

An Empirical Analysis of the Governance Structure of Listed Companies

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Abstract—This paper empirically analyzes the equity structure and corporate governance efficiency of listed companies in China from the aspects of “quality” and “quantity” of ownership structure. The results show that the proportion of state shares is significantly negatively correlated with company performance. The proportion of legal person shares is significantly positively correlated with company performance. There is no significant correlation between the proportion of shares outstanding and company performance. This shows that the efficiency of state shareholder governance is low, and corporate shareholders play a role in corporate governance. Positive role, scattered shareholders in the securities market under the strong speculative atmosphere, it is difficult to make a difference in corporate governance; equity concentration and corporate performance showed a significant inverted U-curve relationship, indicating that a moderately concentrated shareholding structure is more conducive to The exertion of corporate governance mechanisms will maximize the efficiency of corporate governance.

Keywords—Empirical analysis; Governance structure; Listed companies

I. INTRODUCTION

As the property rights basis of the listed company's governance system, the shareholding structure first determines the control structure of the listed company, and then determines the composition and operation of the internal governance institution, and through the internal governance institutions to the efficiency of the entire corporate governance. As the famous economist Wu Jinglian said, as the core of the modern enterprise system, an effective corporate governance structure should be based on a sound property right, and shareholder ownership is the ultimate controlling force of the corporate governance structure.

The core of the modern corporate system is to establish a sound corporate governance structure. On the one hand, it must rationally arrange the company's control and supervision mechanisms, on the other hand, design and implement effective incentive mechanisms. Through a series of sound and effective and standardized organizational systems, the separation of the two rights of enterprise ownership and business management rights enables the business operators to achieve true self-management. At the same time, in order to prevent business operators from using their powers for personal gain and harming the interests of other stakeholders of the enterprise, enterprises need to construct a set of reasonable governance

structures to balance the rights of the operators and to coordinate the various stakeholders among the enterprises. Benefit relationship. Corporate governance not only becomes the most important framework of the modern enterprise system, but also the necessary condition for enterprises to enhance their competitiveness and improve their business performance. Therefore, the corporate governance structure is the guarantee for the modern enterprise system to be truly established.

China's enterprises have long been full of short-term behaviors, while ignoring the long-term development of enterprises, resulting in lower corporate performance and lower competitiveness. With the establishment of the modern enterprise system, people gradually realized the decisive role of corporate governance structure in the final performance and competitiveness of Chinese enterprises. From a strategic perspective, a good governance structure should be able to improve the long-term performance of the company through the design of various mechanisms such as constraints, incentives, and decision-making participation, especially for fostering a growth capability that can sustain and innovate long-term competitive advantages. More important. With the reform and opening up and the development of the economy, China has entered an important period of economic system transition. Enterprises are faced with the major transformation of building a modern enterprise system with a standardized corporate system [1-3]. Under the guidance of this goal, many companies have been restructured into corporate forms and traded on the market. By 2002, the reform of the company system had achieved great results in China. The securities market has developed rapidly. More than 1,000 companies have been listed on the Shanghai and Shenzhen stock exchanges, making outstanding contributions to China's economic reform.

II. THE RELATIONSHIP BETWEEN EQUITY CONCENTRATION AND COMPANY PERFORMANCE

As early as 1932, Berle and Means proposed a reverse relationship between the degree of equity dispersion and company performance, that is, the more dispersed the equity, the more difficult it is to achieve optimal performance. This view is strongly challenged by Demsetz (1983). He believes that the shareholding structure is an endogenous constraint that shareholders seek to maximize shareholder equity. Therefore, there is no correlation between ownership structure and company performance. Moreover, Demsetz and Lehn (1985) used the accounting profit margins of 511 companies in the

United States in 1980 to regress various equity concentration indicators, and found no significant correlation. Holderness and Sheehan (1988) found that their Tobin's Q and accounting margins were not significantly different by comparing the performance of listed companies with absolute controlling shareholders and listed companies with very dispersed equity (less than 20% shareholding) [4-5]. Therefore, there is no correlation between the company's shareholding structure and company performance. However, this kind of research that only compares the extreme state of the equity structure is flawed. Other scholars believe that equity concentration is positively related to company performance. A study by Levy (1983) et al. found that there is a positive correlation between stock prices and equity concentration in US companies. A study by Claessens on Czech-listed companies shows that there is a positive correlation between equity concentration and the company's profitability and performance in the secondary market. Perder-son and Thomsen examined 435 large companies in 12 European countries and considered that the company's equity concentration was significantly positively correlated with the company's return on net assets.

III. THE RELATIONSHIP BETWEEN INTERNAL SHAREHOLDING RATIO AND COMPANY PERFORMANCE

The formal study of the relationship between insider shareholding and firm performance began with Jensen and Meckling (1976), who divided shareholders into internal and external shareholders, arguing that corporate value increased as the proportion of internal share increased. Morck, Shleifer, and Vishny (1988), through a piecewise linear regression of 371 management shareholdings among the 1980 Fortune 500 companies, showed that management shareholdings were significantly non-monotonic with Tobin's Q. (Between 0 and 5%, the Q value rises; between 5% and 25%, the Q value decreases; if it exceeds 25%, the Q value increases again), but when the company's performance is measured by accounting profit rate, the result is not established. . An empirical analysis of McConnell and Servaes (1990) on the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX) 1173 sample companies in 1976 and 1093 sample companies Tobin's Q and shareholding structure in 1986: Q value and internal shareholders There is a curvilinear relationship between the shareholding ratios, that is, before the internal shareholding ratio reaches 40% to 50%, the curve slopes upward, and the curve slowly slopes downward; and when the accounting profit rate is used to measure the company's performance, the conclusion is still valid.

In summary, foreign research on equity structure and corporate governance efficiency is basically carried out according to the idea that equity dispersal leads to the separation of the two powers, resulting in agency problems, and the efficiency of corporate governance is declining. The shareholding ratio or increase in equity concentration will improve the efficiency of corporate governance.

IV. A REVIEW OF THE RESEARCH ON THE EQUITY STRUCTURE AND CORPORATE PERFORMANCE OF DOMESTIC LISTED COMPANIES

Xu Xiaonian and Wang Yan (1997) analyzed the more than 300 listed companies in Shanghai and Shenzhen stocks from 1993 to 1995. The concentration of equity is positively related to company performance. The proportion of legal person shares is positively related to company performance. The proportion of national shares is negatively correlated with company performance. The proportion of individual shares has no significant impact on company performance. Zhou Ye'an analyzed the 160 listed companies randomly selected in 1997. State-owned shares, legal person shares and A-shares all had a significant positive impact on ROE. B-shares and H-shares had significant negative effects. Sun Yongxiang and Huang Zuxiang used the 503 companies listed in the Shanghai and Shenzhen stock markets at the end of 1998 as a sample to study the relationship between Tobin's Q and the shareholding ratio of the largest shareholder, and the inverted U-shaped relationship. Zhang Hongjun's empirical analysis of 385 listed companies in 1998 showed that there was a significant positive correlation between ownership concentration and Tobin's Q. There was a significant U-shaped relationship between legal person shares and Tobin's Q, while state-owned shares, A shares and Tobin's Q. The correlation is not significant.

In terms of research methods, existing domestic research has the following characteristics:

In the selection of company performance indicators, most scholars only focus on accounting profit rate indicators (such as Zhou Yean 1999, Wu Shuzhen 2002, Chen Xiao, Jiang Dong 2000, Chen Xiaoyue, Xu Xiaodong 2001), or only focus on corporate value indicators (such as Sun Yongxiang, Huang Zuxiang 1999, Zhang Hongjun 2000, Zhu Wuxiang, Song Yong 2001), only a few scholars selected two indicators at the same time (such as Xu Xiaonian, Wang Yan 1997, Shi Donghui 2000). We believe that although the two indicators have their own advantages and disadvantages, they reflect the company's performance from two different perspectives (ie, the accounting profit rate reflects the profitability of the enterprise; the enterprise value indicator reflects the market performance), so it cannot be ignored.

In the data selection, the early research mainly focused on the cross-section data, and the recent research used more parallel data. We believe that parallel data takes into account the information contained in both the cross-section and the time series. In fact, the results are more stable and reliable.

Most empirical analyses are too simple, focusing on linear relationship analysis, and relatively few analyses of nonlinear relationships (such as quadratic and cubic functional relationships).

In view of the above situation, we use parallel data to empirically analyze the relationship between equity structure and corporate governance efficiency (including linear and nonlinear relationships) from the perspectives of accounting profitability and corporate value indicators.

V. OVERVIEW OF THE SHAREHOLDING STRUCTURE OF LISTED COMPANIES IN CHINA

The vast majority of listed companies in China are made up of state-owned enterprises. In addition, the policy at the time supported the listing of state-owned enterprises and the guiding ideology of the state to maintain holdings or even absolute holdings in listed companies, resulting in extremely unreasonable shareholding structure of listed companies. As shown in Table 1, the shareholding structure of listed companies in China has the following characteristics.

There are many kinds of stocks, and various stocks cannot be the same price and share the same price. There are six types of stocks in listed companies in China, including state shares, legal person shares, social public shares (A shares), foreign shares (B shares, H shares, etc.), internal employee shares and transfer shares. Among them, state shares and legal person shares cannot be listed for circulation, and the transfer price of the agreement is much lower than the A-share price of the same company; the tradable A shares, B shares, and H shares are divided into different markets and have different prices. This violates the nature of the same price and the same price of the stock.

The proportion of non-tradable shares is too large. From 1992 to 2000, the proportion of non-tradable shares reached 72.17%, the lowest was 64.27%, the average level was 66.47%, and it was about 2/3 of the total share capital. It has been in a dominant position, but there is a gradual decline in the overall trend.

Equity is highly concentrated in state-owned shares. From 1992 to 2000, the national stocks generally declined, from 41.38% in 1992 to 38.9% in 2000, with an average of 38.75%. For individual shareholders, the national stocks were in the first largest shareholder status. The legal person stocks had an upward trend from 1993 to 1997, and began to decline after 1997, with an average level of 25.67%. Although there is no specific information on the nature of the property rights of legal person shareholders, it can be seen from empirical observations and some irregular statistical analysis that the proportion of legal person shareholder ownership in China is higher. Therefore, state-owned shares (state shares and state-owned legal person shares) are in an absolute holding position. In general, the shareholding structure of listed companies in China is a closed-end ownership structure dominated by state-owned shares. This malformed shareholding structure has a significant impact on corporate governance efficiency. Our analysis below will focus on state stocks, legal person shares, tradable shares (A shares), and equity concentration.

VI. BASIC IDEAS AND BASIC ASSUMPTIONS

The shareholding structure includes the composition of equity and the concentration of ownership, that is, "quality" and "quantity". Therefore, the analysis of the impact of ownership structure on corporate governance efficiency should also be carried out from these two aspects.

Equity formation and corporate governance efficiency. The composition of equity, that is, the number of shares held by shareholder groups of different natures, is the embodiment of

the "quality" of the shareholding structure. Different types of shares correspond to different equity entities, and different stakeholders have different participation and influence on corporate governance, so their behavioral orientation will directly affect corporate governance efficiency.

The ultimate owner of a state's equity is the entire people, but the state that has real decision-making and capacity for state-owned capital can only be a country represented by the interests of all people. The state's operation of state-owned capital must be based on certain institutions. At present, the main body of state-owned shares is mainly government agencies³, state-owned asset management companies and group companies. The government's control over the company is characterized by administrative "super control" and "super weak control" of property rights (He Wei, 1998). On the one hand, the supervision of government agencies is inevitably subject to administrative color, leading to excessive intervention in enterprises. In particular, when the administrative objectives conflict with the owner's goals, administrative goals may be pursued and the interests of the owners may be impaired. On the other hand, there is a non-standard agency relationship between government agencies and enterprises that deviates from market principles. According to the modern enterprise theory, the principal bears certain risks to the corporate behavior due to the capital contribution, and has the right to supervise the business operators because of the risk. Efficient corporate ownership should match the residual claim with the residual control. If the two are not uniform, the supervision will lack motivation and the voting rights will become "cheap". Although officials of government agencies have the actual control of enterprises to a certain extent, the residual claims are owned by the state. Without sufficient economic benefits to effectively supervise the operators, the state equity is bound to become "cheap voting rights." In-house people can buy this kind of cheap control right at a certain cost, thus forming a de facto insider control. The vast majority of state-owned asset management companies are "flop" companies. The phenomenon of government and enterprise is very serious. In addition, its own incentive and supervision mechanism is still not perfect, and it is difficult to fulfill the responsibility of shareholders.

For a group company, if it is reorganized on the basis of some of its enterprises, or a part of its state-owned assets is invested in the establishment of a joint-stock company, or through the acquisition or merger of a joint-stock company, the group company can hold shares on the company on behalf of the state. However, this situation is only a minority. More group companies are "empty shell" companies, that is, the group company divests the main part of the company, and deducts the assets of the joint-stock company, it becomes a "empty shell", then the group company and The operators of the joint stock companies are almost the same, which means that the operators of the joint stock companies are separated from the national shareholders. It can be seen that the current state shareholders are difficult to become the national equity holders who are responsible for the preservation and appreciation of state-owned assets, resulting in the absence of a representative of the national equity personality.

In addition, because state stocks are generally more important and cannot be freely circulated in the securities market, even if they can be transferred through agreements, transfer standards often include political considerations, so it is difficult to internalize through external authority mechanisms such as proxy competition and takeover. Human control forms an effective constraint.

In summary, the absence and non-free circulation of the national personality personification representatives have increased the agency problems brought about by insider control, thus making corporate governance inefficient. Based on the above analysis, we come to the first hypothesis. Namely: there is a significant negative correlation between the proportion of state shares and company performance. 2. Equity concentration and corporate governance efficiency. Equity concentration refers to the degree of concentration or dispersion of equity. It is the embodiment of the "quantity" of the equity structure, including three types: First, the equity is highly concentrated, the company has a controlling shareholder, and the shareholder has absolute control over the company; The equity is highly fragmented. The company has no major shareholders. The ownership and management rights are basically completely separated. Third, the equity is moderately concentrated. The company has a relatively large relative controlling shareholder and other major shareholders. Different concentration of ownership has a positive or negative impact on the role of corporate governance mechanism 5, which will lead to different corporate governance efficiency. Below we will analyze the impact mechanism of equity concentration on the internal control system and the external governance mechanism (control market) and agency competition (manager market).

The mechanism of equity concentration and internal control checks and balances. Under the high concentration of equity, the behavior characteristics of shareholders have two sides: on the one hand, the controlling shareholder in absolute holding position has high monitoring enthusiasm. The general chairman or general manager is the direct representative of the controlling shareholder or the controlling shareholder himself, so the interests of these operators Highly consistent with the interests of shareholders. On the other hand, the small shareholder lacks monitoring power because of the small share, and even if the monitoring can not break the situation of the controlling shareholder "one word" on the board of directors, the controlling shareholder loses the strong constraints and checks and balances from other shareholders, he can operate Intervene or collude with them to seek benefits for themselves at the expense of the interests of minority shareholders. Therefore, it is difficult to form an effective internal control check and balance mechanism under the high concentration of equity, and corporate governance efficiency will be difficult to improve.

When the equity is highly dispersed, a considerable number of shareholders hold similar shares, and the role of individual shareholders is limited. This can avoid the polarization of the characteristics of shareholders' behavior under the high concentration of equity, and avoid collusion between individual shareholders and managers. There is a check and balance mechanism among shareholders. However, individual shareholders lack the enthusiasm to supervise the company's

operation and management, because the improvement of company performance brought by shareholder monitoring is a public good that everyone can enjoy, and the monitoring cost is entirely borne by the monitor, so the scattered shareholders have The motivation for "free rider". It can be seen that the internal monitoring and balancing mechanism is also difficult to play its due role when the equity is highly dispersed. Under the moderately concentrated shareholding structure of the controlling shareholder and other major shareholders, the shareholders have an advantage in effectively supervising the manager. In the case where the manager is an agent of the controlling shareholder, the other major shareholders have the motivation to supervise because they hold a certain amount of shares. The gains from their supervision are often greater than the supervision costs, so they will not be like minority shareholders. The motivation to create a "free rider". Moreover, under the premise that the shareholding gap is appropriate, the relative controlling shareholder is also effectively balanced by other major shareholders, thus safeguarding the interests of all shareholders. Therefore, the moderately concentrated ownership structure not only solves the problem of "free rider" under the highly dispersed equity, but also gets rid of the "one-word" situation under the high concentration of equity, and forms an effective mechanism for internal control checks and balances, which greatly improves the efficiency of corporate governance.

Equity concentration and takeover. The company's control market is actually a derivative of the stock market. It achieves the purpose of taking over a company by acquiring "cheap" stocks in the stock market, so it is also called "the company takes over the market." There is a linkage effect between the company taking over the market and the manager market to a certain extent, that is, after the company is taken over, the company manager will generally be dismissed, then its human capital will depreciate sharply in the manager market, so the takeover mechanism will form a manager. Effective strong constraints. When the equity is highly concentrated, the controlling shareholder has the majority of the shares, so the potential takeovers cannot achieve control status even if they acquire all the shares held by the minority shareholders in the stock market. In order to successfully take over, it is necessary to acquire shares from the controlling shareholder. The controlling shareholder's boycott of the takeover will greatly increase the acquisition premium, so that the takeover cost of the potential receiver is greater than the gain from the takeover, so the probability of success is very small. The high degree of shareholding is very beneficial for taking over. Because the scattered minority shareholders more often restrict the behavior of the operators by "voting with their feet", that is, when they are dissatisfied with the performance of the company, they sell the stocks in the stock market, so the potential receivers can buy at low prices. Sufficient shares were successfully taken over.

VII. CONCLUSION

Through theoretical and empirical analysis, the paper shows that a sound corporate governance structure can improve company performance. The following are some suggestions for the corporate governance structure of China: (1) The state should appropriately reduce the proportion of state-owned shares. State-owned shares have serious agency problems; the illiquidity of state-owned shares has inhibited the development of the control market; state-owned shares are in a controlled position, making the appointment of company managers with a planned economy; China's managerial market and product market are imperfect, exacerbating Insider control issues in listed companies. Therefore, it is imperative to reduce state-owned shares. (2) Vigorously develop institutional investors. If the company's equity is excessively dispersed, it will lead to insufficient shareholder monitoring ability and increased monitoring costs.

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