

## Impact of Ownership Concentration on firm Risk and Value: A Comparative Study of USA and China

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### ABSTRACT

*This study examined the impact of ownership concentration on firm risk and firm value in two major global economies the USA and China using panel data from 191 firms in each country over the period 2000–2019, sourced from the Thomson Reuters Assets IV database. Employing the Generalized Method of Moments (GMM) through STATA software, the results revealed that ownership concentration has an insignificant impact on firm risk in the USA, while firm size significantly and positively influences it. In contrast, for China, ownership concentration and control variables such as firm size and leverage show significant negative effects on firm risk, whereas liquidity has a significant positive effect. The second model found that ownership concentration and all control variables positively and significantly affect firm value in both economies. Policy recommendations suggest periodic reviews of corporate governance to maintain optimal ownership structures, reduce agency costs, and enhance performance. Moreover, private firms, particularly in China, should be encouraged to adopt stronger governance practices to boost efficiency, firm value, and overall economic growth.*

**Keywords:** Firm risk, firm value, ownership concentration, firm size, liquidity and leverage

### INTRODUCTION

Ownership concentration is the occurrence of a high percentage of shares being owned by a few shareholders which are often institutional investors, families, the state, or foreign investors (Iwasaki and Mizobata, 2020). In the case where such shareholders have huge interests (5, 10, or 20 or more), they are referred to as block holders. The institutional investors tend to impact the corporate governance, corporate performance and corporate risk because they have high voting power and proxy voting, which is sensitive to performance (RA Johnson, Schnatterly, Johnson & Chiu, 2010). The risk-return profile of firms is also influenced by the level of institutional ownership (Altaf and Shah, 2018), since an increased institutional involvement may cause an increase in the level of aggressiveness in investment behaviour. Callen and Fang (2013) also established negative relationship between ownership of a stock by a public pension fund and the probability of the stock prices falling. Large equity investors want to obtain in-depth information regarding firm performance and risk (Nashier & Gupta, 2020). Concentrated ownership may have direct and indirect impacts on firms due to trading behavior (Guerrero-Villegas et al., 2018). It has been empirically demonstrated that ownership structures are commonly concentrated in most of the economies (Barca & Becht, 2001; Maury & Padjute, 2005), which leaves possible conflict between controlling and

minority shareholders (Jensen and Meckling, 1976; La Porta et al., 1997). Bebchuk (1999) asserts that owning benefits are greater in high-ownership concentration countries where founders in high-ownership countries have higher control following IPOs. The ownership structure is, in turn, an important factor in the firm value (Santulli et al., 2019), and although it can improve monitoring and governance, agency problems may arise (Young et al., 2008).

### **Ownership Concentration and Firm Risk**

The influence of ownership concentration on the risk of firms is in two directions. Major shareholders have the influence to check the managerial actions and affect the risk-taking behavior (Paligorova, 2010; F. Jiang and Kim, 2015). Concentrated ownership can be used as an external method of governance in countries where investors are not well-protected (La Porta et al., 2000; Asghar Butt et al., 2018). Nonetheless, disagreements might occur because large shareholders will choose to invest in low-risk projects, and minority shareholders might choose to invest in high-risk projects (Dhillon and Rossetto, 2015). Such conflicts can be offset by the existence of medium-sized shareholders (Santulli et al., 2019).

There is a particular tendency to believe that managers that have a shareholding in a company take conservative risk policies (Prendergast, 2002; Edmans and Gabaix, 2011), whereas others state that ownership concentration alleviates risk in firms because it results in superior monitoring (Saona, San Mart, and Jara, 2018). However incentive plans like the stock options can prompt too much risk taking. Therefore, it is necessary to have good governance to harmonize the managerial incentives and to maximize the behavior of risk-taking.

### **Objectives of the Study**

This study aims to investigate the role of ownership concentration in shaping the risk–return nexus of firms, focusing on how concentrated investors influence firm value and systematic risk. Specifically, the objectives are:

- I. To examine the impact of ownership concentration on firm value.
- II. To assess the effect of ownership concentration on firm systematic risk.
- III. To compare these effects between the USA and China.

### **Problem Statement**

According to the portfolio theory, diversification decreases risk at a certain level of return. Nevertheless, concentrated ownership may change the behavior of firms as well as their exposure to risks. Although certain studies (Di Virgilio et al., 2013) conclude that the concentrated ownership reduces risk in the presence of a stronger governance, others (Brickley, Lease, and Smith, 1988) have found out that the size of ownership moderates the relationship between performance and risk. In the literature, the results show a positive relation as well as a negative relation between ownership concentration, firm value, and risk. Besides, these relationships would be misleading due to firm size, leverage, liquidity, and profitability. In order to overcome the endogeneity potentiality and to have a strong estimation, this research will apply the Generalized Method of Moment (GMM), which is consistent and reliable.

### **Research Questions**

- I. Does ownership concentration affect firm value?
- II. Does ownership concentration affect firm systematic risk?
- III. Does ownership concentration jointly influence firm value and systematic risk?
- IV. Which country—USA or China—shows a stronger impact of ownership concentration on firm value and risk?

### **Research Hypotheses**

H1: Ownership concentration affects firm value.

H2: Ownership concentration affects firm systematic risk.

H3: Ownership concentration jointly affects firm value and systematic risk.

H4: The impact of ownership concentration on firm value and risk is more significant in China than in the USA.

### **Significance of the Study**

The paper adds to the existing discussion on the consequences of ownership concentration in terms of performance of firms and risk-taking. First, it sheds light on the risk and performance management of concentrated investors in their portfolios. Second, it focuses on the issue of whether concentrated ownership is actively correlated with firm governance and risk behavior. Third, it examines such dynamics in both financial and non-financial companies in various institutional settings. Lastly, the application of GMM estimation method as opposed to the previous researchers who used the OLS methodology makes this research robust in that it has been used to eliminate endogeneity bias thus providing more credible conclusions.

### **LITERATURE REVIEW**

The ownership structure is among the key pillars of corporate governance (Connelly et al., 2010). Concentrated ownership in which a small number of investors own a large portion of the company has attracted the tremendous interest of scholars because of its dual impact on company performance. Although the large shareholders are capable of delivering the monitoring effect and eliminating the agency problems between the managers and the owners (Shleifer and Vishny, 1997), they can also expropriate the minority shareholders to their own advantage (Burkart, Panunzi, and Shleifer, 2003). In this way, the concentration of ownership may either increase or weaken the performance of the firms depending on institutional and governance environments (Bennedsen et al., 2007; Claessens et al., 2002).

Empirical study has conflicting findings. Initial research had discovered that concentrated ownership reduces agency costs as well as aligning the interests of managers with those of shareholders (Demsetz, 1983; Agrawal and Mandelker, 1990). Conversely, others stated that the dominant shareholders might claim their personal control or they can do so by tunneling the resources of the minority shareholders (Johnson et al., 2000; Lemmon and Lins, 2003). Results in the developed economies, including Japan and UK, indicate that large shareholders tend to enhance monitoring and profitability (Kaplan and Minton, 1994; Leech and Leahy, 1991) and results in the emerging economies indicate risks of entrenchment and expropriation (Boubakri et al., 2005; Claessens and Fan, 2002).

Researchers have also investigated the non-linear effects, where moderate concentration is said to add value as they increase the quality of oversight, but too much control will prove to be detrimental to the performance of firms (De Miguel et al., 2004; Thomsen and Pedersen, 2000). By way of an example, Lehmann and Weigand (2000) found that there was a positive relation between ownership and performance in German companies to a certain point and then the returns dwindled. In the same way, the research at Spain and New Zealand has found out the quadratic relationships among insider ownership and firm value (Bhabra, 2007). The results favor both monitoring and expropriation hypotheses of the agency theory.

This relationship is additionally determined by the quality of law and institutional quality. External protection of investors is replaced by concentrated ownership in weak investor protection countries (La

Porta et al., 1998; Denis and McConnell, 2003). Nevertheless, in a setting where enforcement is effective, dispersed ownership may work well because market-oriented control may be relevant (Gillan, 2006; Fama and Jensen, 1983). Therefore, institutional environment has a conditional effect on the outcome of governance (Khanna and Palepu, 2000; Douma et al., 2006).

Both agency and legitimacy perspectives provide a complementary insight, theoretically. The specific areas of interest of the agency theory include monitoring and alignment of incentives (Jensen and Meckling, 1976), and the legitimacy theory focuses on societal demands and responsibility (Suchman, 1995; Kamal and Deegan, 2013). The concentrated ownership can therefore promote legitimacy through responsible governance, and undermine it in the case where the leading shareholders abuse their authority.

### **Corporate Governance, Ownership Concentration and Risk-Taking of Firm: A Critical Review**

The connection between the level of ownership concentration and the performance of the firm has been extensively studied in the form of regression analysis with profitability or Q of Tobin being dependent variables and characteristics of ownership being regressors. Nevertheless, there are other methodological approaches. Indicatively, Warner, Watts, and Wruck (1988) examined the placements in private equity to demonstrate that the sales of the shares in private markets enhance the ownership concentration and the value of a firm, which indicates positive relationship between concentrated ownership and performance.

### **Theoretical Perspectives on Ownership Concentration and Risk-Taking**

The agency theory presents two contradicting views that regard the risk-taking and the concentration of ownership. On the one hand, the limited-liability shareholders will be motivated to make higher risks since the upper limit of losses is restricted (Esty, 1997; Galai and Masulis, 1976). Increased ownership can, therefore, increase risk taking. Conversely, Burkart, Gromb, and Panunzi (1997) opine that the strong shareholders might over-monitor the managers, and might not be willing to pursue risky projects that have the potential of enhancing the value.

The boards of directors play significant roles in the reduction of the agency conflict and reshaping of company decisions. Good boards are important when external regulation does not exist to check the managerial activities (Hough, Jackson, and Bradford, 2013). The literature suggests that board size vehemently influences firm performance because the smaller the board size, the higher the chances of making fast and coherent decisions and the large boards are better at monitoring boards but weaken accountability (Coles, Daniel, and Naveen, 2008; Yermack, 1996; Harris, and Raviv, 2008). The United States, Japan, and New Zealand cases indicate that the larger the board, the lower the risk of the company (Giroud and Mueller, 2010; Nakana and Nguyen, 2012; Koerniadi, Krishnamurti, and Tourani-Rad, 2014a). Otherwise, this relationship is not transparent in the emerging economy where the governance structures are weak.

### **Ownership Concentration and Corporate Risk**

There is a split in the literature on whether big shareholders are agents of an interest convergence or property expropriation. The agency theory (Fama, 1980) suggests that managers are the agents, who tend to be risk-averse to maintain their reputations when the owners are the risk-takers as they aim to maximize their returns. Concentrated ownership may also decrease the costs of agency because it aligns the interests and increases control by the management (Paligorova, 2010). Big shareholders have the incentive and the resources to keep track of the management (Jiang and Kim, 2015). Also, ownership concentration is an outside mechanism of governance in the case of weak protection of investors (La Porta et al., 2000).

Nevertheless, the concentrated ownership can also promote the expropriation, when the controlling shareholders expropriate the resources against the minority shareholders (Filatotchev et al., 2013; Li, Lu, Mittoo, and Zhang, 2015). Majority shareholders might prefer conservative strategies in such settings to ensure that they have safe forms of private benefits thus, minimizing the risk-taking of the firm. This trade-off emphasizes the fact that the concentrated ownership may simultaneously serve to increase monitoring efficiency as well as deter entrepreneurial risk-taking, which is contingent on the institution quality and the level of investor protection.

### **Empirical Evidence on Ownership and Risk**

According to Rossetto and Stagliano (2016), companies that included more block holders showed more share price volatility, which is, therefore, indicative of taking more risks. But in the case of one large block holder, then risk-taking will go down because it will be more centralized. In the same manner, Shleifer and Vishny (1986) advanced the idea that block holders are formed in order to address the problems of free-riding but the excessive control may reduce agenda-setting of firms in case of high risk-aversion by dominant investors (Admati, Zechner, and Pfleiderer, 1994).

Diversification has a complementary role in determining firm risk. Lewellen (1971) contended that diversified cash flows lower the volatility and debt premiums of firms and they could afford to take risky projects that are productive. Large shareholders can also take advantage of the economies of scale among group firms through the common networks to effectively deal with increased risk exposures.

### **The Role of Shareholder Type**

Risk preferences depend on the kind of controlling shareholder. Family owners are usually less willing to take up risky ventures due the need to retain wealth across generations (A. Anderson and Gupta, 2009) whereas institutional investors and hedge funds tend to encourage riskier ventures with higher returns (Brav, Jiang, Partnoy and Thomas, 2008). Therefore, there is the importance of ownership identity: dispersed ownership undermines monitoring, but concentrated institutional or corporate ownership may increase the efficiency of oversight and risk management.

The global financial crisis in 2008 has revealed the instability of excessive risk-taking by companies with complicated ownerships structures. Therefore, the role of ownership concentration on corporate risk-taking has become even more significant. Most of the empirical studies are however still concentrated on the developed economies like the U.S. and Europe (Faccio, Marchica, and Mura, 2011), offering a gap in evidence in emerging economies.

### **Evidence from Emerging Economies**

Research in third world settings offers more information. A study of Thai listed companies (2006-2009), showed that increased ownership concentration has a significant mitigation effect on the risk-taking, which are quantified by stock-return volatility (Faccio et al., 2011). It was confirmed that there was an inverse relationship by robustness checks probing with other metrics such as the Q volatility of Tobin. In the same manner, Srairi (2013) discovered that concentrated ownership has negative impact on banking risks in MENA nations and Gursoy and Aydogan (2002) established same findings on Turkish companies. These results indicate that in un- and under-developed financial systems, concentrated ownership results into risk aversion because there is a lack of diversification opportunity and legal safeguards are low.

Further analysis of instrumental variables indicates that the ownership concentration of the past year is a negative predictor of future risk, which is causally applicable. Nonlinearity is however brought about by the quality of the governance; in poorly governed firms there is increased risk-taking with stronger



oversight whereas in well governed firms there is less excessive risk-taking with stronger oversight (Altonji, Elder, and Taber, 2005).

### **Corporate Governance, Ownership, and Risk Moderation**

Corporate governance and risk-taking do not have a monotonic relationship. As an example, efficient governance will lower the agency costs, but excessive controls will kill innovation. Anderson, Mansi and Reeb (2003) discovered that family-controlled firms take less risks because of wealth preservation. On the other hand, Amihud and Lev (1981) also found out that risky acquisitions are deterred by high managerial ownership and creates less variance in the values of firms. Recent research like that of John, Litov and Yeung (2008) did not find any reliable association between risk and ownership concentration with an emphasis on the contextual considerations.

Institutional effects are also emphasized through cross-country comparisons. Faccio et al. (2011) in Europe found that large block holders that are dispersed resulted in increased risk-taking in firms and concentrated ownership among the controlling families resulted in conservatism. These findings are contrary to findings in the U.S. and Asia, which show that the environment of governance and investor protection influence the dynamics of the ownership risk.

### **Managerial Incentives and Ownership Effects**

The ownership-risk nexus also is mediated by executive compensation. Research indicates that equitable compensation alters managers to take riskier and better-paying projects (Coles, Daniel, and Naveen, 2006; Guay, 1999; Su, Xie, and Wang, 2015). On the other hand, the effects of managerial ownership on firm risk can be tempered using external systems of governance like regulatory supervision or independent boards (Kim and Lu, 2013). In the post-SOX era of the U.S., excess risk-taking was diminished as a result of enhanced internal controls (Bergeron, Lehn, and Zutter, 2010; Cohen, Dey, and Lys, 2013).

Further, corporate decisions depend on board structure and ownership concentration. Strong boards are able to offset the influence of the dominant shareholders and match the risk-taking with the firm value, but not personal gain. Nonetheless, in circumstances where ownership and control are too closely interconnected, the monitoring role is compromised and this leads to entrenchment behavior which inhibits risk exposure.

### **Ownership Structure and Derivative Use**

Risk management behavior of firms is also influenced by the ownership concentration. Adkins (2007) discovered that the greater the institutional and managerial ownership in the U.S. banks, the higher the derivatives as a measure of financial risks. On the same note, Clark, Silva, Friend, and Spano (2007) and Al-Shboul and Alison (2009) indicated that institutional investors prefer using derivatives to reduce exposure to currency and interest rate risks but director ownership did not exhibit any significant effect. Nonetheless, Huyghebaert and Wang (2012) held that external block holders that have massive holdings tend not to hedge by using derivatives, but instead diversify their portfolio to other firms to decrease risk exposure.

### **Concentrated Ownership, Agency Costs, and Firm Value**

High levels of ownership concentration may lead to principal agency problems, where the majority shareholders steal the minority investors, which decreases the value of firms (Claessens et al., 2002; Baran and Forst, 2015). These types of conflict are especially relevant in the emerging economies where the law is not effectively enforced. Moderate concentration, on the contrary, could add value by enhancing control and aligning the behavior of a manager with the interests of shareholders.

Corporate risk-taking is also a relationship between ownership concentration and firm value. Companies that embrace calculated risks are likely to have increased long-term growth and innovation (John et al., 2008). Nonetheless, the managers might abandon high risk and positive-NPV projects because of agency issues, resulting in underinvestment. The best model of governance should therefore be one that balances between control and managerial independence in order to encourage risk taking that leads to increase in the firm value (Durnev, Morck, and Yeung, 2004).

### **Critical Synthesis**

In general, the literature has a two sided view concerning ownership concentration. In a monitoring perspective, the large shareholders would eliminate the opportunism among managers to improve the performance of a firm. However, too much concentration leads to risk aversion and entrenchment especially in areas of poor investor protection. How ownership structure interacts with corporate risk-taking is, consequently, dependent on the quality of governance, shareholder and institutional development.

In developed markets, concentrated ownership tends to moderate risk-taking through improved oversight. In contrast, in emerging economies, where diversification is limited and legal safeguards are weak, concentrated ownership often leads to conservative risk behavior. Future research should therefore explore non-linear and contextualized models of ownership-risk interaction, incorporating both institutional quality and governance mechanisms.

### **THEORETICAL AND ECONOMETRICS METHODOLOGY**

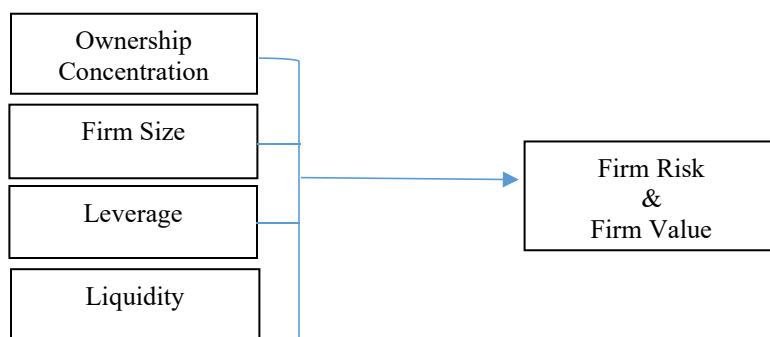
Conflicts of interest between shareholders and managers can be substantially reduced due to managerial control of ownership (Shleifer & Vishny, 1986). However, greater conflicts of interest may occur due to the control shareholding of large shareholders whose interests differ from those of the rest of the shareholders. (La Porta et al., 1997) Shareholders highly concentrated in a firm block their access to information, leading to a reduced level of information availability for all shareholders. When block holders have too much power over management, they will secure benefits at the expense of other investors and suppliers of capital (Bhojraj & Sengupta, 2003). Corporate governance enables the minority shareholders and the resolution of business conflicts between shareholders, as well as stakeholder relations. A healthy good governance normally defends investors and asset from managers facilitate both spontaneous deals and corporate asset theft (Dalton et al., 1999).

The challenge of corporate governance differs from the 'Principle-Agent' problem when ownership concentration is substantial. The traditional principal-agent problem (agency problem) may be mitigated by concentrated ownership arrangements since their huge equity holdings provide incentives for gathering information and monitoring governance. Centralized ownership is a instrument by which shareholders can guide managers by providing inaccurate information and influencing boards to protect their own interests to the detriment of others (Coffee Jr., 1991; La Porta et al., 2000). A major concern is the ability of leading / monitoring shareholders to act negligently to the detriment of minority shareholders, leading to the risk of eviction or conflict between major and majority and minority shareholders (Thomsen, 2006).

### **Conceptual Link to Model**

Many studies of the structure of the ownership begin with the hypothesis that large block supports will help solve the problem of free riders when it comes to monitoring a company management (Shleifer & Vishny, 1986). Given that a larger block holder is more exposed to firm risk, one would anticipate larger block holders to assume less risk (Admati et al., 1994). Additionally, (Himmelberg et al., 1999) put doubt the previous conclusion, arguing that a clear empirical relationship between ownership and profitability

could lead to insignificant heterogeneity within firms affecting the concentration of ownership and value of firms. As a result of calculating firm fixed effects, they discover no link between ownership concentration and company value. By considering affirmative discussion, there is a need to reconnoiter that relationship empirically.



The theoretical link between ownership structure, firm risk, and firm value is grounded in several corporate governance and agency models. In a frictionless market, firms with dispersed ownership aim to maximize net present value, but costly monitoring can make dispersed ownership inefficient, leading to the emergence of block holders who mitigate the free-rider problem and influence firm risk-taking (Shleifer & Vishny, 1986). Dhillon and Rossetto (2015) also suggest that large shareholders tend to have low-risk and low-return projects, and minority investors are interested in higher-risk and higher-return projects; middle-size block owners may balance the risk preferences. The risk-taking by firms is likely to reduce when a single block holder prevails and rise when there are many block holders as they provide greater competitive supervision and risk-taking incentives. Other models like Bennedsen and Wolfenzon (2000) and Zwiebel (1995) propose that the mid-sized block holders will have influence on the firm value in terms of monitoring or expropriation but not firm risk. Edmans and Manso (2011) also suggest that block holders equally sanction managers with checks and threats of exit but this relationship fails to provide an empirical picture between ownership structure, firm risk and firm value. Additionally, theories emphasizing managerial ownership posit that when managers hold equity, firms adopt more conservative investment strategies, whereas option-based compensation encourages risk-taking (Edmans & Gabaix, 2011; Prendergast, 2002). Based on these theoretical perspectives, the study tests whether ownership concentration affects (i) firm value, (ii) firm systematic risk, and (iii) both firm value and firm systematic risk.

### **Econometric Model**

The appropriateness of a model is governed by the type of the data. The panel data was examined using a deductive technique in this study. The generalized method of moments (GMMs) was used to estimate regression. For this study, GMMs were developed in the light of (Kripfganz, 2019) to address potential measurement issues in longitudinal or panel data. The data in this study was panel (they contained both time series and cross-sectional data) and confronted endogeneity, which justified the use of the GMM technique. Additionally, the bulk of explanatory factors in the accounting and finance literatures are not perfectly exogenous. As a result, the concept of endogeneity becomes relevant. Thus, in order to address the issue of endogeneity, the used of method general of moments (GMM) must be with a suitable instrument rank (M. M. Anwar & Akhtar, 2018). Furthermore, when discussing the linear model, we assume that the repressors are exogenous, which means that they are unrelated to or independent of the



error term. Frequently, there are reasons to believe that certain repressors are positively correlated with the error term.

Finally, we used a GMM model with first-rank instruments (also known as the first lag or difference of all variables) to account the possibility of endogeneity on the first lag of variables.

The general model of GMM with difference is as followed:

$$Y_{it} = \beta_0 + \sum_{j=1}^n \beta_j X_{jit} + \gamma_j + Y_{(it-1)} + \epsilon_{it} \text{---(I)}$$

For this research GMM-difference is as followed:

$$Firm Risk = \alpha + \beta_1 Firm Risk_{(it-1)} + \beta_2 OC + \beta_3 Size + \beta_4 Leverage + \beta_5 Liq_{it} + \epsilon_{it} \text{--- (II)}$$

$$Firm value = \alpha + \beta_1 Firm Value_{(it-1)} + \beta_2 OC + \beta_3 Size + \beta_4 Leverage + \beta_5 Liq_{it} + \epsilon_{it} \text{--- (III)}$$

| Variables Name              | Description                                                   | Measurement                                                                              |
|-----------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------|
| <b>Independent Variable</b> |                                                               |                                                                                          |
| Ownership Concentration     | Shareholdings held by top 5 Major shareholders                | The proportion of share owned by 5 largest shareholders.                                 |
| <b>Control Variables</b>    |                                                               |                                                                                          |
| Size                        | Firm size (F-SZ)                                              | Log of Firm Total Assets                                                                 |
| Leverage                    | Gearing Ratio                                                 | Total Debt/Total Equity                                                                  |
| Liquidity                   | Current Ratio                                                 | Current Assets/Current Liability                                                         |
| <b>Dependent Variables</b>  |                                                               |                                                                                          |
| Q-Ratio (Firm- Value)       | Tobin's Ratio: Use to measure the market performance of firms | MV of Equity+ Market Value of Liabilities/ Equity Book Value + Book Value of Liabilities |
| Firm Risk                   | Historical Beta                                               |                                                                                          |

$$\beta = \frac{COV_{im}}{\sigma_m^2}$$

### Data Source

The sample for this study utilizes the database of Thomson Reuters Asset-4, panel data was taken that provided valuation on the concerns and strength of several aspects of corporate social performance and gender diversity along with control variables of the United States of America (USA) & People Republic of China. Overall, 1,971 listed companies were taken among various economic sectors of the country resulting in 35,478 observations over the period from 2000 to 2019. The list of variables and their respective measurement is provided in the table below.

### Econometric Methodologies

Panel data modeling is more complex than it appears, and misconceptions often arise regarding the sufficiency of Fixed or Random Effects models for all panel data analyses. Many studies either apply these models mechanically or use poorly structured data without considering model suitability. As Park (2011) noted, an appropriate model choice depends on distinguishing between static and dynamic, long and short, balanced and unbalanced, and fixed and rotating panel data. These features, combined with

issues such as measurement errors, omitted variables, and simultaneity, collectively lead to endogeneity (Ullah et al., 2018). Endogeneity arises when explanatory variables are correlated with the error term, resulting in biased and inconsistent parameter estimates, incorrect inferences, and misleading conclusions (Ullah et al., 2018; Ketokivi & McIntosh, 2017). Research shows that 66–90% of published studies fail to address endogeneity adequately (Antonakis et al., 2010; Hamilton & Nickerson, 2003), leading to invalid causal claims despite advances in econometric methods (Reeb et al., 2012; Zaefarian et al., 2017). Because the error term in endogeneity bias is unobservable, it is statistically impossible to eliminate the problem completely (Roberts & Whited, 2012); thus, researchers should aim for better modeling strategies rather than perfect solutions (Ketokivi & McIntosh, 2017). To detect and address endogeneity, the Durbin–Wu–Hausman test is often applied, and if endogeneity is present, more advanced estimation techniques must be used. The Fixed Effects model helps control unobservable heterogeneity under a strict exogeneity assumption, which requires that explanatory variables are uncorrelated with past, present, or future error terms (Schultz et al., 2010; Wintoki et al., 2012).

### Generalized Method of Movement

This study has made use of the linear dynamic panel model (Arellano and Bond, 1991). The model includes the effects of unobserved panel-level which can be fixed or random. Based on the construction, it can be concluded that undetectable effects at the panel level are associated with lags (s) in the dependent variables, making another standard approach inappropriate (Arellano and Bond, 1991). Researchers Arellano and Bond (1991) compiled estimates of the general impulse method (GMM) that produced consistent estimates of the parameters used in such models. Unobserved firm-specific heterogeneity can be eliminated mainly by first differencing transformation (Kremer, 2013). This approach has been specifically designed for situations when cross-sections exceed the periods. (Arellano and Bond, 1991; Singh et al., 2014). The low level measure serves as another method. In this model, AR1 and AR2 can be used as serial correlations in the study, but they must be less than 0.5 (Arellano and Bover, 1995).

Consider the following regression equation:

$$y_{it} - y_{it-1} = (\alpha - 1)y_{it-1} + X_{it}\beta + n_{it} + y_t + \varepsilon_{it} \quad (4)$$

where y is the logarithm of the cost of financing, X is a descriptive variable other than the cost of isolated financing,  $\eta$  is the bank-specific unbalanced effect,  $\gamma$  is the time effect, the term is the error term and the indices are "i" and "t" banks and points, respectively. Equation (1.1) can be rewritten as follows:

$$y_{it} = \alpha y_{it-1} + X'_{it}\beta + n_i + y_t + \varepsilon_{it} \quad (5)$$

To eliminate bank-specific effects, let us first consider equation (1.2), broken down as follows:

$$\Delta y_{it} = \alpha \Delta y_{it-1} + \Delta X_{it}\beta + \Delta y_t + \Delta \varepsilon_{it} \quad (6)$$

The use of this tool is mandatory, on the one hand, due to the diversity of possible descriptive variables and, on the other hand, due to the difficulty of determining the most recent error terms.,  $\Delta \varepsilon_{it} = (\varepsilon_{it} - \varepsilon_{it-1})$ , that is connected with the lagged dependent variable,  $\Delta y_{it-1} = (y_{it-1} - y_{it-2})$ .

Assuming that (a) the error term  $\varepsilon$  is not used regularly and (b) the exogenous descriptive variable X is insufficient (i.e. the descriptive variable is considered orthogonal to achieve the error of the term), the GMM dynamic panel usage data estimates the following conditions pair:

$$E[y_{it-s}\Delta \varepsilon_{it}] = 0 \text{ for all } s \geq 2, t = 3, \dots, T \quad (7)$$

$$E[X_{it-s}\Delta \varepsilon_{it}] = 0 \text{ for all } s \geq 2, t = 3, \dots, T \quad (8)$$

Therefore, this instrument of differential equation is at least twice the descriptive variable. The GMM estimator depends on the torque conditions mentioned above and is called the differential estimator (or differential GMM).

## RESULTS AND DISCUSSION

### Descriptive Statistics

#### Country China

| Variable   | Obs  | Mean   | Std. Dev. | Min     | Max     |
|------------|------|--------|-----------|---------|---------|
| Ownership  | 3803 | 10.300 | 11.367    | -18.715 | 20.029  |
| Firm size  | 3793 | 11.583 | 11.219    | -18.715 | 21.449  |
| Leverage   | 3681 | 0.692  | 0.662     | -1.855  | 2.205   |
| Liquidity  | 3780 | 1.324  | 2.809     | -47.930 | 36.580  |
| Firm risk  | 3584 | 6.406  | 23.797    | -16.829 | 499.138 |
| Firm value | 3635 | 0.440  | 0.505     | -1.407  | 1.435   |

#### Country USA

| Variable   | Obs  | Mean   | Std. Dev. | Min     | Max      |
|------------|------|--------|-----------|---------|----------|
| Ownership  | 3741 | 11.674 | 8.850     | -16.636 | 18.553   |
| Firm size  | 3721 | 13.541 | 7.784     | -17.211 | 19.203   |
| Leverage   | 3436 | 0.727  | 0.669     | -1.662  | 1.968    |
| Liquidity  | 3741 | 12.939 | 152.587   | -40.790 | 3344.820 |
| Firm risk  | 3820 | 1.095  | 0.920     | -30.653 | 13.630   |
| Firm value | 3323 | 0.436  | 0.411     | -1.274  | 1.507    |

The table summarizes key descriptive statistics—mean, standard deviation, minimum, and maximum of the study variables. Ownership concentration, the main explanatory variable with 3,803 firm-level observations, has a mean of 10.3 and ranges from -18.715 to 20.029 percent. Similarly, descriptive measures for control variables, firm risk, and firm value provide an overall overview of the dataset used in both models.

### Pairwise correlations

#### Country USA

| Variables      | (1)    | (2)    | (3)    | (4)    | (5)   | (6)   |
|----------------|--------|--------|--------|--------|-------|-------|
| (1) Ownership  | 1.000  |        |        |        |       |       |
| (2) firm size  | 0.621* | 1.000  |        |        |       |       |
| (3) leverage   | 0.586* | 0.257* | 1.000  |        |       |       |
| (4) liquidity  | -      | -      | -0.001 | 1.000  |       |       |
|                | 0.087* | 0.190* |        |        |       |       |
| (5) firm risk  | 0.059* | 0.077* | 0.028  | -0.014 | 1.000 |       |
| (6) firm value | 0.584* | 0.357* | 0.455* | 0.008  | 0.023 | 1.000 |

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

**Country China**

| Variables      | (1)     | (2)    | (3)    | (4)    | (5)    | (6)   |
|----------------|---------|--------|--------|--------|--------|-------|
| (1) Ownership  | 1.000   |        |        |        |        |       |
| (2) firm size  | 0.782*  | 1.000  |        |        |        |       |
| (3) leverage   | 0.523*  | 0.473* | 1.000  |        |        |       |
| (4) liquidity  | -0.261* | 0.214* | 0.195* | 1.000  |        |       |
| (5) firm risk  | 0.237*  | 0.210* | 0.175* | 0.030  | 1.000  |       |
| (6) firm value | 0.566*  | 0.490* | 0.392* | 0.122* | 0.208* | 1.000 |

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

The correlation matrix is given in pair wise relationship between all the variables of the study and the correlation is both positive and negative. Ownership concentration shows a moderately and positively related correlation with firm size and leverage and low and negative with liquidity and risk, and moderate and positive with firm value. Correlation coefficients are all less than 0.9 which shows that there is no multicollinearity between the variables.

**GMM Analysis**

The general model of GMM with differences is as follows:

$$Y_{it} = \beta_0 + \sum_{j=1}^n \beta_j X_{jit} + \gamma_j + Y_{(it-1)} + \epsilon_{it} \text{-----}(I)$$

The GMM regression analysis of the U.S firms validates the strength of the model and the endogeneity issues. Results show that the influence of ownership concentration on firm risk is trivial yet positive, in which one unit increase in the ownership concentration increases the risk in a firm by 0.06. The size of the firms has a positive significant effect which means that a one unit increment in firm size raises firm risk by 0.20 percent.

**GMM, (USA) Dependent Variable Firm Risk**

| Variable     | Coef. | Std. Err. | P. Value |
|--------------|-------|-----------|----------|
| Firm risk L1 | 0.210 | 0.024     | 0.000    |
| Ownership    | 0.006 | 0.006     | 0.317    |
| Firm Size    | 0.020 | 0.006     | 0.002    |
| Leverage     | 0.008 | 0.067     | 0.897    |
| Liquidity    | 0.100 | 0.000     | 0.960    |

Leverage has an insignificant yet positive impact on the risk of firms with the result being that an increase in leverage by one unit increases risk by 0.08%. Equally, there is an insignificant positive influence of liquidity, which augments firm risk by 0.10 percent to a one-unit shift. These findings are in line with the past research conducted by Alessandri et al. (2018), Le et al. (2021), and Rajverma et al. (2019).

**GMM, (USA) Dependent Variable Firm Value**

| Variable      | Coef.  | Std. Err. | P. Value |
|---------------|--------|-----------|----------|
| Firm Value LI | 0.5420 | 0.0157    | 0.000    |
| Ownership     | 0.022  | 0.000     | 0.000    |
| Firm Size     | 0.003  | 0.000     | 0.000    |
| Leverage      | 0.094  | 0.010     | 0.000    |
| Liquidity     | 0.001  | 0.000     | 0.000    |

In the second model, the ownership concentration has a significant and positive effects within the firm value as the dependent variable, which means that a one unit increase in ownership concentration increases firm value by 22 per cent. The size of firms is also positively related with the size of firms giving rise to firm value of 0.03. Similarly, leverage has a positive impact of 9.4 on the value of firms, and liquidity has a positive impact of 0.10 on the value of firms. The results are in line with previous studies (Estiasih et al., 2019; Kong et al., 2020; Malelak et al., 2020).

In the case of China Model I, the GMM findings indicate that ownership concentration plays a major negative role on firm risk as it lowers the risk by 36. Equally, the firm size is a major factor cutting firm risk by 74%. The larger companies usually have more effective diversification in their investments and portfolios as compared to the smaller companies thus capable of reducing the nominal risk exposure in the market.

#### **GMM, (CHINA) Dependent Variable Firm Risk**

| Variable     | Coef.  | Std. Err. | P. Value |
|--------------|--------|-----------|----------|
| Firm risk L1 | -0.151 | 0.000     | 0.000    |
| Ownership    | -0.360 | .0004     | 0.000    |
| Firm Size    | -0.074 | 0.004     | 0.000    |
| Leverage     | -3.320 | 0.094     | 0.000    |
| Liquidity    | 0.559  | 0.008     | 0.000    |

Leverage shows a significant negative impact on firm risk, indicating that a one-unit increase in leverage reduces firm risk by 33%. In contrast, liquidity exhibits a significant positive effect, where a one-unit rise increases firm risk by 55%. These findings align with Ding and Suardi (2019), Wang et al. (2020), and Xie (2018). In the second model for China, ownership consideration and firm size both have significant positive effects on firm value, increasing it by 10% and 0.05%, respectively.

#### **GMM, (CHINA) Dependent Variable Firm Value**

| Variable      | Coef. | Std. Err. | P. Value |
|---------------|-------|-----------|----------|
| Firm Value LI | 0.849 | 0.033     | 0.000    |
| Ownership     | 0.010 | 0.004     | 0.016    |
| Firm Size     | 0.005 | 0.003     | 0.079    |
| Leverage      | 0.059 | 0.067     | 0.382    |
| Liquidity     | 0.004 | 0.002     | 0.000    |

Leverage and liquidity both have significant positive effects on firm value, increasing it by 5.9% and 0.04%, respectively. These results are consistent with the findings of Musallam (2020), Varghese and Sasidharan (2020), and Wang (2018).

#### **A Comparative Analysis with Firm Risk**

This study also examines the impact of ownership concentration on firm risk in two big economies of world which includes USA and China. The given below table describes the comparative results of USA and China with GMM analysis



**Comparative Results of USA & CHINA Model 1-Dependent Variable is Firm Risk**

| Country       | USA               | CHINA              |
|---------------|-------------------|--------------------|
| Methodology   | GMM               | GMM                |
| Firm Risk L1  | 0.210*<br>(0.024) | -0.151*<br>(0.000) |
| Ownership     | 0.006<br>(0.006)  | -0.360*<br>(.0004) |
| Concentration |                   |                    |
| Firm Size     | 0.020*<br>(0.006) | -0.074*<br>(0.004) |
| Leverage      | 0.008<br>(0.067)  | -3.320*<br>(0.094) |
| Liquidity     | 0.001<br>(0.001)  | 0.559*<br>(0.008)  |

\*, \*\* describes significant at 5% and 10%, while standard errors are in parenthesis

The comparative results reveal contrasting patterns between the USA and China. Ownership concentration, firm size, and leverage show opposite effects on firm risk across both countries positive in one and negative in the other. However, liquidity exhibits a consistently positive and significant impact on firm risk in both economies.

|                         |                   |                    |
|-------------------------|-------------------|--------------------|
| Firm Value              | 0.542*<br>(0.015) | 0.849*<br>(0.033)  |
| Ownership concentration | 0.030*<br>(0.001) | 0.010*<br>(0.004)  |
| Firm Size               | 0.007*<br>(0.001) | 0.005**<br>(0.003) |
| Leverage                | 0.063*<br>(0.014) | 0.059<br>(0.067)   |
| Liquidity               | 0.003*<br>(0.000) | 0.004*<br>(0.002)  |

\*, \*\* describes significant at 5% and 10%, while standard errors are in parenthesis

The comparative results show consistent patterns for both countries. Ownership concentration, firm size, leverage, and liquidity all have significant and positive effects on firm value in the USA and China. These findings suggest that stronger ownership structure and financial strength enhance firm value across both markets.

## DISCUSSION

According to the theory of foreclosure, the concentration of production is negatively correlated with its ownership, on the contrary, the theory of supervision argues that; the concentrated ownership leads to improved performance by firms due to effective supervision and alignment of interest between the majority and minority owners (Demsetz, 1983; Brennan and Li, 2008). Some studies have shown mixed results some of which suggest positive performance effect of ownership concentration (Lehmann and Weigand, 2000; W. Anwar and Tabassum, 2011), but others report negative or non-linear relationships (Thomsen and Pedersen, 2000; Leech and Leahy, 1991). The data provided in different countries show that the effects of ownership concentration are different in different contexts and it depends on institutional and protection environment of investors (Boubakri et al., 2005; De Miguel et al., 2004).

The Chinese ownership structure and governance relations are quite different compared to the developed economies such as the USA. The chairperson frequently assumes the role of a manager and an administrative one, where the government is very active in making decisions in firms (Jiang and Kim, 2015, p. 20; Kang et al., 2008). The management behavior is also determined by cultural factors, including collectivism and risk aversion (Hofstede et al., 2010; Kai Li et al., 2013). Governance reforms and the 2005 restructuring of the share of the Chinese firms usually enhanced the value of the firms and the effectiveness of the firm boards, especially with privately owned firms (Beltratti and Bortolotti, 2006; Conyon and He, 2011). These reforms increased good governance practices, ownership concentration, and improved market performance because it enhanced protection of minority shareholders.

## CONCLUSION

This study explored the impact of ownership concentration on firm risk and firm value in the USA and China two major global economies with distinct corporate governance systems. The findings revealed that in the USA, ownership concentration has an insignificant effect on firm risk, while firm size significantly increases risk. Conversely, in China, ownership concentration and control variables such as firm size, liquidity, and leverage play a crucial role in determining business risk. The results further indicate that ownership concentration positively influences firm value in both economies, though cultural and governance differences affect the intensity of this relationship. Given these findings, it is recommended that both countries regularly review industrial performance to identify and mitigate risks, periodically assess governance policies to maintain optimal ownership structures, and encourage private firms especially in China to adopt stronger governance practices to enhance efficiency, reduce agency costs, and ultimately strengthen firm value and economic growth.

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