



Impact of Managerial Ownership on Firm Performance: Evidence from China's A-Share Market in difference of private enterprises and SOEs.

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Abstract. This paper is research the impact of managerial ownership on firm performance according to analysis private enterprises and SOEs from China's A-Share market. Based on China's special socialist background, the managerial ownership and management mode have significant difference. Compared to government-controlled structure of state-owned enterprises, private enterprises' share structure is more diverse, and ownership changes flexible(such as mergers and acquisitions, etc.). Managerial shareholding can promote the consistency of management and shareholders' goals through the theory of interest consistency, so as to improve firm performance. The study use pearson correlation and OLS regression model to examine the connection between company performance and management ownership, which is meanly measured by return of assets(ROA). The control variables include firm size, leverage ratio, working capital and industry growth rate. The results show that managerial shareholding in private enterprises, has a favorable impact on business performance while in state-owned enterprises, the incentive mechanism of managerial shareholding is not obvious, and may even have a negative impact. This study will provide reference for firm governance policy and management incentive design in the future. But also pointed out some shortcomings, it includes the neglect of other incentive forms (time option, long-term incentive plan, etc.), and insufficient control of potential variables such as macroeconomic factors and industry competition. Future research can further explore the impact of different management incentive forms on firm performance.

Keywords: OSL, Private enterprises, SOEs, ROA

1 Introduction

In this paper, author use the sample form China's A-Share market for private firms .to investigate the connection between firm performance and managerial ownership. Base on the context of Chinese-style socialism, China's firm can be categorized into state-owned enterprises (SOEs) and private enterprises. Previous studies have explored the role of ownership structure in influencing firm performance, including in emerging markets like China [1]. Compared to the government controlled structure of

SOEs, private enterprises have a more diversified share distribution. Its shares can not only be controlled by a few major shareholders or widely held by public shareholders by equity dispersion. Besides, private firms tend to be more flexible ownership, will always be determined by market mechanisms with ownership change (such as mergers, acquisitions, and stock sales.). Their governance model places greater emphasis on firm performance. So research investigate private enterprises relationship between managerial ownership and firm performance.

Managerial ownership acts as the decision maker of the company's operations. Jensen and Meckling [2] proposed in their classic paper that agency problems in companies can be effectively alleviated by allowing management to hold shares, thereby reducing agency costs and improving enterprise performance. According to the interest alignment theory proposed by Jensen and Murphy [3], By bringing management's interests into line with shareholders', management shareholding can encourage investors to focus more on the company's long-term performance. Agency theory and Alignment of interest's theory both show the importance of setting managerial ownership.

Due to this study, a deeper comprehension of the impact on company performance base on China's national conditions managerial ownership can be gained.

2 Literature review

2.1 Theoretical basis

Jensen and Meckling pointed at Agency theory, managerial shareholding can decrease agency problem effectively aligning management and shareholders' interests to improve firm performance [2]. Fama & Jensen further emphasized that separating ownership and control creates agency issues, and managerial ownership is an effective mechanism to mitigate such problems [4].

Besides, Congruence of interests theory was further put forward, management shareholding can motivate executives focus on the long term development [5]. These theories provide a solid theoretical basis for the study of this paper.

2.2 Empirical research

In develop market, large amount of researches discuss about the connection between management ownership and company output. For instance, Morck et al [6] study how management ownership affects a company's performance in the US market and find that shareholding percentage is positively relative with firm performance. However, in emerging markets, especially in China, there has been relatively little research. However, Claessens, Djankov, and Lang [7] found that in East Asian emerging markets, ownership concentration significantly affects firm performance. This suggests that market structure may play a crucial role in the relationship between ownership and firm performance.

3 Method

This part covers the measurement of variables and fixed factors, as well as the process used to choose the study's firms.

3.1 Choice of firm

With the intention of researching the connection between company performance and managerial ownership base on China's unique national conditions, study selects the firms in two type: private enterprises and state-owned enterprises. The csmar database is the source of all of the data.

3.2 Firm performance

The primary metric used to assess the performance of a company is return on assets, or ROA. ROA is a metric that indicates a company's capacity to produce net profit from its whole asset base, and it can serve as an indicator of the firm's asset utilization rate. ROA is calculated as net profit /average total assets [8]. Managerial Ownership is the most commonly employed proxy for assessing insider (managerial) ownership is the aggregate equity held by the company's directors and executive management [5] or directors and their family's total ownership [6,9]. High ownership concentration can make decision more rapidly. But it may also cause Firm's governance power too concentrated, which may impact the fairness of the de Cision. Some studies show that [10] Increased managerial ownership is typically linked to better business outcomes. This is because This is because ownership motivates management to perform their duties better, thus promoting the improvement of corporate performance. Institutional investors often have the investment enterprise and resources to monitor corporate governance and management and push companies to improve governance and transparency. Institution investors may use their shareholdings to influence strategic decisions, push for corporate restructuring or improve corporate governance. The data of managerial ownership are collected by csmar database and are calculated as follows. Study uses Mshare to reflect the managerial ownership. Mshare: the shareholding ratio of management and directors within the company, which is calculated by number of management holdings /total number of shares (Mshare)

3.3 Controlling Factors

Following to the previous study, this study needs to control following variables to prevent their impact on business performance.

Firm size: the natural number of people in the firm(Employee).

Leverage Ratio: total debt/ total assets.

Working Capital: current assets-current liabilities.

Industry Growth Rate: industry revenue.

3.4 Analytical method

OSL regression analysis: The correlation analysis between managerial ownership and firm performance by OSL regression model (such as profitability, asset return, corporate growth rate, etc.)

4 Empirical results

4.1 Characteristic Statistic

The descriptive statistics for the study sample are shown in Tables 1 and 2.

Table 1. Descriptive statistics for study variables of private enterprise

Empty Cell	Mean	Median	Min	Max	S.D.
Mshare	19.26	9.62	0.00	89.99	21.57
ROA(%)	3.41	4.23	-143.01	78.59	14.77
Employee	7.35	7.30	1.95	13.25	1.23
Total liabilities/total assets	0.39	0.38	0.01	9.70	0.22
Working capital	-3.88e+09	4.37e+08	-1.66e+13	1.02e+11	1.85e+11
industry revenue	4.56e+09	1.25e+09	-1.15e+08	2.06e+12	2.16e+10

Table 2. Descriptive statistics for study variables of SOEs

Empty Cell	Mean	Median	Min	Max	S.D.
Mshare	3.33	0.01	0	83.60	10.47
ROA(%)	0.03	0.03	-2.75	0.76	0.07

Employee	7.89	7.84	0	13.22	1.43
Total liabilities/total assets	0.50	0.50	0.01	1.96	0.21
Working capital	1.40e+09	4.36e+08	-2.78e+11	4.58e+11	1.67e+10
industry revenue	1.60e+10	2.30e+09	26095.32	3.32e+12	1.00e+11

Ownership. In average, for private enterprises have a mean value of 19.26 and a high S.D. value of 21.57. It shows that for most private firms from China’s A-share market has a high degree of contribution. For SOEs firms, it has a low mean value of 3.33 and a S.D. value of 10.43. Private enterprises occupy a larger share of market and SOEs has a relatively small market share, which reflect the high market flexibility and scalability for private firms.

Firm performance. View from the statistic, the firm’s ROA have a mean value about 3.41% and a S.D. value about 14.77 in private firms. However, in SOEs ROA is low and stable with the mean value 0.03% and S.D. value 0.007. This further shows that the return on assets of private firms is significantly higher than SOEs although it fluctuates more, which may impacted by policy objectives and low market drivers.

Controlling Factors. The control variable include firm size, leverage ratio, working capital, industry growth . For private firm the firm size has a mean of 7.35 and S.D. value of 1.23 and SOEs is a little bit higher than private firm with the mean value 7.89 and S.D. 1.43. The debt ratio of private firm has a mean of 0.39 and SOEs value of 0.50. Working capital varied widely among the company and the has very large S.D. value 1.85e+11 and 1.67e+10. For SOEs mean value is 1.40e+09 higher than private firm -3.88e+09 is more stable, less volatile. Research sample finally has a very high growth rate. For private firms, industry growth has a mean of 4.56e+09, whereas for SOEs, it is 1.60e+10.

4.2 Analysis of correlations

The Pearson correlations between the variables used in investigation are displayed in Table 3 and Table 4.

Table 3. Pearson correlations between the private enterprise study variables

	Mshare	ROA	Employee	Leverage ratio	Working capital	Industry Growth
Mshare	1.00					
ROA	0.124	1.000				
Employee	-0.133	0.078	1.000			
Leverage Ratio	-0.285	-0.437	0.273	1.000		
Working capital	0.059	0.063	-0.075	-0.176	1.000	
Industry Growth	0.016	0.016	0.327	0.165	-0.187	1.000

Table 4. Pearson correlations among study variables of SOEs

	Mshare	ROA	Employee	Leverage ratio	Working capital	Industry Growth
Mshare	1.00					
ROA	0.037	1.000				
Employee	-0.165	0.068	1.000			
Leverage Ratio	-0.227	-0.356	0.277	1.000		
Working capital	-0.004	0.050	0.053	0.018	1.000	
Industry Growth	-0.040	0.024	0.319	0.084	-0.026	1.000

Mshare is positively correlated with return of assets in private enterprise but in SOEs the relationship with ROA is relatively weak which means for firms with more market share have stronger business capacity. Both SOEs and private firm are negatively correlated with leverage ratio. It indicates when insider ownership percentage grow bigger companies rely on debt less. ROA is positively correlated with the firm size and negatively correlated with leverage ratio for both type of firm.

High leverage significantly reduces a company's profitability. At last in private firm its size is negatively relative with leverage ratio shows that larger private companies have less debt. On the contrary, SOEs is positively correlated with leverage ratio shows that SOEs tend to use debt to support firm size. There is a strong positive correlation between firm size and industry growth in two type of firm indicates that firm with larger size tend to operate in fast growing industries.

OLS regression of ROA on ownership and control variables4.3 Ownership and control variable OLS regression of ROA

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In OLS regression, ROA is regarded as firm performance. Study use Mshare as alternative measures of managerial ownership and use firm size, leverage ratio, working capital, industry growth rate and private corporation as control variables in each regression.

Table 5. OLS regressions of ROA on managerial ownership and control variables of private enterprises

	ROA
Constant	-0.0112544**
Mshare	0.0000745*
Employee	0.0207242***
Leverage Ratio	-0.277585***
Working capital	-7.91e-14
Industry Growth(log)	-29.39***
Adjusted R^2	0.2356
F -statistics	1825.80
Significance of F	0.000
Observations	29584

Table 6. OLS regressions of ROA on managerial ownership and control variables of SOEs

	ROA
Constant	0.0268655***
Mshare	-0.000183***
Employee	0.0090365***
Leverage Ratio	-0.1440578***
Working capital(log)	-29.19***
Industry Growth(log)	-33.76
Adjusted R^2	0.1594
F -statistics	804.3
Significance of F	0.000
Observations	21209

***Correlation is significant at the 0.001 level (two-tailed).**Correlation is significant at the 0.01 level (two-tailed).*Correlation is significant at the 0.05 level (two-tailed).

The result of ROA's OLS regression in the table 5 and table 6. In the table 5 for the OLS regression Mshare coefficient is positive and significant for managerial ownership. For the control variance firm size, Leverage Ratio, Industry Growth are significant effected in the ROA regression but working capital doesn't. Leverage Ratio and Working capital are negatively correlated with ROA. Firm size and industry growth are positively correlated with ROA. R^2 is 0.2510, which means there are many factors are listed in this study.

In table 6 for SOEs, for the OLS regression Mshare coefficient is negative and significant for managerial ownership. For the control variance firm size, leverage ratio, and working capital are significant effected in the ROA regression but industry

growth doesn't. ROA and leverage ratio have a negative correlation. Firm size, working capital and industry growth are positively correlated with ROA.

5 Conclusion

Study addresses the connection between manager ownership and business performance base on the China's A-Share market with the difference of private firm and SOEs. This section summary the major conclusion in the study.

In conclusion, the effect of managerial ownership on company performance varies significantly between state-owned and private businesses. In private enterprises, managerial shareholding can effectively improve firm performance, but in SOEs, the shareholding incentive mechanism does not play the same role, may even have a negative impact. Research shows that in China's A-Share market the incentive mechanism is more effective in private enterprises, while the effect of the incentive mechanism is weakened in SOEs due to the complex governance environment such as policy and governance structure. This provides a valuable reference for future corporate governance policy and management incentive design.

The current research direction has some insufficient. First of all the measurement managerial shareholding only considers direct shareholding and ignore other forms of incentives (option, long-term incentive plan, etc.). Besides, although having controlled for some important influencing factors, other potential variables (such as industry competition, macroeconomic factors, corporate culture, etc.) that may impact on the relationship between managerial ownership and corporate performance have not been fully considered in the model.

So in the future, it is possible to study the impact of different forms of managerial incentives (such as stock options, restricted stock, etc.) on firm performance. This study can deeply analysis by industry that can have different impacts on the relationship between managerial shareholding and firm performance. Future studies can also explore the potential regulatory effects of life cycle stage and other characteristics.

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