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The Coupling of Ownership and Control and the Allocation of Financial Resources: Evidence from Hong Kong

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Abstract

Theoretical and empirical research regarding the impact of corporate ownership on the behaviour and performance of firms have typically focused on consequences stemming from the separation of ownership and control. While large scale business enterprise characterized by such a separation is dominant in the US, Japan and the UK, firms in which ownership and control is coupled in the hands of individuals and their families are apparent in many other large developed economies and are dominant in most emerging markets. This paper examines consequences regarding the generation and allocation of financial resources stemming from the coupling of ownership and control among Hong Kong based firms. In doing so, we join insights from the economics literature regarding the incentive and risk bearing consequences of coupled ownership and control with the extant management, sociology and history literatures regarding Chinese family business groups and and develop and six hypotheses pertaining to patterns in the allocation of financial resources. Results indicate that coupled ownership and control is positively related with dividend payout levels and financial liquidity while it is negatively related to investments in capital expenditures. Consistent with these results, we also find that coupled ownership and control is positively related to short-term (accounting) profitability.