Equity Concentration, Executive Equity Incentive and Firm Performance —Based on Merger Enterprise Sample Data

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Abstract: In the context of the separation of the two powers, there is information asymmetry and principal-agent problem. So it is an important problem to modernize corporate governance of the goal of maximizing business value. Some researchers have suggested that giving equity incentives such as executive stock or stock options are a viable way to solve the problem of principal-agent issues because the motivation of executives determines the direction of M & A to a large extent, and the rationality of the decision on the executive business decides the executive incentives. In addition, the size of the control determines the degree of participation in shareholders in business decision-making, the greater the degree of control with the greater degree of participation. The ownership structure of the enterprise is different, and the same incentive measures to implement the incentive effect is different, the impact on corporate performance is also different.

1. Introduction

In the context of the separation of the two powers, there is information asymmetry and principal-agent problem. So it is an important problem to modernize corporate governance of the goal of maximizing business value. Some researchers have suggested that giving equity incentives such as executive stock or stock options are a viable way to solve the problem of principal-agent issues because the motivation of executives determines the direction of M & A to a large extent, and the rationality of the decision on the executive business decides the executive incentives. In addition, the size of the control determines the degree of participation in shareholders in business decision-making, the greater the degree of control with the greater degree of participation. The ownership structure of the enterprise is different, and the same incentive measures to implement the incentive effect is different, the impact on corporate performance is also different.

2. Study the Hypothesis

When give managers the equity as incentives, the behavior for their own interests against the interests of enterprises and shareholders will reduce, when managers and shareholders interest goals tend to be consistent, the higher the proportion of executives holding shares, the more attention to increase the value of enterprises, and have more energy to manage and operate the enterprise, enhance the enterprise profitability and the management performance, thus increases their performance income and the equity income.

H1: Equity incentive intensity is positively related to firm performance

With the concentration of corporate equity is increasing, the largest shareholder for their own interests and corporate interests are closely related, and they even aware of that they are the largest share of the interests in enterprises, large shareholders has the ability and the right to supervise the management decision-making. So, there is a positive correlation between equity concentration and firm performance.

H2: equity concentration is positively related to firm performance.

There are free-rider problems and high principal-agent costs in the case of decentralized firms.
The existence of these problems undermines the expected role of equity incentive. With the increase in ownership concentration, the major shareholders have the ability to supervise the management and if they are willing to supervise the management of the day-to-day operations and decision-making, that can achieve effective management, reduce the high cost of principal-agent, therefore, in the relative concentration of enterprises to give executives equity to play the role of equity incentives can improve long-term business performance and corporate value. H3: When the equity is relatively concentrated, the positive correlation between equity incentive and firm performance is enhanced.

3. Research Design

3.1 Data Sources and Sample Selection

This paper selects all listed companies between the year 2011 and 2013, and the M & A on the Growth Enterprise Market, and the mergers and acquisitions are completed or implemented. This will ensure that the selected sample is a real acquisition. Finally, a total of 986 mergers and acquisitions enterprises, in order to study the performance of mergers and acquisitions changes, in turn the year before the acquisition of each year, then, after the acquisition of a year, after the acquisition of two years of data as a sample, excluding data errors or missing, ST, PT companies, finally the total data is 3944 sets.

3.2 The Establishment of Research Models

In this paper, multiple linear regression analysis model is used to test the hypothesis. The model is as follows:

Model 1: Relationship between Equity Incentive Strength and Firm Performance
EPS = β0 + β1EBC + β2SIZE + β3LEV + β4NED + β5BDS + β6STATE + β7INDU + ε

Model 2: the relationship between ownership concentration, equity incentive and firm performance
EPS = β0 + β1CR + β2EBC + β3SIZE + β4LEV + β5NED + β6BDS + β7STATE + β8INDU + ε

4. The Empirical Test and Analysis

4.1 Empirical analysis of equity incentive intensity and firm performance

Equity incentive intensity of the performance of the regression test results are shown in Table 1:
The R-side of the regression model is 0.135, and the adjusted R-side is 0.133. The change of firm's performance can be explained by the change of equity incentive. In the variance analysis table, the mean square of regression is 16.272, the remaining mean square is 0.185, the observation value of F test statistic is 87.782, the corresponding probability p value is 0.000, both are less than 0.05, it can be considered that the linear relationship between the variables and the dependent variable (earnings per share) is very significant. In the coefficient table, according to the estimation of the parameters and constant terms in the given regression equation values, constant terms and the respective variables of the regression coefficient t test statistic observation values were -12.982, 4.539, 18.847, -8.899, -2.953, 0.212, 2.938, -4.809, t test probability p value in addition to the control variable board size is 0.832, the remaining variables are less than 0.05, the significance is very optimistic, so the regression coefficient can be considered significant.

According to the above analysis, given the executive equity incentive is conducive to improving business performance. This is consistent with the conclusions drawn by Wei Gang (2000), Gao Minghua (2001) and others. Therefore, by giving executives equity incentive can improve business performance, is a viable incentive, the theory and the actual situation is consistent, assuming that H1 is established.

4.2 The Empirical Analysis of Equity Concentration, Equity Incentive and Firm Performance

The regression coefficient of equity concentration is significant at 5% (P = 0.014), and the regression coefficient is positive, indicating that there is a positive correlation between the regression coefficient and firm performance, assuming that H2 is established.

The effect of equity incentive intensity on firm's performance is not much change compared with that of non-equity participation. The regression coefficient is 0.221, and the participation in equity concentration does not increase the correlation between equity incentive and firm performance. Due to the different concentration of the selected sample firms, the impact on corporate performance for different ownership concentration on the equity incentive intensity is different, even the effect of neutral, lead to the emergence of the model results ultimately. Therefore, after that we do group regression analysis for the return to equity concentration.
Table 2. Equity concentration, equity incentive and corporate performance regression test results.

<table>
<thead>
<tr>
<th>Coefficient a</th>
<th>Nonstandard Coefficient</th>
<th>Standard Coefficient</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 2</td>
<td>B Standard Error Trial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-1.90</td>
<td>.148</td>
<td>-12.873</td>
<td>.000</td>
</tr>
<tr>
<td>Equity Incentive Strength (EBC)</td>
<td>.221</td>
<td>.049</td>
<td>.073</td>
<td>4.523</td>
</tr>
<tr>
<td>Ownership concentration ratio (CR)</td>
<td>.117</td>
<td>.048</td>
<td>.039</td>
<td>2.464</td>
</tr>
<tr>
<td>Company size (SIZE)</td>
<td>.120</td>
<td>.007</td>
<td>.351</td>
<td>18.134</td>
</tr>
<tr>
<td>Capital structure (LEV)</td>
<td>-.616</td>
<td>.034</td>
<td>-.323</td>
<td>-18.620</td>
</tr>
<tr>
<td>Board of Directors Independence (NED)</td>
<td>-.463</td>
<td>.148</td>
<td>-.053</td>
<td>-3.125</td>
</tr>
<tr>
<td>Board size (BDS)</td>
<td>.002</td>
<td>.005</td>
<td>.007</td>
<td>.356</td>
</tr>
<tr>
<td>STATE</td>
<td>.060</td>
<td>.018</td>
<td>.060</td>
<td>3.424</td>
</tr>
<tr>
<td>INDU</td>
<td>-.075</td>
<td>.015</td>
<td>-.078</td>
<td>-4.983</td>
</tr>
<tr>
<td>Adjust R²</td>
<td>.136</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>77.667</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P</td>
<td>.000a</td>
<td></td>
<td></td>
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</tbody>
</table>

In the control variables, the regression coefficients of the firm size are significant at 1% (p = 0.000), and the regression coefficient is positive, indicating that there is a positive correlation between the regression coefficient and the firm's performance. The regression coefficient of the capital structure is 1% (p = 0.000), and the regression coefficient is negative, indicating that there is a negative correlation between the performance of the firm. The regression coefficient of the independence of the board is significant at 5% (P = 0.002) and the regression coefficient is negative, indicating that there is a negative correlation between the performance of the merger and the performance of the firm. The regression coefficient of the board size is 0.002, but the P value is 0.722, so the effect of the board size on the whole model is small.

4.3 Group Regression Analysis

According to the above regression results: compared to the period that the equity concentration didn't join the degree of equity incentive to the impact of corporate performance haven't change a lot, the regression coefficient is 0.221, the concentration of equity participation did not increase equity incentive and corporate performance of the relationship may be due to the selected sample of the company's equity concentration is different. Therefore, in order to further study the relationship between the three, do the classical study for the concentration of ownership. In our country, the classification of ownership concentration is standard. The relevant laws and regulations of listed companies account for 20% and 50% as the important criteria to judge the type of equity and the concentration of equity. According to this standard, this paper divides all sample enterprises into the following three categories. According to the classification of equity concentration, 14.4% of the total shares were scattered, 20.6% of the total shares were concentrated, and the proportion of the enterprises with the same ownership was 65% of the total sample. Therefore, the equity concentration of M & A relatively concentrated on the main body.

5. Conclusions and Policy Recommendations

5.1 Research Conclusions

This paper is an empirical study on equity concentration, executive equity incentive and long-term performance of enterprises. The basic sample is an M & A enterprise with three plates, small plates
and GEM. The paper analyzes the present situation of equity concentration, executive equity incentive and enterprise performance, and defines the variable quantification index and carried out a rigorous regression analysis on the basis of summing up the following conclusions:

(A) With the increase of the strength of the executives which is given by the enterprise the incentive, the enterprise's performance also increased. When giving the manager's equity as an incentive, for their own interests against the interests of enterprises and shareholders will reduce the behavior, when the managers and shareholders of the interests of the goal is consistent, most of the business decision-making behavior will think for the long-term interests of enterprises. The greater the proportion of executives holding shares, the more emphasis on increasing the value of the enterprise, the role of the community of interests will be more due diligence, reduce short-term behavior, enhance corporate profitability and business performance, thereby increasing their performance gains and equity gains. In addition, from the point of view of the existence of principal-agent, a certain proportion of equity incentive can make the executives stand in the shareholder's point of view of major decisions and reduce the cost of principal-agent; from the cash flow point of view, equity incentive can reduce the amount of corporate cash expenditure, increase the liquidity of the funds.

(B) There is a positive correlation between equity concentration and firm performance. With the increase in the concentration of enterprises, the largest shareholder is closely related to the interests in the enterprise, and the major shareholders will become a rational or fair attitude in the daily operation and major decision-making of the enterprise to a positive supervisory role. However, when the group returns, it is found that there is a significant positive correlation between the concentration of ownership and the performance of the firm in relation to the relative concentration and absolute concentration of the shares. The relative concentration of the enterprises is lower than that of the relative concentration of the shares. Equity concentration should generally be between 20% and 50%.

(C) For listed companies with different ownership concentration, the incentive intensity of equity is always positively correlated with firm performance. For the relatively concentrated equity firms, the relationship between equity incentive and firm performance has been enhanced. For the listed companies with decentralized shareholding and absolute ownership, the influence of equity incentive and firm's performance is not much different, but it is less than equity relatively concentrated correlation coefficient.

5.2 Policy Recommendations

In view of the fact that M & A enterprises study the effect of enterprise performance factors, we also find the existing problems in M & A enterprises, and put forward the following countermeasures and suggestions for these problems:

(A) For mergers and acquisitions enterprises should use executive equity incentive, but also should according to their own type of equity institutions to determine the strength of equity incentive. For most enterprises, because executives hold a certain share of the enterprise share, so executives from a simple operator into the owner and the owner of the coexistence of the situation, which in the management of business operations in the course of its attitude may be determined and may change from the go to go all out. You can ensure that the personal interests in executives and corporate interests as a whole tends to be consistent with the behavior of enterprises with mergers and acquisitions is particularly important , there will not be executives in order to obtain substantial monetary compensation at the expense of long-term interests in enterprises , short-term goals for the conduct of malicious mergers and acquisitions and other acts, therefore, executive equity incentive and corporate performance were positively correlated .

(B) Perfect the ratio of equity incentive and salary incentive. Enterprises need to change the use of a single incentive model, the equity incentive and pay incentives reasonable ratio, combined to use, to achieve long-term and short-term incentives for executives. The article has returned to the sample of mergers and acquisitions to prove that executive equity incentive can promote the
improvement of corporate performance, so companies should correctly understand the role of equity incentive to make up for other forms of executive compensation in the form of inadequate, improve China's executive holdings low proportion of the situation, give full play to the role of equity incentive.

(C) Pay attention to shareholders of the constraints on executives. Although the equity incentive will be consistent with the objectives of the business executives, but this requires the shareholders of the constraints and supervision of executives as a prerequisite, on the one hand is due to a sound regulatory mechanism, executives can be effectively supervised to a certain constraint, so as to reduce the risk, the maximum through equity incentives to ensure that executives and corporate goals tend to be consistent, to achieve business objectives and to maximize corporate value. On the other hand, if the effective supervision of the executive can be a reasonable assessment of the performance of executives due diligence, according to their work results and contributions to the development of enterprises to pay a reasonable remuneration, the incentive mechanism and the actual contribution to executives is not equal to the situation.

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