

Analyzing on the Characteristics of Several Typical Financial Behavior of Loss Listed Companies in China^{*}

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In combination with socio-economic development of China's current status, this article analyzes the characteristics of several typical financial behavior of loss listed companies in China. Among them, the debt financing behavior have a high level, a single means, a short-term structured and other characteristics, the corporate governance behavior have a goal of collaborative, several forms, and a complex environment, the earnings management behavior have diverse motives, many types of means, bigger range and other features, the asset restructuring behavior have a passive subject, methods of differentiation, performance-oriented features such as myopia.

Keywords: loss, financial behavior, debt financing, asset restructuring, corporate governance, earnings management

Introduction

As an emerging economy, China is during the economic transition period. China's rapid economic growth has the good momentum of development, but the social economic system is not sound. In this context, the product derived from China's securities market—China's losses listed companies will inevitably have their unique aspect in their financial behavior. Combining the current social economic development present situation, this article has analyzed some characteristics of various typical financial behaviors in the listed company, which is just the main body of the market economy, and under state of losses.

In combination with socio-economic development of China's current status, this article analyzes on the characteristics of several typical financial behavior of loss listed companies in China. Among them, the debt financing behavior have a high level, a single means, a short-term structured and other characteristics, the corporate governance behavior have a goal of collaborative, several forms, and a complex environment, the earnings management behavior have diverse motives, many types of means, bigger range and other features, the asset restructuring behavior have a passive subject, methods of differentiation, performance-oriented features such as myopia.

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The Characteristics of Debt Financing Behavior

The High Level of Debt Financing

For China's loss-making listed companies, the level of debt financing is high. Through the statistical analysis between the 570 listed companies from 1999 to 2000, Xia, Xiao, and Wang (2002) found that the debt ratio in the loss companies is higher than others. They also studied by grouping according to the level of liabilities ratio, and found that, the managers should guard against the financial risk that may appear for the present listed companies (except some special industries) when the asset-liability ratio is above 40%. When the asset-liability ratio is above 60%, the company is already more dangerous. When the asset-liability ratio is above 80%, the company is likely to be the brink of collapse. In the samples made up of loss-making listed companies between 2003 and 2009, the results of descriptive statistics reveal that the asset-liability ratio of the samples made up of loss-making listed companies is an average of 89.9%, which shows that, China's loss-making listed companies commonly have the phenomenon of high debt proportion from 2003 to 2009. Sun Weimin, the director of science and technology department in Huadian corporation in China, said publicly on China's energy enterprise top BBS of 2011 (the third), "the loss area of Huadian corporation thermal power enterprise respectively is 64%, 33%, and 44% from 2008 to 2010, and the accumulative total loss is as high as 12.5 billion RMB". At present, the asset-liability ratio of coal-fired power plant, which belongs to Huadian corporation, is as high as 170%, which deeply aggravate the financial pressure of these power plants. In addition, according to the Wind statistical information, at the end of the first half of 2011, the asset-liability ratio of real estate industry has been as high as 71.28%. Among which, the total liabilities are 1.24 trillion RMB, the total assets are 1.73 trillion yuan, and the total debt increases by 151.4 billion RMB comparing to that in the end of last year. Compared with the data in the annual report over the past 10 years, the asset-liability ratio of real estate reached a high value this year. Among the top 20 enterprises through the asset-liability ratio from high to low, the first name is the state of the suspended ST industrial, whose asset-liability ratio is 968.7%. The second one is the ST YUANCHEN's asset-liability ratio is 109.95%. From the data, the two companies have been in the insolvency. Therefore, the high level of debt financing is undoubtedly one of the important characteristics in China's loss-making listed companies. From the capital structure theory perspective, the company can gain financial benchmarking interest through the moderate debt, but if liabilities excessive, the company will have little ability to pay, and even paying-crisis occur. On the one hand, the high debt would weaken enterprise ability to pay and contain the financial crisis, on the other hand, once a certain part of credit chains breaks down, or actual cash flow is larger than expected, it would influence the debt payment at sight, which absolutely leads to financial crisis. A listed company, therefore, should pay close attention to their balance sheets, when the asset-liability ratio over a certain ratio, it may mean that the debt paying ability and enterprise financing credit declines, eventually leading the company to the difficulty of debts, which make itself trap into a serious debt crisis.

The Simplification Method of Debt Financing

In the samples which made up of loss-making listed companies between 2003 and 2009, the results of descriptive statistics reveal that only five loss-making listed companies issue bonds for debt financing, and almost all the loss-making listed companies are using bank loan, commercial credit and other temporary way of taking up money for debt financing. According to the different way of debt financing, the debt of loss-making listed companies is divided into bank loans, commercial credit, issuing bonds, other temporary taking money and so on, among which the other temporary taking money includes employee benefits payable, tax payable,

dividends payable, interest payable, short-term bonds payable, accrued expenses, deferred income, and other short-term liabilities projects. And the results of descriptive statistics in the whole loss-making samples between 2003 and 2009 also show that all the samples' bank loan accounts for the proportion of the total debt was 0.454, and commercial credit and other temporary taking money respectively was 0.239 and 0.252, which indicates that the loss-making listed companies have nearly half of probability choose the bank loan financing method over debt financing process, and almost use other financing way (including the use of trade credit and temporary taking money), showing that despite China's loss-making listed companies tend to bank loans, commercial credit and other temporary taking money and so on, more preference in the way of bank loan for debt financing. The frequently shut and transferred phenomenon of Wenzhou private enterprise in 2011 further shows that the listed companies in China have generally too high ratio of short-term financing and the simplification of debt financing mode. This simplification of debt financing way not only increase the company's debt service pressure, but also hinder the flexibility of debt extension that the loss-making listed company had, limit the proportion of equity financing and amount, eventually making the company's capital structure irrational, and causing the enterprise bankruptcy crisis.

The Short-Term Structure of Debt Financing

The proportion of current liabilities to total liabilities of China's loss-making listed companies is generally higher, resulting in the characteristics of the short-term debt financing structure of the loss listed corporate. In general, half of the current liabilities to total liabilities are more reasonable, if high rates cause listed companies in the financial market environment changes, such as bank interest rates rise, on the one hand, the turnover of funds difficulties will increase credit risk and liquidity risk of listed companies. On the other hand, the company's operating results will be affected due to the rising cost of funds. The descriptive statistical results of the full sample of China's loss-making listed companies between 2003-2009 also showed that current liabilities accounted for the total liabilities ratio average of 0.861, indicating that overall, the loss-making listed companies prefer short-term debt financing when they considered the arrangements of the term structure of debt financing, this may be due to the creditor do not want to lend long-term loans to the loss-making listed companies for the protection of their own interests, in favor of releasing short-term borrowings. Rajan and Winton (1995), Stulz (2000) and other scholars believe that the need for frequent renewals of short-term debt makes lenders use the least energy to effectively supervise the insiders, forcing managers to spit out cash in order to prevent that they will use these funds for non-profit empire-builders. Therefore, the short-term debt is an extremely powerful tool for supervision of internal opportunism. This shows that the more debt financing can play a positive corporate governance effect, reducing the agency costs of the company and the financial value of the loss-making listed companies. However, the proportion of short-term debt financing should be controlled within a certain range, if current liabilities are excessive, debt maturity is too short, it will bring greater pressure for current debt service to the loss-making listed companies, at this time, the company's debt risk would be higher, which is bound to bring about negative effects for the loss-making listed companies, thereby reducing the financial value of the loss-making listed companies.

The Characteristics of Corporate Governance Behavior

The Coordinated Target of Corporate Governance

The capital and human resources, which ensure the company the smooth functioning, come from the

society as a whole, and its products and services are required for the whole society, therefore, the company should take the interests of all sponsors (mainly including shareholders and creditors), managers, employees, and customers as standpoint and a code of conduct during the different stages of the operation management, which determines the essence of corporate governance behavior is the coordination of the relationship with all stakeholders of the company, the interests of all stakeholders are basically in a satisfactory state in order to achieve the healthy and stable development of the company. In actual practice, for a particular enterprise, the interests of shareholders, creditors, managers, employees, and customers tend to shift with each other, the relationship between the interests of the company's related parties are often contradictions, especially for businesses at a loss, this contradiction may be performed more prominent. Under the circumstance that annual earnings is negative, the company's creditors are the most easy to panic for the loss-making listed companies in China, in order to protect the security of their own pre-loan, they often strengthen the supervision of loans to the loss-making listed companies and strictly limit the loan amount and the way to use existing funds of the loss-making listed companies, however, for managers, they often want to get more funds by way of loans or the issuance of bonds or put existing funds into the high-yield, but accompanied by high-risk projects out of the reputation mechanism and managers market constraints. As a result, the conflict between creditors and managers are very prominent. In addition, the agency relationship between managers and shareholders will also exist contradictions, because the information asymmetry between managers and customers will also conflicts, managers and government departments will exist contradiction because the system contract. Therefore, the financial behavior of corporate governance, as the coordination of the interest of all parties, must establish a synergy of behavior and interests of the company parties interest as the main target, regard the relationships and conflicts of interests of all parties involved in the company's cash flow as the main line, effectively coordinate, balance, straighten out the company's financial relations, and establish the company's stakeholders win-win cooperation mechanism to ensure long-term stable and healthy development.

The Diversified Methods of Corporate Governance

Investor interest coordination, employee benefit guidance, customer benefit guarantee are the three core problems of modern company management (Yang, 2009). Among them, investor interest coordination can be divided into macro, meso, and micro levels. The macro level refers to the protection of the interests of investors, and its common ways of corporate governance include ownership structure, board system, the legal protection of shareholders' rights, incentive system for managers, information disclosure system, bank debt governance mechanisms, control market and manager's market and so on. The meso level refers to everyday communication between the company and investors, which is also called investor relations management to establish and strengthen the trust between the corporate shareholders and the investors, the specific means of communication include annual reports, announcements, general meeting of shareholders, analysts' meeting or seminars, company website, advertising, news media coverage, one-on-one communication with key investors, telephone consultation, mailing information, important investor site visit and road shows, etc.. The micro level refers to the shareholders' loyalty management, that is, what measures does the company take to retain existing shareholders and to attract new shareholders. With the advent of the new economic era, employees increasingly play a most fundamental role in the company value creation. Employee benefits guidance is to enhance employee contribution to enterprise value through improving employee satisfaction and loyalty. The contribution employees made for the enterprise value depends on the degree of realization of their value in the

process of creating corporate value, mainly for the satisfaction and loyalty of the staff to the enterprise. Therefore, the company managers need to improve employee value through the training development, reward, fully decentralization and authorized, salary reward, and so on. Because the need of the customers is the fundamental reason to produce the enterprise's value. Protection of the interests of customers, as one of the important ways of governance, must continue to meet customers' needs and make them become the company's loyal customers so that customer interests are fully respected and the interests of clients in the company can be effectively protected. The specific methods of corporate governance include customer relationship management, customer value creation and so on. These governance methods have numerous categories and complex forms, which constitute the multi-level and diversification characteristics of corporate governance. Of course, for China's loss-making listed companies in the economic transition period, the level of corporate governance is mostly put on the interests protection of investor, which belongs to the macro level. Thus, although the way of its corporate governance for China's loss-making listed companies showing diverse characteristics, they focus more on the governance mode of contract compact and government legislation, concretely including managerial ownership, the largest shareholder, independent directors, board size, the market for corporate control, debt financing, the proportion of state-owned shares, the audit opinion type, information disclosure system of listed companies as well as the loss-making listed companies delisting system and risk warning system, etc..

The Complicated Environment of Corporate Governance

The environment of corporate governance mostly includes economic environment, financial environment, legal environment, and political system environment. The environment of Chinese corporate governance, rooted in the transition economies, is in the transition period from administrative governance to economic governance. During the process of transition, the two governance environments are evolving and symbiotic (Li, 2009). China's loss-making listed companies, product derived by China's securities market in this context, is bound to be faced with more complex corporate governance environment. From the point of view of the economic environment, economic factors affecting the corporate governance mainly have economic cycles, inflation, exchange rate changes and the government's economic policies. China's current economic cycle is not regularly change state, such as the high inflation rate, the larger exchange rate risk and that the government's economic policy is not stable, which will undoubtedly increase the difficulty of the choice of corporate governance and the assessment of control efficiency. From the point of view of the financial environment, China's financial market is underdeveloped, the banking reform of property rights is not yet in place, and the bank personified owner in the absence of problems, it is difficult to mobilize the bank to play an active role in corporate governance structure, there is no way to motivate the banks to go on responsible for the company's debt and equity risk. In addition, because the bank itself has a single structure of assets and loans to enterprises accounted for the vast majority, there is no effective way to control the banks' corporate debt risk. From the point of view of the legal environment, during the process of economic transition and transformation of corporate governance, the lack of a sound legal system and expensive transaction costs lead companies more inclined to use the relationship as part of the business strategy (Luo, 2009). The study of Allena, J. Qian, and M. Qian (2005) found that China's legal system, including the system of investor protection, corporate governance, accounting standards, and government quality, significantly behind most countries in La Porta's (1998) study sample. Market report of Fan Gang (2006) pointed out that the differences of marketization between various regions of China are significant, and the level of investor protection is generally low. In addition, the delisting

system and risk warning system for loss-making listed companies is not perfect, which hindered the normal play of the effect of corporate governance to a great extent. From the point of view of the political institutional environment, due to the incompleteness of the system, as well as administrative governance environment, which take administrative intervention as the leading, dominated by long-term impact on business decision-making, walking the path of conventional corporate governance to corporate governance become more and more difficult.

The Characteristics of Earnings Management Behavior

The Diversified Motivation of Earnings Management

Earnings management refers to that the enterprise's managers are forced by special interest groups of their earnings expectations pressure to select the most favorable accounting policies or control of accruals under the constraints of generally accepted accounting principles in order to obtain certain private interests, and then make the report surplus achieve the desired level. Therefore, in essence, the motivation of earnings management is to obtain the private interests of the managers. However, in China's market environment, out of political association, the interests of investors protection and the reputation of the manager mechanism constraints, the motivation of earnings management implemented by enterprise's managers often have diversified characteristics, especially for a loss listed companies, on which this diversity characterized by more prominent. According to China's current securities regulation, the listed company for two consecutive year of losses will be special treatment, three consecutive year of losses will be suspended for listing, if it still can't return in the certain period and no longer meet the listed requirements, the company will be forbidden listed. Once the listed companies were special treatment, suspension of listing, and even to terminate the listing because of losses, the damage includes the interests of corporate executives, investors, creditors and other parties concerned, the difficulty of financing of the special treatment of listed companies will be increased, and financing cost will rise, which is clearly the company's managers do not want to. Thus, for the purpose of retaining the shell, the management of loss-making listed companies generally has strong motivation to realize turnaround or prevent losing money through the earnings management behavior. The study of Zhang (2009) shows that, if the management believes that the losses this year is expected to be putting, they will take all feasible method of positive earnings management. If the management believes that the losses this year is putting hopeless, according to signaling theory, management tend to negative earnings management by the big bath out of the motivation of avoiding adverse fluctuations of stock prices and the political costs caused by high profits. In addition, management may also supervise mid-term and annual reports by earnings management out of the motivation of establishing a good corporate image, passing the good news to the market, raising stock prices and so on. The management may also be out to improve the solvency of the company's own credit capacity, to prove its loan and security to banks and other financial institutions motivations for earnings management, in order to obtain more bank credit lines and longer loan period. In addition, due to the current corporate income tax based on accounting profits, and then tax adjustments under the tax law, the company's management manage earnings for motivation to save the tax burden, reducing the cash outflow in order to minimize net income in the reporting period. In spite of the tax department in the calculation of corporate taxable income, as companies can choose accounting policies and accounting treatments, such as stock issued by the cost method of valuation, for example, FIFO method and LIFO method, which provides corporate managers the flexibility of earnings management by means of accounting policies. In addition, China's tax

system is not perfect and there are a lot of preferential tax policies, which also contributed to the business managers to manage earnings in order to achieve the purpose of tax-efficient.

The Diversified Methods of Earnings Management

China's current accounting policies and related laws and regulations are not perfect yet, which has provided the company managers a broad space to manage earnings. Division of the existing research literature on earnings management approach is not entirely uniform. Lu (1999) found the phenomenon of management using the existing anticipation of accrued items increasing profits to delay the loss in a year before the first loss, and the management use unexpected accruals reducing profits in the year of loss and have a large bath. Putting in annual, management took advantage of the anticipation of the accrued items increase profits, in order to avoid consecutive losses. Zhu (2002) and Xue and Wang (2004) believed that earnings management includes the normal project and offline project, among which, below the line is the main way of earnings management. And it consists of investment income, non-operating income, non-operating expenditures, and subsidy income. Chen and Dai (2004) put forward the way that Chinese listed companies manipulate earnings mainly include associated trade, assets reorganization, financial subsidies income, and accrued profit controlling. The study of Zhao (2006) showed that the loss-making companies before impairment use impairment of assets to avoid losses or "have a big bath". Meng and Zhang (2006) and Lu and Wei (2006) found that listed companies engage in earnings management relying heavily on non-recurring gains and losses. Although scholars divide earnings management in different ways, no matter what kind of way they through, the final results of earnings management is reflected by the income statement. Ye (2009) found that when a higher proportion of financial assets held by the listed companies, in order to reduce the impact of fair value changes on profits, the management will take the large proportion of financial assets confirmed as available-for-sale financial assets. In holding period, the management also tends to dispose of available-for-sale financial assets in the short term in order to avoid falling profits. Thus, changes in fair values are also an important way for earnings management of listed companies. The study of Zhang (2010) suggests that the confirmation and measurement of operating costs (including the cost of the main business, other business costs) is carried out by the finance staff within the enterprise, the enterprise could control this part of financial data effectively, by increasing production, management not only reduce the fixed costs per unit of product-sharing, but also can reduce the carry-over and sold product cost, these methods can effectively reduce the cost of the main business and increase the yield of the main business, thereby increasing the total income and net income, so the enterprise is likely to manage earnings through this project. The study of Sun and Mo (2010) has shown that even in the years after the implementation of new accounting standards in 2006, while the adjustment of asset impairment policy has curbed the earnings management of listed companies in the transfer of non-current assets for impairment, the listed companies has implemented earnings management more through accrual and the reversal of the impairment of assets of current assets. In addition, the authors think selling expenses and administrative expenses have more room for manipulation in the three period costs, for example, enterprises can independently decide the advertising fees, training fees, office expenses and so on, and also have some abilities to regulate and control the impairment of receivables and inventories, which can lead to manipulation of operating expenses and administrative expenses to a large degree. Finance charges, burdened on enterprises, mainly include interest on borrowings, as well as a variety of charges. The enterprises can control the choice of the capitalization or fees of interest payments. From this perspective, the way of earnings management for the

management of China's loss-making listed companies to choose obviously has a number of categories, which would undoubtedly increase the difficulty of supervision and constraints to the earnings management behavior of the company's management.

The Oversize Scope of Earnings Management

Earnings management, which is a double-edged sword, has both advantages and disadvantages for the companies even in the whole capital market. From the perspective of the capital market, moderate earnings management is an effective means for passing inside information. There is serious information asymmetry between company managers and investors in China, whose capital markets is underdeveloped, managers tend to control a lot of inside information, when they believe that earnings information without management is difficult to appraise the company's profitability and development potential reasonably, they will actively engage in earnings management to adjust the surplus to pass useful information of value to investors. However, managers must be appropriate to adjust the magnitude of surplus in order to avoid the distortion of accounting information, which is caused by earnings management. Whether the magnitude of earnings management is too large or too small will damage the interests of all capital market parties, causing the chaos of the company that managers work for, as well as the whole capital market. China's capital market is in a transitional period of government-led changing to market-driven, the managers of many listed companies, especially in loss-making listed companies, are common the tendency that earnings management range is oversize. The findings of Wang, Wu, and Bai (2005) show that the earnings management frequency and amplitude of Chinese listed companies was higher in 1996, 1997 and 2001 to 2003 and rose year by year from 2001 to 2003. There is an average of 64.4% of the losses engaging in earnings management on the threshold value zero point from 2001 to 2003 and to achieve the purpose of avoiding reporting losses, the average magnitude of earnings management is to improve the ROA of 0.065. The research conclusions of Wu, Bo, and Wang (2007) show that China's listed companies and unlisted companies exist earnings management of avoiding losses each year from 1998 to 2004. In listed companies, the proportion of surplus management company is 15.87%, which improve the ROA of 0.0122; in non-listed companies, the proportion of earnings management company is only 5.49%, which improve the ROA of 0.09%. The frequency of earnings management in listed companies is about three times as that of non-listed companies and the average earnings management amplitude is about 13 times. The differences of extent of earnings management between the two types of companies is increasing over time, because the extent of earnings management in non-listed companies is relatively stable on the annual distribution, while the extent of earnings management in listed companies is increasing as time goes on.

The Characteristics of Asset Reorganization Behavior

The Passive Body of Asset Reorganization

In theory, assets reorganization, which is the inevitable result of free movement of capital and optimal allocation in market economy, shows "survival of the fittest" natural law of competition, makes the listed companies with economic efficiency accelerate the pace of development, and expands existing investors about the future of good expectations. However, in the economic transition period in China, most listed companies have a large number of state-owned shares and legal private shares, while the listed company managers holding very little, especially the loss-making listed companies. The description statistical results of the full sample of loss-making listed companies from 2003 to 2009 in China showed that the average proportion of state-owned

shares is 22.2%, while the average proportion of managerial ownership is 0.6%, less than 1%, which indicates that the proportion of managerial ownership is very low in China's loss-making listed companies. So the managers who are the main body of asset reorganization often subject to government administrative intervention, and can only passively accept some government-led state-owned shares and legal private shares through an agreement for sale or free allocation of resources, which makes their assets reorganization behavior with strong administrative colors. Local governments sometimes never hesitate to use quality state-owned asset replace the non-performing assets of listed companies in order to save listed companies who is facing bankruptcy or have to withdraw from the market because of ST within the scope of administrative or industry range in the region, what is more, they commit preferential policies in tax, franchise rights, land acquisition, major construction projects in return to attract high-quality listed companies merger and acquisition loss listed companies, and ultimately make the restructuring behavior seriously deviate from the principle of market-oriented, resulting in unreasonable allocation and waste of capital resources. In fact, although "arbitrarily arranged" reorganization of assets through the government-led rescue the urgent needs of loss-making listed companies, the acquirer is often easy to be dragged down by newly acquired companies. On the one hand, the acquirer purchases the assets of the acquire would spend a certain amount of time and money, which will be scattered off parts of the effort of the acquirer. On the other hand, the new company after the merger may be appeared to the slow development or even the decline of the overall performance because of internal management, resource re-allocation efficiency issues, and corporate culture conflict and so on. In addition, China's direct capital market has some of the tone of the planned economy, so far, the followings, like issuer's qualification, issue number and price, listing qualifications and time, placement of shares of listed companies, are still not in accordance with market economy in the usual way to carry out. In this case, the "shell" and the allotment status are important for local governments and non-listed companies, which are bound to take advantage of the "shell" and the allotment status by this way, so it is very prone to problems of unfair trading, false reorganization, and transfer of interests in distempered circumstances of relevant laws and regulations. In fact, this passive asset reorganization, arising from protecting the "shell", could ensure a short-term effect in the reorganization year, but does not have long-term effects, and can only adjust non-substantive assets reorganization of the company's reporting structure. If the loss-making listed companies do not turn loss into gain smoothly by means of the first assets reorganization, the company has not been substantial improvement, and then it can only be forced to conduct the second, third or more asset reorganization activities.

The Various Methods of Asset Reorganization

Chi and Ma (2000) compared the behavior of assets reorganization emerging in 233 listed company in Shanghai Stock Exchange in 1998. The results show that the replacement of assets reorganization is a quick restructuring, and asset replacement mostly take the way of overall replacement, thus the quality of assets and the income of listed companies can increase rapidly. The reorganization of share transfer is ineffective because the influence of share transfer for listed companies is indirect, the company's assets and liabilities do not change on the books, and equity transfer of listed companies only reflect changes in its shareholding structure, only when other appropriate business reorganization occurs after the combination of the equity restructuring, the effect of the equity reorganization will appear, and The profitability of investment in new reorganization is not immediately increased. And the effect of investment in new show usually delay, therefore, new projects

will not play a great impact on corporate performance in the near future. The effect of reorganization of acquisition and expansion class is mixed, due to the diversification of the purpose and way of acquisition, through the acquisition some can achieve scale economies and expand the main business, some engage in diversification, some tap into the high-tech industry, some take cash purchase, some commit a debt, etc.. Therefore, profitability and asset quality performance all exist. Asset stripping makes the assets of listed companies remarkably improved, stripping non-performing assets or selling the assets little associated with the main business is conducive to improve asset management capabilities and highlight the main industry, and there are large amounts of cash inflows to increase solvency, therefore, such a reorganization of the company's asset quality will be increased. Combination restructuring makes the company asset quality deteriorate majorly, and there are many companies with improved profitability indicators but deterioration in asset quality indicators. On the one hand, shows that the combination of a variety ways of restructuring is ineffective. On the other hand, that also means the restructuring of some companies is used to pursue statements effect. S. M. Li and H. Li (2004) have found that the company performance of assets reorganization of implementation contraction significantly improved two years after the reorganization, while other types of asset restructuring did not change significantly. The study of Su, Zhuang, and Ha (2008) found that asset stripping is the largest improved reorganization way in recombinant performance, followed by transfer of shares and mergers and acquisitions, the replacement of assets is the worst in reorganization performance. Zhang and Ding (2010) have found that different restructuring have different characteristics, then the performance after reorganization is also different. The followings, like the sale and transfer of assets, debt restructuring, and mixed reorganization, have better short-term performance, but sustainability is poor. The performance of asset replacement restructuring is significantly better than the rest of the reorganization in the long run. The study of Wu (2010) has shown that loss-making listed companies often make lots of restructuring means, such as asset acquisition, share transfer, asset divestitures, asset replacement and debt restructuring combined with each other in order to achieve their goals and the best results. From that, there is a difference in the performance caused by different ways of reorganization restructuring, only when the loss-making listed companies choose appropriate restructuring for reorganization according to its actual situation and pay attention to the subsequent development after the reorganization, the desired results could be received.

The Short-Eyesight Performance of Asset Reorganization

Many Chinese scholars study the performance of restructuring in ST corporate through the event benefit analysis and financial analysis. After analyzing the changes of stock prices and financial indicators in the year before restructuring, the restructuring year and two years after restructuring, most scholars unanimously endorsed that the performance of assets reorganization in ST company is a short-term behavior, and even the result of internal manipulation, and the company uses inside information to raise the stock price before restructuring announcement. When the stock's prices rise to the expected extent, the company began to sell stocks and then led to the stock's price down and seriously damages the interests of small and medium shareholders. Those ST companies obviously appear to be short-term abnormal returns in the restructuring process. From financial indicators on look, financial conditions have not been improved obviously in restructuring year, but improved in the next year, and then the results appear to downward trend. The restructuring can improve their performance and shareholder returns in the short term, but their performance is not persistent, which showed the characteristics of the short-eyesight performance of asset reorganization. Chen and Zhang (2004) used the methodology of event

study to examine the 28 ST companies of reorganization in 2000, and found that ST corporate performance increased significantly in the first year after restructuring while the subsequent two years show a downward trend. Yu and Liu (2004) found that the behavior of mergers and acquisitions can bring the target companies the cumulative earnings and the average cumulative excess return rate is 24.5%. Li (2006) examined the ST companies restructured from 1998 to 2001 through regression method, then think that restructuring more frequently and the reorganization of large-scale companies are more likely to pick cap than the poor profitability and heavily indebted company; Lv and Zhao (2007), who investigated 78 ST companies of restructuring from 1999 to 2001 with event study, think that the restructuring has a significant impact on the ST companies, the reorganization has immediate effect, but its role is limited, because it did not bring an overall improvement in performance for the subsequent years; Ren investigated the reorganization of the 12 ST companies from Shanghai Stock Exchange in 2006 through case law method, and deemed that asset restructuring behaviors of ST companies do have the short-term financial effect on enhancing the performance of the company, but this effect is not sustained. The studies of Wu have found that the assets reorganization from different motives will cause different restructuring performance. The assets reorganization, due to protecting the “shell”, can make the company a short-term effect, but not long-term effects; the assets reorganization, from the company at the strategic level, could make the company’s solvency, asset operations, profitability and development capacity improved in order to achieve sustainable development. A variety of reasons lead to the performance of asset restructuring myopic. In recent years, many listed companies usually purchase the share of big shareholders in the name of assets reorganization, the largest shareholder can achieve the substantial appreciation of their assets through asset assessment in this process, and then sell it to the owned listed companies in the name of assets reorganization in order to achieve the purpose of profiteering, thereby substantially deviated from the actual significance of assets reorganization, losing its due role. In addition, during the listed company’s assets restructuring process, the holding company transfer funds from the listed company by the “security” or “return” of the listed company, thus forming the malicious invasion and occupation of its capital. During the process of transfer of asset restructuring agreement, the phenomenon that the related party transactions between the large shareholders of listed companies is more serious, compared with non-related party asset restructuring, there are many non-market behavior, which has seriously harmed the interests of many medium and small shareholders.

Conclusions

In combination with socio-economic development of China’s current status, this article analyzes on the characteristics of several typical financial behavior of loss listed companies in China. Among them, the debt financing behavior have a high level, a single means, a short-term structured and other characteristics, the corporate governance behavior have a goal of collaborative, several forms, and a complex environment, the earnings management behavior have diverse motives, many types of means, bigger range and other features, the asset restructuring behavior have a passive subject, methods of differentiation, performance-oriented features such as myopia. Recognizing the characteristics of several typical financial behavior of loss listed companies in China will contribute to guide investors and regulators to rational assess the value of loss listed companies and promotes the capital market in China healthy and stable development.

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