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Ownership, independent directors, agency costs and financial distress: evidence from Chinese listed companies ≒

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Purpose

The purpose of this research is to examine the influence of ownership structure, independent directors, managerial agency costs and audit's opinion on the firm's financially distressed status using a sample of distressed companies and a matched-pair sample of non-distressed companies listed on Chinese stock markets.

Design/methodology/approach

The study utilizes publicly-available data from annual reports of a sample of 404 non-finance distressed firms listed on Chinese stock markets and a sample of matched 404 non-distressed firms for a period covering the 1998-2005 financial years with binary logistic analysis.

Findings

Ownership concentration, state ownership, ultimate owner, independent directors and auditors' opinion turn out to be negatively associated with the probability of financial distress, while administrative expense ratio is positively related with the likelihood of financial distress. Managerial ownership does not appear to be a significant determinant.

Originality/value

The paper offers evidence on the extent to which distress is associated with corporate governance from the emerging stock markets. It would be educational to Chinese small investors who excessively favour pursuing short-term returns and be helpful for regulatory authorities in making policies on corporate governance reformation.

Keywords: Corporate governance, Corporate ownership, Directors

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