

Project Title: Capital Structure and Corporate Governance in China

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Authors' Information

Yanmin Qian, Department of Finance, School of Economics, Zhejiang University, Hangzhou, Zhejiang, China, email address: yanminqian_ca@yahoo.com.cn

Yao Tian, Department of Accounting and Management Information Systems, School of Business, University of Alberta, Edmonton, Alberta, Canada T6G 2R6, email address: Yao.Tian@ualberta.ca.

Tony S. Wirjanto, Department of Economics and Centre for Advanced Studies in Finance at the School of Accountancy and Department of Statistics and Actuarial Science, Waterloo, University of Waterloo, Ontario, Canada N2L 3G1, email address: twirjant@uwaterloo.ca., home page: <http://www.arts.uwaterloo.ca/%7Etwirjant/>

Research output

1. Paper Title: An Empirical Investigation into the Capital-Structure Determinants of Publicly Listed Chinese Companies: A Static Analysis, 2007a - completed.

Summary: Using a relatively large panel data set of stock market and accounting data for 650 publicly listed Chinese companies over the period of 1999-2004, we examine determinants of the capital structure for publicly listed Chinese companies. In this investigation, we take into account unique institutional structure of Chinese companies. For comparison with extant literature, we estimate static panel-data models of the firms' capital structure, but with both unobserved cross-sectional and time effects as well as industry effects. Our results show that firm size, tangibility and ownership structure are positively associated with firm's leverage ratio, while profitability, non-debt tax shields, growth and volatility are negatively related to firm's leverage ratio.

2. Paper Title: An Empirical Investigation into the Capital-Structure Determinants of Publicly Listed Chinese Companies: A Dynamic Analysis, 2007b - completed.

Summary: Using a relatively large panel data set of stock market and accounting data for 650 publicly listed Chinese companies over the period of 1999-2004, we examine determinants of the capital structure for publicly listed Chinese companies. In this investigation, we posit that a firm's decision on capital structure is inherently dynamic,

and formulate a dynamic panel-data regression model, which is estimated using dynamic panel-data generalized method of moments. Our results show that publicly listed Chinese firms adjust toward an equilibrium level of debt ratio in a given year, but the adjustment process is very slow. In addition, we find that firm size, tangibility and ownership structure are positively associated with firm's leverage ratio, while profitability, non-debt tax shields, growth and volatility are negatively related to firm's leverage ratio. Lastly, we find that lagged profitability has a negligibly small and positive impact on firm's leverage ratio.

3. Paper Title: A Closer Look at Adjustment Processes of Chinese Listed Firms toward an Equilibrium Leverage Level, 2007c - work in progress

Tentative summary: Qian, Tian and Wirjanto (2007b) examine determinants of the capital structure for publicly listed Chinese companies. They formulate a dynamic panel-data regression model and estimate it using first-differenced generalized method of moments for dynamic panel data. However one major limitation of Qian, Tian and Wirjanto's (2007b) results is their use of all firms in the balanced panel irrespective of the firms' current leverage ratios relative to their equilibrium (or target or optimal) levels. Obviously, firms with leverage ratios at the optimal levels in a given year do not need to rebalance their capital structures and adjust them toward the target levels. Ignoring this may distort the estimated speed of adjustment of firms toward the target levels. In this paper we identify firms that experience large changes in their leverage ratios and examine these firms' rebalancing mechanisms. We found that firms experiencing increase in their leverage ratios display very different adjustment patterns than firms experiencing decrease in their leverage ratios. We then estimate a dynamic adjustment model of leverage ratios for firms exhibiting decreasing leverage ratios by system generalized method of moments for dynamic panel data. A number of sensitive analyses are also conducted, for instance by allowing firms not to make adjustment every year and firms' heterogeneous speeds of adjustment, by using alternative measures of target leverage ratio and/or leverage, and by determining whether a firm's adjustment cost affect its speed of adjustment materially.

4. Paper Title: On the Dynamics of Capital Structure of Publicly Listed Chinese Companies: Another Look, 2007c - work in progress

Tentative summary: Following Qian, Tian and Wirjanto (2007b), this paper adopts a dynamic capital-structure model for a sample of Chinese firms and uses a balanced panel data of 650 publicly listed Chinese firms over the period of 1999-2004. The model is based on the idea of firms' endogenous leverage targets and a potential dynamic sub-optimality of actual leverage level due to costly adjustments toward an equilibrium level of capital structure. However, unlike Qian, Tian and Wirjanto (2007b), who model firms as partially (and exogenously) adjusting toward the equilibrium leverage level, this paper endogenizes both the equilibrium level of leverage and the adjustment factor to reach the equilibrium level. The resulting model is then estimated by dynamic panel-data generalized method of moments.