The Impact of the Shareholding Ratio of the Firm's First Major Shareholder on Firm Performance——An Empirical Study Based on the Pharmaceutical Manufacturing Industry

Heyang Zhu

Zhejiang Normal University, School of Economics and Management, Jinhua 321000, China.

Abstract: The shareholdings of listed companies in China are relatively concentrated, and the shareholding ratio of the first largest shareholder is generally high. A reasonable shareholding ratio is a prerequisite for listed companies to achieve their own performance improvement, capital stability and efficient corporate governance. And good corporate performance and corporate governance level are the intrinsic motivation to promote the continuous optimisation of shareholding ratio. A lot of literature has analysed the impact of the shareholding ratio of the largest shareholder on corporate performance and reached different conclusions. Based on the research process of empirical analysis, this paper mainly takes the pharmaceutical manufacturing industry under manufacturing industry as the research object, and selects its relevant data in the period of 2010-2021. On the basis of reviewing the relevant literatures, using Excel software and stata database, we start from the impact of the first major shareholder on the corporate governance structure, and study whether it has a significant impact on the company's performance. Firstly, descriptive statistics are performed on the samples according to the explanatory variables, interpreted variables and other control variables to explore the characteristics of the selected variables in the industry; secondly, correlation analyses are performed on the variables other than the interpreted variables to verify the accuracy of the hypotheses preliminarily, and multiple covariance tests are performed to ensure the relative accuracy of the regression to a certain extent. Finally, the results of the sample regression are analysed accordingly to determine the relationship between the explanatory variables and the explained variables, and the conclusion that the explanatory variables and the explained margins do have a statistically significant relationship is proved. Through the empirical research of the article, it is concluded that the proportion of shares held by the first largest shareholder has a significant contribution to the company's performance, and the increase in the proportion of shares held by the first largest shareholder is conducive to the improvement of the company's performance.

Keywords: Largest Shareholder; Corporate Performance; Empirical Analysis

1. Introduction

1.1 Background of the study

In the past 2020-2022, with the joint efforts of all parties, the main objectives of the current three-year action of state-owned enterprise reform have been completed, and the optimisation of the state-owned economic layout and structural adjustment have achieved obvious results. However, how to further optimise the corporate governance structure and improve the level of corporate governance is one of the important tasks of future reform.

1.2 Research Significance

Unlike the highly dispersed shareholding structure of listed companies in developed countries, the shareholding structure of listed companies in China is relatively concentrated, so the study of the impact of the power of large shareholders on the performance of companies in China is of more practical significance .

In China's listed companies, major shareholders often hold the decision-making power and control of the company, so it is of great significance to study the impact of major shareholders' shareholding ratio on the performance of the company to understand the optimisation of the corporate governance structure and to improve the governance efficiency of the company.

2. Research hypotheses

In earlier studies, Berle and Means argued that equity dispersion leads to unfavourable monitoring incentives, and the more concentrated the equity, the better the firm's performance.Jensen and Meckling20 reached similar conclusions based on the agency cost perspective. Subsequent empirical studies also support these assertions, such as McConnell and Seraves7 who found a positive relationship between majority shareholding and firm performance. In a recent study, Basu et al.'s empirical findings based on the Shapley power index of cooperative games also show that the power of outside majority shareholders is significantly positively related to firm value.

Based on the above literature, this paper argues that when the power of majority shareholders is at a high level, it has a greater positive effect on the performance of the company, while when the power of majority shareholders is at a lower level, its positive effect on the performance of the company gradually decreases. With the increase of the power given to the majority shareholder, the majority shareholder will be more attentive to the management of the company, supervise all the factors affecting the performance of the company internally and externally, and devote to the improvement of the company's performance. In this regard, the following hypothesis is proposed:

An increase in the level of power given to the majority shareholder is likely to increase the firm's performance.

3. Definition of variables and description of calculations

3.1 Definition of Variables

3.1.1 Explained Variables

Return on Assets (ROA). Because most of the foreign literature is based on Tobin's Q and other market indicators as performance evaluation indicators, but the Chinese stock market is more susceptible to noise interference compared to the Western mature market, market indicators have a large bias, therefore, with reference to the existing literature, this paper selects ROA to measure the company's performance.

3.1.2 Explanatory Variables

Concentration of equity (CR1). Concentration of equity is the main indicator of the enterprise's equity structure, due to the different capital requirements or market capitalisation of the circulation, the selected measure of equity concentration is also different. Scholars have selected three kinds of equity concentration indicators: (1) the proportion of shares held by the first largest shareholder (CR1); (2) the sum of the proportion of shares held by the top five shareholders (CR5); and (3) the sum of the proportion of shares held by the top ten shareholders (CR10). And the proportion of shares held by the first largest shareholder is the standard for defining equity concentration, therefore, the article selects the proportion of shares held by the first largest shareholder (CR1) as the index for measuring equity concentration.

3.1.3 Control Variables

Asset size (SIZE), gearing ratio (Leverage), net sales margin (Netp) are chosen as control variables.

3.2 Calculation instructions

The model is designed as follows:

$ROE = \alpha 0 + \alpha 1CR1 + \alpha 2SIZE + \alpha 3Leverage + \alpha 4ITO + \alpha 5Netp + \varepsilon$

The model mainly examines whether the proportion of shares held by the first largest shareholder has a significant effect on the company's performance

4. Analysis of empirical results

4.1 Descriptive statistical analysis

In this paper, we will briefly describe the proportion of shares held by the first largest shareholder in the selected pharmaceutical manufacturing industry. As shown in the figure, it is the descriptive statistics results of the main variables in this paper.

Decriptive statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max
Roa	1,754	0.0607	0.0792	-0.847	0.604
Leverage	1,754	0.331	0.193	0.00465	2.106
CPR1	1,754	0.331	0.135	0.0389	0.891
Netp	1,754	0.0612	0.0775	-0.847	0.604
Size	1,754	21.98	0.968	18.53	25.26

It can be seen that the mean value of the explanatory variable Roa (return on net assets) is only 0.0607, the maximum value of 0.604, the minimum value of -0.847. At the same time, the industry explanatory variable CPR1 mean value of 0.331, indicating that the average shareholding of the first major shareholder in the pharmaceutical manufacturing industry is higher, the degree of concentration of equity is higher, (compared with other industries, and the same industry in the same industry abroad than) and the industry The minimum and maximum values are 0.891 and 0.0389 respectively, which can be seen that the equity structure of the pharmaceutical manufacturing industry is still more concentrated.

4.2 Correlation analysis

Before regression analysis, it is necessary to carry out correlation test on the selected variables, and the processing results are shown below:

As can be seen from the results of the above table, the correlation coefficients between the important variables in the model reach the significant level. The shareholding ratio of the first major shareholder is significantly and positively correlated with the company's performance (measured by return on net assets), indicating that an increase in the shareholding ratio of the first major shareholder can promote the growth of the company's performance, and the research hypotheses are initially verified.

As shown in the figure below, this paper also tested the multicollinearity in the variables with the variance inflation factor (it is generally considered that there is no multicollinearity if the vif value is not greater than 10), because the vif value is not greater than 10 in the results of the data processing, so it is considered that this paper assumes that there is no serious multicollinearity in the model, so that the relative accuracy of the regression can be guaranteed to a certain extent.

The regression results indicate that there is a significant positive correlation between the company performance and the proportion of shares held by the first largest shareholder, and the regression results have reached the 1% significance level in statistical significance, and the research hypothesis has been verified.

Among the other control variables, the net sales interest rate has a positive impact on the company's performance, but it is not significant, indicating that the net sales interest rate can promote the company's performance, but the effect is not obvious; the company's size has a significant positive impact on the company's performance, between 1% and 5%, indicating that the larger the company's size, the higher the company's performance; the gearing ratio has a significant impact on the company's performance, but it is negative, indicating that the larger the gearing ratio, the higher the company's performance. Gearing ratio has a significant but negative effect on firm performance, indicating that the larger the firm, the lower the firm's performance.

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