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# Ownership Structure and Company Performance: A Review-Based Investigation

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## Abstract

Corporate governance has gained prominence since the advent of globalization and liberalization. Global enterprises were allowed in, which increased competition for local businesses. Good governance procedures and laws are becoming increasingly important in improving performance in order to survive and acquire competitive advantages. The current study examines global literature on the relationship between ownership structure, a corporate governance tool, and firm performance. The study contributes to the body of literature by explaining the concept of ownership structure and how it relates to firm performance. Previous research has shown inconsistent findings, revealing a complicated relationship between ownership structure and firm performance.However, the majority of the studies emphasize that ownership concentration has a significant impact on the performance of the firm and should be balanced in order to remove agency cost problems that arise due to the separation of ownership and control. The study may facilitate policymakers in framing policies regarding the system of governance, and investors can estimate their potential investment horizons by considering different ownership structures and their relationship with firm performance as per their purpose of investing. However, the present study has some limitations, such as; it focuses on a single mechanism of corporate governance rather than focusing on other indicators; also, due to a lack of empirical testing, it lacks accurate results. Future research can be conducted by examining other mechanisms of corporate governance like board composition, board size, CEO duality etc.; also, empirical testing of data can be done in order to attain accurate results.

## 1.Introduction

With the emergence of globalization and liberalization, topic of corporate governance become vital in emerging economy. It has been a continuous concern for multinational and national companies to focus on quality of governance in order to survive and to achieve competitive advantage in a competitive market. The policies of corporate governance vary as per the market structures of specific industry or country.The previous studies based on theoretical and empirical results revealed that corporate governance and its indicators are correlated with firm value or performance. Corporate governance has its various mechanisms that influence firm profitability but ownership structure is a crucial mechanism that impact firm performance by addressing agency problems that arises from separation of ownership and control. Maher and Anderson in 1999 classified mechanisms of corporate governanceover the world, on the basis of degree of ownership & control and identity of the controlling shareholders. They categorize first as outsider systems that found in USA and UK which consist of dispersed ownership that is widely spread among shareholders; on the other hand, second as insider systems that found in Europe and Japan where concentrated ownership and control exists.The major focus of the study is to understand different mechanisms of corporate governance and its main indicator i.e. ownership structure that influence value of firm and performance. There have been significant studies that focuses on board characteristics, ownership structure, CEO duality etc. as a part of corporate governance indicators and their association with firm performance.Corporate governance face various problems that can be resolved with its internal and external mechanisms suggested by **Denis and McConnell (2003)**. The most primary internal mechanisms of ownership structure consist of board of directors & equity ownership structure of firm, on the other hand primary external mechanisms includes external market for corporate control and pertaining legal system. Those countries where legal and corporate control system found weak and ineffective, it becomes vital for internal governance mechanisms to work more efficiently in order to enhance corporate performance. Hence, if we look at the Indian scenario, where corporate market is still in developing phase**(Khanna and Palepu, 2000a, 2000b)** and legal governance enforcement is weak **(Sarkar and Sarkar, 2000)**, makes it necessary to focus on internal governance mechanisms for improving corporate performance.

The present paper is an attempt to review the existing national and international literature on the topic corporate governance, ownership structure and their interrelatedness with firm performance.After the introduction section, second section depict the theoretical framework related with ownership structure and its mechanisms then third section shows the extensive literature review on the aforesaid topic, later on discussion has done on the basis of existing literature and finally the conclusion has given for the study.

## 2.Theoretical framework

### 2.1 Ownership Structure

Ownership structure refers to the pattern of equity ownership distributed among equity shareholders. It consists of two aspects i.e. ownership concentration and ownership identityas per suggested by Denis and McConnell (2003).

**2.1.1 Ownership Concentration:** Ownership concentration occurs when a small number of large investors own the majority of a company's shares. By collecting larger positions in equity shares, these investors can exert control over management and participate in monitoring, increasing their wealth and the firm's value. According to an order of empirical and theoretical investigations, ownership concentration is an effective approach for controlling agency issues. Shares held by block holders are included in ownership concentration, in which block holders exercise control over management in order to earn incentives through monitoring as their ownership position grows. It mitigates the disadvantages of distributed shareholding, in which owners act as free riders or have no say in management choices.

**2.1.2 Ownership Identity:** ownership identity specifies the type of shareholder who has equity shareholding in a firm. Ownership identity can be called managerial-owned, promoters-owned, state-owned, institutional-owned, foreign-owned, block holders' ownership etc. With the increasing manager's stake in equity ownership, they are subject to the alignment of interest hypothesis, where it is assumed that higher managerial shareholding results in matching their interests with shareholder's interests that, ultimately reduces problems related to agency cost as per **Morck et al., (1988)**.However, with increasing stakes, managers may expropriate their incentives by increasing the size of the firm rather than focusing on increasing shareholder wealth which is known as the entrenchment effect, as argued by **Shleifer and Vishny(1989)**.Furthermore, there is a situation of tradeoff that arises from the alignment and entrenchment effect in managerial ownership in view of **Mishra and Kapil (2016).**

## 3. Literature Review

### 3.1 National Studies

1. **Dwivedi& Jain (2005),** reviewed the international literature on the association of corporate governance and performance of firms & examined it in the context of India considering endogeneity issues within this relationship. They used corporate governance parameters as independent variables such as director's shareholding, the board size, institutional and foreign shareholding, and public shareholding. They used a simultaneous equation regression model for Tobin's Q for measuring the performance of the firm. They controlled some industry effects and other non-governance variables like expenditures on advertising, marketing, R& D, return on capital employed, number of share transactions, debt-equity ratio of the firm. They found that bigger boards have a positive relationship with firm value in the Indian scenario although the relationship was weak. Foreign shareholding positively impacts firm performance. Public shareholding is significantly linear negatively associated with the value of the firm. Further, the director's shareholding was non-linear negatively affects firm value.
2. **Haldar and Rao (2011),** investigated how efficiently ownership groups enhance corporate performance by using BSE-500 indexed firms or firms traded on the Bombay Stock Exchange (BSE). The data is collected from 2001 to 2008 for creating unbalanced annual Panel Data. For investigating which ownership group maximizes firm performance, they used fixed and random effect techniques of Panel Data analysis. They followed the model suggested by Demsetz and Villalong (2001). They gave two types of ownership variables such as the shareholding of the firms in which the five largest shareholders and the shareholding of firms in which top management was taken criteria for labeling concentration of ownership. Further, the model was modified according to the Indian scenario which was given by Ganguli and Aggarwal (2009). Thus, for the ownership, the proxy equity holding structure was used & for the ownership two variables, namely Promoters Shareholding and Non-Promoter shareholding was used as independent variables. They used three performance variables in which two measures were based on accounting information and one is based on market-related information. In accounting information, return on assets (ROA) and return on capital employed (ROCE) were used under this study. For the market measure, Tobin's Q was employed. They used control variables based on earlier empirical performance studies and literature reviewed by Cui and Mak (2002); these are R& D, advertising intensity, distribution intensity & market intensity. They concluded that promoters holding have a significant and positive relationship

with firm performance. On the other hand, non-promoters holding doesn't have significant or we can say there is not much contribution on firm performance.

3. **Chhetri et al. (2011),** reviewed the available selective literature on the association of three mechanisms of corporate governance and performance of the firm. The selected three mechanisms are ownership structure, board characteristics, and executive pay. They found that studies associated with management accounting and control, empirically proved that corporate performance is the function of a firm's organizational and environmental characteristics such as strategy, size, and competition. But these studies can't be generalized due to the fact these studies have been done in the context of developed western countries and not in developing countries. Some authors like Morch et al. (1988) states that there is a negative association between board ownership and corporate performance.
4. **Bijalwan and Madan (2013),** The link between corporate governance and firm performance was investigated. Financial measures such as return on capital employed, return on equity, return on assets, and profit after tax were used to assess the firm's financial performance. Board composition and ownership structure were also used as corporate governance indicators. Board composition is further subdivided into two components: board size and board composition. The study examined 121 organizations listed on the BSE in India during 2010 and 2011, including small-, mid-, and large-cap enterprises. In India, they identified a substantial and positive association between board size and composition and firm performance. On the other hand, no link was established between ownership structure and firm performance.
5. **Malik (2015),** examined the association between ownership structure and firm performance with the main focus on pharmaceutical companies in India. She applied 140 observations consisting of 14 pharmaceuticals companies that were listed on BSE (Bombay Stock Exchange). She selected companies from BSE 200 index for the period 2004-2014. She used Panel data methodology to analyze the data as the sample contained both cross-sectional data as well as time-series data. She used E-views software for analyzing the data. She found that promoters shareholding has a significant and positive association with ROA and ROE.
6. **Arora and Sharma (2016),** examined the influence of corporate governance variables on mechanisms of firm performance. They used 20 main industries under the manufacturing sector, in which 1922 firms were used to analyze the data for measuring firm performance, they used ROA, ROE, and NPM (Net Profit Margin) for accounting measures and stock returns and adjusted Tobin's Q (TQ) as market performance measures. They used Board characteristics like board size, independence CEO-Duality, activity intensity, and institutional ownership as

measures of corporate governance. They used a fixed-effects model to handle endogeneity bias and omitted variables. They also used the Sys-GMM estimator for various benefits related to endogeneity and simultaneity biases. They found that board size and meetings have a positive relationship with Tobin's Q, however, there was a sign of weak association. Further, Board independence was found negatively associated with TQ. Institutional ownership was found positively associated with firm performance (TQ) & the same results for CEO duality as it was positively associated with firm performance (TQ), though lack to pass the statistical test. Firm age was negatively related to TQ. Further, the effects of corporate governance mechanisms were not significantly related to stock returns of performance measures. Leverage was negatively associated with ROA. The effect of corporate governance measures on other firm performance measures like ROE, NPM, and SR was not found statistically significant.

7. **Suman et al., (2016),** conducted a study on the impact of ownership structure on business performance in contexts related to the marketing, distribution, textile, film, and entertainment of oil in India. 50 BSE-listed companies from 2011 to 2015 were employed. To analyze the data, they used panel data methods. In their study, return on assets applied as the dependent variable, whereas institutional, managerial, foreign, and concentrated ownership served as the independent variables. Methods like the Pearson correlation coefficient and multiple linear regression approaches are used to analyze the data and produce findings. They discovered that the level of firm performance is in some way influenced by ownership structure.

### 3.2 International Studies

1. **Lappalainen&Niskanen (2012),**The impact of the board's composition and ownership structure on the company's financial performance was investigated. They employed 600 small and medium-sized enterprises in Finland (SME). They collected financial data from voter registration using observations made between 2000 and 2005. They employed the 2SLS technique and panel data estimates for the analysis. They discovered that ownership structure has an impact on both growth and profitability; a higher managerial ownership impact resulted in higher profitability ratios while having low growth rates. Companies with higher venture capital ownership ratios, on the other hand, were found to be rapidly expanding and less profitable. They found that the structure of the board had minimal impact on the performance of small enterprises.
2. **Desoky&Mousa (2013),** Conducted research on how ownership identity and ownership concentration affected listed enterprises' performance in Egypt. They used two individual elements of the ownership structure: ownership concentration (the number of shares held by

the three largest ownership interests) and ownership identity (the number of shares held by individual types of shareholders), which included seven different types of owners: private companies, the government, banks, investors with less than 5% ownership, individuals with 5% or more ownership, investors, and funds. The "EGX 100 index" of 99 publicly listed firms was studied (Egyptian Stock Exchange). By considering the endogeneity issue they applied OLS (Ordinary Least Square) and 2SLS (two stages least square) regression analysis. They used two accounting measures ROA (return on assets) and ROE (return on equity) for measuring firm performance. They found that ownership concentration has a significant influence on firm performance while measuring ROE. For ownership identity, results of OLS regression for ROE & ROA depict that it has a significant influence on the performance of the firm.

3. **AI Saidi and AI -Shamari (2015),** conducted a study on ownership concentration, ownership composition, and their relationship with the firm performance of the Kuwaiti non-financial listed firms. The ownership composition included government, institutional, and family ownership or individual. They applied OLS (ordinary least squares) regression on 103 listed firms for the period 2005 to 2010 to test the relationship and impact of ownership concentration & composition on the performance of firms. They found that overall ownership concentration has no impact on the performance of firms. Moreover, in the case of ownership composition; the performance of first was impacted by individuals or families and government ownership and not by institutional ownership.
4. **Hazi and Mubaraq (2015),** examined the influence of corporate governance and attributes of ownership structure on the performance of a firm by taking two different time frames as one is 2006 and the other one is from 2008 to 2010 in which significant changes have taken place in different conditions. They used 100 of the largest companies that were listed on Bursa Malaysia (BM) based on the firm's market capitalization. The sample showed both non-financial and financial companies listed for the year 2006 before the policy changes & for 2008,2009 and 2010 after the changes in policy in the Malaysian corporate environment. They analyzed the association between firm performance and corporate governance before policy changes (in 2006) by using multiple regression analyses. On the other hand, as the data was longitudinal which follows revised code 2008 to 2010, They applied the Panel data regression technique for the investigation of the influence of corporate governance & ownership structure on the corporate performance by using E-Views software. They found that ownership structure has a negative association concerning accounting or market-based performance measures of firm

performance with institutional ownership showed consistent negative influence on the performance of the firm. The results indicated that all the variables of corporate governance have significant & negative associations with at least one of the measures of firm performance. In addition, the independent chairperson showed a consistent positive influence on the performance of the firm in both time frames as before and after the revised code.

5. **Darkoet. al., (2015),**The association between corporate governance and firm performance was investigated. They employed 20 Ghana Stock Exchange-listed companies throughout a five-year span (2008 to 2012). Using a purposive sampling technique, one was chosen from each sector listed on the Ghana Stock Exchange. Secondary data included cross-sectional and longitudinal data. The dependent variables ROE, ROA, NPM, and TBQ were utilized as performance metrics. As independent variables, a number of corporate governance parameters were included, including the size, independence, and gender of the board, as well as the top 20 shareholders, state ownership, the size of the audit committee, and the frequency of committee meetings. They used the pool panel regression technique and an ANOVA investigation to see if there was an association between corporate governance structure and corporate performance. They identified a variety of conclusions when they investigated how corporate governance affects the firm's performance. Furthermore, their results validated the impact of good corporate governance on firm performance.

## 4. Discussion

Ownership structure plays a pivotal role in shaping a company's performance by influencing decision-making, governance, and strategic direction. Various ownership models, such as dispersed ownership, concentrated ownership, state ownership, and family ownership, affect corporate efficiency, profitability, and market valuation differently. A review-based investigation into ownership structure and company performance analyzes how different forms of ownership impact financial outcomes, operational effectiveness, and shareholder value.

Dispersed ownership, commonly seen in publicly traded firms, is characterized by a wide distribution of shares among numerous investors. While this model promotes liquidity and broad market participation, it often leads to agency conflicts between shareholders and management. Without a dominant owner to guide strategic decisions, managerial discretion may increase, sometimes at the expense of profitability and efficiency. On the other hand, concentrated ownership, where a single shareholder or a small group holds substantial control, can enhance accountability and lead to more effective governance. Large shareholders, such as institutional investors or founders, often exert significant influence on corporate policies, fostering better decision-making and long-term strategic planning.

State ownership presents a unique dynamic in corporate performance. Governments often maintain stakes in companies for reasons beyond profit maximization, such as socio-economic objectives or national interest. While state-controlled enterprises can enjoy financial stability and policy-driven advantages, they may also suffer from inefficiency due to bureaucratic interference and lack of competitive pressure. Family-owned businesses, prevalent in emerging economies, often prioritize stability and legacy over short-term gains. Their performance varies depending on succession planning, governance practices, and the balance between professional management and family influence.

Empirical studies have yielded mixed results regarding the optimal ownership structure for superior company performance. Some researchers argue that concentrated ownership aligns managerial interests with shareholder goals, leading to enhanced corporate performance. Others contend that dispersed ownership, despite agency conflicts, facilitates diversification, risk-sharing, and external monitoring, improving overall efficiency. Meanwhile, state and family ownership structures exhibit strengths and weaknesses that depend on governance mechanisms, industry characteristics, and economic conditions.

In view of **Shleifer and Vishny in 1997**, the separation of ownership & control emergesagency problem that creates conflicts between managers and shareholders that negatively affecttheperformance of the firm, but it can be mitigated by balancing the ownership structure in a way that creates ownership concentration where a group of people monitors management actions which lead to decreased agency problems and improves the performance of the firm**(Colpan and Yoshikawa, 2012).**There isaconsiderable amount of research that investigated the association between ownership structure and firm performance in the context of developing and developed markets, for example**, Morck et al. (1988), Dwivedi and Jain (2005), Elyasiani and Jia (2008) and Madiwe (2014).**Several studies reveal that ownership structure and its relationship with firm performance showed mixed results**Patterson (2000).** Further, some authors are in view that managerial ownership positively associated with Tobin's Q, indicator of firm performance, as depicted by **Kapopoulos and Lazaretou (2007)**.In view of Dwivedi and Jain (2005) there is a nonlinear& negative association between insider ownership, directors' ownership& value offirm.**Abdallah and Ismail (2017)** report that corporate governance has a positive relationwith the financial performance of the firm.Furthermore,they documented that ownership concentration positively affects firm performance.

Table summarizing key aspects of ownership structure and its impact on company performance:

| Ownership Structure | Characteristics | Impact on Company Performance | Key Challenges |
|---|---|---|---|
| **Dispersed Ownership** | Shares widely held among many investors | Enhances liquidity, external monitoring, and diversification; may lead to agency conflicts | Lack of strong leadership, managerial discretion issues |
| **Concentrated Ownership** | Large shareholders or small groups hold significant control | Strong governance, effective strategic decision-making, long-term focus | Risk of minority shareholder exploitation, reduced transparency |
| **State Ownership** | Government holds a majority or controlling stake | Stability, policy-driven advantages, access to state resources | Bureaucratic inefficiencies, lower competitive pressure |
| **Family Ownership** | Business controlled by family members | Strong legacy and stability, long-term strategic vision | Succession planning issues, balancing professionalism with family influence |

## 5. Conclusion

The study investigated international literature based on the relationship between the mechanism of corporate governance, i.e. ownership structure and firm performance. The study contributes to the existing literature in a way to understand the concept of ownership structure and how it is associated with firm performance; several research studies found mixed outcomes, which reveal that the association between ownership structure and firm performance is mixed. It may be due to the reason that different countries have their own policies and regulations regarding corporate governance that makes their governance system differ from another country which leads to, mixed results. However, the majority of the studies emphasize that ownership concentration has a significant impact on the performance of the firm and should be balanced in order to remove agency cost problems that arise due to the separation of ownership and control. The study may facilitate policymakers in making effective corporate governance policies; on the other way, investors can estimate their potential investment horizons by considering different ownership structures and their relationship with firm performance as per their purpose of investing. However, the present study has some limitations, such as; it is restricted to one aspect of corporate governance, which is ownership structure and it is based on the review of existing theoretical and empirical research studies, which makes results limited to only those aforesaid studies. Future research can be conducted on the basis of empirical data that may lead to accurate research outcomes, and other variables of corporate governance, such as board diversity, the board size, board composition, CEO duality etc. can be considered for further study.

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