Chapter 5: Findings, Conclusions and Suggestions

This study has examined the impact of corporate ownership structure on corporate performance measured by profitability, market valuation and dividend policy of the firms. This chapter explains the findings and conclusions of the research study. This chapter also includes the suggestions made by the researcher on the basis of findings and conclusions.

5.1. Objective 1: To analyse the impact of Firm’s Ownership Structure on firm’s Profitability

In the research study the fixed effect model and random effect model is applied to analyse the impact of ownership structure on profitability as represented by Earnings per Share (EPS), Return on Investment (ROI) and Profit after Tax (PAT). It is expected that the different ownership structure aspects have different impact on the firm performance. The first objective of the research study is “to analyse the impact of Firm’s Ownership Structure on firm’s Profitability”. In this study the results of different ownership structure aspects on firm profitability calculated by EPS, ROI and PAT is shown. The findings and conclusions of objective one are discussed below:

5.1.1 In the study it was found that the ownership of non-promoters non institutional holding has a significant impact on EPS of the firm. In case of promoters holding, non-promoters holding and non-promoters institutional holding no effect is found on EPS of the firm.

The above findings goes with the Ersoy (2015) who found that the concentration of the large shares of companies, one or a few shareholders has a negative effect on related firm’s performance. They further stated that large shareholders and concentrated ownership of the firms would actually lead to different financial performances. (Fazlzadeh, Hendi, &Mahboubi, 2011) also concluded that ownership concentration doesn’t have any significant effect on firm performance which goes with the finding of this study. It can further be concluded that contestability of the main shareholder’s power enhances it.
5.1.2 In case of ROI it was found that the promoters holding, non-promoters institutional holding and non-promoters non institutional holding have a significant impact on ROI of the firm. In case of non-promoters holding no effect is found on ROI of the firm. Institutional investors are investors who pool significant amounts of money and invest in companies for example, banks, mutual funds, insurance companies among others. They don’t have the authority in general sense to command the board to provide shareholders’ protection and enhances company governance, but having significant holding they have the right to participate in company’s affairs. Institutional investors while having the authority to select directors, they employ them to oversee the company on their behalf. The results of this study are in conformity with (Fazlzadeh, Hendi, &Mahboubi, 2011), who concluded that the effect of variable institutional ownership has positive significant effect on firm performance.

5.1.3 In case of PAT, it was found that non-promoters holding and non-promoters non institutional holding have a significant impact on PAT of firms. In case of promoters holding and non-promoter institutional holding no effect is found on PAT of the firm.

Above findings goes with the results of (García, at el., 2010) who by using archival data from a panel of firms in Spain for 2000–2007 found that ownership concentration with the largest shareholder decreases corporate reputation. (Pathak, Ranajee & Pradhan, 2012) findings reveal the significance of various stakeholder holdings on firm performance. Promoters did not have a positive impact on firm performance measured by PAT. Ownership structure affects firm performance through timely loss recognition, tighter monitoring, and control by large sponsors or those holding a majority stake in the firm which goes with the finding of this study that promoters have a significant impact on ROI of the firms.

On the other hand non promoter holding was found to have significant impact on PAT; regarding which Demsetz (1983) conclude that diffuseness of the ownership serves the shareholders much better than a concentrated ownership structure. The argument for negative effects could be that the increased control by block holders lessens the self-realization of managers who then get discouraged. This trend is known as over-monitoring (Burkart et al., 1997, Pagano & Roell 1998). Furthermore, it could be argued that having significantly more information and higher control than the other shareholders, high concentration gives block holders the chance to exploit their position
and in turn gain private control benefits. This argument is explained as private control benefit. Another reason for the insignificant impact is the cost-of-capital argument first presented by (Fama & Jensen, 1983). It could further be argued that the higher the ownership concentration, lower will be the liquidity of the shares because less shares will be available for trade in the market. As a result, stocks will be more risky as the beta of the company will increase and the cost capital gets up. This argument is empirically backed by (Beaver et al., 1970), Rosenberg (1976), Thompson (1976) and (Hartzell & Starks, 2003).

This research showed that total overall ownership does not explain firm performance in one aspect rather this study shows that different aspects of ownership structure should be studied individually so as to get the more practical results. This study confirms that accounting measurement and economic/market measurement look at different facets of the firm in determining the level of performance, subsequently producing different sets of corresponding results. Each aspect needs to be analysed individually. The differing results in this study are due to the fact that PAT and ROI are two diverse aspects of assessing the profitability, one correlates profit with sales and another with investment. While as EPS is the monetary value of earnings per outstanding share. In this study dispersed ownership (non-promoters non institutional holding) also called retail ownership impacts all the three dimensions of profitability i.e., EPS, ROI and PAT which goes with the findings of Srivastava (2011). It was found that promoter holding is having significant impact only in case of ROI; the reason for this could be the nature of investment. In other words it can be concluded that promoter’s main motive is wealth creation which gets confirmed in this study. Furthermore, while calculating EPS, outstanding shares is used as denominator and in case of ROI there can be other dimensions also i.e., ROI can be calculated on capital employed or on net worth also. In case of institutional holding no significant impact was seen on performance, it is all because institutional shareholders can influence management by voicing their concerns or selling their shares (exiting) though they are not physically involved in the daily operation of the companies.
5.2. **Objective 2:** To analyse the impact of Firm’s Ownership Structure on firm’s Market Valuation

In the research study the fixed effect model and random effect model is applied to analyse the impact of ownership structure on market valuation represented by market capitalization, PB value and P/E ratio. It is expected that the different ownership structure aspects have different impact on the firm performance. Ownership structure of firms is supposed to have a significant impact on market valuation calculated by market capitalization, P/E ratio and PB value. In the research study the second objective is framed in order to understand the relationship between the ownership structure and market valuation of firms. The findings related to the objective two are mentioned below:

5.2.1 In this study it was found that the ownership of non-promoters holding and non-promoters non institutional holding has a significant impact on market capitalization of the firm. In case of promoters holding and non-promoters institutional holding no effect is found on market capitalization of the firm.

5.2.2 It was also found that the ownership of non-promoters institutional holding and non-promoters non institutional holding have a significant impact on PB value of the firm. In case of promoters holding and non-promoters holding no effect is found on PB value of the firm. The results of this study are in conformity with Jusoh (2014), who showed that managerial ownership had negative and significant relationship Tobin’s Q (market value). In contrast, institutional ownership showed positive and significant relationship with Tobin’s Q.

5.2.3 It was found that the ownership of promoters holding, non-promoters holding, non-promoters institutional holding and non-promoters non institutional holding have no significant effect on PE ratio of the firm. The results of this study are in conformity with Welch (2003), who by implementing the model of Demsetz and Villalonga (2001), claim that ownership of shares from the top management is actually significant in describing the performance assessed by accounting rate of return, however, not significant if performance is calculated by market value measured by Tobin’s Q.

Market value doesn’t remain same all the time for any firm, it keeps on changing as per the performance and other governance aspects. In this study it is observed that different
measures of ownership as well as firm performance have different effects on each other. The findings of this study goes with Stulz (1988), who has prepared a model in which he discovered that when the ownership remained concentrated, the market value of the company first increases first and then it decreases. (Drakos & Bekiris, 2010) found that inside directors' shareholdings (member of the executive board, mostly promoters of the company) and the deposition of shares by shareholders who possessed more than 1% of the shares and didn't participate in higher management positively affected Tobin's Q. There is no strong evidence that there is a relationship between both the institutional ownership and firm performance except when performance is measured by PB Value for the Indian BSE 100-Index firms, due to the insignificance for t-test, and therefore this is consistent with (Sanchez & Garcia, 2007), and Lee (2008) studies. This conclusion can be due to many reasons such as; the institutional ownership are considered double-edged sword; it has its own advantages and disadvantages. Therefore, their existence and influence could affect practically the types and risk level of investment decisions taken by the management which in return will affect the firm’s performance as a whole. Retail investors also have significant effect on market value. The reason possibly could be that retail investors mostly follow the footsteps of institutional investors.

5.3. **Objective 3: To analyse the impact of Firm’s Ownership Structure on firm’s Dividend Policy**

In the research study the fixed effect model and random effect model is applied to analyse the impact of ownership structure on dividend policy represented by dividend pay-out ratio. It is expected that the different ownership structure aspects have different impact on the firm performance. Ownership structure of firms is supposed to have a significant impact on dividend policy calculated by dividend pay-out ratio. In the research study the third objective is framed in order to understand the relationship between the ownership structure and dividend policy of firms. The findings related to the objective two are mentioned below:

5.3.1 In this study it was found that the ownership of *non-promoters institutional holding and non-promoters non institutional holding* has a significant impact on DPR
of the firm. In case of promoters holding and non-promoters holding no effect is found on DPR of the firm.

Dividend payment could create conflicts among the managers and shareholders because managers are more willing to retain resources instead of paying dividends for growth purposes. Managers are more in favour in following the growth strategies for their firms because by growth comes more power to control these resources. On the other hand, retail shareholders favour dividends instead of retained earnings. When profits are not paid to the shareholders by way of dividend, there is risk that the managers might change their intentions towards the welfares of the management or these retained earnings might be invested into unprofitable projects and this could be the possible reason that retailers have a significant impact on dividend pay-out policy.

The reason behind the insignificant results of promoters holding in relation to dividend pay-out could possibly be that the existence of strong block-holders or the concentration of large shareholders weakens the bond between the firm’s earnings and the dividend pay-out ratio. In this line, India is also having concentrated ownership and it can be concluded that greater the concentrated ownership structure; greater will be the need for monitoring.

The results claim that institutional shareholders are having significant impact which goes with the finding Jensen (1986) and Rozeff (1982) who argued that by dividend pay-out policy, the companies can ease the agency problems. According to them, the active managers start using these resources for his or her private benefits, if dividends aren’t paid to the shareholders. Dividend policy helps the companies to get to know how to control the agency costs balanced dividend policy. Jensen (1986) found that managerial control over the resources would reduce by paying the dividends to shareholders.

The results of this study are also in conformity with Waud (1966) and (Short, Zhang &Keasey, 2002) concluded that there is significant relationship between dividend policy and institutional ownership. Short et al. (2002) concluded that there is positive alliance between institutional ownership and dividend policy, furthermore, he shows negative relation between the management ownership and dividend policy. Institutional investors comprise of large shareholders such as banks, investments firms, insurance companies and other financial institutions etc., who are having big amounts of funds and are able of
investing funds in several firms. For that reason, they are extremely significant in accomplishing their corporate governance roles as corporate governance is concerned to lessen the agency cost.

Another reason for the significant impact is because of the actual degree of control that institutional investors actually possess i.e., 38 percent of firms are having institutional holding of more than 30 percent. Institutional shareholders can influence management by voicing their concerns or selling their shares (exiting) though they are not physically involved in the daily operation of the companies. This result supports (Shleifer & Vishny, 1997) in that large shareholders or block holders may help reduce the free-rider problem of small investors, and therefore are value-increasing.

Institutional investors are clearly a profit-seeking organization as far as dividend valuation is concerned because their motive is to earn dividends at first place. This implies that they must have the ability to monitor managers as long as the cost of such monitoring outweighs the cost, leading to profit maximization. However, in the context of the Indian stock market, as the result shows, retail ownership has a significant impact on firm asset performance if the firm performance is measured by DPR. This can be attributed to the fact that after all, 29% of retail shareholders hold an average of 30% of shareholding and above, which means institutional investors are without any doubt beneficial to retail investors in India as retail investors do follow the footprints of institutional investors.

5.4. Objective 4: To analyse the trend of Ownership Structure of BSE 100-Index companies

A time series may have long term trend (increasing or decreasing). The movement of a time series variable in one direction with time is known as trend. The trend is a long term concept and cannot be identified in short duration of time. In the research study, the long term trend is analysed of the selected variables related ownership structure of the companies in the Index BSE-100 in Indian stock market. In the research study the objective is framed in order to understand the trend of ownership structure of Indian firms. While the tables set forth complete charts and statistical information, this section summarises the key findings and observations from this study. Although, for reference purposes, the tables and figures provided in chapter no 4 provide whole statistical information. The findings related to the objective no four are mentioned below:
5.4.1 In the research study, the trend of promoter’s holding in the 100 companies selected for the study in BSE 100 index is analysed and it was found that, Mangalore Refinery & Petrochemicals Ltd. is having the highest average promoters holding of (85.15 percent) in last 15 years followed by Steel Authority Of India Ltd. (84.98 percent), and Godrej Industries Ltd. (80.29 percent). The companies having no promoters holding are Larsen & Toubro Ltd., Housing Development Finance Corpn. Ltd. and Federal Bank Ltd. The companies with lowest percentage of promoters holding are Infosys Ltd. (20.26 percent), H D F C Bank Ltd. (23.24 percent).and Grasim Industries Ltd. (23.80 percent).

It can be concluded from the study that there is not even one company in BSE 100-Index that has 100 percent of promoter holding, which in turn indicates that companies raise finance from other parties at certain point of time.

In the research study, it is also found that among the 100 companies selected for the study in BSE 100 index, 42 percent of firms in BSE 100 index are having average promoters holding of more than 50 percent, 23 percent of the firms are having average promoters holding in the range of 40 - 50 percent of holding, 16 percent of the firms are found to have average promoters holding of 30 - 40 percent of holding, 16 percent of firms are found to have average promoters holding in the range of 20 - 30 percent of holding, 0 percent of the firms are found to have average promoters holding of 10 - 20 percent of holding and 3 percent of the firms are having the average promoters holding less than 10 percent of holding. And there are only three companies having no promoters holding. It was found that only three companies are there that don’t have any promoters on board which indicates that promoters holding is considered necessary for any firm. In other words promoters don’t sell off their whole shares they do consider the wealth creation as their main motive.

5.4.2 In the research study, the trends of non-promoter’s holding in the 100 companies selected for the study in BSE 100 index was analysed and it was found that Housing Development Finance Corpn. Ltd. is having the highest non-promoters holding of (100 percent) in last 15 years followed by Larsen & Toubro Ltd. (98.20 percent), and Federal Bank Ltd. (97.04 percent). The companies with lowest percentage of non-promoters holding are Mangalore Refinery & Petrochemicals Ltd. (14.85 percent), Steel Authority Of India Ltd. (15.0014 percent).and Godrej Industries Ltd. (19.7 percent). It indicates that there are many firms in BSE 100-Index that mostly rely on non-promoter
shareholders. They can be FII, Retail Investors, Mutual Funds, UTI, Banks, Financial Institutions, and Institutional Investors etc.

In the research study, it was also found that among the 100 companies selected for the study in BSE 100 index, 57 percent of firms in BSE 100 index are having average non-promoters holding of more than 50 percent of holding, 22 percent of the firms are having average non-promoters holding in the range of 40 - 50 percent of holding, 11 percent of the firms are found to have average non-promoters holding of 30 - 40 percent of holding, 7 percent of the firms are found to have average non-promoters holding of 20-30 percent of holding, 3 percent of firms are found to have average non-promoters holding in the range of 10 - 20 percent of holding and there is no holding of average non-promoters holding less than 10 percent of holding.

The above results indicate even though India is having concentrated ownership of shareholders in the hands of certain number of promoters who usually retain the same pattern over the years, still there are a dominant number of non-promoter shareholders who can influence firm performance in many ways.

5.4.3 In the research study, the trend of non-promoter's institutional holding in the 100 companies selected for the study in BSE 100 index was analysed and it was found that IDBI Bank Ltd. is having the highest average non-promoters institutional holding of (77.097 percent) in last 15 years followed by Mahindra& Mahindra Ltd. (49.68 percent), and Federal Bank Ltd. (49.30 percent). The companies with lowest percentage of non-promoters institutional holding are Mangalore Refinery & Petrochemicals Ltd. (3.45 percent), Essar Oil Ltd. (5.997 percent) and Godrej Industries Ltd. (6.11 percent).

In India institutional investors are gaining importance day by day. They are nowadays followed by retailers who consider them more knowledgeable. Furthermore, in the research study, it was also found that among the 100 companies selected for the study in BSE 100 index, only 1 percent of firms in BSE 100 index are having average non-promoters institutional holding of more than 50 percent of holding, 8 percent of the firms are having average non-promoters institutional holding in the range of 40 - 50 percent of holding, 29 percent of the firms are found to have average non-promoters institutional holding of 30 - 40 percent of holding, 35 percent of firms are found to have average non-promoters institutional holding in the range of 20 - 30 percent of holding, 23 percent of firms are found to have average non-promoters institutional holding in the
range of 10 - 20 percent of holding and 4 percent of the firms are having the average non promoters institutional holding less than 10 percent of holding.

The above results indicate that institutional investors are on the increasing trend in Indian corporate market. 38 percent of companies are having institutional investors carrying more than 30 percent of shares, which why that there is possibility that institutional investors can have a positive effect on firm performance. Institutional investors holding a significant shareholding are also called outside block holder. Institutional investors value diverse factors such as, size of the firm, trade risk, profitability, property structure, capital structure asset liquidity in their decisions around investments. Empirical results of the models by (Shleifer & Vishny, 1986) and (Burkart et al., 2000) claim that outside block holders can be significant to a company in several ways. A takeover is possible only when the bidder has already owned a huge minority ownership position in the firm. Block trades are preferred to public acquisitions due to the higher agency costs associated with the free-riding behaviour of dispersed shareholders in comparison to the agency cost involved with negotiated block trades, involving private benefit extraction by minority blocks. Block holders are other corporate bodies or institutional investors, which means that they have both incentive and the capability to make more knowledgeable decisions. This experience translates into increased discretion, because other shareholders are more ready to delegate decisions to the block holder (Burkart et al. 1997), although block holder can misuse this discretion and can get private benefits.

5.4.4 In the research study, the trends of non-promoter’s non institutional holding in the 100 companies selected for the study in BSE 100 index was analysed and it was found that M R F Ltd. (58.06 percent) is having the highest average non promoters non institutional holding of (58.06 percent) in last 15 years followed by Federal Bank Ltd. (47.73 percent), and Tata Elxsi Ltd. (47.19 percent). The companies with lowest percentage of non-promoters non institutional holding are Bharat Heavy Electricals Ltd. (4.297 percent), Bharat Electronics Ltd. (6.87 percent) and Dabur India Ltd. (8.08 percent).

In the research study, it was also found that among the 100 companies selected for the study in BSE 100 index, only 1 percent of firms in BSE 100 Index are having average non-promoters non institutional holding of more than 50 percent of holding, 10 percent
of the firms are having average non-promoters non institutional holding in the range of 40 - 50 percent of holding, 18 percent of the firms are found to have average non-promoters non institutional holding of 30 - 40 percent of holding, 42 percent of firms are found to have average non-promoters non institutional holding in the range of 20 - 30 percent of holding, 24 percent of firms are found to have average non-promoters non institutional holding in the range of 10 - 20 percent of holding and 5 percent of the firms are having the average non promoters non institutional holding less than 10 percent of holding.

The above results indicate that there is not even one company that doesn’t have retail investors. Public participation has been considered must. Some retail investors rely on financial advisors to improve their portfolio investment decisions. And some rely on the institutional investors. Stock market always witness robust results when institutional investors take disinvestment step.

In this study, there is empirical confirmation of the predominance of concentrated ownership and control in corporate India. Out of the BSE 100-Index companies the number of dominant ownership entities (promoters), nearly 42 percent of firms are having more than 50 percent of shareholding which indicates that there is concentration of ownership in the hands of promoters. Such entrenchment and control offers immense potential to the owners/controllers for tunneling and personal enrichment at the expense of absentee shareholders. However, only 1 percent of firms are having more than 50 percent of average non promoters institutional holding as well as average non promoters non institutional holding. 35 percent of firms are found to have average non-promoters institutional holding in the range of 20 – 30 percent of shareholding. In case of average non-promoters non-institutional holding it is found that 42 percent of firms are having 20 -30% of shareholdings. It indicates that institutional as well as retail shareholders don’t have the majority powers. In line with the trends in other developed markets, non-institutional retail shareholdings are on the declining mode in the country. In the BSE 100-Index companies, much of these holdings were picked up by the promoters to boost their entrenchment and as a defence against hostile takeovers.

While ownership composition in the Indian corporates is different from the US and UK, the observed effects have far reaching policy implications. The study results seem to favour the easing of restrictions on institutional ownership. Given that India is relying more and more on the service and agriculture sector and has started investing in
manufacturing sector, a higher level of equity financing is inevitable. This will give both domestic and foreign institutional investors a bigger opportunity to invest in India.
Recommendations and Future Scope

- The data for this study was collected from prowess data bases for 15 years but the data at certain points was missing which couldn’t not be collected from other sources also, which in turn made the panel data unbalanced. Though panel data regression model can be run using unbalanced panel but at the end it has its own disadvantages.

- Non-linear relationship between same or other variables can be taken as future research.

- Other parameters of ownership structure can be used while analysing its impact on firm performance.

- Similarly different variables can be taken as firm performance measures for future research.