OWNERSHIP STRUCTURE IMPACT ON CORPORATE GOVERNANCE AND PERFORMANCE

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Abstract

Ownership structure is one of the most important factors influencing the system of corporate governance as well as firm performance in general. Main aim of the paper is to analyse the ownership structure development in different countries in the years 2015-2017. Following countries were selected for comparative analysis of this issue: United States, Germany, United Kingdom, Belgium, France, Sweden, Russia and Czech Republic. The main reason for selection of these countries was to cover in this sample the most important country characteristics like size (big, small), economical level (developing, developed), territorial position (West, East) etc. It aims to find out the causes and dependences, which enable carrying out development predictions. Based on this approach, methodological instruments are created to facilitate ownership structure development on country level. Paper elaborates methodological instruments in order to find out the relationships between ownership structure and corporate governance and performance using macroeconomic data on country level. Comparative analysis of existing ownership structures in selected countries shows interesting differences. Research results are applied as incentives influencing government strategy in future development of ownership structure and corporate governance structure.

Key words: Ownership structure, capital concentration, corporate governance, firm performance, country level

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Introduction

Ownership structure and its impact on corporate governance as well as on performance is one of the most frequented topics in the area of corporate governance. Looking at the literature sources on internet we can find out about 150 references on this topic only in the period of the last 3 years.

In spite of this enormous interest there is still number of questions not only in scientific field but in business world as well. Tenths of theoretical studies lead to contradictory conclusions, where some of them confirm very strong influence of ownership structure on corporate governance system as well as firm performance. The others come to the conclusion that the ownership structure is only one of many factors influencing corporate governance and performance and in many cases the other factors like phases of life cycle, quality of management, technological development, system of compensation, competitors activity and others are much more decisive for the final results.

1 Literature review

Castek in his dissertation thesis (Castek, 2018) mentions the results of 145 empirical studies dealing with the relationships between corporation ownership and their performance (Boyd & Solarino, 2016). The authors come to the conclusion that ownership concentration is performed in the form of so called institutional ownership, their power was increased enormously. Firms, majority owned by institutional owners increased their performance in general. Their ownership share for example in US economy increased from 8 per cent in 1956 to 67 per cent in 2010 (Pichhadze, 2010). The impact of the ownership concentration, company growth and the rate of return on equity investment was analyzed by Peter Easton (Easton et al., 2002). The main difference between their study and the other papers is that their results come to the estimation and analysis of the reasons for increase the rate of return. Contrary to the others they only assumed rate of growth. The strong relationship between the ownership concentration and firm performance was confirmed in their results.

Relationships between family ownership and control and product market competition and firm performance was analyzed by Anderson (Anderson & Gupta, 2009). The results suggest that family owned firms exhibit superior firm performance relative to nonfamily firms. Family control is an effective internal corporate governance mechanism that can compensate for weak external corporate governance. These findings suggest that the family ownership and control is an effective organizational structure in mitigating agency problems and enhancing firm performance when external corporate governance is weak.

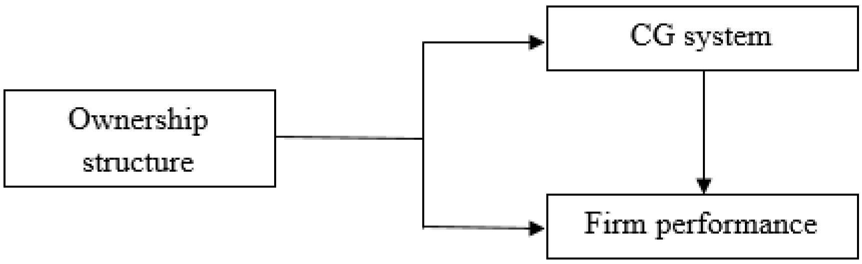
In study of 495 Polish non-financial firms listed on the Warsaw Stock Exchange in years 2005-2016 with the total of 3,203 observations the authors (Warsaw Stock Exchange Data, 2017) came to the interesting results, identifying a negative correlation between ownership concentration by the majority shareholders and ROA, which corresponds with the expropriation rationale of blockholders. The results show as well that ownership by CEO, state and financial investors proves to have no statistically significant effect on performance.

The relationship between commercial governance ratings (CGR) to firm performance was analyzed in the study by Institutional Shareholder Services Inc. (ISS) index (Quickscore) with a sample of firms formed by the constituents of the Standard and Poor's Europe 350 stock market index (ISS Quickscore, 2017). The authors have not found a consistent significant relationship between Quickscore ratings and firm performance. This main result holds across a variety of checks.

2 Methodology

The basic idea stems from the precondition that the ownership structure as independent variable has an influence on corporate governance system as well as firm performance. Moreover CG system has an influence on firm performance (Fig. 1):

Fig. 1: Relationships among ownership structure, CG system and firm performance



Source: Owner research

Contrary to majority of the authors, analysing the above mentioned relationships on company level we will analyze these relationships one level higher from macroeconomic point of views. It means our variables for expressing ownership structure in the particular country. CG system is characterized in a similar way as prevailing type of CG system in analyzed country. Firm performance is in this case expressed in cumulative form as the value of GDP per capita for the country.

This methodological access allows to eliminate the necessary logical differences among the companies, which are caused by the sectors of industry, company size, path dependences, life cycles and many other factors.

Data were collected with the assistance of master's degree students, using mostly the meta-analysis method, exploiting the primary data from statistics, company annual reports, conference papers and articles from scientific journals mostly from the period of the years 2015 to 2017.

The selection of the countries was done with the aim to create the diversified sample of versatile characteristics, covering large, middle-sized and small countries from different parts of the world. On the other hand chosen countries have similar technological and economic level, which allows reasonable comparative analysis.

We try to analyze different types of ownership structure using the classification in literature sources (Tricker, 2012; Monks & Minow, 2011; Mallin, 2007): institutional, bank majority ownership, individual, family, foreign, public (state), managerial and ESOP (Employer stock ownership plan).

In CG system we can indicate three basic structural types: one-tier, two-tier and combined.

Firm performance is in our case represented by aggregate indicator of macroeconomic type of gross domestic product per capita.

3 Findings and Discussion

Following text describes ownership characteristics and ownership structure in selected countries as well as the prevailing CG system and the GDP value per capita in the years 2015, 2016 and 2017 in every analyzed country.

United States

In the US, corporate ownership is rather diversified. There are a lot of institutional investors owned companies. This is also a consequence of a rather free market, in which these institutional investors "replace" banks as the financial intermediaries.

Large shareholders, especially majority ownership are relatively uncommon, probably because of legal restrictions on high ownership and exercise of control by banks, mutual funds, insurance companies and other institutions (Schleifer & Vishny, 1997). Ownership is more diversified and dispersed. Although some companies in the United States are controlled by large shareholders, e.g. Microsoft, Ford and Wal-Mart, such firms are relatively few and have thus drawn less attention in the corporate governance debate.

Indeed, institutional investors will continue their push for more uniform standards of corporate governance globally, while also increasing their expectations of the role that boards should act in their interests? Large institutional investors are now pressuring boards to demonstrate that they are actively involved in guiding a company's strategy for long-term value creation.

We can state, that the prevailing ownership structure is based on the institutional owners, with some attempts to implement ESOP ownership structure.

The CG system is characterized by one-tier structure.

The GDP per capita ratio in 2015 is \$56 444, in 2016 \$57 589, in 2017 \$59 532.

Germany

In 2015, there were 3.47 million companies in total in Germany. The majority was generated by small companies with zero to nine employees. More than 250 employees covered by social insurance had about 14,200 companies. Due to the large number of small companies, most of them are sole proprietors. Nevertheless, in 2015 there were nearly 400,000 general partnerships, almost 700,000 capital companies and 300,000 other legal forms. These figures include family businesses that have been a significant part of the German economy for decades or even centuries. They achieved an annual turnover of 1.74 trillion Euros. 65 % of family businesses work in industry. Among the largest and most well-known family businesses we include among others Volkswagen, BMW and Robert Bosch. German system is mainly based on banks as shareholders. They have a close relationship with non-financial corporations and make use of all the control and influence instruments they are entitled to, such as equity investments and supervisory board presence. The German commercial banks thus have a considerable influence on corporate control, which can also be considered as a source of danger for bank customers and the stability of the financial system.

The CG system is characterized by two-tier organizational structure with the important role of employee representatives.

The GDP figures per capita in 2015 is $41 324, in 2016 $42 233, in 2017 $44 470.

UK

Government has majority ownership and institutional investors like banks, financial companies, etc. also play a crucial role in the state owned ownership structure. This structure is more effective to secure the investors than other ownership structures. State ownership structure also plays an important role in protection of minority investors through providing shares at low cost and by doing their policy liberal to attract more investors.

In private ownership structure, there is no role of the government and a single person or more than one person have the control. Shareholders are the key of the private ownership because they decode the profit and loss of the company through their investments in the company. Institutional investors and foreign investors both play a crucial role in the ownership structure.

From above mentioned analysis we can state that prevailing type of ownership form is foreign ownership followed by individual investors, investing mostly by IPO in very active capital market.

The CG system is based strongly on one-tier structure with non-effective protection of minority shareholders.

GDP data per capita in 2015 is $44 306, in 2016 $40 412, in 2017 $39 720.

Belgium

If we look closer to the ownership characteristics in Belgium we can see that there are few state owned companies. The state have the majority in a few companies that represents a small proportion of the all portfolio of Belgian firms. 77 % of the Belgian companies (123,000) are family businesses. The SME's are also mostly owned by families. Furthermore, Belgium is characterized with a lot of holding companies and family groups with a lot of interlocked firms.

Institutional investors in Belgium face regulations which are related on three topic: the limitation of the volume of investments, the exercise of voting rights and on conflicts of interests. The Belgian economy has been characterized by high foreign direct investment. Foreign direct investment inflows were really high (30 % of GDP in 2017). However, the country has faced important disinvestments since 2013.

Prevailing CG system in Belgium is representing by one-tier model with the possibility to choose from one- or two-tier models according to Belgian commercial law.

GDP per capita figures in 2015 is $40 361, in 2016 $41 261, in 2017 $43 324.

France

Analyzing data of French quoted shares from 2015 to 2017, a report of the European Commission in 2018 showed that there was a significant change in ownership structure of French shares during this period, specifically a substantial increase in proportion of foreign investors, which is offset by a decrease in that of institutional and private investors. Institutional investors include investments funds, insurance companies, pension funds, banks and non-financial corporations as well.

In 2017, households held approximately 11 % of French quoted shares, 7 percentage point lower as compared to the figure in 2012. The institutional investors accounted for 40 % of the shares, 6 % went to the French general government, and the rest was owned by the foreign investors (approximately 43 %) in 2017.

In CG system in France we can meet with interesting mix of applied models. The prevailing one-tier system is applied mostly in SME companies, while smaller number of large companies prefers two-tier model. We can state that this group of companies represents more important part of French economy.

GDP per capita figures in 2015 is $36 613, in 2016 $36 870, in 2017 $38 477.

Sweden

The Swedish companies act distinguishes two types of companies into two categories: limited liability companies and public liability companies. As of the end of 2017, there are around 450,000 limited liability companies and 1,000 public liability companies out of which 265 companies were traded on Swedish regulated markets. In 2017, institutional investors accounted for more than 85 % of market capitalization of the Nasdaq Stockholm market and less than 15 % is represented by individual investors. Swedish general pension fund system, which involves all citizens, was reformed to individual pension savings account and thus, it is up to everyone to decide about the investment option. Direct ownership or funds that holds large portfolios of shares themselves was the choice of the citizens. After the change, the institutional investors in the form of pension funds, insurance companies, mutual funds and other institutional portfolio investors started to accumulate the capital form the individual investors.

Swedish CG system we can characterize like one-tier model with typical leading role of CEO as managing director as well as chairman of the Board of Directors as one person.

GDP characteristics per capita in 2015 is $50 812, 2016 $51 845, 2017 $53 442.

Russia

Unlike most of the Western companies, the low level of separation of ownership and control frequently characterizes Russian ones, since managers often own a major block of shares in the companies that they run. Kuznetsov (Kuznetsov, Kuznetsova, & Kapelyushnikov, 2006) reports that ownership allocation within Russian firms favors the insiders, who on average control 41% of the shares. Notably, in the course of 1995-2007 the number of shares belonging to the managers has increased, when the amount of shares in possession of other employees have shown a decrease. Furthermore participation of foreign investors, banks and investment funds remains at a low rate. Literature suggests that insiders often enter into a practice of diluting the shares of outsiders, or in any other way misuse the power given to them. As a result, the Russian Corporate Governance system can be characterized as having low separation of ownership and control.

State owns two-thirds of the market capitalization in the Russian stock market. However, that ownership is mainly limited to four industries: energy (oil, gas, and electricity), banks, defense industries, and transportation. There is little state ownership in most other sectors in the Russian economy, including consumer goods, non-defense manufacturing, agriculture, insurance, and services. The State-owned enterprise (SOE) sector accounts for about 50 percent of the GDP as some of the largest listed companies are controlled by the State. Regarding the banking system in Russia, it consists of 2 main parts - a central bank (Sberbank Rossii, Russian Savings Bank) and commercial banks.

CG system is characterized as prevailing two-tier model with minimal attempts to influent one-tier model.

GDP characteristics per capita in 2015 is $9 347, in 2016 $8 759, in 2017 $10 743.

Japan

The ownerships structure in Japan is quite similar to the German model where banks play a major role in governance of the corporations.

The company relationship, called Keiretsu, is the predominant ownership structure. Typical structures of current company groups are vertical company relationships, horizontal relationships tied together by capital, and company groups based on transactional relationships.

The cross-shareholding level is high between non-financial companies, because the shareholding ceilings only apply for the financial institutions and do not exist for non-financial institutions.

In the keiretsu system, the main bank is both a shareholder of a firm and a creditor of that firm. The bank encourages the companies to borrow heavily from the bank to maximize interest income as the lender on the one side. On the other hand, as a shareholder the bank wants the firm to maximize profits on the expense of interest.

Corporate governance system in Japan is characterized by the mix between one-tier and two-tier structure, with the important role of internal auditor, called "kansayaku".

GDP figures per capita in 2015 is $34 568, in 2016 $38 972, in 2017 $38 428.

Czech Republic

During early 1990's Czech Republic went through a major exercise of privatization of its productive industrial assets to its citizens. One of the methods adopted is known as the voucher privatization.

The results show that the most effective type was the privatization and ownership by foreign investors and contrary the least successful was privatization by voucher method. The reason by our opinion is that voucher privatization logically generates hundreds, in some companies even thousands of minority shareholders. The results is that the majority owners are absent and the efficiency of ownership control is on low level.

This situation led to so called unofficial "third wave of privatization after official two waves of voucher privatization finished in 1995. The main aim was to find the appropriate majority owner and to concentrate not only on the ownership capital but to do more effective corporate governance.

In the period of 2015 to 2017 the ownership structure can be characterized by prevailing ownership of institutional owners, represented by mutual (investment) funds as a product of voucher method and foreign investors with the main activities in financial sector and large industrial and constructing companies (all commercial banks, Skoda Auto, Skanska, Pilsner Brewery, Staropramen).

CG system is predominantly characterized by two-tier model.

GDP data per capita in 2015 is $17 716, in 2016 $18 484, in 2017 $20 368.

Summary of the observations is presented in Figure 1.

Fig. 2: Summary of results

indicator / country	ownership structure	CG system (model)	GDP/capita (average)
US	instit.	one-tier	$ 57 855
Germany	bank	two-tier	$ 42 676
UK	state, foreign	one-tier	$ 41 479
Belgium	family	one-tier	$ 41 649
France	instit., foreign	mix	$ 37 320
Sweden	instit.	one-tier	$ 52 033
Russia	managerial, state	two-tier	$ 9 616
Japan	bank	mix	$ 37 323
CR	instit., foreign	two-tier	$ 18 856

Source: Owner research, GDP data from Data Worldbank

Conclusion

Our findings show that there is no statistically significant relationship between one type of ownership and for example high or on the other hand low firms performance, in our case exhibited by cumulative macroeconomic indicator for the whole country GDP per capita.

In individual countries (e.g. Germany) we can indicate higher performance and concentration of ownership, represented by commercial banks. The interesting result is that this phenomenon is connected with two-tier model of CG system, but statistical significance of this phenomenon in neglected. On the other hand the experience from voucher privatization and transition in general (CR, Russia) show that dispersed ownership in the form of prevailing minority owners without one or maximally few majority owners leads to unsatisfactory economic results.

Concluding the results we can come to the statement, that the relationships between the different forms of ownership as independent variable on one side and CG system and firm performance as dependent variable on the other hand is statistically not significant. The main reason according to our observation is that these relationships are influenced in the same time by a lot of other factors (technology, life-cycle, IT, finance) which are of higher importance than ownership structure. But we have to be aware that in special situations (like voucher privatization in transition) this factor can play in a limited period of time crucial role.

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