

# Corporate ownership structure and corporate performance essay sample

[Business](#), [Company](#)



## 1. Introduction

Corporate Governance is an issue of public importance of late. One aspect of the issue is the structure of the corporate ownership structure vis- a-vis corporate performance.

### 1. 2 Background

Share-holder activism has evoked interest as to how shareholders are really being treated by the management of the companies. It depends on their ownership structure impacting on their performance in terms of profit and distribution of profits amongst shareholders. In 1990 a California based pension fund company known as California Public Employees Retirement Systems (CalPERS) started questioning the practice of those listed companies buying back shares from the share holders at higher prices led to the draining of companies' capital and reduction in value of their shares. Contemporary companies with widely dispersed shareholders also followed suit by questioning such unethical practice.

### 1. 3. Purpose

The purpose of this research is to empirically examine if there is a relationship between ownership structure and corporate performance among companies listed on Johannesburg Stock Exchange (JSE). We will explore these relationships by comparing respective variables against each other using regression models. In addition, we propose to look into company specific factors in order to evaluate their impact on performance

## 1. 4 Problem Statement

South Africa is also seized of the issue of corporate ownership especially after the lifting of Apartheid. The exploitation of the small and widely dispersed investors by the companies management prevalent in South Africa needs to be studied. This worldwide phenomenon of the principal-agent theory and stake-holder theory needs to be briefly discussed. Berle and Means (1932)[i] were the first to discuss the development of agency theory. Adam Smith in his book "The wealth of Nations" (1776) had already identified the agency problem by postulating that company directors would not take much care of other people's money as their own, as observed by Letza, Sun and Kirkbride (2004)[ii].

The present state of affairs only reconfirms to reflect that it is truism to say that the share holders own the company. . Principal-agency relationship is a problem because the agents may not always act in the best interest of the principals. Therefore decisions taken by the agents are not always consistent with principals' welfare. The stake-holder theory is in stark contrast to the principal-agent theory which mainly focuses on the interests of shareholders. The stake-holders theory suggests that if managers (agents) are over concerned with share holders, the tendency is to concentrate on short-term profits rather than long term interests. If the share holding is on long-term basis this problem will not arise. Corporate Governance is a broader concept in that ' what is optimal for shareholder often is not optimal for the rest of the society.' (Blair 1995: 13)[iii].

## 1. 5 Research Questions

This study intends to explore the relationship between ownership structure and corporate performance. The study can be said to achieve its purpose if it can provide answers to the following:

Who actually control listed companies in South Africa?

Are the ownership structures of South African companies especially large ones widely dispersed or concentrated?

How does ownership structure affect corporate performance?

What are the actual control and ownership rights of state of South Africa in listed companies of South Africa.?

What are the actual control and ownership rights of directors and management in South African listed companies and their effect on corporate performance?

What effect do corporate specific factors, play in ownership structure and corporate performance?

## 1. 6 The Rationale-Why the research is important

Economic prosperity of a country depends on how fairly and widely wealth is distributed amongst its people. In the present era of globalization, though the world has become small, the players have become large by virtue of mergers and acquisitions aimed at achieving competitive advantage which

includes large scale economies. Hence while large scale operations are unstoppable, interests of shareholders should not be lost in the process. The shareholder activism will be meaningful only if the decision makers in activists group are informed of the realities that whether or not performance of companies is synonymous with the concentration of ownership. This research's findings should stimulate debate whether concentration of ownership is desirable for the sake of better performance or better performance is possible even without concentration of ownership. And whether policy makers can really do any thing about whatever be the phenomenon is.

## 2 Literature Review

Our initial expectations of these relationships, are that companies with widely held/dispersed ownership will be associated with poor corporate performance and companies with significant holding by majority shareholders will reflect good performance as there will be expropriation of minority shareholders. Companies with major shareholders as insiders will also reflect good performance as there will be minimal agency problems. On the other hand, state ownership is negatively related to corporate performance as state often tends to pursue its political and social agendas as a priority at the disadvantage of profit and value maximization.

Post-apartheid South Africa being an infant country, data available from the relatively shorter period of corporate history may not give easy insights to the corporate ownership and structure. Hence this study will enquire into the

situations prevailing in the rest of the world. For the purpose of this proposal a sample observation of two countries alone is given.

## 2. 1 Sweden

Sweden: In the paper entitled Agency conflicts, ownership concentration, and legal share holder protection [iv] published on line 17 March 2005, it has been deduced that share holder protection measures prevent diversion of corporate resources by managers in collusion with large shareholders.

Swedish industry is dominated with few large multinational corporations like ABB, Ericsson, Electrolux, Stora Enso, Volvo etc. The fifth generation of Wallenberg Dynasty dating back to middle of 19<sup>th</sup> century is said to be active owners of these industries.

Findings in the study conducted by Steen Thomsen, Torben Pedersen, Hans Kurt Kvist [v] are evident of the conflict of interests between block holders and minority investors. *In continental Europe*. The percentage of block holders' ownership can be said to be very high from minority share holder value view point.

## 2. 2 U. S. A.

*In U. S. A.* : Adams, Santos [vi] in their paper [vii] " Identifying the effect of managerial control on firm performance" have concluded that managerial control by share ownership has positive effects on performance over at least some range, contrary to the belief that managerial control is purely detrimental, in certain Banks in the U. S. A.

Yet another study of U. S. authors Demsetz and Villalonga [viii]

[xii] Buehler, Cheryl 2001, Social Work research “ introduction to multiple regression for categorical and limited dependent variables”

## Tables

Table No 1

Company name	Year/Years	Number of times Targeted	Ownership Type
Air Canada	1999	1	wide
BCE	2001, 2000, 1999	3	wide
Bank of Montreal	Every year from 1997 to 2002	6	wide
Bank of Nova Scotia	Every year from 1997 to 2002	6	wide
CIBC	Every year from 1997 to 2002	6	wide
Canadian-Occidental (Nexen)	2000	1	private
Corel Corp.	1999	1	wide

Dofasco	1999	1	private
Du Pont Canada	2002	1	private
George Weston Limited	2002	1	private
Hudson's bay Company	2002, 2001	2	private
Inco. Ltd	1999	1	wide
Laurentian bank of Canada	Every year from 1997 to 2002	6	wide
Loblaw Companies Ltd.	2002	1	wide
Moore Corporation Ltd	2000	1	wide
National Bank of Canada	Every year from 1997 to 2002	6	wide
Nortel networks	2002	1	wide
Placer Dome Inc.	2000	1	wide

Table No 2

	Anglo-American	Sanlam	Old Mutual	Rembrandt	Liberty Life	Anglova
Controlling	Oppenheimer	Policy	Policy	Rupert	Gordon	Mennel





Anglo	52.5	54.1	53.6	54.1	60.1	49.5	45.3	44.2	42.4	33.7	38.2	4
Sanlam	9.4	10.7	12.2	11.3	10.7	10.8	9.5	13.2	13.2	15.6	12.0	0
Rembrdandt	2.1	2.8	3.8	4.4	4.3	7.6	16.1	13.6	15.2	14.6	15.5	5
Old Mutual	0.6	2.7	10.6	10.6	8.0	9.8	9.8	10.2	10.4	14.2	10.7	9
Liberty	1.1	2.1	2.0	2.3	2.0	2.6	3.4	2.6	3.7	4.7	6.2	1
Anglovaal	1.7	1.7	2.1	2.1	2.1	2.4	2.2	2.2	2.5	2.9	3.4	1
Foreign Control	5.4	5.7	5.9	6.1	4.1	5.1	3.6	2.1	1.9	2.2	2.4	1
Management	4.1	5.1	3.0	3.5	3.7	6.9	4.9	5.0	6.2	6.8	7.7	1
Black Control												
Other Groups												
Joint Control												
unallocated	19.9	12.8	4.0	1.2	1.8	2.8	1.3	3.2	3.9	5.0	3.5	1
Cumulated share by												
Top 5	65.7	72.4	82.2	83.0	85.1	81.2	80.3	83.8	84.9	82.8	82.6	1

Table No 4

Financial Companies Companies Companies Companies Companies  
Year-End

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	2005	2004	2003	2005	2005
January	2	2	1	2	2
February	49	49	56	60	79
March	49	50	55	65	82
April	1	3	5	7	10
May	3	3	3	5	5
June	117	118	125	128	150
July	5	6	7	8	6
August	17	17	18	19	21
September	31	32	35	39	44
October	3	2	2	3	5
November	3	1	1	1	2
December	72	71	75	89	104
TOTAL	352	354	383	426	510

*Source: Profile's Stock Exchange Handbook*

Table No 5

Major Shareholder - AVERAGE OF ALL	2005	2004	2003	2002	2001	Average
Major Shareholder with	30.5	32.6	33.2	37	36.9	34.1
Net Profit Margin	5.7	(7.3)	51.2	(29.8)	(291.3)	54.4
Return on Assets	16.0	12.6	32.4	11.0	10.7	16.5
Return on Equity	12.8	3.6	(11.4)	1.7	4.8	2.2
Share Price (cents)	2611	1831	1654	1815	1467	1875
Tobin Q	2.1	4.8	1.2	1.3	1.1	2.1
EVA	375.6	254.3	223.8	83.3	151.4	217.7
Major Shareholder (05% - 09%)	2005	2004	2003	2002	2001	Average
Major Shareholder with	7.7	8.4	7.5	7.4	7.6	7.7

Net Profit Margin	29.5	23.7	8.7	12.9	11.7	17.3
Return on Assets	33.4	26.8	20.9	27.4	20.4	25.8
Return on Equity	38.2	33.3	14.8	31.1	26.3	28.7
Share Price (cents)	22, 418	8,137	7,504	411.9	2,058	8,106
Tobin Q	8.2	4.0	1.6	0.6	1.9	3.3
EVA	1, 304.4	466.1	416.6	(249. 7)	(626. 0)	262.3
Major Shareholder (10% - 19%)	2005	2004	2003	2002	2001	Average
Major Shareholder with	14.9	15.6	14.5	14.3	15.3	14.9
Net Profit Margin	5.7	23.7	8.3	(1.5)	(5.0)	6.2
Return on Assets	15.9	26.8	17.8	5.8	(1.2)	9.6

Return on Equity	12.8	33.3	21.8	(8.9)	(22.1)	7.4
Share Price (cents)	2,611	8,137	1,398	1,657	2,116	3,184
Tobin Q	2.0	4.0	0.8	0.9	0.8	1.7
EVA	345.6	466.1	604.8	386.6	386.9	438.0

Major Shareholder (20% - 39%)	2005	2004	2003	2002	2001	Average
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Major Shareholder with	25.4	26.9	28.5	29.0	29.3	27.8
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Net Profit Margin	(9.0)	(3.6)	35.7	(89.6)	(67.2)	-26.7
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Return on Assets	15.8	12.5	11.8	11.8	12.5	12.9
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Return on Equity	13.7	(6.5)	2.5	10.4	11.0	6.2
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Share Price (cents)	664	1,128	764	728	598	776
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Tobin Q	1.1	1.0	0.8	1.0	0.8	0.9
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EVA	48.6	354.2	6.3	(72.7)	(3.2)	66.6
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Major Shareholder (40% - 49%)	2005	2004	2003	2002	2001	Average
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Major Shareholder with	44.1	42.6	44.8	44.2	46.1	44.4
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Net Profit Margin	10.8	18.1	618.7	10.2	13.6	134.3
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Return on Assets	28.2	23.0	298.4	18.0	23.0	78.1
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Return on Equity	20.1	29.5	367.9	20.8	25.4	92.7
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Share Price (cents)	1,900	1,707	889	7,810	10, 293	4,520
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Tobin Q	2.0	1.5	0.7	2.0	2.4	1.7
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EVA	93.5	(11.8)	0.4	245.3	351.3	135.7
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Major Shareholder (50% -	2005	2004	2003	2002	2001	Average
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74%)

Major Shareholder with	60.5	57.7	59.5	58.9	58.1	58.9
Net Profit Margin	11.6	0.7	(19.3)	(6.5)	(6.0)	-3.9
Return on Assets	18.5	11.5	12.0	10.9	9.5	12.5
Return on Equity	6.9	6.7	2.5	(11.1)	(14.8)	-2.0
Share Price (cents)	2,296	1,270	1,568	1,178	943	1,451
Tobin Q	3.7	0.9	1.2	1.2	1.2	1.6
EVA	78.6	35.4	55.7	(45.7)	52.8	35.4

Major Shareholder (75% -  
100%)

	2005	2004	2003	2002	2001	Average
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Major Shareholder with	77.8	84.3	82.0	81.8	82.8	81.7
Net Profit Margin	(35.	(194.	(18.8)	2.7	7.5	-47.6



	2)	4)				
Return on Assets	(37.0)	(0.9)	0.2	5.4	16.4	-3.2
Return on Equity	(95.4)	(67.2)	(556.5)	(10.4)	12.7	-143.4
Share Price (cents)	78	167	171	1,197	1,756	674
Tobin Q	0.4	68.9	4.1	3.2	4.7	16.3
EVA	507.4	95.3	26.0	84.9	20.3	146.8