The Influence of Shareholder Structure on Enterprise Performance

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Abstract. Shareholder structure is the core of corporate governance, which has a profound impact on corporate financial and non-financial performance. By analyzing the effect mechanism of different shareholder types (such as institutional investors, foreign shareholders, and management shareholding) on performance, and combining the cases of Tencent, Procter & Gamble, and PetroChina, this paper finds that designing the shareholder structure directly affects the innovation ability, governance level and financial stability of enterprises. Management shareholding enhances corporate innovation, decentralized shareholding structure enhances governance transparency, and State-owned holdings rely on policy support to stabilize economic performance. This paper provides theoretical support for optimizing the shareholder structure and helps enterprises improve their comprehensive competitiveness.

Keywords: Shareholder structure; Enterprise performance; Corporate governance; Financial stability.

1 Introduction

Shareholder structure is the dominant force of a company, is the cornerstone of corporate governance, and has a profound impact on the development of enterprises. The ownership structure is divided into a highly centralized ownership structure, a highly dispersed ownership structure, and a moderately dispersed shareholder structure. An effective shareholder structure can not only make effective decisions but

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also improve the overall performance of the company and its position in the market. Different ownership structures have different impacts on corporate management. Although a highly concentrated ownership structure is beneficial to shareholders' supervision of the company's operation, it may be detrimental to the interests of minority shareholders; The highly dispersed ownership structure may lead to the control of the company falling into the hands of the managers, which is not conducive to the direct management of the company by the upper layer; A moderately decentralized ownership structure can ensure the efficiency of corporate governance while avoiding excessive control of individual shareholders and thus affecting management. But nowadays, with the continuous development of society, the shareholder structure often plays an unexpected role in the company. Based on this, this paper aims to explore the impact of shareholder structure on corporate performance and analyze how different types of shareholders, such as institutional investors, foreign shareholders, and management shareholdings, affect corporate financial and non-financial performance through their behavioral characteristics. Combine financial metrics (such as return on equity (ROE), and return on assets (ROA) and non-financial performance (corporate innovation ability, governance level). This paper hopes to reveal the multi-dimensional impact of different shareholder structures on corporate performance and provide theoretical support for enterprises in optimizing shareholder structure and improving performance.

2 Research Overview at Home and Abroad

There are differences in the impact of different ownership structures on the performance of the company, and there will also be interactions between different shareholders, which can be divided into two types: concentration and checks and balances. The more concentrated the ownership structure, the greater the promotion effect on the company's operating efficiency. It is found that companies with higher ownership concentration have higher governance efficiency, and R&D intensity plays a positive regulating role in this process[1]. Wang Shujun believes that the relatively concentrated ownership structure can play a positive regulating role on corporate performance, mainly because the concentrated ownership structure can play an effective supervisory and management role on the internal managers of listed companies[2].

However, some scholars have found that the concentration degree also has a negative effect, and the existence of checks and balances will inhibit this effect. Guo Feiyue conducted research on the performance of listed retail companies and found that the higher the proportion of the largest shareholder, the lower the performance of the enterprise[3]. However, the higher the proportion of the top ten shareholders, it will have a certain positive effect on enterprise performance. In the same year, Jiang Fuxiu et al. found that when there were multiple major shareholders in a company, other major shareholders could supervise the behaviors of the controlling major shareholders, restrain their encroachment behavior, and significantly reduce the future stock price collapse of the huge business risk[4]. Li Shuangyan and Miao Jin selected A-share mixed ownership listed enterprises from 2003 to 2016 as research samples and found that in large monopoly industries, the degree of checks and balances of corporate governance structure has A significant promoting effect on productivity[5].

In addition, there are scholars committed to different types of capital and equity pledges and other directions of research. Dong et al.used a sample of 185 environmentally friendly companies and found that companies supported by government venture capital companies are unlikely to carry out green innovation activities[6]. Government venture capital companies have the characteristics of risk aversion, Government venture capital companies have the characteristics of risk aversion, which hinders the portfolio companies from carrying out green innovation research and development behavior, and thus is not conducive to the performance level of enterprises. The research points out that after the ultimate controlling shareholder's equity pledge, under the great pressure of the ' exit threat ' of non-major shareholders and the risk of a control transfer, it may make them strive to improve the corporate governance system and improve the corporate value[7].In the research and investigation, it is found that the equity pledge of the controlling shareholders of listed companies can alleviate the second type of principal-agent problem. Thus, the efficiency of the enterprise can be greatly improved[8].

3 Theory Analysis

Different shareholder structures have a significant impact on corporate performance. After a great deal of analysis and research in the literature, the shareholder structure mainly exerts its effect by influencing the concentration of decision-making power, information transparency, and incentive mechanism of the company, etc. Specifically, based on the principal-agent theory, stakeholder theory, resource dependence theory, and organization theory, this paper discusses how the shareholder structure affects corporate performance through different governance mechanisms and incentive effects.

3.1 Principal-Agent Theory

The principal-agent theory mainly focuses on the conflict of interest between management and shareholders. In the highly centralized ownership structure, major shareholders hold a higher proportion of shares and have greater decision-making power, which can directly supervise the behavior of management, reduce the problem of information asymmetry, and reduce agency costs. However, the highly concentrated ownership structure may lead to a "tunnel effect", in which major shareholders may make decisions that harm the interests of minority shareholders out of self-interest. Therefore, a highly concentrated ownership structure has a positive effect on improving financial performance (such as ROE and ROA), but may hurt non-financial aspects (such as corporate governance and minority shareholders' equity).In the highly decentralized ownership structure, the company's shares are widely dispersed in the hands of many shareholders, and no single shareholder or minority shareholders can effectively control the company. The decentralization of equity helps to form a power balance mechanism, avoid the abuse of rights by a single shareholder, and protect the interests of the company and minority shareholders. The decision-making process is more democratic, which helps to improve the science and rigor of decision-making, has more advantages in innovation and risk-taking, and is conducive to diversified development. But at the same time, it will also lead to low decision-making efficiency, because more shareholders need to reach an agreement, delay the timing of decision-making, and affect the company's operational efficiency and decision-making quality.

3.2 Stakeholder Theory

Stakeholder theory holds that a company should not only satisfy the interests of shareholders but also consider the needs of other stakeholders, including employees, customers, suppliers social environment, etc. Different shareholder structures affect stakeholders in various ways.

Institutional investors usually have high investment ability and risk assessment levels and tend to focus on the long-term value of the company. Therefore, the shareholding of institutional investors often encourages companies to take into account the interests of multiple parties when making decisions and enhance their reputation and sustainable development ability in the market. In addition, institutional investors may also participate in corporate governance through voting rights and other ways to improve corporate governance.

Foreign shareholders will bring international management experience and resources, which can help the company expand overseas markets, introduce advanced technology and management mode, etc., and improve innovation ability. Foreign shareholdings often bring higher information transparency and governance levels and enhance the company's competitiveness in the global market. However, foreign shareholders may protect the interests of home investors at the expense of local stakeholders.

Management shareholders will closely link the interests of the management with the performance of the company, incentivize management to pay more attention to the long-term development of the company, and promote the long-term development and stability of the company. However, if the proportion of management shareholding is too high, it may bring the problem of control confusion and weaken the problem of shareholders' supervision of management.

3.3 Resource Dependence Theory

Enterprises need to obtain resources from external links, and shareholder structure can affect the ability and way of enterprises to obtain resources.

Centralized shareholder structures (such as institutional investors, and state-owned shareholders) can help companies improve their financing capacity and the stability of their capital structure through their resource network and financial support. For example, shareholding by state-owned shareholders can increase a company's availability of government support and policy resources, improve the company's creditworthiness in the capital market, and reduce financing costs. The entry of foreign shareholders usually brings more advanced technology and management experience, which helps to improve non-financial performance, such as innovation ability, governance level, and information disclosure, and promotes the company to adapt to the global market faster.

3.4 Organization Theory

Organizational theory emphasizes how shareholder structure affects corporate performance by influencing organizational structure and decision-making process, mainly designing the setting of internal decisions and processes within a company.

The highly concentrated shareholder structure will make the decision-making process more efficient, reduce unnecessary internal conflicts, especially financial resource allocation and capital expenditure, make faster and more flexible decisions, and promote the improvement of financial performance. On the contrary, the decentralized ownership structure is more inclined to establish a decentralized and democratic organizational structure, which is conducive to stimulating the innovative spirit and autonomy of employees, forming a more innovative corporate culture, and improving employee satisfaction, corporate image, and overall governance level.

4 Case Analysis

4.1 Tencent

The main characteristics of Tencent's shareholding structure are management shareholding and institutional investor dominance.

Tencent's founder and CEO owns about 8.42% and is the third largest shareholder. The management shareholding incentive ensures its decision-making weight in the company's operation and development and maintains Tencent's financial soundness. According to its 2023 annual report, Tencent achieved a net profit of RMB 160 billion for the year, up 15% year-on-year, and RO1E reached 24.5 %, far exceeding the industry average. At the same time, management shareholding also lays a solid foundation for the company's innovation. In 2023, Tencent invested RMB 58 billion in research and development, accounting for 8.5% of total revenue, helping it to establish diversified business areas such as WeChat, games, and payments in the digital ecosystem.

Tencent's largest shareholder is MIH, a South African company, which owns approximately 24.96 percent of Tencent's shares, and has provided Tencent with sufficient financial support since its founding period, helping it to expand its business rapidly, grow consistently and steadily in both domestic and international markets, and become a leading technology-based enterprise. The presence of institutional investors has ensured Tencent's governance transparency and social responsibility performance. In its annual ESG report, Tencent discloses in detail its initiatives and achievements in areas such as carbon neutrality and social welfare.

4.2 Procter & Gamble

P&G has a highly decentralized shareholding structure as well as an international shareholder type.

Procter & Gamble's shareholder structure is highly fragmented, with the top 10 shareholders holding a combined stake of about 40%, including large global institutional investors such as Vanguard and BlackRock.In the fiscal year 2023, P&G achieved net sales of $83.933 billion, net profit of US $14 billion, and ROE of 31%, which fully reflects the importance of a decentralized equity structure for stable financial growth.

Due to the existence of highly international shareholders, P&G is subject to more supervision and constraints, discloses environmental impact and social responsibility measures, and advocates a "sustainable lifestyle".In 2023, P&G invested $500 million in sustainable development projects worldwide, establishing a more comprehensive corporate image and brand loyalty.

4.3 PetroChina

PetroChina has the characteristics of a state-owned holding and is greatly influenced by policy orientation, Petrochina is controlled by the China National Petroleum Corporation (CNPC), with a shareholding of approximately 80%, which provides the company with significant policy support in the capital markets, especially in the face of fluctuations in domestic and international energy markets, and access to low-interest loans to maintain financial stability. In 2023, PetroChina achieved revenue of CNY 2.256 trillion, a net profit of CNY 132.5 billion, and an ROE of 8.9 %.At the same time, as a state-controlled enterprise, PetroChina has undertaken a lot of obligations in terms of social responsibility and has invested more than RMB 10 billion in clean energy and renewable energy projects in 2023, actively responding to the national ‘dual-carbon’ policy objectives.

Although relatively robust in terms of financial management, the asset-liability ratio of Jinwei 39.54% also indicates that it limits the company's flexibility in making certain financial decisions, which affects its market competitiveness. And due to the lack of governance transparency caused by state-owned shareholding, seriously affects decision-making efficiency and external investor confidence.

5 Conclusions

The influence of shareholder structure on corporate performance is two-sided. The highly centralized structure can improve financial performance by strengthening supervision, but it may damage the interests of minority shareholders. The decentralized structure can promote innovation and power balance, but the decision-making efficiency is low. From the perspective of different investor types, institutional investors and foreign shareholders enhance the international competitiveness and governance level of enterprises through resource support and governance supervision, but they need to balance local interests. Management shareholding can stimulate long-term development, but it needs to avoid the lack of supervision. Similarly, state-owned holdings have a greater impact on management pressure and information transparency while bringing resources.

Therefore, enterprises should avoid problems such as over-concentration or excessive dispersion of shareholdings according to their situation and stage of development. At different stages, we can try to adopt a targeted shareholding structure: foreign or institutional investors with strategic thinking should be introduced in the development period; Providing enterprises with more resources and governance experience to accelerate their competitiveness in the global market; In the mature period, we should pay attention to the equity incentive of management, stabilize the core talent team and strengthen corporate governance. As the market changes, enterprises should also dynamically adjust the governance mechanism, and flexibly optimize the shareholder structure and decision-making process according to actual needs, to achieve a comprehensive improvement in performance.

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