Why Do Poorly Performing Firms Pay Cash Dividends in Mainland China?

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Abstract

We use financial data on poorly performing firms in Mainland China from 1993 through 2003 to examine the motives behind paying out cash dividends. The results indicate that cash dividend payout behaviors of Mainland Chinese firms are closely related to the preferences of the controlling shareholders of nontradable shares, and are subject to the firms' earnings capacity and cash constraints. The findings support our cash-channeling hypothesis in Mainland China and are consistent with the theories of Stulz (2005) and Pinkowitz, Stulz, and Williamson (2006) on the agency problems of corporate insider and state-ruler discretion in a liberalized emerging financial market.

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