

# **The impact of stakeholder participation in corporate governance on corporate performance of manufacturing listed companies**

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**Abstract:** This paper mainly studies the relationship between corporate governance and corporate performance in China's manufacturing listed stakeholders from 2014 to 2016. Under the situation of current manufacturing listed companies, research shows that the substantial shareholders, executives, government, employees participate in the level of corporate governance can significantly have positive influence on enterprise performance. Other stakeholders, such as suppliers, clients, the degree of the environment or community participation in corporate governance does not have significant influence on corporate performance. Even for the small and medium-sized shareholders and creditors, the higher the degree of their participating in corporate governance, the lower the corporate performance will be.

## **1. Introduction**

Effective improvement of business performance has always been the real needs of enterprises. Especially in the increasingly complex economic environment, experts continue to study the performance of enterprises in order to plan a better future for the development of enterprises. In China, one of the most effective ways to improve the performance of listed companies is to improve the corporate governance structure. The management of enterprises cannot be separated from the common governance of stakeholders. Stakeholders' participation in corporate governance can effectively balance the operation and development of the company from various aspects, help to achieve corporate governance balance and improve the performance of the company. This paper explores the current situation of stakeholders' participation in corporate governance, so as to provide a powerful reference for whether to continue to implement and how to implement stakeholders' participation in corporate governance.

## **2. Theoretical analysis and research hypothesis**

From the perspective of stakeholders, this paper intends to analyze the impact of shareholders, creditors, employees, executives, suppliers, customers, government, surrounding environment or community participation in corporate governance on corporate performance.

### **2.1 Influence of shareholders participation in corporate governance**

The company needs sufficient capital as backing to carry out normal production and operation activities, so the shareholders put their equity capital into the enterprise. The shareholders of the company are divided into major shareholders and medium and small shareholders according to their capital contribution scale. The major shareholder focuses on the profitability of the company, because his large capital contribution can assume more residual control and thus have stronger regulatory ability. However, due to the limitation of capital contribution scale, medium and small shareholders do not directly participate in the management decisions of enterprises under normal circumstances. In order to restrain and stop the "predatory behavior" of large shareholders on enterprises, medium and small shareholders need to safeguard their own interests and better participate in corporate governance. Based on the above analysis, this paper proposes hypothesis 1:

H1: The higher the degree of participation of major and minority shareholders in corporate governance, the better the corporate performance.

## **2.2 Influence of creditors participation in corporate governance**

In the course of company development, another important way to obtain funds is debt financing. But creditors take a risk because they may not get their money back at maturity. Jensen (1986) believed that the owner would be forced to promise to repay certain principal and interest to the creditor in the future because of the existence of debt, thus forming a restriction on the interests of the enterprise. Based on the above analysis, this paper proposes hypothesis 2:

H2: Under the same conditions, the higher the degree of creditors' participation in corporate governance, the better the corporate performance.

## **2.3 Influence of employees and executives participation in corporate governance**

The development of enterprises cannot do without employees. When employees put their knowledge and labor into the enterprise, they become the owners of human capital. Employees will have a fair amount of control over the business. The information superiority of employees and the participation mechanism can greatly increase the decision-making quality, supervision efficiency and corporate governance efficiency. Managers are actually special employees. They put a lot of human capital into the enterprise, and they have to face the damage of the management reputation caused by the company's poor management, and they take huge risks in the process. To avoid this, managers need to be heavily involved in corporate governance. Based on the above analysis, this paper proposes hypothesis 3:

H3: Under the same conditions, the higher the degree of participation of employees and executives in corporate governance, the better the corporate performance.

## **2.4 Influence of suppliers and customers participation in corporate governance**

The upstream and downstream of the supply chain are suppliers and customers respectively, which jointly affect the stability and sustainability of enterprise development and restrict corporate governance from external supervision. Suppliers provide a steady flow of production resources for the operation of enterprises, and stable supply relationship is conducive to the improvement of enterprise performance. Customers buy the products and services of the enterprise, in a sense, is an investment in the enterprise, so customers are also stakeholders. Based on the above analysis, this paper proposes hypothesis 4:

H4: under the same conditions, the degree to which suppliers and customers participate in corporate governance is positively correlated with enterprise performance.

## **2.5 Influence of government participation in corporate governance**

The government has invested important economic resources in enterprises in the whole economic environment. One of the main ways for the government to obtain fiscal revenue is to collect corporate tax. At the same time, the government provides good investment opportunities and operating environment for enterprises through fiscal revenue to improve their performance. Based on the above analysis, this paper proposes hypothesis 5:

H5: the degree of government participation in corporate governance is positively correlated with corporate performance.

## **2.6 Influence of corporate social responsibility fulfillment**

In the theory of corporate social responsibility, the society puts forward the requirements for enterprises to fulfill their social responsibility and promote sustainable social development. If enterprises earnestly fulfill their social responsibilities, they can establish a positive image, have a good reputation and contacts, and gain competitive advantages, so as to make the development of enterprises more harmonious. Based on the above analysis, this paper proposes hypothesis 6:

H6: under the same conditions, the fulfillment of corporate social responsibility is in direct proportion to corporate performance.

### 3. Study design

#### 3.1 Sample selection and data resources

The research samples selected in this paper are a-share listed manufacturing companies in Shanghai and Shenzhen stock exchanges, and the data of the recent three years from 2014 to 2016 are mainly from database of Tai'an, Wind information financial database and the annual reports.

Specific sample selection criteria are as follows:

(1) Due to the adverse influence of extreme values on the research results, PT and ST enterprises are excluded in this paper, and enterprises with losses of more than two consecutive years were excluded to ensure the representativeness of the samples;

(2) Eliminate the listed companies with incomplete data;

(3) Due to different listing at home and abroad, in order to avoid differences in selected measurement indicators, this paper only collects data of domestic a-share manufacturing companies.

#### 3.2 Variables selection

1. Explained variable: company performance.

2. Explanatory variables: the degree to which stakeholders participate in corporate governance.

3. Control variables: enterprise size, average annual market returns of Shenzhen and Shanghai stock markets.

The design of research variables in the paper is shown in table 1.

Table 1. Variables Definitions

Variable type	Variables	Symbol	Definition
Dependent Variable	Corporate performance	ROE	Weighted average return on equity
Independent variables(the degree to which stakeholders participate in corporate governance)	Major shareholders	DGDCY	Top five shareholder shareholding ratio
	Minority shareholders	ZXGDCY	Proportion of independent directors among directors
	Creditors	ZQRCY	Corporate debt as a percentage of total assets
	Employees	YG CY	Proportion of employees on the board of supervisors
	Executives	GGCY	Shareholding ratio of executives
	Suppliers	GYSCY	Top five suppliers account for the proportion of procurement costs
	Customers	KHCY	Top five customers account for the proportion of operating revenue
	Government	ZFCY	Tax revenue as a percentage of revenue
	Corporate social responsibility performance	SHZR	Amount of public welfare donation accounts for a proportion of business income
Control variables	Size	SIZE	Log of total assets at the end of the period
	Market return	SCSY	Average annual returns for Shenzhen and Shanghai market

### 3.3 Model setting

In order to test the hypothesis, the following research model was established based on the research methods of Yang Dian (2013) and Li Zhengguang et al. (2014):

$$ROE = \alpha + \beta_1 DGDCY + \beta_2 ZXGDCY + \beta_3 ZQRCY + \beta_4 YGCY + \beta_5 GGCY + \beta_6 GYSCY + \beta_7 KH CY + \beta_8 ZFCY + \beta_9 SHZR + \beta_{10} \ln SIZE + \beta_{11} SCSY + \varepsilon$$

In the formula,  $\alpha$  represents the constant term,  $\beta$  represents each regression coefficient, and  $\varepsilon$  represents the error term. Other symbols refer to the design table of the above variables.

### 4. Empirical results and analysis

In order to further test whether the influence of stakeholders' participation in corporate governance on the performance of listed manufacturing companies is consistent with the hypothesis, this paper uses SPSS22 to conduct multiple linear regression analysis on the established model, and the results are as follows:

Table 2. Multiple regression results

Variable	coefficient	T	Sig
$\alpha$	-.346***	-10.823	.000
DGDCY	.115***	8.490	.000
ZXGDCY	-.129	-1.139	.216
ZQRCY	-.098***	-8.174	.000
YGCY	.096***	4.736	.000
GGCY	.023**	2.440	.015
GYSCY	.013	1.148	.251
KH CY	.019*	1.769	.077
ZFCY	.467***	5.270	.000
SHZR	8.702***	5.706	.000
SIZE	.028***	11.928	.000
SCSY	.021***	2.770	.006
Adjusted R-squared		0.144	
F		34.493	
Sig		0.000	

Note: \*\*\*, \*\* and \* mean that they are statistically significant at the levels of 1%, 5% and 10% respectively.

The results obtained from the table prove that the model has passed the test and the regression equation is valid.

There is a positive correlation between the degree of major shareholders' participation in corporate governance and corporate performance, which is consistent with hypothesis 1. The major shareholder has the residual control right and claim right to the enterprise, so it has a strong influence on the enterprise's operation.

The relationship between the degree of minority shareholders' participation in corporate governance and corporate performance is not significant, which is inconsistent with hypothesis 1. However, it also reveals that in the manufacturing industry, the minority shareholders of listed companies do not fully play their due functions. In reality, minority shareholders may choose not to supervise in order to protect their own interests and avoid conflicts with other stakeholders.

The degree of creditors' participation in corporate governance has a significant negative impact on corporate performance, which is inconsistent with hypothesis 2. Because manufacturing is a started early, mature industry, the performance good enterprise has abundant funds, if capital chain rupture, can be relatively easy to the realization of equity refinancing, but the poor performance of enterprises

have no way to use its retained earnings to obtain equity financing, and high degree of dependence on debt financing.

The degree of employees' participation in corporate governance is positively correlated with corporate performance, which is consistent with hypothesis 3. Because the ultimate executor is the employee, the implementation of the plan requires the participation of the employee. Employees participate in corporate governance in their own way, which can promote the common development of both parties and achieve the ultimate goal.

The coefficient of managers' shareholding ratio is positive, indicating a positive correlation with the company's operating performance, which is consistent with hypothesis 3. The management is responsible for the management of the whole enterprise. As the manager of the daily operation of the enterprise and the important decision maker of the strategy, the management is very important and crucial.

The degree of participation of suppliers and customers in corporate governance has no significant impact on corporate performance, which is inconsistent with hypothesis 4. Suppliers and customers are classified as external stakeholders in the theory of corporate governance, and they do not have too much say on the operation and development of enterprises, so they have little influence.

The degree of government participation in corporate governance is positively correlated with corporate performance, which is consistent with hypothesis 5. The government is exercising its functions on behalf of the state. As a tax collector, it can participate in corporate governance and share the interests of the company by formulating and implementing relevant tax policies. The higher the corporate performance is, the higher the tax revenue the government collects.

The fulfillment of social responsibility has no obvious positive effect on enterprise performance, which is inconsistent with hypothesis 6. For some enterprises, the amount of public welfare donation cannot express the full performance of their social responsibility, or there are other forms of social responsibility fulfillment, such as protecting the ecological environment, but these cannot be accurately measured with data.

## 5. Conclusion

The research samples selected in this paper are a-share manufacturing listed companies in Shanghai and Shenzhen stock exchanges. The data from 2014 to 2016 were selected to study the relationship between stakeholders' participation in corporate governance and corporate performance. The results show that the participation of major shareholders, employees, executives and government in corporate governance can improve corporate performance. The degree to which suppliers, customers, the surrounding environment or the community participate in corporate governance has not yet had a significant impact on corporate performance. Even for minority shareholders and creditors, the higher their participation in corporate governance, the lower their corporate performance. Based on the above analysis results, the environment for stakeholders to participate in corporate governance in listed manufacturing companies is not yet mature. Therefore, the company can establish and improve the creditor governance mechanism, encourage employees to participate in corporate governance, and implement appropriate incentive measures for senior executives. The government can give full play to its role in publicity, encouragement and guidance.

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