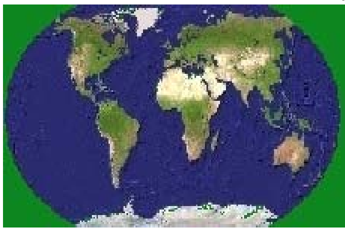
International Journal of Multidisciplinary Research and Development



International Journal of Multidisciplinary Research and Development

Volume: 2, Issue: 4, 226-231
April 2015
www.allsubjectjournal.com
e-ISSN: 2349-4182
p-ISSN: 2349-5979
Impact Factor: 3.762

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Nexus between ownership structures and shareholders' wealth

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Abstract
Every shareholder is independent and has same right as others yet theory says that, who and how a company is owned is a factor that influences the returns on a stock (clientele effect theory) This paper attempts to empirically test this theoretical relationship between the ownership structures of a firm and the wealth to shareholder. Using 125 observations from 2009 to 2013 accounting years from 25 purposive sampled companies, disclosed information on dividend stock prices, shareholding pattern was extracted from the annual reports for the analysis.

The univarite analysis indicates that, there are fluctuations in capital gains than dividend hence the shareholders returns variability is determine by capital gain. The average shareholders wealth was Rs. 239 with average dividend of Rs. 17.078 and capital gain of Rs. 221. Promoter holding account for an average of 51.43% of total holdings whiles foreign investors have average of 30.84% against institutional (both foreign and domestic) and Individuals (foreign and domestic) of 23.46% and 13.51%. There is no significant variation in promoter holdings across the companies as compared with other holdings for the period.

The correlation matrix indicates that promoter holdings negatively correlated with dividend, capital gain and total returns while foreign investors, institutional and public holding are positively related with all the shareholders variables.

The regression results reveals that promoters and institutional shareholders have inverse relationship while foreign and individual holdings have positive with no significant impact on shareholders' wealth. On the other hand, foreign investors have positive and significant impact on capital gain at 5% level. Individual holdings also have positive impact on total returns and marginally significant at 10% level. It can be inferred that a company with much foreign and individuals investors have fluctuation in stock prices which may yield capital loss or gain.

The study therefore concludes that an increase in foreign investors whether institutional or individuals and the public have significant impact on the capital gains from the stock market and total returns as a whole. This is because; these investors drive stock prices through their active participation on the stock market.

Keywords: promoters, institutional investors, foreign investors, shareholders wealth

1. Introduction

The ultimate aim for a person to be part of company ownership through shares is to receive returns (i.e. capital gain and dividend). Every shareholder is independent and has same right as others yet theory says that, who and how a company is owned is a factor that influences the returns on a stock. This is popularly known as the clientele effect of shareholding on stock returns. Shareholding pattern of the company is the distribution of ownership and voting right among the various categories of share investors. Shareholding pattern is used to signal the control mechanism within the firm company. Who control what and at what level of influence on corporate decision making process (Vincent Konadu 2014). Since the returns to all stakeholders are affected by company's owners, the structure of ownership has become a tool for reducing agency cost and better the returns of investors. In line with this, SEBI has continuously insisted on ownership diversification to ensure efficient capital market and higher returns. It is mandatory for private companies to float a minimum of 25% and 10% in the case of government companies before trading on any stock exchange in India. As the clientele effect theory opines, every investor or principal of a company have different motive and strategy of holding on to investment. While the short-term (mutual funds, investment banks) investor will go for capital gains through active trading, long term investors such as companies and promoters are interested in control and dividends. The paper answers the question whether the returns to a shareholders is affected by the ownership pattern of the firm.

2. Literature Review and Hypothesis

As every finance theory and literature, the relationship between ownership structures and returns is an on-going debate. Berle and Means (1932) thesis which observed an inverse correlation between diffuseness of shareholding and firm performance set the pace for further research.

2.1 Promoter ownership and shareholder wealth

It is documented in finance that, concentrated ownership or family controlled firms (as the case in India) are disadvantages in terms of raising capital, generational succession, nepotism and dominance of family decision, all these hamper the value and return on its shares (Gomez-Mejiae 2003, Perez 2006, Schulze 2001). The good side of family ownership is that there is less agency cost due to the unification of management and ownership in same hands which increases performance (stewardship theory). In another study, Houmes and Chira (2003) analysed the effect of ownership structures on price earnings ratios. The analysis shows that returns decline in low P/E ratio firms as ownership increases while high ownership positively correlate with returns in high P/E firms. There was low stock return in low P/E firms because the board of directors and outside shareholders' were not able to influence the poor performance of entrenched management. But with high P/E firm, both board and outside really intervened the management because; higher returns indicate value creation of the managers. The research uses univariate tests and linear regression to evaluate the relationship between financial performance and ownership on lagged levels of P/E ratios.

Cristina Cella (2009) study on companies in Europe from 1993 to 2006 came out that family concentrated frim does not only earn high stock returns than non-family firm, their high returns were abnormal and statistically as well as economically significant. But the non-family firms on average earn higher than family business in the long term. Institutional block holders on the other hand, show an inverse relationship with stock returns.

Empirical evidence from (Oswald 1991) studies shows a positive relationship between insider ownership (concretrated0 and return on assets, return on equity an excess return. Similarly Hndso et.al 1992 confirms this relationship in their study on ownership and abnormal returns.

Unfortunately the merge of management and ownership in the family hand benefits to the family to the disadvantage of the minority, because the outsider (minority) has less decision power. Hence outsiders will buy family stock at lower price or not buy at all. Again most promoters' founders will always wish to plough back profit into the business by paying less dividend. It can therefore be assumed that there is an inverse relationship between promoter concentration and shareholder wealth.

2.2 Institutional investors and shareholders wealth

Giannetti and Simon 2006 argue that there is positive relationship between institutional investors and good corporate governance which attracts other investors at high share price. Contrary, the Anglo-American Model of corporate governance demonstrates that institutional investors especially companies are less active in the governance of a firm which may results to fall in performance. A related research by Cristina (2009) found an inverse relationship between institutional block holders with stock returns. The findings of Hotchkiss et al. 2000 on shareholders' composition and stock returns shows that the composition of institutional shareholding affects stock price and capital gain on a firm shares. That is the heterogeneity of institutional investors has significant impact on share prices. The arguments from these literatures on institutional investors depend on the type of the institutional investor. While mutual fund and investment banks drag share price and dividend through active trading for short term returns, government as well as companies are less active on the stock market and have less significant impact on the stock returns. Since institutional investors in India are less of mutual fund and investment banks but dominated with government agencies and non-investment banks, it is expected that institutional investors will have no significant impact on shareholder's wealth.

2.3 Foreign investor and shareholders wealth

A World Bank Report of 1997 postulates that foreign investments improve stock market liquidity in emerging economies (cited by Gurcharan singh 2004). Morgan report 2002 noted that foreign investors dominate more in bearish market than the bullish during the short-term market movements. He concludes a strong correlation between foreign inflows and market returns in bear market and weak in bullish due to participation by others. A preliminary research on foreign fund flows and stock returns in India indicates an abnormal return between high and low innovation and foreign fund flows. The results also show that, there is price pressure which is induced by foreign investment as well as purchase and sales information by foreign institutional investors.

Using Karl Pearson co-efficient of correlation Krishna (2008) found a positive correlation between foreign institutional investors and BSE Sensex movements. That is foreign investment which is refer to as Hot money causes much movement in share prices. The study on foreign investors and ownership structures indicates that there is high foreign investment in diverse (public owned companies) than promoter concentrated. Due to the fact that foreign investors wants company stock which can easily be sold and bought to maximise capital gain. As foreign investment is designated as "hot money" invested actively for short returns, it is expected that foreign investors will be more interested in capital gain hence will have positive significant impact on capital gain and total returns.

2.4 Individuals (others) and shareholders returns

Diversification promotes active capital market trading, resulting to price movement and capital gain. In countries where stocks are in the hands of many individuals, there is high capital efficient and capital gain. USA stock markets yields more returns in terms of capital gain because of individual participation. Although individuals may have little influence on dividend decision, their trading activities impact capital gain which is a major component of stock returns. But the case of India might be different since only handful of shares is owned individuals (others). This means that their influence on the capital market cannot be felt much.

H_0: There is no significant impact of ownership structures on shareholder's wealth and capital gain. **($\beta = 0$)**

H_1: There is significant impact of ownership structures on shareholders wealth and capital gain **($\beta \neq 0$)**

3. Methodology

3.1 Data collection and dataset

A purposive sampling was used to collect annual data from 25 companies out of the Nifty (50) companies for 2009 to 2013 accounting years. The companies where selected based on availability of data and sectorial representation. Initially all 50 companies where taken as sample. Companies without 2 years consecutive data on a variable were dropped. To avoid mis-matching and to obtain fair representation, companies with different shareholding categorization where also dropped leaving only 25 for the analysis. These 25 samples represent the active sectors of India economy namely, IT, Automobile, banking and finance, oil and gas, pharmaceuticals. The ownership structures of these companies also vary from family controlled, state dominance and foreign owned companies making is a diverse dataset for the research. The sample gives an annualised balanced panel dataset with 125 observations.

3.2 Definition and measurement of variables

Promoter holding according to SEBI includes individuals, families, corporate bodies or institutions that founded or promoted the company and are presently in control of the company and their relatives. In control means owing more than 20% in equity of the company. Promoter holdings figures in this research is the percentage of voting rights of promoters at the end of each accounting period as reported by the company in annual reports. The figure includes both individual, institutional, government, and families both domestic and foreign.

Institutional investors as defined by SEBI are the corporate bodies, partnerships financial institutions banks, insurance companies, mutual funds and venture capitals without any controlling interest. This variable is measured by the percentage of voting rights at end of each accounting periods as reported under the shareholding pattern. It includes both foreign and domestic institutions but excludes institutional promoters which have been considered under promoter holdings. Majority of the institutional investors fall under government, non-investment banks and less of mutual funds, investment banks.

Foreign investors all foreign individuals / non-corporate bodies who hold shares as a portfolio investment, all foreign corporate bodies, including foreign banks, which hold shares as a portfolio investment, all FIIs registered with SEBI who hold shares as a portfolio investment, all NRIs (individuals) who hold shares as a portfolio investment, all NRI-owned corporate bodies who hold shares as a portfolio investment. (SEBI Clause 35 of the Listing Agreement) Foreign investors for the purpose of this research are the sum of both foreign individual and foreign institutions excluding promoters but include foreign investors under the institutional. An additional criterion is applied in the designation of foreign individual investors. That is all investments of which returns are paid outside including Non-Resident Indians are considered foreign. It also includes shares held under ADR and GDRs. All holdings that meet above condition were summed up to represent foreign investors.

Individuals or others Shares held by Indian Individuals/ HUFs, without any controlling interest. Customers of the Company, if identifiable, who hold shares as a portfolio investment. Suppliers of the Company, if identifiable, who hold shares as a portfolio investment, all NRIs (individuals) who hold shares as a portfolio investment (SEBI Clause 35 of the Listing Agreement). The individuals in this research includes both foreign and domestics but excludes promoters. Directors and management holdings where in most case insignificant and unavailable.

Shareholders wealth

Financial literature says that the returns to a stock holder for any period of time includes two main components namely dividend and capital gain. Following from this literature, this research defined total returns to be dividend of capital gain for one accounting year.

Capital gain/loss is the return a shareholder gets due to changes in share price from date of purchase to sales date share prices. Capital gain is calculated as selling price of shares purchase price. This study assumes that, average investor wish to hold shares to get both dividends and capital gain hence will hold the shares for at least one accounting year. It is also expected that rational investor will buy at a low price and sell at a high price. Therefore the capital gain return for this study is the difference between the opening year low price of the company shares and the end of year high price as recorded on NSE.

Dividend on the other hand is the usual amount declared dividend per share by the company including both interim and final.

3.3 Data Analysis

Computer statistical software of E-views and Starter was used to analyse the extracted data. To achieve the objectives of the research, the data was analysed under two stages, the descriptive and relationship analysis. Both correlation matrix and fixed as well as random effect regression model was used to analysed the data.

3.4 Statement of Econometric Model

To realised the objective of empirically testing the impact of ownership structures on shareholders wealth, multiple regression, simple regression as well as correlation matrix was used through the following econometric models.

$SW_{it} = \alpha_i + \beta_1 Pr + \beta_2 In + \beta_3 Fn + \beta_4 Id + U_{it}$

Where SW – total shareholders wealth (dividend + capital gain)

a- Unknown Intercept for each company

Pr – Promoter holdings

In – Institutional investors

Id – Individuals or others holdings

Fn – Foreign investors

u_{it} – is the classical stochastic error term

This model is established to know the strength and direction of each ownership variable relationship on shareholders wealth to test the hypothesis.

Capital gain against ownership structures

Since the variations within the total wealth return was found to be more than 90% accounted by capital gain, a separate model is develop to analyse which ownership structures have significant impact on price movement.

$CG_{it} = \alpha + \beta_1 Pr + \beta_2 In + \beta_3 Fn + \beta_4 Id + U_{it}$

Where CG – Capital Gain

Shareholders wealth verse promoter holdings

Promoters holding play an important role in shareholders wealth especially in family business settings like India. Therefore a special simple regression is run between shareholders wealth and promoter holding only to check whether promoter holdings alone have any impact on total returns.

$SW_{it} = \alpha_i + \beta_1 Pr + U_{it}$

Promoters and shareholders wealth variables

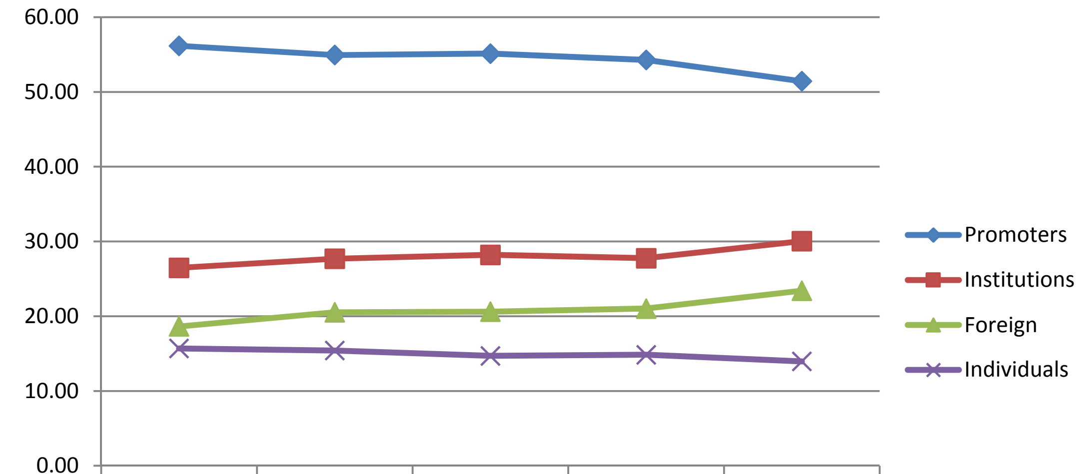
Following the dominance nature of Indian company, it is imperative to run a separate analysis to know if dividend and capital gain can influence promoters to buy or sell off their shares.

$Pr = \alpha + \beta_1 Cg + \beta_2 Dv + U_{it}$

Where Dv – dividend
Cg – capital gain

4.0 Interpretation and Discussions

4.1 Descriptive Results



	2009	2010	2011	2012	2013
Promoters	56.17	54.94	55.11	54.27	51.43
Institutions	26.47	27.69	28.20	27.75	30.04
Foreign	18.63	20.53	20.60	21.01	23.41
Individuals	15.68	15.41	14.68	14.84	13.96

Fig 1: Trend in ownership holding (percentages %)

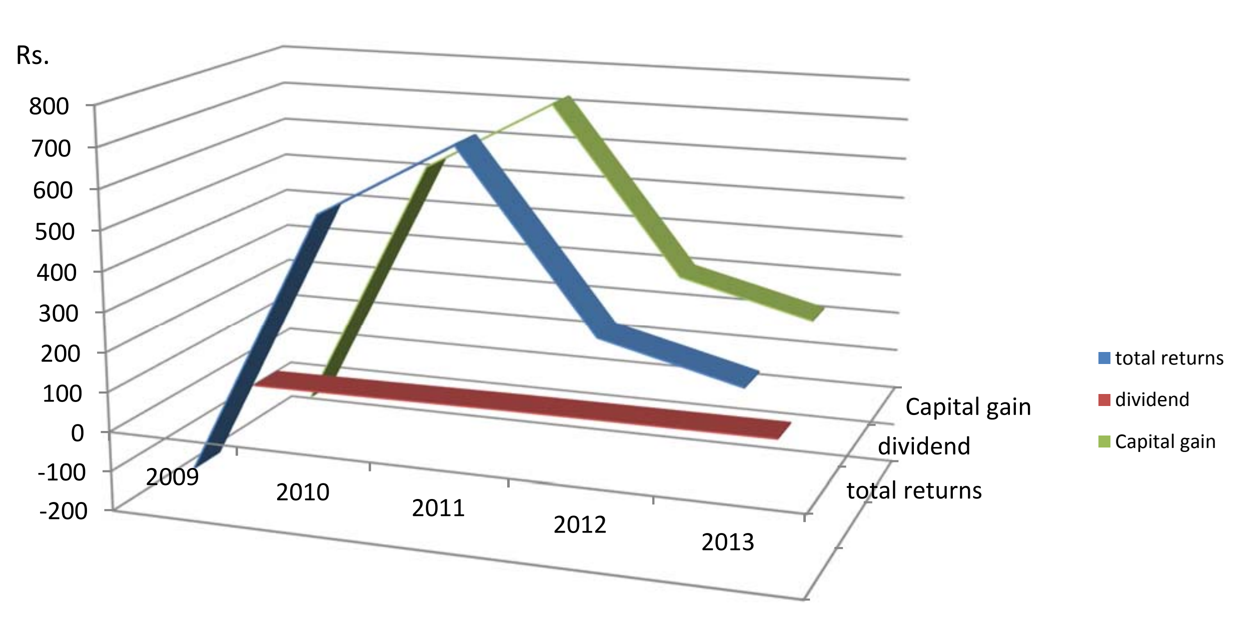
Figure 1 shows that percentage trend of group of investors who hold ownership within the sample companies. As the norm in India, promoters over the period have held more than 50% of control in the companies through shares. This confirm the findings of Vincent Konadu (2014), Ramaswy (2014) and Balasubramania (2010). Institutional investors also had 26.47% holdings in 2009 with an increase to 30.04% in 2013. While institutional investors and foreign investors increase their share ownership, individuals holding felt from 15.68 in 2009 to 13.96 in 2013. That is some shareholders must sell before others can increase their holdings. The data above indicates that, although shares may change hands, it is not much drastic phenomena. As it can been observed from the promoters trend, the holdings has been horsing around 55% except 2013 which felt to 51.43. Institutional and foreign investors also maintained an average holding of about 27% and 20% respectively. The above trend implies that promoter control and shareholding is still dominant in India which prevents hostile takeovers and mergers. It can also be inferred from the data that, promoters have much control over company decision since they hold majority shares.

Other inference from the analysis is that foreign investors are getting attracted to Indian capital market. The global crisis also gave much light to India because the foreign shares percentage increase from 18.62 to 20.53 during the recessional time. This increase shoots the share price for high capital gains resulting to high shareholders return (see figure 2).

Moreover, the increasing holdings in the foreign shareholding also give promise efficient market and higher returns to investors. Foreign investments are hot money for short term of capital gain. As literature says, the concentrated promoter ownership will be the main hindrance for the capital market to operate at its full potential. This limitation is an opportunity in disguise because it shields domestic companies from hostile takeovers and mergers of foreign firms.

Total returns

A study on *figure 2* shows, that on average, shareholders had negative returns in 2009 by investing in the companies through fall in share prices. Total return was Rs. -105.302 due to high capital loss of Rs. 116.36. The global economic crisis created some disbelieve in the stock markets globally causing price to fall in 2009. The dividend of mitigated the capital loss marginally. There was high appreciation in share price during 2010 and 2011 because most investors both foreign and domestic saw that India was not much affected with the global crisis and was safe to invest. Companies also attracted investors by paying high dividends in 2010. The share price is determined by demand and supply which cannot be predicted easily; hence the capital gain does not follow any fixed pattern resulting to fluctuation in the total stock returns. The dividend on the other hand is demonstrating an increasing pattern over the period from Rs. 10.834 in 2009 to Rs. 17.078 in 2013 the data also indicates that sample companies pay less than Rs. 20 dividend per share to shareholders over the period. Dividend also account for less than 10% of the total stock returns for the period.



	2009	2010	2011	2012	2013
total returns	-105.302	555.8788	742.4588	322.03	239.0028
dividend	10.834	13.108	16.11666667	16.71041667	17.078
Capital gain	-116.136	542.7708	726.9868	305.87	221.9248

Fig 2: shareholders wealth from 2009-2013
Source: extracted data from annual reports

4.2 Regression Results

Total shareholders wealth and ownership structures

The regression results show that, promoters and institutional holdings have inverse relationship with total shareholders wealth at coefficients of -0.917 and -5.5622 respectively. This is in accordance with my expectation that there is an inverse relationship between shareholder's wealth and promoter holdings. This means that as promoters and institutional holdings are increasing the expected total shareholders wealth may be decreasing. This can be explained from the fact that, most promoters' looks ahead for long term benefit and might like to hold on to shares and plough back profit. Individuals and foreign investors on the other hand have positive impact and correlation with total returns. Implying that, an increase in individual and foreign holdings can cause an increase in total shareholders wealth. The foreign investors' relationship can be attributed to their active drive in the stock market for capital gain.

None of the ownership structures have significant impact on total shareholders wealth at 5% level but foreign investors are significant at 10% thus, the alternative hypothesis is rejected at 5% significant level. This means that ownership structures as composite does not have significant influence on companies. Hence the wealth of a shareholder does not depend on the other shareholders.

Capital gain and ownership variables

The fixed effect regression method on capital gain and ownership structures indicates that promoters have positive coefficient with capital gains but it is insignificant at all levels. Same can be said about its correlation. Implying that changes in promoters holding may cause change in shareholders capital gains but is not a major factor. Likewise, institutional and individuals investors demonstrate same pattern. Foreign holdings on the other hand have positive correlation and coefficient of 31. 24 with PV value of 0.0473. That foreign investors have significant impact on capital gain. This result shows that foreign investments ("hot money") are very active on the stock market for short term gains. Therefore a shareholder with many foreign co-owners will be enjoying much wealth than less foreign investors companies. Again as foreign investors increase their holdings, it is expected that capital gains will increase over time through active trading.

Shareholders wealth and promoters

The simple regression analysis between shareholders' wealth and promoters came out that, promoters have significant negative relationship with total returns there which meets the expectation. Implying that as promoters increase holding, total shareholders wealth will fall. Thus is a disadvantage for shareholders to invest in higher promoter holding companies.

Promoters as dependent variable on capital gains and dividends

Making promoter holding as dependent variable on capital gain and dividend, it was found that, promoters may marginal increase their holding as dividend increases but insignificant. Dividend increases indicates higher profit, and promoters will always want the big portion, so they may increase their share numbers but this is not a substantial factor. Capital gains on the contrary have inverse correlation and coefficient relationship with promoters. Meaning, promoters will sell off shares for quick short term cash. This is common with promoters holding high controlling shares of more than 50%. Because selling off some shares may not affect his/her control.

5. Conclusion

The study has statistically tested the relationship between ownership pattern and shareholders wealth. The descriptive results reveal that promoters or founders hold about 51% shares while institutional and foreign investors own 30% and 23.4% respectively. The dominant promoter holdings have both negative and positive impact for the other shareholders. The good side is that it prevents hostile takeovers and mergers but promoters may also abuse the minority shareholders. The average shareholders wealth was Rs. 239 with average dividend of Rs. 17.078 and capital gain of Rs. 221. There is no fixed pattern in total shareholders wealth because capital gain accounts for 95% of the shareholders wealth which fluctuates due to demand and supply of shares.

The regression analysis demonstrates that promoters and institutional shareholders have inverse relationship while foreign and individual holdings have positive with no significant impact on shareholders' wealth. But foreign investors have significant positive relationship with capital gain. Changes in capital gains and dividend are not statistically significant factors to influence promoters to sell or buy shares.

Most of the companies are related to each other in terms of ownership. While ACC Cement and Ambuja belong to same family promoters, the Tata family holds majority of shares of Tata motors, Tata Steel and TCS. Grasim is also part of the Birla group. The promoters of these group of companies tries to hold same pattern of ownership across, which has characterised India as family control companies. Such holdings also demonstrate similarities across the companies within the groups. These related companies features give research gap to find the impact of conglomerate holding on company performance and returns.

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