Chapter 1: Introduction

1.1 Research Background

Ownership structure is one of the core mechanisms of corporate governance (CG). Ownership structure has been an attention seeker to both scholars and analysts alike. The idea that with the increased diffuseness of the ownership structure, the firm performance worsens, was brought by (Berle & Means, 1932) first. To which (Demsetz, 1983) applies a counter argument by stating that it is not reasonable to say that the diffused ownership structure deteriorates profit maximization. He defends his argument by saying that when the requirement of capital is large to attain scale quickly, there arises a need to fulfil the requirement of capital by generating offer to the general public at large so that equity share capital can be brought to a company. Participation of general public in equity share capital leads to the diffusion of ownership structure. Therefore, the value advancement of a business organization by attaining scale requires a diffused ownership structure, because single ownership is not sufficient to increase the value of a firm.

Going with the above mentioned arguments as well as counter arguments, many empirical studies are already undertaken in several countries; however no general opinion has been achieved. The review of literature available shows a lack of research in Indian scenario with respect to ownership structure and its impact on performance. Many researchers have shown their interest in this subject matter in India but there is not a full-fledged study, the results of which can be generalised in Indian corporate sector. (Dwivedi & Jain, 2005) found that bigger boards are in a position to improve the governance of the firms leading to lower agency costs and have a positive association with firm value in the Indian context. However, the association is weak. Foreign shareholding was found to contribute positively toward the shareholder value. The association of Indian institutional shareholders with firms’ market performance is, however, statistically insignificant, though the sign is positive as expected. Directors’ shareholding is found to have a significant negative impact on firm value. It was further concluded that a higher proportion of foreign shareholding is associated with increase in market value of the firm, while the Indian institutional shareholders’ association is not
statistically significant. (Ganguli & Agrawal, 2009) found that there is a positive relationship between firm performance and concentration of holding in a statistically significant manner regarding listed mid-cap Indian companies. The finding is opposite to the finding of (Demsetz & Villalonga, 2001), who concluded that there exist a statistically insignificant relationship between ownership structure and firm performance. (Gupta & Banga, 2010) used principal component analysis for analysing fifteen variables that contain a direct effect on the dividend decision of a company. The results provided five wide-ranging factors viz. leverage liquidity, profitability, ownership structure and growth. These factors were then put through multiple regression models with dividend rate as the dependent variable. The results of the regression show that leverage, liquidity, ownership structure and growth exhibited expected signs whereas profitability didn't show the expected sign. Therefore it can be seen that there is no consensus on results and the parameters used in literature.

Literature demonstrates relationship between ownership structure and firm performance. Again the question that plagued in the mind of researchers is about selecting dependent and independent variables. Performance dimension is very critical for the organization's efficient management and development of the process is not possible without end result measurement. Discrepancies among previous empirical research, such as corporate governance environments, data issues, variable measurements, and estimation methods were seen often. Hence, organizational performance requires different means of measures to identify the impact of organizational recourses on business performance.

Previous studies especially in India haven't used any broader chunk of parameters, they have used either one or a few variable to measure the firm performance, therefore the results of those studies cannot be generalised. Earlier studies either used accounting or market based measurement of firm performance but this study has used both the measurements, in addition to dividend pay-out policy by following the suggestion of Al-Matari (2014) who suggest that further research should be done using mixture of variables to measure the company performance that is both accounting and market based measures should be used to ascertain the firm performance. The accounting based measure can represent the past performance of the company while as the market based indicators help to anticipate the future performance. This extensive research tries to fill this gap by using both types of variables.
This study aims to analyse the impact of firm’s ownership structure on its performance and shareholders wealth creation. The study also aims to analyse the trend of ownership structure followed by Indian market over the last 15 years. The parameters used in this study as independent variable which is “ownership structure” are; explained in detail in chapter 2 section 2.6.

- Promoters holding,
- Non-promoters holding,
- Non-promoters institutional holding and
- Non-promoters non-institutional holding.

And the variables used as performance measure variables are given below:

- To measure performance through profitability, variables used are *earning per share (EPS), return on investment (ROI) and profit after tax (PAT).*
- To measure performance through market valuation, variables used are *market capitalisation, price earnings ratio (P/E Ratio), price to book value (P/B Ratio).*
- To measure performance through dividend policy, variable used is *dividend payout ratio (DP ratio).*
- To analyse the ownership structure of firms, *time series data* of selected firms is used.
1.2 Introduction to Ownership Structure and Firm Performance

The ownership structure is described not only by the distribution of equity with regards to votes and capital but also by the identity of the equity owners. The share ownership in corporate business world is basically fractionated ownership in nature. A fractionated ownership basically means to hold fractions of the shares in a company. It is the key method in use to mobilize critical mass of capital to make large-scale business company or industry, and create wealth through the issuance of shares. Fractionated ownership and the issues of stocks for external equity financing have been a practice for years in the Western World and also have gained popularity in other parts of the entire world. However, variations are seen in the pattern of share ownership because of the traditional notions of ownership, the method used in financing companies; the rules are set in the bylaws of companies, and the regulatory frameworks in place. Ownership structure is a technical concept on the pattern share ownership.

The Miller & Modigliani (MM) classical corporate finance theory, divides the capital of a company into equity and debt and does not go into the detailed decomposition of ownership firm. There is another well-known theory by (Jensen & Meckling, 1976) apart from classical corporate finance, by which they made an effort to provide ownership structure theory. They state that ownership structures are the equity kept by managers, the outside equity, and debt. This does not implicit the ownership structure of a corporation but is simply a modification of the classical capital structure of the MM world. They split equity into two components. It should also be noted that the debt is not part of the ownership of a company but it is liability for the business, and therefore, it can be included in capital structure of a company, but can't be treated as a part of the ownership structure a company.

Earlier studies also show that there are two dimensions of ownership structure of companies i.e., ownership concentration and identity of owners. (Mathiesen, 2004) states that, ‘ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of equity owners’. It is more practical that the distribution of equity on the basis of capital held by the identity of owners clearly determines the ownership structure.
To conclude, ownership structure is defined as the identity of equity holding in a company based on the size owned by significant owning members and the level of ownership concentration. It is also related basically to the ownership of the cash flow rights that comes from the fraction of shareholding in the company, and also by the dominance of block holders which is checked by ownership concentration. Finally, it can be said that control of a company comes from the ownership structure.

1.3 Types of Ownership Structure

The pattern of corporate ownership structure can be identified by the analysis of the ownership concentration and the identity of owners that provides an insight into the ways ownership of shares is held generally.

1.3.1 Ownership Concentration and Corporate Performance

From the literature available on ownership concentrations, most scholars have categorized that there are two different ownership structures - the diffused ownership and the concentrated ownership all around the world (La Porta, Lopez-de-Silanes & Shleifer – LLS, 1998). (Dyck & Zingales 2004, Burkart et al. 1997, Zingales 1994) claim that high concentration can help block holders to exploit their position and gain private control benefits, because they have significantly more inside information and higher control than the other shareholders. This debate can be explained as private control benefit. A contrast argument for the negative impact is the cost-of-capital argument first introduced by (Fama & Jensen, 1983). They conclude that there is an indirect relation between ownership concentration and liquidity, as higher the ownership concentration is, the lower would be the liquidity of the shares because this way there will be less number of shares available in the market to trade. This way stocks will have high-risk as the beta of the company increase and the cost of capital gets powered up (Barclay & Holderness 1989, Bolton & Von Thadden 1998). This debate is supported by (Beaver et al, 1970), Rosenberg (1976), Thompson (1976) and Hartzell & Starks (2003) empirically.

1.3.2 Diffused Ownership

Diffused ownership is the ownership pattern where ownership capital is scattered between many small shareholders which in turn leads to widely held companies. It was
(Berle & Means, 1932) who cautioned the prevalence of widely held firms in the United States. It seems that the India has the capacity to become one of the market leaders of the world in the growth of stock markets because of the growth of the size of firms and investment opportunities. From this it can be deduced that with a regulatory framework set in place, the growth in firm size, the growth of stock markets and investment opportunities and the necessity of financing will lead to the diffusion of ownership of corporations.

The possible explanations why share ownership may be dispersed in reality as (1) individuals cannot invest in bigger amounts, hence necessity to raise capital; (2) shareholders always choose to diversify risk by investing less in a company, and (3) investors' are also concerned for liquidity.

There is a wide range of small owners, which have no control over the company and are rarely allowed to intervene and also to run a business while using the diffused ownership. In these cases, strong management is required to maintain with the executive capacity to run the business. However, (Bennedsen, 2004) concludes that 'dispersed ownership brings power struggles, and as a result several controlling shareholders are formed'. This in turn indicates that dispersed shareholders can be among controlling shareholders in these countries also.

1.3.3 Concentrated Ownership
Large equity shares of the firms are held by block-holders that contain the controlling stakes in the business under concentrated ownership. The major shareholders take part in the daily management of the organization. (Bennedsen, 2004), (LLS, 1998) in the research show evidences that concentrated ownership is common all over the world. Ownership concentration is also defined as the fraction of firm's shares held by a number of the major shareholders (Sanda et al., 2005). Taking same framework into focus, ownership concentration is measured by the fraction held by the five largest shareholders or by the significant shareholders also (Karaca & Eki, 2012; Obiyo & Lenee, 2011; Singh & Gaur, 2009).

(Berle & Means, 1932) found a positive relationship between ownership concentration and performance. Other studies such as (Demsetz & Lehn, 1985; Demsetz, 1983) found lack of relation between the two. But doesn’t disprove the value of ownership concentration as (Shleifer & Vishny, 1997) stated that ownership concentration besides
legal protection forms one of important elements that determine corporate governance. (Bennedsen & Wolfenzen, 2000) are the first who have done formal financial analysis of the structure of ownership in closely held companies and chances of disagreement between owners. They found that 'the real agency problems in many organizations are between different classes of shareholders and rather than between the management team and the group of owners as the traditional corporate governance.’

1.3.4 Owner Identity and Corporate Performance
The argument behind the owner identity effect is that different owners may have different strategic goals i.e., risk, growth, valuation, profitability, and that the largest owner's way of doing business would impact the performance of the company. The most repeatedly identities are dispersed (insider) ownership, the promoters, family, government and institution.

Firms with dispersed ownership are those that contain low ownership concentration. When there isn't an individual large shareholder or shareholders that can control the firm, the managers, having inside information are subjected to take control of the firm. Positive impact of insider ownership on corporate performance is brought by (Jensen & Meckling, 1976). He assumes a positive effect of managerial ownership on corporate performance because managerial ownership syndicates the incentives of managers and shareholders and therefore is able to reduce the agency problems. (Lauterbach & Vaninsky, 1999) differentiate between family firms managed by partnerships of people, concern controlled firms, and firms where block holders have significantly less than 50% of the vote. It had been found that owner manager firms are less productive in generating net income than firms controlled by a professional (non-owner) manager, and that family firms run by their owners perform (relatively) the worst. This evidence shows that modern form of business namely the open corporation with disperse ownership and non-owner professionals, promotes firm performance.

The analysis of ownership structure and firm performance remains one of the very most interesting topics in the corporate finance literatures. Ownership structure, as an internal mechanism in corporate governance is supposed to achieve increased efficiency of a company, and is believed to effect firm performance for quite some time. For instance, (Smith, 1776) highlights that the joint-stock companies are less productive than private co-owned companies as the directors wouldn't normally guard 'other people's money'
with 'the same apprehensive caution' as their own. A set of conditions can determine the ownership structure of the firm within a framework, which in turn fixes the corporate behaviour and performance. The relationship between ownership structure and corporate performance are assumed to exist, because ownership concentration and owner identity effect the incentives of parties involved within the firm. It is argued that national Corporate Governance structures are mitigated by higher concentrations of ownership. For instance, (La Porta et al., 1996, 1997 and 1998) conclude that due to the different degrees of legal protection, ownership concentration and institutional variations exist. (Roe, 2003), (Pagano & Lombardo, 1999) and (Pagano & Volpin, 2001) argue that political determinants primarily discuss differences in ownership concentration.

The impact of ownership on firm performance is two-fold. On the one hand, concentrated ownership provides for better control of management, as size of ownership stake and the incentive to monitor are positively correlated. Subsequently, this should improve firm performance and benefit minority shareholders evenly. On the other hand it comes with costs for minority shareholders as the controlling owners might make an effort to expropriate from them. That is one of a number of private control benefits enjoyed by large block holders at the expense of firm value (Jensen & Meckling, 1976; Grossman & Hart, 1988).

Some studies check out the impact of ownership concentration on growth and risk. For example, (Larner, 1966) found that there is an insignificant positive relationship between manager-controlled firms and a higher variance in profit/equity. Further they concluded that low ownership concentration implies higher risk. Another study by (Radice, 1971) investigates the relationship between the growth in net assets and ownership concentration by using a sample of 86 large UK firms. The study found that owner-controlled firms tend to have higher profit rates and growth rate.

Many earlier studies have found positive effect of ownership concentration on corporate performance (measured by profitability and valuation). The primary reason of the positive impact is that block holders have the capability to control agents which in turn brings favourable conditions for shareholders. This is known as incentive alignment. Improved performance is outcome by the cost-effectiveness of monitoring by block holders. However, in the cases where there is a large variance of control right block
holder has less motivation to keep vigilance on the managers to pursue profit-maximization goal. Other researchers debate that the increased control by block holders decreases the self-realization of managers who subsequently get discouraged. This is defined as over-monitoring (Burkart et al 1997, Pagano & Rell 1998). Furthermore, some studies argue that high concentration will enable block holders to exploit their position and gain private control benefits, because they have significantly more information and higher control power than the other shareholders (Dyck & Zingales 2004, Burkart et al. 1997, Zingales, 1994). This argument can be explained as private control benefit. Other studies find no observable impact of ownership concentration on firm performance. (Alchian, 1950), (Friedman, 1953) and (Becker, 1962) argued that firms perform efficiently under different ownership structures because market competition will eliminate all inefficient forms over the time. Thus by going with equilibrium, there is nothing like optimal ownership structure, it is market which will bring stability in it. Another argument used to describe the non-observable effect is mutual neutralization argument. As per this argument, the positive and negative effects of different mechanisms balance one another and results in neutralization (Eckbo & Smith 1998, Himmelberg et al. 1999, Bahng, 2004). (Demsetz, 1983) conclude that diffuseness of the ownership serves the shareholders much better than a concentrated ownership structure.

1.4 Measurement of Ownership Structure and Firm Performance

1.4.1 Firm Performance

Nowadays, business can be done anywhere because of globalisation and performance of companies is checked first by the investors around the world. Globalization enables elimination of the barriers present in corporate trade and financial investment, this way businesses can have a much wider chance to grow. Globalisation encourages people in obtaining their careers from around the world.

Performance measurement refers to the process of calculating the action's efficiency and success (Neely, Gregory & Platts, 1995). (Bititci, Carrie and McDevitt, 1997) explained performance management as a process wherein the business handles its performance to match its corporate and business and functional strategies and goals. Also, the firm's value can be defined as the benefits retrieved from the firm's stocks by the shareholders
in the share market (Rouf, 2011). Financial statement reports the firm’s performance of a company. So a profitable company will brace management for quality disclosure (Herly & Sisnuhadi, 2011).

The firm's success is actually described by its performance on the given time frame. Researchers have put efforts to find out measures for the concept of idea of performance as an essential notion. Comparative statements of firms regarding performance needs certain measurement aspects. There is no specific measurement which is having the ability to measure every performance facet (Snow & Hrebiniak, 1980). Performance of a company is significantly affected by ownership structure as an internal mechanism in corporate governance and if the company is having appropriate functions in place for corporate governance, it certainly is going to attract investment and helps in enhancement of the firms values. In other words, effective corporate governance (ownership structure) helps to protect against future challenges a business may face and helps in growth and for the same reason corporate governance plays an integral role in the growth of the firm performance.

Earlier research concentrated on ownership structures relationship with financial performance was highly reliant on accounting-based performance indicators. Some studies have used individual measurements (accounting-based or market-based measurements). There are different measurements of performance with numerous implications but we tried to execute both the measurements regarding ownership structure as an internal mechanism in corporate governance. Based on the literature, to calculate firm performance we have chosen variables from both measurements i.e. Accounting-Based Measurements and Market-Based Measurements

1.4.2 Accounting Based Measurements

Accounting-based measurement is by and large considered as an effective indicator of the company’s profitability. The accounting based measurement indicators to the profitability of firms on the short term in the past years are many in use; such as Return on Assets (ROA), Return on Equity (ROE), Return on Sales (ROS), Profit Margin (PM), Return on Investment (ROI), Operating Cash Flow (OCF), Earnings Per Share (EPS), Operation Profit (OP), Growth in Sales (GRO), Return on Capital Employed
(ROCE), Profit after Tax (PAT) Return on Fixed Assets (ROFA) and others. The profit measure of performance is criticized for its backward-looking aspect.

The profits calculated by the accountants are subject to the standards established by the profession and therefore, it is affected by the various accounting practices e.g. various methods employed for the assessment of tangible and intangible assets (Kapopoulos & Lazaretou, 2007). (Hutchinson & Gul, 2004) and (Mashayekhi & Bazazb, 2008), conclude that accounting-based performance measures are preferred over market-based measures whenever investigation is done on relationship between corporate governance and firm performance because it shows the management actions outcome.

### 1.4.3 Market Based Measurements

This type of measurement is the market-based measurement which is categorized as long term in nature like Tobin’s Q, Market Value Addition (MVA), Market-to-Book Value (MTBV), Dividend Yield (DY) Price Earnings Ratio (PE) and Log of Market Capitalization among others. The market-based measurement of firm performance is considered reliable by its forward-looking aspect and its replication of the expectations of the shareholders who are concerned over the firm’s future performance (Wahla, Shah Syed & Hussain, 2012; Shan & McIver Ron, 2011; & Ganguli & Agrawal, 2009). Tobin’s Q denotes a traditional measure of future based long-run firm performance (Bozec, Dia & Bozec, 2010).

The firm’s growth aspects are extracted from the firm’s market value of its equity which is indirectly dependent on the management’s decisions (Shan & McIver, 2011; Demsetz & Villalonga, 2001). Also, the expectations regarding market based firm performance may result in the varied incentives which will give rise to variations in their holdings (Sánchez-Ballesta & García-Meca, 2007).

A recurrent question that afflicted the studies concerning ownership and performance is regarding the choice to measure the performance. Should it be accounting rate of return or EPS or market-based return or others? (Demsetz & Lehn, 1985) in their study used accounting rate of return, while (Demsetz & Villalonga, 2001) used Tobin's Q as proxy for the market-based performance.
This study is unique by using both accounting based measurements and market based measurements and in addition dividend policy has been used to check shareholders wealth creation in order to study the relationship between ownership structure and firm performance. It is the first of its kind to conduct a review of all measures of firm performance. (Al-Matari, 2014) suggested that use of mixed variables i.e. accounting based measurements and market based measures should be done while analysing the firm performance. This is very strong base that accounting -based measures can reflect the past performance of the business while as the market-based indicators will help to analyse the future performance. This research tries to fill this gap.

1.4.4 Measurement of Ownership Structure

Measurement of ownership structure has drawn some controversies. (Demsetz & Lehn, 1985) used the fraction of shares held by five largest shareholders as a measure of ownership structure. They concluded that the fraction of shares held by the five largest shareholding is more likely to be representative of the power of shareholders. Studies by (Morck et al., (1988) and (Cho, 1998) concentrate on the shares held by the management as a measure of concentration. They further elaborate management holdings as shares owned by the board members, the CEO of the company and top management. (Welch, 2003) sum up the above mentioned cases by perceiving that the number of shares held by the company's top five shareholders shows the capability of external shareholders to control the action of the management. On the other hand, the level of board ownership also indicates the ability of directors to ignore the expectations of the other shareholders. Henceforth, both measures need to be taken into account in order to analyse the most contradictory interest to examine the impact of ownership structure on the firm performance.

In this study two main categories of shareholding i.e. promoters and non-promoters have been used; then sub divided non-promoter into two other categories i.e. non-promoter institutional holding and non-promoter non institutional holding.

1.5 Ownership Trends around the World

1.5.1 Evolution of Corporations

Today if we look back at the background of the corporation, we can recognise at least three major important advancements in the evolution of the corporations. First being the
artificial creation of the business entity, which was followed by the introduction of limited liability, and lastly, the shift from democratic to plutocratic voting rights leaving one vote per shareholder to one vote per share. The next was the introduction of the publicly traded companies which represents a crucial shift in the manner business could be ascended up, wherein owners can leave the company by selling their share off in the market. The third factor in corporate governance was when corporate came into existence with its own role, accountability and responsibility. Unquestionably, the board is 'elected' by the shareholders but once so elected the board is nearly its own arbiter in every matters associated with the company. Shareholder predominance is affected diversely by the ownership structures of the corporation. Dominant ownership which is widely across the including India, apart from the United States and United Kingdom, is a double-edged sword. Owners having long-term interests in the company can be responsible for stability to ensure effectiveness but can also potentially cause costs of withdrawal of private benefits of control to the segregation of other shareholders. Accountability and responsibility are greatly impacted by ownership under modern day corporation. Ownership structure has the ability to mediate firm strategy and behaviour (Wright, et al, 1996) and can impact stakeholder management and boardroom dynamics (Goodstein & Boecker, 1991). Furthermore, executive compensation is also influenced by ownership structure (David, Kochhar & Levitas 1998); Balasubramanian, et al, 2013)), and R&D investment also is affected (Baysinger, Kosnik & Turk, 1991). Having insight into understanding the ownership patterns and trends, it can thus lead to more distinctive knowledge of organizational behaviour and its own predictableness.

There are numerous advantages of the modern corporation. It relieves funding problems, which enables the company to expect larger-scale businesses and utilize economies of scale. It also facilitates complex-operations allowing the most skilled or expert managers to regulate business even though they don't have enough funds to own the company. Money is raised in capital market by modern day corporations and is assigned it to the profitable activities of business. That is why it is hypothesized that the modern diffuse-ownership companies perform better than the traditional "closely held" business forms. One of the most important identities of the modern corporation is the separation of ownership and control. Modern corporations are usually run by professionals who own only a small fraction of the shares. There is a debate in the
literature on the effect of the separation of ownership and control. Williamson (1964) suggest that non-owner managers choose their own needs over that of the shareholders. Therefore, non-owner managed companies become less profitable than owner-managed companies. The (La Porta, 1999) analysis concluded that from 27 developed countries only 30% of the companies showed dispersed ownership. Significant ownership concentration was found in South America, major shareholders being either corporate bodies, individuals or the state in their study of corporations by (Aguilera et al, 2011).

Academic as well as empirical studies on corporate governance systems indicate the value of the structure of ownership and control in establishing the background for corporate governance issues that can arise. (Kaur & Gill, 2009) discerns ownership pattern for BSE-200 Index companies for six financial years, i.e., 2000-6. The results claim that Indian companies typically maintain their shareholding pattern as time passes. This is also true for the entire proportion of shares held by promoters and non-promoters. Although India has a tradition of equity ownership by promoters, a phenomenon of institutionalization of wealth wherein institutional investors’ especially foreign institutional investors are consolidating their holdings is quite apparent. They show insignificant shareholding of people and a fall in the percentage of outstanding stocks held by institutions comprising banks, insurance firms, and corporate bodies from 2001 to 2006. Further, the ownership concentration both in terms of the fraction of shares owned by the major shareholders and Herfindal index increased for the average company over the period. In addition they conclude by recommending that efforts to improve corporate governance standard must be accompanied by a better legal enforcement so as to be able to bring steadiness in its capital markets and foster investor confidence. In consistence with some recent studies companies in India, unlike other emerging markets typically maintain their shareholding pattern over time (Mittal & Kansal 2007). Every company has several means of building its ownership. Normally the kind of ownership structure a company decides to look at is built by the vision of the company.

1.5.2 Ownership Patterns in India

Ownership structure regarding corporates in India is primarily concentrated in the hands of promoter groups, multinational parents, domestic individuals or the state.
(Balasubramanian, 2010), in his study implied that most of the family and other domestic holdings could be traced back to the days of the British Managing Agencies, which is perhaps unique to India as it enabled essentially British merchants and some Indian businessmen to nurture unlike enterprises which ultimately grew into big corporations. “Many of these agencies were acquired by Indian groups when their British owners chose to depart from India on the country attaining independence in 1947. The Indian state was the other major dominant shareholder in a number of large corporations when as part of national policy, state owned enterprises were set up to reach commanding heights in the Indian economy; many of these are now publicly traded corporations as a result of the government’s privatisation initiatives” (Balasubramanian, 2010). (Srivastava, 2011) in his study related to India found existence of highly concentrated ownership structure. He furthermore concluded that the dispersed ownership percentage impacts accounting performance measures but not stock market performance measures, which in turn indicates that there might be various other factors affecting firm’s performance other than from ownership structure.

1.5.3 Growth of Firms

Growth is an important dimension of a firm, whether it is small or large. It can be said that growth is a necessary condition for the long run survival of the firm in an uncertain and constantly changing environment. Growth is dynamic aspect of industrial structure. It is a normal process but reinforced considerably by the competitive environment, particular opportunities besides being a managerial objective. The firms, especially those emphasizing the implications of the separation between ownership and control for decision making within the firm, aspire to maximize the rate of growth of certain aspects of its activities. So maximization of growth may be the goal of the firm or an instrument to achieve some other goals like maximization of profits or sales etc. (Baumol, 1962) for example suggested maximization of the rate of growth of sales subject to short run profit constraints. (Galbraith, 1967) argued that the firm may maximize the rate of growth of sales subject to an acceptable level of dividends and retained earnings. (Penrose, 1959) mentions the availability of unused productive resources, the ability to utilize more extensively and the availability of new productive services, in her study of the growth performance of firms in the British food manufacturing and electrical industries. The most important contribution in this area
came from (Marris, 1963) who argued that a firm maximizes the growth of total productive assets subject to managerial security constraints. Through growth, the firm will be able to enlarge its size. The larger the firm, the more perfect the control it assumes over its environment and the higher the efficiency with which it plans its overall activities. A growing firm may be able to increase its market share in the industry. It may acquire more market power which will have favourable effects on earnings of the firm. Introduction of new products, new production processes and organizational techniques as parts of the growth strategy of the firm will enhance the competitive power of the firm. Thus growth needs an appropriate strategy involving a choice from a set of possible investment opportunities which is most likely to produce the desired growth. In this study we have done growth/trend analysis among the various performance variables used so as to check the trend of performances of firms in Indian corporate sector.

1.6 Conclusion

The present chapter starts with section 1.1 with the explanation of research background then in section 1.2 it elaborates the meaning of ownership structure and firm performance and reaches to a conclusion that even though the results are mixed, there exists a relation between the two. Section 1.3 describes the types of ownership structure. Section 1.4 gives clear overview of measurement of ownership structure and firm performance, where it is decided which variables are best fit for the study. Section 1.5 shows the ownership trend in Indian corporate world and growth of firms’ where it is seen that India is having concentrated ownership structure. Section 1.6 shows conclusion of chapter 1.