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Original Paper

The Impact of Ownership Concentration on the Performance of Private Enterprises

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Abstract

This study takes A-share listed companies in Shanghai and Shenzhen as samples to explore the impact of ownership concentration on corporate performance. By selecting the return on total assets (ROA) as the explanatory variable, the shareholding ratio of the top five major shareholders to measure the ownership concentration, and incorporating the control variables such as the company size, the degree of separation of the two rights, the asset-liability ratio and the operating income of the enterprise, the multiple regression analysis method is used for empirical test. The results show that ownership concentration has a positive impact on corporate performance, which provides useful empirical evidence and theoretical reference for listed companies to optimize ownership structure and improve performance.

Keywords

ownership concentration, enterprise performance, listed companies

1. Introduction

In the modern enterprise system,ownership structure is one of the core elements of corporate governance. As an important representation of ownership structure, ownership concentration has a profound impact on the business decision-making,supervision mechanism and resource allocation efficiency of enterprises,and is closely related to corporate performance. For enterprises, its unique nature of property rights and development process make the role of equity concentration in the process of enterprise development more critical.In-depth study of the impact of ownership concentration on the performance of A-share private enterprises will help to reveal the inherent laws of corporate governance and provide strong theoretical support and practical guidance for the sustainable development of enterprises. In the development process of private enterprises, ownership concentration plays a vital role and has a multi-dimensional and far-reaching impact on corporate performance.

2. Literature Review

The relationship between ownership concentration and corporate performance has always been a research hot spot in the field of corporate governance.Many scholars have conducted in-depth discussions from different perspectives,providing a rich theoretical basis and empirical reference for the research of this paper. Some scholars' research shows that ownership concentration has a positive impact on corporate performance. Peng (2021) found that reasonable ownership structure arrangement can improve corporate performance. To a certain extent,the concentration of ownership is helpful to the efficient implementation of the internal decision-making of the enterprise. The major shareholders can effectively reduce the opportunistic behavior of the management, reduce the agency cost, ensure the reasonable and effective allocation of the enterprise resources,so as to promote the development of the enterprise in the direction of maximizing the value (Peng, 2021). Wang, Han, and Zhang (2021) for small and medium-sized board companies, the study found that the decision-making of major shareholders will tend to encourage enterprises to increase R&D investment, actively promote the innovation activities and market expansion of enterprises, and then have a positive effect on corporate performance (Wang, Han, & Zhang, 2021). However, some studies have pointed out that the relationship between ownership concentration and corporate performance is not a simple linear positive correlation. However, some studies have pointed out that the relationship between ownership concentration and corporate performance is not a simple linear positive correlation. Zheng (2023) found in the study of ownership concentration, R&D investment and corporate performance that when the ownership is excessively concentrated, it may lead to the encroachment of the interests of major shareholders. In order to maximize their own interests, major shareholders may use their control advantages to damage the interests of small and medium shareholders, resulting in an imbalance in corporate internal governance.In this case, corporate resources may be irrationally allocated, and strategic decisions may deviate from the goal of maximizing the overall value of the company, thus negatively affecting corporate performance. This shows that there may be a more complex nonlinear relationship between ownership concentration and corporate performance, which needs to consider a variety of factors.Excessive concentration of equity may affect the decision-making of enterprises in terms of labor income distribution, and thus indirectly affect corporate performance. For example, large shareholders may control labor costs for their own interests, affecting employee motivation and corporate innovation capabilities, further illustrating that the relationship between ownership concentration and corporate performance is constrained by many factors.

On the whole, the existing literature on the relationship between ownership concentration and corporate performance has fruitful research results,but there are still some disputes and further research space.Most of the research mainly focuses on specific sectors or industries, such as small and medium-sized boards, GEM, etc., and there are relatively few studies on the specific group of A-share private enterprises. In addition,there are also differences in research methods and variable selection,resulting in different research conclusions. Therefore, this paper takes A-share private enterprises as samples, deeply studies the impact of ownership concentration on enterprise performance,and comprehensively considers the factors such as company size, separation of two rights,asset-liability ratio and enterprise operating income,which is helpful to further enrich and improve the research results in this field, and provide more targeted theoretical support and practical guidance for the development of private enterprises.

3. Theoretical Analysis and Research Hypothesis

From the perspective of agency theory, when the equity is relatively concentrated, the top five major shareholders often have strong control and influence on the enterprise. On the one hand,major shareholders have sufficient motivation and ability to supervise management, reduce management's opportunistic behavior, reduce agency costs, and thus promote corporate performance. For example, large shareholders can pay close attention to the company's strategic planning, investment decisions,and daily operations management to ensure that the company's resources are allocated reasonably and effectively (Cheng, Cheng, & Ji, 2020). On the other hand, the interests of major shareholders are closely tied to the long-term development of enterprises. They are more inclined to make decisions that are conducive to the maximization of enterprise value, actively promote the innovation activities and market expansion of enterprises, and thus have a positive impact on enterprise performance. Based on this, Hypothesis H1 is proposed:

H1: There is a positive correlation between ownership concentration and corporate performance.

4. Research Design

4.1 Sample Selection and Data Sources

This study selects the data of private listed companies in Shanghai and Shenzhen A-shares from 2020 to 2024 as a research sample to explore the relationship between ownership concentration and corporate performance.In order to ensure the validity and reliability of the data,the samples were screened as follows: (1) Excluding ST and*ST listed companies,because the abnormal financial status of such companies may affect the accuracy of the research results; (2) Remove companies with serious missing data; (3) Excluding financial listed companies, due to the particularity of the financial industry, its financial indicators and business models are quite different from other industries. After the winsorization process, 10776 valid samples were finally obtained. The data of this study mainly come from CSMAR database,Wind database and annual reports of listed companies.

4.2 Variable Definition

4.2.1 Explained Variables

Corporate performance: The return on total assets (ROA) is selected as an indicator to measure corporate performance, ROA=net profit/average total assets, which can comprehensively reflect the ability of enterprises to use all assets to obtain profits (Qin, Gao, & Tian, 2019).

4.2.2 Explanatory Variables

Ownership concentration: The proportion of the top five shareholders (CR5) is used to measure the ownership concentration, that is,the proportion of the number of shares held by the top five shareholders in the total number of shares of the company (Wang, Han, & Zhang, 2021).

4.2.3 Control Variables

Company size (Size): The natural logarithm of the total assets of the enterprise is used to measure the size of the enterprise.Separation of two rights (Separation): The calculation method is the difference between the proportion of control rights of the actual controller and the proportion of ownership.Asset-liability ratio (Lev): Total liabilities divided by total assets,reflecting the debt financing situation of enterprises. Operating income (Income): Logarithmic processing.

4.3 Model Construction

In order to test the impact of ownership concentration on corporate performance,the following multiple linear regression model is constructed:

$$ROA=\beta_0+\beta_1 Cr5+\beta_2 Size+\beta_3 Separation+\beta_4 Lev+\beta_5 income+Year+\varepsilon \quad (1)$$

Here,β0-β5 is the regression coefficient,ε is the random error term,and Year is the fixed time effect.

5. Empirical Results and Analysis

5.1 Descriptive Statistics

Descriptive statistical analysis of each variable, the results are shown in Table 1. It can be seen from the table that the mean value of ROA is 0.036% and the standard deviation is 0.080%, indicating that there are some differences in the performance level of sample private enterprises. The minimum value of ROA is-30.688%, which reflects that some private enterprises are in a serious loss state, while the maximum value is 7.446%, which shows that some enterprises have strong profitability, and the overall sample enterprises are uneven in asset utilization efficiency and profitability acquisition ability. The average value of CR5 is 55.653%, the maximum value is 89.365%, and the minimum value is 23.148%, indicating that the distribution of the shareholding ratio of the top five shareholders of the sample enterprises is more dispersed. The top five shareholders of some enterprises are highly concentrated, close to the absolute holding state, while other enterprises are relatively scattered. Different equity concentration may have different effects on corporate decision-making,supervision mechanism and resource allocation efficiency, and then have different correlation models with corporate performance.

Table 1. Variables Descriptive Statistics

variable	sample	mean	std	min	max
ROA	10428	0.036	0.080	-0.358	0.223
Cr5	10428	55.653	14.812	23.148	89.365
Sep	10428	8.326	7.596	0.007	30.121

Size	10428	22.246	1.323	19.941	26.292
Debt	10428	0.400	0.208	0.050	0.912
Income	10428	21.492	1.477	18.255	25.606

5.2 Correlation Analysis

The Pearson correlation coefficient between the variables was calculated,and the results are shown in Table 2. In the correlation between ownership concentration (CR5) and enterprise performance (ROA), the correlation coefficient of CR5 is 0.256^{***}, which is significant at the level of 1%. This shows that there is a significant positive correlation between ownership concentration and corporate performance, which preliminarily verifies the establishment of Hypothesis 1. In theory, when the equity is relatively concentrated, the major shareholders have stronger motivation and ability to supervise the management, and ensure that the enterprise decision-making conforms to the principle of maximizing the interests of shareholders. Major shareholders can more effectively constrain the behavior of management,reduce agency costs, and promote the rational allocation of corporate resources, thereby improving corporate performance. At the same time, enterprises may use their scale advantages to rationally use debt leverage to expand the scale of production and operation, improve the efficiency of capital use, and further enhance the market competitiveness and profitability of enterprises.

Table 2. Correlation Analysis

	ROA	Cr5	Sep	Size	Debt	Income
ROA	1.000					
Cr5	0.256^{***}	1.000				
Sep	0.050^{***}	1.141^{***}	1.000			
Size	0.005	0.073^{***}	0.148^{***}	1.000		
Debt	-0.355^{***}	-0.116^{***}	0.062^{***}	0.510^{***}	1.000	
Income	0.119^{***}	0.097^{***}	0.154^{***}	0.873^{***}	0.496^{***}	1.000

Note. ***,**and*are significant at 1%, 5%and 10%, respectively, with t values in parentheses. The same below.

5.3 Regression Analysis

The multiple linear regression method is used to estimate the model,and the regression results are shown in Table 3. It can be seen from the table that Column (1) only includes equity concentration (CR5) and corporate performance,with a coefficient of 0.001, which initially supports H1, that is, equity concentration is conducive to the improvement of corporate performance.After adding control variables and time fixed effects in column(2),ownership concentration still positively affects corporate performance,which proves that hypothesis H1 is established.

Table 3. Benchmark Regression Analysis

	(1)	(2)
	ROA	ROA
Cr5	0.001***	0.001***
	(25.278)	(18.445)
Sep		0.000
		(1.245)
Size		-0.015***
		(-12.018)
Debt		-0.188***
		(-35.760)
Time	Yes	Yes
_cons	-0.047***	-0.262***
	(-11.268)	(-17.468)
N	10428	10428
r2_a	0.070	0.284

5.4 Robustness Test

This study uses return on equity (ROE) instead of return on total assets (ROA) as the explained variable for robustness test.There is still a positive relationship between ownership concentration and corporate performance(ROE),which further supports the previous conclusions.

Table 4. Robustness Analysis

	(1)	(2)
	ROA	ROA
Cr5	0.001***	0.001***
	(25.278)	(18.445)
Sep		0.000
		(1.245)
Size		-0.015***
		(-12.018)
Debt		-0.188***
		(-35.760)
Time	Yes	Yes
_cons	-0.047***	-0.262***

	(-11.268)	(-17.468)
N	10428	10428
r2_a	0.070	0.284

6. Research Conclusions and Recommendations

6.1 Research Conclusion

This study takes A-share private enterprises as a sample to empirically test the impact of ownership concentration on corporate performance,and considers the role of control variables such as company size,separation of two rights, asset-liability ratio and corporate operating income. The results show that:First,ownership concentration has a positive effect on the performance of private enterprises.To improve the ownership concentration within a certain range, major shareholders can play a supervisory role, reduce agency costs, and promote performance improvement. This shows that private enterprises need to weigh the concentration of ownership. In the early stage, appropriate concentration is conducive to decision-making and supervision. In the later stage of development, excessive concentration should be prevented, strategic investors or dispersed ownership should be introduced, and a balance mechanism should be constructed. Second, the company size has a significant positive impact on the performance of private enterprises. Large-scale enterprises can perform better in resource integration and market influence by virtue of resource advantages and economies of scale,thus improving performance. However, in the expansion of enterprise scale, it is also necessary to pay attention to management efficiency and avoid the negative effects of blind expansion. Thirdly, the degree of separation of two rights is negatively correlated with the performance of private enterprises. A higher degree of separation of the two rights will aggravate the agency conflict. The actual controller may harm the overall interests of the enterprise for personal gain,increase agency costs, reduce operational efficiency, and affect performance.

6.2 Suggestions

Based on the above research conclusions, in order to improve the performance of A-share private enterprises,the following suggestions are put forward: First, optimize the ownership structure of private enterprises should be based on their own stage of development and operating characteristics, a reasonable adjustment of ownership concentration. In the early stage of enterprise development, the ownership concentration should be appropriately increased to enhance the decision-making ability and supervision of major shareholders and promote the rapid development of enterprises. However, with the expansion of enterprise scale and the diversification of business,strategic investors or dispersed equity should be gradually introduced to avoid the negative impact of excessive concentration of equity,form an effective balance mechanism,and improve the efficiency of corporate governance.Second,strengthen the supervision of the separation of the two rights For private enterprises with a high degree of separation of the two rights, we should strengthen the construction of internal supervision mechanism,improve the information disclosure system, improve the transparency of the company, and prevent the actual controller from using the control right for personal gain. At the same time, the regulatory authorities should also strengthen the supervision of the separation of the two rights of private enterprises, formulate relevant laws and regulations, and protect the legitimate rights and interests of small and medium shareholders. Third, private enterprises should reasonably control the asset-liability ratio according to their own profitability, business risks and market environment, and reasonably determine the level of asset-liability ratio. In the process of financing decision-making, the cost and risk of debt financing should be fully considered to avoid excessive financial risk caused by over-reliance on debt financing. At the same time, strengthen capital management, improve the efficiency of capital use,ensure that enterprises have sufficient solvency, and maintain the stable development of enterprises. In summary, this study provides a useful reference for A-share private enterprises in terms of equity structure optimization, corporate governance improvement and performance improvement. In the future, it is necessary to further study the relationship between equity concentration and corporate performance, as well as the impact of other factors on the relationship between the two, so as to provide more comprehensive and in-depth theoretical support for the development of private enterprises.

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