An analysis of the influence of actual controllers on cash holding decisions-based on the data of Chinese private listed companies

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Abstract. The level of cash holding is directly related to the survival and development of Chinese private enterprises. The ultimate controller can affect the level of cash holding of enterprises, but the existing research conclusions are inconsistent on the mechanism of the influence. Based on the cash holding agency cost theory, analyze how the ultimate controller's power (voting right or whether serving as the executive) affects corporate cash holding. Ultimate controllers of Chinese private listed companies mainly plunder resources from the companies under their control.In order to ensure the reasonable level of cash holdings of private enter-prises, and protect the interests of minority shareholders, the government should strengthen supervision over private enterprises,and investors should focus on enterprises with high control rights and whos actual controllers concurrently serve as directors or managers.

Keywords:ultimate conctroller ,voting right,serving as managers, cashholdings

1   Introduction

It is pointed that Chinese firms have increased their cash holdings during the COVID-19 period[1]. According to the agency theory, high cash holdings reflect the existence of agency conflicts in enterprises[2],[3]. The existing literature has not reached a consistent conclusion on whether the existing agency conflict problem leads to the high or low level of corporate cash holdings. The agency conflict mainly lies in the interest conflict between the actual controller and the minority shareholders for Chinese private listed companies[4]. It is found that under the special institutional background of China, the conflict of interest between the ultimate controller and external investors has become the main agency problem of China's private listed companies[5],[6].There are few studies on the influence of ultimate controllers on cash holding strategy in China. The existing studies mainly directly analyzed the relationship between the ultimate controller's shareholding ratio and cash holdings, and reached a consistent conclusion that the ultimate controller can affect the enterprise's cash holdings,but the conclusion that ultimate controller tends to increase or decrease its influence is not consistent, which

makes this issue interesting and leaves research space. Based on the mainstream litera-tures[7], [8], [9] ,this paper chooses the voting right ratio of the ultimate controller as the basic index of the ultimate controller's power . Since whether the ultimate controller concurrently serves as director or general manager can also directly reflect the influence of the ultimate controller on the listed company, the subsequent research analyzes the influence of the ultimate controller on the cash holdings of the private listed company from two perspectives: the proportion of the ultimate controller's voting right and whether the ultimate controller concurrently serves.

2   Research design

2.1   Research hypothesis

We put forward hypothesis 1: the voting rights of ultimate controllers can positively or negatively affect the level of cash holdings of enterprises, but the influence direction of the proportion of ultimate shareholders' control rights.

Hypothesis 2: the voting rights of ultimate controllers can positively or negatively affect the cash holding level of the enterprise, but whether the ultimate controller is directly involved in the operation of the enterprise will affect the direction.

2.2   Methods

Based on the theory of agency cost of cash holding, A regression model was con-structed, and private listed companies on the A-share main board of Shanghai and Shen-zhen Stock exchanges from 2006 to 2021 were selected as research samples. Statistical software STATA15 and EXCEL were used for statistical analysis and empirical test. To analyze the mechanism of ultimate controller's power (the proportion of control rights, whether to concurrently serve as director or manager) affecting the cash holding decision. The data in this study are from the public data of Chinese private listed com-panies, covering the A-share listed companies on the main board of Shanghai and Shen-zhen Stock exchanges from 2010 to 2021. The main collection channel is through com-mercial databases, and the relevant data are from the CSMAR database. The data of A-share listed companies in Shenzhen and Shanghai from 2010 to 2019 are used as the initial sample.

2.3   Research Models

In order to analyze and test the hypotheses proposed in the previous section, we based on the existing research[10] and the characteristics of Chinese private enterprises to construct the following basic regression model, and use the model to test the samples in groups according to the the proportion of control rights and whether to concurrently serve as director or manager.

$$Cash_{i,t} = \alpha + \beta ucsvr_{i,t} + \theta \sum_k X_{k,i,t} + \gamma \sum IN + \delta \sum Year + \sigma_{i,t} \qquad (1)$$

Cashi,t   represents the cash holdings of the ith listed company in year t. In order to reduce the influence of heteroscedasticity, the logarithm is substituted into the model; ucsvr is the controlling shareholding ratio of the ultimate controller; Xk,i,t is a group (k) of control variables that affect the company's Cash holdings, which capture the impact of firm-level characteristics on the company's cash holdings, mainly including : the firm size (Size) and industry risk (Indsigma) refer to the variation of cash flow of industry operating activities [11], namely industry financial risk; Investment opportunities (tobin); the cash flow ratio (cflow), net working capital (NetWC); the capital expenditure ratio(capExp); dividend payments payout(payout); the leverage(t1); ΣYear t are the yearly dummies to control for time effects; ΣIndustry are the industry dummies, to control for industry effects. α is the intercept term, β is the regression coefficient of explanatory variables, θ is the regression coefficient of control variables, γ and δ are the regression coefficients of industry and year dummy variables respectively, and σ is the random error term.

3   Results of Regression

3.1   Based on the voting rights

Colums(1)-(2)in Table 1 show the regression results of model (1) after grouping the companies with absolute control (hight,greater than 50%) and low voting rights (low,lower than 0.29),. The influence of ultimate control on cash holdings is different between the high control group and the low control group. The coefficient of the control variable of the ultimate controller is significantly negative. One possible reason is that when ultimate controllers are under absolute control, they will not only increase their cash holdings for private gain, but also adjust the cash level by weighing the benefits and costs. But it may also be that absolute control increases their plundering ability and reduces the cash holding level by excessive dividends, trading or over-investment. When the control right is low, the proportion of control right is increased, and the control right is significantly positively correlated with the cash holding, which indicates that the ultimate controller tends to use cash to seek private interests when the control right is low.

3.2   Based on whether serving as senior managers

Colums(3)-(4)in Table 1 show the regression results of the model for the groups of serving as director or manager (yes) and non-serving (no). In the serving group, the coefficient of the control variable of the ultimate controller is significantly positive, indicating that the actual controller who concurrently holds the senior management control of the enterprise has stronger motivation and ability to seek private interests. In the non-serving group, the coefficient of control variable is not significant, indicating that if the ultimate controller does not participate in managing the company, it may have little impact on the cash holdings or other decisions of the company, resulting in inefficient operation of the company.

Table 1. Regression results of the model

	(1)	(2)	(3)	(4)
	high	low	yes	no
ucsvr	-0.305 *	0.988 ***	0.392 ***	0.073
	(1.65)	(3.90)	(8.53)	(0.70)
NetWC	0.038	0.067	0.188 ***	0.068 ***
	(0.58)	(1.56)	(22.18)	(4.09)
size	0.204 ***	0.161 ***	0.092 ***	0.011
	(17.18)	(17.54)	(12.45)	(0.75)
tobin	0.116 ***	0.065 ***	2.434 ***	2.075 ***
	(9.98)	(8.27)	(29.72)	(10.79)
cflow	2.628 ***	2.208 ***	0.147 ***	0.232 ***
	(21.84)	(22.84)	(3.90)	(2.79)
capExp	0.303 *	0.969 ***	0.835 ***	0.806 ***
	(1.77)	(7.57)	(7.48)	(2.85)
payout	8.566 ***	9.242 ***	9.201 ***	7.740 ***
	(13.63)	(20.28)	(21.72)	(10.39)
indsigma	1.700 ***	0.921 ***	0.961 ***	1.497 ***
	(5.55)	(4.68)	(5.28)	(3.95)
tl	0.378 ***	0.173 ***	0.244 ***	0.185 ***
	(7.88)	(5.42)	(8.53)	(2.59)
N	5307	12897	14772	3453
r2	0.387	0.302	0.350	0.212
* p<0.1	** p<0.05			

3.3 Based on comprehensive high voting rights and serving as senior manager

Colums(1)-(2)in Table 2 show that when the ultimate controller has a high proportion of control and concurrently serves as the company's senior manager, control power have no significant impact on cash holdings. It shows that when the ultimate controller is already in absolute control and serving as an manager,the ultimate controller has absolute discourse power, so simply improving the control power has no substantial impact on the control power. Or it is because the combination of strong and strong (high control and serving as senior managers leads to the ultimate controller does not need to make profits directly or indirectly by hoarding cash, and can directly enjoy the benefits of control. If the ultimate controller holds a high proportion of shares but does not serve as a director or manager, the increase of voting rights will reduce the cash holdings. One possible reason is that although the ultimate controller has absolute control but does not directly participate in the operation and management of the company, as an "outsider", he will effectively supervise the management, and urge the managers to reduce the cash level. It may also be difficult to supervise and intervene in enterprise decision-making due to information asymmetry and unable to obtain private interests in the process of operation, so it may tend to use excess dividends or interest transfer to reduce the level of cash holdings.

3.4   Based on comprehensive low voting rights and serving as the senior manager

Colums(3)-(4)in Table 2 show the regression results of different groups of ultimate controller power (integrated low control and whether to serve mangers. If the ultimate controller is a director or manager, the ultimate controller's power will significantly affect the cash holdings, indicating that the actual controller's power is balanced by other shareholders, but as long as he participates in the company's operation and major decisions, he will hock cash for personal interests. When the ultimate controller can participate in the daily operation and management of the enterprise by serving as a director or manager, the greater the power of the ultimate controller is, the higher the cash holding will be, which is in line with the "entrenchability effect" .When the ultimate controller has low control power and does not hold concurrent positions, the coefficient of the ultimate controller is not significant, indicating that when the control right is low and ultimate controller does not participate in the operation of the company, other shareholders can counter balance the power of the ultimate controller to control cash holdings..

Table 2. Regression results of the model

	(1)	(2)	(3)	(4)
	yes	no	yes	no
	high	high	low	low
ucsvr	0.224	-1.007 *	1.321 ***	0.459
	(1.16)	(1.67)	(4.29)	(1.01)
size	0.229 ***	0.019	0.107 ***	0.065 * *
	(15.22)	(0.42)	(5.89)	(2.01)
tobin	0.133 ***	0.035	0.072 ***	0.010
	(9.44)	(0.94)	(4.67)	(0.44)
cflow	2.761 ***	2.109 ***	2.126 ***	1.721 ***
	(20.13)	(4.64)	(10.36)	(5.49)
NetWC	0.030	0.443 * *	0.318***	0.233 *
	(0.44)	(2.15)	(3.52)	(1.70)
capExp	0.259	1.369 * *	1.752 ***	0.774
	(1.28)	(2.22)	(6.69)	(1.37)
payout	8.924 ***	4.850 ***	10.887 ***	10.078 ***
	(11.69)	(3.06)	(10.60)	(5.60)
indsigma	1.891 ***	2.311 * *	0.595	1.149 *
	(5.35)	(2.46)	(1.62)	(1.84)
tl	0.421 ***	0.222	0.084	0.363 ***
	(7.66)	(1.13)	(1.25)	(3.02)
N	4077	479	10021	2876
r2	0.402	0.343	0.333	0.213
* p<0.1	** p<0.05			

4   Conclusion

Ultimate controllers of Chinese private listed companies mainly plunder resources from the companies under their control, and the "entrenchment effect" is obvious. When the ultimate controller is already in an absolute control position (with a high proportion of control and is also a director or manager), he does not need to make profits directly or indirectly by hoarding cash, and can use the control right to enjoy the benefits of other material and non-material assets. The ultimate controller, who holds a high proportion of shares but does not concurrently serve as a director or manager, will reduce cash holdings if he or she increases the control right. This may be because information asymmetry has no ability to supervise and intervene in major decisions of the enterprise, so he or she tends to reduce cash holdings by means of excessive dividends or benefit transmission. However, because they do not concurrently serve as directors or managers, the agency problem of "insiders" (between managers) is serious, resulting in a decrease in cash. When the ultimate controller has low control power, even if other shareholders can contend with the ultimate controller, as long as the ultimate controller is also a director or manager, it cannot restrain the ultimate controller's motivation to increase cash holdings to obtain private benefits. Therefore, in order to ensure the reasonable level of cash holdings of private enterprises, promote their healthy development, and protect the interests of minority shareholders, the government should strengthen supervision over private enterprises, expose their control chain through open channels, and improve information transparency. Investors and regulators should focus on enterprises with high control rights and actual controllers who concurrently serve as directors or managers.

Acknowledgment

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