

Shareholding pattern has significant impact in the firm's performance: An Anecdote from Indian Corporate Sector

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ARTICLE DETAILS

Article History

Published Online: 12 June 2019

Keywords

Shareholder, Firm Performance, Agency Cost, Corporate Governance Index.

ABSTRACT

The issues with respect to corporate administration have gotten real consideration inferable from their obvious significance for the monetary strength of organizations particularly after plenty of corporate tricks and fiascos in the current circumstances. High moral esteems can decrease expenses to accomplish a high corporate administration standard and make it more practical. Enhancing corporate administration is an issue of basic significance to India today and for future improvements. The Indian government has understood that great corporate administration is important to enhance corporate intensity and to pull in outside financial specialists. It is trusted that with better corporate administration, recorded firms can decrease office costs, turn out to be more aggressive in worldwide markets, and satisfy their social obligations. There are no decisive confirmations so far in the writing in demonstrating the linkages between investor sorts and firm execution, thus the present examination will include and address the glaring learning hole in Indian literature. Using board relapse, the connections between investor sorts and money related execution as measured by Tobin's Q, ROA, ROE were tried taking a specimen of BSE100 organizations barring managing an account and insurance agencies.

1. Introduction

In some ways Corporate Administration isn't another idea; obligation in the treatment of cash and lead of business and trade has dependably been critical. In the most recent century or something like that, with the expanding unpredictability and energy of companies, it has gone to the fore insistently. An unequivocal start was made toward this path when after the presentation of liberal-advertise changes, the Indian Corporate Part, drove by CII, drew up a deliberate code of Corporate Administration (CG). Assist improvements from that point swayed between making CG intentional or compulsory. By the year 2000, the same had been consolidated as a need in the condition 49 of the posting understanding managed by the market controller SEBI according to the suggestions of The Birla Advisory group that particularly put an accentuation on autonomous executives. The Board of trustees likewise perceived the significance of review panels also, made numerous particular proposals with respect to the capacity and constitution of board review advisory groups. It was trailed by the Naresh Chandra Advisory group report with real anxiety on free oversight of board and review, and upgrades in revelations (money related as well as non-money related). In the resulting years, two more advisory groups were constituted under the authority of Mr Narayan Murthy and Mr J Irani, with the express point of getting best practices from around the globe to make an all around directed condition that advances enterprise. In 2009, the Satyam disaster shook the Indian business, bringing home the point that appropriate administration is irreplaceable to assist development and advancement. From that point forward endeavors to make a structure have picked up earnestness. The Service of Corporate Undertakings (MCA) turned out with rules in 2009. In its present shape, Statement 49, called 'Corporate Administration', contains eight segments managing the Top managerial staff, Review Board of trustees,

Compensation of Chiefs, Board Strategy, Administration, Investors, Provide details regarding Corporate Administration, and Consistence. Firms that don't consent to Statement 49 can be de-recorded and confront budgetary punishments. Presently, the Organizations Demonstration, 2013 which has been instituted as of late, has additionally fortified the CG standards.

There are four noteworthy wellsprings of powers specifically forming an organization's corporate administration: (1) singular morals and corporate societies, (2) inner possession/control and motivating force instruments, (3) market and outer observing systems, and (4) laws and directions what's more, their implementation. Unmistakably, corporate administration is likewise influenced by a company's institutional conditions and its own properties. High moral esteems can lessen expenses to accomplish a high corporate administration standard and make it more manageable. This depends on organizations setting moral rules and great correspondence channels with all levels of staff so the same corporate esteems are achieved by each individual from the association. Corporate culture does start with the individual estimations of the best administration. Sadly, one major worry in India is the low moral standard in business and the absence of appropriate corporate culture. Enhancing corporate administration is an issue of basic significance to India today and for future advancements. The Indian government has understood that great corporate administration is important to enhance corporate aggressiveness and to pull in global capital. It is trusted that with better corporate administration, recorded firms can lessen office costs, move toward becoming more focused in worldwide markets, and satisfy their social obligations.

Exact confirmation exhibited in this examination underlines the significance of possession structure regarding the sorts of investors and the Corporate Administration File on budgetary execution of the organization. Diverse monetary execution measures are utilized by specialists and the markers incorporate gainfulness, productivity, use and liquidity. The determination of execution measures relies upon the exploration goals. Three measures of execution, as bolstered in the back and bookkeeping writing were decided for the motivation behind examination, to be specific ROA, ROE and Tobin's Q as intermediary for firm execution. Our exploration thinks about the impact of twelve factors on firm execution as measured by ROE.

These autonomous factors are Retail Shareholding, Institutional Investors, Government proprietorship, Family shareholding, FII Shareholding, Corporate Shareholding and Corporate Administration Record. Additionally, control factors, for example, association's size, intermediary by add up to resources, company's age since its initiation and use intermediary by obligation value proportion are considered as exogenous factors. We have likewise included publicizing costs and board size of the example firms.

2. Review of Literature

The accompanying area gives the short preview of audit of writing done in India and over the globe. The association between possession structure and execution has been the subject of a critical and progressing wrangle in the corporate back writing. The civil argument backpedals to the Berle and Means (1932) proposition, which recommends that an opposite relationship ought to be seen between the diffuseness of shareholdings and firm execution. Their view has been tested by Demsetz (1983), who contends that the possession structure of an organization ought to be thought of as an endogenous result of choices that mirror the impact of investors and of exchanging available for shares. An expanding exact research demonstrates that offer proprietorship and its structure can be essential wellsprings of impetuses for supervisors, sheets of chiefs and outside investors (Milgrom and Roberts, 1992). In creating economies, proprietorship is likewise intensely thought (Blasi and Shleifer, 1996; Claessens et al., 1996; Claessens, 1997; Xu and Wang, 1997; La Porta et al., 1998; Yee, 1998; Wiwattanakantang, 1999; Yeh, et al., 2001; and Joh, 2003). There is confirmation of pyramiding and family control of organizations in Asian nations, especially India (Bertrand et al., 2002). It is trusted this is a consequence of the inadequacy of the lawful framework in securing property rights.

McConnell and Servaes (1990) give confirm on the connection between the appropriation of value possession and corporate esteem. For the example cross sectional connection between Tobin's Q and value proprietorship is discovered where the estimation of the firm is taken to be the capacity of circulation of value possession among corporate insiders, singular investors, piece investors and institutional financial specialists. In the investigation, Tobin's Q proportion is relapsed against different measures of proprietorship to gage their effect on the estimation of the firm. The outcomes demonstrate that there is a solid confirmation of a curvilinear connection between insider proprietorship and Q, i.e estimation

of Q initially increments as insider possession increments and afterward decays on additionally increment in insider responsibility for. Square investors have no huge association with the estimation of the firm and ultimately institutional speculators impact the firm esteem. Shleifer and Vishny (1997) have concentrated regarding the matter of corporate administration from the point of view of organization issue, now and then alluded to as the division of possession and control. The fundamental inquiry of corporate administration is to discover how speculators recover the chiefs to give them their contributed cash. The paper talks about the part of centralization of possession as a way to deal with corporate administration and considers proprietorship by little financial specialists and concentrated proprietorship; i.e. by vast investors) which decreases office costs and subsequently enhances corporate administration and firm execution. The paper additionally talks about the negative effect of state proprietorship on firm execution. Thomsen, Pedersen (1998) look at the effect of proprietorship structure on organization monetary execution in the biggest organizations from 12 European countries. Proprietorship structure is measured by the personality and offer of the biggest proprietor. Execution is measured by return on resources, market to book esteems and deals development controlling for industry. Five classifications of investors have been distinguished: banks, other money related organizations (institutional speculators), other non-monetary organizations, individual/family and government. The writers discover confirmation of a ringer molded (first expanding and after that diminishing) impact of possession share on resources returns and market-to-book estimations of value. Organizations whose biggest proprietor is a money related foundation have higher market-to book esteems than organizations in which the biggest proprietor is a family, another organization or the legislature. The consequences for resource returns are subjectively indistinguishable, however weaker and immaterial aside from a negative impact of government proprietorship. Conversely, organizations whose biggest proprietor is a family or another organization have fundamentally higher deals development. Xu Xiaonian, Wang Yan (1997) research whether possession structure effectly affects the execution of freely recorded organizations in China, and in what ways on the off chance that it does. These organizations are normally possessed by five gatherings of specialists: the state, lawful people (residential foundations), tradable An investors (for the most part people), representatives, and remote financial specialists. The informational index incorporates all SHSE and SZSE recorded organizations for 1993, 1994 and 1995. The writers have utilized three bookkeeping proportions to gauge the company's execution, the market-to-book esteem proportion (MBR), ROE, and ROA. The paper reasons that the company's execution is emphatically connected with lawful persons (institutional investors). Conversely, the part of value claimed by singular investors, has a huge negative impact available to-book proportions, therefore singular investors have a negative connection with the association's execution. Likewise the creators finish up a negative connection between the offers possessed by the state and firm execution. In the paper, the impact of individual investors to association's gainfulness is unimportant, if not totally insignificant.

Claessens, Djankov, Fan and Lang (1999) have contemplated the connection between the convergence of income rights and control rights and the kind of square possession on one hand and corporate valuation then again in East Asian partnerships for the year 1996. The investigation depends on recently collected information for traded on an open market companies (counting both monetary establishments and non-money related foundations) in Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. In the larger part of cases, the essential investors are themselves corporate elements, not-revenue driven establishments, or budgetary foundations. The paper reports the connection between extreme proprietorship and market valuation, separating between control from income rights. It is discovered that higher income rights are related with higher market valuation, however higher control rights are related with bring down market valuation, particularly when income rights are low and control rights are high. This recommends seizure of minority investors by controlling investors. The creators reason that family control is a critical factor behind the negative connection between control rights and market valuation. Conversely, no confirmation of seizure for state control and control by generally held partnerships is found. At last, the connection between control by money related establishments and market valuation is negative. Repei, (2000) has dissected a specimen of 318 organizations for 1997 - 1998 years. The specimen involves organizations from all locales of Ukraine. It covers 15 areas including quick moving administration and fund. The creator has detailed speculation to test if corporate execution changes as indicated by the investor structure where the execution of the firm is taken as an element of proprietorship sort. The corporate possession is partitioned into five principle classifications as for predominant investor sort. These are insider, home outcast, remote pariah, individual and state. The creator presumes that private proprietorship prompt higher execution than state one. Further, outside proprietors give much better administration of benefits, while private people are extremely incapable proprietors because of "free-riding" issue. The state shows disappointment in big business rebuilding in light of financially unsafe political targets. The impact of insider possession is questionable. Kumar (2004) analyzed observationally the connection between the possession structure and firm execution utilizing a board of Indian corporate firms more than 1994-2000 and found that outside shareholding design did not impact the firm execution essentially. Ongore O. Vincent, K'Obonyo O. Diminish, Ogutu Martin, (2011), investigated forty-two firms in Kenya. The philosophy received was figuring of Pearson's Item Minute Relationship and Calculated Relapse. The aftereffects of proprietorship personality were investigated in light of five components: government; outside; organization; assorted; and chief (insider). The investigation found a noteworthy positive connection between insider possession and firm execution. There is a critical negative connection between government proprietorship and firm execution. Concerning connection between possession by organizations and firm execution, the investigation found a huge positive relationship. Likewise the examination finished up a noteworthy positive connection between assorted proprietorship and firm execution. In conclusion the creator sets a positive connection between outside possession and firm execution.

To aggregate up, the current writing focuses towards a huge and positive effect that remote proprietorship conveys to the firm. Additionally, the legislature as a partner is of little advantage in improving the firm execution. Further, private people and retail proprietors are for the most part insufficient in expanding the budgetary execution. There is a lack of concentrates uncovering the effect of investor sorts, corporate administration on budgetary execution, this examination is an unassuming endeavor toward this path.

3. Data and Methodological Issues

For our examination, we have taken every day information records from BSE 100 List. The information sources were the yearly reports of the organizations, corporate database (Ability) kept up by the CMIE, the Inside for Checking the Indian Economy, and the reports recorded by organizations with the BSE as a major aspect of the posting prerequisites.

4. Measurement of Corporate Performance

Two measures of performance, as supported in the finance and accounting literature were chosen for the purpose of analysis.

Tobin's q: Tobin and Brainard (1968) and Tobin (1969) designed a estimation of corporate execution, which is equivalent to the proportion of market estimation of value and obligation isolated by the substitution expenses of aggregate resources. The idea is that substitution costs are an intelligent measure of the option utilize estimations of the benefits. Subsequently, unless resources utilized by firms can make at any rate as much incentive as the cost of duplicating them, the advantages would be better utilized somewhere else. Organizations showing Tobin's q more noteworthy than solidarity are thought to utilize rare assets successfully, while those with Tobin's Q not as much as solidarity as utilizing assets inadequately.

Tobin's q has been processed as $[MV \text{ of basic stock} + BV \text{ of inclination stock} + BV \text{ of borrowings} + BV \text{ of CL}) / BV \text{ of aggregate resources as meant by FA} + INV + CA]$ with all esteems figured at the year end.

Profit for resources (ROA). The bookkeeping variable picked was figured as the proportion of net benefit to resources. Add up to resources incorporate estimation of settled resources, speculations, and current resources.

Profit for Value (ROE): We measure Profit for Value Capital as the proportion of net benefit to value capital. Value Capital is the aggregate exceptional paid up value capital of the firm as toward the finish of the bookkeeping time frame. Offers issued yet not paid-up or pending allocations don't shape some portion of value capital. This incorporates reward value shares issued, assuming any, by the firm before. $ROE = \text{Net Benefit} / \text{Value Capital}$.

Control Variables

In order to control for the other possible determinants of performance not captured by the ownership variables, some observed company characteristics have been included as

control variables. The control variables used in the study have been selected with reference to those employed in earlier studies.

Age: Age of the organization has a vague impact from the earlier on organization execution. It is contended that because of the impacts of the expectation to learn and adapt and survival predisposition more established firms are probably going to be more productive than more youthful ones. Accordingly, a superior execution ought not out of the ordinary. Nonetheless, more seasoned organizations are inclined to idleness, and rigidities in versatility, which may prompt lower execution. Age has been measured as the quantity of years for which the organization has been in presence since consolidation to the date of perception.

Estimate: An immense measure of writing has explored the connection amongst size and execution of firms. Band (1981) and Reinganum (1981) archived that little firms have higher returns than extensive firms, even in the wake of changing for hazard through the Capital Resource Valuing Model (CAPM). Lang and Stulz (1994) detailed noteworthy negative connection amongst's size and Tobin's Q. Firm size can be measured in various ways, utilizing complete resources as an intermediary of firm size. Gilson (1997) utilized the characteristic log of aggregate resources as an intermediary of firm size. The writing likewise demonstrates that option measures of size, in light of yearly deals or aggregate resource esteems, don't substantially influence the derivations. This has been measured by the normal logarithm of aggregate resources of firms.

Obligation Value: Hypotheses on the part of obligation furnish us with a corresponding corporate administration system that screens the administration (Jensen, 1989; and Thomsen and Pedersen, 2000). Following relapse condition for our examination has been figured:

$$ROE = \alpha_0 + \alpha_1 \text{Retail Shareholding} + \alpha_2 \text{Institutional Investors Shareholding} + \alpha_3 \text{Government} + \alpha_4 \text{Family Shareholding} + \alpha_5 \text{FII Shareholding} + \epsilon$$

We have utilized pooled board relapse display. The information are generally gathered after some time and over similar people and after that a relapse is keep running over these two measurements. The relapse has been connected on the whole example altogether.

5. Analysis And Interpretations Of Empirical Results

5.1 Relationship Between Shareholder Types And ROE Result of Pooled Panel Regression

Independent Variables	Dependent Variables	
	Coefficients	p- value
Intercept	92.77196	0.0819
Retail Shareholding	-0.240335	0.3653
Institutional Investors Shareholding	0.069376	0.4072
Government	-0.105731	0.0171
Family Shareholding	0.807634	0.0054
FII Shareholding	0.385009	0.0009

Corporate Shareholding	-0.045606	0.361
Size	-16.8298	0.018
Log Advertising	2.064538	0.0134
CGI	-15.82816	0.001
Board Size	1.383278	0.0831
Age	0.154378	0.2059
Debt-Equity	-1.9976	0.4354
R Squared	0.20886	

The table is a preview of the relapse comes about on a total premise. The figurings demonstrate that retail shareholding has a negative association with money related execution as measured by ROE, however not noteworthy. Singular investors are insufficient because of "free riding" issue (Repei, 2000). The theory that there is a noteworthy connection between the proprietorship by retail financial specialist and profit for value is in this way dismissed. The nearness of institutional investors in an organization has a positive however inconsequential impact on the firm execution as found in the outcomes. The institutional financial specialists help in diminishing the data asymmetry related with possession and control. Additionally they approach data that aides in basic leadership (Shleifer and Vishny, 1986). We along these lines dismiss the theory that institutional investors significantly affect ROE. The effect of government proprietorship on the firm execution is noteworthy at 5% and is adversely related as governments are probably going to give careful consideration to political objectives, huge numbers of which might be contrarily connected with the ROE (Pedersen and Thomsen, 1998). Truth be told the reason for government proprietorship in welfare financial matters is non-benefit making (Bolt, 1969, Shephard, 1989). Likewise we acknowledge that there exists a critical connection between the proprietorship by Government and profit for value. We acknowledge the speculation that family proprietorship has a positive and noteworthy effect on the monetary execution of the organization. Here the Motivation arrangement contention is connected to clarify the beneficial outcome particularly when relatives likewise go about as administrators. The contentions amongst vital and operator are diminished (Anderson and Reeb (2003), Gorriz and Fumas (2005). Another generally connected contention is the long haul introduction of the family proprietor. While other proprietor sorts concentrate on benefit boost for the time being, family proprietors have a long haul sense of duty regarding the firm and will put resources into the limits that will make upper hands which require vast interest at the outset. The FII possession contributes emphatically to ROE and the impact is critical at 5% level. We accordingly acknowledge the speculation. Scientists (Aydin, Sayim and Yalama, 2007) have derivation that on a normal multinational organizations have performed superior to the locally claimed firms. There are two principle reasons. Right off the bat, the outside proprietors will probably be able to screen administrators and give them execution based impetuses and maintain a strategic distance from practices that undermine the riches creation inspiration of the firm proprietors. The second reason is the exchange of new innovation and internationally tried administration practices to the firm, which help in upgrading the productivity by diminishing working costs and creating reserve funds for the firm (Ongore, K'Obonyo and

Ogutu, 2011).The nearness of corporate proprietorship negatively affects ROE, however unimportant. Be that as it may, the size (intermediary by measure of advantages) ought to positively affect ROE as more resources give the organization pad to raise capital effectively. However the factor has a negative and huge connection with firm execution. The firm size ambiguously affects the firm execution. It is contended that as the size expands, effectiveness diminishes as control by top supervisors over vital and operational exercises diminishes. Publicizing costs of the firm yield positive and critical association with ROE at 5%. This can be credited to the way that the firm gets greater perceivability in the market and its items are sold effectively. Joshi and Hanssens, 2010 place that promoting spending positively affects the market capitalization of the firm and a negative effect on the valuation of the contender of practically identical size. The Corporate Administration File, CGI, has an essentially negative effect on the firm execution. This is for the most part a result of negative and critical effect of Chief Duality, review advisory group estimate, executive gatherings and nearness of non-official chiefs who might not have add up to sense of duty regarding the reason for the organization due to different responsibilities which restrains their commitment. As indicated by Baysinger and Heskisson, 1990, non-official chiefs are restricted in degree and understanding with regards to complexities including basic leadership in view of their worldly position. The outcomes demonstrate that size has a huge and constructive outcome in expanding the ROE at 10% noteworthiness level.

The outcome is predictable with a few investigations that are supportive of a vast board estimate as more noteworthy learning of the different managers can enhance execution (Coles et al., 2008 and Linck, et al., 2008).The experience of the firm intermediary by age demonstrates a positive relationship albeit inconsequential in enhancing execution . More established firms pick up encounter based economies of scale; they appreciate unrivaled execution (Kumar, 2004). High obligation in an organization prompts expanded cost of capital alongside danger of budgetary misery. This impact the ROE fundamentally negative at 5%.

To entirety up, we acknowledge that outside institutional speculators, government and family significantly affect the ROE while corporate, retail and institutional speculators have no critical impact on the money related execution as measured by ROE. Likewise, the control factors to be specific obligation and size have altogether negative effect on ROE. Additionally CGI variable has negative effect on money related execution of the firm. R-squared esteem is 20.88% for ROE.

5.2 Relationship between CGI and Financial Performance

In this section, we have applied panel pooled regression to study the relationship between CGI and financial performance. The results are as follows

Result of Pooled Panel Regression of CGI with Firm Performance

Independent Variables	Dependent Variables					
	ROE		ROA		TOBIN'S Q	
	Coefficients	p- value	Coefficients	p- value	Coefficients	p- value
Intercept	55.32801	0	5.401542	0.0027	318.8497	0.7902
Size	-3.016807	0.5315	-0.29831	0.0602	-1.93122	0.00855
Log Advertising	-1.481781	0.0134	0.158925	0.6541	0.778071	0.8937
CGI	-11.10036	0.0263	-1.26706	0.09	-570.323	0.2546
Board Size	1.383278	0.3227	0.733712	0.0365	-29.3817	0.3692
Age	-0.068426	0.1665	0.055125	0.4564	0.005942	0.3136
Debt-Equity	-4.860119	0.4042	-1.0162	0.2445	-0.2973	0.9568
R Squared	0.054072		0.027122		0.178171	

Analysis of the results shows that the Corporate Governance Index (CGI) has a significantly negative impact on ROE. ROA is negatively correlated to CGI, although the relationship is insignificant at 5% significance level. CGI is negatively related to financial performance of the firm as measured by Tobin's Q, although the relationship is insignificant

6. Summary and Conclusions

This paper examines the impact of proprietorship structure on firm execution with test from India. To close, the examination questions are replied with prove from non-monetary recorded organizations on BSE. The idea of possession character in India and its impact on firm execution was examined utilizing pooled board relapse. It is discovered that family/establishment possessed firms have better money related execution and firms with government proprietorship

demonstrate essentially negative budgetary execution. Remote Organization possessed firms demonstrate a positive association with execution. Contentions are joined to clarify the outcomes: administration entrenchment contention for scattered possession; motivating force arrangement contention and long haul introduction contention for family proprietorship; institutional nearsightedness contention and cost-proficiency of checking contention for organization proprietorship; data asymmetry of organization contention and double part contention for government proprietorship. The impact of proprietor personality on firm execution exists and shifts among various sorts of proprietor, on the grounds that the distinctive proprietor has its own inclination on firm key objectives and changes in motivating force and ability to manage office issues. A portion of the control factors significantly affected the corporate execution. The control factors like use had a negative effect while age positively affected execution.

Corporate administration file had an altogether negative effect on ROE. The reason could be that the segments of CGI are contrarily identified with the firm execution. Additionally, in spite

of the fact that the connection amongst CGI and ROE, ROA and Tobin's Q is seen to be negative, yet the effect of CGI is critical just in the event of ROE.

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