

# Managerial ability, shadow banking activity engagement, and bank shareholder values in China

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## ABSTRACT

This study aims to investigate two issues: The impacts of shadow banking activities on bank shareholder value, and the relationship between managerial ability and shadow banking engagement in China. Using the differences in the Basel II capital adequacy ratio to represent the extent commercial banks get involved in shadow banking activities, the authors regress the econometric models using the generalized method of moments. The robustness tests are conducted regarding different risk weights, alternative measures, and model specifications. Thence, the authors found growths in trust beneficiary rights increase banks' shareholder values, thus suggesting that banks enrich their shareholder wealth while engaging in the shadow banking business. Further, we found that more able managers intend to join the shadow banking business. Given that the purpose of bank management is to enrich shareholder value, we contributed to the literature that joining the shadow banking business can benefit bank shareholders.

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## Keywords:

Shadow banking, Shareholder value, Managerial ability, China.