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Study on Chinese Listed Companies Assets Stripping Motivation and Short-term Performance

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Abstract

Under the domestic and international market increasingly competitive circumstances, how to improve the management efficiency, restructuring of the industrial chain, improve the core competitive ability of enterprises is the issue of China's enterprises must face. The objective of this study is to hope that through the empirical performance of China's listing Corporation asset market analysis, in-depth study of divestiture announcement effect on stock price, to help people fully understand the important role of divestiture in the process of enterprise development. To provide some references for formulating relevant policies to restructure decision for the company, government and regulatory departments.

This paper uses divestiture announcement between 2005 and 2013 as sample data, according to the selection standards, selected 324 divestiture announcement for the final study sample, makes an empirical analysis of the market performance of assets stripping and its influencing factors. The analysis results show:

1. More and more investors are optimistic about the asset stripping, asset divestiture announcement to increase shareholder wealth. But in the process of assets transaction there may exist the phenomenon of information disclosure and insider trading in advance. In addition, different stripping assets under the market performance is different. Under the way of equity stripping assets announcement effect is better than the physical assets way.

2. The greater the proportion of the first big shareholder holds, the impact of asset divestiture market performance is small. A listed company on ownership concentration is higher, the big shareholders often use information asymmetry infringe upon the interests of small shareholders, and the strategic decisions such as enterprise assets are greatly influenced by the large shareholders, lead to divest decision may not be voluntary. According to the theory of corporate governance, ownership concentration lower enterprise strategic decision is based on the principle of the enterprise value maximization, thus when ownership concentration is low enterprise assets announcement, the market will give positive response.

Keywords: *Assets, Sale-size, Return to Scale and Scopes*

1. Introduction

Asset stripping still become one of the important ways of corporate restructuring. Since 1997 China's listed companies divestitures activity gradually active, assets total transaction amount and continue to rise, but in theory assets has not get equal attention to, like mergers and acquisitions ,has not formed a mature theoretical system. In China, it is more so research on asset stripping. Specialized research system for the divestiture is less, and the domestic research is mainly to study the introduction of foreign asset stripping and normative theory and empirical

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research, in-depth insights and little. With the widely application of the assets in China's capital market, the urgent need for theoretical guidance. Therefore, the research on basic theory, asset stripping motivation and market performance analysis has important theoretical significance.

For Chinese companies, the study of assets also has very important practical significance. Assets as systolic strategy is one of the listed company to adjust to the economic environment change. The enterprise through the stripping of poor profitability or asset is not strong flow, to improve the profitability of the business. Or through asset stripping and strengthen enterprise core business concentration, to enhance the core competitiveness of enterprises. The direct reason China listing Corporation peels off assets include the following aspects:

1. Improve the core business concentration, adjust the company strategic objectives

Most listing Corporation is a diversified group of companies because of the blind expansion led to the main business is not clear, the scope of business is difficult to effectively control the excessive wide. Through the assets sold non-core business, return to the main business, improve core business concentration, so as to improve the efficiency of company management. In addition, assets may be due to the change of economic environment requires enterprises to make strategic adjustment actively, is the enterprise development strategic decisions made by.

2. Stripping non-performing assets, revitalize the idle assets

Listing Corporation may have some profit ability is low, poor liquidity of non-performing assets, such as the loss of the subsidiary, idle land and other production lines, *etc*. Due to the enterprise can't through the effective management of fully use this part of the assets and profit, In the case of unable to effectively expand the market, management will often choose assets to sell this part of the assets, thus improving enterprise overall profitability and liquidity of assets, revitalize the idle assets, in exchange for money to find new investment opportunities, so as to improve the overall operating efficiency of enterprises.

3. Improve the financial situation, reduce the debt burden

When the listed company was in serious financial difficulties, the company is badly in need of money to improve the financial situation, but due to high levels of debt, it is difficult for enterprises to raise funds through external. At this point, through the spin off some assets and debt financing is a feasible way to improve the financial situation. In addition, when facing delisting risk or loss of the financial qualifications, keep the listing qualification and refinancing qualification will also become the potential cause of listing Corporation for asset stripping, and the divestiture is often accomplished through related party transactions.

4. Joint and several guarantee responsibility, judicial auction was forced to strip

Listed companies usually provide guarantee for other company produce joint and several liability or the debt disputes due to insolvency, in accordance with the law in the judicial auction, forced divestments, to repay the debt.

In addition to the above several reasons, reasonable anti-takeover, avoiding related laws, regulations and policies, reasonable tax avoidance is the potential reason of assets of listed companies in China. Such as the antitakeover strategy, enterprises through the key asset stripping evoked hostile takeover out, eliminate the acquisition of incentives, so as to achieve the purpose of antitakeover.

2. Research Hypothesis and Data Selection

2. 1 Research Hypothesis

According to the theory of corporate governance, ownership is relatively dispersed listing Corporation can create more value for shareholders. In the equity concentration of listed companies, major shareholders in order to maximize their own interests often make use of the information asymmetry to infringe upon the interests of small shareholders. In the equity scattered listed company, its business decisions tend to be made according to the enterprise value maximization principle, and generally reflects the needs of the enterprise strategy. While the share of relatively concentrated listing Corporation, its decision is often influenced by the controlling shareholder or the largest shareholder of the great, the stripping decision may not voluntary. Therefore put forward the following hypothesis:

Hypothesis 1: The first big shareholder shareholding and divestiture announcement negatively correlated with an increase in shareholder wealth.

Sample Firms to divest assets to sell higher price, prove that divest assets accounted for the company's total assets proportion is larger, the stripping incident on the company impacts is also bigger, some will inevitably lead to divestiture announcement impact on company's share price is greater. In addition, the Sample Firms to divest assets to sell higher price, must cause the difference to divest assets price and book value is greater, and the impact on the market price will be greater.

Hypothesis 2: The assets scales were positively correlated with increased shareholder wealth caused by divestiture announcement.

2.2 Data from the Sample Selection

In this paper, the relevant information about the assets of listing Corporation and the data information is mainly derived from the following sources: (1) This paper selects the listing Corporation divestitures , according to the China Tai'an Information Technology Co., Ltd. "Chinalisting Corporation merger and reorganization of the database 2010V"restructuring matters. The database includes asset acquisition, asset restructuring, asset stripping, debt restructuring, merger and stock repurchase, *etc*. The divestiture of meaning is defined as the stripping party according to their own needs, to spin off some assets and sell, stripped and sold assets can beheld by the enterprise investment equity, operating assets (including fixed assets, inventory), non operating assets (canteens, schools), claims and so on. This account is associated with this article defined the meanings of assets. Therefore, we selected assets restructuring type from data as the primary sample. (2) The financial data on the Sample Firms mainly come from Rui Si database http://www.resset.cn.

Statistics and analysis of the data was done using SAS8.0and SPSS17.0 software. This article is based on the taian information technology co., LTD "database of merger, acquisition and reorganization of listed companies in China 2010 v" in 2004-2013 period listed on the Shanghai stock exchange and Shenzhen stock exchange listed company issued the statement of assets in chose (1) assets transaction is successful in the end. (2) The disclosure statement related transaction. In the total sample there is no related to the transaction amount of sample, and delete the relevant announcement, corporate annual report and other data search supplement still no related transactions in the amount of sample. (3) The amount of the transaction should be more than 10000000 yuan. Consider that if small trade amount has little effect on the performance of the company, so delete the transaction amount is in 10 million yuan the following samples. (4) There is no overlap of major reorganization in assets reorganization and before and after a year of the year. In order to ensure the accuracy and validity of research results, eliminate the influence of other major matters of merger, acquisition and reorganization. (5) Does not include financial listing Corporation. Because of financial management and financial listing Corporation has unique characteristics, and have great differences with other industry, therefore removed the financial listing Corporation sample. (6) Delete some data missing samples.

After the above processing, we choose the 2005-2013 occurred between 324divestitures as the final study sample.

3. The Empirical Analysis

In this paper, the effect of asset market performance factors analysis, based on the research results of event study to sample cumulative excess returns CAR as the dependent variable, selected factors are expected to influence as independent variables and control variables, regression analysis method to analyze the multiple linear. In order to define the influence degree of the related factors of assets market performance and its influence, based on the summary of other scholars research results and combining with related motivation theory, choose the following variables to analysis.

1. The dependent variable: chose the more commonly used cumulative excess returns CAR as the dependent variable. Because of the possibility of asset stripping information early exposure is larger, and the stock market needs time to digest the release announcement information, this paper distinguishes (-20, 20) (-15,15) in different period of time to study.

2. The independent variable

(1) The shareholding ratio of the first shareholder. According to principal-agent theory, under the contractual relationship due to the inconsistency between principal and agent interest guidance and information asymmetry, this leads to the existence of principal-agent problems. Shleifer and Vishny (1989) think, asset stripping can be regarded as the management for its own interests and strategies, and the largest shareholder equity ratio higher mean big shareholders to participate in the enterprise management and supervise the management of higher intensity, which can effectively control the low efficiency of the assets reorganization activities, to a certain extent, solve the principal the agency problem. Therefore, this article selects the first big shareholder holds analysis its influence on research assets market performance of concrete.

(2) The stripping relative Sale - size scale. The greater the relative size of assets, indicates the transaction on the original impact of resource allocation, the greater the thus the greater the impact on the company's share price. Klein (1987) study found divestiture relatively larger companies can obtain higher excess returns.

(3) Tobin Q. According to refocusing theory, if the asset is the enterprise to improve the enterprise value for the purpose, in order to improve the core industrial concentration of strategic decision, then the divestiture announcement will have a positive impact on the increase of shareholder wealth. And tobin Q is used to measure the enterprise value and enterprise development prospects of the important indicators. Alexandrou and Sudatsanam (2001) found through research, Tobin Q is higher, the divestiture announcement caused by price changes more positive. Therefore, the Tobin Q index analysis.

3. Control variables. According to the related literature, we chose the firm size, net assets yield ROE and the asset liability ratio as control variables important were studied from the factors that affect the market performance of assets stripping.

(1) The enterprise scale SIZE. According to the theory of scale economy, when the scale of the diversified enterprise reaches a certain degree, will not only increase the operating costs, but also may produce the scale effect of diminishing returns to scale and scope, or even negative synergy eventually lead to scale economy. In general, enterprises in the early days were not the size of the economy, with the continuous development of enterprises, when the enterprises scale non economy reaches a certain level, has become one of the motivations of corporate assets. The scale of the enterprise index this paper is calculated the natural logarithm of divestiture announcement by the previous year's total assets of the enterprise.

(2) The Return on equity. Return on equity is one of the important indexes to measure the management level of profitability. Profitability reflects the operating performance of corporate management, directly affect the judgment of market investors. According to the management efficiency hypothesis, in order to keep the high efficiency of management of the enterprise, will shed no longer has the value of the assets or business. Therefore, the profitability of enterprises will have a certain impact on the stock price reaction of divestiture announcement. So this paper chooses ROE as the important control variables to carry on the research analysis. This article selects the indexes for sharp, return on equity in the database (weighted), which is composed of net income divided by the weighted shareholders to.

(3) The asset-liability ratio. The rate of assets and liabilities is a variable to measure the financial situation of enterprises to set. According to the theory of financing hypothesis, when the enterprise is in financial distress can use asset stripping way to obtain the required money, alleviate the pressure of the debt, reduce the enterprise financial risk. Afshar (1992) study found that if the assets of the enterprise into financial difficulties, the shareholders get positive excess returns in the announcement day, and the excess returns of asset-liability ratio were positively correlated with sale enterprises. This paper use the divestiture announcement last year's debt to asset ratio.

4. Virtual variables. In addition to the above variables, we added a virtual variable, namely the ownership structure STRC. Among them, the STRC = 1 represents is given priority to with outstanding shares, STRC = 0 is given priority to with state-owned shares or legal person share. To investigate the influence of different ownership structure on assets market performance.

Above all, the regression model is as follows:

$$CAR=\alpha+\beta_1 Owncon1+\beta_2 Sale\text{-}size+\beta_3 Tobin+\beta_4 Size+\beta_5 Roe+\beta_6 Dbastrt+\beta_7 STRC$$

Owncon1：the largest shareholder's total shares shares / Total shares of the company

Sale-size：transaction/a year prior to the announcement of the listed company's assets to total assets

Tobin：(The stock market + Net debt)/ The value of tangible assets

Size：The natural logarithm of total assets divestiture announcement last year

Roe：net income divided by the weighted in current Stockholders' equity

Dbastrt：the asset-liability ratio of Assets a year prior to the announcement

STRC：The STRC=1 represented by shares in circulation mainly; STRC=0 representative by the state-owned shares or legal person shares the main

4. The Results of the Empirical Analysis

4.1. The Dependent Variable CAR Analysis Results

Listing Corporation divestiture announcement market performance refers to the divestiture announcement caused by price changes, empirical research methods corresponding is the event study method. This method is the earliest proposed and applied by James Dolley in 1933 in order to study the stock price changes and changes in segmentation. Event study is based on the change of shareholder wealth as a research starting point, by analyzing the changes in specific matters occurring before and after the share price, check whether the items can bring superior returns to shareholders. The research idea of this method is as follows, first of all to determine an event window period; Secondly, the calculation of Sample Firms in the window period expected return (normal); Again, using the sample of the company's actual income minus the expected return to get abnormal returns; Finally The entire window period of abnormal returns accumulated together to get the cumulative abnormal returns the CAR.

In this research, the divestiture announcement 300 days (t=-300) to the notice within 60 days (t=60) for the event estimation period, with the announcement date within 30 days for the event window period. In addition, when calculating the expected return AR we chose market model method by Sharp (1964), Linter (1965), can effectively eliminate the factors that affect individual securities market as a whole.

Table 1. CAR and T-test of Different Window Period

The window period	CAR	The window period	CAR
(-30,30)	0.037*** (12.36)	(-25,25)	0.042*** (8.60)
(-20,20)	0.043*** (7.80)	(-15,15)	0.044*** (7.48)
(-10,10)	0.045*** (5.48)	(-5,5)	0.045** (4.03)

(-4,4)	0.041*** (4.19)	(-3,3)	0.041*** (4.46)
(-2,2)	0.038** (4.58)	(-1,1)	0.039* (3.05)

The analysis results show that the can be seen in Figure 1, Samples of the cumulative excess returns CAR is basic positive in the window period. On the whole, Sample Firms CAR has been an upward trend in the overall window period, and reached the highest value of 4.5506% in the fifth days following the date of announcement. Shares in the divestiture announcement recently began rising, this may be caused by the information leaked in advance and insider trading phenomenon existing in the process of divestiture transactions. From Table 2 also can be seen in all the different window period Sample Firms can get positive cumulative abnormal returns the CAR, and in addition to the (1, 1), the other window period of CAR value, which is significant in statistics. This shows that the divestiture announcement can enable the company share price rises, thereby increasing shareholder wealth.

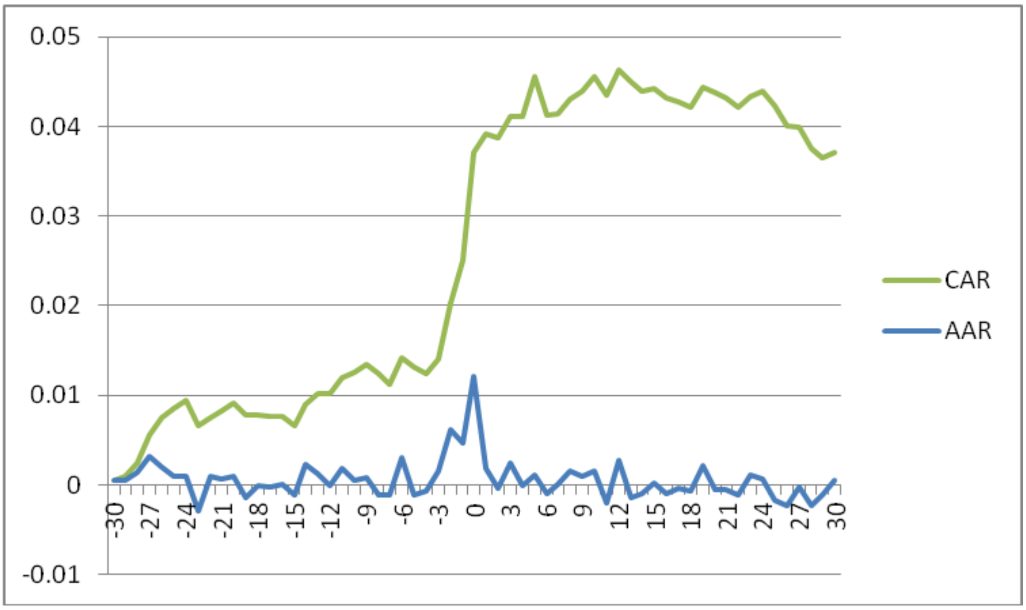

Figure 1. The window period (-30, 30) AAR and CAAR

4.2 The Results of Regression Analysis

Table 2. CAR Regression Analysis Results 1 in Different Window Period

The dependent variable	CAR(-20,20)	CAR(-15,15)	CAR(-10,10)	CAR(-5,5)
Constant	0.383 (1.263)	0.368 (1.306)	-0.207 (0.863)	0.153 (0.687)
The enterprise scale	-0.042 (-1.315)	-0.039 (-1.331)	-0.021 (-0.825)	-0.013 (-0.552)
Stripping relative size	3.251E-11 (0.575)	2.389E-11 (0.455)	1.590E-11 (0.355)	1.477E-11 (0.355)
The first major shareholder shareh olding ratio	-0.049 (-0.483)	-0.065 (-0.693)	-0.113 (-1.417)	-0.112 (-1.509)

Tobin Q	-0.005 (-0.341)	-0.006 (0.458)	-0.005 (-0.394)	-0.005 (-0.497)
ROE	0.000 (0.246)	0.001 (0.668)	0.001 (1.003)	0.001 (0.527)
Equity structure	0.044 (0.573)	0.002 (0.027)	0.026 (0.405)	0.045 (0.827)
Asset-liability ratio	0.095 (1.395)	0.090 (1.427)	0.091* (1.679)	0.059 (1.171)
Adjusted R2	-0.006	-0.004	0.001	-0.005
The value of F	0.659	0.771	1.050	0.723

Note: 1) ***, **, * says coefficients is significance at 1%, 5%, 10% level.
2) the CAR units is%.

Table 3. CAR Regression Analysis Results 2 in Different Window Period

The dependent variable	CAR(-4,4)	CAR(-3,3)	CAR(-2,2)	CAR(-1,1)
Constant	0.200 (0.924)	0.180 (0.853)	0.183 (0.915)	0.014 (0.085)
The enterprise scale	-0.018 (-0.785)	-0.016 (-0.706)	-0.016 (-0.780)	0.004 (0.209)
Stripping relative size	1.986E-11 (0.492)	7.234E-12 (0.184)	1.443E-12 (0.039)	2.691E-12 (0.086)
The first major shareholder shareh olding ratio	-0.098 (-1.368)	-0.098 (-1.393)	-0.088 (-1.322)	-0.115** (-2.057)
Tobin Q	-0.006 (-0.560)	-0.005 (-0.468)	-0.003 (-0.273)	-0.008 (-0.944)
ROE	0.001 (0.640)	0.001 (0.862)	0.001 (0.568)	0.001 (0.910)
Equity structure	0.024 (0.468)	-0.005 (-0.094)	-0.013 (-0.241)	-0.012 (-0.221)
Asset-liability ratio	0.050 (1.023)	0.044 (0.923)	0.039 (0.857)	0.020 (0.536)
Adjusted R2	-0.006	-0.006	-0.009	0.000
The value of F	0.704	0.659	0.527	1.021

Note: 1) ***, **, * says coefficients is significance at 1%, 5%, 10% level.
2) the CAR units is%.

Table 2 and Table 3 analysis the different window period assets market performance influence factor regression analysis results. From Table 3 and Table 4 the regression analysis results of the data we can see that the first big shareholder shareholding and asset-liability ratio have a significant impact on assets of market performance. The first big shareholder shareholding and CAR is significantly negative correlation; Asset liability ratio is correlated remarkably positively with the CAR. Other variables have no significant effect on the assets of listed companies the market performance. Thus, we can get the following conclusion:

(1) The shareholding ratio of the first shareholder and Sample Firms accumulated excess returns are significantly negative in CAR time (-1,1). This is the same as expected and verify the hypothesis 1, namely, the greater the proportion of the first big shareholder holds, the smaller the effects on assets market performance. A listed company on ownership concentration is higher, the big shareholders often use information asymmetry infringe upon the interests of small shareholders, and the strategic decisions such as enterprise assets are greatly influenced by the

large shareholders, lead to divest decision may not be voluntary. According to the theory of corporate governance, ownership concentration lower enterprise strategic decision is based on the principle of the enterprise value maximization, thus when ownership concentration is low enterprise assets announcement, the market will give positive response.

(2) The asset-liability ratio and the cumulative abnormal returns the CAR inside the window period (10, 10) were positively correlated, and in 10% of the statistical significant level. This is because the asset-liability ratio is higher, the enterprise debt paying ability is lower, the lower the borrowing capacity also. The high rate of assets and liabilities will cause the enterprise to fall into financial distress, external financing difficulties. Companies obtain operating funds through asset stripping for operating funds, can reduce the asset-liability ratio, alleviate the pressure of the debt. So the high debt level of the enterprise divestiture announcement, investors will think the divestiture can improve the financial situation of enterprises, and to give a positive reaction.

5. Conclusions and Suggestions

5.1 Conclusions

Based on the theory of domestic listed company market performance, this paper took released divestiture announcement in 2005-2013 as sample data, selected 324 divestiture announcement as the final study sample, according to the selection criteria, made an empirical on market performance and its influencing factors of assets, and draws the following conclusions:

1. The relevant asset stripping behavior characteristics, the overall number of assets of listed companies in China and has a rising trend and exist at the end of the year effect.

2. About the assets market performance, the result shows that in the event window period, divestiture announcement can bring significant positive abnormal returns. This shows that more investors are optimistic about the asset stripping, asset divestiture announcement can increase shareholder wealth. But in the process of assets transaction may exist the phenomenon of information leaked in advance and insider trading. In addition, asset stripping stripping under different market performance is different. Under the way of equity stripping assets announcement effect is better than the physical assets way.

3. According to the regression analysis, significant effects on peeling the cumulative excess returns index includes the proportion of the first shareholder, and the rate of assets and liabilities. The first big shareholder shareholding and CAR is significantly negative correlation; Asset liability ratio is correlated remarkably positively with the CAR. This is the same as expected and verify the hypothesis 1, namely, the greater the proportion of the first largest shareholders of assets, the smaller the impact of market performance. A listed company on ownership concentration is higher, the big shareholders often use information asymmetry infringe upon the interests of small shareholders, and the strategic decisions such as enterprise assets are greatly influenced by the large shareholders, lead to divest decision may not be voluntary. According to the theory of corporate governance, ownership concentration lower enterprise strategic decision is based on the principle of the enterprise value maximization, thus when ownership concentration is low enterprise assets announcement, the market will give positive response.

5.2 Relevant Suggestions

1. The listed company shall recognize correctly the divestitures.

At present, most of the enterprise managers will mark the divestiture regard failure as a diversification, the divestiture of assets as the solution to enterprise some pressure or dilemma first, there are serious prejudice to the asset stripping. We have also seen in the analysis, the vast majority of listed companies of divestiture announcement have high debt levels. More and more enterprises only face financial difficulties, will be passive divestiture alternatives, in order to ease the pressure on the operation. Enterprise must realize the assets such as systolic strategy is similar to enterprise mergers and acquisitions, both are important means of enterprise for all kinds of resources to improve. Asset stripping is slide backwards through the concentration of strengthening enterprise core business, to improve the management efficiency of remaining assets, enhancing the efficiency of the enterprise as a whole, thus improve enterprise core competitiveness. Cynthia Ann & Rajan (1984) study, strategic (return to the main) assets will significantly increase shareholder wealth, rather than strategic (sell don't need assets, *etc.*,) assets will reduce the wealth of shareholders. Therefore, the enterprise must re-examine the importance of divestiture, rise the divestiture of assets to strategic level, improve the initiative and timeliness of asset divestiture.

2. Perfect the corporate governance structure, regulate the related transactions of listed companies.

On the basis of the empirical analysis results, the assets of listed companies in China trade exists the phenomenon of information leak, and the analysis of the ownership concentration on the assets market performance will produce negative influence. At present, Chinese most listing Corporation's ownership structure exists "the single-large shareholder". Big shareholders in absolute controlling position often use asymmetric information infringement of the interests of small shareholders, large shareholders dominate the divestiture decision is more from their own interests, is not conducive to the long-term development of enterprises. In addition, some listed companies in order to improve the paper profit level, the use of assets to sell assets to related party to make the enterprise for short-term interests. Such transactions not only often lack the transparency of transactions, but cannot improve the corporate performance from the essence. In addition to the listing Corporation "the single-large shareholder" characteristics, leading to poor affiliated transactions and insider trading phenomenon is more serious.

Therefore, we must strictly regulate the listing Corporation connected transaction. First, we should perfect the related party transactions disclosure of accounting standards. Secondly, to perfect the corporate governance structure, promote the full circulation of shares, the lower ownership concentration, to constrain the behavior of large shareholders to protect the legitimate rights and interests of small shareholders. Thirdly, strengthen law enforcement, the use of control over the manipulation of related party transactions, resulting in substantial losses to the third party should be severely punished, if the consequences are serious also should bear the corresponding legal responsibility.

3. Improve the system of relevant laws, regulations and policies.

Since the divestiture of relevant laws and regulations is not perfect and the lack of authority and other issues, management behavior caused by the existing laws and regulations to regulate the complicated and changeable, therefore we must further improve relevant laws and regulations. First of all, we should establish strict listing Corporation divestiture approval system and strengthen the supervision and management. Secondly, we should also perfect the listing Corporation information disclosure system, guarantee the authenticity, asset stripping the comprehensiveness and timeliness of information disclosure. Once again, give full play to the role of appraisal agency, guarantee agencies report issued by the justice, legality, rationality. Finally, should establish the system of civil liability of insider trading, thereby inhibiting the listing Corporation shareholders use bad transactions against the interests of small shareholders phenomenon.

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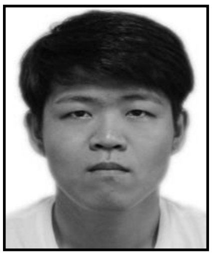

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