

Pattern of ownership

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Abstract

The study of pattern of ownership is inevitable in setting the milieu for corporate governance as barbed by theoretical and functional work on corporate governance. Present study identifies the ownership pattern of 154 index companies on Bombay Stock Exchange for six financial years (2011 to 2016). Analysis has been conducted separately for shareholding-wise and industry-wise ownership. This study intrigues largely the proportion of shareholding by promoters and non-promoters and the results demonstrate that Indian companies typically sustain their ownership pattern in due course. In India ownership is concentrated in the hands of promoters. On an average the promoters together with 'persons acting in concert' (promoter group) held around 53.73 percent of the total outstanding shares from 2011 to 2016. With this huge stakes it is cynical whether efforts at improving corporate governance would succeed as an observable fact of institutionalization of capital also exists. This growth of shareholding is expected to have an all-encompassing upshot on corporate governance.

Keywords: Corporate governance, Ownership structure, Ownership concentration, Shareholding pattern, Promoters, Non-promoters.

Introduction

Increasing role of private sector and capital markets alongside the increased global antagonism for long-term capital has increased focus on corporate governance in countries across the globe. The large attention paid to corporate governance over the last few years has been further stimulated owing to worldwide unethical business practices. Corporate governance studies were more or less exclusively connected with advanced market economies having refined capital markets until recently. Problem of corporate governance is more grave and imperative in transitional and emerging economies. In India post liberalization the per capita gross domestic product and foreign investment has increased manifold. Hence, the dearth of knowledge about corporate governance is a concern in our country. With every increase in growth comes the increased necessity to comprehend the diverse dynamics of corporate governance.

Empirical evidences support that changes in ownership structure can elicit changes in corporate governance and in firm behavior. Still some of the effects of ownership structures on corporate governance remain vague. Also pertinent previous research from India highlights prospects for potential research in this part. Hence, an enhanced indulgence in the study of patterns of corporate ownership and their repercussions on corporate governance would be of enormous employ to academia as well as to the regulators. This would help in better understanding the practice and cultivate an unmarked perspective for added reforms. Generally, the problem of corporate governance arises because of the disconnection of ownership and control. This agency or moral hazard crisis can arise not just amid shareholders and managers, between shareholders and creditors, but also between controlling and minority

shareholders, and among controlling shareholders and other stakeholders, counting suppliers and workers. A balanced and a sound corporate governance system should provide effectual protection for shareholders and creditors thereby assuring a return on their investment. It should also help to craft an environment advantageous to the proficient and sustainable augmentation of the corporate sector.

If agency problems can be ascribed to the fact that firms are incorporated, no longer can firm value and investment decisions be expected to be independent from ownership structure and concentration (Smith 1776). Shareholding pattern shows how the total equity shares outstanding in the company are divided among various stakeholders. It shows how ownership is divided among the entities that constitute are its owners. It consists of the following extensive divisions that are further alienated in various categories:

- 1. Promoter Shareholding** (responsible for floating the company)
 - A. Domestic Promoters
 1. Individuals
 2. Government
 3. Corporate Bodies
 4. Financial Institutions/Banks
 - B. Foreign Promoters
 1. Individuals (NRI/Foreigners)
 2. Corporate Bodies
 3. Institutions
 4. Qualified Foreign Investors
- 2. Public Shareholding**
 - A. Institutions
 1. Mutual Funds
 2. Financial Institutions/Banks
 3. Government

4. Venture Capital Funds
 5. Insurance Companies
 6. Foreign Institutional Investors (FIIs)
 7. Foreign Venture Capital Investors
 8. Qualified Foreign Investors
 - B. Non-Institutions
 1. Corporate Bodies
 2. Individuals
 3. Others such as Trusts, Clearing Members, NRIs, etc.
 4. Custodians (in case of foreign depository receipts)
- Source: sptulsian.com**

Literature Exploring the Pattern of Ownership Pattern

Various studies point towards the importance of corporate governance. These researches have been conducted theoretically and in applied form as well (Jensen and Meckling 1976; Grossman and Hart 1980, Davis and Thompson 1994; Li 1994). Ownership and its pattern can be imperative basis for deciding the incentives for managers, boards of directors moreover outside shareholders (Milgrom and Roberts 1992). The composition and quantity of stock ownership can persuade managerial behaviour (McConnel and Servaes, 1990; Maug 1998). Demsetz and Lehn (1985); Morck et al. (1988); Demsetz and Villalonga (2001); Holderness (2003); Li et al. (2006) etc. study the impact of ownership structure on firm performance. Stockholder voting patterns are also influenced by the makeup of share ownership (Grossman and Hart 1988; Milton and Raviv 1991; Gugler 2001). Many countries have scrutinized ownership structures. These countries are both developed and emerging economies. Demsetz and Lehn (1985) & Morck et al. (1988) have revealed that even amongst the largest American firms there is an unpretentious concentration of ownership. Other developed countries also discovered significant concentration of ownership. These include Canada (Daniels and MacIntosh, 1991), Germany (Frank and Mayer, 2001), Japan (Kang and Shivdasani, 1995), Italy (Barca, 1995) plus seven OECD countries (European Corporate Governance Network, 1997).

Even in developing economies, the pattern of ownership is heavily concentrated (Blasi and Shleifer 1996; Claessens 1997; Xu and Wang 1997; La Porta et al. 1998; Yeh et al., 2001; Joh 2003). In Asian countries particularly India there is family control of businesses and pyramid structure (Bertrand et al. 2002). It is supposed that the main reason behind this is the ineffectiveness of legal system in protecting the property rights. The configuration of shareholding in India exposed a striking level of concentration in the hands of promoters (Khanna and Palepu 2005; Chakrabarti et al. 2008). In the year 2002, the average shareholding of promoters in all Indian companies was lofty 48 percent (Topalova 2004). Sarkar and Sarkar (2005) concluded that promoters held 48 per cent of the

shares in a sample of about 2,500 listed manufacturing companies. In their study it was also found that 51 percent of the shares of group companies and 46 per cent of stand-alone firms also held by promoters. In comparison, the Indian public's share amounted to 35 per cent, 28 per cent and 39 per cent, respectively. On similar lines Rao and Guha in 2006 recognized that practically half of the listed companies have private promoters holding mainstream stake. Promoter shareholding can still be hidden in the shape of other shareholders, corporate bodies, individual and non-resident Indians.

Sample and Methodology

For the objective of examining the pattern of ownership from the top 500 Indian companies constituting BSE500 index, companies representing four major industries of the economy have been scrutinized. Accord Fintech private limited that provides admittance to both financial and non financial information of Indian companies through ACE equity has been accessed. This database has been used as a basis to extort financial information for this study. ACE equity database have been used to extract data on various components of ownership pattern. The study relates to the period from 1 April, 2011 to 31 March, 2016. Out of a total of 8,17,000 registered and active companies in India on 31 Oct 2017, 153 companies representing four major industry groupings are taken as sample for the study (excluding the companies for which data was not available). In these 8,17,000 companies, 2,30,000 were manufacturing, 3,34,000 were services, 1,50,000 were trading (in our study titled as others) and 1,03,000 were construction. The classifications taken for this study are manufacturing, financial & services, construction plus and others. Proportionately 37 manufacturing, 59 financial & services, 26 others and 32 were taken for construction plus. For exploring the pattern of ownership and examining the variables for current study, data relating to two main headings has been collected. These are promoters and non-promoters. In India, the shareholders are broadly divided into two categories—promoter shareholders and non-promoter shareholders (Santanu K Ganguli and Shail Agrawal, 2008).

Variables used to examine the Pattern of Ownership

The distribution of ownership among diverse categories of owners supplies constructive information with reference to the corporate governance structure of a company. The shareholding has been classified according to a standard nomenclature of investors' categories and definitions as endowed under Clause 35 and 40A of the Listing Agreement. To examine the structure of corporate ownership and its concentration, the following variables were used:

Structure of Corporate Ownership

While evaluating corporate ownership, it is crucial to keep in mind that the number and category of shareholders may change over time. The ownership structure has been examined shareholder-wise as well as industry-wise.

Shareholder-wise Ownership

Broadly the shareholders have been divided into the promoter group, institutional investors and non-institutional investors. Variables taken for studying the pattern of ownership shareholder-wise are shown in the table below:

Table 1: Descriptive statistics (Mean & Standard Deviation) and percentile plot (maximum & minimum) for the promoter & promoter group, institutions and non-institutional investors

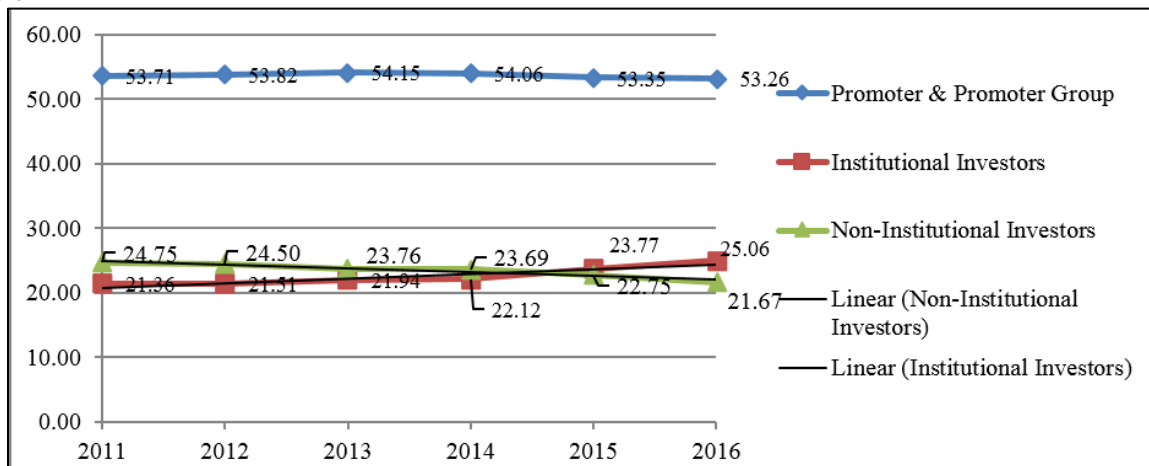
S. No.	Variables	Number	Mean ± Standard Deviation		Maximum	Minimum
			Mean	SD		
1.	Promoter & Promoter Group	918	Mean	53.72	89.97	0
			SD	17.81		
2.	Institutional Investors	918	Mean	22.63	86.88	0
			S.D	14.04		
3.	Non-Institutional Investors	918	Mean	23.52	87.24	1.08
			SD	14.06		

Taking 918 observations into account for study, from the above descriptive it can be seen that the promoter and promoter group constitute the maximum proportion of shareholder ownership. It is followed by the non-promoter categories that are more or less similar. The graphic representation in the form of bar

charts for these variables taken cumulatively for all companies and for all the six years also follows.

Year-wise study of the pattern of ownership taking the promoter and non-promoter holdings shows the following trend:

Chart 1



From the above plot it can be concluded that the holdings by promoter and promoter group have marginally decreased from 53.71 percent in 2011 to 53.26 percent in 2016. In case of institutional investors the graph shows an upward rising curve from 21.36 percent to 25.06 percent shareholding from 2011 to 2016 respectively. Contrary to institutional investors, the non-institutional investors have declined from 24.75 percent in 2011 to 21.67 percent in 2016. Thus the graph also moves downwards from left to right.

manufacturing, others and construction plus) of the three categories of shareholders for all the six years (2011 to 2016) has been tabulated and graphically represented.

Industry-wise Ownership

In order to examine the ownership structure industry wise shareholdings (financial plus services,

Financial Plus Services

Table 2 shows 58 companies falling under the financial plus services industry. Promoter & promoter group shows a declining trend from 2011 to 2016 as the percentage share keeps on gradually falling from 52.27 percent in 2011 to 49.53 percent in 2016. In case of institutional investors in financial sector, their shareholding increases to 28.56 percent in 2016 from 23.40 in 2011. The non-institutional shareholding on

the opposing decreases from 24.11 percent (2011) to 21.90 percent (2016). Tabulation of the year-wise

shareholding for all three categories of owners is shown below:

Table 2: Shareholder-wise ownership structure of financial plus services (N=58)

Category of Shareholder	2011	2012	2013	2014	2015	2016
Promoter & Promoter Group	52.27	52.03	52.56	51.47	50.30	49.53
Institutional Investors	23.40	24.01	24.89	25.06	27.16	28.56
Non-Institutional Investors	24.11	23.75	22.41	23.34	22.39	21.90

The table 2 are also shown in the form of bar chart, clearly depicting the trends whether rising or declining during the six years.

Manufacturing

Table 3 comprises of 37 companies under the manufacturing industry. Herein, the promoter & promoter group shows a mounting trend from 2011 to 2016 as the percentage share increases from 52.99

percent in 2011 to 55.35 percent in 2016. Shareholding of institutional investors in manufacturing sector gradually and marginally increases to 19.53 percent in 2016 from 19.47 in 2011. In case of the non-institutional shareholding an opposing trend can be seen with approximately two percent fall overall in six years (27.15 in 2011 to 25.12 in 2016). Table of the year-wise shareholding for all three categories of owners in manufacturing is as follows:

Table 3: Shareholder-wise ownership structure of manufacturing (N=37)

Category of Shareholder	2011	2012	2013	2014	2015	2016
Promoter & Promoter Group	52.99	53.15	53.22	53.86	54.22	55.35
Institutional Investors	19.47	19.63	19.44	18.47	18.33	19.53
Non-Institutional Investors	27.15	27.13	27.27	27.60	27.40	25.12

Others

Table 4 embraces 26 companies for which the promoter & promoter group shows a subsidiary escalating trend from 51.80 in 2011 to 52.74 in 2016. Institutional investors' shareholding increases to 23.77 percent in 2016 from 20.59 in 2011. However, in case

of the non-institutional shareholding a contrasting trend can be seen with approximately four percent overall falls in six years (27.45 in 2011 to 23.49 in 2016). Table of the year-wise shareholding for all three categories of owners in manufacturing is as follows:

Table 4: Shareholder-wise ownership structure of others (N=26)

Category of Shareholder	2011	2012	2013	2014	2015	2016
Promoter & Promoter Group	51.80	51.97	52.34	53.44	52.69	52.74
Institutional Investors	20.59	20.71	20.66	20.90	23.36	23.77
Non Institutional Investors	27.45	27.16	26.83	25.50	23.80	23.49

Construction Plus

Table 5 explains in detail 32 companies under the construction plus industry. Promoter & promoter group shows a very meager decline from 2011 to 2016 as the percentage share falls from 58.70 percent in 2011 to 58.03 percent in 2016. In case of institutional investors in this sector, shareholding increases to 26.15 percent in 2016 from 20.13 in 2011. The non-institutional

shareholding on the divergent end portrays a decline from 20.93 percent (2011) to 15.79 percent (2016). Construction plus industry shows maximum change in the holding of institutional and non-institutional investors as compared to other three categories of industries taken in this paper. Tabulation of the year-wise shareholding for all three categories of owners is shown below:

Table 5: Shareholder-wise ownership structure of construction plus (N=32)

Category of Shareholder	2011	2012	2013	2014	2015	2016
Promoter & Promoter Group	58.70	59.34	59.59	59.48	58.40	58.03
Institutional Investors	20.13	19.77	20.52	21.98	24.25	26.15
Non Institutional Investors	20.93	20.66	19.67	18.33	17.16	15.79

3.5 Shares held by various categories of shareholders industry-wise in terms of number of companies (count) year-wise: Shareholdings of various categories of shareholders industry-wise in

terms of number of companies (count) are calculated separately for all the six years from 2011 to 2016.

Table 6: Industry-wise shareholding for 2011 to 2016

Financial plus Services (FPS) 2011:			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	4	8	1
5-20	1	20	27
20-35	4	19	19
35-50	12	9	7
>50	37	2	4
Grand Total	58	58	58
Financial plus Services (FPS) 2012			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	4	6	2
5-20	1	21	25
20-35	4	17	18
35-50	12	12	9
>50	37	2	4
Grand Total	58	58	58
Financial plus Services (FPS) 2013			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	3	9	1
5-20	1	17	27
20-35	6	18	21
35-50	10	11	6
>50	38	3	3
Grand Total	58	58	58
Financial plus Services (FPS) 2014			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	3	7	3
5-20	1	16	29
20-35	6	21	14
35-50	13	10	9
>50	35	4	3
Grand Total	58	58	58
Financial plus Services (FPS) 2015			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	3	4	4
5-20	1	19	26
20-35	7	17	17
35-50	13	15	6
>50	34	3	5
Grand Total	58	58	58
Financial plus Services (FPS) 2016			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	3	3	3
5-20	2	17	30

20-35	8	21	16
35-50	12	13	5
>50	33	4	4
Grand Total	58	58	58
Manufacturing 2011			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	5	1
5-20	1	12	10
20-35	4	18	15
35-50	10	1	8
>50	22	1	3
Grand Total	37	37	37
Manufacturing 2012			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	6	2
5-20	1	13	9
20-35	3	14	15
35-50	11	3	9
>50	22	1	2
Grand Total	37	37	37
Manufacturing 2013			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	6	1
5-20	1	12	10
20-35	3	15	15
35-50	12	3	8
>50	21	1	3
Grand Total	37	37	37
Manufacturing 2014			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	8	3
5-20	1	10	9
20-35	3	15	13
35-50	11	3	9
>50	22	1	3
Grand Total	37	37	37
Manufacturing 2015			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	8	1
5-20	1	11	9
20-35	4	15	16
35-50	9	3	9
>50	23	0	2
Grand Total	37	37	37
Manufacturing 2016			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	0	7	1
5-20	0	11	11
20-35	4	15	15
35-50	9	4	9

>50	24	0	1
Grand Total	37	37	37
Other- 2011			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	2	1
5-20	0	11	9
20-35	4	0	7
35-50	7	11	7
>50	14	2	2
Grand Total	26	26	26
Other- 2012			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	3	0
5-20	0	11	9
20-35	3	8	11
35-50	7	3	3
>50	15	1	3
Grand Total	26	26	26
Other- 2013			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	3	1
5-20	0	10	9
20-35	3	10	10
35-50	6	2	4
>50	16	1	2
Grand Total	26	26	26
Other- 2014			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	1	1
5-20	0	12	11
20-35	2	10	8
35-50	6	2	6
>50	17	1	0
Grand Total	26	26	26
Other- 2015			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	0	1
5-20	1	13	10
20-35	1	10	10
35-50	7	1	5
>50	16	2	0
Grand Total	26	26	26
Other- 2016			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	0	1
5-20	1	12	13
20-35	1	11	7
35-50	6	1	5
>50	17	2	0
Grand Total	26	26	26

Construction Plus-2011			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	4	2
5-20	0	14	16
20-35	0	9	8
35-50	7	4	6
>50	24	1	0
Grand Total	32	32	32
Construction Plus-2012			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	5	2
5-20	0	13	16
20-35	0	9	9
35-50	7	4	5
>50	24	1	0
Grand Total	32	32	32
Construction Plus-2013			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	3	3
5-20	0	13	15
20-35	0	10	10
35-50	7	5	4
>50	24	1	0
Grand Total	32	32	32
Construction Plus-2014			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	1	4
5-20	0	13	16
20-35	0	12	7
35-50	7	5	5
>50	24	1	0
Grand Total	32	32	32
Construction Plus-2015			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	0	4
5-20	0	10	16
20-35	0	16	9
35-50	8	5	3
>50	23	1	0
Grand Total	32	32	32
Construction Plus-2016			
Range of shareholding	Count of Promoter & Promoter Group	Count of Institutional Investors	Count of Non-Institutional Investors
<5 or (blank)	1	0	4
5-20	0	10	18
20-35	0	16	8
35-50	9	5	2
>50	22	1	0
Grand Total	32	32	32

Conclusion

This study underlines the importance of ownership structure both in terms of shareholding distribution across different industries and types of shareholders for corporate governance. The ownership structure was charted out for companies listed on Bombay stock exchange for six financial years 2011-2016. Consistent with some recent studies, the data confirms that companies in India typically retain their shareholding pattern over time unlike several other emerging markets (Patibandla 2006; Mittal and Kansal 2007). This is especially true for the by and large proportion of shares held by promoters and non-promoters.

In India ownership is concentrated with promoters. Hence, the conventional culture of houses owned by big corporate family prevails. On an average the promoters together with 'persons acting in concert' (promoter group) held around 53.73 percent of the total outstanding shares from 2011 to 2016. With the promoters having huge stakes, it is doubtful whether efforts at improving corporate governance would succeed.

Though India mostly practices equity ownership by promoters, an observable fact of institutionalization of capital also exists. Institutional investors are consolidating their holdings that are also apparent from the study of six years. This is an upshot of the relentless and continual efforts of the Indian government to unwrap its markets to trade and investment. This growth of shareholding is expected to have an enveloping effect on corporate governance.

Studies on corporate governance in India are still at their preliminary stage and further pertinent aspects need to be identified. Over all, examination into the subject of corporate governance, greater prudence needs to be taken to explicate the results. This should be implicated in a suggestive rather than a critical way. This issue and many others need to be tested in future studies.

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