Research on the Performance of China’s Mixed Ownership Enterprises Listed on SME Board—Based on the Perspective of Ownership Balance

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Abstract. This paper examines the relationship between enterprise performance and the largest shareholder’s shareholding, balancing shareholder’s shareholding, and the nature of balancing shareholder by researching into mixed ownership enterprises on China’s SME board. The empirical results show as follows: when balancing shareholder exists in mixed ownership enterprises, there is a reverse U-shaped relationship between the largest shareholder’s shareholding and the enterprise performance. Otherwise, when there is no absolute controlling shareholder in mixed ownership enterprises, balancing shareholder’s shareholding presents a positive correlation of the enterprise performance; the balancing shareholder will play a better role of checks and balances when its nature is different from that of the largest shareholder. State-owned balancing shareholder has a more significant effect of checks and balances in private-controlled enterprises.

1. Introduction

In corporate governance, balancing shareholder can supervise the controlling shareholder and the management, restrain the controlling shareholder’s opportunism behavior and help to improve the enterprise performance (Shleifer & Vishney, 1986). Maury and Pajuste’s study (2005) also found that large shareholders owning common interests tend to deprive minority shareholders of their wealth by collusion instead of supervision. According to Gomes and Novaes (2005), checks and balances between multiple large shareholders, an effective corporate governance mechanism, contributed to solve two kinds of principal-agent problems in enterprises’ operation and decision-making, both restraining self-interest behavior of the management and protecting the minority shareholders’ interests. Some foreign literatures also have studied the performance of privatized state-owned enterprises. Comparing the privatization of countries such as Ukraine and the Czech Republic with that of Russia, Estin and Wright (1999) contended that directly selling state-owned enterprises to outside investors can avoid corporate governance issues brought about by internal ownership, while excessive ownership dispersion resulting from mass privatization was not conducive to establish an effective corporate governance structure. Reformation of state-owned enterprises called for a right shift of enterprises’ operation and decision-making from the government to the management and society shareholders; only by keeping enough distance between the government and enterprises can we encourage a more efficient corporate (M. Boycko, A. Shleifer & R. Vishny, 1996). However, no foreign literature has ever analyzed a special situation that state-owned shares and non-state-owned shares coexist in the same enterprise.

The conclusions of China’s existing studies vary in whether enterprises that have ownership balance are more efficient or not. Qiu Dongfang et al. (2012) found in listed enterprises experiencing control shift caused by block equity transfer, corporate efficiency of absolute shareholdings groups is significantly lower than that of relative shareholdings groups’ right after this shift; and ownership balance can reduce the controlling shareholder’s expectation and ability of obtaining private benefits of control, thus improving corporate performance. But there are also studies finding that compared with enterprises without ownership balance, corporate performance of those with it is even worse; the degree of equity checks and balances has a negative impact on company's operating performance, and balancing shareholders of different nature play distinctly different roles in public companies dominated by different controlling shareholders (Xu Liping et al., 2006). Liu Xing and Liu Wei (2007) analyzed from the perspective of supervision and collusion
and found that when the first and the second shareholders are non-state-owned shareholders, it is
difficult for equity balance to play a positive role in corporate governance and then they will collude
with the controlling shareholder to share ownership benefits. Tu Guoqian and Liu Feng (2010)
selected the data of private listed companies to study the difference of check-and-balance effect of
shareholders of different nature. Conclusion is that when balancing shareholder is state-owned,
enterprises are more likely to be withdrawn out by private-controlled shareholders. Tu Guoqian and
others’ studies only took private-controlled listed enterprises as samples to analyze the impact of the
balancing shareholder’s nature on private-controlled shareholder’s behavior.

The third Plenary Session of the 18th CPC points out that our country should actively develop
mixed ownership economy of cross-shareholding integrated with state-owned capital, collective
capital and private capital, etc. In this paper, mixed ownership business is referred to an enterprise
with both state-owned block equity and non-state-owned block equity. Here the so-called block
equity refers to ordinary shares with shareholding over 5% that are not for the purpose of short-term
profit. China's mixed ownership enterprises are different from the western traditional private
ownership enterprises. It is necessary to give a further study on how state-owned shareholders and
non-state shareholders cooperate and perform checks and balances. This paper has included
state-controlled enterprises, start from the nature of balancing shareholders and research their
impact on private-controlled shareholders and state-owned controlling shareholders, mainly
exploring the influence of ownership balance on enterprise performance and expecting to answer
the following questions: In mixed ownership enterprises, what impact does the largest shareholders’
shareholding and the balancing shareholders’ shareholding have on enterprise performance? And
what kind of ownership structure and check-and-balance model can improve enterprise
performance?

2. Theory Analyses and Research Hypotheses

Ownership balance is a kind of share arrangement model: under the premise that several large
shareholders share the corporate control rights, they supervise each other and make decisions
together. This paper explores the effect of ownership balance on enterprise performance from three
aspects: the controlling shareholder’s shareholding, the balancing shareholder’s shareholding and
the nature of the balancing shareholder.

2.1 Controlling Shareholders’ Shareholding and Enterprise Performance

One of the main indicators of ownership distribution is the ownership concentration. The
relationship between ownership concentration and enterprise performance has been discussed a lot
in numerous literatures, but there is no consistent conclusion. There is a view that centralized
ownership structure is conducive to the enhancement of enterprise performance because the
relatively concentrated ownership will encourage large shareholders to be more active to supervise
the management and participate in business decision-making in order to improve corporate
performance. Another view is that centralized ownership will lead to the second type of
principal-agent problem, that is, large shareholders will seize small shareholders’ interests and seek
private benefits, which will hinder the enhancement of overall enterprise value. Drawing on
McConnell and Servaes’ research methods, Li Wei’an and Li Hanjun (2006), analyzed the
relationship between ownership structure and enterprise performance in private listed companies
and found that in enterprises where the largest shareholder enjoyed an absolute control, the higher
the shareholding, the better the enterprise performance; in enterprises where the largest shareholder
took shareholding of 20%-40%, there was a reverse U-shaped relationship between its shareholding
and enterprise performance. Ren Li and Ni Ling (2014) studied the relationship between the
controlling shareholders’ shareholding and enterprise performance in public companies of
low-carbon industry, and found that the ownership concentration and the enterprise performance
displayed a reverse U-shaped relationship.

In this paper, we define the balancing shareholder as the second largest shareholder under the
circumstance that the largest shareholder does not enjoy absolute control. Public companies whose
largest shareholder owns shareholding over 50% are excluded when we select samples. This is
because the balancing shareholder is unlikely to play a substantial role when the largest shareholder possesses complete control. Therefore, this paper assumes that only under the condition of moderate shareholding concentration is it possible for large shareholders of listed companies to promote enterprise performance by mutual supervision, common decision-making and prevention of the structural defects of the controlling shareholder’s absolute control. Therefore, the first hypothesis is put forward:

Hypothesis 1: There is a reverse U-shaped relationship between the largest shareholder’s shareholding and enterprise performance.

2.2 Balancing Shareholder’s Shareholding and Enterprise Performance

In balancing ownership structure, any large shareholder can’t make a single business decision. Under this check-and-balance mechanism, the cost and risk that the controlling shareholder violates other shareholders’ interests will increase, which will help to inhibit the controlling shareholder from infringing the company’s interests, and then improve enterprise performance. Although ownership balance may cause controlling competition between large shareholders, the balancing shareholder can obviously restrict the largest shareholder’s "Tunnel Behavior" and prevent the controlling shareholder from seeking ownership private benefits. Second, the more shareholding the balancing shareholders own, the more they are able to actively participate in corporate decision-making by voting for their own directors or executives to supervise operating management activities, reduce and prevent waste and improve company's internal control. Finally, when the enterprise is under poor performance, the greater shareholding the balancing shareholders hold, the more likely they will gain the company control. Therefore, we predict that the stronger balancing power the balancing shareholder imposes on the controlling shareholders, that is, the higher shareholding the balancing shareholder accounts for, the better the enterprises performance will present. In this paper, the second hypothesis is proposed:

Hypothesis 2: Balancing shareholder’s shareholding presents a positive correlation of the enterprise performance.

2.3 The Nature of Balancing Shareholders and Enterprise Performance

Enterprises vary in behaviors according to different nature of the actual controllers. In the light with the disclosed ultimate controllers’ information, Liu Shaojia, Sun Pei, and Liu Naiquan (2003), divided research samples into state-controlled and non-state-controlled listed companies. Results show that the nature of the controlling shareholder has an impact on enterprise performance. Tu Guoqian and Liu Feng (2010) selected samples of private listed enterprises to study the effect of the balancing shareholder’s nature on equity checks and balances. Xu Liping et al. (2006) found that, in listed companies where controlling shareholders are different in nature, enterprise performance is significantly different according to different nature of the balancing shareholders. Obviously, this kind of equity diversification research can almost equate with the mixed ownership study. Based on study requirement, this paper divides the controlling shareholders and the balancing shareholders into four groups in accordance with whether their nature is state-owned or private-controlled, emphasizing different impacts of the balancing shareholder under the circumstance that whether the nature of the controlling shareholder is the same with that of the balancing shareholder.

The nature of the shareholders determines the pursuit of different goals, the desire and ability to act. When the controlling shareholder and the balancing shareholder belong to state-owned and non-state-owned respectively, the coordination cost needed to achieve collusion is higher than the time when shareholders own the same nature. This is because the agents have to consider the supervision cost of “Tunneling Behavior” as well as the private “Political Cost”; on the contrary, these "Political Costs" do not occur if the controlling shareholder and the balancing shareholder possess the same ownership nature, and two parties are more likely to achieve collusion due to the same constraint mechanism. When the controlling shareholder is state-owned, it is hard for the balancing shareholder to exert real effective check-and-balance effect on state-controlled groups both economically and politically. If the balancing shareholder is also state-owned, they tend to pay little intention and motivation to correct the large shareholder’s behavior. Therefore, in state-controlled enterprises, despite whether the nature of the balancing shareholder is state-owned
or private, the effect of checks and balances is weaker than that in private-controlled enterprises. Based on the above analysis, the third hypothesis is raised:

Hypothesis 3: Balancing shareholder will play a better role of checks and balances when its nature is different from that of the controlling shareholder, which is more obvious especially in private-controlled enterprises.

3. Samples and Variables

3.1 Data Sources and Sample Selections

According to study requirement, this paper chooses mixed ownership enterprises listed on China’s SME board as research samples. The main reason for choosing the SME board market is that most of the enterprises listed on the main board are state-owned and they not only pursue economic indicators of enterprise performance but more probably political objectives. The data of this paper are mainly from the database of CSMAR and have been selected according to research needs: (1) Considering the quality reliability of accounting information and possible negative impact of the extreme values on statistical results, this paper has excluded the listed companies with ST and PT disposition; (2) This paper has denied public enterprises of finance and insurance industries for their particularities; (3) This paper has removed listed companies that show deficiency of research-related data; (4) This paper has eliminated companies with controlling shareholder’s shareholding over 50%, that is, there is an absolute controlling shareholder. Taking into account the fact that when the controlling shareholder takes more than 50% shares, the balancing shareholder’s checks and balances ability will be limited. And as the focus of this paper is on the balancing shareholder which doesn’t exist in enterprises with an absolute controlling shareholder, this paper has eliminated companies with the largest shareholder holding more than 50% shares of the company. (5) This paper has excluded mixed ownership enterprises with the balancing shareholder holding less than 5% shares. We think that the second largest shareholder with less than 5% shares will play a confined role in supervision and checks and balances and the check-and-balance effect on the controlling shareholder will not be so significant; when the second largest shareholder holds 5% shares or more, participation in major corporate decision and corporate governance can be achieved as well as a better role of the balancing shareholder. Therefore, we define the second largest shareholder with shareholding of 5% or more as the balancing shareholder. In accordance with the above criteria, this paper selects panel data on SME board from 2011 to 2013, obtaining 1142 observations, of which 388 are in 2011, 391 in 2012 and 363 in 2013.

3.2 Model Construction and Variable Definition

In order to study the hypotheses, this paper constructs the following three models:

Model 1: \[ TQ = \alpha + \beta_1 PFIRS + \beta_2 PFIF5 + \beta_3 SIZE + \beta_4 DTA + \beta_5 GROWTH + \epsilon \] (1)

Model 2: \[ TQ = \alpha + \beta_1 PFIRS + \beta_2 PFIFS^2 + \beta_3 BALANCE + \beta_4 SIZE + \beta_5 DTA + \beta_6 GROWTH + \epsilon \] (2)

Model 3:
\[ TQ = \alpha + \beta_1 PFIRS + \beta_2 PFIFS^2 + \beta_3 BALANCE + \beta_4 STATE \times BALANCE + \beta_5 SIZE + \beta_6 DTA + \beta_7 GROWTH + \epsilon \] (3)

Considering the fact that the indicators of accounting earnings are vulnerable to the controlling shareholder’s manipulation, this paper uses Tobin’s Q value to evaluate enterprise performance. Tobin’s Q (TQ) is the ratio of a company assets’ market value to its replacement value, and the latter should be replaced by its book value. It is relatively easier for the controlling shareholder to manipulate the accounting earnings, while it is much more difficult to maneuver the company's stock price.

PFIRS is the largest shareholder’s shareholding. PFIRS2 is the square of the largest shareholder’s shareholding.

BALANCE is the balancing shareholders’ shareholding. We define the balancing shareholder under the circumstance that the largest shareholder takes less than 50% shares and the second largest shareholder holds more than 5% shares. There are great differences in variables selection of
equity checks and balances according to different scholars, which may be the reason for different effects of equity checks and balances.

The nature of the balancing shareholders (STATE) is measured by a binary dummy variable. STATE equals 1 when the nature of the balancing shareholder is state-owned, otherwise STATE equals 0. In order to examine whether there is any correlation between the equity check-and-balance effect and the nature of the balancing shareholder, the cross term of STATE $\times$ BALANCE is added in order to study the mediating effect of the balancing shareholder’s nature between balancing shareholder’s shareholding and enterprise performance.

Company size (SIZE) is based on the natural logarithm of the company's total assets at the end of the year. Different sizes of the companies will lead to different operation models and business strategies of the company, thereby affecting enterprise performance.

Financial leverage (DTA) is the asset-liability ratio. A large number of classical literatures both at home and abroad maintain that the capital structure affects enterprise performance. The larger the corporate debt financing ratio, the bigger the financial leverage. More restrictive terms existing in debt provisions will result in inadequate investment, which forces the managers to give up some projects of positive NPV. Excessive financial leverage will give rise to a negative impact on enterprise performance.

GROWTH is the revenue growth rate of the company's main business income.

Table 1. Variable Explanation.

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable Symbol</th>
<th>Variable Name</th>
<th>Definition and Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explained Variable</td>
<td>$TQ$</td>
<td>Enterprises Performance</td>
<td>Tobin’s $Q=\frac{\text{Company Assets’ Market Value}}{\text{Company Assets’ Re placement Value}}$</td>
</tr>
<tr>
<td>Explaining Variable</td>
<td>$PFIRS$</td>
<td>Controlling Shareholder’s Holding Ratio</td>
<td>The largest shareholder’s shareholding</td>
</tr>
<tr>
<td>Explaining Variable</td>
<td>$PFIRS^2$</td>
<td>The Square of Controlling Shareholder’s Holding Ratio</td>
<td>The square of the largest shareholder’s holding ratio</td>
</tr>
<tr>
<td>Explaining Variable</td>
<td>$BALANCE$</td>
<td>Balancing Shareholder’s Holding Ratio</td>
<td>The second largest shareholder’s holding ratio</td>
</tr>
<tr>
<td>Explaining Variable</td>
<td>$STATE$</td>
<td>The Nature of Balancing Shareholder</td>
<td>STATE equals 1 when the nature of the balancing shareholder is state-owned, otherwise STATE equals 0.</td>
</tr>
<tr>
<td>Explaining Variable</td>
<td>$STATE \times \text{BALANCE}$</td>
<td>Cross Term</td>
<td>$STATE \times \text{BALANCE}$</td>
</tr>
<tr>
<td>Controlled Variable</td>
<td>$SIZE$</td>
<td>Company Size</td>
<td>$\ln (\text{Book value of company’s total assets at the end of the year})$</td>
</tr>
<tr>
<td>Controlled Variable</td>
<td>$DTA$</td>
<td>Financial Leverage</td>
<td>Asset-liability Ratio $=\frac{\text{Total liability at the beginning of the year}}{\text{Total assets at the beginning of the year}}$</td>
</tr>
<tr>
<td>Controlled Variable</td>
<td>$GROWTH$</td>
<td>Growth</td>
<td>Revenue growth rate of the company's main business</td>
</tr>
</tbody>
</table>
4. Empirical Results and Analysis

4.1 Descriptive Statistics of Variables

Table 2 and Table 3 show the descriptive statistics of main variables. In 2011-2013, the shareholding of listed companies on SME board was relatively concentrated. After removing the samples of listed companies with absolute shareholdings, the largest shareholder’s shareholding is 29.9% on average, and the actually government-controlling companies account for 20.5% (234/1142). The mean shareholding of the balancing shareholders is 13.9%. 79.5% of the sample companies own non-state-owned balancing shareholders. Such samples would be more practical in reasoning the hypothesis of whether private balancing shareholders would have better check-and-balance effect.

This paper has selected listed companies of moderate size on SME board. The average size is 21.5 with difference of 6.8 between the maximum and the minimum. The average asset-liability ratio of the sample companies is 36.7% with the maximum of 122.7% and the minimum of 0.708%. Big differences exist between companies. The average annual growth rate of the sample companies’ main business income is 36.7% with the maximum of 68.12526 and the minimum of -0.971965. There are big differences between companies.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average</th>
<th>Median</th>
<th>Standard Deviations</th>
<th>Maximum</th>
<th>Minimum</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>TQ</td>
<td>2.19546</td>
<td>1.908089</td>
<td>1.209688</td>
<td>15.65589</td>
<td>0.818377</td>
<td>1142</td>
</tr>
</tbody>
</table>

Table 3. Descriptive Statistics of Ownership Balance Related Variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average</th>
<th>Median</th>
<th>Standard Deviations</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFIRS</td>
<td>0.2990675</td>
<td>0.28822</td>
<td>0.1086999</td>
<td>0.498451</td>
<td>0.07642</td>
</tr>
<tr>
<td>BALANCE</td>
<td>0.1388701</td>
<td>0.1268</td>
<td>0.0649237</td>
<td>0.3875</td>
<td>0.05</td>
</tr>
<tr>
<td>STATE</td>
<td>0.2022767</td>
<td>0</td>
<td>0.4018734</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>SIZE</td>
<td>21.49153</td>
<td>21.32843</td>
<td>0.9970038</td>
<td>25.84065</td>
<td>19.08106</td>
</tr>
<tr>
<td>DTA</td>
<td>0.3665884</td>
<td>0.348042</td>
<td>0.2043335</td>
<td>1.226564</td>
<td>0.00708</td>
</tr>
<tr>
<td>GROWTH</td>
<td>0.3671489</td>
<td>0.095179</td>
<td>2.586674</td>
<td>68.12526</td>
<td>-0.971965</td>
</tr>
</tbody>
</table>

4.2 Regression Process and Results

4.2.1 Analysis Process

In order to test hypothesis 1, we put all samples into equation (1) for regression, identify the nonlinear relationship by introducing quadratic terms and the results are shown in Table 3 (1). In the presence of the balancing shareholder, the controlling shareholder’s shareholding has a significant effect on enterprise performance and does have a non-linear relationship with the mixed ownership enterprises’ performance, which has passed the significance test at 1% level.

On the basis of the fact that model (1) has been verified, this paper runs a further test of model (2) to check whether the balancing shareholder has played the due role of checks and balances. The main difference between model (3) and model (2) is the introduction of the cross term of the balancing shareholder’s nature and its shareholding. Compared with model (2), model (3) has no change in variables’ signs and significance, which further validates hypothesis 2. At the same time, the introduced new variable—the cross term of the balancing shareholder’s nature and its shareholding is positive, confirms that state-owned balancing shareholder can implement better checks and balances.

In order to further examine the reasons for better checks and balances achieved by the state-owned balancing shareholder, this paper puts the samples into group regression according to
the nature of the controlling shareholder and divides the mixed ownership enterprises into two groups: the state-owned group and the private-controlled group. Regression analysis is performed in line with model (3).

Table 3. Regression Result of Ownership Balance’s Impact on Enterprise Performance.

<table>
<thead>
<tr>
<th>Explained Variable</th>
<th>TQ</th>
<th>Model (1)</th>
<th>Model (2)</th>
<th>Model (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFIRS</td>
<td>10.144***</td>
<td>7.441***</td>
<td>7.101***</td>
<td></td>
</tr>
<tr>
<td>PFIRS_sq</td>
<td>-17.376***</td>
<td>-13.293***</td>
<td>-12.659***</td>
<td></td>
</tr>
<tr>
<td>BALANCE</td>
<td>2.436***</td>
<td>2.282***</td>
<td>2.432***</td>
<td></td>
</tr>
<tr>
<td>STATE*BALANCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.401***</td>
<td>-0.423***</td>
<td>-0.433***</td>
<td></td>
</tr>
<tr>
<td>DTA</td>
<td>-0.466**</td>
<td>-0.352*</td>
<td>-0.423**</td>
<td></td>
</tr>
<tr>
<td>GROWTH</td>
<td>0.040***</td>
<td>0.040***</td>
<td>0.039***</td>
<td></td>
</tr>
<tr>
<td>Cons</td>
<td>11.352***</td>
<td>11.869***</td>
<td>11.957***</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Control</td>
<td>Control</td>
<td>Control</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>1142</td>
<td>1142</td>
<td>1142</td>
<td></td>
</tr>
<tr>
<td>Adj_R²</td>
<td>0.220</td>
<td>0.234</td>
<td>0.245</td>
<td></td>
</tr>
</tbody>
</table>

*, **, *** significant at the level of 10%, 5% and 1% respectively.

Table 4. Result of Group Regression Based on the Nature of the Controlling Shareholder.

<table>
<thead>
<tr>
<th>Explained Variable</th>
<th>Mixed - State-owned Controlling</th>
<th>Mixed - Private-controlled</th>
</tr>
</thead>
<tbody>
<tr>
<td>TQ</td>
<td>Model (4)</td>
<td>Model (5)</td>
</tr>
<tr>
<td>PFIRS</td>
<td>7.031*</td>
<td>6.570***</td>
</tr>
<tr>
<td>PFIRS_sq</td>
<td>-12.125*</td>
<td>-11.878***</td>
</tr>
<tr>
<td>BALANCE</td>
<td>1.320</td>
<td>2.944***</td>
</tr>
<tr>
<td>STATE*BALANCE</td>
<td>0.935</td>
<td>3.766***</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.400***</td>
<td>-0.495***</td>
</tr>
<tr>
<td>DTA</td>
<td>-0.055</td>
<td>-0.628*</td>
</tr>
<tr>
<td>GROWTH</td>
<td>0.012</td>
<td>0.037***</td>
</tr>
<tr>
<td>Cons</td>
<td>10.847***</td>
<td>11.592***</td>
</tr>
<tr>
<td>Industry</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>Year</td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>N</td>
<td>234</td>
<td>908</td>
</tr>
<tr>
<td>Adj_R²</td>
<td>0.338</td>
<td>0.237</td>
</tr>
</tbody>
</table>

*, **, *** significant at the level of 10%, 5% and 1% respectively.

4.2.2 Regression Analysis

The regression results of equation (1) verifies hypothesis 1, that is, when balancing shareholder exists, there is a reverse U-shaped relationship between controlling shareholder’s shareholding and enterprise performance, which is significant at 1% level. From the regression data of model (1) in Table 4, we can see that the performance of the mixed-ownership enterprises’ TQ and the controlling shareholder’s shareholding show a reverse U-shaped relationship. The results show that the relationship between enterprise performance and controlling shareholder’s shareholding in sample companies is consistent with the theoretical hypothesis, that is, with the increasing proportion of the controlling shareholder, the stronger the motivation of improving the company’s value, the better the enterprise performance; however, when its shareholding exceeds a certain critical point and continues to rise, the controlling shareholder has the ability and motivation to use its controlling position to seize the interests of small and medium shareholders and seek ownership private benefits, which may lead to the decline of enterprise performance. In this paper, the turning
point of the relationship between the shareholding of the first largest shareholder and the enterprise performance is 29.2%. When the proportion of the largest shareholder is less than 29.2%, the corporate performance presents a positive correlation of the controlling shareholder's shareholding; otherwise, they are negatively correlated. Therefore, in the presence of the counterbalance shareholder, the largest shareholder’s shareholding and the enterprise performance present a reverse U-shaped relationship, which is consistent with the hypotheses of "Entrenchment Effects" and "Benefits Alignment Effects".

By the regression of equation (2), we verify hypothesis 2 which assumes when there is no absolute controlling shareholder, balancing shareholder’s shareholding and enterprise performance is positively correlated. The regression of equation (2) confirms the positive effect of ownership balance on enterprise performance, and tests the positive correlation between balancing shareholder’s shareholding and enterprise performance. On the basis of the confirmed hypothesis 2, this paper further explores what kind of nature the balancing shareholder has that can play a more significant role in checks and balances. This paper divides the nature of the controlling shareholder and the balancing shareholder into state-owned and private-controlled. Enterprise performance is affected by the nature of the counterbalance shareholder, who is able to give a full play of a better check and balance effect especially when its nature differs from that of the controlling shareholder. This phenomenon is more significant in private-controlled companies where the nature of the balancing shareholder is state-owned. This is the most valuable conclusion in this paper.

By the regression of equation (3) and grouping regression, we make the conclusion that when the balancing shareholder is different from the controlling shareholder in nature, it can afford to achieve better check-and-balance effect, which is more obvious especially in private-controlled enterprises. This result tests hypothesis 3. It can be seen that the ownership structure and check-and-balance model are better in mixed ownership enterprises of state-owned balancing shareholders.

One possible reason for this conclusion is that the sample companies selected in this paper are mixed-ownership ones listed on SME board. Different from the situation that state-controlled public companies account for more proportion on the main board, most of the listed companies on SME board belong to highly competitive industries and high-tech industries, where private capital can make the most of its vitality. By drawing on the marketing concept and the flexibility of management of the private capital, strengthening the corporation between state-owned capital and private capital can make full use of the vitality of private-controlled shareholding as well as take full advantage of state-owned shareholder’s checks and balances effect, especially when the balancing shareholder is state-owned. This result further tests the conclusion in hypothesis 3: the change of quality is more important than the change of quantity when it comes to the ownership balance in mixed enterprises.

5. Research Conclusion and Enlightenment

Aiming to test the balancing shareholder’s shareholding and the effect of its nature on enterprise performance in mixed ownership enterprises, this paper examines the relationship between enterprise performance and the largest shareholder’s shareholding, balancing shareholder’s shareholding, the nature of balancing shareholder by researching into mixed ownership enterprises listed on China’s SME board from 2011 to 2013. The study finds that when balancing shareholder exists in mixed ownership enterprises, there is a reverse U-shaped relationship between the largest shareholder’s shareholding and enterprise performance. The turning point of this U-shaped relationship is around 29.2%. The study also finds that the increase of the balancing shareholder’s shareholding is helpful to enhance enterprise performance. And balancing shareholder will play a better role of checks and balances when its nature is different from that of the largest shareholder.

The conclusions of this paper give us the following enlightenment: first, China is still in the initial establishment of the socialist market economic system, and the matching legal system still needs to be perfected. In order to protect the interests of small and medium shareholders, it is necessary to develop a model of corporate governance that a number of large shareholders can fully play checks and balances on each other. Second, it is also necessary to promote diversified
ownership structure of mixed ownership enterprises, increase the proportion of non-state-owned capital, and form check-and-balance mechanism including different interest parties. Finally, balancing shareholders can play a supervisory role on the largest shareholders, but may also seek private benefits of control with the controlling shareholder. Cultivate balancing shareholders whose nature is different from that of the controlling shareholders can effectively improve enterprise performance, and add the governance mechanism of “Shareholders of Different Nature” on the basis of “Several Large Shareholders”. Mixed ownership enterprises can be formed naturally, and the key depends on how to arrange the proportions of different ownership shareholders, especially to what extent the private-controlled shareholding can be allowed. We believe that on the background of China's current situation, we should vigorously develop private economy, relax the industry access, allow private capital to flow into the capital market and play its role in supervision and checks and balances, and establish corporate governance mechanisms of mutual equity checks and balances. Only in this way can enterprise performance be continuously enhanced.

6. References


