

The Impact of Shareholding Structure on Real Earnings Management in Agricultural Listed Companies from a Social Network Perspective

Yue Teng^{1*}, Yang Bai², Xiaoli Zhang¹

¹Department of Accounting, Harbin Finance University, Harbin, Heilongjiang, 150030, China

²School of Accounting, Harbin University of Commerce, Harbin, Heilongjiang, 150028, China

*corresponding author.

Keywords: Social network perspective; Shareholding structure; Real earnings management

Abstract: For a long time, earnings management has been a persistent problem in China's capital market that is difficult to eradicate. Listed companies can carry out earnings management through the choice of accounting policies and the application of accounting estimates, the use of connected transactions and the support of local governments to manipulate accounting earnings, the use of debt restructuring, and the use of capitalization of R&D expenditures, which may mislead investors' decisions, undermine the effectiveness of the capital market, reduce the efficiency of resource allocation, and impede the effective operation of social and economic mechanisms. There are many reasons for earnings management, one of which is the shareholding structure of the company. For this reason, the introduction of institutional investors to check the power of major shareholders has become an institutional option that can effectively reduce corporate earnings management behavior. This paper investigates the direct impact of shareholding structure on real earnings management from the perspective of social network.

1. Introduction

With the development of the capital market, China's continuous reform of the shareholding division has eased the phenomenon of sole majority shareholder. Shareholders in various capacities influence the company's operations from all sides, making the shareholding structure of China's listed companies increasingly diverse and complete. The management and shareholders of the company, in order to realize the interests of the company and their own interests, use certain abnormal means to carry out certain transaction control within the scope of enterprise accounting standards, and process and change the real earnings information of the enterprise to a certain extent, with a view to misleading the users of external accounting information, and finally achieve the realization of their own interests or seek short-term gains of the enterprise also occur from time to time. The special shareholding structure of China's listed companies is manifested by high concentration of shareholding, low shareholding checks and balances, and the lack of complete circulation of shareholding, etc. It is due to these defects of the shareholding structure that induces earnings management behaviors and creates conditions for earnings management[1,2]. The social network analysis perspective has been well applied in studies on corporate development, business models, and corporate culture research and construction, but few of the studies on the relationship between shareholding structure and earnings management have considered the impact of shareholding structure network characteristics and relationship content on earnings management from the social network perspective. In this paper, we analyze the influence of the shareholding structure of listed companies on the real earnings management from three aspects, namely the composition of shareholders' personnel, the shareholding of institutional investors and the concentration of equity.

2. Current Status of Shareholding Structure and Real Earnings Management of Listed Agricultural Companies

Shareholders can be divided into state-owned shareholders and non-state-owned shareholders according to their capital contributions, and non-state-owned shareholders mainly include executive shareholdings and public shares[3]. In the past five years, the shareholding ratio of state-owned shares in China's agricultural listed companies has been decreasing significantly, in order to prevent the state from losing control due to the excessive number of shares in circulation, the proportion of state-owned shares was high at the beginning of China's stock market, but this situation tends to cause the phenomenon of "sole majority shareholder" for state-owned shares, which will not only cause problems in the internal control of listed companies, but also harm the interests of small and medium shareholders and the state. With the deepening of stock reform and the development of capital market, the proportion of state-owned shares gradually decreases, which can not only reduce the cost of supervision, but also facilitate the equity checks and balances of listed companies, as shown in Table 1 and Table 2.

Table 1 Nature of Top Five Shareholders of Several Major Listed Agricultural Companies in 2020

Nature of top five shareholder s	First largest shareholde r	Second largest shareholde r	Third largest shareholde r	Fourth largest shareholde r	Fifth largest shareholde r
DAI BEI NONG	Domestic natural person	Domestic natural person	Domestic natural person	Domestic non-state legal person	Domestic natural person
Nongfa Seed	State-owned legal person	State-owned legal person	Domestic natural person	Domestic natural person	Domestic natural person
LongPing High-Tech	State-owned legal person	State-owned legal person	Domestic non-state legal person	Domestic non-state legal person	Domestic natural person
Luo Niu Shan	Domestic non-state legal person	Domestic non-state legal person	Domestic non-state legal person	Domestic non-state legal person	Domestic natural person
KingSino	Domestic non-state legal person	Domestic non-state legal person	Domestic natural person	Domestic natural person	Other

Source: Annual Report of Listed Agricultural Companies in 2020

Table 2 Shareholding Proportion of Top Five Shareholders of Listed Agricultural Companies in 2020

Shareholdin g proportion	First largest	Second largest	Third largest	Fourth largest	Fifth largest
-------------------------------------	--------------------------	---------------------------	--------------------------	---------------------------	--------------------------

of top five shareholders	shareholde r	shareholde r	shareholde r	shareholde r	shareholde r
DAI BEI NONG	29.88%	2.64%	2.41%	2.04%	1.78%
Nongfa Seed	23.12%	14.57%	4.40%	1.40%	1.08%
LongPing High-Tech	16.54%	5.08%	5.00%	3.20%	1.90%
Luo Niu Shan	17.14%	2.40%	1.25%	0.63%	0.38%
KingSino	36.28%	6.48%	2.85%	2.48%	0.81%

Source: Annual Report of Listed Agricultural Companies in 2020

The number of shares held by executives is a reflection of the equity incentive behavior of listed companies. In recent years, the effect of equity incentive of agricultural listed companies is not significant, but the overall trend of gradual increase and relative stability, which can stimulate the work enthusiasm of senior management to a certain extent. The full circulation of stocks is the goal of the stock split reform. The circulation of stocks not only solves the problems of chaotic and scattered shareholding structure of listed companies in China, but also makes the senior management of listed companies pay more attention to the operation of enterprises and promotes the healthy and benign development of enterprises. Since 2005, after the comprehensive promotion of the reform of the share split of listed companies in China, the interests of different shareholders have been gradually balanced, most of the shares of agricultural listed companies are no longer restricted from circulation, and some non-circulating shareholders have gradually converted their shares into circulating shares. Since 2010, the shareholding ratio of the first largest shareholder in China's agricultural listed companies has been gradually reduced. With the decrease of the shareholding ratio of the first largest shareholder, the shareholding ratio of circulating shares and the shareholding ratio of executives have increased in different degrees. From this trend, we can see that although the shareholding ratio of the first largest shareholder of China's agricultural listed companies has decreased, the largest shareholders generally hold a large number of shares of listed companies, and the top five shareholders still have absolute control and a high degree of equity concentration. Although the concentration of equity has been decreasing year by year, the shareholding ratio of the first largest shareholder and the top five shareholders is still very high, which will have a significant impact on the operation of enterprises.

The operating income, total assets, original value of fixed assets and original value of biological assets of listed agricultural companies in China have shown a stable growth trend in recent five years. In recent years, the development of China's listed agricultural companies has been relatively stable, and the amount of accounts receivable generally shows a trend of year-on-year increase, and the average annual increase of accounts receivable exceeds the average annual increase of operating revenue, which makes it possible for listed companies to use accounts receivable items to make adjustments to profits. However, in the past two years, due to the impact of the COVID-19 pandemic and animal epidemic, etc., especially the outbreak of African swine fever since August 2018, it has dealt a heavy blow to China's agriculture, especially the pig breeding industry. The fluctuation of accounts receivable difference is more obvious, and the substantial change of accounts receivable difference is more evidence that listed companies do adjust their profits by adjusting their accounts receivable items and thus realize the adjustment of profits.

3. Effect Mechanism of Social Network Shaped by Shareholding Structure on Real Earnings Management

In terms of shareholder composition: state-owned holding leads to significantly higher accrual earnings manipulation, but in terms of true surplus manipulation, it is more reflected in abnormal discretionary expense behavior. Thus, in general, reducing the proportion of state-owned holdings in listed companies is beneficial in curbing earnings management behavior. The higher the shareholding of management in state-controlled listed companies, the more significant the accrued earnings management behavior is; in terms of real earnings management behavior, the significant effect is more reflected in abnormal cash flow and abnormal production cost. Therefore, to effectively curb the earnings management behavior of listed companies, efforts should be made to reduce the shareholding of management of state-controlled listed companies.

In terms of institutional investors' shareholding: Compared with corporate shareholders, institutional investors have more capital and can obtain the necessary information accurately. The successful completion of China's shareholding reform and the strong support of national policies have led to the rapid development of institutional investors and the change of investment philosophy from "speculation-oriented" to "value investment". As a professional investment team, institutional investors have the ability to participate in corporate governance and strengthen the internal supervision of the company in order to obtain the maximum return, which can, to a certain extent, suppress the real earnings management, and the higher the shareholding ratio of institutional investors, the more their interests converge with those of the enterprise and the more active they are in supervising business decision-making activities. Overall, institutional shareholding has a better inhibiting effect on both accrual surplus manipulation and true surplus manipulation; therefore, increasing the proportion of institutional shareholding can inhibit the Earnings Management behavior of listed companies.

In terms of equity concentration: the more shares the majority shareholder has, the more power he has in the company, the more likely he is to manipulate accounting information. The shortfall by the major shareholder leads to a decline in the company's performance, which in turn is detrimental to the company's stock and bond financing and affects the company's sustainable development. Therefore, there is a possibility of "surplus collusion" between the majority shareholders and the management, who use their information advantage to selectively disclose financial information that misleads the small and medium shareholders. The focus of Earnings Management changes from the proxy relationship between the board of directors and management to the proxy relationship between small and medium-sized investors and major shareholders. Excessive equity concentration leads to significantly higher accrual surplus manipulation, while the effect on true earnings management behavior is generally insignificant; therefore, reducing equity concentration can inhibit accrual earnings management behavior of listed companies to a certain extent.

4. Conclusion

Shareholding structure is the basis of corporate governance structure, while equity concentration is one of the most important aspects of shareholding structure. Concentrated shareholding structures are more common in Southeast Asian countries, where large shareholders are able to effectively influence the company's business decisions and also provide conditions for management and large shareholders to conspire in earnings management. In companies with concentrated equity, the majority shareholder may use its unique position to influence management to manipulate the company's surplus in accordance with the majority shareholder's wishes by cashing out through equity pledges and other means, thus infringing on the interests of other shareholders, whose self-interest will be constrained when control is controlled by several major shareholders.

However, similar to other debt financing methods, the value of shares directly determines how much money can be raised. The more concentrated the shareholding of a listed company is, the more shareholders can control all kinds of economic activities of the company, and the managers of the company will have more possibilities to carry out real earnings management to whitewash its

financial statements, manipulate its profits and cover up financial information unfavorable to it.

References

- [1]Sun Jingsi. Empirical Study on the Impact of Shareholding Structure on Earnings Management of Agricultural Listed Companies. Hubei Agricultural Science, 2020, 59(10): 173-177, 190.
- [2]Huang Youwei, Wang Jina. Shareholding Structure and Accrual and Real Earnings Management Behavior of Listed Companies. Taxation and Economy, 2021, (01): 98-106.
- [3]Xu Xinhua, Huang Xiaoyong, Wang Yihong. A study on the Correlation between Shareholding Structure and Real Earnings Management of Listed Companies. Finance and Accounting Newsletter, 2014, 09(second issue): 46-50.