
***OVERINVESTMENT AND CORPORATE GOVERNANCE IN
ENERGY LISTED COMPANIES IN CHINA***

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Abstract

This paper employs corporate finance theory and Richardson (2006) expectation investment model to first exam whether free cash flow will lead to over-investment in energy listed companies. Next, corporate governance variables are introduced to check what and how each corporate governance mechanism can affect the sensitivity between over-investment and free cash flow. Our results show that energy firms have severe over-investment issue and free cash flow will significantly positive affect over-investment. Among all the corporate governance mechanisms, only separation of chair and manager can help to mitigate the sensitivity between free cash flow and overinvestment while board shareholdings and state shareholdings will significant increase the sensitivity.

Keywords: Energy finance; Energy corporate finance; Free cash flow; Overinvestment