Ownership Structure and Performance of China's A-Share-Listed Hotels

Abstract

This study explores how the ownership structure of China's A-share-listed hotel industry affects the operating performance which can help understand the uniqueness of the hotel industry in China. On the basis of the panel data analysis of six A-share-listed hotels in recent years, the research reveals the following. (1) The proportion of state-owned, institutional investors, tradable ownership and the equity balance index have negative effects on return on assets (ROA). While the proportion of managerial ownership has a positive influence on ROA. (2) The proportion of state-owned, tradable ownership and the equity balance index have positive effect on performance. The proportions of managerial ownership and the top ten shareholders have negative effects on Tobin's Q. (3) The proportion of state-owned, institutional investor shares, tradable ownership and the equity balance index have negative effects on the sustainable growth rate. We found that the Chinese hotel industry moves towards the trend of global operations but still keep it characteristics in the local market structure.

Keywords: equity structure, operation performance, equity concentration, equity balance, China hotel

1. Introduction

The rapid development of China's economy has led to a large amount of capital investment in the development, construction, and operation of hotels. One of the attendant problems is the over-investment of hotels in the current market has caused the over-supply issues in the Chinese hotel industry. In addition, the fade-out of the demographic dividend and the withdrawal of international-funded enterprises have increased the operating pressure on hotels. In the third quarter of 2017, 11,492 star-rated hotels in the star-rated hotel statistics management system of the National Tourism Administration operated, of which 1,201 were in a state of the suspension of operations. A survey of star-rated hotels which were poorly managed or closed down found a substantial relationship between hotel investors and operators (Turner & Guilding, 2013). Different hotel investors can lead to different hotel operating performance. In the current hotel market, the depression of the hotel market has a considerable relationship with various capital entities, namely, ownership structure.

This study aims to explore the relationship between the ownership structure and operating performance in China's hotel industry. This can help the supply-side reform of the hotel industry to enhance competitiveness, promote economic development, eliminate backward production capacity, and realize structural innovation. Yeh (2019) and Kumar and Zattoni (2015) argued the following perspectives: (1) From the nature of equity, investors generally believe that the existence of state-owned shares can provide certain policy support for the company. However, the high proportion of state-owned shares restrict the development of the company. The ownership structure can make the company's decision-making power considerably flexible; however, the return of stock in different companies has various results. The proportion of tradable ownership should be controlled within a certain percentage, which depends on the company's production and operation. (2) In terms of equity concentration and equity check-and-balance, the excessive concentration of equity can lead to large shareholders infringing on the rights and interests of small shareholders, whereas the excessive dispersion of equity can lead to additional agency costs and the "free rider" phenomenon. Therefore, the research supports the equity balance in general. (3) In terms of operating performance, the perspectives of economic indicators, hotel operating, and macro environment should be considered with the ownership structure (Martinez-Martinez, Cegarra-Navarro, Garcia-Perez, & Wensley, 2019).

The ownership structure is the foundation of corporate governance and has an important impact on corporate performance. The mechanism of ownership structure and corporate performance is different between China and Western countries (Lin, Liu, & Zhang, 2006). Therefore, this study uses a quantitative analysis method to study the relationship between the ownership structure and operating performance of A-share-listed hotels in China from the three ownership aspects of investors, concentration, and balance. With a population of 1.3 billion, China is the world's second largest economy and the largest if measured in purchasing price parity terms. (Rabushka & Kress, 2019). We'd like to amplify the uqiness of Chinese hotel industry from the relationship of ownership structure and performance.

2. Literature review

2.1 The ownership structure and performance

Škuflić, Turuk, Crnjac (2013) studied the impact of ownership structure on enterprise performance in the Croatian hotel industry. During Croatia's transition to a market economy, owing to the influence of the war of independence, the process of industrial transformation was difficult. Tourism has become the main driving force of Croatia's economic growth. The transformation of the hotel industry is relatively easy because of tourism's abundant resources. This study evaluates the privatization performance by studying the differences in economic performance between privatized and non-privatized enterprises. Through productivity, debt structure, and other indicators, the results show that private enterprises have better performance than state-owned enterprises. Sarkar & Sarkar (2000) investigated listed companies in India as samples to research ownership structure. They found that developing countries lack protection for small-and-medium size shareholders, thereby leading to shareholders with a higher proportion of shares negatively affect the interests of small-and-medium size shareholders. Therefore, enterprises that have a high proportion of large shareholders can lead to lower performances. Yeh (2019), Portia, Shleifer, and La Porta (1999); Burkart et al. (1997); and Berle and Means (1932) indicated that equity decentralization has a positive effect on business performance, i.e., equity concentration has a negative effect on business performance.

In the hotel industry, Saidat, Silva, and Seaman (2019) researched the impact of institutional ownership on the service industry and concluded that given the inherent problem of institutional shareholding in the industry, the company's performance does not depend on the proportion of institutional shareholding in the hotel sector. When other specific variables of the company are controlled, no significant relationship exists between the proportion of institutional shareholding and the company's performance (Stulz, 1988). Yeh (2019), Andersson and Getz (2009), Purcell and Nicholas (2001) and Zheng and Yu (1999) has attracted increasing attention on the relationship between ownership structure and performance, which pointed out that the increase in the proportion of senior management shares has a positive impact on the return on assets (ROA), which can improve the operational use of assets to manage cash flows and improve the efficiency of sales profits. We found the positive relationship of managerial ownership and ROA. However, the conventional hotel industry is more effective than the casino hotel industry in using the managerial ownership to adjust the consistency of interests between shareholders and management. Edwards and Weichenrieder (2001) conducted an empirical analysis on the disclosure information of more than 400 listed companies in Germany from 1992 to 1997. They concluded that the concentration of equity has a corporate governance effect, but if the concentration of equity exceeds a certain level, then such concentration can have a negative impact on the company's performance. Claessens, Djankov and Pohl (1997), Shieifer and Vishny (1986), and Jensen and Meckling (1976) reported the influence of the single indicator of senior management shareholding in the ownership structure lead the company's high performance.

2.2 The equity balance and performance

Gomes and Novaes (2001) stated that equality balance should consider "favorable" and "unfavorable" financial consequences. When enterprises had an excessive investment with the high cost of cash flow and financing demand, the equity balance is effective, however, if enterprises have sufficient investment supports, then the introduction of equity balance structure may not be a proper choice. Pagano and Roes (1998) indicated that the existence of multiple major shareholders affects on inhibiting predatory behaviors such as hollowing out the company's assets. Bennedsen and Wolfenzon (2000) pointed out that equity balance is positively related to corporate performance. In the case of imperfect investor protection, by sharing control rights with a few major shareholders, the shareholders can perform check-and-balance on each other. Any major shareholder cannot control the decision-making of the enterprise alone and can supervise the operators. Maury and Pajuste (2005) studied Finnish-listed companies and found that the equity distribution of large shareholders often plays an important role, which can bring mutual restriction to various shareholder groups in the enterprise. The results showed that the more balanced the distribution of shares among major shareholders, the higher the restriction effect, and the higher the company's performance. Laeven and Levine (2004) conclued that European enterprises support the balance between the largest shareholder and the second largest shareholder has a significant positive correlation with corporate performance.

2.3 The complex and dynamic change of ownership structure and performance

The relationship between ownership structure and operating performance is different in various industries (Chen, Firth, & Xu, 2009). Thus, the analysis of the relationship between ownership structure and operating performance in the hotel industry needs to be investigated on the following problems:

First, literature has indicated the relationship between a single secondary index and operating performance under the ownership structure, but failed to involve a discussion of the relationship between the multi-dimensional ownership structure and operating performance. The ownership structure shall focus on the governance of the board of directors, institutional shareholding (Ming-chihtai, 2005), the nature of equity (Zheng and Yu, 1999), or the independence of the board of directors. Although multiple indicators of consideration were presented in the study of Chien (2013), the result did not form a complete system of ownership structure related to the performance.

Second, the ownership structure is the basis of the corporate governance structure, which reflects the specific operational form and leads to the different performance. The relationship of ownership structure and performance changes along with the time changes. The changes have been influence by the process of continuous innovation and development, the trend of the global economic development, and the standardized and efficient corporate governance under the dynamic macro economic environment. China has been through a couple decays of economic reform and open up, we are interested in how the ownership structures determine the various organizational structures and ultimately determine the operational behavior and performance of hotels. Research on the dynamic changes between ownership structure and operating performance of the Chinese hotel industry highlights the indispensable importance and necessity role in the global hotel operations. China's hotel industry has experienced meteoric growth (Goh, Gan & Kim, 2013), we would like to explore the specific issue of the Chinese hotel industry in the global economic environment.

3. Methodology

3.1 Sampling and Variables

Samples were chosen only in the hotel industry to fit the research target. Six A-share-listed hotels were chosen as the samples because of the complete of the data as the depiction in Table 1, secondary data related to the ownership structure and operating performance of these six hotels from 2003 to 2016 are obtained through channels such as Guotaian Data Service Center, Juchao Information Network, and Wind Financial Terminal.

****Insert Table 1. Sample stock profile**

This study includes the variables of ownership structure, operating performance, and control. The variables of ownership structure are the proportion of state-owned shares, corporate shares, Managerial ownership, tradable ownership, the proportions of the largest shareholder and the top ten shareholders, and the Z index of equity balance. Operating performance variables are the return on total assets (ROA), Tobin's Q (Q), and sustainable growth rate (D). The control variables are hotel SIZE, financial leverage (DAR), and virtual variable (INV). Table 2 presents the interpretation of each variable.

Compared with private enterprises, state-controlled enterprises have lower operating benefits. Private enterprises pursue economic benefits, whereas state-owned enterprises have complicated objectives, including economic benefits and political requirements. According to literature, this study assumes that the proportion of state-owned shares in hotels is negatively related to operating performance. The secondary indicators of business performance in this study are ROA, Tobin's Q, and sustainable growth rate. Corporate investment is used generally to realize its business strategy, and corporate ownership has high stability, which helps in improving the company's performance. Therefore, this study assumes the hypothesis that the proportion of institutional investor shares is positively related to operating performance. The secondary indicators of business performance in this study are ROA, Tobin's Q, and sustainable growth rate. Hotel executives generally participate in hotel management. The higher the proportion of shares held by hotel executives, the closer the hotel's operating performance is related to the interests of hotel executives, which enables hotel executives to participate in hotel management (Zheng Gu and Yu Qlan, 1999) and improve the efficiency of hotel operations. The higher proportion of tradable ownership means shareholders cannot effectively participate in decision making of corporate operations.

****Insert Table 2. Variable description**

On the other hand, the high concentration ratio of shares can increase the value of shareholders' equity and operating performance. However, the ownership balance is still an important factor that influences hotels' operational performance. Therefore, the following assumptions are made as indicated in Table 3.

****Insert Table 3. Question assumption and forecast results**

3.2 Model

The following mathematical model is established for regression analysis to test the above hypothesis:

Model 1: $YROA = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\beta_6X_6+\beta_7 Z+\beta_8 SIZE+\beta_9 DAR+\beta_{10}INV+\mu_1,$ （1）

Model 2: $YQ = \varepsilon_0+\varepsilon_1 X_1+\varepsilon_2 X_2+\varepsilon_3 X_3+\varepsilon_4 X_4+\varepsilon_5 X_5+\varepsilon_6 X_6+\varepsilon_7 Z+\varepsilon_8 SIZE+\varepsilon_9 DAR+\varepsilon_{10}INV+\mu_2,$ （2）

Model 3: $YD = \varrho_0+\varrho_1 X_1+\varrho_2 X_2+\varrho_3 X_3+\varrho_4 X_4+\varrho 5 X_5+\varrho_6 X_6+\varrho_7 Z+\varrho_8 SIZE+\varrho_9 DAR+\varrho_{10}INV+\mu_3.$ （3）

Among them, $X_1 \ldots X_6$ and Z are independent variables, representing the seven secondary indicators of equity structure. YROA, YQ, and YD are dependent variables representing ROA, Tobin's Q value, and sustainable growth rate, respectively. SIZE, DAR, and INV are control variables representing hotel scale, financial leverage, and virtual variables, respectively. β_0, ε_0 and ϱ_0 are constant terms, $\beta_1 \ldots \beta_{10}$, $\varepsilon_1 \ldots \varepsilon_{10}$, and $\varrho_1 \ldots \varrho_{10}$ are coefficient terms, and μ_1, μ_2, and μ_3 are random error terms. The least square method is used for model estimation.

4. Data Analysis

4.1 Findings

From Table 4, the shares of A-share-listed hotels in China are excessively concentrated. Among the six sample companies, the average shareholding ratio of the largest shareholder reached 37.98%, and the highest reached 80%. Therefore, the listed hotels in China indicate a phenomenon of high concentration of shares. The top ten shareholders hold as much as 100% of the shares, basically controlling the voting rights of listed hotels. China's A-share-listed hotels are under the control of the largest shareholder, and the hotel's shares are excessively concentrated, thereby greatly weakening the shareholder's check-and-balance mechanism.

****Insert Table 4. Analysis on the ownership concentration of A-share listed hotels from 2003 to 2016**

Table 5 reveals the results of the regression analysis of the secondary indicators of equity structure with ROA, Tobin's Q value, and sustainable growth rate. The F test of all models is significant to verify the hypothetical models. Durbin–Watson values are 2.08, 2.13, and 2.02, respectively, without significant deviation from 2, indicating that the autocorrelation of the model is within an acceptable range. The average VIF values are all within 10, indicating that the degree of multi-collinearity is acceptable. The K-S and S-W tests are not significant, which indicates that the model estimation residual conforms to the normal distribution. Generally speaking, the overall fitting degree of the model is good and conforms to the basic assumption of least square estimation.

****Insert Table 5. Multiple linear regression analysis result**

The results of parameter estimation indicate the performance index of ROA are that the proportions of state-owned shares, Institutional investor shares, and tradable ownership all have significant negative effects, which indicating that the higher the proportion of the above three types of shares, the lower the ROA. The proportion of managerial ownership has a significant positive impact, which indicating that the higher the proportion of managerial ownership, the higher the ROA. The two indicators of ownership concentration, i.e., the proportion of the first largest shareholder and the coefficient of the proportion of the first ten largest shareholders, are not significant, indicating that ownership concentration does not influence ROA. The equity balance Z index has a significant negative impact on ROA.

The Tobin's Q performance index effected by the ownership sturctures of state-owned shares, the tradable ownership and balance equity shares are positive and significant, indicating that the three types of ownership structure have significant positive effects on market value. However, Managerial ownership and top ten shareholdings have significant negative effect on Tobin's Q. The two indices of ROA and Tobin'Q express different meanings. ROA expresses operational performance, while Tobin's Q represents the growth opportunities of the company. Theoretically, the second index should capture the value of intangibles assets. The two performance indices go different directions, which means the operational performance didn't response to the market value.

The proportion of state-owned shares, institutional investor shares, and tradable ownership all have significant negative effects on the sustainable growth rate. Also, the proportion of the largest shareholding and balance equity shares have a significant positive impact on the sustainable growth rate.

4.2 Discussions

The relationship between ownership structure and operating performance of A-share-listed hotels is verified, and the results of regression analysis are listed in Table 6. The relationship between ownership structure and operating performance has different effects according to the different secondary indicators. The details are as follows.

The proportion of state-owned shares, institutional investor shares, tradable ownership and balance equity shares have significant negative effects on ROA and sustainable growth, which means Chinese hotels should lower the proportion of aforementioned ownership structure for better performance on ROA and sustainable growth. The result echoes the study of Škuflić, Turuk, Crnjac (2013) that the privatization of shares could carry better performance for hotels. Individualized member and institutional investor ownership on performance have also been confirmed as the study of Kyriakopoulos, Meulenberg, & Nilsson (2004). The results of tradable ownership and balance equity shares echoes the argument of Ma, Naughton, & Tian (2010) that tradable ownership concentration has a more significant and positive influence on hotels' performance than total ownership concentration. In this study, we found that the result of opposite effect of ROA and Tobin's Q is exactly opposite. It is different from Yeh (2019) claiming that the ownership structure has the same positive effect of ROA and Tobin's Q.

****Insert Table 6. The relationship between the ownership structure and operating performance**

The managerial ownership has positive effect on ROA in this study. In general, managerial ownership has a positive effect on ROA and Tobin's Q (Rhou & Singal, 2019) but we didn't find the operational performance of ROA related to the market value of Tobin's Q in the Chinese hotel industry. The largest shareholding does not affect the performance index, which was different from the study of Sarkar & Sarkar (2000) who indicated that a high proportion of largest shareholders could lead to lower performances. For the top ten shareholding, the presence of large shareholders could reduce the extent of agency costs between managers and shareholders and facilitate equity value (Rajan & Zingales,1995). The balance of equity shares helps balance-and-check of corporate governance of hotels can be confirmed in this study (Al-Homaidi, Almaqtari, Ahmad, Aligarh & I Tabash, 2019). The state-owned shares still play an unique role to support the hotels' performance which examines the performance implications of guanxi-related perk expenditures among listed Chinese hotels (Cheng, Chan & Leung, 2018). The tradeable ownership is increasingly play an important role on Tobin's Q that implies the importance of market efficiency (Hoque, & Mu, 2019). These results demonstrate that the Chinese hotel industry has been moving toward the trend of global corporate governance but still keep it own characteristics in the local area.

China has been a major recipient of global investment for the past decade. The operation of hotels has been influenced by outbound investors and developing its inbound market potential (Liang, Yan, Quinlivan& Cline, 2019). We can see the local and global investors have changed the ownership structure and triggered the sustainable development of the hotel industry in China.

5. Conclusion

According to the results of the ownership structure and performance, we clarify that the existence of state-owned shares can provide a certain degree of policy support to the hotel industry in terms of capital and resources, attract external social capital, reduce financing costs, and optimize the corporate governance structure. However, the high proportion of state-owned shares can restrict the sustainable development of the hotel industry because state-owned enterprises have to follow the policy of the government, which sometimes against the economic goal of maximizing benefits. Institutional investors have a negative effect on the performance indices of ROA and sustainable growth which might be the high hotels' stock return volatility (Chen, Du, Li, & Ouyang, 2013) that caused the return loss more than gain. The tradable ownership has significant influence on all hotels' performance indices but the proportion of tradable ownership should be controlled within a certain limit, depending on whether the proportion has a decisive impact on hotels' operations on different perspectives of operational performance, market value, or long-term development.

The managerial ownership should hold appropriate shares in the company because the incentive of hard working and corporate governance are equally important. The reasonable incentive mechanisms such as senior management shareholdings can encourage senior management to participate actively in corporate operations and performance. However, the appropriate proportion of managerial ownership should consider the agency cost in order not to harm the sustainable growth of hotels. The top ten shareholdings only negatively affect on Tobin's Q, which means the important stockholders' shares concentration is better for hotels' market value. The effect of balance equity shares are significant, while the largest shareholding is not significant on all three performance indices. It indicates that the corperate governance of balance-and-check has more influence than the ownership concerntration in the Chinese hotel industry.

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