

Research on the Impact of Shareholding Structure on Financial Performance of Manufacturing Listed Companies Based on Social Responsibility

Chuling Wu, Yang Yang

Southwest Petroleum University, Chengdu City, Guangzhou Province, 610500, China

Abstract: Most of the studies on the impact of financial performance are related to the concept and measurement methods of social responsibility, the direction of relationship between the two is based on the perspective of shareholding structure, etc. This paper mainly compares the relevant literature from the above three aspects.

Keywords: Social responsibility, Shareholding structure, Financial performance.

1. Shareholding Structure and Financial Performance

Through searching and reading domestic and international references, I found that the relationship between equity structure and corporate financial performance is mainly studied from three aspects: equity concentration, equity nature and equity balances, and this paper focuses on the first two aspects. The theories and opinions obtained by most scholars at home and abroad are not uniform, which means that there is no uniform conclusion on the influence of equity structure on financial performance in the relevant studies.

(1) Research on the impact of equity nature on financial performance

The shares of listed companies in China can be divided into state shares, legal person shares (including institutional shares), social shares, and corporate shares according to the nature of investors. Existing literature has also studied the impact of equity attributes on financial, the results of the study are as follows:

Studies that address state-owned shares have mostly concluded that they have a negative impact on financial performance. This is mainly because in state there are listed companies in which the state is in a controlling or relatively controlling position, and there are multiple links and subjects in the agency chain. Such as state-owned assets management committee, state-owned capital investment and operation institutions, state-owned enterprises, managers, etc., layers of commission leads to higher agency costs[1]; also because these firms take on social goals such as employment, public service[2] and therefore have non-economic missions and policy burdens[3]. Other scholars have found that operators employed by the government will focus more on their own political future and personal interests and neglect their long-term corporate development goals. They often choose to avoid risky and long-cycle projects like R&D investment[4]. The results of Chi Zheng's[5] study suggest that the negative effect of state-owned shares is also true for Chinese exporters. Therefore, by reducing the proportion of state-owned shares, firms' business objectives will focus on profit maximization and long-term development, and their risk-taking capacity will increase, which will promote the value of the firm.[6]

Many views have also been expressed by foreign scholars: an analysis of earlier studies focusing on the linear

relationship between the nature of equity and corporate performance shows that when exploring the correlation between the percentage of shareholding of different shareholders and corporate value, a linear relationship is found, but external holders differ from internal holders in that studies conclude that corporate value only becomes larger with the percentage of shareholding of internal holders (Jensen and Meckling, 1976)[7]. However, subsequent studies on the same topic have come to a different conclusion than the previous ones, finding that firm value changes with increasing insider ownership; however, with a critical point before which the correlation is positive and after which it is negative (Morck et al., 1988)[8]. The objective function of different shareholders is based on their requirements for business performance, and from this, it is found that there are differences in the objective functions of shareholders of different nature, and based on this, they may regulate the business differently. Introducing and combining it with previous studies, it is found that there is no longer a significant correlation between the nature of equity and financial performance. Some scholars have also directly compared the financial performance of SOEs and non-SOEs to analyze the impact of different equity characteristics on financial performance and found that the financial performance of non-SOEs is higher than that of SOEs. In exploring the extent to which ownership reform affects the financial performance of firms, thousands of Chinese SOEs were selected for the study, and it was found that SOEs did not obtain better financial performance levels compared to non-SOEs based on their unique status, and these results were often attributed to the existence of problems such as more ambiguous property rights and principal-agent failures in SOEs. In addition, the level of financial performance of SOEs is affected by their shareholding structure.

(2) Study on the effect of equity concentration on financial performance

Equity concentration measures the quantitative composition of the equity structure. From the current perspective, the relationship between medium and financial performance has not been uniformly asserted, and the main views can be divided into two categories:

First, equity concentration is positively correlated with financial performance

Berle and Means were the first to argue that the separation

of control and ownership results in managers with smaller shareholdings actually holding control of the firm and that the failure of owners to monitor managers has a negative impact on management in the long run, i.e., concentration of equity is effective in improving financial performance. He selected listed companies in Mexico as a research sample and found that when the shareholding ratio is increased and the company has large shareholders, they will actively play a supervisory role for the long-term development of the company and their own interests, which makes the business management more standardized and beneficial to long-term development. On this basis, our scholars found that after the concentration of shareholding is enhanced, the majority shareholders' own interests tend to be aligned with the business objectives of the company, and they will participate more actively in the management of the company, and seek new development opportunities through the implementation of diversification strategies. Moreover, the high shareholding ratio of major shareholders will pay more attention to the long-term development of the enterprise, which will urge the enterprise to assume social responsibility and achieve a good reputation, forming a favorable external environment. It also enhances the absorptive capacity of the enterprise, and draws on the excellent external knowledge, thus gaining the enterprise value-added. The centralization of power by major shareholders also promotes enterprises to increase investment in research and development [21], form core competitiveness, improve operating performance, contribute to share price stability and reduce the risk of share price collapse. In addition, the centralization of power by multiple major shareholders can effectively reduce excessive risk-averse behavior, reduce the probability of cash idleness, and enhance the risk-taking capacity of enterprises, thus improving investment efficiency and making enterprises profitable. Other scholars, based on the context of mixed ownership reform of SOEs in China, have found that after the introduction of non-state capital, it is still necessary to maintain the concentration of equity and make the state capital dominant, in order to present a positive effect on firm performance.

Second, equity concentration is negatively correlated with financial performance

The market is liquid and all parties can monitor management's behavior and do not have to rely only on the majority shareholder. The strengthening of the shareholding structure may lead to a "one-talk" situation where other shareholders have no checks and balances, making the firm more prone to operational risks and causing significant damage to financial performance. The emergence of over-investment due to the preference for risky investment projects will gradually weaken the wealth and resources of listed companies. Other scholars take enterprise connected transactions as a foothold and find that the scale of connected transactions will expand when the equity is highly concentrated, and controlling shareholders are very likely to take advantage of the loopholes of internal governance structure to transfer benefits through non-fair connected transactions in the absence of effective supervision, and seize private profits to hollow out the enterprise.

2. Shareholding Structure and Social Responsibility

The shareholding structure is the most important factor determining the effectiveness of corporate governance mechanism, which inevitably affects the fulfillment of social responsibility of listed companies. With the gradual deepening of the research on CSR, the use of stakeholder theory to explore CSR issues has also become the mainstream of theoretical research. And all CSR subjects can be categorized into three kinds of external society, shareholders and internal employees. Among them, shareholders have a direct influence on CSR. Many normative studies have shown that SOEs often take on special important social goals that are difficult to be achieved by non-SOEs, and the state's assessment requirements for SOEs in this regard are even higher than economic goals. The higher the ratio of foreign capital in a joint venture, the more effective the protection of shareholders' interests and employees' interests, but the protection of social interests was not obvious.

3. Conclusion

This study provides experience for enterprises to fulfill their social responsibilities, explores reasonable internal governance structures, and provides more decision-making basis and theoretical guidance for decision-makers in enterprises. As the main force of the social economy, the behavior of enterprises is the result of the joint action of internal and external factors. From a philosophical perspective, external factors must come into play through internal factors. Therefore, identifying internal factors that have a significant impact on the development of enterprises can promote their green and healthy development.

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