

Theoretical Research on Interest Transfer of Allocating Resources under the Background of Pyramid Structure and Development in China

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Abstract

Ultimate controller can control several times of its size' resources and many companies with fewer resources, by using the pyramid shareholding structure, and these resources are allocated among the member companies. In the controlled company, there is interest transfer in the allocating resource, once it lacks of effective measures in the control of ultimate controller. Today, the full circulating stock market, pyramid structure, stock market system not being perfect, lacking of effective protection of investor's interest. These will exacerbate the problem of interest transfer in the allocating resources. Therefore, it is necessary to study the ultimate controller's allocating resource mechanism and its operation mechanism under pyramid structure. In view of this issue, it is necessary to sort out the pyramid structure of Ultimate Controlling Shareholder Expropriation theory, and puts forward the measures and suggestions for China's background characteristics.

Keywords: pyramid construct; interest transfer; allocating resources; ultimate controller

1. Introduction

Ultimate controller controls several companies and many times of its own size' resource by use of pyramid structure, which make the principal-agent problem be light in the group, directly or personnel being in charge of the business management and the allocation of resources. In the listing corporation, the ultimate controller realize to transfer interest from the listing Corporation and other stakeholders, because of controlling right of personnel, assets, capital and information. Which problem has aroused wide spread concern in the academic circles and the government? Since La Porta et al.(1999), Claessens et al.(2000) , Faccio and Lang(2002) et al. thought that there were almost ultimate's controlling right problem in most counties (Fan et al. , 2005),academic scholars mainly studied tunneling and propping of ultimate's controlling right problems, motivation (Shleifer and Vishny, 1997; Claessens et al.,2000, 2002) , mode (Johnson et al. 2000) and governance (Denis and McConnell, 2003;LLSV, 1997, 1998, 1999, 2000, 2002, 2008)et al. interpreted two kinds of action. It was found that research result related to corporate governance, economics, financial investment and corporate finance, by studying the interest transfer of the alloca-

tion of resources ultimate controlling shareholder's allocating resources. The following content will be combined to analyze with the research results of scholars at home and abroad and our country background.

2. Relative theory of interest transfer

Research results are mainly in three aspects: influencing factors of interest transfer, interest transfer mode, governance and results of interest transferring about ultimate's allocating resource research.

2.1. Influencing factors of interest transfer

Domestic and foreign scholars analyze impacting factors about interest transfer of ultimate controller allocating resource from different aspects. In the Pyramid ownership structure, ultimate controller gain greater controlling right with a small amount of cash flow, by the aid of Pyramid holdings, which is easy to induce the ultimate controller's interest transfer behavior in allocating resource. Scholars at home and abroad were described from different aspects about impacting factors of interest transfer in allocating resources. Foreign scholars mainly from the two rights separation degree(Shleifer and Vishny, 1997, Claessens et al.,2000, 2002)、the legal protection of investors(LLSV,1997,1998,1999,2000a、b,2002,Johnsen et al.,2000),governance environment (Johnson et al.,2000)、debt lever control(Holmen and Hogfeldt, 2005; Aslant and Kumar,2008)、stock differences(Ago and Kling,2008) etc illustrated controlling right problem.Shleifer and Vishny(1997)、LLSV(1999)、Claessens,Djankov and Lang (2000) research found. With the

development of deviation degree between control rights and ownership increasing, the ultimate controller will desire to deprive more resources in the resource distribution from the interests of small shareholders, transfer stronger, the more serious the interest transfer degree. LLSV (1997, 1998, 1999, 2000a、b, 2002) a series of studies suggest that, in the absence of legal protection or weaker countries, ultimate controlling shareholder transfer is quite common and serious.Johnsen et al. (2000) established a static model, and thought that the large shareholders will plunder the resources of the listing Corporation or even bankruptcy in the weak corporate governance environment, and Asian financial crisis proved that this inference. Holmen and Hogfeldt (2005) study the Swedish closed research fund investment and pyramid enterprises, think the pyramid control provides incentives for ultimate owner occupation. Gao and Kling (2008) analyzed the relation between foreign investor, the external investors in China's board of directors, the non-standard audit opinion, and small shareholders prevent violation, thought B, H shares increased asset plunder. While domestic scholars mainly study equity restriction mechanism(Liu Feng,He Jiangang, Wei Minghai, 2004;Li Zengquan, 2004;Luo Danglun and Tang Qingquan, 2007)、Information asymmetry(Zhang Xiangjian,Xu Jing,2005), Ownership structure and control(Lin Chaonan,Liu Xing, Hao Ying, 2007)、Separation of two rights(Lu Chuang,2009) Legal protection and supervision system(Tang Zongming,Jiang Wei, 2002) etc. research on impact on ultimate allocating resource.

2.2. Interest Transfer Mode

The scholars discuss interest transfer mode in ultimate controller allocating re-

source in listed companies, mainly from the related party transactions, additional orientation, the cash dividend and related guarantee, etc. Johnson et al. (2000) firstly described controlling right interest transfer behavior by use of Tunneling, and points out the concrete tunneling method. Dennis and McConnell (2003) thought that the ultimate controller can not only be delegated to the management to the company, but also be used for tunneling related party transactions to tunnel resource in the company, when it is perfect in the legal system in the country. La Porta et al. (2000), Faccio et al. (2001) study ultimate controller's interest transfer problem from the perspective of the dividend policy found that dividend was less, when legal environment was worse. Jian and Wong (2010) in China, Bertrand et al. (2002) in India, Baek, Kang and Lee (2006) in Hongkong, Cheung et al. (2006) in Korea research on related party transactions and directional private placement etc. Chen Xinyuan (2008), Wang Zhiqiang, Zhang Weiting, Lin Lifang (2010) from the additional orientation aspect, Wang Lian gcheng, Chen Hanwen, Xiang Rui (2010) from allotment of shares, Li Zengquan et al. (2004), Gao lei et al. (2006) from the perspective of controlling shareholders capital occupying, Xiaoming (2005), Lei Guangyong et al. (2007), Wang Hua cheng et al (2007) from the perspective of dividend policy, Li Laifang (2005), Lv Changjiang and Xiao Cheng min (2006), Li Shuiwei and Li Ruoshan (2007) from the perspective of equity pledge, study interest transfer problems in allocating resource each other.

2.3. Governance and Results of Interest Transfer

Domestic and foreign scholars have conducted case studies and empirical research on results of interest transfer in allocating resource. The foreign research is that Marchica et al. (2005) regarding Britain, non-financial listing Corporation as a sample, Lins (2002) regarding 18 countries 1433 companies as the sample, found that the market value of the company is downside, when the ultimate shareholder controlling right was more than cash flow right. Najah Attig (2006) regarding 1031 listing Corporation In Canada as a sample, found the quality of information disclosure is worse when the ultimate shareholder controlled of the listing Corporation. While domestic research is that Wang Lijun (2006), with private listing Corporation as a sample, investigated the relationship between Pyramid control, related party transactions and corporate value, found in Pyramid structure to control is not conducive to the value of the company. Zhou Xiaosu et al. (2008), Lu Chuang (2009) etc found that controlling right impacted on earnings quality and the performance in listed corporation. Scholar advanced the corresponding control measures about bad results of interest transfer. Those include that The legal protection of investors (La Porta et al., 2000; Nenova, 2003; Bennedsen and Wolfenzon, 2000), External regulation (Shleifer and Wolfenzon, 2002; Newman, Patterson and Smith, 2005), Equity restriction (Zhang Yaowei, 2011, Liu Feng, He Jiang gang, Wei Minghai, 2004; Li Zeng

quan, 2004; Luo Danglun and Tang Qingquan, 2007) etc.

2.4. Review

In all, foreign scholars' research is mainly involved in transfer factors, methods, results and governance aspects about ultimate controller allocating resource in listed corporation. The main research results are empirical and case studies of related transactions, ownership structure and properties, internal and external balance and the protection of the law, some scholars have studied the behavior of game between the stakeholders in the distribution of resources. Domestic scholars learn from foreign other academic achievement or measures abroad, taking into account the equity nature of China's ultimate controller, empirically study on motivation, ways and results of the control problem, obtained a series of research achievements with theoretical significance and practical value, which is based on China's institutional background of development of a good start, provides beneficial enlightenment for us future research. In the study, how to use the ultimate controller control chain to realize the control of the member companies? For the security of full circulation background, the ultimate controller of listing Corporation allocation of resources in the interests of the transfer vector is changed? Especially for imperfect securities market in China, the stock price does not reflect all the information of the listed Corporation, is it existence of the ultimate controller to obtain the listing Corporation benefit by using pyramid structure to control information in the resources allocation process in listed Corporation. In view of the above problems, it is necessary to study ultimate controller configuration of resources under the pyramid structure, based on our current background characteristics.

3. Analysis of the full circulation background

In our country, the full circulation of stock market achieves with coequal, also provides the convenience for all investors trading in the market. At the same time, the development of the securities market is not perfect, the lack of relevant system and small and medium investors irrational investment and speculative, stock prices changes in listed Corporation information appear larger fluctuation. All of those will give the ultimate controller to achieve transfer interest its shares in the stock market volatility, through the control of listing Corporation disclosure of information. It is more subtle for interest transfer behavior in ultimate controller allocating resource, by use of pyramid structure, and this behavior does not change the quality of the earnings and risk of the listing Corporation, which will not lead to restrictive creditors more. Therefore, the stock entire circulation and Pyramid will further aggravate interest transfer "time" and "frequency" of phenomenon in ultimate controller allocating resource, and which phenomenon was banned repeatedly more. For the control problem of the full circulation market background of ultimate controlling shareholder, only a few scholars have studied. Wu Yuhui, Wu Shinong (2010) has studied the ultimate controller to information manipulation in the stock reduction process. Aboody and Kasznik (2000), Kyriacou et al. (2009) studied the control information acquiring executive stock option income. Those studies are based on the fact: the listing Corporation's management is consist with the ultimate controller interests, as to how to keep the ultimate controlling shareholders and managers of listing Corporation interests, it lacks of corresponding research. In addition to those, scholars mainly study ulti-

mate controller interest transfer problem in allocating resource in listed corporate from the listing Corporation and the interests of small and medium-sized investors perspective, ignoring the overall allocation efficiency.

4. Theoretical studies needed to further deepen and develop in China

(1)Research needs to be extended. The existing research on interest transfer is mainly concentric acted on listed corporation or members of the enterprise in ultimate controller allocating resources, and the main point of view is a listing corporation and small investors, ignoring the overall resource allocation efficiency of the collaborative group. Practice shows that, the development of large enterprise groups in the scale and efficiency of have overall been raising in China. In pyramid group, the resources can allocate not only through market means between Listing Corporation and the external market, but also through the group between internal members corporate by means of "headquarters" authority. Therefore, in this case, efficiency and effect of resource allocation is needed from group aspect, the ultimate controller allocate resource. In that, supervision layer intervene to allocate resource from the macroscopic efficiency point to formulate the corresponding control measures, according to the group and even the macro market allocation efficiency, so that it can effectively protect the interests of investors, promote group allocation efficiency and competitive advantage, guaranteeing china to be an economy powerful nation in the world.

(2)Research content needs to be deepened. Domestic and foreign research is almost based on share-trading background about ultimate controller allocating resource and these studies were mainly concentrated in interest transfer of capital,

physical asset allocation relationship within the group. Since the reform began in 2006, the vast majority of listing Corporation has entered the era of full circulation, which owner's stock prices tend to consistent, it provides convenience for the listing Corporation owners to trade effectively, and the flow of and the stock price reflects the management information of the listing corporation, because of its flow. In order that the ultimate controller use the listing Corporation's management control to achieve the configuration information, in order to obtain the capital market price changes brought by the transfer of interests. But the current research neglected this black box between ultimate controlling shareholders and listing Corporation operation process, and the staff in this black box being how to configure, realize the control of listing Corporation, the scholars have considered little or no account. So that, it is necessary to study operating black-box between ultimate controller and listing corporation, especially study how to realize the control of the listing Corporation eventually by personnel arrangement in the black-box operation. As the ultimate controller using the listing Corporation's management control to achieve the configuration information, in order to obtain the capital market price changes brought by the transfer of interests. Therefore, it is necessary to study between ultimate controller and listing Corporation's operation box, especially study the black-box operation, how to realize the control of the listing Corporation eventually by personnel arrangement.

(3)Research methods needing to be improved. Domestic and foreign literature research on the ultimate controller interest transfer in the allocating resource is mainly based on case or an empirical study, or is based on the LLSV (2002) method. In the interpretation of control rights, it lacks of internal relation of ultimate

mate controller configuration of resources. In the Pyramid structure, its organization structure and control being complexity, integrating of external market and internal market, which have mutual influence and restrict each other. So that, it need to develop new method to analyze internal mechanism of ultimate controller allocating resource. Therefore, this paper illustrate the internal and operating mechanism of ultimate controller interest transfer in allocating resource, by the use of field research and system dynamics theory and game theory etc..

5. References

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