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A Survey of Chinese Corporate Governance Practices: How Government Ownership Affects Corporate Decisions

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Abstract

The relationships between cash holdings, dividend policy, business valuation, and ownership structure of Chinese enterprises are examined in this article. Our paper examines one of the most important aspects of corporate governance: the impact of government ownership on the valuation of a corporation and its corporate conduct. Our findings demonstrate a strong adverse relationship between company value and the percentage of government ownership in Chinese firms. Additionally, we find that investors do not think that the presence of significant capital holdings in these firms will positively impact the firm's future profitability, which is why they seek bigger dividend payments from highly government concentrated organizations. In addition, a firm that has a large amount of government ownership is more likely to issue new stocks using the rights offerings method rather than the private placements, which would maintain the company's shareholder structure and prevent the introduction of extra external scrutiny.

JEL classification: G30, G32, G35

Keywords: Government Ownership, cash holdings, dividend policy, firm value, equity offering method.

INTRODUCTION

The effect of state ownership on the value of Chinese firms has been the subject of numerous studies. These studies unequivocally demonstrate that businesses with significant government ownership do not act in a way that optimizes value. In this study, we pursue this line of investigation by investigating three significant correlations between a company's government ownership percentage and its cash holdings, dividend policy, and seasoned equity offering method.

In the early 1990s, the Chinese government started the process of progressively privatization its state-owned enterprises (SOEs). Initially, there were no extensive regulations safeguarding investors, controlling the stock market, or outlawing market manipulations (such insider trading). In 1998, the Chinese government initiated a major reform of the stock market by updating the laws and regulations that protect investors and forbid insider trading and market manipulation. Important regulations were enacted throughout this process to modernize and structure the two stock markets in Shenzhen and Shanghai. In order to attract equity capital, underwritten public placements and rights offers were supplemented with private placements.

This study examines how government ownership affects a company's value in three areas:1) its dividend policy; 2) its cash holdings strategy; and 3) its choice of equity issuing technique. Our fundamental premise is that when a government owns something, it becomes inefficient because other goals on its agenda will take precedence over the value maximization objective. A greater likelihood of a conflict between the interests of government and non-government shareholders is implied by more government ownership. Furthermore, a higher percentage of government ownership implies a smaller potential ownership by institutional and major non-government shareholders, which reduces the level of external shareholder oversight. Associated agency issues will probably deter poorly performing companies with a large government ownership stake from subjecting themselves to increased external oversight and monitoring in connection with underwritten public or private placements. As a result, these companies will choose to hold significant amount of capital to be utilized for non-value-maximizing endeavors, pay more stock dividends than cash dividends, and utilize the rights-offering technique of seasoned equity offering (SEO). Conversely, companies with lower government ownership (better performers) are more likely to have greater institutional and major shareholder monitoring responsibilities, less information asymmetry, and less conflict between the interests of internal and external shareholders. Depending on the size of institutional and large block holdings, these companies are more likely to select between public and private placements. They are also more likely to pay higher cash dividends and store less capital, which is typically employed for value-maximizing endeavors.

We examine four hypotheses in this study:

- Inefficiencies arise in firms with a higher percentage of government control. Agency conflicts lead to inefficiencies because the

government's social and political objective may collide with the goal of maximizing income. As a result, businesses with a large government ownership percentage will perform worse than those with a small government ownership percentage.

- A company with high government ownership will choose to offer more of stock dividend rather than cash dividend. Conversely, firms with low government ownership will payout more of cash dividends.
- A company with high government ownership will hold more cash than a company with low government ownership. The cash holding is directly related to its usage for non-value maximizing objectives by high government owned firms.
- A company with high government ownership would choose rights offerings over private placement. Conversely, private placements are used by the enterprises with the largest institutional ownership; the supervision and oversight offered by the buyer of the private placement increases the firm's value even further.

The paper is organized as follows: section 2 presents relevant literature. Section 3 presents the hypotheses tested in this paper, section 4 describes the data and methodology used, while section 5 reports empirical results and relates them to the predictable hypotheses. Finally, section 6 concludes and summarizes the paper.

LITERATURE REVIEW

According to the property rights hypothesis, private companies ought to perform better than both state-owned companies and companies with a mix of ownership. On the other hand, real evidence regarding mixed-ownership enterprises' performance is few. Boardman and Vinning (1989), using a sample of the 500 largest non-US industrial enterprises, demonstrate that private businesses outperform state-owned and mixed-ownership businesses in terms of performance. They point to this result, which also reduces the effectiveness of managerial oversight, as the result of conflict between the private and public shareholders of mixed-stock corporations. They conclude that full privatization may be more advantageous than partial privatization.

Boycko, Shleifer, and Vishny (1996) come to the conclusion that partial privatization of SOEs offers no benefits. They show that when the government owns a larger percentage of the company, its performance declines. They

conclude that in order to increase the success rate of privatization, the government should reduce its ownership stake in recently privatized businesses and abstain from intervening in their administration.

Megginson and Netter (2001) explicate that the paradigm of western firms, which aims to maximize profit for shareholders, is modified when governments procure businesses. They come to the conclusion that the government's common social objective and the company's shareholder-wealth-maximizing model are irreconcilable. According to Shleifer (1998), even though the government acknowledges that the company's goal is to maximize profits, it finds it difficult to create a comprehensive contract that adequately ties managers' incentives to that goal because of its social mission. Shleifer (1998) concludes that there will always be differences in performance between state-owned and privately held enterprises since the former have access to a greater range of monitoring instruments.

The overall hypothesis that worse performance follows from more government ownership in enterprises is supported by studies on the post-privatization performance of Chinese firms. Wei, Xie, and Zhang (2005) investigate the relationship between business value and ownership structure in Chinese privatized companies between 1991 and 2001. They discover a negative correlation between firm value and state ownership. D'Souza, Hassan, Wei, and Varela (2003) investigate the financial and operational performance of 208 Chinese companies from 1990 to 1997, both before and after privatization. They discover that Chinese companies with larger state control perform worse.

According to the free cash flow theory (Jensen, 1986 and Stulz, 1990), shareholders will wish to restrict managers' access to free cash flow in order to lessen agency conflicts regarding its usage. The main compromise is granting managers just enough internal capital to effectively support all worthwhile projects, without allowing them to take personal advantage of anything more. Typically, managers attempt to extract personal gains at the expense of shareholders when there is surplus internal capital. It is challenging, if not impossible, to persuade self-serving managers to permit cash reserves to flow as advantages to shareholders in the absence of oversight.

There are conflicting results regarding the effects of substantial cash reserves on shareholders from earlier research on cash reserves in the United States. Cash may be kept on hand by managers out of caution (Opler et al., 1999). Similarly, Mikkelson and Partch (2003) discover that substantial cash

holdings do not necessarily result in subpar performance or a conflict of interest between managers and shareholders, but rather can increase business value. On the other hand, cash-rich companies are more inclined to engage in value-decreasing acquisitions, according to Harford (1999). According to Dittmar and Mahrt-Smith (2006), when there is a likelihood that the company will have serious agency problems, shareholders place a lesser value on cash reserves.

In a cross-national analysis, Dittmar et al. (2003) discover that companies retain less cash in nations with more developed external capital markets and stronger shareholder rights. This illustrates the incentive of shareholders to lower the cash reserves under management supervision when they have the authority to do so. Research has shown that minority shareholders place a lower value on cash holdings in nations with inadequate investor protection (Pinkowitz et al., 2006). This supports the theory that inadequate shareholder protection allows dominant owners and management to commandeer cash holdings for their personal gain at the expense of minority shareholders.

According to Miller and Rock (1985), there is an information asymmetry between managers and business owners. They put up a concept in which one way to lessen this knowledge asymmetry is through the dividend announcement. They contend that in order to provide the market with fresh information about the firm's value and its potential for future profits, managers carefully consider when and how much to announce in terms of dividends.

The free cash flow hypothesis is put out by Jenson and Meckling (1976) as an explanation for agency conflicts that occur between managers and shareholders. They contend that when businesses don't have profitable projects, dividend payments are a way to return free cash flow to the shareholders, hence reducing agency conflicts. Jensen (1986) and Stulz (1990) reach comparable findings. According to Easterbrook (1984), dividend payments can lower agency expenses. He says that dividends offer a method based on the market to lower agency expenses and give business managers oversight.

Agency concerns can be more prominent in companies that are owned by major shareholders, according to LaPorta et al. (1999). The interests of minority owners may differ and frequently conflict with those of large controlling shareholders. Most of the time, the controlling shareholder will use management to further his own agenda. According to LaPorta et al. (1999), outside investors gain from whatever actions the controlling shareholder takes if their interests coincide with the controlling shareholders. Agency difficulties become more

complex, though, when the controlling shareholder harms the interests of other shareholders while also maximizing its own. This is the case when the controlling shareholder and outside investors have conflicting interests.

The relationship between ownership structure, dividend policy features, and corporate governance is examined in more recent research. (La-Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000; Aivazian, Booth, and Cleary, 2003). The impact of corporate governance standards in emerging markets is investigated by Mitton (2004). According to him, dividend payments and corporate governance ratings are positively correlated. He contends that greater dividend payout percentages can lessen agency issues. Furthermore, he discovers a favorable correlation between high dividend payout rates and corporate governance ratings. According to Cao et al. (2017), foreign shareholders have a significant positive influence on corporate governance procedures in China. They specifically note greater dividend payout percentages in businesses when there is a large foreign ownership.

Researchers have extensively studied the announcement effects of SEOs over the years. The findings of these studies indicate two almost universal conclusions. First, there is a markedly negative reaction in the market following public placements. Secondly, the likelihood of a negative response to a rights sale is notably lower compared to a public offering.

Information effects are a common theory to explain why the market responds differently to seasoned equity issues. Scholars frequently ascribe the adverse selection issue to the well-established deleterious impact of announcements of seasoned equity offerings. Since the market interprets equity issues as disclosing unfavorable information about the company's cash flows, Miller and Rock (1985) forecast a negative stock price reaction to equity issues. Firms should issue new shares in an environment where asymmetric knowledge is present in two scenarios: either they have extremely profitable investments that cannot be funded in any other way, or managers think the shares are overpriced.

The free cash flow theory and the price-pressure hypothesis are two further theories that can account for negative price reactions. According to Jensen (1986), managers have more discretionary cash accessible to them since they can obtain funds through the issuance of extra stock. Investors react badly to the new issue because they recognize it and assign increased agency costs to it.

HYPOTHESES DEVELOPMENT

According to La Porta et al. (1999), businesses operate incredibly inefficiently in nations where the government owns a sizable portion of their stock, especially in those where laws and regulations offer little protection to minority owners. They find that rather than using businesses to maximize wealth for all shareholders, governments in these nations employ them for political ends.

According to Megginson et al. (1994), privatizations frequently do not have the desired effect. Particularly when the government is the major controlling shareholder. They offer proof that in these circumstances, managerial discretion may lack focus and government oversight and control measures are ineffective. Similar arguments regarding the seriousness of management control issues in the context of major government-owned businesses are made by Shleifer and Vishny (1997). We propose the following hypothesis based on the prior discussion and, in particular, on the claims made by LaPorta et al. (1999) regarding the existence of significant controlling shareholders in a company:

H_1: Chinese firms with a large percentage of government ownership will do worse than those with a smaller percentage.

The double principal-agent dilemma in state-controlled firms is put forth by Gugler (2003). He contends that the lack of adequate management oversight provided by government ownership of firms results in more serious principal-agent issues. Moreover, the double principal-agent dilemma arises since the government owns the country and its citizens are the ultimate owners. Gugler (2003) comes to the conclusion that in these kinds of circumstances, state-controlled companies pay larger dividends to show shareholders that they are successful in overseeing and directing the management.

Wei et al. (2004), Wang et al. (2011), and Lam et al. (2012) draw the conclusion that government ownership and cash dividends have a positive association based on their research on Chinese companies. We hypothesize that, in Chinese companies, investors would favor cash dividends over equity dividends based on the explanation above.

H_2: Investors would favor cash dividends over stock dividends in companies with a large government ownership percentage.

Evidence of the beneficial effects that foreign investors have on businesses in emerging nations is presented by Glen et al. (1995). They contend that

because of their experience and familiarity with higher standards and practices, foreign investors have superior monitoring impacts. Furthermore, the presence of foreign investors draws in more foreign analysts who monitor the company and offer unbiased opinions on value. This increases the pressure on management to reveal financial policies. As a result, Glen et al. (1995) suggest that dividend policies that assist minority and small shareholders become less necessary when there is foreign ownership. Furthermore, investors would favor stock dividends over cash dividends, according to Brennan (1970), Elton and Gruber (1970), and Litzenberger and Ramaswamy (1979), if tax laws in those nations gave capital gains preferred treatment over cash dividends. As a result, businesses may modify their payout policies to satisfy investor preferences due to tax regulations. Based on the above discussion, and the fact that according to the Chinese regulations, capital gains arising from stock sales are not taxed, while cash dividend payments are taxed as income.

H_5: Chinese firms with higher government ownership will hold relatively higher levels of cash than firms with lower government ownership.

While the announcement effects of seasoned equity issues are often very unfavorable, empirical data from the United States indicates that the announcement effects of rights issues are either negligible or significantly less negative than those of public placements. For instance, across a two-day event window, Smith (1986) and Eckbo and Masulis (1995) both record an average anomalous return of roughly –3.0 percent for U.S. industrial enterprises.

Scholars have proposed a number of theories to try and answer the mystery. Smith (1977) puts up a theory about monitoring costs. According to him, managers who use underwriters for public placements benefit personally from doing so, but they do not benefit as much from the more mechanical floatation process used for rights offerings. As a result, the greater placement costs are indicative of a lower monitoring cost bound. In China, rights offerings would not bring new investors who would be willing to provide monitoring to the management, while private placement would do so. In light of this discussion, we propose the following hypothesis.

H_4: Chinese firms with high government ownership issue additional shares through rights offerings as opposed to private placements in order to maintain government control over the company.

DATA AND METHODOLOGY

Data

The data used in this study consists of Chinese companies who conducted rights offerings or private placements between 2009 and 2018. Three databases from GTA-CSMAR are used to compile the data: the seasoned equity offerings database, the company financial database with balance sheet and income statement information, and the trading database with daily returns for individual stocks and the overall stock market. The 651 rights issues and 309 private placements for which exact offering ex-dates could be ascertained make up the final sample. The Trading database contains trading days for stock market returns that occur both before and after the offering ex-dates. The sample is made of 960 companies over a ten-year period.

Methodology

We employ several OLS multivariate regression specifications to test hypotheses 1, 2, and 3. We employ four multivariate OLS regressions to evaluate the adverse effect of government ownership on business value. The firm value, which is the market value of stock plus the book value of debt, is the dependent variable in all four specifications. The ownership, dividend policy, and financial accounting variables are the independent variables. We can test hypothesis 2 based on those regression results as well. Similarly, we use a separate OLS multivariate regression with the cash holdings as the dependent variable to test hypothesis 3, to determine the variables impacting the cash holdings of Chinese firms.

We compute the unadjusted, risk-adjusted, and market-adjusted stock returns on the ex-issue date of the 651 rights offerings and 309 private placements for the years 2009–2018 in order to evaluate hypothesis 4. The stock return adjusted by each firm's systematic risk, as determined by the OLS market model (included below), is the risk-adjusted return. It is estimated from event days t = 350 to t = 101, with t = 0 serving as the official ex-rights date.

$$R_{i,t} = \hat{\alpha}_i + \hat{\beta}_i R_{m,t}$$

Where:

$\hat{\alpha}_i$ and $\hat{\beta}_i$ are the OLS values from the estimation period;

$R_{i,t}$ is the daily return of security *i* at time *t*;

$R_{m,t}$ is the return for the market index for day *t*;

The market adjusted returns are calculated using $R_{i,t} - R_{m,t}$

DESCRIPTIVE STATISTICS

Table 1 provides the descriptive statistics for the sample, which include the mean, median, and standard deviations for each of the several variables used in the study. The most influential variables used in this paper are summarized in the paragraph that follows; Table 1 contains the other variables. One of the study's main variables, cash holdings, has a mean of 20.8%, a median of 15.1%, and a standard deviation of 10.8%. The sample's skewness is minimal. Insiders own an average of 2.7% of the outstanding shares, with the government owning 31.7% of the total. Because some Chinese listed companies have a large level of government ownership while others have very little, the government ownership variable is extremely skewed. The mean and median values for the board independence variable are 63.2% and 71.5%, respectively. The typical company in the sample had assets of about $5.8 billion Yuan, sales of about $4 billion Yuan, a leverage ratio of about 31.8%, and a market to book ratio of about 3.18. The typical proportion of shares held by foreign investors is 23.7%. Given that the median foreign ownership percentage is 58.4%, this variable is skewed.

Table 1: Descriptive Statistics

	Mean	*Median*	*Standard Deviation*
Cash Holdings	0.208	0.151	0.108
Inside Ownership	0.027	0.347	1.584
Government Ownership	0.317	0.402	1.982
Board Independence	0.632	0.715	0.207
Sales (Millions of Yuan)	4,128	1,681	11,185
Assets (Millions of Yuan)	5,874	1,369	14,207
Leverage	0.318	0.218	0.116
Market-to-Book	3.18	1.75	1.41
Cash Flow/Assets	0.189	0.169	0.133
Working Capital/Assets	0.068	0.061	0.158
CF Volatility	0.079	0.058	0.038
R&D/Sales	0.028	0.001	0.134
CapEX/Assets	0.068	0.039	0.052
Acquisition/Sales	0.027	0.001	0.048
Earnings	0.047	0.043	1.128
Net Assets	4,189	2,836	10,856
Interest Expense	167	49	98.58
Foreign	0.237	0.584	2.874
Cash Dividend Ratio	0.284	0.508	1.129
Stock Dividend Ratio	0.109	0.238	0.517

This table provides summary statistics for the sample. The dataset comprises 960 firms covering the period from 2009 to 2018. The descriptive statistics include: ratio of cash to assets (Cash Holdings), equity ownership of the top five officers (Inside Ownership), government ownership, ratio of independent directors on the board to total directors (Board Independence, non-government representative), sales, total assets, firm leverage (Leverage), ratio of the market value to book value of assets (Market-to-Book), ratio of cash flow to net assets (CF/Assets), ratio of net working capital to net assets (Working Capital/Assets), standard deviation of cash flows for the past five years (CF Volatility), ratio of research and development to sales (R&D/Sales), ratio of capital expenditures to net assets (CapEx/Assets), and ratio of acquisition to sales (Acquisition/Sales), earnings before extraordinary items plus interest, deferred tax credits and investment credits (Earnings), the total assets minus cash (Net assets), the interest expense, and percentage of foreign investors in the company (Foreign), the ratio of cash dividends, and the ratio of stock dividends.

The cash dividend payout ratio is 28.4% on average, 50.8% on the median, and has 112.9% standard deviation. With a high standard deviation, the cash dividend ratio varies greatly among Chinese companies as well. The stock dividend payout ratio variable has a standard deviation of 51.7%, a mean of 10.9%, and a median of 23.8%. Though not as much as the cash dividend variable, the stock dividend variable nevertheless exhibits some degree of variability.

Table 2: Correlations

This table provides data on the correlations between ownership variables, cash holdings and dividend payout ratios. The dataset comprises 960 firms covering the period from 2009 to 2018.

	Government Ownership	*Inside Ownership*	*Foreign Ownership*
Total Dividend Payout	0.5413	0.4865**	0.8695***
Cash Dividend Payout	0.4982	0.6874**	0.8147***
Stock Dividend Payout	0.3582**	0.2185	0.3148
Cash Holdings	0.2471***	-0.2814***	-0.3517***

*, ** and *** are significant at 10%, 5% and 1% respectively.

The correlation coefficients between payout ratios, cash holdings, and governance proxies are shown in Table 2. While cash holdings have a negative

and significant relationship with insider ownership and foreign ownership, they have a positive and significant relationship with government ownership. Foreign and inside ownership have a positive and significant relationship with the total payout ratio. Foreign and inside ownership have a positive and significant relationship with cash dividend payout. The ownership variables and stock dividend payout do not significantly correlate.

In general, companies with a larger percentage of foreign and inside ownership will have smaller cash holdings, higher cash dividend payments, and higher overall payout ratios. The correlations indicate that government ownership has no effect on dividend distribution policies, but it has a positive effect on the companies' cash holdings. Furthermore, the strongest association with cash payout, overall payout, and cash holding policies is found in foreign ownership.

MULTIVARIATE REGRESSION ANALYSIS

We use multivariate cross-sectional regression analysis to examine the links between ownership structure, cash holdings, firm valuation, and dividend policy. To test hypotheses 1 and 2, we use the value of the company, which is determined by adding the market value of stock, the book value of short-term debt, and the book value of long-term debt as the dependent variable. The ownership, firm-specific, and dividend policy variables are used as independent variables.

We examine the effect of ownership characteristics on the firm value in isolation in model 1. The results illustrate how government ownership has a negative and substantial impact on Chinese enterprise value. Additionally, model 1 illustrates how inside ownership detracts from the value of Chinese firms. On the other hand, foreign ownership significantly increases the value of the company. Lastly, the value of Chinese firms is positively impacted by sales.

The independent variables in model 2 are the overall payout ratio and several accounting variables. The result illustrates the overall dividend payout's positive and significant effect on the firm's valuation. There are no unexpected findings from the accounting variables. Leverage has a negative impact on firm value, but sales and the market-to-book ratio have a positive impact.

The cash dividend payout ratio and ownership variables are our independent variables in Model 3. With respect to ownership factors, the outcomes validate the conclusions drawn from model 1. Firm value is adversely and significantly

Table 3: Regression Analysis – Firm Value

This table provides regression results of the determinants of the firm value; four different specifications are used, the first using only governance variables as the independent variables, the second using accounting variables related to operating performance and the total payout ratio, the third using both governance and company specific variables and the cash payout ratio, and the fourth using both governance and company specific variables and the stock payout ratio. Firm value is defined as the market value of equity plus the book value of debt.

	Firm Value	*Firm Value*	*Firm Value*	*Firm Value*
Intercept	0.624	0.847	0.841	0.769
Inside Ownership	-0.198**		-0.239**	-0.384**
Government Ownership	-0.918***		-0.854***	-0.748***
Foreign Ownership	0.357***		0.687***	0.785***
Sales		0.395		
Net Assets	0.284*	0.384*		
Leverage		-0.158*		
Cash Flow/Assets		0.284*		
Working Capital/Assets		0.541		
CF Volatility		0.185		
Market-to-Book		0.384**	0.715***	0.686***
Payout Ratio		0.691***		
Cash Payout Ratio			0.805***	
Stock Payout Ratio				0.284*

*, ** and *** are significant at 10%, 5% and 1% respectively.

impacted by both the government and internal ownership. However, foreign ownership has a positive and significant impact on business value. Additionally, the cash payout ratio significantly increases the value of the company.

Lastly, model 4 employs a configuration akin to that of model 3, but instead of employing the cash dividend payout ratio, we utilize the stock dividend payout ratio. The findings show that the stock dividend payout ratio has no discernible effect on the firm value. Additionally, the findings support earlier findings about the impact of ownership variables on business value.

Our findings support hypothesis 1, showing that a high level of government ownership lowers the value of Chinese firms. Furthermore, we find that foreign ownership has a favorable effect on the valuation of Chinese companies. Additionally, our data indicates that higher dividends generally have a favorable effect on firm value; specifically, we find that the higher the cash dividend

payments, the better the value of the company. Our second hypothesis—that investors prefer cash dividends over stock dividends—is confirmed when we uncover no meaningful correlation between stock dividend payments and firm valuation. Given that stock dividends are typically tax-free but cash payouts are subject to taxation, this outcome appears somewhat at odds with Chinese tax regulations.

The cash holdings, or the log of the cash to asset ratio, is the dependent variable that we utilize to test hypothesis 3. As independent variables, we use ownership, firm-specific, and dividend policy variables.

Table 4: Regression Analysis – Cash Holdings

This table provides regression results of the determinants of cash holdings; four different specifications are used, the first using only governance variables as the independent variables, the second using accounting variables related to operating performance and the total payout ratio, the third using both governance and company specific variables and the cash payout ratio, and the fourth using both governance and company specific variables and the stock payout ratio. Firm value is defined as the market value of equity plus the book value of debt.

	Cash Holdings	*Cash Holdings*	*Cash Holdings*	*Cash Holdings*
Intercept	0.589	0.725	0.908	0.769
Inside Ownership	0.218**		0.308**	0.198**
Government Ownership	0.851***		0.715***	0.685***
Foreign Ownership	-0.418***		-0.736***	-0.816***
Sales		0.296		
Net Assets	0.189*	0.415*		
Leverage		-0.208*		
Cash Flow/Assets		0.198*		
Working Capital/Assets		0.617		
CF Volatility		0.206		
Market-to-Book		-0.452*	-0.648*	-0.715*
Payout Ratio		-0.715***		
Cash Payout Ratio			-0.685***	
Stock Payout Ratio				0.323*

*, ** and *** are significant at 10%, 5% and 1% respectively.

The relationship between corporate cash holdings and governance/ company-specific characteristics is analyzed in Models 1 through 4 of Table 4. According to Model 1's results, cash holdings and government ownership are

positively and strongly correlated. Greater government ownership increases the amount of cash held by corporations. Furthermore, a noteworthy and affirmative correlation has been seen between the insider ownership variable and cash holdings, which may come as a surprise considering the generally favorable influence insiders have on corporate governance. The cash holdings variable shows a negative and significant connection with foreign ownership, which is consistent with the beneficial role that foreign investors play in Chinese companies' governance. According to models 1 and 2, companies with more assets typically have more cash holdings.

Model 2's findings imply that companies with larger payout ratios typically have less cash holdings. Furthermore, there is a tendency for larger market-to-book ratios and leverage to result in lower cash holdings. greater cash payouts reduce cash holdings in Chinese companies, whereas greater stock payouts increase cash holdings, as demonstrated by Models 3 and 4, which also corroborate earlier findings on ownership and payout factors.

Event Study Analysis

Using event studies techniques, we estimate the market response for rights offers and private placements in order to evaluate hypothesis 4. The market-adjusted return for each firm is calculated as the raw stock return less the return of the overall market on which the firm is listed. This is because there are two stock exchanges in China, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and these two markets are not perfectly positively correlated. Furthermore, since A and B shares make up our sample, we utilize the entire market returns (A & B shares) as a proxy for the broader market.

Confirming Hypothesis 4, our results indicate that the market response to both offering types is positive, with the private placements having more positive and significant response than rights offerings. The average risk-adjusted and market-adjusted returns for private placements are 4.06% and 4.08% respectively and both significantly from zero at 1% level. The average risk-adjusted and market-adjusted returns for rights offerings are 1.86% and 1.92%, also significantly from zero at 10% level. The results indicate that private placements investors provide the monitoring and certification that comes from an outside non-government affiliated investor.

Our findings support Hypothesis 4 by showing that the market reacts favorably to both forms of offerings, with private placements receiving a

Table 5: The ex-date abnormal returns around the time of Chinese rights offerings and Private Placements

Year	*Unadjusted Return*		*Risk-adjusted Return*		*Market-adjusted Return*		
	Return	*t-value*	*Return*	*t-value*	*Return*	*t-value*	*N*
Panel A: ex-date abnormal returns for rights offering firms							
2009	4.18**	4.18	3.87**	4.58	4.25**	4.86	87
2010	1.58	0.95	1.15	1.25	1.34	1.35	95
2011	1.08	0.52	0.88	0.85	0.97	1.08	64
2012	2.14	1.54	1.89	1.85	1.97	2.15	58
2013	1.51*	3.84	1.42*	3.98	1.38*	4.28	75
2014	2.10*	4.28	1.98*	4.77	1.89*	5.06	61
2015	1.08	0.84	0.87	1.36	0.97	2.14	78
2016	2.61*	3.81	2.41*	4.05	2.36	4.68	54
2017	1.84	1.51	1.76	1.69	1.57	2.06	46
2018	2.58*	2.95	2.34*	3.21	2.47	3.55	33
AVG	2.07	2.44	1.86	2.76	1.92	3.12	651
Panel B: ex-date abnormal returns for firms using private placements							
2009	2.36*	2.98	2.18*	3.11	2.21*	3.58	7
2010	6.48**	4.58	6.18**	5.02	6.22**	4.87	11
2011	5.32**	4.12	5.11**	4.74	5.19**	5.06	25
2012	4.28**	3.69	4.18**	3.98	4.15**	3.68	26
2013	3.68**	3.74	3.18**	4.15	3.44**	4.15	45
2014	2.87*	4.11	2.56*	4.36	2.51*	3.15	48
2015	3.21**	3.98	3.15*	3.85	3.11**	4.29	33
2016	3.87*	4.28	3.67*	3.74	3.44**	5.23	37
2017	5.23**	4.96	4.98**	4.59	5.06**	4.25	32
2018	5.68**	4.78	5.46**	4.68	5.44**	4.18	45
AVG	4.29	4.12	4.06	4.22	4.08	4.24	309

** and * indicate significance at 1% and 5% levels, respectively.

stronger and more favorable reaction than rights offerings. For private placements, the average risk-adjusted and market-adjusted returns are 4.06% and 4.08%, respectively, and both are significantly different from zero at the 1% level. For rights offerings, the average risk-adjusted and market-adjusted returns are 1.86% and 1.92%, respectively, which are significantly different from zero at the 10% level. The findings show that the oversight and certification that come from an outside, non-government related investor is provided by private placements investors.

CONCLUSIONS

Our research investigates the connections between cash holdings, dividend policy, company valuation, and ownership structure in Chinese businesses. Additionally, we examine how the market responds to rights offerings in comparison to private placements of Chinese companies. We investigate four hypotheses. First, a firm's value is adversely affected by increased government ownership. Second, cash dividends are preferred by investors in Chinese companies over equity dividends. Third, the existence of government ownership encourages businesses to hoard more cash. Fourth, among Chinese investors, private placements are favored over rights offerings.

The four hypotheses are well supported by our findings. We verify that in Chinese enterprises, a high level of government ownership has a detrimental effect on firm value. Furthermore, we validate that investors prefer cash dividends to equity dividends. We also discover a significant correlation between the quantity of cash held by Chinese companies and government ownership. Additionally, we show that Chinese companies with larger government ownership tend to do more rights offerings than private placements and the market views private placements as more favorable.

Overall, our findings show that the concentration of government ownership in Chinese enterprises is strongly inversely correlated with firm value. Furthermore, our findings show that investors want higher dividend payments from highly government concentrated enterprises because they do not believe that the presence of substantial capital holdings in these firms will have a good effect on the firm's future profitability. Furthermore, the government's significant ownership stake in a company encourages it to conduct rights offerings rather than private placements, which would preserve the company's shareholder structure and avoid introducing additional external oversight. One of the most significant facets of corporate governance—the effect of government ownership on firm valuation and its corporate behavior—is explored in this paper.

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