

Study on the relationship between the small and medium-sized enterprise capital structure and the confidence of investors

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Abstract

Small and medium-sized enterprises are important carriers for the implementation of mass entrepreneurship and innovation. Based on the theory of investor sentiment, this paper uses the relevant data of small and medium-sized enterprises in China from 2013 to 2015 to analyze the regulating effect of executive stock ownership on capital structure and investor confidence of small and medium-sized enterprises. The results show that The executive shareholding plays a negative role in the capital structure and investor confidence positively correlation. This study will enrich the theoretical development of small and medium-sized enterprises.

Keywords

Small and medium-sized enterprises; capital structure; Investor confidence ; Executives at stake.

1. Introduction

Small and Medium Sized Enterprises(SMES) refers to the assets, personnel, management and so on are smaller emerging group, is an important force in scientific and technological innovation. Confidence in the stock market has returned to gold, and investor confidence in the stock market is an important force for market development. Ding fuli (2014) studied the relationship between investors' relationship management, confidence and stock price[1]. Investor confidence has attracted the attention of scholars, but there is little research on the relationship between internal structure and investor confidence. The rationality of capital structure will have a certain effect on the development. The imperfection of policy and market has caused the smes to face serious financing difficulties. Based on these, this paper study the influence of internal information on external market.

2. The problem raises and research hypothesis

2.1 The relationship between capital structure and investor confidence

As the main body of securities market, investors are noise traders in secondary trading places. Behavioral finance suggests that investment behavior is blind to some extent. Baker and Wurgle (2006), wu yanan (2007) research shows that investor confidence has a significant impact on stock returns. In a totally rational mind, The larger the debt capital and the equity capital, the company's profit and development is more optimistic.

H1: the debt capital of smes is positively correlated with investor confidence.

H2: the equity capital of smes is positively correlated with investor confidence.

2.2 Regulating effect of executive shareholding.

Defense hypothesis theory, management to enterprise's control over its stake ratio increases, weaken the supervision role of the other shareholders. when the proportion of executives is high, even more reasonable debt capital and equity capital, considering the external investors for its weak supervision strength, stock liquidity is poor, undermined investor confidence.

H3: in the case of reasonable capital structure, executive shareholding negatively affects the promotion of investor confidence in debt capital.

H4: in the case of reasonable capital structure, the executive holding negative equity capital will promote the investor confidence.

3. Model design

This paper selects total asset-liability ratio(AV), the share of the top ten shareholders(HHI) measure the capital structure, and selects PB, annual turnover rate, institutional ownership, shareholder number change, current change rate increase or decrease measure investor confidence(IC).In addition, This paper selects the senior management personnel(ES),the growth rate total assets(ROTA), the separation degree of the two powers(RS), the chairman and the general manager(CM) are working part-time as the four control variables.

$$IC1=\alpha_0+\alpha_1AV+\alpha_2ROAT+\alpha_3RS+\alpha_4CM$$

$$IC2=\alpha_0+\alpha_1AV+\alpha_2HHI+\alpha_3ROAT+\alpha_4RS+\alpha_5CM$$

$$IC3=\alpha_0+\alpha_1AV+\alpha_2HHI+\alpha_3AV*ES+\alpha_4ROAT+\alpha_5RS+\alpha_6CM$$

$$IC4=\alpha_0+\alpha_1AV+\alpha_2HHI+\alpha_3HHI*ES+\alpha_4ROAT+\alpha_5RS+\alpha_6CM$$

4. Empirical analysis

The regression analysis of data is as follows: see Table 1.

Table 1 Regression analysis

Variable	Model 1	Model 2	Model 3	Model 4
Constant	3.199**	1.756**	1.769**	1.767**
AV	5.656**	4.869**	4.929**	4.939**
HHI		13.368**	14.295**	14.436**
AV*ES			-0.009	
HHI*ES				-0.170
ROTA	1.184*	1.361*	1.344*	1.342*
RS	.167**	0.128**	0.130**	0.130**
CM	-1.045	-1.074*	-1.071*	-1.070*
Adjusted-R ₂	0.065	0.098	0.097	0.097
F	12.987	16.029	13.481	13.505
DW	1.951	1.929	1.928	1.928

***The difference is that at 1%, 5% level is significant

The model 1,2, 3 and 4 show that the Adjusted r² values were 0.065, 0.098, 0.097 and 0.097, the DW value is 1.951, 1.929, 1.928 and 1.928, which indicating that the model does not have the serial autocorrelation problem. The F value are significant at the 1% level. The coefficients are 5.656 , 13.368, 0.009 and 0.170, indicating that the regression equation of models are statistically significant. The executives shareholding negative on relationship between capital structure and investors' confidence. Model 1 coefficient indicates that the debt ratio enhances investor confidence. The higher the debt ratio, the higher the recognition of financial institutions and other financial institutions. Model 2 indicates that the equity ratio will enhance investor confidence. The larger the proportion of equity, the greater the owner's investment in the enterprise and the more confidence in the enterprise's development. Model 3, 4 show that when the proportion of senior high, even if the debt capital and equity capital is reasonable, but because of outside investors, creditors and market supervision, to its trading liquidity, undermined investor confidence.

5. Conclusion

Based on the study, smes can increase the ratio of corporate debt and equity to enhance external investment confidence. The government should step to guarantee the enterprises and reduce the risk of bank loans to smes. At the same time, we should encourage financial institutions to select smes with good growth trends, standardize the information disclosure system. Optimizing the governance structure of smes can improve investment confidence. The enterprise can give the majority of shareholders the decision-making power to supervise the management personnel; By introducing institutional shareholding, the high proportion of institutional shareholders will give some guidance to social investors.

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