

Research on Relationship between large shareholder Supervision and Corporation performance

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Abstract— This paper analysis the relationship between the ownership structure and corporate performance based on a sample of 324 listed firms of family controlled in Shanghai and Shenzhen Securities Exchange. The regression analysis shows that the proportion of the largest shareholder holding has a significant cubic relation with return on assets(ROA); there has different effect on ROA in different intervals. The proportion of the five shareholders holding has a significant quadratic relation with ROA. Herfindahl index has a significant linear relation with ROA. Degree of ownership balance and Z index have no relation with ROA. This conclusion can be used as a reference for optimizing the equity ownership structure of listed Family Business in China.

Keywords- Family company; Supervise effect; Corporate performance

1. Introduction

Big shareholders' existence already are more and more universal, and shareholders' supervision also become the normal in the corporate governance. According to the principal-agent theory, the shareholders must supervise and incentive managers to prevent moral hazard behavior due to separation of ownership and control in stock companies. Supervision managers of is often by big shareholders to exercise because of supervisory cost no apportionment and small shareholder hitchhiking motivation. Big shareholder's main function is to supervise the behavior of managers, making it the interests of shareholders. Big shareholders, compared with small shareholders, have the advantages of supervision managers: first, from the standpoint of earnings, big shareholder having more rights and supervision and managers' enthusiasm, small stockholders have no power to supervise managers due to "free-rider" problem. Supervision is a public product, its cost paid by himself, and the supervision of revenue are all shareholders share. Big shareholders owned more, the supervision of revenue more than the cost of general supervision and the enthusiasm of the supervision. Small shareholder supervision of revenue often cannot compensate its pay the supervisory cost, therefore, as a economic subject of theory will not pay cost to implement such supervision. Secondly, small shareholders behavior is difficult to produce effect because shares less and the poor weight. Big shareholders may be used large votes and the board directors of the company's absolute superiority of company manager exert effective

supervision. Shareholder as a solution to an important mechanism for agency problems in corporate governance plays an important role.

2. Review

Domestic and foreign scholars have done a lot of research on the supervision of major shareholders from different angles, and achieved fruitful results. Summarizing shareholders' supervision of corporate governance efficiency has two sides effect: On the one hand shareholders' supervision is helpful for reducing agency cost and raising the company performance. Such as Shleifer and Vishny (1986) discussed the positive role of the big shareholders from reducing agency problems perspective. They established model to illustrate the existence of big shareholders have positive effect on the company value when the other conditions are the same. Because a significant proportion of equity makes big shareholders motivate the supervision and management, which can avoid "free-rider" problem. La Porta et al (1998) inferred: ownership concentration is benefit for controlling shareholders supervising managers, and then help to promote the enterprise value. Equity concentration caused by the enterprise value enhancement effect and the shareholder's rights legal protection effects are replaceable, In the shareholder's rights legal protection of poor countries, external medium and small shareholders only in stock prices low enough are willing to buy, the more accelerated the equity concentration. On the other hand research that the existence of big shareholders can lead to additional costs happening. Hart (1995) pointed out that as long as big shareholders held not 100% shares, he won't supervise and intervene, and big shareholders may utilize vote through expense small shareholder interest for themselves favours. John et al (2000) presented a big shareholder "Tunneling" concept, and thought big shareholders Tunneling led the main cause of the Asian financial crisis. John et al (2000) further proofed, even in the developed country, it has a good legal environment, big shareholder "tunneling" remains a lot.

The Chinese scholars to big shareholders' supervision effects of research, the most is state-owned holding company as the research object, the country as a big shareholder control structure is the notable features. At present, family enterprise is developing, more and more family enterprise become public listed companies, large family big shareholders exist, but family big shareholders and state-owned shareholder are different. How is obviously different on family shareholders' supervision effect? Whether it impact on corporate performance? Few scholars research it in this aspect . In this paper, the family of listed companies as samples, we discuss whether China's family company shareholders' supervision effect on corporate performance.

3. Research Hypotheses

Different nature of the shareholder have clear different in agency problem solving and generation and ownership of the execution methods, and then will have obvious different on corporate performance. As Denis and McConnell (2003) suggested that the relationship between ownership concentration or ownership restriction and the corporate value depends on shareholders' equity properties. state-holding companies have many problems such as mostly existing property is unclear, owner subject vacancy (or a virtual bits) and insider control problem, so state-owned shareholders are not possible as a real owners roles to exercise the shareholder's rights and obligations, the enterprise is controlled by company managers, the board of directors and the board of supervisors insider is non-existing, big shareholders have different to execute supervisory effect. Family holding company does not exist owners problem, familyshareholders have motivation and ability to supervise operator. XuXiaoDong, ChenXiaoYue's (2003) study shows that the listed company of proprietary nature of the first largest shareholder is different, its firm performance, equity structure and governance effect are different too. The biggest shareholder as the shareholders of the company for the country has higher corporate value and stronger profitability, more the management flexibility, higher the corporate governance effect, its senior management is influenced by the enterprise internal and market supervision and motivation also obvious more than for the country shareholders company. Xie jun (2006) also believed, the first shareholder to improve company performance increases with the increase of its holdings, but the nature of the controlling shareholders will affect its excitation intensity, circulated Stockholders have the strongest motivation tendency, for the country shareholders have the weakest incentive tendency, corporate shareholders is in-between.

According to the theoretical analysis, it puts forward the assumption:

H: Family company big shareholders' supervision have positive effects on corporate performance.

4. Empirical Analysis

4.1. Sample Selection and Variables Defined

Familial holding listed companies sample selection should meet the following requirements: (1) the listed company's final owner must be tracking, and can only be a natural person or family, (2) if the person directly with the family member, must be the shareholder is accumulative; (3) if the natural person or family through the other company indirectly holds shares of listed companies, the company must be listed among the first big shareholders or actual controlling shareholders, (4) If a natural person or family at the same time using direct and indirect ownership stake in two ways. The cumulative number of control necessary to enable the position to ensure that the largest shareholder; (5) the companies were in the December 31, 2004 successful listing, were selected family controlled listed companies in China, the effective sample of 324. All data are from the China Securities Regulatory Commission and the telecommunications network of websites and public data.

The variables include Big shareholders' supervision variables, the company performance variables and the control variables. Big shareholders' supervision variables include the largest shareholder (CR1), top 5 shareholders ownership concentration (CR5), degree of ownership balance (DR5), Z index (Z) and Herfindahl index (HERF); return on assets (ROA) represent corporate performance variable; control variables include assets (LnAsset), asset-liability ratio (LEV). Specific definitions in Table 1.

TABLE I VARIABLES DEFINED

Variable name	Code	Operational definition
The largest shareholder	CR1	The largest shareholder
Top 5 big shareholder's	CR5	Largest shareholder to the fifth shareholder ratio
degree of ownership balance	DR5	The second largest shareholder to the shareholding ratio by the sum and share ratio of the largest shareholder ratio
Z index	Z	The first shareholder and the second largest shareholder's ratio
Herfindahl index	HERF	The shareholding ratio of squares
return on assets	ROA	Net profit/total assets
Asset scale	LnAsset	Total assets of natural logarithm
Asset-liability ratio	LEV	Total liabilities and total assets ratio

4.2. Correlation Analysis

We adopt Pearson method to analyze the correlation between big shareholders' supervision variables and corporate performance. the correlation analysis results shown in table 2.

TABLE II VARIABLES PEARSON ANALYSIS

From table 2 can be seen, the share ratio of the largest shareholder (CR1), equi

Variables	1	2	3	4	5	6
1. CR1	1					
2. CR5	.551***	1				
3. DR5	-.738***	.023	1			
4. Z	.462***	.055	-.362***	1		
5. HERF	.961***	.669***	-.563***	.462***	1	
6. ROA	.127***	.179***	.006	.035	.154***	1

Note: ***, **, * respectively in 1%, 5% and 10% level

ty concentration (CR5), Herfindahl index (HERF) are associated with the return on assets (ROA) , Equity concentration and corporate performance are significantly positive correlation, raising quity concentration is helpful to improve the company performance. Degree of ownership balance (DR5), Z index and asset are not relevant obviously. The balances between the major shareholder did not play a facilitating role to the company performance.

4.3. Regression Analysis

To further explore the major shareholder impact on corporate performance, we designed the following model for the regression analysis.

$$ROA = \beta_0 K + \beta_1 KXK + \beta_2 KLnAsset + \beta_3 KLev + \varepsilon K$$

Among them: $K=1, 2, \dots, 5$

$X_1, X_2, \dots, X_5 = CR1, CR5, DR5, Z, HERF$

Regression results in Table 3.

TABLE III BIG SHAREHOLDER'S SUPERVISION VARIABLE AND ROA OF THE REGRESSION RESULTS

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
C	108*** (5.629)	.094*** (4.077)	.070** (2.043)	.108*** (4.946)	.108*** (5.615)	.096*** (4.551)
CR1		.042 (1.100)				
CR5			.056 (1.321)			
DR5				7.33E-005 (.009)		
Z					2.51E-005 (.145)	
HERF						7.11E-006 (1.359)
LnAsset	.019*** (2.885)	.018*** (2.722)	.020*** (3.017)	.019*** (2.822)	.019*** (2.840)	.018*** (2.734)
LEV	-.264*** (-9.474)	-.260*** (-9.245)	-.257*** (-9.073)	-.264*** (-9.458)	-.264*** (-9.445)	-.258*** (-9.192)
N	324	324	324	324	324	324
F	45.053 (.000)	30.459 (.000)	30.690 (.000)	29.937 (.000)	29.946 (.000)	30.734 (.000)
Adj.R2	.222	.222	.224	.219	.219	.224

Note: ***, **, * respectively in 1%, 5% and 10% level

The analysis results from table 4 we can see that the share ratio of the largest shareholder (CR1), the top five shareholders ratio (CR5) are positively associated with the return on assets (ROA), so shareholders' supervision is helpful to improve the company performance. But the correlation coefficient are very small, and the correlation is not significant.

5. Conclusions

We inspected the relationship between shareholders' supervision and corporate performance by the shenzhen 324 family holding listed companies as research samples. We draw the following conclusions : (1) the family shareholder holding ratio and corporate performance was three times curvilinear relationship, the proportion of the top five shareholders and corporate performance was a significant positive U-shaped curve, Herfindahl(HERF) index and corporate performance was a significant positive correlation. Most of our family of listed companies in the proportion of large shareholders and corporate performance are related in the range, indicating that the controlling shareholder's stake increase the proportion of the family, the firm performance is good. (2) equity balance degree, Z index had no significant effect on corporate performance. That the family company checks and balances between the major shareholders of the company performance did not play a catalytic role, did not play effects of major shareholder mutual supervision.

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