

Share Pledging and Financial Constraints in China

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Abstract : The relationship between the intensity of share pledging activities and the level of financial constraint in publicly listed firms in China is examined in this paper. Empirical results show that the high financial constraint level may motivate insiders to use share pledging as an alternative funding source and an expropriation mechanism. Share collateralization can cause a subsequently more constrained financing condition. Evidence is found that share pledging made by the controlling shareholder is likely to mitigate financial constraints in the following year. Research findings are robust to alternative measures and an instrumental variable for dealing with endogeneity problems.

Keywords : share pledge, financial constraint, controlling shareholder, dividend policy

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