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## Fiber listed companies financing preference and bond market law environment research

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### ABSTRACT

Influenced by factors which are mainly internal share structure, insider control, bond market, and security market in financing, fiber listed companies have financing preference to some extent. This paper put forward the countermeasures for the current preference on financing in fiber listed companies from four aspects, including regulating dividend distributions, developing corporation bond market, optimizing corporation governance structure and perfecting the law and market systems, so as to adjust and reorganize the share structure of fiber listed companies and to establish incentive system and alleviate the financing preference of fiber listed companies.

### KEYWORDS

Industry environment; Fiber listed companies; Internal shareholding structure.



## INTRODUCTION

Fiber listed companies are virtually in need of great amount of capital to support the normal operation and to expand production capacity. The sources of capital mainly rely on internal and external financing<sup>[1]</sup>. The chief financing approach of fiber listed company is external financing, including debt financing such as asking for a loan from finance institutes and issuing company bonds, equity financing such as supplemented issuance of new equity and share allotment, convertible bond that is between the debt financing and equity financing, and etc. Internal financing consists of self-owned capital of the fiber company and capital reserve of the production and operation activities. Fiber listed company itself increases capital by calculating the depreciation to create cash and retain profit<sup>[2]</sup>. Due to the internal financing does not demand actual external payments of interest and dividend which will reduce the cash flow of the company and bring some financing fee, the cost of internal financing is far below than that of external financing. Fiber listed company usually adopts approaches as follows to make financing: direct financing, bank loan, stock financing, bond financing, share financing, etc. Compared with direct financing, bank loan has the merits of relatively simple procedure, low cost and strong flexibility, etc, which make financial leverage come into play. But it also brings high financial risk, and has many restrictions and limitation on the amount of financing. Compared with stock financing, bond financing has low capital cost, more likely to develop the function of financial leverage, guaranteeing the control right of the equity in the company, but bringing high financial risk and having many restrictions and limitation on the amount of financing. Compared with bond financing, share financing belongs to permanent capital that dispenses with repayment and fixed interests, greatly reducing the financial risk of the company, but its capital cost is relatively higher than that of debt financing and it is likely to dilute the original shares<sup>[3]</sup>.

## MATERIALS AND METHODS

Financing environment is a collection of various factors which impact corporate financing activities under a certain institution. Financing environment provides opportunities and resources for corporate financing, but it restricts and interferes with corporate financing as well. Financing environment includes political environment, economic environment, financial market environment, legal environment, credit guarantee system, status of enterprises, etc<sup>[4]</sup>. Analyzing financing environment is conducive to analyze the reasons for financing preference. The financing preferences in fiber listed companies are expressed as external financing prior to internal financing, and prefer equity financing to debt financing. In order to analyze the impact of financing environment on financing preference, we start from four factors of internal ownership structure, insider control, bond market and stock market, and find out the reasons for the preferences, and establish external foundation for the construction of harmony financing environment and financing structure.

## DISCUSSION

Fiber listed company has strong preference for share financing, which manifests itself as the financing behaviors which are put external financing before internal financing and put more importance on share financing rather than on debt financing. It obviously diverges from the Pecking order theory in the Western, and presents typical phenomenon of abnormal pecking order which exerts negative effect on the financing behavior of fiber listed companies<sup>[5]</sup>. Against this background and confronted with various financing approaches, how do companies make choices and are there any financing preference and prior financing method, and what are the causes to promote fiber listed companies to have these financing preference? To answer these questions, we should make analysis from both the internal and external environment of the fiber listed companies.

### **Fiber listed companies internal shareholding structure environment factor**

The motivation of shareholding alteration is the transformation of the mode of production<sup>[6]</sup>. It is far-reaching significance to choose the proper shareholding structure that is fit for the fiber listed companies development<sup>[7]</sup>. Before the non-tradable shares reform, shareholding structure of the listed company has obvious feature of artificial division. Stocks are divided into tradable shares and non-tradable shares. For instance, in a great number of fiber listed companies which were reformed from the state-owned enterprises, non-tradable share holders take absolute holding position as the controlling shareholders, which makes the absence of main body of the government capital and the lack of supervision and restriction. In addition, due to state-owned shares don't participate in market circulation, it is impossible to gain profits by share transfer during stock revaluation and to

reduce loss by selling out the shares when stocks devalue, which causes the state-owned assets can't be further optimized and reorganized. This special type of shareholding structure of fiber listed company constrains the promotion of profitability of the listed company, without sufficient capital working as the powerful support to make internal financing, fiber listed companies passively prefer external financing<sup>[8-9]</sup>.

### **Fiber listed companies insider control environment factor**

Insider control means the situation that shareholders and creditors in the contemporary companies in which ownership and management are separated use their rights to gain private interests for themselves or their small groups when they are unable to supervise the managers thoroughly, so that do harm to the general shareholders and creditors' interests<sup>[10]</sup>. Insider control problem is mainly manifested as follows: excessive on-job consumption, non-standard and untimely information disclosure, casual technical treatment of accounting procedure, excessive investment and assets consumption, transfer of state-owned assets, disregard of minority shareholders' interests and reputation, default on debt, etc. Due to scattering of public shares, small and medium-sized retail investors of the fiber listed company feature with strong speculation and free-riding behavior. It makes shareholders' control rights fragmentary and information acquirement incompletely, and the supervision on the managers is difficult to implement. If the fiber listed company's runs poorly and is in deficit condition, managers may resort to financial fraud to conceal the deficit condition. They utilize low or even deficit achievement level to restrict the internal financing, so that the preference of external financing in fiber listed companies are presented<sup>[11]</sup>.

### **Fiber listed companies bond market environment factor**

Bond market has the functions of financing, guidance for capital flow, macro-control, unified and mature bond market is the foundation of the financial market<sup>[12]</sup>. Due to the causes such as the undeveloped corporation bond market, low security of bond investment, poor profitability, low liquidity, investors estimate low expected profit on corporation bond investment and evaluate low price on the bond that is issued by financing corporation in the market, and have low demand on bond investment. Although the positive anticipation of a good operation performance of the listed company will raise the expected value of the corporation bond, in the circumstance where investors' demands are low the margin growth rate of the expected value will be very small. In the bond market with limited size, major trading varieties are the national debt. Corporation bond varieties are few and the size is small. Due to the emphasis on national debt development, government adopts strict facility control approach for the issue of corporation bond. Bond issue has thick atmosphere of planning management and the fiber listed companies are lack of motivation and initiative to issue bond. The corresponding finance institutes don't prefer the long-term loan and they rate the risk of the long-term loan high. It leads some constraint on fiber listed company's indirect financing. Therefore fiber listed company can only finance by the share approach, and so that corporation capital structure can be fully optimized<sup>[13]</sup>.

### **Fiber listed companies stock market environment factor**

Security market supervision refers to the conception that according to the law, economic, and administrative means security administrative institutes supervise and manage the behaviors such as security raise, issue and transaction, and securities investment intermediaries' behaviors<sup>[14]</sup>. On the present stage, security market administrative institutes form a kind of institution inertia on limit control and examine and approve control of stock issue. A part of the risk of company's stock issue is assumed by government, and there are a lot of soft constraints on share financing. Listed company deems supplemented issuance of new equity and share allotment a reward for the good operating performance created by the management level<sup>[15]</sup>. The corresponding factors such as the imperfect system of tracking and monitoring make the low cost of share financing in the security market and the non-repayment feature weaken the supervision and restriction on the management level after the financing. The operating and administrative group changes the direction of capital utility at will after acquiring the share capital so that the inefficiency of share capital occurs.

## **RESULTS**

### **Regulate fiber listed companies dividend distribution system**

The financing structure of listed company should take full consideration on the merits of internal financing. To give priority to internal financing, it will reduce the financing risk, promote the independence of the company, and avoid the disguised share financing from the angles of reducing stock dividend and raising cash

dividend. If the company needs to limit the granting of cash dividend, they should be obliged to disclose information such as the reasons of the stock dividend when it is distributed. Through enhancing the supervision and restraint mechanism of administration and law, regulate the dividend distribution behavior of the company from the angle of protecting the minority shareholders and so that transactions can be operated orderly in the stock market. Meanwhile, regulate the profit distribution of the listed company; promote the positive capital expansion internally; consolidate own strength from the inside, establish tax and finance systems which are beneficial to listed company's self-capital accumulating. So that it will ease listed company's financial burden, enhance the internal management of production and operation, improve the profitability of assets, and enlarge the portion of internal financing. Through implementing the initiative information disclosure system of listed company, strengthen the management of information disclosure, build up information transmission mechanism. Only when the transmission of the financing structure information is accompanied by the timely implement of the project, market participants are able to identify the quality of the listed company, and so as to optimize the financing structure and improve the efficiency of resources allocation.

### **Developing fiber listed companies corporation bond market**

The development of corporation bond market is based on the information asymmetry. The process of optimization of financing structure is the process of alleviation of information asymmetry. Via the financing structure optimizing, the principals and agent can build up information channel, develop efficient restriction and motivation mechanisms, and reduce the difficulty of investing and financing transactions caused by information asymmetry, and promote the operating efficiency of financial market. In terms of developing corporation bond market, it is feasible to establish scientific rating index system and credit rating system, maintain the independence and justice of the rating institutes and reduce the administrative intervention, and reinforce the supervision for the credit rating institutes to guarantee the scientific nature, justification, and consistency. For the professional credit rating institutes, government should adopt instructive measure gradually, establish and maintain the market order of security credit rating, perfect the regulation supervision system of rating, implement market forbiddance to the deceptive credit rating institutes, eliminate the injustice phenomenon in the rating area. To establish the Debt securities compensation fund system. The company's trust and assurance bank draw some amount of money from the company's deposit to make a specified account regularly, and earmark the fund for its specified purpose only. It can guarantee the future repayment and interests, and to some extent, eliminate the negative influence to the whole corporation bond market that is caused by the very few companies which are unable to repay their debt and the interests, relieve the worry of the investors, ease the company's pressure since the great payment of money at maturity might influence the routine production.

### **Optimizing fiber listed companies corporation governance structure**

Consummate corporation governance structure must enhance shareholders' supervision practically and establish effective internal restriction mechanism. Shareholders' interests are the essential fundament of optimizing financing structure. Enhance the supervision function of shareholders practically, and give the management level motivation of optimizing financing structure. Through measures such as establishing internal control mechanism which are the board of directors and the board of supervisors, standing bodies such as board of auditors and remuneration committee which are under the board of directors, and establishing internal control between subordinate committees, promote the independence of the company's internal control. Performance assessment should not only include accountant data, but also comparison and evaluation of stock price and other non-financial data. Reduce the dependence on data, and to enhance the objectivity and comprehensiveness of the performance index. Raise independent director in the board of directors, especially the number of experienced independence who has relevant knowledge of accounting and auditing. Establish secondary functional committees such as board of auditors, remuneration committee and nomination committee. Meanwhile, diversify the payment form and introduce stock option and phantom stock besides salary and bonus, and make operators' interest objects stand for long term. Effective motivation mechanism can reduce the conflict of interest between operators and owners restrict opportunistic surplus management and motivate efficient surplus management.

Corporate governance structure requires the fiber listed company to establish external manager market competition mechanism. The ownership structure of fiber listed companies decides the characters of corporate governance structure. In the process of operating, the economic target and political target frequently conflict, and it is very likely that government replaces economic measures with administrative measures to manage and control the behavior of the fiber listed company. If the administrative appointment system of the manager level and the power distribution system that allows people undertake different duties, it is unable to form effective constraint mechanism from the outside. Therefore, it is recommended to establish manager market in the human recourse market and assess managers' performance with appropriate index system objectively, and realize two-way

selection system for the manager appointment and completely eliminate the administrative interference in the power distribution.

### **Perfecting fiber listed companies the law and market systems**

In terms of reinforcing the market supervision, promoting market revolution and development, it is recommended to obey the principles of treating both symptoms and root causes, and perfect the law environment of the market, and enhance the credibility and integrity construction of the capital market, and set up positive public opinion, and formulated laws and regulations, and protect the small and medium investors' interest practically. Establish and improve relevant laws, perfect the law system in the security market, set up litigation system that is designed for shareholder representative, and enable the majority shareholders to investigate the responsibility of the big shareholders, manage level, senior managers, and intermediary agency through legal process. Make legislation for connected transaction, promote the transparency of the information disclosure, and block up big shareholders' channel for free use of the capital that is realized by connected transaction.

Healthy market not only demands perfect legal mechanism, but also perfect listing and delisting mechanism. At the present stage, a few deficit fiber listed company replace delisting with measures such as ST, PT for the pressure and restraint. It twists the operation system of the stock market at some degree and harms the vast investors' benefits, and aggravate fiber listed company's tendency of share financing. Therefore, besides maintaining the current delisting system, it is feasible to explore other delisting methods, which allow full play to the resource distribution function of delisting system in the stock market. For instance, set up dealing desks when delisting, offer liquidation channel for tradable shares after delisting, avoid damaging investors' interest; for the fiber listed company that runs poorly and losses its investment value, it is feasible to realize delisting via bidding and repurchasing tradable stocks from the shareholders and taking priority to regain the listing quality when the operating performance rise again, so that the influence to the stock market that is caused by the mandatory delisting is reduced; for the fiber listed company that has low investment value, it is feasible to accept purchase from well-performed or new company with the principle of mutual willing. Via the establishing of perfect delisting mechanism in law, delist the failed fiber listed company from the main board of the stock market. It will improve the management and economic efficiency, and reward the vast investors with better performance, and avoid the blind "money" financing of fiber listed company that causes the inefficiency in share financing.

## **CONCLUSION**

Financing environment of Fiber listed companies has direct influence on financing behaviors. From a macro perspective, financing behaviors of fiber listed companies affect resource allocation and capital market structure; from a micro perspective, financing behaviors of fiber listed companies affect capital structure and internal governance structure of fiber listed companies. With the marketization of the stock market and further improvement of corporate governance, enterprises will enjoy more rational structures. In order to improve the financing environment and financing structures, protect and guide the financing behaviors of fiber listed companies, and reduce financing risks, we ought to standardize dividend distribution system, develop corporate debt market, and improve corporate governance structure, laws, market system and other aspects.

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