The Impact of Corporate Governance Structures on Capital Market Performance: Evidence from China's Listed Companies from 2003–2023

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Abstract

This study examines the impact of corporate governance structures on the risk-adjusted performance of Chinese listed companies from 2003 to 2023, focusing on ownership structure, board characteristics, and executive incentives. Using robust empirical methods, the research finds that balanced ownership reduces information asymmetry, improving risk-adjusted returns. A higher proportion of independent directors enhances stock performance, while larger board sizes hinder it due to inefficiencies. Equity incentives positively influence returns, whereas salary-based incentives show a negative correlation.

The findings underscore the importance of optimizing governance structures to enhance corporate performance, attract investments, and strengthen market stability. Recommendations include maintaining an appropriate ownership balance to promote checks and balances among shareholders, strengthening the independence and expertise of board members to improve oversight, and implementing long-term equity-based incentives to align management's goals with those of shareholders. These measures not only enhance corporate governance but also foster investor confidence and contribute to sustainable economic growth. Policymakers can leverage these insights to design governance frameworks that promote transparency, accountability, and efficiency in the capital markets.

Effective corporate governance enhances financial performance by improving efficiency and market confidence. Balanced ownership, an independent board, and appropriate executive

incentives contribute to long-term value creation. Policymakers should integrate these insights into regulatory frameworks to promote transparency and accountability.

Keywords: Corporate Governance; Ownership Structure; Board Characteristics; Executive Incentives; Capital Market Performance

Introduction

In the dynamic landscape of the global economy, the role of corporate governance is crucial for ensuring the companies' growth and performance. The Chinese market, with its rapidly growing financial systems and regulatory frameworks, offers a rich context for studying the nuances of corporate governance. Corporate governance is essential in modern business theory and institutional building. And it also is crucial for improving investment environments and ensuring economic growth in both developed and developing countries. Good governance promotes stable business growth, and foundation for long-term economic stability. This study aims to exam how China-listed companies' governance structures impact their stock's risk-adjusted performance, utilizing three aspects of governance measures. It seeks to study on the pivotal influence of corporate governance on the corporate financial performance in the Chinese equity market, contributing valuable insights into the ongoing evolution of governance models and their implications for market efficiency.

Currently, due to limited knowledge, most small and medium investors' understanding of a listed company's investment value mainly comes from basic company information and financial statements, whose completeness, accuracy, and timeliness cannot be guaranteed. Yet, the level of corporate governance can reflect the quality of this information more comprehensively. Implementing research on the correlation between listed companies' governance levels and stock market performance can provide references for investors' decisions.

Corporate governance plays a vital role in shaping the financial performance of listed companies, yet its specific impact on risk-adjusted returns remains unclear, particularly in the Chinese market. Key concerns include how different governance structures influence stock performance, the extent to which ownership structure reduces information asymmetry, and the role of board characteristics—such as independence and size—in enhancing or hindering efficiency. Additionally, the effectiveness of executive incentives, particularly equity-based versus salary-based compensation, in driving corporate performance requires further investigation. Addressing

these issues will provide valuable insights into optimizing governance frameworks to promote market stability, transparency, and long–term value creation.

This study explores how governance structures impact the risk–adjusted performance of stocks issued by Chinese listed companies, utilizing three essential characteristics of corporate governance. It delves into the significance of governance mechanisms, such as board dynamics, management incentives, and equity structure, in shaping capital market performance. It also emphasizes the need for strong governance to attract investments, enhance firm value, and mitigate risks, thereby contributing to sustainable economic growth.

Research Objectives

The objectives of this article are as follows:

(1) The article investigates the relationship between ownership structure and risk–adjusted returns;

(2) The article explores the impact of board characteristics, such as board size and the proportion of independent directors, on stock risk–return;

(3) The article evaluates the effects of executive incentives, including salary and equity–based compensation, on stock risk–return.

These research objectives aim to provide actionable insights for optimizing corporate governance structures to improve market performance and attract investments.

Literature Review

1. Research on Identifying Corporate Governance

The concept of corporate governance was first introduced in the United States during the 1960s, with both broad and narrow definitions. Corporate governance, as a complex system, includes the relationships among shareholders, boards of directors, and management teams. Heflin and Shaw (2000) find that the bid–ask spread, and adverse selection costs of listed company stocks had a positive relationship with the number of large shareholders, which indicated that the presence of large shareholders increased the level of information asymmetry. The agency theory, proposed by Jensen and Meckling (1976), suggests that providing management with stock incentives can help solve the agency problem between shareholders and managers. Morck, Shleifer and Vishny (1988) hold the opposite view. His research indicates that when management holds a high percentage of stock, their power in company decisions increases, which potentially

harms minority shareholders' interests for personal gain. Glosten and Milgrom (1985) also believe that a higher percentage of management ownership can hinder the transmission of company information. Beasley (1996) suggests that exceeding a certain number of board members increases communication time for decision-making, which leads to inefficiency and difficulty in forming unified opinions.

2. Research on Corporate Governance Practices Worldwide

In the United States, offering management discounted company stocks and future stock purchase options is a common incentive practice. With large U.S. companies widely adopting stock and option incentives, management ends up holding a considerable portion of company shares. Undoubtedly it increases their control over the company in the context of widely dispersed share ownership. In China, Li and Zhang (2005) studied the impact of executive governance quality on corporate financial performance. Han, Pan and Zhang (2015) constructed an indicator to measure the overall governance quality of listed companies. Using data from A-share companies from 2009 to 2012, they verified the positive correlation between corporate profitability and governance quality.

3. Linking the Corporate Governance and Capital Market Performance

Bagchi (2012) investigates the relationship between corporate governance quality and market performance of firms. It finds no abnormal returns linked to governance quality. Through impulse response analysis, it demonstrates that the portfolios of both low and high governance firms as well as only low governance firms have similar impulse response on Nifty return. Khatab et al. (2011) investigate the relationship between corporate governance and the firm's performance of twenty firms listed at Karachi Stock Exchange. The performance of corporate governance is analyzed through Tobin's Q, while performance of the firms is measured by return on assets (ROA) and return on equity (ROE). Ferreira and Laux (2007) pioneered the study of the impact of corporate governance on the risk level of equity investments in 2007. They used data from the U.S. stock market in the 1990s and adopted the G index created by Gompers, Ishii and Metrick (2003) to analyze how corporate governance affects the informational content of stock prices. Ferreira and Laux (2007) used the fluctuation in return heterogeneity as a measure of stock price information content, a concept derived from CAPM theory. Studies by Brockman et al. (2009) and Chung et al. (2010) found that stocks of companies in countries with well-established legal systems protecting investors tend to have higher liquidity.

Corporate governance impacts firm performance through financial indicators (ROA, ROE, Tobin's Q) and market measures (stock return heterogeneity, impulse response, liquidity). While some studies find no direct link to abnormal returns, others highlight governance's role in stock price information and legal protections. This classification helps analyze governance effects on financial and market performance.

Conceptual Framework

The Conceptual Framework of this article as shown in Figure 1.

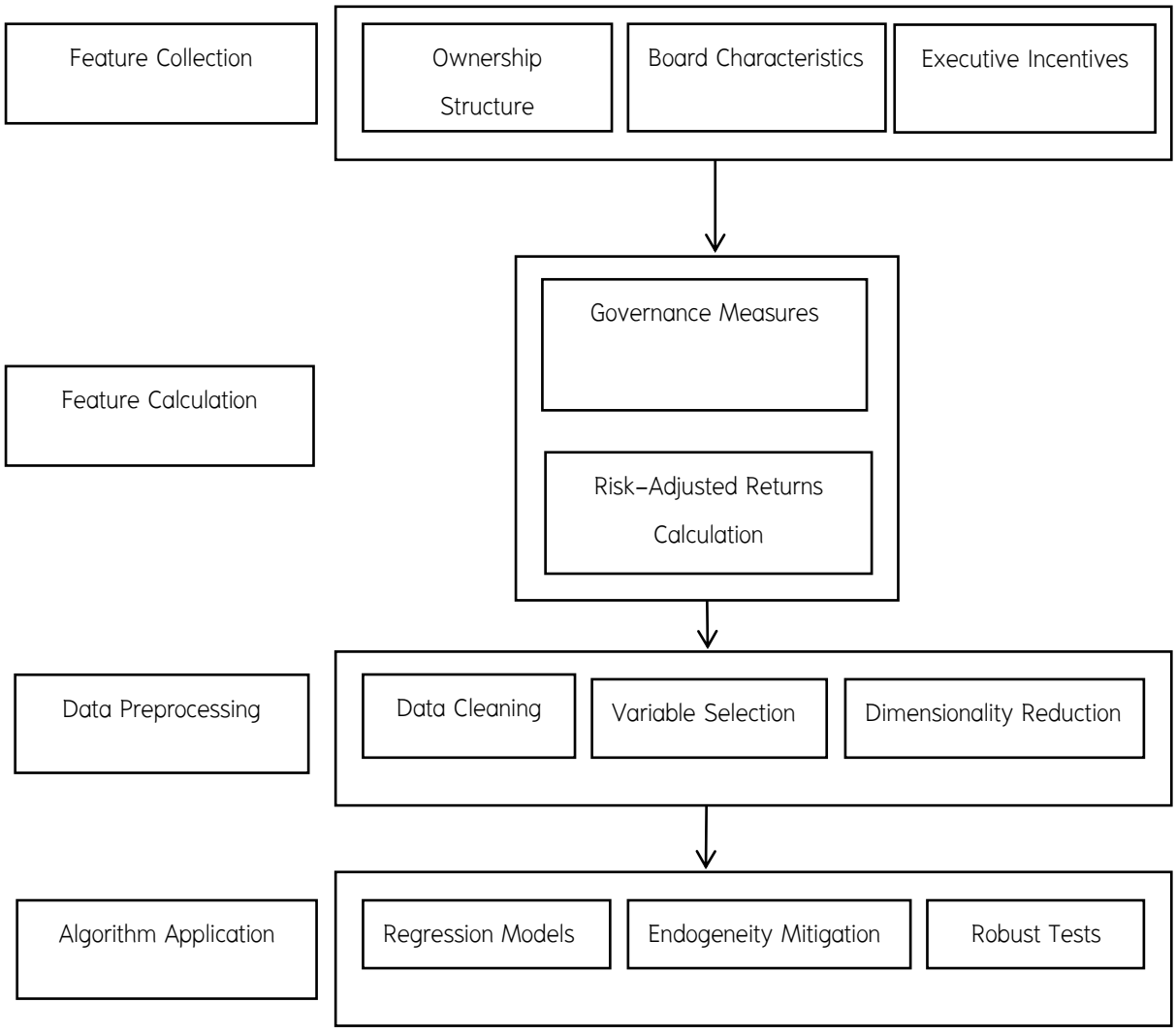


Figure 1 Conceptual Framework

Research Methodology

1. Sample

This study examines the relationship between the levels of firm's corporate governance and the performances of their stocks for all public-listed companies in China. The data on corporate governance levels is obtained from CSMAR Database. The sample covers the period from 2003 to 2023.

2. Research Design

The following computation procedures are adopted to compute our concerned measures of equity risks and corporate governance.

Stock Return: To compute the stock return of each stock, this study will use the gross holding period return as the return indicator. The holding period is computed as below:

$$R_{i,t} = \frac{P_{i,t} + D_{i,t} - P_{i,t-1}}{P_{i,t-1}} \quad (1)$$

where $P_{i,t-1}$ and $P_{i,t}$ are the stock prices of the beginning and end of the period, respectively. $D_{i,t}$ is the possible dividend income during the period, and $R_{i,t}$ is the gross holding period return.

Risk Measure: Referring the research by Yan and Zhang (2009), this paper measures the volatility of individual stocks using the standard deviation of daily stock returns over a year, resulting in the stock price volatility (std) indicator.

Risk-adjusted Performance*:* This paper employs the Sharpe ratio as a measure of risk-adjusted return, reflecting the excess return that can be obtained for each unit of risk taken. Given the same level of risk, a higher Sharpe ratio indicates a higher excess return and more robust investment performance. The risk-return measure is computed as below:

$$risk_return = \frac{E(R_{i,t}) - R_f}{std} \quad (2)$$

Corporate Governance Levels: Based on previous research, this paper measures corporate governance from the following three aspects: ownership structure, board characteristics, and managerial incentives. Firstly, regarding ownership structure, with reference to the study by Zheng et al. (2022), this paper selects the shareholding ratio of the largest shareholder to measure ownership concentration (*ec*) and uses the ratio of the sum of the shareholding ratios of the second to fifth largest shareholders to the shareholding ratio of the largest shareholder as an indicator of ownership balance (*eb*). Secondly, concerning board characteristics, drawing on the research by Allegrini and Greco (2013), this paper employs the number of board members (*dn*) as a measure of board size and the proportion of independent directors to the total number of board members as an indicator of independent directors (*dlds*). Finally, in terms of managerial incentives, following the study by Lin et al. (2011), this paper uses the ratio of executive stock incentives to

the total number of shares at the end of the period as an indicator of executive stock incentives (*gq*) and takes the natural logarithm of the total compensation of the top three executives as an indicator of compensation incentives (*xc*).

Controls: This paper also controls for the following variables: debt–to–asset ratio (lev), cash ratio (cash), fixed assets ratio (*ppe*), return on assets *(roa*), return on equity (*roe*), and duality of leadership (*dualrole*).

3. Statistics Test

Statistical analysis includes summary statistics for all variables, including mean, standard deviation, median, and other quantiles, followed by regression analysis for all hypotheses based on the following regression model.

$$R_{i,t} = \beta_0 + f_i + f_t + \sum \beta_F F_{i,t} + \varepsilon_{i,t} \quad (3)$$

where f_i, g_i and f_t, g_t are the fixed factors for company and year, $F_{i,t}$ is the vector of controlling variables. To test the significance of the coefficients, we use the two–tail t–test, while we use F–test and R^2 to examine the validity of the regression equations.

Results and Discussion

1. Descriptive Statistics

Table 1 presents the descriptive statistics for all the variables mentioned above. Specifically, the *mean* of risk–return is –0.859 with a standard deviation of 4.698, indicating that the overall risk–adjusted returns of the sample companies' stocks are negative and there is significant variation among different companies. The minimum value of *ec* is 0.002, meaning that the largest shareholder holds at least 0.2% of the shares, while the maximum value is 0.899, indicating that the largest shareholder holds up to 89.9% of the shares.

Table 1 Descriptive statistics

	obs	*mean*	*sd*	*min*	*p50*	*max*
risk-return	53659	-0.859	4.698	-137.878	-1.518	51.272
ec	53406	0.341	0.153	0.002	0.314	0.899
eb	53404	0.728	0.622	0.002	0.560	4.000
dn	53396	8.68	1.908	3.000	9.000	21.000
dlds	53381	0.372	0.057	0.000	0.333	0.727
xc	50917	9.181	1.047	0.000	9.440	10.364
gq	6863	1.626	1.603	0.000	1.200	15.040
lev	53404	0.511	4.078	-0.194	0.451	877.255
ppe	53401	0.221	0.171	-0.206	0.186	0.970
cash	52421	0.831	2.481	-5.055	0.356	218.783
roa	53403	0.029	0.434	-64.819	0.033	64.754
roe	52785	0.020	1.242	-174.895	0.066	33.831
dualrole	51855	1.739	0.439	1.000	2.000	2.000

2. Pearson Correlation Analysis

The correlation coefficient matrix between the variables is shown in Table 2. As can be seen from Table 2, except for the correlation coefficient of -0.6771 between ownership balance (*ec*) and ownership concentration (*eb*), the correlation coefficients between other variables are all much lower than 0.6, indicating weak correlations. This suggests that there is no serious issue of multicollinearity among the variables, and the selected variables are suitable for subsequent regression analysis.

Table 2 Pearson correlation analysis results

risk-return	*ec*	*eb*	*dn*	*dlds*	*xc*	*gq*	*lev*	*ppe*	*cash*	*roa*	*roe*
1											
-0.0076	1										
-0.0164	-0.6771	1									
-0.0043	0.0378	0.0296	1								
-0.0029	-0.003	0.0032	-0.4214	1							
-0.1049	-0.0333	0.1213	0.0214	0.0708	1						
0.0258	-0.0631	0.0023	0.0094	-0.0222	-0.1282	1					

3. Regression Results

Table 3 reports the results of the impact of three aspects of corporate governance on *risk–adjusted* returns. Specifically, columns (1)–(2) present the effects of ownership structure on *risk–adjusted* returns, columns (3)–(4) show the results of board characteristics on *risk–return*, and columns (5)–(6) display the impact of executive incentives on *risk–adjusted* returns. From the perspective of ownership structure, the coefficient of ownership concentration (*ec*) on *risk–return* is –0.395, significant at the 1% level; ownership balance (*eb*) positively affects *risk–adjusted* returns at the 10% significance level, with a coefficient of 0.0468. This indicates that lower ownership concentration and higher ownership balance are associated with higher *risk–adjusted* returns for a company's stock, consistent with the previous discussion: when ownership is highly concentrated, the management primarily represents the controlling shareholder, who may harm the company's assets for personal gain. To conceal such actions, the controlling shareholder may restrict information disclosure, resulting in less company information in stock prices, increased information costs for investors, and greater information asymmetry, thus lowering the *risk–adjusted* returns. Regarding board characteristics, the coefficient of board size (*dn*) on risk–return is –0.0318, significant at the 1% level; the proportion of independent directors (*dlds*) has a positive and significant effect at the 1% level, meaning that as the number of board members increases, stock returns decrease, while a higher proportion of independent directors is associated with higher *risk–adjusted* returns. A possible explanation is that an excessively large board can increase decision–making communication time, leading to inefficiency and difficulty in reaching a consensus. This may weaken the oversight of managers, making speculative behavior more likely and exacerbating information asymmetry, thereby reducing stock *risk–adjusted* returns and exhibiting a negative effect. The purpose of introducing independent directors is to strengthen oversight of the management, prevent arbitrary decisions, and protect shareholders' interests. The gradual increase in the proportion of independent directors on the board reflects the company's emphasis on enhancing board independence and effective management oversight, thereby boosting external investors' confidence in these companies' stocks and increasing their *risk–adjusted* returns. From the perspective of executive incentives, executive salary incentives (*xc*) negatively affect risk–return at the 1% significance level, while the coefficient of equity incentives (*gq*) on *risk–return* is 0.100, significant at the 5% level. This suggests that executives granted equity incentives pursue goals aligned with shareholder interests, namely maximizing company profits, which improves company performance and increases stock value. Conversely, executives granted salary incentives

rather than equity incentives may send a pessimistic signal to the market and investors. Equity incentives directly link executives' wealth to the company's long-term performance, whereas salary incentives may focus more on short-term financial indicators, thus lowering the stock's returns.

Table 3 Benchmark regression results

	risk-return					
	(1)	(2)	(3)	(4)	(5)	(6)
ec	-0.395***					
	(-4.33)					
eb		0.0468*				
		(1.99)				
dn			-0.0318***			
			(-3.66)			
dlds				0.566*		
				(2.08)		
xc					-0.0761*	
					(-2.47)	
gq						0.100**
						(3.09)
lev	0.685***	0.679***	0.690***	0.681***	1.015***	1.626***
	(3.47)	(3.43)	(3.44)	(3.46)	(8.50)	(4.72)
ppe	-0.0630	-0.0690	-0.0565	-0.0755	-0.215	0.112
	(-0.41)	(-0.44)	(-0.37)	(-0.49)	(-1.26)	(0.31)
cash	-0.0140*	-0.0145*	-0.0148*	-0.0142*	0.00248	-0.0145
	(-2.15)	(-2.17)	(-2.24)	(-2.18)	(0.43)	(-0.82)
roa	7.797***	7.708***	7.724***	7.704***	8.415***	12.66***
	(17.19)	(17.22)	(17.19)	(17.16)	(16.87)	(6.07)
roe	-0.0348*	-0.0344*	-0.0343*	-0.0344*	-0.0305*	0.00664
	(-2.55)	(-2.55)	(-2.54)	(-2.55)	(-2.03)	(0.02)
_cons	-3.852***	-4.046***	-3.739***	-4.167***	-3.910***	10.95***
	(-13.26)	(-13.64)	(-11.50)	(-13.43)	(-6.91)	(4.67)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes	Yes	Yes
N	45560	45559	45560	45560	43327	5737
R2	0.5283	0.5282	0.5282	0.5282	0.5319	0.3940

4. Endogeneity Issues

Although this paper controls annual and industry effects in the benchmark regression, which mitigates endogeneity issues to a certain extent, the benchmark regression model may

neglect unobserved factors that can influence both the level of corporate governance and the company's performance in the capital market, leading to the problem of omitted variable bias. To address these potential endogeneity issues, this paper employs an instrumental variable approach for further analysis.

First, regarding the ownership structure aspect of corporate governance, this paper uses lagged ownership concentration (*L.eb*) and lagged ownership balance (*L.ec*) as instrumental variables for ownership concentration (*eb*) and ownership balance (*ec*), respectively. Table 4 reports the regression results using instrumental variables. Column (1) shows that *L.ec* is significantly positively correlated with ownership balance at the 1% level, with an F-value of 81,446.160 for the weak identification test, far exceeding the critical value of 10, rejecting the hypothesis of a weak instrumental variable. The p-values for both the underidentification and overidentification tests are 0, indicating no issues of overidentification or underidentification. In the second-stage regression results presented in column (2), the regression coefficient for the variable *ec* is 2.963 and significant at the 1% level, suggesting that after mitigating the endogeneity issues caused by omitted variables, the benchmark regression results remain robust. Columns (3)-(4) report the regression results for the variable of ownership concentration, and the conclusions are consistent with the previous findings, indicating that the benchmark regression results are still robust.

Table 4 Instrumental variable regression results for ownership structure

	(1)	(2)	(3)	(4)
	ec	***risk-return***	***eb***	***risk-return***
L.ec	0.794***			
	(285.39)			
ec		2.963***		
		(7.84)		
L.eb			0.740***	
			(221.13)	
eb				-0.377***
				(-4.07)
Controls	yes	yes	yes	yes
year	yes	yes	yes	yes
industry	yes	yes	yes	yes
Under	0.000		0.000	
Over	0.000		0.000	
Weak	81446.160		48897.400	
N	44722	44722	44720	44720

Next, regarding board characteristics, we use a dummy variable for the average board size (*dum_bs*) (if the number of board members in a company exceeds the industry average, *dum_bs* is 1, otherwise 0) and the lagged proportion of independent directors (*L.dlds*) as instrumental variables for board size (*dn*) and the proportion of independent directors (*dlds*), respectively. Table 5 reports the regression results using instrumental variables. Column (1) shows that *dum_bs* is significantly positively correlated with *dn* at the 1% level, with an F-value of 33572.46 for the weak identification test, far exceeding the critical value of 10, rejecting the null hypothesis of a weak instrumental variable. Both the underidentification and overidentification tests have p-values of 0, indicating no issues of overidentification or underidentification. In the second-stage regression results presented in column (2), the coefficient for the effect of *dn* on risk-return is -0.064 and significant at the 5% level, suggesting that after addressing the endogeneity issue caused by omitted variables, the baseline regression results remain robust. Columns (3) and (4) report the regression results related to the proportion of independent directors, and the conclusions are consistent with the previous findings, indicating that the baseline regression results are still robust.

Table 5 Instrumental variable regression results for board characteristics

	(1)	(2)	(3)	(4)
	dn	*risk-return*	*eb*	*risk-return*
dum_bs	2.083***			
	(183.23)			
dn		-0.064**		
		(-2.01)		
L.dlds			0.440***	
			(108.25)	
dlds				3.811***
				(2.99)
Controls	yes	yes	yes	yes
year	yes	yes	yes	yes
industry	yes	yes	yes	yes
Under	0.000		0.000	
Over	0.000		0.000	
Weak	33572.46		11717.48	
N	49891	49891	44717	44717

Lastly, Table 6 reports the instrumental variable regression results for executive incentives. The conclusions are consistent with those presented earlier, indicating that the baseline regressions remain robust after addressing the endogeneity issues caused by omitted variables.

Table 6 Instrumental variable regression results for executive incentives

	(1)	(2)	(3)	(4)
	xc	*return*	*gq*	*return*
L.xc	0.690***			
	(218.96)			
xc		-1.772***		
		(-38.45)		
L.gq			0.092***	
			(3.62)	
gq				2.438**
				(1.98)
Controls	yes	yes	yes	yes
year	yes	yes	yes	yes
industry	yes	yes	yes	yes
Under	0.000		0.000	
Over	0.000		0.000	
Weak	47942.37		13.116	
N	42412	42412	2144	2144

5. Robustness Checks

To further ensure the reliability of the regression results, this paper will replace the main explanatory variables and re-examine the aforementioned conclusions. Firstly, for ownership structure, the sum of the shareholdings of the top three shareholders will be used as a measure of ownership concentration (*oc3*), and the ratio of the sum of the shareholdings of the second to tenth largest shareholders to the shareholdings of the largest shareholder will be used as an indicator of ownership balance (*balance*). Secondly, the number of board meetings held (*meeting*) will be adopted as an alternative variable for board characteristics. Finally, in terms of executive incentives, the original explanatory variables will be replaced with total executive compensation (*mss*) and the percentage of shares held by executives relative to the total number of shares issued by the company (*mhp*). Table 7 presents the regression results after replacing the explanatory variables.

Table 7 Regression results with replacement of explanatory variables

	(1)	(2)	(3)	(4)	(5)
oc3	-0.0045***				
	(-5.01)				
balance		0.0681***			
		(3.75)			
meeting			0.0395***		
			(5.94)		
mss				-0.00000716**	
				(-2.96)	
mhp					-0.2890
					(-1.84)
Controls	yes	yes	yes	yes	yes
year	yes	yes	yes	yes	yes
industry	yes	yes	yes	yes	yes
N	42412	42412	43,834	2144	2144
R2	0.5283	0.5283	0.5243	0.5319	0.5252

In Table 7, columns (1) and (2) present the impact of ownership concentration (oc3) and ownership balance (*balance*) on risk-adjusted return, respectively. The coefficient for the effect of oc3 on risk-return is -0.0045, significant at the 1% level, while balance exerts a positive effect with a coefficient of 0.0681, also significant at the 1% level. Both are consistent with the direction of the impact of ownership structure on a company's performance in the capital market as discussed earlier. Column (3) shows that the more board meetings a company holds within a certain period, the better its performance in the capital market, aligning with the findings of the study conducted by Yuan and Ju (2009). Columns (4) and (5) reveal the relationship between executive incentives and stock risk-return [32]. The coefficient for the impact of total executive compensation (*mss*) on risk-return is quite small, at -0.00000716, but significant at the 5% level. A possible explanation is that higher total executive compensation generates stronger pessimism among investors, as the company may not have enough retained cash to address potential temporary crises or support future development, thus leading to poor performance in the capital market. The impact of total executive shareholdings (*mhp*) on risk-return is not significant, which can be reasonably attributed to the market's anticipation of the effect of such behavior on company performance. If market participants generally believe that executive shareholdings do not bring additional value, then changes in total executive shareholdings may not significantly affect stock returns.

In addition, the Chinese A-share market experienced significant abnormal fluctuations in 2008, 2015, and 2020, which could potentially influence the results. Therefore, this paper excludes these abnormal data from those three years and conducts the regression again. The results are shown in Table 8, where the direction of the impact of the three aspects of corporate governance on a company's performance in the capital market remains consistent with the previous findings, indicating that the baseline regression results are still robust.

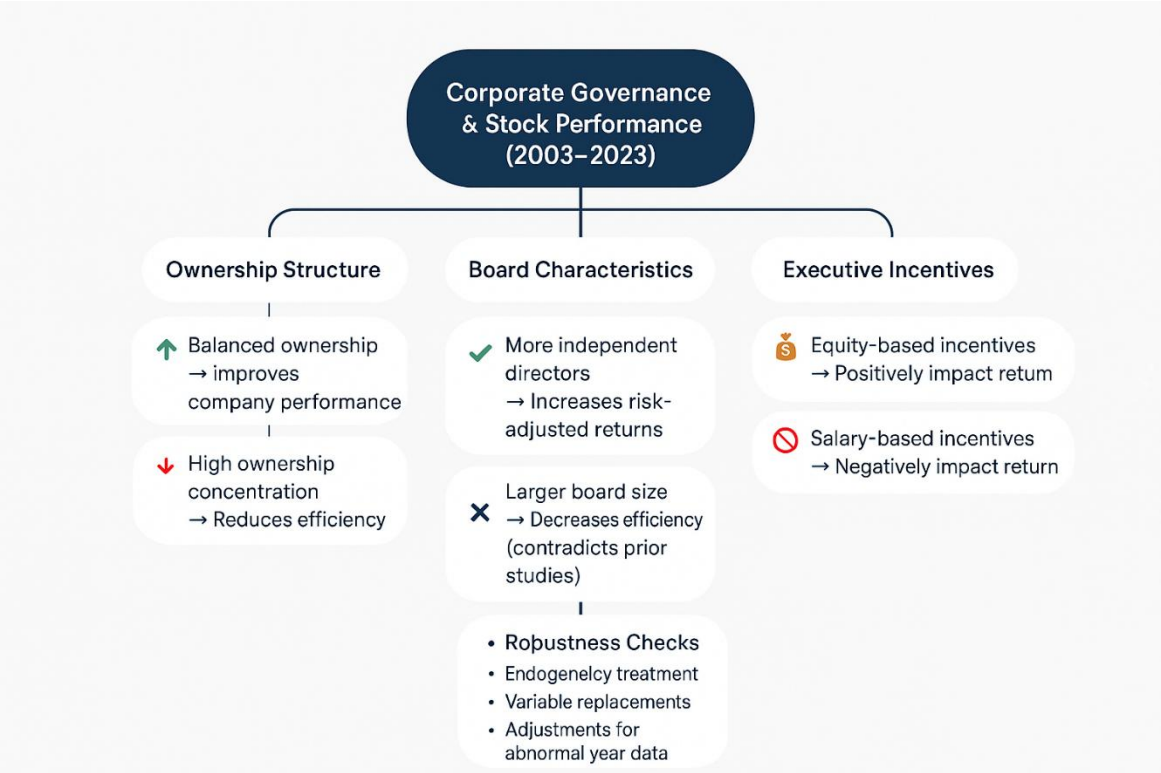
Table 8 Excluding abnormal data

	(1)	(2)	(3)	(4)	(5)	(6)
	risk-return					
ec	-0.3410*					
	(-3.27)					
eb		0.0606*				
		(2.18)				
dn			-0.0256**			
			(-2.78)			
dlds				0.5530*		
				(1.97)		
xc					-0.072***	
					(-19.11)	
gq						0.127***
						(3.67)
controls	yes	yes	yes	yes	yes	yes
year	yes	yes	yes	yes	yes	yes
industry	yes	yes	yes	yes	yes	yes
N	39324	38256	39315	39315	36037	4905
R2	0.5400	0.4770	0.5399	0.4766	0.5457	0.3846

Conclusion

This study analyzes the impact of corporate governance on the capital market performance of Chinese listed companies from 2003 to 2023. The findings reveal that corporate governance significantly influences stock returns. Firstly, lower ownership concentration and higher ownership balance improve company performance. Secondly, a higher proportion of independent directors boosts risk-adjusted returns, while larger board sizes negatively impact performance, contradicting prior studies. Lastly, executive incentives show differing effects: equity incentives positively influence returns, whereas salary incentives have a negative impact. These conclusions remain

robust after endogeneity treatments, variable replacements, and adjustments for abnormal year data. As the following Mind mapping.



Suggestions

This paper provides three key recommendations for improving corporate governance. First, optimizing ownership structure is crucial. Appropriate ownership concentration enhances supervision by major shareholders, while increasing ownership balance promotes checks and balances among shareholders and reduces free riding. Second, improving board structure is essential. Board size should remain manageable to maintain efficiency, and independent directors should be selected for their expertise and alignment with company needs, with efforts to strengthen their independence and transparency. Third, establishing balanced incentive mechanisms is vital. Equity incentives align shareholder and management interests for long-term value creation, while salary incentives primarily drive short-term performance. A balanced integration of both approaches is recommended to enhance governance and management efficiency.

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