

The Impact of Corporate Ownership Structure on Financial Performance: Evidence from China's A-share Listed Companies

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Abstract. As the ultimate measure of business performance, corporate financial performance is directly related to investor returns, creditor safety, and market resource allocation efficiency. Modern corporate governance theory suggests that equity structure fundamentally determines the quality of corporate decision-making and value creation ability by influencing the interest game between shareholders and management. However, the existing literature on the relationship between equity concentration and performance has not yet been resolved, and most studies have overlooked the nonlinear role of ownership balance mechanisms in the unique "same stock, same rights" context of the Chinese A-share market. Based on this, this research employs non-financial A-share listed companies from 2020 to 2025 as samples and empirically examines the impact of equity structure from two dimensions: ownership concentration and ownership balance. The research results indicate that there is no significant correlation between ownership concentration and corporate financial performance, while ownership balance is significantly negatively correlated with corporate financial performance, and this result remains valid after robustness tests. These findings enrich and expand the existing empirical research literature and provide important insights for improving equity structure and enhancing financial performance.

Keywords: Shareholding Concentration, Shareholding Balance, Return on Total Assets, Corporate Governance, A-share Listed Companies

1. Introduction

In today's highly market-oriented economic environment, enterprises are facing increasingly fierce competitive pressure, and improving financial performance has emerged as a critical issue for enterprises in realizing stable development. The financial performance of enterprises is constrained by many factors, and financial performance evaluation can help managers better manage the enterprise. The company discovers its own shortcomings and makes improvements by analyzing the firm's actual financial conditions to attain the objective of enhancing the firm's economic efficiency. Financial performance reflects market operating rules well and enables enterprises to fully recognize their own advantages, overcome difficulties and bottlenecks, and achieve sustainable development.

As a core element of corporate governance, equity structure not only affects the decision structure and resource allocation efficiency, but also relies on the supervision and balance system to have a profound impact on enterprise risk control and business performance. Existing research has shown that in the case of steady development of a company, the more concentrated the equity structure, the greater the benefits to shareholders, and the stronger the sense of ownership of major shareholders, which can improve the performance of the enterprise. However, this can also easily lead to the separation of ownership and management rights, and the management may engage in opportunistic behavior that infringes on the legitimate interests of minority shareholders. If equity is dispersed, the control of the enterprise will be dispersed among different shareholders, making it difficult to supervise the agency rights and thus reducing financial performance. A rational ownership structure design can effectively constrain the shareholders' action, motivate management to be diligent and responsible. Chinese scholars have explored in depth into listed companies in the manufacturing and insurance industries, but there is less research on the monetary and financial services industry. In the process of market economy development, this industry has become a major pillar industry of the country. If a crisis occurs in the financial system, it will pose huge risks to financial institutions, leading to the collapse of China's macroeconomy. At present, many banks still face the problem of concentrated equity and a single degree of equity balance. Therefore, improving the equity structure is a necessary path to enhance corporate financial outcomes, which is conducive to their future development.

2. Literature review

2.1. Concentration of equity and corporate financial performance

Analyzing the intrinsic relationship between equity concentration and corporate financial profitability, three conclusions have been drawn: equity concentration has both favorable and adverse impacts on corporate financial performance, and the two exhibit a non-linear relationship. Jensen&Meckling proposed that higher ownership concentration contributes to superior corporate financial performance [1]. The increase in equity concentration can reduce opportunistic behavior of managers through active supervision by major shareholders. Major shareholders ensure the sustainability of research and development investment by participating in strategic decision-making and optimizing resource allocation [2]. Chinese scholar Li Ying empirically found that ownership concentration positively influences company performance, and the impact is greater in non-state-owned enterprises [3]. Chen Xiaofen's research on mechanical manufacturing companies also confirms that moderate concentration of equity can strengthen shareholder supervision and have a positive governance effect on financial performance [4]. Moderate equity concentration can ensure innovation investment through long-term resource commitments from major shareholders [5]. On the contrary, some studies in recent years have drawn negative correlation conclusions. Wang Chenyang and Liu Jianting found in their inspection of financial listed companies that excessive concentration of equity can trigger tunneling behavior by major shareholders, drive up agency costs, and ultimately drag down the profitability of the company [5]. Ren Haizhi and Ding Huimin conducted sample verification based on city commercial banks, and found that excessive equity concentration can easily lead to concentration of credit resources and increased operational risks, negatively affecting financial performance [6]. In addition, the latest empirical evidence shows that the two exhibit an inverted U-shaped nonlinear relationship. By selecting multi-year panel data of Shanghai and Shenzhen A-shares, Sun Youzheng and Kang Jinjun obtained an inverted U-shaped

association between firm performance and ownership concentration, with a critical range around a 40% shareholding ratio [7].

2.2. Equity balance and corporate financial performance

Current mainstream research presents three distinct conclusions on the linkage between ownership balance and corporate financial performance: equity balance significantly improves corporate financial performance, equity balance inhibits financial performance, and there is a non-linear correlation between the two. On the one hand, balanced equity can play a positive catalytic role in boosting corporate innovation performance through R&D investment as a regulatory intermediary [8]. Effective equity checks and balances can constrain the embezzlement acts of major shareholders, improve governance levels, and ultimately enhance financial performance. Ren Haizhi and Ding Huimin's empirical study on urban commercial banks shows that a mutually constrained equity balance structure can disperse the control of a single major shareholder and is conducive to financial performance [6]. However, the higher the equity balance, the better. Excessive balance can lead to internal friction among shareholders. Chen Xiaofen pointed out that in non-state-owned and small-scale enterprises, excessive equity balance can easily lead to decision-making deadlock, reduce operational efficiency and total asset return rate [4]; Balancing the power struggle of shareholders will also increase internal transaction costs and weaken the effectiveness of supervision over management [9]. Ownership checks and balances can also lead to the problem of companies' free riding, increasing regulatory costs and thus suppressing innovative behavior [10]. In addition, Li Sai found through grouped regression that equity balance and performance exhibit segmented nonlinear characteristics under different property rights and industry competition levels [11].

3. Methodology

3.1. Theoretical analysis and research hypotheses

Table 1. Variable definition

Variable Type	Variable Name	Variable Symbol	Calculation Method
Dependent Variable	Return on Assets	ROA	Net profit / Average total assets
Explanatory Variable	Equity Concentration	conc	Shares held by the largest shareholder / Total shares
Explanatory Variable	Equity Check-and-Balance	sind	Sum of shares held by the 2nd to 10th largest shareholders / Shares held by the largest shareholder
	Return on Equity	ROE	Net profit / Average net assets
	Fixed Asset Ratio	fixasset	Net fixed assets / Total assets
Control Variable	Tobin's Q	tobinQ	(Market value of tradable shares + Non-tradable shares × Net assets per share + Book value of liabilities) / Total assets
	Leverage Ratio	lev	Year-end total liabilities / Year-end total assets
	Asset Growth Rate	growasset	Total assets this year / Total assets last year - 1

Table 1. (continued)

Control Variable	Revenue Growth Rate	growsale	Operating revenue this year / Operating revenue last year – 1
	Total Asset Turnover	tat	Operating revenue / Average total assets

When the major shareholder has too much control, it is easy to trigger conflicts of interest between the management and minority shareholders. If equity is excessively concentrated, major shareholders often seek to prioritize their own interests while neglecting the legitimate rights and interests of other shareholders, exerting a marked influence on corporate financial outcomes. In companies with highly concentrated equity structures, major shareholders often infringe upon the interests of other shareholders in order to maximize their own interests, especially when control is highly concentrated. This conflict of interests becomes increasingly prominent.

H1: There is a negative correlation between equity concentration and the return on total assets of a company.

Equity balance represents the ability of the second to tenth largest shareholders to constrain the first largest shareholder. When the level of checks and balances is improved, other major shareholders have the ability to play games with the actual controllers, which can effectively suppress the embezzlement action of major shareholders. Meanwhile, joint oversight of the management by multiple shareholders can effectively alleviate the problem of dual agency and improve asset profitability efficiency [10]. Table 1 lists the variable definition.

H2: There is a positive correlation between the degree of equity balance and the return on total assets of the enterprise.

3.2. Model construction

This article constructs the following two multiple regression models to test the research hypotheses proposed in the previous section:

$$ROA_{it} = \beta_0 + \beta_1 conc_{it} + \sum \beta_n Controls_{it} + \mu_i + \mu_t + \varepsilon_{it} \quad (1)$$

$$ROA_{it} = \beta_0 + \beta_1 sind_{it} + \sum \beta_n Controls_{it} + \mu_i + \mu_t + \varepsilon_{it} \quad (2)$$

Among them, *i* denotes the firm and *t* stands for quarterly time; *sind* represents the degree of equity balance, *conc* represents the degree of equity concentration, *Controls* is the control variable, μ_i and μ_t represent individual and year dummy variables, ε is the random error, and the main coefficient of concern is β_1 .

3.3. Descriptive statistics

Table 2. Descriptive statistics of main variables

Variable	Obs	Mean	Std.dev.	Min	Max
conc	108016	32.4396	14.6667	7.8705	72.9005
sind	108016	1.0486	0.8165	0.0642	3.9614
ROA	108016	0.0224	0.0432	-0.1299	0.1683

Table 2. (continued)

ROE	108016	0.0329	0.0838	-0.3796	0.2735
fixasset	108016	0.1939	0.1455	0.0019	0.6420
tobinQ	108016	1.9699	1.2704	0.8012	8.3169
lev	108016	0.4018	0.2072	0.0484	0.9290
growasset	108016	0.0696	0.1962	-0.2040	1.1957
growsale	108016	0.1064	0.5241	-0.7974	2.9926
tat	108016	0.3597	0.3094	0.0175	1.7209

Table 2 presents statistics in the model after 1% and 99% bilateral truncation processing, with a total sample observation of 108016. The mean ROA is 0.0224, with a standard deviation of 0.0432, showing that the overall financial performance of the sample listed companies is average; The minimum value of this variable is -0.1299 and the maximum value is 0.1683, indicating that the business operations of the enterprises in the sample are both good and bad, and there is a significant differentiation in profitability levels. The average concentration of equity (conc) is 32.4396. The overall concentration of equity in the sample is at a relatively high level, and the phenomenon of one dominant stock is still quite common. The mean degree of equity balance (sind) is 1.0486, with a standard deviation of 0.8165, a minimum value of 0.0642, and a maximum value of 3.9614. Overall, the second to tenth largest shareholders have played a certain role in balancing, but their ability to do so is limited.

4. Result

4.1. Quasi regression analysis

Table 3. Regression analysis results (conc)

Variable	Coefficient	Robust Std. Err.	t-value	P-value	95% CI Lower	95% CI Upper	Significance
conc	0.0000	0.0000	-0.1700	0.8640	-0.0001	0.0001	not significant
roe	0.3834	0.0058	65.6900	0.0000	0.3719	0.3948	***
fixasset	-0.0150	0.0022	-6.8400	0.0000	-0.0193	-0.0107	***
tobinq	0.0017	0.0001	11.7200	0.0000	0.0014	0.0020	***
lev	-0.0168	0.0019	-8.6300	0.0000	-0.0206	-0.0130	***
grow_asset	0.0169	0.0006	26.4500	0.0000	0.0156	0.0181	***
grow_sale	0.0002	0.0012	0.1600	0.8720	-0.0021	0.0025	not significant
tat	0.0189	0.0007	28.0700	0.0000	0.0175	0.0202	***

Table 4. Regression analysis result (sind)

Variable	Coefficient	Robust Std. Err.	t-value	P-value	95% CI Lower	95% CI Upper	Significance
sind	0.0010	0.0004	2.4500	0.0040	0.0002	0.0018	***
roe	0.3833	0.0058	65.7300	0.0000	0.3719	0.3948	***
fixasset	-0.0148	0.0022	-6.8200	0.0000	-0.0191	-0.0106	***
tobinq	0.0017	0.0001	11.7600	0.0000	0.0015	0.0020	***

Table 4. (continued)

lev	-0.0166	0.0019	-8.5800	0.0000	-0.0203	-0.0128	***
grow_asset	0.0168	0.0006	26.4300	0.0000	0.0155	0.0180	***
grow_sale	0.0002	0.0012	0.1400	0.8890	-0.0022	0.0025	not significant
tat	0.0189	0.0007	28.1400	0.0000	0.0176	0.0202	***

Model (1) was constructed for regression analysis. The regression results of equity concentration conc are shown in Table 3. The conc coefficient of equity concentration is -0.00000579, with a P value of 0.864, which fails to pass the significance test, suggesting that equity concentration exerts no significant influence on firms' return on total assets. To further explore the relationship between the two, model (2) was constructed for multiple regression analysis. The full sample regression results of the degree of equity balance sind and corporate financial performance are shown in Table 4. The correlation coefficient between the degree of equity balance (sind) and corporate financial performance is 0.0010058, which is significantly positive at the 1% statistical level. There is a significant positive correlation between equity balance and corporate financial performance, and hypothesis 2 has been validated.

4.2. Robustness test

This paper adopts return on equity (ROE) as an alternative indicator to measure corporate financial performance, replacing return on total assets (ROA). For robustness testing. The regression results after replacing the measurement method are shown in Table 5, and the obtained regression test results are consistent with the previous research conclusions. Therefore, the empirical research conclusions of this article have a certain degree of accuracy and reliability.

Table 5. Robustness test

variable	(1) ROE	(2)ROE
conc	-0.000000138	—
sind	—	0.0002***
observations	108016	108016
R2	0.7938	0.7931
Control	yes	yes
Year Fixed	yes	yes
Firm Fixed	yes	yes

5. Conclusion

The concentration of equity is not significantly associated with return on total assets of the enterprise. On the theoretical level, controlling shareholders with a high shareholding ratio can play a supervisory role, reduce management agency costs, and enhance operating profits; But at the same time, it is extremely easy to use control rights to carry out embezzlement activities such as fund occupation and unfair related party transactions, which damages the interests of the company. The two governance effects of one positive and one negative cancel each other out, ultimately making it impossible for equity concentration to form a stable linear effect on corporate financial performance, and no significant correlation can be detected within the sample. By contrast, ownership balance

exhibits a significant positive correlation with corporate financial performance. When the overall shareholding ratio of the second to tenth largest shareholders increases, the ability to constrain the first largest shareholder is enhanced, and multiple shareholders can mutually restrain each other, effectively curbing the behavior of controlling shareholders encroaching on company resources; Simultaneously involving multiple shareholders in business supervision, reducing management's self interested behavior, alleviating dual agency conflicts, optimizing the efficiency of enterprise asset operations, and ultimately promoting an increase in total asset return. After replacing the return on equity (ROA) and regressing, this conclusion still holds true and has robustness.

The empirical findings reflect significant limitations in the current equity governance of listed companies: the concentration of the largest shareholder's equity itself does not have a significant impact on the financial performance of the enterprise, and simply controlling the shareholder's shareholding ratio cannot substantially improve operational efficiency. Relying solely on a single centralized or decentralized equity model makes it difficult to resolve agency problems such as the encroachment of major shareholder interests and tunneling. The core shortcomings of equity governance lie in the lack of a balanced system, the lack of smooth channels for small and medium-sized shareholders' supervision and exercise, and the one-size-fits-all rules for equity governance of enterprises with different property rights and industries. In response to the above limitations, this article proposes corresponding optimization governance suggestions: listed companies should abandon the extensive adjustment ideas of blindly increasing or decreasing the shareholding ratio of the largest shareholder, reasonably build a diversified balance type equity structure, moderately introduce multiple external institutional investors with balanced shareholding ratios, increase the total shareholding ratio, strengthen the supervision and restraint of the actual controller, and suppress the embezzlement behavior of the largest shareholder and steadily improve the profitability level through multi shareholder collaborative governance; At the same time, regulatory authorities need to improve mechanisms for safeguarding the exercise of rights by small and medium-sized shareholders, such as online voting and collective litigation, and urge enterprises to establish a sound system for independent directors to perform their duties and review related party transactions. This will constrain controlling shareholders' private interests from internal systems and truly implement governance effectiveness for equity checks and balances; In addition, regulatory agencies should also issue differentiated equity governance guidelines based on the nature of corporate property rights and industry characteristics, and focus on guiding strategic investors to companies with highly concentrated equity and lacking balance mechanisms, to promote the formation of a moderately balanced equity structure with stronger adaptability in the market. Looking to the future, with the continuous implementation of a market-oriented equity balance system, the continuous refinement of laws and regulations for the gradual improvement of a differentiated regulatory system, the balanced equity structure will fully play a positive empowering function within corporate governance and performance, further reduce the cost of entrusted agency, and promote the long-term standardization and high-quality development of the governance level of listed companies.

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