Three Essays in Corporate Finance and Corporate Governance

HE Ting

A thesis submitted in partial fulfillment of the requirements
for the degree of
Doctor of Philosophy

Principal Supervisor: Prof. Gordon Y.N. TANG

Hong Kong Baptist University

February 2011
This thesis consists of three essays. Essay I examines whether dividends payout has a positive contribution to firm performance while taking into account the important firm level characteristics such as the divergence between the control rights and the ownership rights of controlling shareholders and firm leverage. Investigating the large firms listed on the Main Board of Hong Kong Stock Exchange over the 1998-2007 period, we find that dividends payout has statistically significantly positive impacts on both ROA and Tobin’s Q, particularly after controlling for the nonlinear relation between dividends and firm performance and between control rights of the controlling shareholder and firm performance. The regression results do not show significant interaction effect between dividends payout and control divergence on firm performance. But the impact of dividends payout on firm performance is different in family controlled firms vs. state controlled firms and varies with institutional factors.

Essay II investigates how ultimate controlling shareholders influence dividends payout policy in industrial firms in the natural experimental setting of Hong Kong, which features no tax on dividends and the prevalence of concentrated ownership. We find that the ultimate control held by the controlling shareholders is negatively associated with the level of dividends payout and that the dividend payout behavior in firms with controlling shareholders exhibits similar patterns as in US, UK and EU firms. We also conduct separate analysis on family controlled and state controlled firms, and find that the heterogeneity across these large shareholders has a confounding effect on corporate dividend payout behavior.

Essay III examines the effect of legal systems, regulatory requirements and participation of foreign investors on stock price synchronicity in the natural experimental setting of China. Using 7,566 firm-year observations of Chinese listed firms over the period 2003-2008, we find that legal systems and regulatory requirements are negatively associated with stock price synchronicity with the effect of legal systems stronger than regulatory requirements, but find a positive relation between the participation of foreign institutional investors and the stock price synchronicity inconsistent with the general views in this regard. Further analyses suggest that the positive relation might be due to the selection criterion adopted by foreign institutional investors that prefer firms with higher growth prospects, which increases stock price synchronicity by market reactions to their investment choice.
# TABLE OF CONTENTS

DECLARATION.............................................................................................................i
ABSTRACT...................................................................................................................ii
ACKNOWLEDGEMENTS............................................................................................iii
TABLE OF CONTENTS.............................................................................................iv
LIST OF TABLES.......................................................................................................vi

Chapter 1: Introduction .........................................................................................1

1. Introduction ................................................................................................... 6

Chapter 2: Essay I ...............................................................................................5

2. Dividends and Firm Performance ................................................................. 10
   2.1 Theories ................................................................................................... 10
   2.2 Evidences ............................................................................................... 15

3. Variables and Hypothesis .......................................................................... 20

4. Sample and Data .......................................................................................... 27

5. Empirical Test .............................................................................................. 33
   5.1 Descriptive Statistics ........................................................................... 33
   5.2 Multivariate Analysis ........................................................................... 36
   5.3 Robustness Checks .............................................................................. 38

6. Conclusion .................................................................................................... 45

References ......................................................................................................... 49

Chapter 3: Essay II .............................................................................................71

1. Introduction ................................................................................................... 72

2. Large Shareholders and Dividends ............................................................. 76

3. Sample and Data .......................................................................................... 80

4. Analysis Reports ........................................................................................... 84
   4.1 Descriptive Statistics ........................................................................... 84
   4.2 Multivariate Analysis ........................................................................... 84

5. Conclusion .................................................................................................... 103

References ......................................................................................................... 107

Chapter 4: Essay III ..........................................................................................123

1. Introduction ................................................................................................... 124

2. Foreign Investors, Corporate Governance and Information Efficiency .... 129

3. Hypothesis Development ............................................................................ 132
   3.1 Chinese listed firms ............................................................................ 132
   3.2 Four determinants of stock price synchronicity .................................. 135
   3.3 Formulation of hypotheses ................................................................. 141

4. Data and Sample .......................................................................................... 145
   4.1 Variable definitions ............................................................................ 145
   4.2 Sample selection and summary statistics .......................................... 150

5. Empirical Analysis .................................................................................... 152
   5.1 Multivariate regression .................................................................... 152
5.2 Robustness checks ................................................................. 154
5.3 Interpreting the relation between QFII participation and stock price synchronicity ..................................................... 157
6. Conclusion ................................................................................... 165
References .......................................................................................... 168