

# Fund Occupation of Large Shareholder, Property Rights and Corporate Performance

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**Abstract:** This paper selects Chinese A-share listed companies over period 2014-2018 as a research sample to study the relationship between the fund occupation of large shareholder and corporate performance. It is found that the fund occupation of large shareholder of listed companies will reduce corporate performance. Compared with state-owned listed companies, the impact of the large shareholder's fund occupancy on non-state-owned listed companies inhibiting corporate performance is more significant. It indicates that the nature of property rights will affect the relationship between the large shareholder's fund occupancy and corporate performance.

## 1. Introduction

Occupation of corporate funds by large shareholders is a manifestation of large shareholders abusing their control. In 2006, after the CSRC released the "Notice on Further Doing a Good Job in Cleaning up Funds Occupied by Listed Companies", in the case of strengthened external supervision, shareholder embezzlement of listed companies has weakened. But the phenomenon still exists. Most of the literature indicates that the large shareholder's occupation of listed company funds is harmful. It will reduce the enthusiasm of the securities market, adversely affect corporate performance and profitability, and increase corporate financial risk.

Most of the existing literature mainly researches the relationship between the shareholding of large shareholders and corporate performance from the perspective of equity structure, equity checks and balances, financial constraints. They also study the impact of the property rights on the large shareholder's fund occupancy and corporate performance. But there is no paper on how the listed companies' property rights affects the results between the two. The paper studies the relationship between the fund occupation and the performance of the enterprise from the property rights. And then to study whether there is a difference between state-owned enterprises and private enterprises.

## 2. Literature review and research hypothesis

Johnson, La Porta, and others (2000) first proposed the concept of tunneling, where large shareholders used improper means to encroach on the resources of listed companies.

Research by Lin Xiuqing and Zhao Zhenzong (2008) found that the behavior of large shareholders' shareholdings in listed companies through other accounts receivable accounts will adversely affect the company's operating performance and profitability, and even harm the interests of other small and medium shareholders. Zhou Li'an and Wang Peng (2006) from the perspective of controlling shareholders' ownership and ownership, found that listed company's controlling shareholders' fund occupancy is positively related to control rights, while corporate performance is negatively related to control rights. So that corporate performance continues to decline. Lin Runhui et al. (2014) analyzed from the perspective of internal control and constructed an intermediary model. While verifying the negative relationship between the fund occupation of large shareholders and corporate performance, it found that internal control played a full intermediary role. Zheng Guojian

et al. (2015) concluded that when large shareholder faces severe financial constraints, the fund occupancy is greater and it has a negative impact on corporate value.

It can be seen that once the large shareholder of the listed company appears to embezzle funds, it will seriously attack the enthusiasm of other investors and reduce the value of the listed company. Therefore:

H1: In the listed company, the fund occupancy of the major shareholders will affect the performance of the company and the relationship is negative.

Guo Qian and Li Yao (2014) studied that the higher the controlling shareholder's occupation of funds, the more serious the listed company's financial risk. Compared with private enterprises, the existence of state-owned controlling shareholders will restrain the relationship between financial risks and the shareholders' fund occupation. Wu Xiancong et al. (2016) found that institutional holders can effectively reduce the encroachment of interests in the related party transactions of large shareholders of state-owned enterprises. But in family companies, institutional investors cannot lessen the hollowing out of related shareholders. Dong Meisheng et al. (2017) analyzed that under the condition of sufficient funds, state-owned enterprises are over-invested seriously and there is a waste of funds. Due to difficulties in financing, private enterprises occupy more funds of listed companies to reduce the impact of underinvestment.

Therefore, it can be seen that the property rights will affect the degree of fund occupation and business performance. But few papers have studied whether the structure of property rights of enterprises will affect the impact of the degree of capital occupation of large shareholders on enterprise performance. State-owned enterprises can obtain a large amount of funds from the government and supporting policies. Therefore there is no shortage of funds and no incentive to occupy funds. Even if it encroaches on the funds of listed companies, the risks posed are small and the degree of impact on corporate performance is low. However, private enterprises have difficulties in financing, high costs, and high risks. So they have a large motivation for taking up funds. Therefore, shareholders' motivation to occupy listed companies' funds is relatively small, which has a small impact on corporate performance. So this article has hypothesis 2:

H2: Compared with state-owned enterprises, in non-state-owned enterprises, the impact of large shareholder funds on corporate performance is more significant.

### **3. Research Design**

#### **3.1 Sample selection and data source**

This paper selects all A-share listed companies from 2014 to 2018 as the research object to study the impact of large shareholder fund occupancy on corporate performance. Due to the large gap between financial companies and non-financial companies, financial companies are excluded. In addition delisted companies, ST and \* ST companies, and companies with missing year data are excluded. All datas are from the CSMAR database. After processing, 10025 sample data are finally obtained.

#### **3.2 Variable definition**

The explained variable is corporate performance. This paper draws on many domestic literatures to measure corporate performance in terms of ROA. The explanatory variable is the capital occupancy of the major shareholders in the enterprise. In this paper, the ratio of other accounts receivable to total assets at the end of the period is used as the index of capital occupancy of the major shareholders.

At the same time, drawing on previous literature research, the following control variables are added to the model to ensure the accuracy of the results: company size, asset-liability ratio, return on net assets, operating income growth rate and the shareholding ratio of major shareholders. See Table 1 for specific variable definitions.

Table 1 Variable definition table

| Variable | definitions   |
|----------|---|
| ROA      | return on total assets, net profit / total assets   |
| Tunnel   | capital occupancy, other accounts receivable / total assets   |
| SOE      | property rights, state-owned enterprises are assigned a value of 1, non-state-owned enterprises are assigned a value of 0 |
| Size     | Asset size, taking the natural logarithm of total assets  |
| Leverage | gearing ratio, total liabilities / total assets   |
| ROE      | net profit / shareholders ' equity  |
| Growth   | operating income growth rate  |
| TOP1     | largest shareholder's shareholding ratio  |

### 3.3 Establish the model

In order to study the relationship between large shareholder capital occupation and corporate performance, the following model is established:

Model (1) is used to test the impact of large shareholder capital occupancy on corporate performance:

$$ROA_{i,t} = \beta_0 + \beta_1 Tunnel_{i,t} + \beta_2 Size_{i,t} + \beta_3 Leverage_{i,t} + \beta_4 ROE_{i,t} + \beta_5 Growth_{i,t} + \beta_6 TOP1_{i,t} \quad (1)$$

Model (2) is used to examine the impact of large shareholder capital occupation on corporate performance under different property rights:

$$ROA_{i,t} = \beta_0 + \beta_1 Tunnel_{i,t} + \beta_2 SOE_{i,t} + \beta_3 Tunnel \times SOE_{i,t} + \beta_4 Size_{i,t} + \beta_5 Leverage_{i,t} + \beta_6 ROE_{i,t} + \beta_7 Growth_{i,t} + \beta_8 TOP1_{i,t} \quad (2)$$

## 4. Empirical analysis

### 4.1 Descriptive statistics

Table 2 shows the descriptive statistical results. The average return on total assets (ROA) is 0.0315, and the difference between the maximum and minimum values is small. The average value of tunnel is 0.0179, and the minimum and maximum values are 0 and 0.7265. It indicates that the majority shareholder's capital occupancy is common in the company, and there are large differences between enterprises. The difference in size and leverage between companies is not large. But there is a significant difference between the maximum and minimum control variables such as ROE, growth and TOP1.

Table 2 Descriptive statistics

|          | Mean    | Median  | Maximum  | Minimum  | Standard | Observation |
|----------|---------|---------|----------|----------|----------|-------------|
| ROA      | 0.0315  | 0.0317  | 0.3808   | -1.3873  | 0.0728   | 9995        |
| Tunnel   | 0.0179  | 0.0085  | 0.7265   | 0.0000   | 0.0324   | 9995        |
| SOE      | 0.3839  | 0       | 1        | 0        | 0.4864   | 9995        |
| Size     | 22.3499 | 22.2279 | 28.2526  | 18.3701  | 1.2014   | 9995        |
| Leverage | 0.4327  | 0.4227  | 1.5483   | 0.0091   | 0.2044   | 9995        |
| Growth   | 0.5532  | 0.1487  | 138.4584 | -1.7485  | 3.4227   | 9995        |
| ROE      | 0.0294  | 0.0600  | 4.2476   | -66.5353 | 0.7992   | 9995        |
| TOP1     | 0.3336  | 0.3104  | 0.8999   | 0.0029   | 0.1457   | 9995        |

### 4.2 Empirical results

Table 3 is the model regression results. Equations (1) and (2) show that the tunnel's coefficients are -0.1483 and -0.2262 respectively, and they are significantly negative at the 1% level. The result

shows the more funds the company's major shareholders occupy, the lower the company's performance. Thus it verifies Hypothesis 1. This conclusion is consistent with previous literature conclusions. In model (2), the property right is added. SOE's coefficient is -0.0092. The key explanatory variable (Tunnel \* SOE) cross-term coefficient is 0.2356, and both are significant at 1%. It shows that the capital occupancy and corporate performance of large shareholders will be affected by the property rights. This effect is relatively weakened in state-owned enterprises, and more obvious in non-state-owned enterprises. Hypothesis 2 has strong support.

Among the control variables, all variables are significantly related to corporate performance at the 1% level. Among them, the asset-liability ratio has a negative relationship with corporate performance, and an increase in corporate debt will cause a decrease in corporate performance. Other control variables are significantly positively correlated with corporate performance at the 1% level. Size, growth, ROE and TOP1 all affect corporate performance to a certain extent.

Table 3 Model (1), (2) regression results

| Variable                | Model(1)                 | Model(2)                  |
|-------------------------|--------------------------|---------------------------|
|                         | ROA                      | ROA                       |
| _cons                   | -0.2028***<br>(-15.0286) | -0.2085***<br>(-15.2812)  |
| Tunnel                  | -0.1483***<br>(-7.2188)  | -0.2262***<br>(-9.1592)   |
| SOE                     |                          | -0.0092***<br>(-5.6252)   |
| Tunnel* SOE             |                          | 0.2356***<br>(5.4668)     |
| Size                    | 0.0123***<br>(18.9501)   | 0.0126***<br>(19.2738)    |
| Leverage                | -0.1199***<br>(-31.6892) | -0.1183***<br>(-30.97440) |
| Growth                  | 0.0005***<br>(2.7286)    | 0.0005***<br>(2.7168)     |
| ROE                     | 0.0234***<br>(28.3401)   | 0.0233***<br>(28.3502)    |
| TOP1                    | 0.0407***<br>(8.7793)    | 0.0442***<br>(9.3371)     |
| Adjusted R <sup>2</sup> | 0.1941                   | 0.1980                    |
| Observation             | 9995                     | 9995                      |

(Note: \*\*\*, \*\*, and \* are significant at the 1%, 5%, and 10% levels, respectively.)

To further test Hypothesis 2, the full sample data is divided into a sample of state-owned enterprises and a sample of non-state-owned enterprises. The results are shown in Table 4. In the non-state-owned sample group, the tunnel coefficient is -0.1610. In the state-owned sample, the tunnel coefficient is only -0.0086. That indicates the degree of fund occupancy of large shareholders has a greater effect on corporate performance in the non-state-owned listed companies. Moreover, the fund occupation of the large shareholders is significantly negatively at the 1% level. Although the state-owned sample group also shows a negative relationship, it is not significant. It can be seen that under different property rights, there are differences between state-owned listed companies and non-state-owned listed companies. In the non-state-owned sample, the impact of large shareholder funds on corporate performance is more significant, which further verifies hypothesis 2.

Table 4 The impact of large shareholder capital occupancy of different equity types on corporate performance

| Variable       | Non-state sample group   | State-owned sample group |
|----------------|--------------------------|--------------------------|
|                | ROA                      | ROA                      |
| _cons          | -0.2335***<br>(-11.6904) | -0.1354***<br>(-9.23286) |
| Tunnel         | -0.1610***<br>(-6.15107) | -0.0086<br>(-0.32659)    |
| Size           | 0.0132***<br>(13.82031)  | 0.0094***<br>(13.49392)  |
| Leverage       | -0.1038***<br>(-19.6725) | -0.1166***<br>(-26.7896) |
| Growth         | 0.0005**<br>(2.080851)   | 0.0003<br>(1.162494)     |
| ROE            | 0.0800***<br>(40.22639)  | 0.0100***<br>(15.06932)  |
| TOP1           | 0.0591***<br>(8.935084)  | 0.0172***<br>(3.255853)  |
| Adjusted $R^2$ | 0.3106                   | 0.2263                   |
| Observation    | 6158                     | 3837                     |

(Note: \*\*\*, \*\*, and \* are significant at the 1%, 5%, and 10% levels, respectively.)

### 4.3 Robustness test

In order to verify the accuracy of the above empirical results, the method of replacing variables will be used for testing. Take the listed company's earnings per share (EPS) as the explained variable of corporate performance. The empirical results are shown in Table 5. The regression result is basically consistent with the above empirical analysis, indicating that the result has a certain robustness.

Table 5 Robustness test results

| Variable       | Model(1)                 | Model(2)                 | Non-state sample group   | State-owned sample group |
|----------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                | EPS                      | EPS                      | EPS                      | EPS                      |
| _cons          | -3.6029***<br>(-31.5678) | -3.6605***<br>(-31.6639) | -3.5095***<br>(-24.9738) | -3.6996***<br>(-18.9165) |
| Tunnel         | -0.6117***<br>(-3.5203)  | -0.6322***<br>(-3.0220)  | -0.5167***<br>(-2.8066)  | -0.4294<br>(-1.2237)     |
| SOE            |                          | -0.0384***<br>(-2.7760)  |                          |                          |
| Tunnel* SOE    |                          | 0.0817*<br>(2.0075)      |                          |                          |
| Size           | 0.1847***<br>(33.7202)   | 0.1873***<br>(33.8226)   | 0.1734***<br>(25.9718)   | 0.1981***<br>(21.2551)   |
| Leverage       | -0.7141***<br>(-22.3148) | -0.6989***<br>(-21.5935) | -0.4549***<br>(-12.2520) | -0.9844***<br>(-16.9619) |
| Growth         | 0.0062***<br>(3.8393)    | 0.0063***<br>(3.8808)    | 0.0043**<br>(2.3872)     | 0.0093***<br>(3.0909)    |
| ROE            | 0.1489***<br>(21.3264)   | 0.1486***<br>(21.3025)   | 0.3697***<br>(26.4026)   | 0.0953***<br>(10.7658)   |
| TOP1           | 0.2187***<br>(5.5709)    | 0.2445***<br>(6.0972)    | 0.4074***<br>(8.7609)    | -0.0396<br>(-0.5628)     |
| Adjusted $R^2$ | 0.1688                   | 0.1694                   | 0.2295                   | 0.1607                   |
| Observation    | 9995                     | 9995                     | 6158                     | 3837                     |

(Note: \*\*\*, \*\*, and \* are significant at the 1%, 5%, and 10% levels, respectively.)

## 5. Conclusions and recommendations

This article studies the impact of large shareholder fund occupation on corporate performance from the perspective of property rights. Property rights will have an impact on this adverse effect. Compared with state-owned enterprises, the adverse effects of non-state-owned enterprises are more prominent. The possible reason is that state-owned enterprises have easier financing and less risk, so large shareholder embezzlement of listed company funds has less impact on corporate performance. Compared with non-state-owned enterprises, state-owned enterprises have their own special business models, and it is easier to obtain loan funds from banks or the public. Even if large shareholders occupying listed company funds will have a lower impact on performance and less risk.

Therefore, according to the research results of this article, this article believes that the financial system reform should be improved. Because central enterprises and local state-owned enterprises have the strong backing of the government. Bank loans are simple and low-cost. So a large amount of fund flows to state-owned enterprises, and the incentive for large shareholders to occupy funds is small, which has relatively little impact on enterprise performance. However, the difficulty of financing and high cost of private enterprises has caused their occupation of funds of listed companies to affect corporate performance more easily. Therefore, it is necessary to improve the reform of the financial system to reduce the occupation of funds of listed companies by large shareholders of private enterprises, and make their corporate performance more stable.

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