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Analysis of the Appropriateness of Ownership Structure and Corporate Governance Efficiency

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***Abstract*—There is a close relationship between the ownership structure and the efficiency of corporate governance. Under certain conditions, the ownership structure determines the corporate governance structure, and the appropriate equity structure is one of the decisive factors affecting the efficiency of corporate governance. This paper examines the appropriateness of the equity structure. On the basis of the governance efficiency of Germany, the United States and Japan, the paper puts forward an appropriate model of the equity structure of effective corporate governance, which has certain reference value for the corporate governance reform of Chinese enterprises in the transition period.**

Keywords—Appropriateness; Ownership structure; Corporate governance efficiency

I. Introduction

From the history and logic of corporate governance structure, corporate governance structure and ownership structure have a relationship. Some scholars even believe that the shareholding structure is an important part of the corporate governance structure. The governance structure of listed companies in China is very imperfect, and it has become an indisputable fact. Its roots are also in the complex and unreasonable ownership structure formed under the special history and special system background. In general, corporate governance mechanisms related to shareholding structure exist in four forms: board of directors, overwhelming majority shareholder, proxy rights, and mergers and acquisitions. These four corporate governance mechanisms can be divided into two categories: board and major shareholder oversight is called internal governance, although large shareholders sometimes participate in proxy competition and mergers and acquisitions. In general, major shareholders have major and effective governance tools. It is by entrusting others to enter the board of directors or personally acting as directors to supervise and control managers; external governance refers to agency competition and mergers and acquisitions. Internal governance of the company is often referred to as “hand voting” and external corporate governance is called “voting with the feet” [1-2].

China's empirical research on the relationship between ownership structure and corporate governance structure is not very common. He Wei and Chen Xiangwen, Zhang Weiwen, and Zhang Jianwen (2000) conducted an empirical study on the relationship between ownership structure and internal corporate governance structure, and concluded that with the largest shareholder (mostly the state) holding shares The proportion increases the conclusion that the company’s internal control is rising. Sun Yongxiang and Huang Zuhui (1999) empirical research on the relationship between ownership structure and external corporate governance mechanism shows that as the shareholding ratio of the largest shareholder increases, the number of mergers and acquisitions tends to decrease.

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This paper comprehensively examines the shareholding structure in the two senses of ownership and concentration, empirically analyzes the relationship between ownership structure and internal and external governance, and seeks to seek equity structure that is beneficial to various corporate governance mechanisms. In order to facilitate the writing and explanation of the problem, according to the shareholding situation of the largest shareholder, the shareholding structure in the meaning of concentration is divided into three types: highly concentrated, highly dispersed, and moderately concentrated. The high concentration of equity means that the largest shareholder has a shareholding ratio of more than 50%. The high shareholding is that the shareholding ratio of the largest shareholder is below 20%, and the shareholding of the largest shareholder is between 20% and 50%. Moderate concentration [3-4]. Under each of the shareholding structures classified according to the above method, combined with the main role of the first major shareholder, the ownership structure of the equity is also considered.

II. Ownership Structure and Corporate Governance

From the history and logic of the corporate governance structure, it has a relationship with the ownership structure. The shareholding structure is an important part of the corporate governance structure [5]. How the shareholding structure will determine the distribution of the company's control rights, determine the nature of the principal-agent relationship between the owner and the operator, that is, determine the mode of corporate governance structure. There are many studies at home and abroad on the impact of different types of ownership structures on corporate governance.

The history of corporate operations in developed market economies shows that the relationship between the concentration of corporate equity and the effectiveness of corporate governance is inverted U-shaped. Excessive or excessive concentration of equity is not conducive to the establishment of an effective corporate governance structure. The equity is excessively dispersed. The excessive number of shareholders leads to the limited role of individual shareholders. The enthusiasm of shareholders to exercise their rights is suppressed, which tends to cause all shareholders to have a “free rider” mentality. On the other hand, if one share is dominant and the controlling shareholder is arbitrarily arbitrary, the top manager’s life is only the majority shareholder’s life. The minority shareholder ignores the exercise of the power because the share is too small. When necessary, the “foot vote” mechanism is generally adopted. Therefore, the major shareholder loses strong constraints and checks and balances from other shareholders, and can also force the operators to collude with them to harm the interests of the minority shareholders. Therefore, the arrangement of the shareholding structure affects the operation of the corporate governance mechanism.

Domestically, the empirical research of many scholars shows that the defects of the governance mechanism of listed companies in China are closely related to the ownership structure of listed companies. According to the researcher's analysis of the correlation between the company's shareholding structure and the company's operating mechanism, Sun Yongxiang found that there is a certain degree of concentration, there are relative controlling shareholders, and there are other major shareholders' shareholding structure, compared with highly concentrated and highly dispersed equity. The structure is more conducive to the role of corporate governance mechanisms. Ma Lianfu (2004) studied the relationship between the appropriateness of equity structure and corporate governance efficiency. He believed that the plane description of the relationship between risk cost and ownership concentration is a curve passing through the origin, and the slope is positive; and the relationship between governance cost and equity concentration is It is a curve that points to the origin. The intersection of the risk cost and the governance cost curve (straight line) is also the minimum point of the sum of the two. The corresponding concentration of ownership here is what he calls the “moderate shareholding structure”.

III. Analysis of the Difference in Shareholding Structure

The company's shareholding structure refers to the composition of the company's shareholders, including the type of shareholders and the proportion of shares held by various shareholders, the concentration or dispersion of stocks, the stability of shareholders, and the shareholding ratio of senior managers. For most listed companies, shareholders include individuals, non-financial companies, non-bank financial institutions, governments, foreign investors, senior managers or general employees. In some countries, commercial banks have also become shareholders and even major shareholders of listed companies. Due to the information disclosure regulation, internal transaction regulation, market manipulation regulation, takeover and reverse takeover regulation, securities decentralization regulation and bank regulation of listed companies, the degree of sufficiency of the capital market largely affects the development of the capital market and between the inside and outside of the company. The degree of information asymmetry, as well as the proportion of institutional investors or banks, has led to differences in the shareholding structure of companies in different countries.

The United States values the role of capital markets in capital allocation and corporate governance, while adopting strict regulations. For example, it requires listed companies to disclose financial statements on a quarterly basis, and strictly restricts insiders from using undisclosed information to engage in corporate securities transactions. The securities law also requires insiders to report regularly to the securities management department about their own shares and trading company stocks. We also made very clear regulations on the manipulation of market information such as false information and fraud, and imposed strict sanctions with the law. In particular, the United States separates the business of commercial banks from investment banks, prohibits cross-overs, and prohibits commercial banks from holding any stocks of non-financial companies. This kind of regulation in the United States has two effects: First, it is difficult for large shareholders and investors who actively participate in corporate governance to form. Because of the lack of asymmetric information between the inside and outside of the company and potential internal trading interests, it is difficult for major shareholders to hold The benefit of a company's large stocks, the risk of non-distributed securities cannot be compensated for by the information superiority gained and the advantages in corporate governance. Therefore, rational investors are reluctant to give up the benefits of securities dispersion and hold a business. A large number of stocks are not willing to actively participate in corporate governance and ride free cars on supervision. This regulation also significantly limits the role of banks in corporate governance and capital allocation, so that banks can only use debt to influence companies and enable companies to reduce their reliance on banks through direct financing. Second, the lower asymmetric information, as well as strict regulation of internal transactions and market manipulation, thereby increasing the transparency of the capital market, protecting the interests of small and medium investors, encouraging small and medium investors to enter the capital market, holding stocks of enterprises, This will facilitate the benign development of the capital market and promote the role of the stock market in corporate governance and resource allocation.

The shareholding structure of Chinese listed companies is also closely related to the government's regulation of the capital market. For example, most of the shares of large state-owned enterprises should be held by the state and legal persons. The legal person shares refer to the shares held by domestic institutions. These institutions include shares. Companies, non-bank financial institutions and non-proprietorship state-owned enterprises, non-bank financial institutions including securities companies, investment trust companies, finance companies, mutual funds and insurance companies. Therefore, the characteristics of the shareholding structure of Chinese listed companies are: state-owned shares and legal person shares as the main body (no financial institution equity). The vast majority of listed companies in China are reformed from the original state-owned enterprises. Due to the "path dependence" of reforms, the restructuring of state-owned enterprises generally adopts an extensional transformation method, that is, the state-owned shares of the original enterprises remain unchanged. , then introduce some funds and transform them into company-owned enterprises. Different from the internationally accepted method of setting up the shareholding structure (preferred shares and common shares) according to the shareholders' rights, the companies that have been restructured and listed by Chinese state-owned enterprises adopt the investment entity to set up the shareholding structure, that is, state-owned shares, legal person shares, public shares, or foreign shares. In the ownership structure of the entire securities market, state-owned shares and state-owned legal person shares occupy an absolute controlling position.

IV. China's Current Shareholding Structure and Its Impact on Corporate Governance Efficiency

As we all know, Chinese listed companies were originally born out of the original state-owned enterprises. In order to meet the requirements of the relevant laws and regulations established by the company limited by shares, the listed company has set up a nominal multi-legity shareholding structure, but in fact the state-owned major shareholder is in an absolute controlling position; at the same time, the state has clearly stipulated to ensure the state shares and state-owned legal person shares. The holding position has thus resulted in an institutional arrangement in which state-owned legal person shares cannot be listed for circulation. Although the ownership structure under the control of such state-owned shares and state-owned legal person shares guarantees the control status of state-owned shares, it also reflects the government's monopoly on the stock market and also creates the dual structure of the Chinese stock market. This situation is obviously contrary to the basic principles of the market economy, which determines the irrational basis of the corporate governance structure in China.

First, the state-owned major shareholder, by virtue of its absolute controlling advantage, has demonstrated "super control" in the corporate governance structure, thereby weakening the rights of other minority shareholders. Large state-owned shareholders can use their own advantages to fully implement internal control, and the internal checks and balances in the corporate governance structure fail, resulting in a serious impact on the efficiency of corporate governance, which in turn affects the company's operations and management. Secondly, judging from the current entrusted-agent relationship of state-owned assets in China, listed companies are actually under the control of state-owned equity agents. The lack of property rights representation of state-owned shares makes the state-owned shares appear as "super-weak control" in property rights. It is difficult to implement the supervision mechanism for operators within corporate governance, which will directly affect the effectiveness of corporate governance. Third, in the case of "insider control", it is easy to cause collective conspiracy to seek rent and directly erode state-owned assets. The majority of the shareholding structure of listed companies in China is non-negotiable state shares and legal person shares. The absolute holding of the state, on the one hand, the government plays an important role in the appointment of management, and there is no complete managerial market to motivate and constrain the manager. The failure of the constraint mechanism facilitates collective conspiracy to seek rent.

For dispersed minority shareholders, individual actions have little impact on the market. However, when small shareholders put their funds into the enterprise in the form of intermediaries, because institutional investors hold more shares of a company, they often become major shareholders. If the stock is sold, it will have a significant impact on the stock price, resulting in an increase in exit costs. As a result, institutional investors will change from passive investors to active investors, actively monitoring business operations. At the same time, due to its large shares, it also has the ability to influence operators. Therefore, with the rise of institutional investors, the decentralized corporate governance of the past has shifted from the external governance of the capital market to the active internal governance of institutional investors.

Among the companies with concentrated equity, major shareholders have an active role in corporate governance and play an important role. If the major shareholder is a bank, the exercise of its equity is often combined with the creditor's rights. The bank can use the directors of the dispatched enterprise to participate in the decision-making, and through the control of the loan and the information provided by the enterprise to open an account in the bank, the formation of the enterprise is strong. control. This is most prominent in corporate governance in Germany and Japan. If the major shareholder is a non-bank financial institution, the exercise of its shareholdings and their dual status as both the major shareholder of the enterprise and the agent of the dispersed investor should not only consider the interests of the shareholding companies, but also consider their own The interests of the management fund, when the two conflict, either exert the influence on the operator as the major shareholder, so that the enterprise can make decisions that are beneficial to itself. If the influence is unsuccessful, it may sell the stock, that is, vote by hand and Using the foot to vote at the same time, this is also evident in the governance of many companies in the United States today.

V. Optimize the Ownership Structure and Improve the Corporate Governance Structure of corporate Companies in China

Through the above analysis, China's current unreasonable shareholding structure, especially the "one big and non-circulating" situation of listed companies, has become a prominent drawback in corporate governance in China. It is generally believed that reducing state-owned shares is not only conducive to accelerating the pace of strategic restructuring and structural adjustment of the state-owned economy, but also conducive to the improvement of corporate governance structure, and is also of great significance to the standardized development and effective supervision of capital markets and the improvement of resource allocation efficiency. . These insights are undoubtedly extremely valuable. However, the key issue now is how to improve the ownership structure based on the correct corporate governance concept and the inherent laws of the capital market in order to realize the effective governance of corporate governance structure in China.

A. Orderly Withdrawal of State-Owned Shares

For companies that do not need to maintain a controlling position in the country, they transfer state-owned shares through bankruptcy, transfer, mergers and acquisitions, etc., and introduce other equity to withdraw state-owned shares from the controlling position. On the government side, re-orientation of functions, abandon the inertial thinking of managing enterprises with administrative means, earnestly undertake macroeconomic management, social management and public service functions, minimize administrative intervention in corporate governance, do something, do not Therefore, the management of the tube is good, and the management of the enterprise is not fixed.

B. Properly Resolve the Circulation of State Shares

Properly solving the circulation of state stocks is also an important aspect of optimizing China's shareholding structure. The problem of splitting equity caused by the non-circulation of state-owned absolute controlling shares in China has become more serious, and now China has entered the post-transition period of the WTO. Nine departments including the financial industry will be open to foreign investment, and China’s capital market will surely It is a global market, which makes the circulation of shares more urgent. The key issue now is the pricing of the right to circulation. So far, the pricing of circulation rights has been various programs such as Han Zhiguo, Liu Jipeng, and Zhang Weixing. We have learned the lesson from the failure of the previous two state-owned shares reductions mainly due to price problems. According to the actual national conditions of China's capital market, we study the appropriate circulation pricing method. The above various pricing schemes need further research.

C. Introduce Institutional Investors to Establish Diversified Investment Entities

In recent years, due to the globalization of financial markets, the advancement of corporate governance structure theory, and the challenges of market competition to corporate governance, various models of corporate governance structure have tended to converge. One of the manifestations is that institutional investors are increasingly positive effect. In the organization-controlled governance model, the relationship between banks and enterprises is becoming loose due to the intensification of competition. The development of institutional investors, especially mutual funds, has promoted the development of capital markets and has increasingly characterized many market-oriented models. In the market-oriented governance model, the relationship between institutional investors and companies is becoming closer and closer, and diversified “relationship investments” have emerged. Moreover, institutional investors such as pension funds and securities investment funds are holding more and more shares. They no longer express their dissatisfaction with management by “voting with their feet” as in the past, but continue to strengthen contact with management. , play a proactive role in corporate governance. At present, corporate governance in China's transitional economy should also comply with this trend. The introduction of institutional investors will not only diversify the ownership structure, but also actively play their proper governance functions in corporate governance.

D. Strengthen Employee Participation and Promote Internal Employee Stock Ownership in Enterprises

In China, the participation of employees in management not only reflects the characteristics of the socialist masters, but also can improve the enthusiasm and participation of the employees, and give play to the supervisory role of the employees within the enterprise. Promote internal employee stock ownership in the enterprise, introduce the property rights of laborers into the corporate governance structure of the company, effectively exert the incentive and restraint role of the employee stocks, and further strengthen the check and balance mechanism of the governance structure.

VI. CONCLUSION

Improving the corporate governance structure and improving the company's business performance is a fairly complicated system engineering. Optimizing the shareholding structure and improving corporate governance is not limited to the points mentioned above. It also needs the improvement of other external and internal mechanisms, including improving laws and regulations, strengthening market supervision, improving the information disclosure system, and promoting the formation of the manager market. And so on.

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