DOCTORAL THESIS

Three essays in corporate finance and corporate governance

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Three Essays in Corporate Finance and Corporate Governance

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ABSTRACT

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.

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