

Empirical Study of Capital Structure on Agency Costs in Chinese Listed Firms

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Abstract :

This study examines the impact of capital structure on agency costs in 211 non-financial Chinese listed firms for the period 1999-2001. There are two main findings. (1) Firms with high debt to asset ratio have high ratio of annual sales to total assets and high ratio of return-on-equity. If a firm has a high debt to asset ratio, creditors are much more concerned about the payment of interest and repayment of principal and will have incentives to monitor the firm. Thus, a capital structure with high debt decreases agency costs. (2) Positive and significant correlation is identified between ownership concentration and the return-on-equity ratio. This is because the largest shareholders have a strong interest in firm performance and therefore a high ability to reduce agency costs. Our empirical results further illustrate that firms have inclination of refinancing through stock market and harm small shareholders' interest. [Nature and Science 2003;1(1):12-20].

Key Word :

capital structure; agency costs; corporate governance

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