholders increased control over corporate decisions helps to reduce value-decreasing corporate decisions for firms domiciled in weak investor protection countries. We find that the regulation deters management from submitting value-decreasing equity offering proposals in firms with higher mutual fund ownership. There is also weak evidence that minority shareholders are more likely to veto value-decreasing equity offering proposals in firms with higher mutual fund ownership in the post-regulation period. Overall, our evidence suggests that in weak investor protection countries, the effect of granting minority shareholders increased control over corporate decisions on the quality of corporate decisions depends on the composition of minority shareholders.

# Wechat group

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- 会计学术联盟
- CJAR
- 分析式会计研究
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# Top journals

- AER
- JPE
- JF
- JFE
- RFS

Thanks a lot.

Q&A

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