Influencing Factors of Firms’ Investment Efficiency
--A Literature Review

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Abstract
This paper studied various factors which may affect firms’ investment efficiency. These factors may include firms’ financing behaviors, stakeholders’ behaviors, monetary policy and etc. We have reviewed related papers around the world especially papers published in China and summarized key research findings in this paper.

Key words
Investment Efficiency; Influencing Factors

Introduction
Due to the shortcomings of the capital market, information asymmetry, firms financing status, product market competition and the company’s internal problems such as agency cost, firms usually tend to incur excessive or insufficient investment. Whether excessive or insufficient investment, it will definitely affect the enterprise value maximization goal. This paper discussed different factors which may affect investment efficiency of firms, which may help people get a better understanding of firms’ investment efficiency.

Impacts of Financing on Firms’ Investment Efficiency
There are a lot of studies on financing behaviors of listed companies finance, while less studies on the relationship of firms’ financing behaviours and investment efficiency. From theoretical and empirical viewpoints, many scholars have studies impacts of firms’ financing behaviours on firms’ investment efficiency. Fazzari, Hubbard and Petersen (1988) introduced financing factors into investing model to study the relationship between firms’ investments and internal cash flows under different financing constraints. Their results showed that financing constraint was positive with the sensitivity of investment to cash flows.

Arun and Khanna (2007) studied short-term financing behaviours and long-term financing behaviours of Indian manufacturing listed companies from 1996 to 1997. Their research results showed that companies that have no short-term financing behaviour faced more liquidity constraints, at the same time, their investment liquidity was more sensitive.

Zheng jianghuai (2001) found that financing constraints of firms’ investment was largely caused by asymmetric information between firms and capital providers. He Jingeng (2002) argued that if cost of equity financing was low, so was the discount rate of investment project, then firms tended to expand investments through a large amount of equity financing which may lead to excessive investment. Zhou Xuefeng and LanYanZe (2011) found that there were widespread excess investments as well as shortages of investment in Chinese private listed companies from 2002 to 2007. Debt financing which can play a well role in debt governance can inhibit the excessive investment behaviors to a great extent and would not cause inadequate investments.

Impacts of Stakeholders’ Behaviors on Firms’ Investment Efficiency
Scholars at home and abroad have studied the relationship between efficiency and non-agency conflict from the perspective of agency conflicts between shareholders and managers, shareholders and creditors. Besides, some
scholars have studied the relationship between the internal capital market and non-efficiency of corporate investment.

Myers and Majluf (1984) analyzed the impact of adverse selection on firms’ investment behaviors from the perspective of information asymmetry. Because of information asymmetry, managers may not be able to grasp better investment opportunities or to raise funds for the optimal investment, thus leading to under investment.

Jensen (1986) believed that in the case of the separation between ownership and management, managers often preferred to make more investments instead of paying cash to shareholders, so companies sometimes carry out some projects with negative NPV, thus resulting in over-investments.

Stulz (1990) studied companies with highly decentralized equity. He found that managers had an incentive to invest in a negative NPV project to get more resources for job consumption. It would make over-investment arisen in the case free cash flow would be greater than need of corporates’ investment opportunities; on the contrary it would trigger under-investment.

Mark and Clifford (1995) classified cash flows into expected cash flows and unexpected cash flows, managers tended to invest unexpected cash flows in investment projects with negative NPV. At the same time expected cash flows and unexpected cash flows were both positively correlated with investment spending for companies with less Tobin’s q than average.

Chen Guorong and Xu Wei (2011) studied the relationship between the characteristics of large shareholders and corporate investment efficiency, using 2005-2006 annual collection of listed companies in China’s manufacturing cross-sectional data, applying DEA analysis method and Tobit-Q model into measuring the efficiency of investment. The empirical results showed that the efficiency of investment and proportion of the largest shareholder presented an N-type relationship; Listed Companies whose largest shareholder is non-state property had higher investment efficiency than that of state-owned firms. The degree of last largest shareholder’s restriction had a positive relationship with corporate investment efficiency. Checks and balances of shareholders can inhibit inefficient investment dominated by the interests of major shareholders. Zhou Hongxia, Ou Yangling (2004) made theoretical and empirical researches on inefficient behaviours of firms based on diversification of investment theory. They found that both increasing level of intrinsic motivation of managers and external control of market forces were effective measures to improve investment efficiency. Chen Yan (2009) examined the governance effect of ownership structure on the inefficient investment behaviour of the state-owned listed companies using financial data of Chinese state-owned firms. The results showed that ownership structure played an important role in the efficient investment behaviour of non-state-owned enterprise governance. State-owned legal person owning shares of the controlling shareholder played a significant governance role in inefficient investment behavior while treatment effects of controlling shareholder of state-owned shares were not significant. Lian Yujun and Su Zhi (2009) found that the existence of financing constraints caused that investment spendings of Chinese listed companies were generally low and the average investment efficiency was only 72%. For the listed companies in financing industry, the increase in cash flow can not only ease financing constraints, but also reduce the uncertainty of the follow-up financing. Guo Sheng, Zhang daohong (2011) found a non-linear relationship between the controlling shareholder and investment inefficiency. Besides, the second largest shareholder can curb excessive investment behaviour but also caused a lack of investment. Mutual supervision of large shareholders and managers can greatly improve investment efficiencies; in the state-controlled listed companies, the case of inefficient investment was more common. Guo Sheng (2011) studied reasons of inefficient investments in non-listed companies, ownership structure and expropriation inefficiency caused by inefficient governance mechanisms. The results showed that there was prevalence of inefficient investment and inadequate investment in non-listed companies. Large shareholders tended to occupy the interests of minority shareholders. But using debt will help other shareholders play roles and improve the ownership structure to effectively suppress inefficient investment behaviours of large shareholders.

**Impacts of Monetary Policy on Firms’ Investment Efficiency**

Domestic and foreign scholars found that there was relatively little impact of monetary policy on firms’ investment efficiency. They generally analyzed effects of the tight monetary policy and expansionary monetary policy on the
enterprise investment. Some analyzed the impacts of allocation of credit resources on the firms’ investment efficiency. Bebchuk and Stole (1993) found that firm managers had a tendency of expanding the scale of investment, showing that they have more investment opportunities, then bank would think in this case the enterprise investment risk would be low and be willing to provide more money. Thereby it usually would cause excessive enterprise investments.

Using Chinese listed companies as the research object, Zhang min, Wang Chengfang and Jiang Fuxiu (2010) studied credit resource allocation from the perspective of corporate investment efficiency. The result showed that firms with excessive investments tended to get more financial supports and had easier access to the bank’s long-term loans. Further studies have also shown that the lower of investment efficiency there is, the easier of decreasing firm value there will be.

Using listed companies in 2007 as research object, Sui shanshan, Zhao ziqiang and Wang jianjiang (2010) studied investment and financing activities of listed companies under the tight monetary policy in China. Their results showed that companies who didn’t issue short-term financing bonds would be subject to financing constraints, while companies who issued short-term bonds depended less on bank loan, and that issuance of short-term bonds helped curb behaviours of over-investment.

Conclusions

In this paper, we found that there were relatively abundant scholars’ studies on corporate investment efficiency. They investigated investment efficiencies of companies from the aspects of credit capital allocation, financing structure, cash flow, etc. But Chinese scholars still need further explorations on researches and research methods; and there are needs to continue the empirical study in the inefficiency of investment in listed companies combined with data from the Chinese capital markets.

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