



Faculty of Business Administration

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Finance

“Related Party Transactions and Institutional Investors in Chinese Listed Companies”

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Abstract

We study how institutional investors may influence related party transactions (RPTs) in Chinese listed companies. We find the annual amount of RPTs in a firm is not significantly related to institutional ownership, but significantly related to the controlling stake, firm size, and financial leverage. In days around RPT announcements, we observe an average negative abnormal return that was statistically significant before the Share-Structure Reform but insignificant after the reform. Furthermore, we find institutional trading around value-enhancing RPT announcements differs from that around value-destroying ones. Both institutional buy volume and the price impact of institutional buy trades increase significantly around value-enhancing announcements. In contrast, around value-destroying ones, there is no significant change in institutional trading volume while the price impact of institutional sell trades increases substantially. Our findings suggest that institutional investors in China follow the “Wall Street Rule” that is to buy or sell a stock rather than try to change the company's policies.

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