Financing Status of Listed Companies in China

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Abstract: The capital structure is closely related to the development of the company, and the financing preference for the listed company also has a meaning that cannot be underestimated. The financing preference of China's listed companies has always been the focus of scholars at home and abroad. At first, this paper listed the related research literature, and then from two aspects of the stock market and bond market are described in recent years, the overall financing environment in our country, then analyzes the order of the financing preference of listed companies and the three major characteristics, the final details the overall financing environment and the internal corporate governance impact on the present situation of financing of listed companies of our country. This paper takes the financing status of listed companies in China as the research topic, hoping to help China optimize the decision-making of financing and promote the further development of China's capital market.

Research on financing preference of Chinese companies

In recent years, Chinese scholars have done a lot of research on the financing preference order and the influencing reasons of Chinese listed companies. The main research results are as follows:

Shaoan Huang(2001)[1] made an in-depth study of the financing behavior of Chinese listed companies, and found that, different from the foreign preferential financing theory, Chinese companies have obvious preference for equity financing.

Zhengfei Lu(2003)[2] on the financing behavior of Chinese listed companies have a practical significance of research, they use questionnaire obtained the equity financing preference of China's listed companies with the results, the main reason is that there are large difference between capital market system in China and abroad, thus the company capital structure have also been affected.

Xing Liu and Zhan Yu(2004)[3] tested the financing sequence of China's listed companies with empirical analysis, and believed that the incomplete reform of state-owned enterprises was one of the main reasons why China's listed companies strongly preferred equity financing, leading to the possibility of insider control.

Zhengfei Lu(2004)[4] made an in-depth analysis of the equity financing preference of Chinese companies, and believed that the factors affecting the financing preference include financing cost, shareholder shareholding ratio, capital scale and free cash flow, etc.

Changyi Wei(2006)[5] 's research focuses on corporate internal governance. Although equity financing will increase the number of shareholders, it will not disperse the control power of corporate management, which is the internal reason why Chinese companies have a preference for equity financing.

Jie Sun(2010)[6] found through their research that the main factor influencing the financing preference of listed small and medium-sized companies in China is the ownership structure of the company.

Bin Li and Wei Jiang(2013)[7] studied financing constraints and enterprise growth, they found that strong corporate profitability would lead to higher tax costs. At this time, enterprises would prefer debt financing, because the cost of raising funds in the form of debt is lower.

Guoyu Zhao(2013)[8] found in his research that Chinese companies controlled by shareholders with a large shareholding ratio have tunneling behaviors such as wealth transfer, so the company tends to adopt equity financing.

Genrong Xing(2013)[9] showed that the profitability of listed companies in China was significantly positively correlated with their preference for equity financing.

Xingyue Chen(2015)[10] classified the listed companies according to the regional differences, and believed that the region where the companies are located would affect the capital structure of the organization. Listed companies in the east coast have the same financing preference order as those in the superior financing theory, while those in the central and western regions have the opposite preference.

Zhenshan Wang(2018)[11] discussed the equity financing preference in terms of stock speculation and information discovery. The research results showed that the main factor influencing the equity financing preference of China's listed companies was the low cost of equity.

Haiying Huang(2018)[12] for company's external financing preference in our country, in order to classify the company area, found that when the regional credit support difference due to different system viscosity, eastern company has significant equity financing preference, while the western company, on the contrary, but both eastern and western companies, the financing order will be change after the first equity financing debt financing.

Based on the research results of scholars, this paper will discuss the financing status of China's listed companies based on the actual data.

Financing environment of listed companies

Stock market. Early practice of planned economy system in our country, most of state-owned companies to rely on government funding or bank loans for financing, private companies are faced with the problem of financing is more difficult, in the Chinese government actively build a socialist market economy so as to promote the state-owned companies and private companies under the background of rapid development, in 1990, the Shanghai and Shenzhen exchange, set up the two cities this symbolized our country capital market has entered a new stage of normal development. Although China's stock market started teaching late, but still has a rapid expansion speed, showing an overall upward trend of development.

Table 1. Data analysis of Chinese stock market

Year	Number of listed companies	Issued capital [100 million shares]	Free float ratio	Transaction amount [100 million yuan]	Market value [$100 million]	Market value/GDP %
2014	2592	36517.75	87.66%	741378.07	370823.17	57.62%
2015	2808	42753.16	86.01%	2546837.74	529251.65	76.83%
2016	3034	48468.16	84.29%	1276194.30	505772.76	67.76%
2017	3467	53461.94	83.73%	1123647.88	565254.86	67.94%
2018	3567	57290.35	85.11%	901103.16	433547.91	47.16%

Table 1 is the development data of China's stock market in recent years. In the short five years from 2014 to 2018, the number of listed companies in China's domestic stock market has increased by nearly 1.4 times, and the transaction value of stocks has increased by 1.2 times. However, the fluctuation range is large and unstable. From 2014 to 2017, the total market value of the stock has increased by more than 1.5 times. Meanwhile, the proportion of the total market value of the stock in China's GDP is also on the rise, increasing by 10.32% compared with 2014 in 2017. However,

transaction value, market value and market value of the stock market as a proportion of the country's GDP all declined in 2018, possibly due to the slowdown in China's economic growth.

According to the above analysis combined with the reality, China's stock market is in a state of rapid development in recent years, which has become an important force to promote the development of China's national economy. It also provides an environment for China's listed companies to raise funds by issuing stocks. However, there is still room for further mature development of the stock investment market.

Bond market. One of the important components of China's debt market is financial bonds, and the issuance of financial bonds by corporate organizations and financial groups is beneficial but harmless. Issuance of financial bonds for the company not only opens up new exogenous financing channels and financing means, to melt way toward diversified development, increase the company's business activities and the subsequent development of funds, also make the company's capital structure adjustment and optimization, to does not match the term structure of assets and liabilities of problem solving and can also be effectively guard against and dissolve financial risk. The debt market provides short-term debt financing companies for corporate members in China, which effectively saves the financing cost, connects the external investors of the company with those who are short of funds within the company, and enables corporate members to make full use of the external funds of the organization. At the same time, the debt market also provides medium - and long-term debt financing tools, providing more secure medium - and long-term funds for company members to support and meet the various needs of the development of the organization, so as to give full play to the financial functions of the company. All in all, the development of the debt market is conducive to the overall economic development of China. Increasing the number of debt market products, improving the structure of debt products and improving the credit rating of bonds are conducive to expanding the scale of China's debt market, effectively alleviating the imbalance of the development of the stock market seriously surpassing the development of the debt market, and comprehensively optimizing the capital structure of Chinese companies.

Came in 1981, our country issue bonds to finance economic activity, while in the stock market started earlier, but due to the imperfect credit system in our country, to issue bonds in the environment and conditions, the company's spontaneous financing behavior is restricted by the state planning economic systems, and highly improve the management and supervision mechanism, in the end China's debt markets as the stock market did not form relatively mature perfect scale, development potential and staying power. In order to solve the situation of the debt market, the Chinese government has promulgated many laws and regulations to promote its orderly development in the right direction. China's debt market showed a steady upward trend from 2014 to 2018.

To sum up, the current situation of China's capital market is that both the debt market and the stock market are developing rapidly, but the debt market is relatively small in scale and lags behind the stock market, resulting in the overall imbalance of China's capital market, which will cause more harm than good to the financing preference of China's listed companies.

Financing characteristics of listed companies

Equity financing preference. As one of the important theories in the study of corporate financing, the prioritized financing theory holds that: compared with other financing methods, the cost of equity financing and debt financing is higher, so the company should first utilize the internally accumulated funds when making financing preference decisions. However, equity financing has the disadvantage of dispersing the control right of the original shareholders to the company's organization, so the company should first choose low-risk bonds or bank loans, then choose high-risk bonds when conducting external financing, and finally choose equity financing only under the circumstances of necessity. Among the various financing methods available to the company, endogenous financing is regarded as the lowest cost, and foreign listed companies generally regard it as the most priority and main financing method, giving full play to the advantages of this financing method.

However, according to the previous literature review, the capital structure of China's listed companies is completely opposite to the theory of superior financing. Based on the analysis of the financing structure of China's listed companies over the years, it can be seen that the proportion of external financing is significantly higher than that of internal financing, with an average difference of more than one time. In other words, China's listed companies rely heavily on external investors to raise funds, forming the financing preference characteristic of "emphasizing external sources over internal sources". At the same time, equity financing and debt financing, as the two main external financing methods, are highly unbalanced in proportion. Equity financing accounts for a high proportion, which gives executives an absolute advantage in choosing financing methods. When China's stock market is in a bull market, the proportion of equity financing can reach up to 90% of the financing structure of the entire capital market. In contrast, debt financing has been sluggish. From 2014 to 2018, the average debt financing ratio of China's listed companies accounted for about 40 percent, far lower than that of western developed countries. The development of China's debt market is in sharp contrast to the prosperity of the stock market, that is, it has the structural characteristics of "valuing equity over creditor's rights". In a word, China's listed companies focus on equity financing.

Low utilization rate of capital. At present, China's listed companies not only rely heavily on equity financing, but also the financing behavior is quite blind. Related financial department and our government forces of examination and approval for the financing of listed companies for examination and approval of money is not serious, in order to the development of the company repeatedly to relax some restrictive conditions, nearly three years, for example, the weighted average return on net assets is lower than six percent of the company can be attached to a binding condition to apply for issuing new shares, and some restrict conditions of listed companies issuing new shares may be cancelled directly. The above listed policies directly lead to the over-financing of listed companies in China. Although the business scale has been continuously developed, the funds obtained from equity financing have not been applied to the company's business and the original goals. According to statistics, during the five years from 2014 to 2018, at least 600 billion yuan of financing funds were restricted by China's listed companies. The business performance did not increase due to the management's hard work in raising a large amount of cash flow, but declined, and the business ability could not be fundamentally improved. What is more, the senior management of some companies have raised external funds and tampered with the direction of the financing at will. The stock market has been reinvested with these idle funds, resulting in market chaos. In short, China's listed executives have blind financing and investment, resulting in the amount of financing far exceeds the project needs, the company's operating capacity is always low, and the utilization rate of funds is constantly declining.

China's listed companies show the common phenomenon of ‘one year excellent, two years even, three years deficit’, the rate of return on net assets continues to decline, the company's operating performance gradually declined, which fully shows that China's listed companies rely heavily on equity financing shortcomings. The core objective is to maximize shareholder interests of listed companies, equity financing does not conform to the requirements, not only can make the financing and investment blindness, lead to the capital use efficiency is low, suppresses the long-term operation ability and profitability of listed companies in our country, has ruined the future development of numerous companies, finally our country state-owned equity value maintained and added affected, public investment enthusiasm was hurt for a long time.

High financing risk. The asset-liability ratio is used to measure a company's ability to conduct financial operations with the funds raised from the outside after obtaining funds from the creditors. The security degree of the creditors to provide loans can also be reflected by the asset-liability ratio, which is also known as the debt-to-debt ratio. According to the asset-liability ratio, economists calculate the proportion of the funds raised by liabilities in the total assets of a company. This value not only intuitively shows the capital structure of a company, but also serves as a comprehensive indicator for the evaluation of the company's debt level. In order to judge whether a company has a

good ability to repay short-term and long-term debts and whether the interests of creditors can be guaranteed, the asset-liability ratio is also an important basis.

Based on the above analysis of the development trend of China's stock market and creditor's rights market, it can be seen that the asset-liability ratio of China's listed companies accounts for about 40%, which has been significantly improved compared with before. The value of asset-liability ratio indicates that half of the total assets of many companies are from debt financing, and the rest is from internal financing and equity financing. Although debt financing has the advantage of lower financing cost, it will increase the financial risk of the company. China's listed companies with a high asset-liability ratio will face the risk of cash flow rupture and bankruptcy if they are unable to repay their debts. This kind of high degree of risk, to the listed company's production input, financial management and future development caused the non-negligible uncertainty. Both Banks and other investment institutions as well as other external investors have certain requirements on the value of the asset-liability ratio of the company. Listed companies in China should take the feature of high financing risk into full consideration when considering the financing cost.

Cause analysis of the above financing preference

The development of China's capital market is not yet complete, and listed companies have a strong preference for equity financing, which leads to the problems of low efficiency of capital use and high financing risks. The main reasons for these problems include both objective factors such as external environment and subjective factors of internal executives' psychology and behavior.The reasons are mainly divided into internal and external reasons:

Defects exist in the internal structure of the company. On the one hand, China's listed companies lack of internal financing resources. Among the listed companies in western developed capital market, the proportion of endogenous financing is generally higher, and the proportion of endogenous financing in the capital structure of listed companies in China is obviously lower than that in western developed countries. The cash flow used for internal financing mainly comes from the internal business activities of the listed company, including retained earnings, depreciation and fixed liabilities. It refers to the process of converting savings into investment. Endogenous financing has the advantages of low cost, high autonomy, non-dilution of equity and decentralization of shareholder power. The overall low rate of return on net assets of listed companies in China indicates that the efficiency of capital use in China is low, resulting in poor overall operating performance. Due to the small amount of capital accumulated within the company, endogenous financing naturally cannot occupy the dominant position in the capital structure, which seriously restricts the company's ability to develop in the future and restricts the sustainable development of China's listed companies.

On the other hand, the internal governance mechanism of China's listed companies is not perfect. Listed companies in China are mostly from the original state-owned co., LTD. Of the transformation, the choice of the company's executives and appointed by the competent department, not by the board of directors employ actively, so the company's board of directors and senior management must take into account the opinions of the shareholders, the shareholders of shares will be even larger form "centralized situation, to a person's mind, decided to the company's decision making. At the same time, the supervision mechanism of China's listed companies is generally useless, lacking external supervision and weak internal supervision, and the supervision ability of independent directors and regulatory departments of listed companies is further weakened. Companies to get financing activities after development, operating profit and reputation of the company are improved, company executives in the process of financing and investment, priority is a personal interests, problems in the development of the company and cash return for their own profit, the purpose of this practice allows executives use development potential is good for its own interests in the company, pay attention to the improvement of personal revenge and reputation. Due to the lack of internal and external supervision of the company, when the listed company has an operating crisis or has fallen into a loss, senior executives may issue false financial statements to

cover the real operating situation of the company, leading to the error estimation of the profitability and solvency of the company by policy makers and investors, which further increases the financing risk.

The external capital market is not sound enough. According to the previous analysis of the financing environment of listed companies in China, first of all, the stock market is not perfect. Compared with western developed countries, China's stock market has experienced considerable development, but there are still immature and rough details, such as rough audit, less restrictive conditions for equity financing and low threshold for refinancing. Nowadays, part of the risks brought by the company's stock issuance will be borne by the government, and the tacit understanding has been formed to reduce the supervision, approval and restrictions so as to issue new shares. As a result, the listed companies in China are excessively dependent on equity financing, blindly invest, and idle a large amount of funds, and the overall management of the stock market is quite chaotic.

Second, debt markets are underdeveloped. Although there are many problems in China's stock market, the overall development momentum is rapid. By comparison, China's debt market has failed to live up to the expectations of economists and citizens. Its development level is always at a low level, and it remains stagnant for a long time, resulting in serious imbalance in the capital market. China's policy on short-term and long-term debt limit more and strict management, the people's bank of China and the ministry of finance issued to the company debt formulated a series of rules and regulations, lead to debt market on a single product variety, quantity, low degree of innovation, less liquidity, natural debt market in China can not on a par with the western developed countries debt market development level.

Finally, China's policy is not yet complete. From the perspective of debt financing, this financing method will cause debt repayment risk. However, the profitability of China's listed companies is generally not high, and the level of surplus accumulation is low, leading to an increase in financial risks. From the perspective of equity financing, the sustainable dividend policy of steady growth has not been formed, and China's listed companies do not pay dividends all the year round, so the cost of equity financing is lower than the cost of debt financing. From the perspective of national policies, the government departments have a relatively relaxed approval system for rights issue of listed companies, while the issuance of debt and borrowing strictly require the expected rate of return of companies, which increases the obstacle to debt financing. To sum up, listed companies in China have a strong tendency of equity financing.

Summarizes

China's listed companies are mostly from the former large state-owned companies from the restructuring, although China's market economy has developed rapidly for many years, but the capital market was not initially established until the 1990s, the overall financing environment is still more imperfect. Comprehensive review of relevant research literature and handled in this paper the summary of the reasons for China's listed companies financing characteristics, known in our country is in transition in the development of market economy, should vigorously develop the stock market in our country, and long-term debt market, actively build internal governance mechanism of listed companies, to make the listed company of our country has a long-term vitality.

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