

# The Exit Threat of Non-controlling Major Shareholders and Corporate Financial Risk

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**Abstract.** Corporate governance plays a crucial part in corporate financial risk but the traditional means of corporate governance are limited. The means of corporate governance based on the exit threat of non-controlling major shareholders have been paid more and more attention. Based on this, this paper selects the China's A-share non-financial listed corporates from 2011 to 2021 as samples to explore the relationship between the exit threat of non-controlling major shareholders and corporate financial risk. It is found that exit threat can lower the financial risk of corporates; the reduction effect is more significantly for large scale and state-owned companies; high ownership concentration and high return on assets can strengthen the reduction effect of the exit threat on financial risk. This paper confirms the governance role of exit threat, and provides a new way to reduce financial risk for companies.

**Keywords:** Exit Threat, Financial Risk, Corporate Governance.

## 1. Introduction

In the current new economic environment, the competition among various industries is becoming increasingly fierce, and the problem of enterprise financial risk management is becoming increasingly prominent. If the financial risks are concentrated to a certain extent, enterprises will be in financial difficulties, even face bankruptcy and reorganization. The existing literature shows that the weakening of corporate governance is an important cause of corporate financial crisis, and corporate governance is related to controlling shareholders and management. Therefore, how to restrict the behavior of management and shareholders to strengthen corporate governance to lower corporate financial risk is an important issue.

The non-controlling shareholders has always been a hot issue as an important corporate governance mechanism. Previous studies have found that the non-controlling major shareholders can influence the controlling shareholders and management behavior through "voting by hand" (Zhu Jigao et al., 2015<sup>[1]</sup>), but also through "voting with the mouth", that is, the threat of exit to influence decision-making (Dou, 2018<sup>[2]</sup>). Particularly, with the increase of the domestic capital market, the liquidity of stocks has been boosted (Xie Lixu et al., 2018<sup>[3]</sup>) and the exit environment of non-controlling shareholders has been further improved, which allows the exit threat exert an effect on corporate governance by affecting controlling shareholders and management behavior. However, most of the relevant studies on the exit threat are about how the exit threat plays a governance role (Chen Kejing, 2018<sup>[4]</sup>; Yu Nutao et al., 2021<sup>[5]</sup>), and there is no consensus on whether corporate governance promotes or inhibits (Bharath et al. 2013<sup>[6]</sup>; Tang Yuejun and Song yuanyang, 2010<sup>[7]</sup>), the ultimate corporate governance effect of the exit threat of non-controlling shareholders is rarely examined separately.

Based on the above analysis, this paper will analyze whether non-controlling shareholders reduce the financial risk of enterprises by playing a governance role, or by conspiring with controlling shareholders and management to increase the financial risk. This paper selects China's A-share non-

financial listed corporates from 2011 to 2021 as samples. Results show that, the exit threat of non-controlling major shareholders significantly lowers the corporate financial risk, especially for large-scale and state-owned enterprises. In addition, this paper finds that different characteristics of non-controlling shareholders have different effects on the exit threat: the corporates with high ownership concentration and high return on assets, the exit threat plays a greater role in reducing corporate financial risk.

The possible marginal contributions of this paper are as follows: First, it enriches the research on the effects of exit threat on corporate governance. Most of the existing studies on exit threat are related to the governance mechanism of enterprises, but less attention has been paid to the relationship between exit threat and financial risk. Second, it enriches the research on the factors affecting financial risk. Existing research on corporate financial risk mostly focuses on external factors, such as the diversified development of the Internet (Li Yi, 2022<sup>[8]</sup>) and Digital Financialization (Liu Xinghua, 2022<sup>[9]</sup>) From the perspective of internal factors and exit threat of non-controlling shareholders, this paper supplements the relationship between non-controlling shareholders governance and corporate financial risk. Thirdly, it provides theoretical support for the reduction of enterprise financial risk.

## 2. Literature review and research hypothesis

### 2.1. Literature review

Based on the impact of non-controlling majority shareholder exit threat on corporate governance, Li Zhuangzhuang and Li Qiang<sup>[10]</sup> used a sample of A-share listed companies in China from 2010 to 2017 to empirically test the role of non-controlling majority shareholder exit threat on corporate innovation: non-controlling majority shareholder exit threat can promote corporate innovation, and this positive effect is more significant when the sample companies are state-owned, with fragmented shareholdings and a high degree of marketization. The positive effect is more pronounced when the sample firms are state-owned, have a diversified shareholding and are more market-oriented. Wang Jing et al.<sup>[11]</sup> found that the threat of non-controlling majority shareholder exit can improve the quality of corporate environmental information disclosure.

According to the classification of the corporate governance role of large shareholders, Gao Yan et al.<sup>[12]</sup>, starting from examining the relationship between the exit threat of non-controlling large shareholders, information transparency and the cost of equity capital, found that information transparency plays a mediating role between the exit threat of non-controlling large shareholders and the cost of capital through path analysis. Chen Peiyou, Yang Beibei and Gao Taiguang<sup>[13]</sup>, starting from the micro-level of non-controlling majority shareholders' participation in corporate governance, found that the threat of non-controlling majority shareholders' exit can effectively inhibit the stickiness of executive compensation.

Based on the above literature on the exit threat of non-controlling majority shareholders, it can be found that most of the literature starts from studying the role of the exit threat of non-controlling majority shareholders on corporate governance, and there is little literature on the impact of non-controlling majority shareholders on corporate financial risk from the perspective of corporate financial risk, therefore the focus of this paper will be on the relationship between these two.

### 2.2. Research hypothesis

The governance of major shareholders has always been the focus of academic circles when studying corporate governance, and it is also a link that cannot be ignored in the internal governance mechanism of enterprises. According to Chen Peiyou, Yang Beibei and Gao Taiguang's study on the exit threat of non-controlling major shareholders and the stickiness of executive compensation, it can be concluded that when non-controlling major shareholders notice the stickiness of executive compensation, by releasing exit signals to the market and causing negative reading by uninformed investors, the possible stock price decline will not be conducive to the maximization of the interests

of the controlling shareholders with the most shares. It is also not conducive to obtaining interests through collusion between controlling shareholders and managers<sup>[xiii]</sup>. Internal conflicts between controlling shareholders and managers are not conducive to better financing, financing, capital operation and income distribution of enterprises, and the profitability of enterprises will decrease and thus enhance the financial risk of enterprises. Due to the conflict between the non-controlling major shareholders and the management of the enterprise, the power cannot be concentrated, and the debt structure of the enterprise will also be impressed by the financial risk of the enterprise. As an important working capital, cash is crucial to the operation and investment activities of enterprises, and some scholars have studied that the withdrawal threat of major shareholders will increase the cash holding level<sup>[14]</sup>. The higher this value is, the stronger the ability of the current assets of the firm to be immediately realized and used to repay the current liabilities will be, and the proportion of quick assets will increase accordingly. To a certain extent, the quick ratio can reflect the financial risk of the enterprise. Based on the above analysis, this paper proposes the following hypothesis:

H1: the exit threat of non-controlling major shareholders is positively correlated with the financial risk of enterprises.

Generally speaking, the financial risk of an enterprise refers to the unstable stage of the financial situation of an enterprise due to some uncontrollable factors in its various financial activities. In Li Xiaodong's research, there are many reasons that affect the financial risk of enterprises, among which one of the main reasons is the decision-making level of enterprises<sup>[15]</sup>. The decision-making level exists between the shareholders and the management of the enterprise. Therefore, in today's diversified management environment, the withdrawal threat of non-controlling major shareholders can alleviate the agency problem between shareholders and management, change the cognition of corporate decision-making bodies, and then affect management decisions to achieve corporate governance. Therefore, the withdrawal threat of non-controlling major shareholders is conducive to the scientific and fair decision-making of enterprises, thus reducing the financial risks of enterprises. Based on the above analysis, this paper proposes the following hypothesis:

H2: the exit threat of non-controlling major shareholders is negatively correlated with the financial risk of enterprises.

### 3. Study design

#### 3.1. Sample selection and data sources

This paper selects Chinese non-financial listed companies from 2011 to 2021 as the initial sample, and eliminates data missing, ST and \* ST, and related data anomalies (such as asset-liability ratio greater than 1), finally obtains 3525 companies, with a cumulative 25089 of valid observation samples. The data in this study are mainly from the CSMAR database. The samples are treated as follows: to reduce the impact of extreme values, all continuous variables are treated with 1% and 99% tail reduction.

#### 3.2. Definition of variables

##### (1) Explained variable

Enterprise financial risk. Referring to Xu Wei<sup>[16]</sup>, this paper chooses quick ratio as explanatory variable. Quick ratio is the ratio of quick assets to current liabilities of an enterprise, reflecting the short-term solvency. It is often used to measure the financial risk of an enterprise. The greater the quick ratio is, the lower the financial risk of the enterprise is. In addition, considering that the impact of the exit threat of non-controlling shareholders on the financial risk of enterprises may have a lag effect, this paper treats the explanatory variables and control variables with a lag of one period.

##### (2) Explanatory variable

Non-controlling shareholder exit threat (NET): Dou<sup>[17]</sup> et al. hold that the exit threat is seriously influenced by the liquidity of shares and the intensities of competition within major shareholders, and they use the cross-product of the two factors as a proxy variable for the exit threat. The better the

liquidity of the shares and the more competitive, the exit threat of enterprises is more obvious. Therefore, this paper refers to the means of Dou et al., and uses the product of liquidity of shares and the intensities of competition among large shareholders as a proxy variable for the threat of non-controlling large shareholders' exit.

Stock liquidity SL: Drawing on the ideas of Dou et al., this paper apply the average daily turnover rate of circulating stocks to measure liquidity. When the liquidity of the company's stock is high, the non-controlling shareholders is more likely to exit, so the liquidity of the stock will magnify the threat of non-controlling shareholders to exit.

The degree of competition of large shareholders BHC: To figure out the exit threat of non-controlling large shareholders, this paper improve the means of Dou et al. here.

The specific measurement model is as follows:

$$BHC_{it} = \sum_{k=1}^N \left( \frac{NCLS_{k,i,t}}{SSBH_{i,t}} \right)^2 \tag{1}$$

Where,  $BHC_{it}$  is the level of competition of the non-controlling large shareholder of the  $i$ th enterprise in the year  $t$ ,  $NCLS_{k,i,t}$  is the shareholding proportion of the  $k$ th non-controlling major shareholder of the enterprise in the year  $t$ , and  $SSBH_{i,t}$  is the sum of shareholding proportions of all major shareholders of the enterprise in the year  $T$ . The shareholding proportion here refers to the proportion of holding tradable shares. Therefore, the larger it is  $BHC_{it}$ , the fiercer the competition is. Finally, the econometric model of the exit threat is constructed below:

$$NET_{it} = Liquidity_{it} \times BHC_{it} \tag{2}$$

(3) Control variable

Learn from Tan Xiaoyu<sup>[18]</sup>, this paper controls the following factors: Firm size (Size) refers to the natural logarithm of total assets at the end of the period; Leverage (Lev) refers to the ratio of total liabilities to total assets at the end of the period; Return on assets (ROA) refers to the ratio of net profit to total assets; Growth refers to the growth rate of operating income; Share refers to the shareholding ratio of the largest shareholder; CFO refers to the ratio of net cash flow generated by business activities to total assets at the end of the period; AS refers to the ratio of current assets to total assets at the end of the period; Property right (State) refers that the state-owned company is 1, non-state-owned company is 0; Board size (Board) refers to the number of the board of directors is natural logarithm; Chairman part-time situation (Both) refers that the chairman concurrently general manager is 1 or it is 0. The variables are defined in Table 1.

**Table 1.** Definition and description of variables

Variable Type	Variable Name	Variable Symbol	Variable Definition
Explained variable	Quick ratio	Quick	Quick assets/current liabilities
Explanatory variable	Exit threat of non controlling major shareholders	NET	Liquidity*BHC
	Enterprise scale	Size	The natural logarithm of total assets at the end of the period
	Leverage	Lev	Total liabilities at the end of the period/total assets at the end of the period
	Return on assets	ROA	Net profit/total assets at the end of the period
Control variable	Enterprise growth	Growth	(T period operating income - (T-1) period operating income)/(T-1) period operating income
	Equity concentration	Share	Shareholding ratio of the largest shareholder
	Proportion of cash flow	CFO	Cash flow from operating activities/total assets at the end of the period
	Enterprise capital structure	AS	Current assets/total assets

Nature of property right	State	1 for state-owned companies and 0 for non-state-owned companies
Board size	Board	The natural logarithm of the total number of directors
Directors' part-time jobs	Both	Chairman concurrently as general manager is 1, otherwise it is 0
year	Year	Year dummy variable
industry	Ind	Industry dummy variable

### 3.3. Model design

To test the relationship between the exit threat of non controlling major shareholders and financial risk, this paper constructs the following model:

$$\text{Quick}_{i,t} = \alpha_0 + \alpha_1 \text{NET}_{i,t-1} + \alpha_2 \text{Controls}_{i,t-1} + \text{Year} + \text{Ind} + \varepsilon \tag{3}$$

Where,  $\text{Quick}_{i,t}$  is the financial risk of company  $i$  in year  $t$ ;  $\text{NET}_{i,t-1}$  is the exit threat of non-controlling major shareholders of company  $i$  in year  $T-1$ . According to the assumption, the expected coefficient is significantly positive.

## 4. Empirical Results and Robustness Test

### 4.1. Descriptive Statistics

The descriptive statistical results of the main variables are listed in Table 2. It can be seen from Table 2 that the average value of the enterprise's financial risk  $Q$  is 1.770, the maximum value is 12.190, and the minimum value is 0.183. This indicates that the financial risks of enterprises vary greatly and are greatly affected by the corresponding variables. The average value of the exit threat of non-controlling major shareholders (NET) is 0.0030, the minimum value is 0, and the maximum value is 0.0140, which indicates that the equity of listed companies in China is still relatively concentrated, and the exit threat of different enterprises is different. The statistical results of Chen Kejing<sup>[iv]</sup> are similar.

**Table 2.** Descriptive statistical results

Variable	N	Mean	SD	Min	p50	Max
Quick	25089	1.770	1.911	0.183	1.170	12.190
NET	25089	0.002	0.003	0	0.001	0.014
Size	25089	22.200	1.289	19.870	22.020	26.180
Lev	25089	0.426	0.204	0.054	0.420	0.868
ROA	25089	0.041	0.053	-0.177	0.037	0.197
Growth	25089	0.421	1.149	-0.662	0.140	8.483
Share	25089	35.240	14.750	9.890	33.260	74.860
CFO	25089	0.048	0.069	-0.155	0.047	0.239
AS	25089	0.568	0.204	0.095	0.584	0.955
State	25089	0.386	0.487	0	0	1
Board	25089	2.134	0.199	1.099	2.197	2.890
Both	25089	0.732	0.443	0	1	1

### 4.2. Correlation analysis

The results of Pearson correlation coefficients for the main variables are shown in Table 3. The results show that there is a significant positive correlation between the financial risk substitute variable (Quick) and the exit threat (NET) at the 1% level. The absolute value of the correlation coefficient between the control variables is basically less than 0.5, which indicates that the correlation between the selected variables is weak.

**Table 3.** Correlation analysis of main variables

Variable	Quick	NET	Size	Lev	ROA	Growth	Share	CFO	AS	State	Board	Both
Quick	1											
NET	0.179***	1										
Size	-0.428***	0.242***	1									
Lev	0.749***	0.181***	0.522***	1								
ROA	0.385***	0.075***	0.091***	0.412***	1							
Growth	0.023***	0.020***	0.014**	0.042***	0.021***	1						
Share	0.056***	0.447***	0.172***	0.060***	0.106***	-0.027***	1					
CFO	0.108***	-0.010	0.053***	0.159***	0.416***	-0.144***	0.094***	1				
AS	0.322***	0.081***	0.172***	0.061***	0.137***	0.204***	0.015**	0.186***	1			
State	0.274***	0.305***	0.347***	0.299***	0.166***	-0.012*	0.207***	-0.010	0.157***	1		
Board	0.140***	0.058***	0.238***	0.146***	0.019***	-0.044***	0.014**	0.037***	0.109***	0.278***	1	
Both	0.128***	0.124***	0.182***	0.136***	0.067***	-0.011*	0.048***	0.008	0.091***	0.304***	0.194***	1

Note: \*\*\*, \*\* and \* mean significant at 1%, 5% and 10% levels respectively, the same below.

### 4.3. Baseline regression analysis

**Table 4.** Baseline regression results

	(1) Quick	(2) Quick	(3) Quick
NET	13.485** (2.477)	15.753*** (3.774)	
X2			0.057** (2.453)
Size	-0.010 (-0.472)	0.030 (1.590)	-0.016 (-1.139)
Lev	-4.241*** (-32.549)	-3.516*** (-44.295)	-4.235*** (-59.934)
ROA	-0.691*** (-2.584)	-0.598*** (-3.202)	-0.674*** (-3.732)
Growth	-0.008 (-0.813)	-0.011 (-1.472)	-0.008 (-1.147)
Share	0.003** (2.256)	0.005*** (3.894)	0.002** (2.497)
CFO	0.917*** (5.799)	0.868*** (6.670)	0.918*** (7.227)
AS	3.009*** (23.188)	3.067*** (39.554)	3.022*** (44.240)
State	-0.066 (-1.344)	-0.068 (-1.192)	-0.066* (-1.755)
Board	0.001 (0.007)	0.077 (1.079)	-0.004 (-0.067)
Both	-0.038 (-1.268)	-0.043* (-1.682)	-0.038* (-1.664)
Constant	2.177*** (3.376)	0.588 (1.392)	2.327*** (5.961)
Observations	25,089	25,089	25,089
Number of code	3,525	3,525	3,525
r2	0.196	0.189	0.195
Company	NO	YES	NO
Year	YES	YES	YES
Industry	YES	NO	YES

Table 4, column (1) presents the results of the benchmark regression. The regression results of the model show that the coefficient between the threat of exit of non-controlling majority shareholder (NET) and the financial risk variable (Quick) within the firm is 13.485 and is significantly positive at the 5% level. Therefore, there is a linear relationship between the exit threat of non-controlling

major shareholders and the financial risk of the firm, and the hypothesis that the greater the threat of exit of non-controlling majority shareholders, the lower the financial risk of the firm holds true.

#### **4.4. Robustness test**

##### **4.4.1 Individual fixed effects**

Taking into account the possible endogeneity problems caused by unobservable individual differences, the model was re-run to control for individual fixed effects and the regression results are presented in column (2) of Table 4. The regression coefficient is 5.753 and confidence level is 1% , consistent with the previous section.

##### **4.4.2 Replacement of explanatory variable NET**

Referring to a similar study by Jiang Fuxiu et al<sup>[19]</sup>, this paper uses if the firm has completed the shareholding reform as the proxy variable X2 for the exit threat of non-controlling majority shareholders, with NET being 1 when the firm has completed the shareholding reform and has non-controlling majority shareholders, and 0 otherwise. the degree of exit threat of the sample is recalculated. After the above treatment, the regression results are presented in column (3) of Table 4, with a regression coefficient of 0.0567 and significant at the 5% level, still in line with the previous section.

### **5. Further analysis**

#### **5.1. Exit threats and corporate financial risk: analysis of the nature of ownership and firm size**

Grouped regressions are conducted based on the nature of property rights. Compared to non-SOEs, SOEs not only have access to government funding, but also have higher credit ratings and relatively preferential access to scarce resources due to the specificity of their property rights attributes<sup>[3]</sup>. As a result, SOEs have a weaker incentive to manage liquidity through financialized behavior, and for SOEs, the exit threat of non-controlling major shareholders has little impact on corporate financial risk. In contrast, the overall shareholding of major shareholders is higher in non-state enterprises, which in many cases face greater influence from non-controlling major shareholders. This paper divides the samples into two groups based on the nature of property rights and the regression analysis is presented in columns (1) and (2) of Table 5. It is found that there is a positive correlation between the exit threat and corporate financial risk substitute variable. For non-state-owned enterprises, they are more significantly influenced by the exit threat of non-controlling majority shareholders, while for state-owned enterprises the relationship does not show a significant effect. Because non-state-owned enterprises, with less centralized management, are subject to the effect of non-controlling major shareholders in their management decisions, the threat of non-controlling major shareholders choosing to exit can reduce the impact of self-interest behavior of non-state-owned controlling shareholders using their control and information advantage, thus reducing corporate financial risk, so the heterogeneity analysis of the two grouped regressions is significant.

Grouped regressions are conducted based on firm size. According to the analysis of Yan Gao and Quan Xie et al<sup>[14]</sup>, for non-controlling major shareholders, low management shareholding plays a positive moderating role between exit threat and the cost of equity capital, and the higher the management shareholding is, the stronger the governance effect of exit threat is. To test the effect of the exit threat of non-controlling major shareholders of different sizes on corporate financial risk, this paper groups the regression according to the median of firm size, and the results are shown in columns (3) and (4) of Table 5. According to regression results, the correlation coefficient of Quick and NET is significant at the 5% level in the large-scale sample. In comparison, coefficient results for large-scale firms are more significant, indicating that the exit threat of non-controlling major shareholders has more influence on the financial risk of large-scale firms than that small-scale firms. Large-scale enterprises have many managers, the exit threat can play a role in reducing the absolute control and

absolute power, curb management's self-interest motives, make more accurate investment decisions, and lower corporate financial risk. In contrast, small-scale enterprises with the small size, managers are more likely to take control of the company, management is not easily dispersed, often a higher proportion of management shareholding, non-controlling majority shareholder status is not very prominent, therefore, large-scale enterprises are subject to a higher degree of non-controlling majority shareholder exit threat, which is associated with financial risk before is showing a significant effect.

**Table 5.** The role of exit threat on financial risk: the impact of the nature of ownership and firm size

variable	(1)	(2)	(3)	(4)
	State-owned enterprises	Non-State-owned enterprises	Large-scale enterprises	Small-scale enterprises
<b>Quick</b>				
NET	0.943 (0.155)	13.614*** (2.925)	7.650** (1.988)	4.638 (0.842)
Size	-0.000 (-0.033)	-0.044** (-2.511)	-0.006 (-0.493)	-0.252*** (-7.339)
Lev	-3.284*** (-39.584)	-4.860*** (-50.307)	-2.702*** (-43.438)	-5.378*** (-47.210)
ROA	-0.454* (-1.931)	-0.487** (-2.016)	0.125 (0.800)	-0.494* (-1.689)
Growth	-0.011 (-1.464)	-0.006 (-0.518)	-0.014*** (-2.721)	-0.003 (-0.182)
Share	-0.000 (-0.100)	0.004*** (2.849)	0.001 (0.868)	0.001 (0.321)
CFO	0.617*** (4.371)	1.130*** (6.185)	0.761*** (7.756)	1.257*** (5.676)
AS	1.809*** (23.116)	3.196*** (34.773)	1.317*** (23.198)	3.427*** (30.780)
Both	-0.007 (-0.206)	-0.049 (-1.620)	0.007 (0.384)	-0.036 (-0.929)
Board	-0.089 (-1.284)	0.157* (1.800)	-0.034 (-0.708)	0.134 (1.279)
Constant	2.246*** (6.657)	2.464*** (5.779)	2.053*** (7.187)	7.074*** (9.210)
Observations	9,684	15,405	12,591	12,498
Number of code	1,361	2,164	1,769	1,756
r2	0.148	0.193	0.121	0.184
Company	NO	NO	NO	NO
Year	YES	YES	YES	YES
Industry	YES	YES	YES	YES

## 5.2. Exit threats and corporate financial risk: a test of the shareholding ratio of the first largest shareholder and return on assets

Exit threat discusses the effect of a threat of exit by a non-controlling majority shareholder to induce controlling shareholders to discipline management behavior, so the circumstances under which controlling shareholders are more likely to believe exit threat is an important aspect of studying the impact of exit threat. In contrast, shareholders with high controlling shareholdings and greater sensitivity to changes in share price are more susceptible to exit threats than those with smaller shareholdings. It is found that the effect of exit threat on financial risk reduction will be stronger when the shareholding ratio is higher. To verify whether exit threat is more effective, this paper refers to the study by Jiang Fuxiu<sup>[6]</sup> and chooses the shareholding ratio of the first largest shareholder as heterogeneity analysis variable. Column (1) in Table 6 shows the regression results of the shareholding ratio of the first largest shareholder (Share). It is found that the regression coefficient of the test variable NET×Share is obviously positive at the 1% level. The higher shares the controlling shareholders have, the greater the effect of the exit threat on risk reduction.

Non-controlling shareholders reduce financial risk through the threat of exit primarily by disciplining management behavior, as management's interests are directly related to corporate operating performance and corporate performance directly reflects management decision-making behavior. The most direct and feasible way to incentive executives to implement management activities from the perspective of maximizing corporate value is to link executive interests to corporate performance. As a result, management will discipline their own behavior for higher equity, thus reducing financial risk. To test the effect of corporate governance on the exit threat of risk reduction, the return on assets (ROA) was chosen for this paper with reference to the research method of Jiang Fuxiu<sup>[6]</sup>. Column (2) in Table 6 shows the regression results of return on assets. It is found that the regression coefficient of the test variable NET×ROA is significant at the 1% level. The better the corporate is doing, the greater the effect of the exit threat on risk reduction.

**Table 6.** The role of exit threats in financial risk: the shareholding ratio of the first largest shareholder and return on assets

variable	(1) Quick	(2) Quick
NET	26.899*** (3.937)	12.309** (2.291)
Size	-0.006 (-0.304)	-0.007 (-0.311)
NET×Share	1.490*** (3.605)	
NET×ROA		342.588*** (4.181)
Lev	-4.235*** (-32.522)	-4.255*** (-32.653)
ROA	-0.724*** (-2.703)	-0.776*** (-2.892)
Growth	-0.008 (-0.774)	-0.008 (-0.782)
Share	0.004*** (2.999)	0.003** (2.168)
CFO	0.925*** (5.849)	0.924*** (5.845)
AS	2.996*** (23.173)	2.996*** (23.156)
State	-0.062 (-1.273)	-0.067 (-1.382)
Board	0.001 (0.006)	0.003 (0.042)
Both	-0.036 (-1.196)	-0.036 (-1.212)
Constant	2.073*** (3.214)	2.128*** (3.310)
Observations	25,089	25,089
Number of code	3,525	3,525
r <sup>2</sup>	0.197	0.196
Company	NO	NO
Year	YES	YES
Industry	YES	YES

## 6. Conclusion

This paper selects a sample of Chinese A-share non-financial listed companies from 2010-2021 to examine the mechanism of the threat of exit of non-controlling majority shareholders on corporate financial risk, and finds that: first, the threat of exit can significantly reduce financial risk. The threat

of exit is significantly and positively related to the quick ratio, indicating that the threat of exit is conducive to corporate governance and reduces corporate financial risk. Secondly, compared with state-owned enterprises and smaller enterprises, the threat of exit by non-controlling majority shareholders of non-state-owned enterprises and larger enterprises is more obvious and more beneficial to curb financial risk. Thirdly, the threat of exit has a greater inhibiting effect on corporate financial risk when the shareholding of the first largest shareholder is higher and the business performance of the company is good.

The contribution of this paper is to expand the scope of research on the governance effects of exit threats, to examine the impact of exit threats on corporate financial risk, and to provide a reference for firms to manage risk. Reducing financial risk requires enhancing the monitoring and intervention effects of non-controlling majority shareholders. Companies ought to put more emphasis on the inhibiting effect of the threat of exit of non-controlling majority shareholders on the financial risk of companies, actively guide non-controlling majority shareholders to participate in corporate governance and optimize the risk management mechanism. Based on this paper's research, the following recommendations are made: Firstly, for enterprises with a high degree of centralised management, the shareholding structure needs to be further optimised to curb irrational decision-making by controlling shareholders and mitigate the financial risks arising from over-concentration of shareholdings. Secondly, the non-controlling majority shareholders' rights to information, participation and decision-making should be safeguarded to make full use of the governance role of their exit threat.

Further research can be conducted in the following areas in the future: firstly, to select more comprehensive indicators to reflect the financial situation of enterprises. Secondly, to consider the heterogeneity of non-controlling majority shareholders in terms of their interests and to study the differences in the exit threat effect of non-controlling majority shareholders with different demands, so as to improve the relevance of the study. Thirdly, examine the economic consequences of the threat of exit and measure the cost-benefit of the threat of exit from the perspective of non-controlling majority shareholders. Fourthly, to examine other ways in which non-controlling majority shareholders participate in corporate decision-making and influence corporate financial risk, such as active voice and concerted action, to expand the scope of research on the governance effects of non-controlling majority shareholders.

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