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Research on the influence of ownership structure on operating performance of listed companies in Guangxi

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Abstract: *Ownership structure is the foundation of corporate governance, so it is of great practical significance to study the relationship between ownership structure and corporate performance. This paper aims to study the relationship between ownership structure and business performance of listed companies in Guangxi, combine the conclusions and put forward some suggestions, hoping to provide some reference significance for Guangxi listed companies to optimize ownership structure and improve business performance. This paper selects the financial data of 29 A-share listed companies in Guangxi from 2016 to 2019 after excluding financial abnormalities and financial companies, establishes A multiple linear regression model and analyzes the conclusions. The results show that there is a weak negative correlation between ownership concentration and operating performance of listed companies in Guangxi, and the proportion of the largest shareholder has a negative impact on operating performance at the significant level of 10%, while the impact of equity balance and equity attribute on operating performance is not significant. Based on the conclusion, the following suggestions are obtained: Guangxi listed companies should maintain proper ownership concentration and balance degree, form a diversified ownership structure, and the government should strengthen market supervision and legal protection of investors' interests.*

Keywords: *Listed companies in Guangxi, Equity ownership structure, Performance of operations*

1. Introduction

The business performance of listed companies is not only related to the company's own development but also affects the heart of the majority of investors in the secondary market. Corporate governance is an important factor affecting the business performance of a company, and ownership structure is the basis of corporate governance. With different shareholding, shareholders have different motivations and abilities to supervise the company's management, which further affects the management's investment and financing decisions and ultimately affects the company's operating performance.

The listed companies in Guangxi have the following characteristics: small number and small scale, uneven regional distribution, traditional industrial structure, and poor business performance. As of 2016, there are a total of 39 listed companies in Guangxi, with only two companies having a capital stock exceeding 5 billion Yuan and no companies possessing assets surpassing 100 billion Yuan. The majority of these companies are concentrated in Nanning, and over half of the listed entities belong to traditional manufacturing industries. Listed companies with good operating performance can bring vitality to economic growth, increase employment, etc. Listed companies in Guangxi have the potential for regional economic growth, so it is of great practical significance to study the relationship between the ownership structure and operating performance of listed companies in Guangxi and put forward suggestions to improve the operating performance of listed companies in Guangxi and promote the economic development of Guangxi from the perspective of optimizing the ownership structure.

2. Literature review

The relationship between ownership structure and corporate performance has received extensive and close attention from scholars at home and abroad. On the whole, scholars at home and abroad mainly discuss this issue from three aspects: ownership concentration, equity balance and equity attributes.

In terms of ownership concentration, the research that ownership concentration has A positive

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impact on corporate operating performance is represented by (Berle A A,Means G C, 1932)[1]. The dispersed ownership structure of the company will make minority shareholders reluctant to take the initiative to supervise the manager due to the taboo of high supervision cost, which will increase the possibility of the manager's encroachment on the rights and interests of shareholders. Other studies have also reached the same conclusion (Alsaidi M& Alshammari B, 2015)[2]. However, higher ownership concentration will also increase the debt ratio of enterprises, which will have an impact on the development of capital structure and is not conducive to the improvement of enterprise performance (Farooq O, 2015)[3]. There are also other views that there is a nonlinear relationship between ownership concentration and operating performance (Myeong-Hyeon Cho, 1998)[4] or no relationship (Demsetz Harold& Lehn Kenneth, 1983)[5].

In terms of equity balance, the study of Finnish listed companies found that more equal distribution of voting rights among major shareholders has a positive impact on corporate value, indicating that corporate performance improves with the increase of the number of major shareholders and the strengthening of equity balance (Maury B& Pajuste A, 2005)[6] However, in the study of listed companies in Pakistan, scholars found that equity balance has nothing to do with operating performance (Hashmi S H, Irshad R& Kausar S, et al, 2015)[7].

In terms of ownership attributes, some scholars believe that there is a positive correlation between ownership attributes and operating performance. For example, the increase in the proportion of state-owned holdings in Vietnam's state-owned enterprises has a significantly positive impact on the return on equity and return on total assets (Xuan-Quang D& Zhong-Xin W, 2013)[8]. However, in the Gulf Cooperation Council (GCC) member companies, when the largest shareholder is state-owned shares, the ownership structure has a negative impact on the company's operating performance. However, when the proportion of state-owned shares is 15% to 50%, this negative effect disappears (Martinez-Garcia I, Basco R& Gomez-Anson S, et al, 2021)[9]. Some scholars empirically analyzed the data of Chinese agricultural listed companies from 2016 to 2017 and found that the proportion of state-owned shares and the proportion of executives' shareholding had no significant relationship with operating performance (Yanyan Zhang , Yueqiu Li, 2018)[10].

Scholars at home and abroad have not reached a unified conclusion on the three directions of the relationship between ownership structure and business performance, mainly because there are differences in empirical methods, variable selection and data processing selected by scholars. Moreover, the research on this issue mainly focuses on companies in a specific industry or a certain capital market sector, and there are few regional studies on China's provinces.

3. Research design and empirical analysis

3.1 Research hypothesis

The listed companies in Guangxi generally have a high degree of equity concentration, a low degree of equity balance, and a small proportion of state-owned legal shares, and the company's business performance is generally poor. In order to study the relationship between ownership structure and operating performance of listed companies in Guangxi, the following hypotheses are proposed:

H1: Ownership concentration of listed companies in Guangxi is negatively related to operating performance.

H2: The equity balance of listed companies in Guangxi is positively correlated with operating performance.

H3: The ownership attributes of listed companies in Guangxi have nothing to do with operating performance.

3.2 Data Sources

The research data of this paper are mainly selected from the RESSET Database and Wind Economic Database, excluding companies listed after January 1, 2016, listed in China's B shares or H shares, financial companies, ST and ST* companies with abnormal financial conditions.

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3.3 Variable selection

3.3.1 Explained variable

ROA, namely return on assets, is used as the measurement index of the company's operating performance. Since most of the listed companies in Guangxi are traditional heavy manufacturing industries with a large proportion of fixed assets, it is more appropriate to use ROA including total assets to measure the operating performance of listed companies in Guangxi than return on equity (ROE).

3.3.2 Explanatory variable

Equity structure measurement index.

The index of ownership concentration is the shareholding ratio of the largest shareholder (CR1), the sum of the shareholding ratio of the top five shareholders (CR5), and the sum of the squares of the shareholding ratio of the top five shareholders (H5). The larger the CRn index and H5 index are, the higher the ownership concentration of the company is.

The Index of equity restriction is the Z Index, that is, the ratio of the shareholding ratio between the largest shareholder and the second largest shareholder. The larger the Z index is, the more unequal the power ratio between the top two shareholders is, and the more obvious the control advantage of the first shareholder over the enterprise is.

The proportion of state-owned shares (GYG) and the proportion of legal person shares (FRG) are used as equity attribute indicators. After the reform of non-tradable shares in China, the stock market has gradually realized full circulation, so the proportion of tradable shares is not included in the regression analysis.

3.3.3 Control variables

They include the total assets that measure the size of enterprises and the asset-liability ratio of enterprises.

In order to facilitate calculation and better conform to the model, all variables are processed in logarithm.

3.4 Model setting

In order to explore how the three aspects of ownership structure: ownership concentration, ownership balance and ownership attributes affect operating performance and what impact they have, three fixed effect regression models are constructed and analyzed respectively:

$$ROA = C + \beta_1 M + \beta_2 Dar + \beta_3 Asset + e \quad (1)$$

Where C is the equation intercept; ROA is the explained variable, which is represented by return on assets; M is the explanatory variable of ownership concentration (CR1, CR5 and H5), the explanatory variable of equity balance degree Z index and the explanatory variable of ownership attribute (GYG and FRG), β1 and β2 are the coefficients of the control variables asset-liability ratio and total assets respectively; β3 is the coefficient of explanatory variable; e is a random variable.

3.5 Analysis of empirical results

Table 1: Regression results of ownership concentration and operating performance.

	(1)	(2)	(3)
	lnROA	lnROA	lnROA
lnCR1	-0.2139*		
	(0.1185)		
lnCR5		-0.7084	
		(0.5866)	
lnH5			-0.4927
			(0.5010)
lnDar	-0.6051***	-0.6090***	-0.5945***
	(0.1703)	(0.1717)	(0.1721)

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lnasset	0.2735***	0.2718***	0.2624***
	(0.0701)	(0.0702)	(0.0711)
_cons	-2.6346*	-2.0461	-2.1098
	(1.4754)	(1.4997)	(1.4909)
N	96.0000	96.0000	96.0000
r2	0.1954	0.1857	0.1808
ar2			
year			

Table 2: Regression results of equity balance and operating performance.

	lnROA
lnZindex	-0.0754
	(0.0769)
lnDar	-0.5892***
	(0.1716)
lnasset	0.2577***
	(0.0706)
_cons	-1.9605
	(1.4904)
N	96.0000
r2	0.1823
ar2	
year	

Table 3: Regression results of equity attributes and operating performance.

	(1)	(2)	(3)
	lnROA	lnROA	lnROA
lnGYG	-0.0510		
	(0.0375)		
lnFRG		-0.0108	
		(0.0447)	
lnDar	-0.6260***	-0.5928***	-0.5976***
	(0.1708)	(0.1763)	(0.1729)
lnasset	0.2720***	0.2659***	0.2649***
	(0.0730)	(0.0721)	(0.0722)
lnL			0.0000
			(.)
_cons	-2.2495	-2.2620	-2.2276
	(1.4829)	(1.4895)	(1.4887)
N	96.0000	96.0000	96.0000
r2	0.1838	0.1750	0.1747
ar2			
year			

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

It can be seen from Table 1 that ROA and CR1, namely, operating performance and the shareholding ratio of the largest shareholder, have a negative correlation with the regression coefficient − 0.2139, which passes the test at the significance level of 10%, indicating that the increase of the shareholding ratio of the largest shareholder is not conducive to the growth of operating performance. CR5 and H5 showed an insignificant negative correlation with ROA. In general, the relationship between ownership concentration and operating performance of listed companies in Guangxi is negative, which is consistent with H1. In Table 2, the regression coefficient of z index and ROA is − 0.0754, which fails to pass the test at the significance level of 10%, indicating that the equity balance degree has an insignificant negative correlation with operating performance, which is inconsistent with Hypothesis H2. It can be seen from Table 3 that the regression coefficients of the shareholding ratio of state-owned shares and legal shares and ROA are − 0.51 and − 0.0108 respectively, which fail to pass the significance level test of 10%, indicating that the shareholding ratio of state-owned shares and legal shares have an insignificant negative correlation with ROA, which is consistent with Hypothesis H3.

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4. Conclusions and policy recommendations

This paper discusses the relationship between ownership structure and operating performance of listed companies in Guangxi from three directions: ownership concentration, ownership balance and equity attribute, using the fixed effect model to analyze the data of 29 listed companies in Guangxi from 2016 to 2019 and draw the following conclusion.

Ownership concentration is weakly negatively correlated with corporate operating performance, and the proportion of the largest shareholder is negatively correlated with corporate operating performance at the significant level of 10%. Most of the listed companies in Guangxi are restructured from the original state-owned enterprises, with a high degree of equity concentration, and the historical legacy of "one dominant share" is still relatively common. The degree of mutual checks and balances among different shareholders is not enough, and the power of discourse is in the hands of a few major shareholders. If major shareholders lack supervision, the tunneling effect of major shareholders encroaching on the rights and interests of small shareholders may occur.

There is no significant correlation between equity balance and corporate operating performance. Mutual checks and balances between shareholders can inhibit the behavior of a dominant shareholder, but also may cause internal friction among shareholders. However, there are few news reports about the fighting among listed shareholders in Guangxi, and the degree of equity restriction is also low. Therefore, the equity balance does not have a significant impact on the company's operating performance.

There is no significant correlation between ownership attributes and corporate operating performance. The period selected in this paper has been a long time since the reform of non-tradable shares, and the proportion of state-owned shares and legal shares is small, so it may be difficult to have a significant impact on the company's business performance.

Based on the conclusions, this paper puts forward the following suggestions.

Guangxi listed companies should maintain a proper degree of equity concentration and equity balance. Ownership concentration will have a double-edged sword effect, resulting in interest inclination effect or interest encroachment effect. On the one hand, when the company's operation is good, the rising stock price makes the interests of large and small shareholders converge, and the major shareholders have more motivation and incentive to supervise the manager, so as to avoid the "free rider" effect of small shareholders caused by ownership dispersion. On the other hand, when the interests of controlling shareholders and minority shareholders are inconsistent and there is a lack of external supervision, it is possible to pursue their own interests at the expense of minority shareholders' interests and hollowing out the company. Therefore, too low and too high equity concentration and equity restriction will produce disadvantages, because the formation of a certain degree of concentration, relative controlling shareholders, several independent major shareholders balance the ownership structure, the most conducive to the improvement of the company's business performance.

Guangxi listed companies should also form diversified ownership structure. Referring to the capital market situation in Europe and the United States, markets with high activity often require the participation of multiple subjects. For SOE, strategic investors, private capital and other non-state-owned capital should be introduced appropriately. For all enterprises, the introduction of foreign capital conforms to the trend of The Times with the continuous opening of the financial market, which can encourage the active participation of foreign capital while ensuring the dominant position of domestic capital. Innovate ownership structure, such as equity incentive for senior executives and employees.

The Guangxi government should strengthen market supervision and legal protection of investors' interests. China's capital market started late but developed rapidly, and the formulation and implementation of relevant policies did not form a systematic system. As a result, some shareholders took risks in order to seek improper interests, seriously damaged the interests of minority shareholders in the public, which is not conducive to the healthy development of the capital market. Our country needs to continue to improve the securities legislation so that there are laws to follow, and the relevant supervision institutions in Guangxi should enforce the law strictly. The relevant institutions in Guangxi should strengthen supervision, fully investigate and severely crack down on the illegal and criminal acts of illegal investors, protect the interests of small and medium investors, enhance public confidence, and create a favorable environment for the development of Guangxi's capital market and the growth of enterprises.

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