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Original Paper

The Effect of Beneficial Controller Characteristics on True Surplus Management

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Abstract

Surplus management, as a hot issue in economy, accounting, securities and other industries, is not only a simple accounting problem, but also a complex social problem. Surplus management and accounting information exist in a unity of opposites, the study of the impact of surplus management factors, is conducive to controlling and solving the enterprise surplus management problems brought about by the damage to the enterprise value. According to the purpose of surplus management and the theory of generating motives, we can know that surplus management is essentially a kind of specific means of the game of multiple interests. At the present stage, the way of surplus management has shifted, that is, from accrual to real surplus management, and the latter is difficult to be observed, which is more harmful to the enterprise. This paper selects China's A-share listed companies from 2013 to 2019 as a sample to empirically analyze the impact of the characteristics of the actual controller on real surplus management. The actual controller characteristics are categorized into the nature of equity, and the proportion of shareholding. It is found that (1) state-owned enterprises have a positive facilitating effect on the true surplus management of enterprises, while non-state-owned enterprises have a negative inhibiting effect on the true surplus management of enterprises; (2) the proportion of control has a negative effect on the true surplus management of enterprises. For the conclusion (2) also conducted a sample division to further verify the role of the control ratio on the management of corporate real surplus in enterprises with different equity nature, and the conclusion is consistent with the above.

Keywords

Beneficial owner, true surplus management, shareholding structure

1. Introduction

Surplus management and accounting information have an antagonistic and unifying relationship, and it is inappropriate to "beat them to death" or to allow them to develop and take root in the enterprise. According to the purpose of surplus management and the theory of generating motives, we can know that surplus management is essentially a means for managers to regulate profits for private interests out of subjectivity, and it is a game between creditors and debtors, investors and operators, principals and agents, and other interests. Controlling shareholders and minority shareholders, state-owned capital and non-state-owned capital in the enterprise also exists in the interest of disputes and games, so it can be considered that the enterprise surplus management is a specific means of their game. The nature of the actual controller can divide the capital structure of the enterprise into state-owned capital and non-state-owned capital, and the ratio of ownership and control can be used to measure the enterprise's shareholding structure and other information. The study of the nature of the actual controller on surplus management is essentially a kind of tracing back to the roots.

At this stage, the research on the characteristics of the actual controller on corporate surplus management is divided into two kinds of static and dynamic, static refers to the impact of different capital attributes on different surplus management; and dynamic refers to the impact of the transfer of the nature of the actual controller of the company when it occurs (state-owned to non-state-owned and non-state-owned to state-owned) on the management of different surpluses. However, on the one hand, part of the research is conducted only for the accrued surplus management research, at present, the tendency of enterprises to choose the accrued surplus management alone when they actually operate the surplus management no longer exists, but gradually shifts to the use of the two together, for part of the research only for the accrued surplus management research needs to be supplemented by a new research for the illustration. On the other hand, part of the research is only based on the nature of the property rights of the actual controller used to analyze the surplus management problem, about the actual controller's shareholding, the research is not comprehensive enough.

The purpose of this paper is to study the relevance of the two main characteristics of the nature of property rights and shareholding of the actual controller to real surplus management. The significance and focus of the study are (1) the relevance and impact of state-owned enterprises, non-state-owned enterprises and real surplus management; (2) the relevance and impact of the proportion of control rights of the actual controller and the real surplus management of the enterprise; (3) to affirm the effectiveness of the mixed-ownership reform on the control of the real surplus management of the enterprise; and (4) to supplement the relevant research on the management of the real surplus and provide theoretical support for solving the problem of internal governance of the enterprise.

2. Literature Review

2.1 Factors Affecting Surplus Management

The influencing factors of surplus management include both internal and external aspects, including

internal influencing factors: executive characteristics (Du et al., 2017; Du, 2018), internal incentives (Dong et al., 2018)), and firm characteristics (Lu & Wang, 2020) (Lu et al., 2020), etc.; and external influencing factors: macroeconomic policies (Xu et al., 2020), products, industry environment (Liu, 2021) (Liu et al., 2017), Zeng et al. (2016), etc.

Certain seemingly competing conclusions may emerge from this part of the research, i.e., the same variable can have completely different effects on surplus management. The reason for this phenomenon is that some scholars have selected only one type of surplus management in their empirical analysis, and the selected variables present different directions of effects on the two types of surplus management. In addition, certain factors can lead to substitution or transfer between two kinds of surplus management.

2.2 Different Surplus Management Characteristics and Corporate Economic Performance

Surplus management mainly includes accrued surplus management and real surplus management two kinds, due to the existence of accrued surplus management is easy to observe characteristics, and the actual operation did not increase the actual income of the enterprise, the economic impact on the enterprise is small. The real surplus management usually through the planning of non-arm's length transactions and other means of operation (Ma & Han, 2017), it is difficult to distinguish from the normal business activities of the enterprise, and bring the economic effect of lagging, will jeopardize the long-term stable and sustainable development of the enterprise.

Based on two kinds of surplus management cost factor theory research found that enterprises choose the way of surplus management is affected by both external factors such as market competition pressure (Wang, 2014) and internal factors such as the company's financial situation (Zang, 2012). And when companies actually operate surplus management, they often use a combination of accruals and real surplus management.

2.3 Beneficial Owner Characteristics and Surplus Management: Property Rights

The concept of ultimate controller was first proposed by Laporta et al. in 1999, and scholars at home and abroad found the prevalence of the existence of ultimate controlling shareholders in listed companies. The current research on the nature of property rights of the actual controller mainly divides the nature of the enterprise and capital through the nature of the actual controller, and studies the mechanism of different state-owned enterprises and non-state-owned enterprises affecting the behavior of corporate surplus management. First, different property rights nature will directly affect the degree of corporate surplus management. Tang et al. (2015) found that state-owned capital has a significant negative correlation with the degree of corporate accrued surplus management, and non-state-owned capital has a significant positive correlation with the degree of corporate accrued surplus management (Tang & Hu, 2015). Secondly the nature of property rights can indirectly cause inter-firm differences by affecting the degree of corporate surplus management. Zhu (2020) finds that real surplus management inhibits innovation output by reducing R&D investment, and this inhibition is stronger in non-state-owned enterprises (Zhu, 2020). In addition, there are also differences in corporate surplus

management behaviors in mixed-share ownership firms that cannot distinguish the nature of property rights.

2.4 Beneficial Owner Characteristics and Surplus Management: Shareholdings

Existing studies mainly study the impact of internal shareholding structure changes on surplus management, and there are fewer studies about the real surplus management by the actual controller's own shareholding ratio. Bergstresser (2006) argues that the higher the management's shareholding ratio is, the higher the likelihood of manipulation of the accrued profit is. Xiao (2017) argues that the inhibitory effect of institutional shareholding on accrued surplus management only works under long-term shareholding and is counterproductive in the short term. Foreign researchers have shifted from analyzing the relationship between the proportion of executive shareholding and surplus management to analyzing the impact of different stages of equity incentives on surplus management, while China's equity incentives are carried out later, and related research still focuses more on the correlation analysis of the two. The hypotheses are formulated as follows:

H1: State-owned enterprises have a positive effect on the true surplus management of enterprises; non-state-owned enterprises have a negative effect on the true surplus management of enterprises.

H2: The control ratio is related to true surplus management, and in state-owned enterprises, the control ratio has a positive response to true surplus management; in non-state-owned enterprises, the control ratio has a negative effect on true surplus management.

3. Data and Methodology

Taking China's A-share listed companies from 2013 to 2019 as the full sample, the sample is divided into state-owned enterprise sample and non-state-owned enterprise sample according to the nature of controller's property rights. Roychowdhury's econometric model (Roychowdhury, 2006) is used to measure the real surplus management level RM, and the measurement formula is as follows：

$$\frac{COF_t}{A_{t-1}} = \alpha_0\left(\frac{1}{A_{t-1}}\right) + \alpha_1\left(\frac{S_t}{A_{t-1}}\right) + \alpha_2\left(\frac{\Delta S_t}{A_{t-1}}\right) + \varepsilon_t$$

$$\frac{\mathrm{DISEXP}_t}{\mathrm{A}_{t-1}} = \alpha_0\left(\frac{1}{A_{t-1}}\right) + \alpha_1\left(\frac{S_{t-1}}{A_{t-1}}\right) + \varepsilon_t$$

$$\frac{PROD_t}{\mathrm{A}_{t-1}} = \alpha_0\left(\frac{1}{A_{t-1}}\right) + \alpha_1\left(\frac{S_t}{A_{t-1}}\right) + \alpha_2\left(\frac{\Delta \mathrm{S}_t}{A_{t-1}}\right) + \alpha_3\left(\frac{\Delta \mathrm{S}_{t-1}}{A_{t-1}}\right) + \varepsilon_t$$

In the above model, CFO denotes net cash flow from operating activities; S denotes income from main business; A denotes total assets of the firm; DIEXP denotes discretionary expenses, and PROD denotes the production cost of the firm, where εt is the regression residual term used to denote the abnormal cash flow from operating activities (acfo), the abnormal discretionary expenses (adisexp), and the abnormal production cost (aprod). The model is constructed as follows. The sum of these is constructed as follows, which is used to reflect the level of consolidated true surplus management.

$$\mathrm{RM} = \text{aprod} - \text{acfo} - \text{adisexp}$$

According to the hypotheses to construct the multiple regression model as (1)-(2), where where SOE is the nature of the property rights of the actual controller, SOE is 1 indicates that it is a state-owned enterprise, and SOE is indicates that it is a non-state-owned enterprise. share is the proportion of the control of the actual controller, and control indicates the corresponding control variable. Model (1) is used to test hypothesis 1 and model (2) is used to test hypothesis 2. The table of variables is shown in Table1.

$$\mathrm{RM} = \beta_0 + \beta_1 \mathrm{SOE} + \beta_i \sum_i control + \varepsilon_1 \tag{1}$$

$$\mathrm{RM} = \beta_0 + \beta_1 Share + \beta_i \sum_i control + \varepsilon_2 \tag{2}$$

Table 1. Variable Definitions

Variables	Symbols	Definition
Nature of the beneficial owner's equity	SOE	1 for state-owned enterprises,0for non-state-owned
Percentage of control by the actual controller	Share	Control is numerically the sum of the weakest votes in each of the shareholder's chains of control
Real surplus managementc	RM	RM=aprod-acfo-adisexp
Enterprise sizec	Size	Natural logarithm of total business assets
Corporate solvency	Lev	gearing
Company Growth	Growth	Sales revenue growth rate
Company Profitability	ROA	return on assets
Accrued surplus management	DA	Accrued profits can be manipulated
shareholding concentration	CRIO	Sum of the proportion of the ten largest shareholders
Degree of business ownership	ABH	Absolute holding ABH is 1, 0 otherwise
Dissociation rate	Sepre	Difference between control and ownership by the beneficial owner of the enterprise

4. Analysis and Results

Table2 is the descriptive statistics. The chart shows that there are 6171 state-owned enterprises and 9898 non-state-owned enterprises in China from 2013-2019. The mean value of RM of real surplus management level in state-owned enterprises is 0.0216, the minimum value is -2.924, and the maximum value is 3.157, which indicates that the distribution of positive and negative real surplus management in state-owned enterprises is wide, and the overall performance is positive surplus management. The mean value of real surplus management level RM in non-state-owned enterprises is -0.0201, the minimum value is -6.793, and the maximum value is 2.859, which indicates overall negative surplus management, and the degree of negative surplus management is deeper in some

enterprises. Non-state-owned enterprises are more likely to engage in negative surplus management for tax avoidance purposes. The mean value of the control ratio of state-owned enterprises is 41.87 and the control ratio of non-state-owned enterprises is 35.61, and overall the control ratio of state-owned enterprises is higher than that of non-state-owned enterprises. The financial indicators measuring the enterprises: Lev, ROA, and Growth are also more evenly distributed, indicating that both state-owned and non-state-owned have good and bad operations. From the mean value, it can be seen that non-state-owned enterprises have higher ROA and Growth and lower Lev compared to state-owned enterprises, and overall non-state-owned enterprises have stronger development ability and profitability at this stage.

Table 2. Descriptive Statistics

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	SOE=0 non-state enterprise					SOE=1 state enterprise				
	N	mean	Sd	min	max	N	mean	Sd	min	max
Year	9898	2016	2017	2013	2019	6171	2016	2.023	2013	2019
Code	9898	1406	863.0	2	3407	6171	1627	1064	1	3408
RM	9898	-0.0201	0.235	-6.793	2859	6171	0.0216	0.192	-2.924	3.157
ABH	9898	0.196	0.397	0	1	6171	0.322	0.467	0	1
Share	9898	35.61	16.16	0	92.73	6171	41.87	15.02	1.330	89.89
Size	9898	9.536	0.468	6.765	11.66	6171	9.959	0.619	7.978	12.44
ROA	9898	0.352	0.0928	-2.871	0.590	6171	0.0283	0.0548	-0.760	0.340
Lev	9898	0.389	0.195	0.00836	1.758	6171	0.504	0.202	0.0103	1.698
Growth	9898	0.382	5.040	-1.309	363.1	6171	0.178	1.597	-0.952	82.79
DA	9898	0.00158	0.171	-2.858	3.261	6171	0.00624	0.136	-2.999	0.894
Seper	9898	5.439	7.777	0	47.85	6171	4.218	7.575	0	60.32

CRIO	9898	57.75	14.28	4.453	95.99	6171	58.10	15.40	12.72	101.2

Table 3 is the correlation analysis. The icon shows that all the selected variables are significantly correlated with the real surplus management of enterprises, and the selected variables are reasonable. The correlation analysis is selected from the whole sample, and it can be seen that SOE is significantly positively correlated with RM, which can be initially verified that the nature of property rights has a significant correlation with the level of real surplus management. The enterprise's ROA, Growth and RM show significant negative correlation, Lev and RM show significant positive correlation, we can see that the enterprise's development ability, profitability, solvency better enterprise will effectively inhibit the enterprise real surplus management. Accrued surplus management DA is positively correlated with RM, which indicates that the management of the enterprise will always use both methods in a comprehensive way when actually using surplus management tools. In the whole sample, control Share is significantly negatively correlated with real surplus management, and the difference between control in SOEs and non-SOEs on real surplus management needs to be analyzed by regression analysis in separate samples. In addition, the above real surplus management level RM is significantly correlated with other variables, but there is no value greater than 0.7, which can be regarded as indicating that there is no multicollinearity between the variables, the correlation coefficient between control share and equity concentration CRIO is close to 0.7, and the correlation coefficient between control share and ABH>0.7, which has the possibility of multicollinearity, and in the regression validation of model (2), we will exclude CRIO from the regression coefficient. regression validation will exclude CRIO and ABH.

Table 3. Correlation Analysis

	RM	SOE	ABH	Share	Size	ROA	Lev	Growth	DA	Seper	CRIO
RM	1										
SOE	0.092***	1									
ABH	-0.048***	0.143***	1								
Share	-0.045***	0.190***	0.760***	1							
Size	0.043***	0.362***	0.182***	0.209***	1						
ROA	-0.231***	-0.042***	0.072***	0.109***	0.037***	1					

Lev	0.160***	0.273***	0.031***	0.044***	0.502***	-0.309***	1				
Growth	-0.00400	-0.024***	0.00500	0.009***	0.022***	0.029***	0.031***	1			
DA	0.164***	0.014***	0.022***	0.036***	0.046***	0.253***	-0.037***	0.095***	1		
Seper	-0.020***	-0.077***	0.071***	0.132***	0.079***	0.029***	0.062***	-0.00100	0.022***	1	
CRIO	0.090***	0.0120	0.517***	0.641***	0.210***	0.161***	-0.044***	0.034***	0.044***	0.089	1

Table 4 shows the results of regression analysis, in which columns (1)-(2) are full samples, which are used to verify hypothesis 1, SOE and RM show significant correlation, and hypothesis 1 is established, and in addition, in the full sample, the SHARE performance shows significant negative correlation with RM, which may be offset by the different roles that different enterprises show, and in order to further verify the hypothesis 2, the samples are divided into state-owned and non-state-owned.

There may be several reasons for this result: (1) corporate ROA also plays an inhibitory role on true surplus management, and the management of the firms in the SOE sample has less incentive to manage true surplus because of better business capabilities (Lu & Wang, 2020). (2) The SOE sample includes mixed ownership enterprises, and the way of defining whether a mixed ownership is a SOE is more complicated and difficult to remove from the sample (Qi, Yu, & Liu, 2020). Zeng et al. (2020) studied the influence of non-state capital on the inhibition of real surplus management in different state-owned enterprises with different holding ratios, and found that only when the proportion of state-owned shares reaches a specific value (48.6%) can non-state capital play the inhibition of real surplus management (Zengn & Chen, 202).

Table 4. Regression Analysis

VARIABLES	Full sample	non-state enterprise	state enterprise	
	(1)	(2)	(3)	(4)
	RM	RM	RM	RM
SOE	0.030***	0.028***		
	(8.48)	(7.81)		
ABH		-0.011**		
		(-2.36)		
Size	-0.005	-0.002		
	(-1.53)	(-0.46)		

ROA	-0.703***	-0.697***	-0.669***	-0.904***
	(-7.97)	(-7.95)	(-6.74)	(-12.70)
Lev	0.087***	0.081***	0.076***	0.072***
	(7.01)	(6.66)	(5.73)	(5.55)
Growth	-0.001	-0.001	-0.001	-0.002
	(-1.42)	(-1.32)	(1.26)	(-0.58)
DA	0.372***	0.327***	0.316***	0.354***
	(10.21)	(10.22)	(8.43)	(5.79)
Seper	-0.000	-0.000	-0.000	-0.001***
	(-1.53)	(-1.58)	(-0.24)	(-2.73)
CRIO		-0.001***		
		(-3.59)		
Share	-0.001***		-0.001***	-0.000***
	(-4.49)		(-4.00)	(-2.75)
Constant	0.043	0.029	-0.004	0.029***
	(1.42)	(0.97)	(-0.51)	(3.13)
Observations	16069	16069	9898	6171
R-squared	0.118	0.120	0.106	0.126
F test		0		
r2_a		0.120		
F		75.23		

5. Conclusion

The characteristics of the actual controller are divided into the nature of the property and the proportion of shareholding, and the significant correlation between them and the real surplus management is studied separately, and it is found that (1) the state-owned enterprises present a significant positive correlation with the real surplus surplus management of the enterprises, while the non-state-owned enterprises present a significant negative effect with the real surplus surplus management. (2) The proportion of the control right of the actual controller presents a significant negative correlation with the enterprise's true surplus management. Existing research on the proportion of control of the real surplus management research findings vary, some scholars also get the conclusion that the two are not related. However, these conclusions do not exist a large essential conflict, I think to a certain extent related to the development process of China's state-owned enterprises.

Compared with non-state-owned enterprises, state-owned enterprises business model is more rigid, not flexible enough. State-owned enterprises bear part of the political pressure, although the political pressure to a certain extent to promote the fulfillment of corporate social responsibility, but the development of enterprises is a continuous dynamic process, running a good business requires more

flexible and professional business operators. In this context, mixed ownership is proposed, the emergence of mixed ownership is to establish a different from the state-owned enterprises and non-state-owned enterprises of the internal governance system and appropriate business model.

Academics have studied the correlation between mixed equity system and real surplus management, and found that the two have a significant negative correlation, i.e., the former has an inhibitory effect on the latter. And different nature of equity ratio affects the inhibition, specifically, the ratio of state-owned equity and non-state-owned equity is less than 1, the inhibition will be weakened. In addition, the mechanism of this inhibitory effect is manifested in the two aspects of improving performance to reduce motivation and improving internal control to inhibit behavior. In other words, the correlation between control ratio and true surplus management varies for different SOEs with different changes in the nature of control. This paper finds that the control ratio inhibits the real surplus management at this stage, which to some extent reflects the effectiveness of the mixed reform of SOEs at this stage, i.e., the mutual checks and balances between Chinese capital and non-state capital in the mixed reform enterprises, which inhibits the real surplus management behavior and promotes the normal and stable development of the enterprises.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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