Impact of Firm Power on Debt Structure, Bank Loan Financing and Corporate Performance in China

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Abstract

This paper examines the incidence of firm value chain power on its exterior financing liabilities, bank loan financing and firm performance. Taking data from the China Stock Market and Accounting Research (CSMAR), this study has gathered cross-sectional data of 13,653 firms from 2006 to 2016. The results indicate that industries with higher power in the value chain carry a lower volume of financing liabilities. The results also show that companies with greater firm power use lower financing liabilities and aim to utilize non-cost commercial credit for financing. The study also reveals that creditors from the banks sector give more hand to large firms, and the role of firm power has merely been accepted by banks in big-scale and constant companies. Additionally, firm power has no considerable impact on the maturity of bank loans. After last, this study moreover unveils the economic outcomes of the effect of firm value chain power across the differences in firm financial performance. Low-scale, great-growth firms with bigger firm power get best financial performance.

Keywords

Company Value Chain Power, Industry Chain, Financial Liabilities, Bank Loan Financing, Firm Performance

1. Introduction

The shape of a firm in the upstream and downstream industry chain carried an

effect on its business orientations. Nevertheless, not many studies have examined the effect of upstream and downstream firm value chain power relations on firm financial behavior. The goal of this paper is to construct a value-chain power measure that shows the shape of the firm's upstream and downstream industry chains across its capital trade relations with upstream and downstream firms, and to study its effect on firm financing attitude, capital structure decisions, and firm performance. Traditional theory used to explain its link with upstream and downstream firms from the optics of firm working capital management. Yet, significant late investigations reveal that the framework of company working capital is deeply driven by the firm's posture in the upstream and downstream industry chain. Based on this, this study builds the firm value chain power as being the report of accounts payables minus accounts receivable to sales revenue. In a simple way, the bigger this measure is, the bigger the capacity of a company to hold money of upstream and downstream firms, showing the comparatively robust competitiveness of the firm. Using this measure, this paper investigates the incidence of firm value chain power on its exterior financing liabilities, bank loan financing, and corporate performance in three distinct parts.

Part one studied the effect of firm value chain power on company exterior financing liabilities. Based on the definition, a firm with a large value chain power can get more advantages from his suppliers. In this direction, the firm's current assets and even some long-term assets can be achieved with interest free business credit. Large firms value chain power, less dependence on exterior financing. Part two Data on bank loan financing investigates the effect of firm value chain power on bank financing scale, precisely on interest rate, loan amount and loan maturity structure. The results also show that companies with greater firm power use lower financing liabilities and aim to utilize non-cost commercial credit for financing. The study also reveals that creditors from the banks sector give more hand to large firms, and the role of firm power has merely been accepted by banks in big-scale and constant companies. Additionally, firm power has no considerable impact on the maturity of bank loans. After last, this study moreover unveils the economic outcomes of the effect of firm value chain power across the differences in firm financial performance. Low-scale, great-growth firms with bigger firm power get best financial performance.

2. Literature Review

We refer to customer power as the ability of a customer to reduce price below a supplier's normal selling price or, more generally, the ability to obtain terms of supply more favorable than a supplier's normal terms (Galbraith, 1952; Chen, 2008). For instance, Porter (1974: p. 423) points out that, where retailer power is high, a manufacturer's rate of return will be bargained down. In addition, Snyder (1996, 1998) argues that customer power can intensify competition among suppliers and lead to lower prices, which reduces suppliers' profits. Finkelstein

(1992) distinguishes four sources of power: structural power, ownership power, expert power, and prestige power. Structural power is the most frequently cited in the literature and has been found on distinct organizational structure and hierarchical authority (Brass, 1984; Hambrick, 1981; Perrow, 1970; Tushman & Romanelli, 1985).

Trade credit is an important source of funds for both small and large firms around the world (Petersen & Rajan, 1997; Demirguc-Kunt & Maksimovic, 2002). Many firms use trade credit both to finance their input purchases (accounts payable) and offer financing to their customers (accounts receivable). The traditional explanation for the existence of trade credit is that trade credit plays a non-financial role. That is, trade credit reduces transaction costs (Ferris, 1981), allows price discrimination between customers with different credit-worthiness (Brennan, Maksimovic, & Zechner, 1988), fosters long-term relations with customers (Wilson & Summers, 2002), and even provides a warranty for quality when customers cannot observe product characteristics (Long, Malitz, & Ravid, 1993). More recently, financial theories argue that suppliers have a lending advantage over financial institutions, due to better information (Biais & Gollier, 1997), lower borrower's opportunism (Burkart & Ellingsen, 2004), or a liquidation advantage (Fabbri & Menichini, 2010).

According to Allen et al. (2005), China's banking industry is mainly occupied by four major state-owned banks. La Porta, Lopez-de-Silanes, & Shleifer (2002) showed that the government owns 99.45% of the 10 largest commercial banks in China in 1995 (100% in 1970); this ownership level is one of the highest in their sample of 92 countries. Moreover, the LLS result on the negative relation between government ownership of banks and the growth of a country's economy seems to apply to China's State Sector and the status quo of its banking sector. However, high government ownership has not slowed down the growth of the Private Sector (Allen et al., 2005). China's bank loan market has mainly headed by national banks (Allen et al., 2005). Among the 2467 bank loans (RMB 598.52 billion), RMB 238.24 billion are attributable to the Big4 national banks and RMB 360.28 billion are attributable to other banks (including national banks such as China Development Bank and Bank of Communication). (Allen et al., 2019) carried out transaction-level analyses of entrusted loans, one of the biggest elements of shade banking in China. Entrusted loans involve firms with privileged access to cheap capital channeling funds to less privileged firms, and the increase when credit is tight (Allen et al., 2019). Still according to (Allen et al., 2019), nonaffiliated loans have much higher interest rates than both affiliated loans and official bank loans, and they largely flow into real estate. The rating of entrusted loans, particularly of nonaffiliated loans, includes essential and in-formational risks. Stock market feedback implies that both affiliated and nonaffiliated loans are closely compensated investments. Using an independently pooled cross-section of 374 MFI-year observations for 280 MFIs in 70 countries, (Tchakoute-Tchuigoua & Soumaré, 2019) analyzed the impact of loan approval decentralization on MFI

portfolio quality and out-reach, and the effects of alignment mechanisms when loan officers combine information production and decision functions. The authors' findings revealed that effective incentive schemes and internal control systems help mitigate agency problems within MFIs, and thus increase the out-reach of MFIs without altering the quality of their loan portfolio. (Wheeler, 2019) documented that loan loss accounting affects pro-cyclical lending through its impact on regulatory actions. Indeed, regulators are more likely to place banks with inadequate loan loss allowances under enforcement actions that restrict lending, leading these banks to lend less during downturns.

Corporate Performance is an intricate phenomenon and managers often encounter trade-off decisions with respect to different performance metrics and timeframes (Ambler & Roberts, 2006; Morgan, Slotegraaf, & Vorhies, 2009). Guo, Li, & Zhong (2018) investigated whether corporate culture promotion impact firm performance in China in terms of firm market value, firm financial performance and innovation output. The authors found strong support that corporate culture promotion has negatively correlated to firm market value, positively correlated to innovation output and not significantly correlated to firm financial performance. Furthermore, the negative impact of corporate culture promotion on firm market value has operated by small firms and firms located in less developed provinces. Moreover, the authors found also that some precise corporate culture promotions, such as innovation culture promotion and integrity culture promotion, are not linked to firm value or financial profitability.

3. Research Gap

The research in this article highlights the subsequent practical involvements: first, while firms with higher value chain power do not have high external debt financing needs, their status in the upstream and downstream industry chain eases their financing in the bank sector. The impact is mainly significant for companies with high-scale and constant businesses. The innovation of this paper has showed up in the following aspects: first, most of the previous studies analyses the structure of firm financing from the view point of firm working capital management strategies and the resort to commercial credit, while this paper creatively constructs a reflecting firm value chain power based on the working capital structure. The firm value chain index of the relative location in the upstream and downstream industrial chain, and in-depth discussion of the effect on firm financing behavior, further enriched the research on the incidence of upstream and downstream industrial chain relationships on the true operation of firms. Second, the research in this paper gives direct evidence that value chain power can impact firm debt financing facilities. The research in this paper highlights that the effect of firm value chain power on various types of debt financing is heterogeneous. In bank loans financing, although the value chain power as a whole helps to increase the scale of corporate bank loans, its role in reducing loan costs is only significant in large companies with stable operations.

After last, this study moreover unveils the economic outcomes of the effect of firm value chain power across the differences in firm financial performance. Low-scale, great-growth firms with bigger firm power get best financial performance.

4. Hypotheses Development

4.1. Firm Power and Debt Structure

H1. Firms with higher power in industrial chain have lower financial debt ratio (financial liability/total liability) because of their better access to trade credit (e.g. account payable), that is to say financial leverage ratio is negatively correlated with firm power.

4.2. Firm Power and Bank Loan Financing

H2. Firms with higher power in industrial chain enjoy many facilities from banks.

4.2.1. Firm Power and Interest Rate

H2a. Firms with higher power in industrial chain get loan with a lower interest rate, that is to say, the interest rate is negatively correlated with firm power.

4.2.2. Firm Power and Loan Amount

H2b. Firms with higher power in industrial chain have loan with a higher amount, i.e. loan amount is positively correlated with firm power.

4.2.3. Firm Power and Loan Maturity

H2c. Firms with higher power in industrial chain get long-term loans, i.e. loan maturity is positively correlated with firm power.

4.3. Firm Power and Corporate Performance

H3. Firms with higher power in industrial chain exhibiting good financial behaviors show good performance, that is to say, corporate performance is positively correlated with firm power.

5. Research Method

The data for this study has been taken from a single trustworthy data source which is the "China Stock Market and Accounting Research" (CSMAR) database. To test empirically the proposed hypotheses, this study has collected unbalanced cross-sectional data of 13,653 from the Bank Loan Market from 2006 to 2016. Thus, make a total 224,163 firms' year observations.

5.1. Econometric Models

The study has winsorized all the continuous variables at 1st and 99th percentiles in order to control the influence of outliers. To test the developed hypotheses, the following regressions equations have been established:

5.1.1. Firm Power and Debt Structure

$$\text{Financial\_Leverage\_Ratio}_{it}$$
$$= \beta_0 + \beta_1 \left(\text{Power\_Sales}\right)_{it} + \beta_2 \left(\text{Rating}\right)_{it} + \beta_3 \left(\text{Size}\right)_{it} + \beta_4 \left(\text{leverage}\right)_{it}$$
$$+ \beta_5 \left(\text{Market\_Book}\right)_{it} + \beta_6 \left(\text{Sales\_Growth}\right)_{it} + \beta_7 \left(\text{Tangibility}\right)_{it}$$
$$+ \beta_8 \left(\text{Profitability}\right)_{it} + \mathcal{E}_{it} \tag{1}$$

5.1.2. Firm Power and Bank Loan Financing

$$\text{Bank\_Loan}_{it} = \beta_0 + \beta_1 \left(\text{Firm\_Power}\right)_{it} + \sum_i \text{CONTROLS}_{it} + \mathcal{E}_{it} \tag{2}$$

1) Firm Power and Interest Rate

$$\text{Interest\_Rate}_{it}$$
$$= \beta_0 + \beta_1 \left(\text{Power\_Sales}\right)_{it} + \beta_2 \left(\text{Rating}\right)_{it} + \beta_3 \left(\text{Size}\right)_{it} + \beta_4 \left(\text{leverage}\right)_{it}$$
$$+ \beta_5 \left(\text{Market\_Book}\right)_{it} + \beta_6 \left(\text{Sales\_Growth}\right)_{it} + \beta_7 \left(\text{Tangibility}\right)_{it}$$
$$+ \beta_8 \left(\text{Profitability}\right)_{it} + \beta_9 \left(\text{Long\_Term\_Debt\_Ratio}\right)_{it} + \mathcal{E}_{it} \tag{3}$$

2) Firm Power and Loan Amount

$$\text{Loan\_Amount}_{it}$$
$$= \beta_0 + \beta_1 \left(\text{Power\_Total\_Assets}\right)_{it} + \beta_2 \left(\text{Rating}\right)_{it} + \beta_3 \left(\text{Size}\right)_{it}$$
$$+ \beta_4 \left(\text{leverage}\right)_{it} + \beta_5 \left(\text{Market\_Book}\right)_{it} + \beta_6 \left(\text{Sales\_Growth}\right)_{it}$$
$$+ \beta_7 \left(\text{Tangibility}\right)_{it} + \beta_8 \left(\text{Profitability}\right)_{it}$$
$$+ \beta_9 \left(\text{Long\_Term\_Debt\_Ratio}\right)_{it} + \mathcal{E}_{it} \tag{4}$$

3) Firm Power and loan Maturity

$$\text{Loan\_Maturity}_{it}$$
$$= \beta_0 + \beta_1 \left(\text{Power\_Sales}\right)_{it} + \beta_2 \left(\text{Rating}\right)_{it} + \beta_3 \left(\text{Size}\right)_{it} + \beta_4 \left(\text{leverage}\right)_{it}$$
$$+ \beta_5 \left(\text{Market\_Book}\right)_{it} + \beta_6 \left(\text{Sales\_Growth}\right)_{it} + \beta_7 \left(\text{Tangibility}\right)_{it}$$
$$+ \beta_8 \left(\text{Profitability}\right)_{it} + \beta_9 \left(\text{Long\_Term\_Debt\_Ratio}\right)_{it} + \mathcal{E}_{it} \tag{5}$$

5.1.3. Firm Power and Corporate Performance

$$\text{PERF}_{it}$$
$$= \beta_0 + \beta_1 \left(\text{Power\_Sales}\right)_{it} + \beta_2 \left(\text{Coupon\_Rate}\right)_{it} + \beta_3 \left(\text{Bond\_Amount}\right)_{it}$$
$$+ \beta_4 \left(\text{Bond\_Maturity}\right)_{it} + \beta_5 \left(\text{Rating}\right)_{it} + \beta_6 \left(\text{Size}\right)_{it} + \beta_7 \left(\text{Leverage}\right)_{it}$$
$$+ \beta_8 \left(\text{Market\_Book}\right)_{it} + \beta_9 \left(\text{Sales\_Growth}\right)_{it} + \beta_{10} \left(\text{Tangibility}\right)_{it}$$
$$+ \beta_{11} \left(\text{Profitability}\right)_{it} + \mathcal{E}_{it} \tag{6}$$

5.2. Variables Specification

5.2.1. Independents Variables

Table 1 highlights the different independendents variables, how they are measured and the references used for the purpose of the studies. The independents variables used are: Power, Power_Sales, Power_Total_Assets and Power_Robustness.

5.2.2. Dependents Variables

Table 2 shows the different dependents variables, how they are measured and

Table 1. Summary of independents variables.

Independent variable	Measurement	Reference
Power	Accounts payables - Accounts receivables	(Zhang, 2012)
Power_Sales	Power/sales	(Zhang, 2012)
Power_Total_Assets	Power/total asset	(Zhang, 2012)
Power_Robustness	Accounts payables/sales	(Campello & Gao, 2017)

Table 2. Summary of dependents variables.

Dependent variable	Measurement	Reference
Financial_Debt_Ratio	Financial leverage/total debt	(Campello & Gao, 2017)
Interest_Rate	Annual interest rate of lending back	CSMAR
Loan_Amount	Amount of loan or borrowing	CSMAR
Loan_Maturity	Ending date of the loan as stipulated in the contract	CSMAR
Return on Asset (ROA)	Net profit before tax/total asset	(Mappanyuki & Sari, 2017; Patatoukas, 2012)
Return on Equity (ROE)	Net profit before tax/shareholder equity.	(Mappanyuki & Sari, 2017; Patatoukas, 2012)

the references used for the purpose of the study. The dependents variables are: Financial_Debt_Ratio, Interest_Rate, Loan_Amount, Loan_Maturity, Return on Asset (ROA) and Return on Equity (ROE). CSMAR (China Stock Market & Accounting Research) is a database which offers data on the China stock markets and the financial statements of China's listed companies.

5.2.3. Control Variables

Table 3 shows a summary of the all control variables, their measurement and their references used during the study. The study employed eight (8) control variables which are: size, leverage, market_book, sales_growth, tangibility, profitability, rating and long term debt ratio.

6. Results and Discussion

6.1. Overall Descriptive Statistics

Table 4 highlights a summary statistic of all the variables used in the study. The statistic includes the number of observations, the mean, the standard deviation, the min and the max of each variable.

Table 5 shows the correlation matrix of the variables. The correlation matrix shows the correlation values, which measure the degree of linear relationship between each pair of variables. The correlation values can fall between −1 and +1. If the two variables tend to increase and decrease together, the correlation value is positive as we can see it in Table 5.

Table 3. Summary of control variables.

Control variable	Measurement	Reference
Size	Log of total assets (AT)	(Campello & Gao, 2017)
Leverage	(Long-term debt (DLTT) + current debt (DLC))/total assets − book equity (CEQ))/total assets	(Campello & Gao, 2017)
Market_Book (M/B)	(Stock price (PRCC)*shares outstanding (CSHO) + total assets − book equity (CEQ))/total assets	(Campello & Gao, 2017)
Sales_Growth (S/G)	Change of sales/sales in t − 1	(Hansen & Mowen, 2012)
Tangibility	Property, plant, and equipment (PPENT)/total assets	Campello & Gao, 2017
Profitability	Operating income (OIBDP)/total assets	(Campello & Gao, 2017)
Rating	The company's credit rating as provided by CSMAR	CSMAR
Long_Term_Debt_Ratio	Long term debt/total debt	(D'Mello et al., 2018)

Table 4. Summary statistics of variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial_Leverage_Ratio	17,113	1998.526	1260.297	34.59359	5751.861
Interest_Rate	2217	7.095387	2.768197	0	18
Loan_Amount	65,501	1.048133	4.461668	0	37.49019
Loan_Maturity	28,214	1.637426	1.571177	0.5	10
Power_Sales	65,504	−0.3438508	30.21238	−198.5098	151.7335
Power_Total_Assets	65,522	0.0343322	0.2100137	−0.5398975	0.9912349
Power_Robustness	65,504	−1.533515	52.25406	−393.5907	192.3086
Size	65,522	21.566	1.334143	18.33903	25.21529
Leverage	65,522	2.355149	7.683543	0.0010544	60.18882
Market_Book (M/B)	53,004	17.06758	59.43089	1.026847	492.6866
Sales_Growth (S/G)	65,503	−0.5906207	40.61793	−305.3113	157.317
Tangibility	65,522	0.2030913	0.1811937	0	0.7365827
Profitability	65,522	2.247715	6.694838	0	51.75609
Long_Term_Debt_Ratio	65,504	0.1228767	0.1875287	0	0.7907284

Table 5. Correlation matrix of variables.

	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	X11	X12	X13
X1	1												
X2	−0.01	1											
X3	0.15*	0.04*	1										
X4	0.004	0.00	0.00	1									
X5	0.09*	0.00	−0.00	0.00	1								
X6	0.020	0.00	0.00	0.49*	−0.01*	1							
X7	0.08*	0.01*	0.01*	0.02*	−0.06*	0.03*	1						
X8	0.019	0.06*	0.01*	0.01*	0.15*	−0.01*	0.33*	1					
X9	0.034	0.09*	0.01*	0.01*	0.21*	−0.01*	0.38*	0.37*	1				
X10	0.040	0.00	0.00	−0.00	−0.01*	−0.00	0.03*	0.01*	0.02*	1			
X11	0.014	0.00	0.02*	0.01*	0.13*	0.00	0.03*	0.03*	0.07*	0.00*	1		
X12	0.010	0.00	0.00	0.00	0.05*	0.01*	0.26*	0.21*	0.21*	0.01*	0.00*	1	
X13	0.035	0.10*	0.01*	0.00*	0.01*	−0.00*	0.05*	0.09*	0.01*	−0.00	0.01*	0	1

With X1 = Interest_Rate; X2 = Loan_Amount; X3 = Loan_Maturity; X4 = Power_Sales; X5 = Power_Total_Assets; X6 = Power_Robustness; X7 = Size; X8 = Leverage; X9 = Market_Book (M/B); X10 = Sales_Growth (S/G); X11 = Tangibility; X12 = Profitability; X13 = Long_Term_Debt_Ratio.

6.2. Regression Results and Discussion

6.2.1. Firm Power and Debt Structure

Tables 6-8 show the regression results for the effect of firm power on financial leverage ratio while controlling for the previously mentioned control variables. As we can notice in the three tables (Tables 6-8) presented here, the effect of firm power on debt structure is pronounced among all the firms studied. The coefficient of interaction between firm power and the financial leverage ratio is negative and significative (−0.983**) as predicted in the hypothesis development. Clearly, firms with higher power, i.e. having a good financial situation, will see their financial leverage ratio (financial liability/total liability) reduced because of their better access to trade credit (e.g. account payable). In fact, firms resort to external financings like bonds and loans only when they have no choice because of the high cost of debt. This being the case, the companies showing a good financial situation that is to say having power of influence can negotiate directly with their suppliers trade credit, which will allow them to have quite reasonable payment periods.

6.2.2. Firm Power and Bank Loan Financing

1) Firm Power and Interest Rate

Tables 9-11 show the results for the effect of firm power on Interest Rate while controlling for the previously mentioned control variables. Here, the effect of firm power on interest rate is more pronounced among big size and low growth firms as we can note it among the three Tables 9-11 presented. The coefficient of interaction between firm power and interest rate is negative and

Table 6. Regression results for the effect of firm power on financial leverage ratio for all firms studied.

Variables	(1) Financial Leverage Ratio	(2) Financial Leverage Ratio	(3) Financial Leverage Ratio	(4) Financial Leverage Ratio	(5) Financial Leverage Ratio
Power_Sales	−0.501***	−0.744	−0.844**	−0.847**	−0.983**
	(0.182)	(0.462)	(0.361)	(0.369)	(0.483)
Rating		5.544	9.323	9.282	2.843
		(14.13)	(10.16)	(10.03)	(11.18)
Size			−289.0***	−324.2***	−259.2***
			(61.47)	(60.01)	(57.32)
Leverage			7385***	7350***	7271***
			(283.2)	(267.3)	(307.4)
Market_Book (M/B)				−35.42*	−29.14
				(20.12)	(19.02)
Sales_Growth (S/G)				−0.182	−0.419
				(0.276)	(0.307)
Tangibility					917.0*
					(533.8)
Profitability					26.13**
					(12.92)
Constant	2017***	2243***	6751***	7751***	6062***
	(0.544)	(29.94)	(1526)	(1491)	(1463)
Observations	16,216	4509	2648	2619	1836
R-squared	0.001	0.001	0.627	0.635	0.629
Number of id	3266	614	582	576	525

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 7. Regression results for the effect of firm power on financial leverage ratio for small size and high growth firms.

Variables	(1) Financial Leverage Ratio	(2) Financial Leverage Ratio	(3) Financial Leverage Ratio	(4) Financial Leverage Ratio	(5) Financial Leverage Ratio
Power_Sales	0.372	1.767	0.454	−0.132	−251.0***
	(0.511)	(1.547)	(0.390)	(0.367)	(21.30)

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Continued

Rating		52.45	89.71	22.16	−18.69
		(98.83)	(63.48)	(59.58)	(76.86)
Size			194.9	173.8	3446**
			(158.4)	(182.1)	(1436)
Leverage			5364***	6692***	1435
			(786.5)	(927.7)	(1100)
Market_Book (M/B)				175.0**	707.9***
				(82.25)	(152.4)
Sales_Growth (S/G)				−0.542	4.222***
				(1.654)	(0.968)
Tangibility					−2926
					(2216)
Profitability					198.1***
					(17.19)
Constant	1963***	2068***	−4610	−5081	−84,224**
	(1.007)	(212.6)	(3911)	(4548)	(35,219)
Observations	1711	349	212	183	125
R-squared	0.000	0.008	0.538	0.647	0.982
Number of id	1326	249	175	157	116

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 8. Regression results for the effect of firm power on financial leverage ratio for big size and low growth firm.

Variables	(1) Financial Leverage Ratio	(2) Financial Leverage Ratio	(3) Financial Leverage Ratio	(4) Financial Leverage Ratio	(5) Financial Leverage Ratio
Power_Sales	−0.478*	−0.702	−0.302	−0.308	0.0409
	(0.262)	(0.622)	(0.466)	(0.469)	(0.270)
Rating		−8.233	6.648	6.517	9.732
		(19.46)	(11.20)	(11.22)	(12.72)
Size			−303.7***	−301.5***	−357.8***
			(61.85)	(67.33)	(61.91)
Leverage			8130***	8134***	7869***
			(263.3)	(270.1)	(324.9)

Continued

Market_Book (M/B)				7.793	−50.51
				(57.28)	(58.55)
Sales_Growth (S/G)				−1.733	−9.975
				(6.757)	(7.478)
Tangibility					967.0**
					(414.4)
Profitability					−10.81
					(14.50)
Constant	2478***	2585***	7221***	7152***	8637***
	(2.644)	(41.58)	(1597)	(1791)	(1664)
Observations	5943	2109	1301	1301	941
R-squared	0.001	0.002	0.686	0.686	0.680
Number of id	1601	394	343	343	299

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 9. Regression results for the effect of firm power on interest rate for all firms studied.

	(1)	(2)	(3)	(4)	(5)
Variables	Interest Rate	Interest Rate	Interest Rate	Interest Rate	Interest Rate
Power_Sales	−0.00125	−0.00124	−0.00124	−0.00214	−0.00220
	(0.00177)	(0.00178)	(0.00178)	(0.00206)	(0.00209)
Size		0.0155	0.0179	0.01000	0.0159
		(0.107)	(0.111)	(0.127)	(0.128)
Leverage			0.00121	0.0245*	0.0271**
			(0.00933)	(0.0126)	(0.0121)
Market_Book (M/B)				−0.00332*	−0.00333*
				(0.00189)	(0.00189)
Sales_Growth (S/G)				0.000446	0.000395
				(0.00114)	(0.00115)
Tangibility					−0.421
					(0.420)
Profitability					0.00733
					(0.0126)
Long_Term_Debt_Ratio					−0.493
					(0.470)

Continued

Constant	7.093***	6.758***	6.704***	6.818**	6.833**
	(0.00288)	(2.308)	(2.401)	(2.752)	(2.738)
Observations	2217	2217	2217	1769	1768
R-squared	0.000	0.000	0.000	0.003	0.005
Number of code	396	396	396	359	359

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 10. Regression results for the effect of firm power on interest rate for small size and high growth firms.

Variables	(1)	(2)	(3)	(4)	(5)
	Interest Rate	Interest Rate	Interest Rate	Interest Rate	Interest Rate
Power_Sales	−0.00182	−0.00158	−0.00167	−0.00177	−0.00151
	(0.00331)	(0.00328)	(0.00329)	(0.00384)	(0.00352)
Size		0.308	0.377	0.458	0.500*
		(0.219)	(0.251)	(0.279)	(0.289)
Leverage			0.0135	0.0455***	0.0406**
			(0.00911)	(0.0167)	(0.0173)
Market_Book (M/B)				−0.00353**	−0.00430**
				(0.00166)	(0.00177)
Sales_Growth (S/G)				0.0124***	0.0121***
				(0.00451)	(0.00451)
Tangibility					−0.475
					(0.794)
Profitability					0.0123
					(0.0125)
Long_Term_Debt_Ratio					0.791
					(0.951)
Constant	7.462***	1.108	−0.360	−2.133	−2.985
	(0.00286)	(4.520)	(5.209)	(5.792)	(5.902)
Observations	1102	1102	1102	896	896
R-squared	0.001	0.004	0.005	0.019	0.022
Number of code	250	250	250	224	224

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 11. Regression results for the effect of firm power on interest rate for big size and low growth firms.

Variables	(1) Interest Rate	(2) Interest Rate	(3) Interest Rate	(4) Interest Rate	(5) Interest Rate
Power_Sales	−0.00225	−0.00606***	−0.00840***	−0.0229*	−0.0250**
	(0.00415)	(0.00150)	(0.00230)	(0.0126)	(0.00984)
Size		1.217***	1.661***	4.020	2.816
		(0.331)	(0.384)	(2.443)	(1.671)
Leverage			−2.894*	−1.466	0.131
			(1.589)	(0.894)	(1.061)
Market_Book (M/B)				0.600*	0.701*
				(0.328)	(0.343)
Sales_Growth (S/G)				−0.00199	−0.00375
				(0.00378)	(0.00523)
Tangibility					6.172
					(4.609)
Profitability					−0.199
					(0.425)
Long_Term_Debt_Ratio					−2.881**
					(1.097)
Constant	5.929***	−21.50***	−30.67***	−86.91	−61.29
	(0.0245)	(7.461)	(8.343)	(56.47)	(39.07)
Observations	41	41	41	37	37
R-squared	0.004	0.035	0.138	0.481	0.580
Number of code	24	24	24	22	22

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

significant (−0.0250**) as predicted in the hypothesis development. In this case, our hypothesis is supported. We also note a significant weakness of some coefficients or even a lack of significant coefficients. This situation could be explained by a lack of data. In fact, having data on interest rates is not easy. In many banks, this information has not been made public. This situation has affected the significance of certain coefficients. Overall, the general idea of our approach to the effect of firm power on interest rate related in the development of our hypotheses is thus reported in the results. In clear, firms with a higher power in industrial chain play on their power of persuasion to be able to have loans with reduced rates. Indeed, firm power will be priced in external debt financing. It will help

firms to finance more at lower cost if high powers do have demands. Furthermore, profitable firms are charged lower loan rates because higher cash flows help mitigate credit risk.

Our results go against those proposed a long time ago by (Kashyap & Stein, 1994) and (Bernanke & Blinder, 1988). Indeed, for the authors, public borrowers that is to say firms going to the bond market are larger and more profitable firms, firms showing a higher proportion of fixed assets to total assets and having higher credit ratings than firms borrowing from either banks or non-bank private lenders. Inversely, firms that borrow from non-bank private lenders tend to be the poorest performers and have the lowest credit rating and the highest ex-ante probability of default and that also banks play a crucial role or small and medium-sized enterprises in the provision of external finance and this gives rise to the bank lending channel. Our study shows that smaller size with higher growth firms also used the bond market as a means of financing, and that bank financing also attracts large firms.

2) Firm Power and Loan Amount

Tables 12-14 show the results for the effect of firm power on loan amount while controlling for the previously mentioned control variables. In this case, the effect of firm power on loan amount is more pronounced among all the firms studied as we can remark it among the three Tables 12-14 presented. Both measures of firm power attract a positive coefficient. The statistical significance of these estimates is strong compared to other estimates. The coefficient of interaction between firm power and loan amount being positive (43,106***) as predicted in the hypothesis development, our hypothesis is therefore supported. These results suggest that firms with higher power benefit from loans with a higher amount. Indeed, thanks to their power, firms succeed in gaining the confidence of banks by presenting them good financial statements. The latter being reassured of the future profitability of the firms and their ability to pay back the loans they grant them loans, with consistent amounts.

3) Firm Power and Loan Maturity

Tables 15-17 show the results for the effect of Firm Power on Loan Maturity while controlling for the previously mentioned control variables. Here too, the effect of firm power on loan maturity is pronounced among all the firms studied as we can notice it among the three Tables 15-17 presented. The two measures of power employ show up a positive coefficient. Like for the interest rate, we also note a significant weakness of some coefficients or even a lack of significant coefficients. As pointed out early this situation could be explained by a lack of data. As for the interest rate, the data on the maturity of the loans have been downloaded with a lot of missing values. This situation had an impact on the significance of certain coefficients. All the same, the coefficient of interaction between firm power and loan maturity being positive but not significative (0.000132) contrary to our prediction, therefore our hypothesis is not supported. Clearly, our prediction according to which firms with higher power get long-term debt because of their better ability to pay back debt is not supported.

Table 12. Regression results for the effect of firm power on loan amount for all firms studied.

Variables	(1)	(2)	(3)	(4)	(5)
	Loan Amount	Loan Amount	Loan Amount	Loan Amount	Loan Amount
Power_Total_Assets	197,427***	150,433**	110,805**	47,860***	43,106***
	(71,577)	(59,347)	(47,890)	(23,254)	(22,717)
Size		−163,840***	−132,869***	−98,175***	−90,751***
		(17,660)	(13,459)	(10,759)	(11,382)
Leverage			12,393***	8147***	8027***
			(2830)	(2148)	(2097)
Market_Book (M/B)				2924***	2819***
				(549.5)	(525.5)
Sales_Growth (S/G)				−4.800	8.052
				(68.87)	(68.72)
Tangibility					3895
					(37,720)
Profitability					5063**
					(2063)
Long_Term_Debt_Ratio					−30,641
					(26,003)
Constant	164,534***	3.700e+06***	3.004e+06***	2.218e+06***	2.052e+06***
	(2457)	(380,284)	(289,704)	(234,586)	(250,650)
Observations	65,519	65,519	65,519	52,980	52,955
R-squared	0.004	0.064	0.083	0.125	0.127
Number of code	621	621	621	621	621

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 13. Regression results for the effect of firm power on loan amount for small size and high growth firms.

Variables	(1)	(2)	(3)	(4)	(5)
	Loan Amount	Loan Amount	Loan Amount	Loan Amount	Loan Amount
Power_Total_Assets	206,279*	71,997	55,222	21,712	13,596
	(105,303)	(81,596)	(74,421)	(70,251)	(67,254)
Size		−320,767***	−283,651***	−220,137***	−208,524***
		(39,947)	(30,017)	(25,851)	(26,517)
Leverage			7881**	5079**	5030**
			(3078)	(2269)	(2212)
Market_Book (M/B)				2488***	2373***
				(619.1)	(569.3)
Sales_Growth (SG)				134.6	−123.4
				(223.9)	(254.0)

Continued

Tangibility					17,347
					(70,153)
Profitability					4747*
					(2489)
Long_Term_Debt_Ratio					−47,470
					(51,488)
Constant	277,419***	6.882e+06***	6.088e+06***	4.725e+06***	4.477e+06***
	(3039)	(821,425)	(613,477)	(535,149)	(553,268)
Observations	31,531	31,531	31,531	25,549	25,539
R-squared	0.003	0.056	0.063	0.091	0.092
Number of code	505	505	505	498	498

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 14. Regression results for the effect of firm power on loan amount for big size and low growth firms.

Variables	(1)	(2)	(3)	(4)	(5)
	Loan Amount	Loan Amount	Loan Amount	Loan Amount	Loan Amount
Power_Total_Assets	−16,613	−3898	−3971	1144	−1813
	(14,620)	(14,545)	(14,560)	(16,529)	(18,611)
Size		−24,533***	−24,384***	−23,472***	−24,249***
		(7986)	(7995)	(7983)	(7912)
Leverage			324.9	1281	1671
			(687.7)	(2215)	(2291)
Market_Book (M/B)				816.8	813.2
				(1036)	(1052)
Sales_Growth (S/G)				23.47	22.18
				(33.29)	(33.29)
Tangibility					29,848
					(26,946)
Profitability					231.1
					(1243)
Long_Term_Debt_Ratio					−14,336
					(9165)
Constant	38,542***	594,554***	590,966***	565,044***	578,945***
	(503.2)	(180,987)	(181,199)	(180,316)	(179,211)
Observations	1439	1439	1439	1215	1215
R-squared	0.000	0.005	0.005	0.019	0.021
Number of code	220	220	220	198	198

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 15. Regression results for the effect of firm power on loan maturity for all firms studied.

Variables	(1) Loan Maturity	(2) Loan Maturity	(3) Loan Maturity	(4) Loan Maturity	(5) Loan Maturity
Power_Sales	0.000186	0.000187	0.000188	0.000143	0.000132
	(0.000276)	(0.000276)	(0.000276)	(0.000317)	(0.000320)
Size		−0.00110	−0.00723	−0.00356	−0.00190
		(0.0220)	(0.0234)	(0.0257)	(0.0260)
Leverage			−0.00261	−0.00314	−0.00317
			(0.00190)	(0.00221)	(0.00227)
Market_Book (M/B)				−0.000143	−0.000124
				(0.000255)	(0.000262)
Sales_Growth (S/G)				0.000214	0.000215
				(0.000233)	(0.000232)
Tangibility					0.236**
					(0.109)
Profitability					−4.12E−05
					(0.00222)
Long_Term_Debt_Ratio					0.0142
					(0.0920)
Constant	1.637***	1.661***	1.799***	1.720***	1.634***
	(0.000153)	(0.474)	(0.505)	(0.555)	(0.559)
Observations	28,203	28,199	28,199	23,004	23,001
R-squared	0.000	0.000	0.000	0.000	0.001
Number of code	608	608	608	600	600

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 16. Regression results for the effect of firm power on loan maturity for small size and high growth firms.

Variables	(1) Loan Maturity	(2) Loan Maturity	(3) Loan Maturity	(4) Loan Maturity	(5) Loan Maturity
Power_Sales	−0.000546	−0.000553	−0.000552	−0.000746	−0.000742
	(0.000626)	(0.000626)	(0.000627)	(0.000773)	(0.000774)
Size		−0.0181	−0.0243	−0.0391	−0.0435
		(0.0446)	(0.0477)	(0.0479)	(0.0479)

Continued

Leverage				−0.00122	−0.00166	−0.00159
				(0.00209)	(0.00225)	(0.00230)
Market_Book (M/B)					−5.67E−05	1.75E−05
					(0.000299)	(0.000308)
Sales_Growth (S/G)					0.00210**	0.00222**
					(0.000887)	(0.000912)
Tangibility						0.187
						(0.155)
Profitability						−0.00254
						(0.00252)
Long_Term_Debt_Ratio						0.0258
						(0.126)
Constant	1.668***	2.040**	2.173**	2.458**	2.511**
	(0.000677)	(0.916)	(0.984)	(0.989)	(0.988)
Observations	13,710	13,710	13,710	11,394	11,392
R-squared	0.000	0.000	0.000	0.001	0.001
Number of code	473	473	473	460	460

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 17. Regression results for the effect of firm power on loan maturity for big size and low growth firms.

Variables	(1)	(2)	(3)	(4)	(5)
	Loan Maturity	Loan Maturity	Loan Maturity	Loan Maturity	Loan Maturity
Power_Sales	0.000104	−5.98E−05	−5.97E−05	−0.00312	−0.00306
	(0.00232)	(0.00248)	(0.00248)	(0.00349)	(0.00357)
Size		0.390	0.389	0.548*	0.545*
		(0.245)	(0.250)	(0.311)	(0.296)
Leverage			−0.00210	0.0140	0.00126
			(0.0384)	(0.0462)	(0.0476)
Market_Book (M/B)				0.0368	0.0375
				(0.0268)	(0.0253)
Sales_Growth (S/G)				−0.000571	−0.000351
				(0.000719)	(0.000753)
Tangibility					0.379
					(0.660)

Continued

Profitability					0.120
					(0.0855)
Long_Term_Debt_Ratio					0.397
					(0.734)
Constant	1.577***	−7.289	−7.270	−11.00	−11.09
	(0.00872)	(5.571)	(5.691)	(7.081)	(6.784)
Observations	649	648	648	526	526
R-squared	0.000	0.012	0.012	0.026	0.030
Number of code	156	156	156	135	135

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 18. Regression results for the effect of firm power on corporate performance for all firms studied.

Variables	(1)	(2)
	ROA	ROE
Power_Sales	0.000240**	0.000511
	(0.000102)	(0.000411)
Interest_Rate	−0.000288	−0.000202
	(0.00935)	(0.00271)
Loan_Amount	0.003	0.002
	(0.771)	(0.895)
Loan_Maturity	0.108**	−0.030*
	(0.041)	(0.0971)
Rating	−0.000772	0.00103
	(0.00144)	(0.00522)
Size	−0.0173**	−0.0670***
	(0.00684)	(0.0221)
Leverage	−0.0284	0.0572
	(0.0363)	(0.142)
Market_Book (M/B)	−0.000815	−0.00439*
	(0.000940)	(0.00254)
Sales_Growth (S/G)	6.15E−05**	8.71E−05
	(2.84E05)	(6.65E05)
Tangibility	0.0969***	0.330***
	(0.0348)	(0.102)

Continued

Profitability	0.0379***	0.0822***
	(0.00776)	(0.0178)
Constant	0.438**	1.627***
	(0.176)	(0.536)
Observations	1837	1836
R-squared	0.337	0.242
Number of id	525	525

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 19. Regression results for the effect of firm power on corporate performance for small size and high growth firms.

Variables	(1)	(2)
	ROA	ROE
Power_Sales	0.00305***	0.00579***
	(0.000288)	(0.000610)
Interest_Rate	−0.206**	−0.214**
	(0.156)	(0.156)
Loan_Amount	0.645**	0.391**
	(0.476)	(0.472)
Loan_Maturity	0.418**	0.003
	(0.034)	(0.771)
Rating	−0.00246**	−0.00934***
	(0.00104)	(0.00220)
Size	−0.0106	0.0384
	(0.0194)	(0.0411)
Leverage	0.288***	0.694***
	(0.0149)	(0.0315)
Market_Book (M/B)	0.00195	0.0141***
	(0.00206)	(0.00437)
Sales_Growth (S/G)	−1.81E−05	−2.03E−05
	(1.31E05)	(2.77E05)
Tangibility	−0.0910***	−0.248***
	(0.0299)	(0.0635)
Profitability	0.00186***	0.00726***
	(0.000232)	(0.000492)

Continued

Constant	0.182	−1.148
	(0.476)	(1.009)
Observations	125	124
R-squared	0.995	0.997
Number of id	116	115

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 20. Regression results for the effect of firm power on corporate performance for big size and low growth firms.

Variables	(1)	(2)
	ROA	ROE
Power_Sales	−3.82E−06	−5.50E−05
	(7.68E06)	(6.68E05)
Interest_Rate	−8.43E−06	−3.79E−05
	(3.19E+05)	(7.04E+05)
Loan_Maturity	0.002	−0.108**
	(0.895)	(0.041)
Loan_Amount	−0.0345	0.0155
	(0.0499)	(0.0480)
Rating	−0.000957	−0.00441
	(0.00134)	(0.00417)
Size	−0.00776*	−0.0303***
	(0.00410)	(0.0112)
Leverage	0.0482*	0.202**
	(0.0270)	(0.0922)
Market_Book (M/B)	0.00462**	0.00373
	(0.00225)	(0.00744)
Sales_Growth (S/G)	−0.000706	0.000954
	(0.000531)	(0.00241)
Tangibility	0.0931**	0.232**
	(0.0362)	(0.0952)
Profitability	0.0491***	0.0900***
	(0.00294)	(0.0126)
Constant	0.158	0.765***
	(0.102)	(0.286)

Continued

Observations	941	1298
R-squared	0.642	0.016
Number of id	299	342

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

6.2.3. Firm Power and Corporate Performance

Tables 18-20 show the results for the effect of Firm Power on Corporate Performance while controlling for the previously mentioned control variables. Here, the effect of firm power on corporate performance is more pronounced among firms that are constrained by information asymmetric as we can note it in the three Tables 18-20 presented. This is here the case for small size and high growth firms. The coefficient of interaction between firm power and RAO and ROE respectively 0.00305*** and 0.00579*** are found both to be positive and significant. These results support us in our desire to show that firms with higher power in industrial chain exhibiting good financial behaviors show good performance. As explained above, these results are the consequence of firms with good financial behaviors that have successfully raised funds in the bond market and secured loans from banks. This shows that firm power and its interactions with financing behaviors naturally influence corporate performance.

7. Conclusion

This paper investigates first the impact of Firm value chain power on firms' financial leverage, second Bank Loan Financing, and third examines how debt financing moderates the link between firm value chain power and corporate performance. The data has been taken from the "China Stock Market and Accounting Research" (CSMAR) database, this paper has gathered cross-sectional data of 13,653 firms from the Bank Loan Market from 2006 to 2016. Running fixed effects regression, the results reveal that companies with greater value chain power, i.e. having a better financial position, will have their financial leverage ratio (financial liability/total liability) lowered due to their better access to trade credit (e.g. account payable), companies with greater value chain power enjoy large opportunities from banks. Clearly, companies with greater value chain power get access to loan with low interest rate, higher amount and long-term maturity. Finally, the results indicate that companies with greater value chain power tend to show good performance.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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