PRIVATE INTEREST AND SOCIAL INTEREST OF SHAREHOLDERS: EMPIRICAL EVIDENCE FROM CHINA

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Abstract

We try to explore the relation among three factors: the private benefits that main shareholders can obtain from the firm, the social benefits derived from a certain ownership structure and the ownership concentration costs. Different corporations have different optimal governance mechanism. Noticing the substitute relation between the level of the management-and-shareholder-conflicts and the different governance mechanism, we take use of the data from China' stock market and conduct an empirical analysis on the influence both of the different shareholder's participating in governance and the ownership structure over corporate performance, and have reached two conclusions. First, in the companies with a higher level of conflicts between the management and the shareholders, the shareholder will be more active in participating in governance because the benefits earned here is much more than the company with a lower level of conflicts. Second, when the other governance mechanisms in one company perform poorly, the shareholder is less active in participating in governance because the extra benefits earned here cannot offset their costs. So only in these companies with poor governance mechanisms, the shareholders' active monitoring can produce benefits. These conclusions can help our further research on the relationship among the shareholder supervision, ownership structure and corporate value, and we should also re-evaluate some traditional theoretical viewpoints.

Keywords: Participant in Governance, Ownership Structure, Private Benefits, Social Benefits

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This article is based upon the intermediary result of the key research project (70532001) of Natural Science Foundation of China, Key Project (03JZD0018), '985' and '211' Project of Ministry of Education of P. R. China, projects (07CJY001, TJGL06-023, TJGL06-077) of Social Science Foundation of China and Tianjin City"

Introduction

There is high concentration ownership structure in China because of the institutional and historical influence. This is very different from dispersed ownership structure of America, England and many other developed countries. When considering the agency problem we should not only take the conflict between managerial and shareholder into account, but also pay much attention to the conflict between lager and small shareholders. In this cases, the best governance practices is tightly related to the protection of small shareholders (for example, proxy voting and mid and small shareholder's participant in the General Shareholder Meetings).

This research focuses on the analysis of shareholder's monitoring effect for two reasons. Firstly, because external control mechanisms (such as the market for corporate control, equities and service market and the capital market) are considered in practice as imperfect markets and their effect over managerial behavior is less than expected (Prowse, 1994). And, secondly, because the internal control mechanisms (incentive contracts, board of directors and general shareholder meeting) have been observed that incentive contracts do not solve agency problems effectively, and that independent board members can't assure an improvement in performance. Therefore, ownership structure becomes a key factor to the effectiveness of the board of directors and the running of the shareholder meetings.

We analyze the influence of shareholder's monitoring over corporate performance. This research has been tried to explore the relationship among the private benefits obtained by the investor who has the control (which can be different depending on the type of shareholder), the social benefits derived from the supervision and alignment of interests between shareholders and managers (Bebchuck and Zingales, 1996), and the ownership concentration costs. Although these topics (private benefits, social benefits and costs of ownership concentration) have been individually considered in the theoretical literature about ownership structure and corporate governance, we think, it is necessary to consider them jointly in order to explore the influence synthetically (Complementary or Substitute) over corporate performance and value creation.

1. Literature review and hypotheses

1.1 literature review

Recent researches of shareholders' monitoring behavior mainly focus on two aspects, one is the interest conflict between managerial and shareholder, the other is the conflict among different types of shareholders. Some other researches have compared, as the result of the shareholder's strengthening monitoring behavior, the shareholder's own private benefit and the social interest brought for all shareholders, and have drawn many valuable conclusions. It is shown that the main shareholder's private benefits are mainly due to his ultimate decision right and his full access to the company's operating information, and this kind of benefits will vary with the different types of investors.

If the key executives hold the shares of the company they are working for, out of their own private interests, they would take the maximization of the company's value as their decision goal, which will bring considerable social interests for all shareholders simultaneously. Furthermore, some empirical researches have indicated that there exists a non-linear relationship between the number of the key executives' shares and the social interests (Mudambi and Nicosia1998 ; Short and Keasey , 1999 ; DÍaz and Olalla , 2002) . At the same time there are also some researches which have reached the opposite conclusion. (Craswell, Taylor and Saywell , 1997 ; Himmelberg, et al. , 1999) ; But the key executives' holding shares may probably lead to the management Entrenchment, that is, even if the managers perform poorly, they could still maintain their position, which is therefore only beneficial for their own private interests. If some institutional investors hold the company's shares, they can make full use of their advantages in information and technology, exercise close supervision over the management's decision making process, and prevent those decisions which betray the shareholders' interests. Some researches have concluded that the more shares the institutional investors hold, the more effectively they could protect the interests of all shareholders (Cable , 1995) , but there also some contradictory conclusions (Duggal, Millar , 1999 ; Ang, Cole and Lin , 2000 ; DÍaz and Olalla , 2002) . It should be noted that sometimes the institutional investor would take some egoistic actions, i.e. in order to reduce the risk of their loan, some financial institutional investors like bank could devote more loan to the company and try to influence the company's investment decision, which may damage other shareholders' interests.

When the overseas enterprises invested in the domestic companies, they usually introduced some comparatively advanced corporate governance mechanism from foreign countries, which would regulate the companies' behavior and bring social interests for all shareholders. This has been supported by certain empirical researches. (Swee-sum Lam , 1997 ; DÍaz and Olalla , 2002) .

Regarding the case that the SOEs hold the company's shares, the resulted effects should also be analyzed dialectically: on one hand, it is good for utilyzing the synergies between the SOE and the company and can help to improve the company's performance and increase the social interests; on the other hand, as the holding company, the SOE may abuse its control over its subsidiary and take it as a financial source (i.e. when the subsidiary issues shares), which can produce the so-called tunneling effect. From the point of view of the empirical researches, Loderer and Martin(1997) believe that the increasing ratio of the shares held by SOEs can help improve the company value, but Slovin and Suska(1997) think that the as a shareholder SOE will damage the company's value.

The above is a general description of the private and social interests that different investors can obstain or create. Different emphasis on these two kinds of interests will influence the relationship between the investors and the company value, that is, when the private interests are emphasized, the company value will be influenced negatively, and when the social interests are emphasized, the company value will be improved. When one investor increases its share in one company, it will have a stronger incentive to supervise the performance of the company, which will help creates more social interests. But at the same time it should be noted that the ownership concentration and the main shareholder's supervision could also incur costs. These costs can be divided into three categories. First, it is difficult to disperse the main shareholder's investment risk. (Demsetz & Lehn,1985 ; Admati et al., 1994), that is, when the main shareholder invests in more shares of one company, it is hard to disperse its risks through diversified investment. Second, the decreasing share fluidity will impede the normal functioning of the incentive contract(Holmström and Tirole, 1993) ; Furthermore, the decreasing profits earned through private information will reduce the holding shareholder's supervision efficiency(Maug,1998) ; Third, The management's discretion in decision-making is also reduced, which could cause the loss of the company value(Burkart et al.,1997)。All shareholders can benefit from the increased social interests created by a stronger supervision over management, but not all of them shoulder the supervision costs. So only when the main shareholder's private interests are greater than its supervision costs, they take actions. Some scholars have explored the relationship between the main

shareholder's supervision and its resulted private interests. McConnell and Servaes (1995) , by using the data collected from the American market and dividing the companies into different groups according to their development opportunity, is the first one to study the influence of different ownership structure over corporate performance. Andrés et,al(2000) and Díaz, Olalla(2002) investigated the Spain market with the similar method, and found that the benefits created by main shareholder supervision on one company with better development opportunities are less than the company with worse opportunities, which has passed the statistical significance test. But when they grouped the companies according to the effectiveness of the alternative governance mechanism (Based on the number of the board member suggested by the Spain Corporate Governance Principles, if the number of the board members is between 5 and 15, the governance mechanism is considered effective, and if not, it will be defined as less effective), their analysis showed that the main shareholder supervision has no significant influence over corporate performance.

In our research, we improve the indexes used to measure the effectiveness of the substitute governance mechanism, and with the data of China' Stock Market, we explore the differential influence of the various ownership structure over the corporate value

In modern corporation characterized by the separation of ownership and control, the objectives of the management and the shareholders are different, i.e. the management tends to expand the scale of the company (i.e. excessive investment) and pursue the short-term return on investment instead of the maximization of the corporate value. Generally, if the company has better development opportunities, it is less possible for the management to invest in the project with negative net present value, and it is less desirable to pursue short-term profit. In other words, a good development opportunity can help solve the problem of agency. So let us assume that if the company has better development opportunity and has higher possibility to be profitable, it will enjoy a lower level of conflicts between the management and the shareholders(at least it is true in the aspect of investment decision). Further, in the company with better development opportunity, the shareholders' supervision mechanism, aimed to align the interests between the shareholder and the management, is comparatively less important. So we deduced that the influence on the corporate performance by main shareholder's active participating in the corporate governance will vary with the companies with different development opportunities. And in the companies with less development opportunities and a higher level of conflicts between the management and the shareholders, the influence on the corporate performance by shareholder's supervision will be positive and more significant, and it is more possible to improve the corporate value through shareholder's supervision.

Hypothesis 1: In the companies with a higher level of conflicts between the management and the shareholders, there is a positively relevant and more significant relationship between the ownership concentration and the corporate value.

Hypothesis 2: In the companies with a higher level of conflicts between the management and the shareholders, there is a positively relevant and more significant relationship between the shareholder's supervision and the corporate value.

If there already existed some kinds of governance mechanism with proper supervision function, i.e. the board's higher vigilance and effective monitoring, which could bring social interests just the same, the shareholder's active participating in corporate governance will create less social interests, and the shareholder will tend not to afford the supervision costs. The indexes that signify the effectiveness of the board include the number of the board members, the replacement number of the board members and the number of independent directors, etc.. In our opinion, there is a big difference in the board members between different companies, and there are also different attitudes toward what is the ideal standard, so it is very hard for the number of the board members to be used to measure the effectiveness of the board. Moreover, the board in China is relatively stable, and the replacement of board members usually occurs at the moment of M&A or at the end of one term, so to take the replacement number of the board members to measure the effectiveness of the board is also unreliable. But with regard to the role of independent directors, there is usually a similar opinion. Most of the Corporate Governance Principles has emphasized the independent director's importance on the effectiveness of the board. In China's Listed Corporation Governance Principle, it is also required that before June 1, 2002, the number of the independent directors must account for one third of the board members. Based on the data we acquired, there are still many companies that can not satisfy this requirement, so we choose the ratio of independent director as the standard to measure the effectiveness of the board.

Hypothesis 3: When the ratio of independent director in one board is below 1/3, there is a positively relevant and more significant relationship between the ownership concentration and the corporate value.

Hypothesis 4: When the ratio of independent director in one board is below 1/3, there is a positively relevant and more significant relationship between the shareholder's supervision and the corporate value.

2. Methodology and Sample

2.1 Methodology

We divide the sample into four sub-samples according to the variables that proxy for the conflict level between management and shareholders and the effectiveness of other governance mechanisms. The

conflict level between management and shareholders is represented by the growth opportunity. We decide to classify firms according to their P/E (Price/Earning) to differentiate those with high growth opportunities from those without them. McConnell and Servaes (1995) use this variable with the same aim for a sample of U.S. firms. We consider there are higher growth opportunities in the firm, and therefore less conflict of interests, when P/E is higher than the mean of the sector. The Governance Regulations of Listed Companies in China suggests the ratio of independent directors is no less than 1/3. So we classify firms according to the ratio of independent directors. If the ratio is bigger than 1/3, the efficiency of this governance mechanism is supposed to be higher.

We design several models to test our hypotheses. The common model is defined as following:

$$EPS = \beta_{0k} + \beta_{1k}\text{LnAsset} + \beta_{2k}\text{Leverage} + \beta_{3k}\text{X}_k + \sum_{i=1}^{21}\alpha_i Indus_i + \sum_{j=1}^{9}\chi_j \text{M}_1\_chrc_j + \varepsilon_k$$

$$LnMVA = \beta_{0k} + \beta_{1k}\text{LnAsset} + \beta_{2k}\text{Leverage} + \beta_{3k}\text{Y}_k + \sum_{i=1}^{21}\alpha_i Indus_i + \sum_{j=1}^{9}\chi_j \text{M}_1\_chrc_j + \varepsilon_k$$

thereinto: k=1,2,……6

$X_1, X_2, \ldots\ldots X_6$=M3,H,Corhld,Fcorhld,Z,S

$Y_1, Y_2, \ldots\ldots Y_6$=M3,H,Corhld,Fcorhld,Z,S

$Indus_{22}$ representing the manufacturing industry is the benchmark; $M1\_chrc_{10}$ representing the state-owned or state-control companies is also defined the benchmark. When we divide the sample according the growth opportunity, we use these models to test the hypothesis 1 and 2; when dividing the sample according the efficiency of other mechanisms, we use these models to test the hypothesis 3 and 4.

2.1 Sample

The study is based on a sample of 802 non-financial firms listed on Shanghai and Shenzhen Stock Exchange for the year 2002. The data used in the study are obtained from the public information provided by CSMAR and Stockstar Website.

We select EPS as the first profitability variable to measure value creation in the firm. The second is the Market Value Added (MVA). MVA regards the created or destroyed value in a firm in a certain period and is measured by the difference between market value of equity and accounting value of equity. It considers absolute values and indicates how much value is generated. We use six variables to measure ownership structure, such as the sum of percentage of shares held by three main shareholders(M3), H the Herfindah index, percentage of shares held by corporate shareholders, Corhld, percentage of shares held by foreign shareholders, Fcorhld,, Z index and S index. The definition and formulation is listed in table 1. We control the influence of firm size of(LnAsset) and leverage on corporate valuation; what's more, different largest shareholder should have different utility function, so we add the dummy of property of the largest shareholder, such as the government, national assets management department or other governmental agency, collective enterprise, private enterprise, foreign capital, and individual and others. The company's industrial characteristics will influence the level of value creation. So we incorporate 21industry dummy variables, such as the Comprehensive, medicine, metallurgy, commercial trade, daily use industry, agriculture, energy, travel, building, electrical home appliances, mechanical instrument, chemical industry, chemical fertilizer, public utilities, textile, real estate, telecommunication and computer, propagate and amusement, cars, storage transporting, material,etc.

Table 1. Variable list

Variable name	Variable	Variable Definition
EPS	Earning per share	The ratio of net profit to total stock
LnMVA	The Natural logarithm of market value added	Ln[□Circulating stocks□non-Circulating stocks□0.8□□SMP□total stock]
Ln(Asset)	The Natural logarithm of total asset	Ln[total asset]
LEV	Leverage ratio	The ratio of total leverage to total asset
M3	sum of percentage of shares held by three main shareholders	The sum of percentage of shares held by three main shareholders
H	Herfindah index	$H = \sum_j (M_j)^2$,$M_j$the percentage of shares owned by each j-shareholder over 5%
Corhld	The percentage of Corporate shareholders	The sum of the percentage held by corporate shareholders
Fcorhld	The percentage of foreign shareholders	The sum of the percentage held by foreign shareholders
Z	Z index	The holding difference of first shareholder to second shareholders
S	S index	The sum of percentage held by second largest shareholder to tenth largest shareholder
SMP	stock price	The trading price of Dec.31,2002
PER	P/E	The ratio of price per share to earning per share
$Indus_i$	Industry dummy	Equal 1 if the firm belongs to industry i and 0 otherwise
$M1\_Chrc_j$	Dummy variable of Character of the largest shareholder	Equal 1 if the firm belongs to type j and 0 otherwise

3. Results and Discussion of the Empirical Analysis

3.1 Descriptive analysis

From table 2 we can see that the mean of EPS is 0.084 per share, the mean percentage held by the highest three shareholders is 55.58% and there is a big variance(the standard err is 14.32), and the smallest percentage is 0.83%, which means the ownership structure is very dispersed. At the same time, the most concentrated ownership structure is 93.62%.The Corhld, Z index and S index meaning the competition

level of control right is a little big, their SE is respectively 22.84, 22.88 and 13.88. There is also a big difference in H index, Fcorhld among companies, but the SE is smaller, which shows there isn't large diversity.

Table 2. The descriptive result

	Min.	Max.	Mean	S.E.
EPS	-11.00	1.69	.084	.548
LnAsset	10.51	16.33	12.05	.655
M3	.83%	93.62%	55.58%	14.32
H	.00%	.72%	.24%	.149
Corhld	.00%	80.00%	19.70%	22.84
Fcorhld	.00%	52.91%	1.18%	5.51
Z	.00%	84.72%	34.58%	22.88
S	.36%	59.35%	17.75%	13.88

3.2 Correlation and Regression Analysis

Correlation Analysis

From the table 3 we can conclude that EPS is significantly positive correlated with M3 and H index, but insignificantly negative with Corhld and S index and positive with Fcorhld.This means the foreign shareholders can exert positive influence on EPS. That Z index has positive relation with EPS means that check and balance can improve the latter. LnMVA is significantly positive correlated with M3, H, Fcorhld and Z. This shows that ownership concentration can help improve the market value added of Chinese listed companies. Corhld and s is significantly negative correlated with LnMVA.

3.3 Regression Analysis

We use the regression to test our four hypotheses, it is ownership concentration or the monitoring role of different types of shareholders that will have a positive and more significant relationship with value creation in the firm when the conflict of interests between managerment and shareholders is high and the percentage of independent directors in board is less than 1/3.

Based on the regression results in table 4 and 5 the hypothesis 1 and 2 is supported. The ownership concentration has a positive and more significant relationship with EPS in companies with worse growth opportunities and M3, Corhld and Fcorhld is statistically significant. When we use MVA as proxy of corporate value, only M3 and H is statistically significant. This show that people still are prudent to the high level of ownership concentration when considering corporate value added. This is perhaps due to the worry about possible tunneling effect of large shareholders. The result that Corhld is negative to MVA is partially because of the common associated trading phenomena, and so when there are corporate shareholders, investors hold doubt attitude toward the justice of associated trading, which will have a negative influence on the corporate value. S index is significantly positive to MVA in firms that have good growth opportunity, but insignificantly positive in firms that have worse opportunity. This means that the companies with good growth opportunity and high level of ownership concentration can make and execute strategy immediately and respond quickly to the instant market chances. Otherwise, the firms whose control right is very dispersed have to spend much precious time to negotiate with each other and slower the reaction speed to market chances. In this case, the cost of ownership concentration is very high and damage corporate value. Fcorhld is all slightly positive related to MVA, the hypothesis can't be supported. This is perhaps because that the quantity of Fcorhld is too small now and can't play a big role in Chinese companies. But, we believe that the better effect, the more Fcorhld in the future. From the tables we can conclude that hypothesis 3 and 4 is mostly valid. Investors' monitoring is more important for Companies that the other governance mechanisms are weak. In this case, much social benefit can be brought when the big shareholders get their satisfied private benefits. What's more, M3, H index, Fcorhld and S index is positive and more significant related to EPS. This means that ownership concentration and shareholders' active participant in governance can obviously improve corporate performance in companies that other governance mechanisms are weak. However Corhld is significant negative related to EPS, which is opposite to our expectancy, in companies that the other governance mechanisms are weak. This is result perhaps because of the special situation of Chinese that state owns the controlling part in company equity. Independent directors can't exert much positive influence to corporate performance and corporate value when the state-owned share is very large, but it will be better when there are also corporate shareholders perhaps because of the synthetic effect.

With respect to the MVA, all type of shareholder is more important for Companies that the other governance mechanisms are weak except for Corhld. We can deduct that the market value added is close to the psychological expectancy, which is the better investor expectancy, the more Fcorhld because they can bring more severe governance criterion, the more MVA is realized. Though it is not the same thing to accounting index in table 6.

Table 3. Pearson Correlation matrix between variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)EPS	1									
(2)LnMVA	.277 [a]	1								
(3)LNASSET	.304 [a]	.738 [a]	1							
(4)LEV	-.539 [a]	-.148 [a]	-.207 [a]	1						
(5)M3	.113 [a]	.261 [a]	.176 [a]	-.106 [a]	1					
(6)H	.098 [a]	.280 [a]	.245 [a]	-.087 [a]	.838 [a]	1				
(7) Corhld	-.020	-.174 [a]	-.276 [a]	.051	-.173 [a]	-.355 [a]	1			
(8)Fcorhld	.026	.077[b]	.026	.060	.040	-.088 [a]	.255 [a]	1		
(9)Z	.070[b]	.194 [a]	.214 [a]	-.079[b]	.556 [a]	.883 [a]	-.408 [a]	-.170 [a]	1	
(10)S	-.005	-.074[b]	-.192 [a]	.050	-.139 [a]	-.582 [a]	.463 [a]	.249 [a]	-.841 [a]	1

Note:[a] Significant at the 0.01 level,,[b] significant at the 0.05 level, two-tailed

Table 4. Regression result of subgroup dividing with P/E to EPS

Equation	low (1a)	high (1b)	low (2a)	high (2b)	low (3a)	high (3b)	low (4a)	High (4b)	low (5a)	high (5b)	low (6a)	high (6b)
Constant	-1.337*** (-5.453)	.136** (2.440)	-1.265*** (-5.203)	.147*** (2.768)	-1.379*** (-5.507)	.159*** (2.872)	-1.302*** (-5.316)	.153 (2.895)	-1.262*** (-5.204)	.148*** (2.784)	-1.346*** (-5.449)	.138** (2.474)
LNASSET	.121*** (6.121)	-.007 (-1.572)	.121*** (6.084)	-.007 (-1.592)	.133*** (6.626)	-.008* (-1.731)	.128*** (6.439)	-.008 (-1.690)	.122*** (6.184)	-.007 (-1.593)	.129*** (6.544)	-.006 (-1.396)
LEV	-.333*** (-12.622)	-.005 (-.514)	-.333*** (-12.582)	-.006 (-.562)	-.334*** (-12.477)	-.006 (-.642)	-.331*** (-12.409)	-.008 (-.789)	-.333*** (-12.591)	-.005 (-.549)	-.333*** (-12.608)	-.007 (-.694)
M3	.002* (1.716)	.000 (.649)										
H			.153 (1.291)	.008 (.284)								
Corhld					.002* (1.735)	-8.04E-05 (-.407)						
Fcorhld							.006* (1.773)	.000 (.569)				
Z									.001 (.985)	5.20E-05 (.292)		
S											.002 (1.481)	.000 (.552)
$Indus_i$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$M1\_chrc_l$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	647	155	647	155	647	155	647	155	647	155	647	155
F	11.071 (.000)	.810 (.739)	10.989 (.000)	.796 (.757)	10.865 (.000)	.776 (.782)	10.872 (.000)	.783 (.774)	10.947 (.000)	.796/ .757	11.016 (.000)	.805 (.745)
R2/ Adj. R2	.374/ .340	.120/ -.028	.373/ .339	.118/ -.030	.369/ .335	.115/ -.033	.369/ .335	.115/ -.032	.371/ .337	.118/ -.030	.373/ .340	.119/ -.029

Note: * Significant at the 0.01 level, ** significant at the 0.05 level and *** significant at the 0.1 level. t-values are in parentheses.

Table 5. Regression result of subgroup dividing with P/E to lnmva

Equation	low (1a)	high (1b)	low (2a)	high (2b)	low (3a)	high (3b)	low (4a)	High (4b)	low (5a)	high (5b)	low (6a)	high (6b)
Constant	9.410*** (9.386)	11.543*** (6.992)	9.805*** (9.658)	11.928*** (7.528)	9.740*** (9.551)	12.035*** (7.433)	9.624*** (9.595)	11.956*** (7.446)	9.689*** (9.630)	12.077*** (7.674)	9.253*** (8.979)	12.473*** (7.638)
LNASSET	.068 (.813)	-.087 (-.635)	.077 (.900)	-.114 (-.830)	.107 (1.275)	-.083 (-.610)	.114 (1.380)	-.079 (-.580)	.103 (1.226)	-.131 (-.959)	.134 (1.596)	-.112 (-.815)
LEV	.040 (.480)	-.059 (-.228)	.041 (.495)	-.036 (-.142)	.047 (.566)	-.078 (-.304)	.044 (.534)	-.121 (-.433)	.043 (.514)	.001 (.005)	.045 (.539)	-.037 (-.145)
M3	.013*** (3.026)	.008 (.928)										
H			.868** (2.082)	1.266 (1.546)								
Corhld					-.002 (-.594)	-.003 (-.525)						
Fcorhld							.001 (.121)	.009 (.375)				
Z									.002 (.695)	.010** (2.090)		
S											.006 (1.458)	-.011 (-1.387)
$Indus_i$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$M1\_chrc_l$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	647	155	647	155	647	155	647	155	647	155	647	155
F	2.499	.539 (.970)	2.315 (.000)	.600 (.941)	2.193 (.000)	.513 (.979)	2.180 (.000)	.508 (.980)	2.175 (.000)	.678 (.883)	2.232 (.000)	.581 (.952)
R2/ Adj. R2	.164/ .098	.107/ -.091	.154/ .087	.118□ -.078	.146/ .079	.102/ -.096	.145 .079	.101/ -.098	.145/ .078	.131/ -.062	.149/ .082	.114/ -.082

Note: * Significant at the 0.01 level, ** significant at the 0.05 level and *** significant at the 0.1 level. t-values are in parentheses.

Table 6. Regression result of subgroup dividing with percentage of independent directors in board to EPS

Equation	low (1a)	high (1b)	low (2a)	high (2b)	low (3a)	high (3b)	low (4a)	High (4b)	low (5a)	high (5b)	low (6a)	high (6b)
Constant	-1.108*** (-5.500)	-.320 (-.724)	-1.049*** (-5.280)	-.241 (-.561)	-1.100*** (-5.336)	-.397 (-.965)	-1.079*** (-5.401)	-.261 (-.604)	-1.051*** (-5.291)	-.257 (-.595)	-1.126*** (-5.521)	-.262 (-.600)
LNASSET	.106*** (6.502)	.024 (.630)	.106*** (6.391)	.020 (.522)	.112*** (6.726)	.039 (1.088)	.110*** (6.765)	.029 (.768)	.107*** (6.520)	.019 (.514)	.113*** (6.867)	.028 (.735)
LEV	-.285*** (-12.533)	-.057 (-.296)	-.285*** (-12.505)	-.021 (-.107)	-.284*** (-12.308)	-.191 (-1.028)	-.286*** (-12.402)	-.103 (-.527)	-.285*** (-12.524)	.017 (.084)	-.286*** (-12.576)	-.134 (-.612)
M3	.001 (1.448)	.002 (.909)										
H			.110 (1.103)	.194 (.924)								
Corhld					.000 (.495)	.005*** (3.036)						
Fcorhld							.005* (1.791)	.006 (1.095)				
Z									.000 (.463)	.001 (1.003)		
S											.001 (1.419)	.001 (.569)
$Indus_i$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$M1\_chrc_l$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	707	95	707	95	707	95	707	95	707	95	707	95
F	13.066 (.000)	2.588 (.001)	12.996 (.000)	2.590 (.001)	12.677 (.000)	3.120 (.000)	12.828 (.000)	2.530 (.001)	12.969 (.000)	2.516 (.001)	13.037 (.000)	2.550 (.001)
R2/ Adj. R2	.375/ .346	.514/ .316	.374/ .345	.514/ .316	.367/ .338	.557/ .378	.370/ .341	.505/ .305	.373/ .344	.503/ .303	.375/ .346	.511/ .310

Note: *** Significant at the 0.01 level, ** significant at the 0.05 level and * significant at the 0.1 level. t-values are in parentheses.

Table 7. Regression result of subgroup dividing with percentage of independent directors in board to lnMVA

Equation	low (1a)	high (1b)	low (2a)	high (2b)	low (3a)	high (3b)	low (4a)	High (4b)	low (5a)	high (5b)	low (6a)	high (6b)
Constant	5.531*** (22.415)	2.952*** (4.272)	5.776*** (23.619)	3.213*** (4.760)	5.703*** (22.576)	3.376*** (4.875)	5.731*** (23.364)	3.216*** (4.938)	5.762*** (23.374)	3.325*** (4.810)	5.578*** (22.094)	3.236*** (4.743)
LNASSET	.515*** (25.655)	.781*** (13.655)	.513*** (25.106)	.771*** (13.321)	.529*** (25.773)	.778*** (13.078)	.527*** (26.177)	.802*** (14.237)	.521*** (25.368)	.780*** (13.249)	.535*** (26.217)	.794*** (13.476)
LEV	.031 (1.125)	-1.405*** (-4.699)	.032 (1.135)	-1.281*** (-4.027)	.029 (1.043)	-1.473*** (-4.726)	.029 (1.020)	-1.674*** (-5.650)	.030 (1.068)	-1.452*** (-4.395)	.027 (.978)	-1.759*** (-5.014)
M3	.006*** (4.762)	.006** (2.166)										
H			.433*** (3.553)	.633* (1.907)								
Corhld					.001 (.504)	-.001 (-.220)						
Fcorhld							.003 (.912)	.022*** (2.694)				
Z									.001 (1.304)	.001 (.280)		
S											.003*** (2.662)	.006 (1.514)
$Indus_i$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$M1\_chrc_l$	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	707	95	707	95	707	95	707	95	707	95	707	95
F	29.939 (.000)	13.181 (.000)	29.266 (.000)	12.943 (.000)	28.623 (.000)	12.736 (.000)	28.666 (.000)	14.414 (.000)	28.400 (.000)	12.743 (.000)	28.859 (.000)	12.638 (.000)
R2/ Adj. R2	.588/ .568	.848/ .783	.583/ .563	.845/ .780	.576/ .556	.841/ .775	.577/ .557	.857/ .797	.575/ .555	.841/ .775	.580/ .559	.842/ .775

Note: *** Significant at the 0.01 level,** significant at the 0.05 level and *significant at the 0.1 level. t-values are in parentheses.

Conclusion

Different corporations have different optimal governance mechanism. Noticing the substitute relation between the level of the management-and-shareholder-conflicts and the different governance mechanism, we take use of the data from China' stock market and conduct an empirical analysis on the influence both of the different shareholder's participating in governance and the ownership structure over corporate performance, and have reached two conclusions.

First, in the companies with a higher level of conflicts between the management and the shareholders, the shareholder will be more active in participating in governance because the benefits

earned here is much more than the company with a lower level of conflicts. And ownership supervision is more important, that is, the benefits derived from the main shareholder's active supervision is more than their costs., so the corporate value (also the social interests) could be enhanced by an appropriate arrangement of ownership structure. From this perspective, ownership concentration cannot necessarily increase corporate value, and it depends on the corporation's specific features. This reminds us that we cannot develop a uniform reform policy of ownership structure without considering the characteristics of the corporation.

Second, when the other governance mechanisms in one company perform poorly, the shareholder is less active in participating in governance because the extra benefits earned here cannot offset their costs. So only in these companies with poor governance mechanisms, the shareholders' active monitoring can produce benefits. Correspondently such a factor should be considered when developing a reform policy of ownership structure

These conclusions can help our further research on the relationship among the shareholder supervision, ownership structure and corporate value, and we should also re-evaluate some traditional theoretical viewpoints. For example, for the company's public listing and privatization, the traditional theory holds that the valve of transaction is a function of the accomplished ownership structure (Stoughton and Zechner, 1998; Hingorani et al., 1997; Claessens, 1997). But under the condition that the influence of shareholder's participating in governance over corporate performance is affected by the level of conflicts between the management and the shareholders, we should pay enough attention to the influence of the interlink between ownership concentration and agency conflicts over corporate value during the company's public listing and privatization process, and we should be careful in choosing the objects. In addition, regarding the abnormal benefits in the corporate control market, it has been confirmed, to some degree, that it is created by the merger's powerful supervision (Jensen and Ruback, 1983; Hertzel and Smith, 1993; Bethel et al.,1998). According to our conclusions, the abnormal benefits will decrease with the rising level of conflicts between the management and the shareholders, and the merger should also be careful in choosing the object.

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