The Acquisition and Use of Information to Make Investment Decisions: A study of Financial Analysts in China

Abstract

This study draws upon semi-structured interviews with 23 Chinese financial analysts (Beijing, Shanghai) to examine how they improve their information comprehension through private information search and use such information to evaluate company value. Despite working in state-owned institutions, Chinese financial analysts claim that their analytical framework is similar to their counterparty in the Western setting. However, our results indicate that Chinese analyst's analytical practice is considerably influenced by the specific characteristics of the Chinese listed company both in information acquisition and usage. Private meetings are regarded as a 'value added' information source providing price-sensitive information including product cost structure and possible assets injection from the listed company principle shareholders.

I. Introduction

China has the largest and one of the fastest growing economies in the world. However, its equity markets are still at an early stage of development, with informational asymmetry (Groenewold et al., 2003). Fama (1991) defined the efficiency of stock market as the ability of the market to rapidly digest new information so that securities' prices would at every point in time incorporate this information. Financial analysts are the main information intermediaries responsible for speeding up the information flow and reducing the information asymmetry between listed companies and investors. Studying information usage and search channels and decision-making processes in share appraisal improves the level of understanding of investment analysis.

Previous research indicates that information sources have a significant impact on analyst's information comprehension, analysing abilities and job quality. Specifically, analysts tend to exhibit greater information comprehension and better job quality or performance when they have more access to a firm's indirect information and conduct more company-level surveys (Hu et al., 2008). It also is suggested that analyst performance is influenced by country-specific factors including the size and activity of the country's equity market, national professional requirements and the presence and absence of large international brokerage and investment firms (Moyes et al., 2001). Detailed survey-based investigation of Chinese financial analysts is a under researched area. This paper aims to contribute to research and provides insights into both institutional and individual investors and how institutional characteristics in China influence financial analyst's information search and decision-making process, and specifically:

1. What information do financial analysts search in private meeting withs listed companies?
2. How do they use the information collected in their decision-making process?

The reminder of this paper is organised into five sections. Section 2 covers a brief literature review of research into financial analyst's information sources and their decision-making process. Section 3 provides relevant contextual insights into the Chinese financial market, listed companies and financial analysts. The data collection and research method are presented in Section 4. Section 5 discusses the survey results, and finally Section 6 concludes the study with implications of the findings and suggestions for future research.

II. Review of Research into Financial Analysts' Information Sources and Stock Selection Process

A great deal of empirical research at the disaggregated level aims to study the behaviour of investment analysts focusing on exploring human information processing and the decision-making process (e.g. Arnold and Moizer, 1984; Pike et al., 1993; Barker, 1998). Research at the disaggregated level explaining how market participants actually use all sorts of information, especially accounting information, in the decision making process. Survey-based research studies rely upon a direct link to financial analysts and therefore have considerable potential to provide insights into analysts' valuation behaviour including their preferences between different sources of information and decision-making processes. Prior studies at the disaggregate level has largely been either UK or US-based.

Accounting information, especially the annual reports, and direct contact with company management, represent the most important and most useful sources of information to financial analysts, although there is a clear shift in the relative importance of these sources over time (e.g. Arnold and Moizer, 1984; Pike et al., 1993; Barker, 1999; Clatworthy, 2002). Holland and Doran (1998) indicate that the overall portfolio management process was driven by a continuous need for high quality, new information on individual companies, sectors and whole economies. Barker (1998) addresses that analysts and fund managers can draw considerable value from meeting with companies and analysts rank them as the most important source of information. Barker (1998) also mentions that formal meetings offer an opportunity to assess the company's strategy and the ability of management. Holland (2006) explores how the fund manager acquired information directly from company to overcome problems with public information-for example, financial reports was considered too complex, too large and too cumbersome for many users.

In Holland's (2006) research, the unique private agenda between fund managers and listed companies is believed including information that both on qualitative, such as financial information and also qualitative, non-financial company variables such as quality of management, strategy and its coherence, investment and financing plans. Information on competitors and the structure of competition is also very important. Other information sources here include how supportive was the company climate for innovation and long term investment in productive and human assets, R&D expenditure, and flexibility of the company to technological change. Survey-based studies on financial analysts indicate that analysts consistently emphasise the long-term view over the short-term in stock evaluation and selection. Expected changes in EPS, expected return on equity, and prospects for the relevant industry are considered the most important variables over the long-term. Industry prospects, expected changes in EPS and general economic conditions are given greatest weight over the short term (Chugh and Meador, 1984). Generally, the conclusions drawn from survey-based research in the UK are also supported by other research methods (e.g. content analysis, protocol analysis and experimental research).

III. Chinese Listed Companies and Financial Analysts

China established the Shanghai Stock Exchange in December 1990 and the Shenzhen Stock Exchange in July 1991. It has approximately 1,775 firms listed in these two stock exchanges at the end of February 2010 with the majority being former state-owned enterprises (SOEs). China's reform of SOEs started with a market approach with two pronged initiatives, unprofitable small- and medium-sized SOEs are privatized or merged, large SOEs are converted into shareholding companies with limited liabilities, and then a selected few are listed on China's two stock exchanges

(Qi et al., 2000). At present, the government still holds the majority of shares (non-tradable) in the listed corporatized SOEs by direct shareholding and/or indirect shareholding through state-owned institutions such as state investment companies and state asset management agencies (China Securities Regulatory Commission web site).

In the Chinese financial market, 99.5% of the domestic investor accounts had been opened by individual investors and only 0.5% were institutional accounts by the end of 2002 (Chinese Securities Depository & Clearing Co. Ltd, 2002), which clearly indicates that individual investors were in a dominant position according to the number of accounts opened. However, the proportion of sophisticated investors, in particular, institutional investors, exhibits a steady increasing trend (Ng and Wu, 2007). At the end of year 2007, institutional investors held about 48.8% of the total market capitalization[1]. With the development of institutional investors in the Chinese financial market, financial analysts are expected to provide more up to date and accurate information to ostensibly feed or contribute to an *active* investment strategy.

The Chinese financial analyst's profession is still in the early stage of development (Hu et al., 2008). The Securities Analysts Association of China (SAAC) was officially established in Beijing in June 2000. It was believed that the SAAC would direct the healthy development of the securities investment consultation industry and help promote rational investment in China's securities market (Asian Securities Analysts Federation, 2004, pp.27-30). There are several different classifications of financial analysts. Schipper (1991) categorises financial analysts as sell-side or buy-side analysts. Moizer and Arnold (1984) classify financial analysts in a similar way but in different terms: investment intermediaries who provide investment recommendations in assisting other investors' investment decisions and portfolio managers who act as investors themselves and make investment decisions. Some argues there are three types of financial analysts: buy-side, sell-side and independent analysts (Wayman, 2004). No matter what classification or terms are used, the role of financial analysts is to synthesise their advantages in analysing publicly available information (e.g., in respect of the macro economy, industry and company) and in collecting information through particular channels (e.g., company visits, meetings with company management). Then, it is to accelerate market efficiency by transferring their analysis results to the public.

Financial analysts referred to in the current study include both fund managers and information intermediaries who use financial information and non-financial information directly or indirectly for making investment decisions. Chinese financial analysts are largely working in three types of organisations: securities firms (brokerage firms); fund management firms and consultancy firms. Two of the former institutions are state owned; the third institution could either be state-owned and private firms. Previous research indicates that making investment recommendations is the main service provided by financial analysts regardless of the departments or organisations they are working in. The services provided by the financial analysts, however, could be slightly different because of the different role they play in the organisation (Wang et al. forthcoming).

IV. Research Design and Methods

Semi-structured interviews were carried out to explore information usage and decision-making processes. Semi-structured interviews constitute a thematic, topic-centred, narrative approach (Marston, 1996, p.38). The epistemological reason for conducting interviews is that knowledge and evidence are contextual, situational, and interactional, so this requires taking a distinctive approach to getting at 'what I really want to know about' through each interview. It also provides for richer and more complex insights into analysts' views (Holland, 1998). Interview schedule containing four sections were as follows: general information, information sources, valuation methodology and other open-ended questions regarding QFII, IASs and domestic institutional investors.

Purposive sampling was used initially, and followed by snowball sampling technique by asking interviewees if they could introduce more colleagues or friends who engaged in investment analysis for interviews. Snowball sampling is one of the most useful techniques of sampling that involves asking individuals who have a rare characteristic being sought to identify others they may know who have that same characteristic (Welch, 1975).

Twenty-three semi-structured, formal face to face interviews were conducted with financial analysts in Beijing and Shanghai in 2003. 20 out of total 23 respondents are employed in the securities firms, which are selected from fifteen key securities companies including the top five securities companies according to trading value in 2001 in China (Fact book, 2002). 2 interviewees are from investment consultancy firms and 1 fund manager from a fund management firm. Each interview lasted up to one hour and was tape recorded (except in the case of one respondent who refused the tape-recording for reasons of confidentiality) in conjunction with the taking of notes.

V. Research Findings and Discussion

1. 'Public' information source vs. 'private' information source

This section reports the findings on information sought by Chinese analysts in the specific institutional context (Figure 1). In general, the listed company itself is the main source of information for financial analysts. The information available from the company can be broadly categorised into two groups: (1) publicly available information (2) privately available information. Consistent with an earlier questionnaire survey result (Wang et al., forthcoming), the annual report is regarded as the most useful publicly domain information for financial analysts' stock selection decision. The annual report, as the main type of corporate reporting, provides both financial and non-financial information about the company and also forms the basis for comprehensive financial statement analysis and ratio analysis for financial analysts (Holland, 2006). In addition, official announcements are also considered to be a useful publically available information source. Analysts seek to discover relevant and useful information revealed in announcements such as information concerning changing share ownership or investment plans. However, as suggested by literature (Holland, 2006), very little in the way of unknown value was expected to be discovered by processing public domain information alone. By contrast, company website is identified as either 'not at all useful' or 'not very useful'. Often, analysts acquire information directly from the company. Such information can be regarded as privately available information since the information is not readily available in public domain. Evidence of interview data reveals that company visits and meeting with company management are considered as ‘useful’ to ‘extremely useful’ channel to gather private level information. Although public information was weighted higher than private level information (Wang et al., forthcoming), current study indicates that private level information provides a more efficient way to gain ‘first hand’ understanding about the future development of the company. More importantly, Chinese financial analysts mutually verify the reliability and truthfulness of information obtained from both public and private channels.

As stressed by the majority of interviewees, not all Chinese company always welcome company visits from financial analysts, which adds more cost to information search. Possible explanations for such lack of cooperation from listed companies might be that Chinese financial analysts do not have a high reputation as they are an emerging profession in the Chinese financial market. Furthermore, state-owned shares in the listed companies accounted for one third of total share capital. The representative of the state-owned shares often dominates the board and management decisions and ignores the interests of public shareholders (Qi et al., 2000). Another possible reason for ignorance of financial analysts is that the quality of the listed companies, such as operation sustainability or profitability is not high either. This point is agreed and shared by most of the analysts in the interviews. In order to get access to some particular ‘private’ or unique ‘private’ company visits, analyst mentions that an introduction of personal friends is necessary, therefore, ‘guanxi’ translated as personal connections, plays a big part in private meeting management.

<< Figure 1>>

2. Acquiring information in private meetings

Published financial reports are an important part of the cyclic process as mentioned in the literatures. Private meetings are a means to expand on and to interpret this public domain data outside of normal accounting conventions (Holland, 2006). This section explores what information Chinese financial analysts seek in private meeting on top of public domain information to enhance their judgements. Financial analysts are required by their employers to make regular contact from twice quarterly to once a year with the key companies from the industry allocated to them according to interview results. Before conducting the company visits, in-depth preparation is necessary for every analyst and fund manager. Normally, analysts already possess certain amount of information about the visiting company including main activity, general position in the industry and competitors. The meeting strategy of analysts however, varies. One could start with the industry that the company operates in; one could adopt a different opening stance approach by asking the company's developing history. Although one of the main objectives of the company visit is to search for unpublished price sensitive information which will be published soon and/or is expected to affect the share price, the content of the conversation largely depends on the relationship or 'guanxi' between analysts and the company. A detailed investigation regarding the information acquired or discussed in private company-level survey is presented under italic subtitles below.

Financial Information, Investment and Financing Plans

Initially, Chinese analysts 'believe' the truthfulness or reasonableness of the accounting information available in the annual report. Then, using personal judgment, they try to make sense of the accounting information. If analysts doubt any information, e.g. in comparison with other listed companies in the same industry, financial expense of visiting company is much higher or the structure of assets is quite different, they would seek communication either with the company or other intermediaries, for instance, industry association and even company auditors. Verifying the truthfulness of accounting information is another important aims of company visits.

Further more, analysts try to search for other accounting related information that does not disclosed in the financial statements, e.g. cost of structure of product, break down of fixed costs, more importantly company's non-current assets. The majority of publicly listed companies in China are actually partially privatised state-owned enterprises (SOEs) to corporations; state still remains the dominant shareholder (Sun et al., 2002). As matter of fact, state owned assets 'privatised' to corporation, however their historical value of non-current assets including lands and buildings do not reflect their true 'market value' in a company's Statement of Financial Position, this leaves some space for financial analysts to make adjustments to a company's real assets value under a fast growing economy.

As mentioned by Holland in 2006, unique private agenda included information on qualitative, non-financial company variables such as 'quality of management', strategy and its coherence, investment and financing plans and so on. Investment strategic planning also constitutes important information to Chinese analysts as this information is used to analyse the current position of the company and predict future development, as exemplified by the following quote:

"When we get to know the selling record of company products and investment strategic planning and other plans that may have a big influence on the future development of the company, we shall have a comprehensive idea regarding the company's position within the industry."

However, investment and financing plan has additional meaning to financial analysts because of multiple-ownership of listed company. As mentioned earlier in literature review, state remains as owners or principle shareholders of majority of listed companies in China, financial analysts in their private meeting seek information on 'linkages' between visiting company and principle shareholders because previous research indicates that investors interpret high equity retention by the state as the governments' confidence and a business guaranty (Mok and Hui, 1998). As a result, this information likely provides an indication on 'potential financing sources' or 'possible injection of funds' from the state through a 'policy lending' to target company. Policy lending was defined as directed to power and transport investments with long-term repayment periods. Although with the progress of corporatisation, the Chinese government encouraged rational bank lending instead of policy lending and restricted local government intervention in bank-lending. However, since policy lending habit has rooted deeply in SOEs, and banks are reluctant to monitor outstanding credits, it is very difficult to stop the long-existing policy lending (Chu and Tally, 2003).

'Asset injection' by large shareholders has become a highlight phenomenon in Chinese listed companies. Analysts in current study mentioned this kind of information is particular valuable to mine in their private meeting, including likely chances, potential values and possible format. 'Assets injection' refers to principle shareholders of listed company selling their assets to listed company. In principle, these assets should be quality assets with higher profitability and closely related business of the listed company, which will help improve the performance of listed companies and also obtain positive reactions from the stock market (Zhang and Guo, 2008). One analyst illustrates the importance of this information in the interview:

> *"I need to know the principle shareholder's strategic planning and see if they have a clear development plan for the company. Then, I analyse its main operation, the position of this company within the industry, what kind of investment they make by using the generated funds or retained reserves to see if this company has growth opportunities. Finally, analyse the financial information."*

Information on Competitors and Structure of Competition

As mentioned earlier, analysts may well know the competitors of visiting company before they pay a visit. However, this information is still frequently raised up at the face to face meeting in order to identify comparative advantage and competing position of the company from own perspectives. Issues such as 'Do they know their markets? Have they got a clear sense of direction' are assessed in the meeting (Gaved, 1997).

Quality of the Management and R&D Expenditure

Current study indicates that quality of the management is a meaningful topic to be explored in private meeting, this result is contradict to previous questionnaire results which indicates that the detail of the company management is relevant but the least important information analysts pay attention in reviewing company's annual report (Wang et al., forthcoming). In the private meeting, analysts' own judgements play a big part. Analysts are interested in management style since this may influence the culture of the company as a whole and also pay more attention to management's capability of cooperation with owners. According to literature; information asymmetry in China listed company is high since listed companies always tend to offer information as little as possible (Chan et al., 2003). In order to break monopoly of information and reduce cost for information searching, analysts want to know if the company wants to communicate with investors and disclose some ideas to them; therefore transparency is another important factor to explore in assessing the quality of management. If the state remains the controlling shareholders in listed company, severe agency problems may arise, especially state and its representatives have inadequate resources and expertise in monitoring and disciplining the management (Qi et al., 2000). The following quotes sum up role of quality of management and its significance:

> *"I always view the quality of management as an important issue, especially the quality of the general manager or the leader of the company since their opinions or leadership may influence the culture of the company as a whole. The government may appoint some leaders. They may not have the relevant knowledge about the business they are operating in. In this case, I do not choose this company."*

> *"The transparency of company management is also important information. We want to know if the company wants to communicate with investors and disclose some ideas to them."*

In general, R&D is not of central interest to the financial analysts unless it is related to new developing products especially visiting company operating in high technology sector. Moreover, analysts do not simply look at the R&D expenditure; they pursue information in private meeting on the purpose of R&D investment and procedures that company carries out in terms of supervision and monitor to ensure achieving expected result. All this information potentially gives an indication on competence and commitment from company management from a different angle.

Long-term Investment in Productive & Human Assets

Overall, this is the last topic that Chinese analysts may talk about at the face to face meeting since it is the most unpredictable factor i.e., it is relevant information but not typically given a high priority. One of the reasons for this is because human resource investment cannot just be measured by quantitative data and the investment effect is very difficult to predict.

Investor Relations

Majority of interviewees share the same opinion that little attention is paid to investors, especially individual investors in China. Investor relations can be defined as the link between a company and the financial community, providing information to help the financial community and investing public to evaluate a company (Marston, 1996). Previous study indicates that the existence of investor relations department signals the growing weight of investor perception (Roberts et al., 2006), however, this opinion is not observed in current study with Chinese analysts. Only big companies appreciate 'investor relations' but mainly for image purpose. However, when companies need to generate funds again, they do realise the value of investor relations. Reasons for this neglectful reaction from listed companies were also explored in the interview, analysts mention that the listed companies do not under pressure from the market. In current situation, demand and supply of shares are not in balance, shares are always sold out in the Chinese market. This opinion is consistent with Song (2002).

3. Decision-making processes

Financial intermediaries are involved in some combination of the following three activities: 1) acquiring of information about economic entities, 2) processing of information about these entities, and 3) packaging or repackaging the financial claims of these entities. This section explores how Chinese financial analysts process both publicly available quantitative information and private qualitative information acquired through private channel, what strategies they follow in evaluation and how they arrive at stock selection decisions. An individual firm's stock price reflects market-level, industry-level and firm-specific information. Despite working in state-owned intuitions, the majority of analysts describe the usage of a sophisticated analytical framework suggest that a rational process of stock selection is followed in stock evaluation and selection. The framework is similar to the one adopted in Western setting which is designed first to assess economic, political and social dynamics information, second to assess the economic performance of industries, and finally to evaluate company data and try to find out their potential impact on the equity values. In general, the decision-making process is from top to bottom, from macro level to micro level. Analysis at the macro-economic level is, however, not emphasised as much as industry and individual company level analysis. The following section presents the process of the industry-level analysis and company level analysis.

Industry-level analysis

Financial analysts are outsiders who generally have less access to firm-level information than either management or significant institutional investors (Piotroski et al., 2004). Evidence suggests industry-level analyst accuracy improves with industry specializations (Clement, 1999). At industry-level analysis, Chinese analysts normally judge the life cycle, competition and centrality of such factors to grasp the general direction and development tendency of the industry. High profitability and relatively high growth rate are the key selection criteria. In addition, analysts mentioned the ‘domino’ effect on industry as an important criterion. If one industry’s performance is rising, other associated industry’s performance may also increase accordingly. An example could be good performance in the steel industry may lead to good performance in car industry or vice versa. Although most analysts adopted a top to bottom stock selection procedure (economy-industry-firm analysis), some analysts note that one drawback of this approach is the possibility of ignoring high quality companies in declining industry.

Company-level analysis

Generally speaking, analyst’s performance is measured by their forecast accuracy, stock pick ability, quality of research reports or customer service (Hu and Lin, 2008). Chinese analysts summarise three standards applied in differentiating and selecting listed companies as: size, specificity and excellence. Size means it is a big player in the industry in terms of market capitalisation. Specificity refers it needs to have special characteristics or comparative advantages over rivals like lower cost, advantage in resources or advantage in management. Excellence means the company is not only excellent at present in financial statements but has an excellent future prospect. If listed company meets all three criteria, it would be evaluated and selected as a ‘good’ company.

Comparative analysis is another technique adopted by financial analysts in selecting shares. Analysts may compare company’s P/E ratio and share premium within the same industry. Alternatively, analysts may directly compare listed companies share price and try to find relatively undervalued shares. Surprisingly, analysts appear to still use what is called the ‘concept’ or ‘investment principles’ in the stock selection process. The ‘concept’ is akin to imaginative insight or intuition, it refers to room or space for imaginative investment or intuition based on a ‘feel good’ factor. The selected shares need to feel good in terms of the ‘concept’ at the moment and with a view to the future. For example, a particular company may be more likely to be selected because it reasonably meshes somehow with Chinese culture rather than because of its good quality and high performance. ‘Investment principles’ more likely refer to investment culture or an investment orientation and trends in the Chinese financial market. One typical example is large capitalisation share company is believed to be given greater attention by investors in the financial market compare to the small capitalisation shares during the year under investigation. Financial analysts are more likely to follow this trend. This finding are typically supported by previous literature that Chinese analysts possess certain analytical capacity, but that their opinions are seldom original (Hu and Lin, 2008).

Chinese financial market is a fund pushing market with small number of listed shares, the imbalance between demand and supply results in high share premium with share prices deviating from their intrinsic values (Liu and Eddie, 2003). Therefore there is a strong incentive for analysts to adopt a rational decision-making process and give deep consideration to listed company fundamentals. Company based analysis is based on integrated information from every aspect. Financial analysts try to predict how share prices are reacting by any big changes made by the companies. One quote illustrates how private meeting information in terms investment strategy and financing plans adds value to their evaluation:

"I need to know the principle shareholder's strategic planning such as asset injection, and to see if they have a clear development plan for the company. Then, I analyse listed company main operation, what kind of investment they make with generated funds or retained reserves to see if this company has growth opportunities. Finally, analyse financial information."

Accounting information is used in assessing company's financial performance. Interview survey indicates that the balance sheet and profit loss account and ratios are considered to be useful information sources to assess a company's current situation and its future development. A particular interest is paid to inventories, the types of debtors, work-in-progress and provisions. All these accounts are related to turnover. All this information will be compared within the industry or compared with past performance. Less attention is paid to share capital, share premium and surplus reserves comparing with asset and liabilities accounts since they are relatively stable accounts. In income statement, gross profit is an important index of company's profitability; more importantly, the profitability of the main business is used to evaluate performance of the company. Another key data is the ratio between the profit from the main business and the overall profit of the business as analyst believes that this ratio indicates the sustainability and profitability of the company's on-going business. In addition, three periodical expenses are assessed to see if there is an abnormal movement. The P/E ratio, in particular, is the analysts' preferred basis of valuation for finding the intrinsic value of the share, this finding is consistent with previous literature (Barker, 1998). There was a strong consensus regarding the way in which the P/E is used. In appraising the quality of the shares, analysts try to compare the P/E ratio both relative to its own history and relative to the industry average. One quote demonstrates P/E usage:

> *"I compare the market P/E and share prices in the same industry to give an estimated reasonable price interval, and then make an investment recommendation. Suppose this is a newly issued share, the estimated reasonable price is compared with the share price on the trading day. If the estimated price were higher than the share price, that shows the shares are undervalued. I would recommend buying this share."*

Another interesting finding from interview data reveals that Chinese financial analysts might take into account the investment behaviour of big institutional investors such as fund management firms, since these institutional investors may have significant impact on share price if they involved in short-term profit making trading activities. Analysts need to estimate the costs for institutional investors buying into the shares and use this information as guidance for themselves on timing of purchasing the same shares.

VII. Conclusion

The Chinese environment still keeps some features of a centrally planned economy, the state is still the principal shareholder of listed companies and the owners of banks as well as information intermediaries' firms (Chen, 2004). This paper explores how specific institutional characteristics in China impact upon analysts' decision-making processes in terms of information pursued and share appraisal procedure followed.

The findings of interview survey reveal that Chinese financial analysts make considerable efforts to create multiple sources of information. In line with literatures in Western context, Chinese financial analysts as a new profession, adopt a similar information searching approach including both publicly available channel and private searching channel, however there are quite different weights and interpretations attach to difference information sources and difference incentives behind information searching. Unlike western analyst acquire private information to overcome common limitations of public information (Holland, 2006); Chinese financial analysts use two main sources of information to mutually verify reliability and truthfulness of each source. Although Public available information, i.e. accounting information ranked as the most important source of information for analysts, evidence indicates private meeting is considered as a more 'value added' information source in assessing a company's *potential* value. However, access to private meeting is considerably difficult in the Chinese context.

During the private meeting with listed companies, the content of the conversation largely depends on the analyst's aim and the relationship with the company, this information gathering channel involves one typical cultural factor in China-'Guan xi'-which is considered an important element even in people's daily life. Looking for the information that has not yet been published but would be released later on or the information that is not necessarily disclosed in public domain but might have an influence on share prices are deemed to be other key objectives of company visits. These elements of 'insider' information including company management, product cost structure and so on. More importantly, because of multiple ownership of listed companies, information on company's strategic and investment plan including both possible ‘assets injection’ and ‘fund injection’ from principal shareholder of visiting company’s are deemed to give financial analysts comparative advantage over rival analysts. Analysts with access to private meeting tend to be more informed: more accurate investment recommendations could be made based on up-to-date information. Interview results also show that financial analysts may also contact third parties including the suppliers, banks, employees, customers and competitors of the company and explore all other sorts of channels, even talking with auditors. Interestingly, personal contact and chat with colleagues in the financial services industry are also considered to be useful sources of information.

Because of high share premia between primary market and secondary market in China, it gives strong incentive for financial analysts to find the intrinsic value of share in stock evaluation process. Despite majority of financial analysts works in state-owned institutions, their The analytical framework includes analysing macro and competitive changes in the company’s environment and likely effect on company, further estimate corporate return and value (Holland, 2006). Although stock selection and evaluation process of the financial analysts portrayed by them as sophisticated and rational, irrational behaviours do exist, such as follow ‘concept’ and ‘investment principle’ in stock market. In addition, investment recommendations are often based on the assumption that paired companies with similar fundamentals in the same industry should have relatively close stock market valuations. This result is also supported by previous study, Chinese financial analysts possess certain analytical capacity, but their opinion are seldom original (Hu and Lin, 2008).

Analysts also signal that too much emphasis are placed on accounting data, understanding the specific country and institutional context in China is fundamental to successful investment decision for both institutional and individual investors. To promote better investment practice, Chinese regulators can also consider findings of current study in reviewing laws and training programme. In addition, investors will be better informed by the finding in terms of understanding the thinking behind analysts' decisions.

Limitations and future research

Because of the specific Chinese context, the sample size for the interview survey was relatively small, which reduces generalisability in statistical terms. Because of the difference in the number of interviewees approached from analysts and fund managers, comparison between these two groups was not feasible.

This project resulted in the identification of additional areas to explore in future studies. This study was conducted in 2003; subsequent study in this area would add value to knowledge by identifying trends or any changes in analyst's practice in relation to changes of Chinese economy over years. Follow up study on how information flows between listed companies, analysts and investors would provide more insights into investment practice in China.

Notes

[1] China Capital Markets Development Report, China Securities Regulatory Commission (CSRC), 2008.

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