

Basic Aspects of Ownership Structure and Performance

2.1 Introduction

To introduce the subject, the following chapter starts by taking a closer look on the concept and the different aspects of ownership structure. This is implemented by an elaboration on the different measures and their development in literature. The section will make clear that ownership is not summarizable in one single or a few variables, but that it constitutes rather a large spectrum of measures due to its different aspects and dimensions. Therefore, ownership variables can always mirror only a part of the real ownership structure, which makes the variable selection an important issue in the ownership and performance literature.

Next Section 2.3 states some statistics on the ownership structure of different countries and compares them to the characteristics of the German market. This will verify the advantageousness of German corporations as research objects.

Finally, the literature also uses varying forms of performance measures. They can be distinguished by the applied data type, market-based, accounting-based and hybrid measures. Each type raises different problems. The measures of financial performance and their appropriateness in the ownership literature are discussed in the Section 2.4.¹

2.2 Ownership Structure and its Measures

The following section introduces the reader to the concept of ownership structure. This is done by an elaboration on the different aspects of ownership structure and the resulting measures. The discussion of the various forms of

¹ For an overview of selected studies and the used measures see Table A.9 in Appendix A.5, p. 231.

measures and the way they are mirroring the ownership structure is of further importance for the later variable selection.

After assessing some general issues of ownership information, different forms of ownership measures are explained. They are examined by their classification into non-metric and metric measures. Finally, some concluding remarks summarize the topic.

2.2.1 General Aspects of Ownership Structure and its Measures

Ownership structure is a multidimensional construct which therefore cannot be mirrored by a single variable. Two major dimensions structuring ownership information are ownership concentration and owner type.

The ownership concentration renders quantitative information on ownership, representing a share size or the sum of shares or a concentration index, e.g., Herfindahl coefficient. The second dimension, the owner's identity, is the qualitative information about the type of shareholder. This information is important since different owner types have different incentives, utility functions and means of control.² Widely researched identities are management insiders, with the subgroups of officers and directors, and institutional investors. These also constitute the main focus of this work. Further identities like families, company founders, strategic investors and governmental organizations have also gained importance, but are not considered in the course of the dissertation.

Apart from these two key ownership dimensions there are also other aspect that form many shades of measures. One common issue is the general definition of shareholding. Many studies do not use the direct share, but the cohesive ownership, which includes indirect shareholdings.³ These shares are not personally hold by the individual, but controlled by him. They could be shares legally belonging to family members or close friends.⁴

Another distinguishing aspect is the level at which the ownership is measured. Early studies only examined the shareholdings on the first level, i.e., only the direct ownership of the shares of the considered company. However, with the evolution of stock markets shareholdings became increasingly complex through multiple control chains, pyramiding, and crossholdings.⁵ Figure 2.1 gives examples of the complex ownership structures. Firms form a control chain if Firm A directly controls Firm B which in turn controls Firm C or a sequence of firms leading to Firm C, each of which has control over the next one. In a multiple control chain the control over a company is exe-

² For an explanation of the different characteristics see Chapter 3, p. 35.

³ See Demsetz/Lehn [1985], Kamerschen [1968], Leech/Leahy [1991], McConnell/-Servaes [1990], McEachern/Romeo [1978], Mørck et al. [1988], and Palmer [1973b].

⁴ See Holderness et al. [1999, p. 438] and Mathiesen [2002, pp. 87-88].

⁵ See Claessens et al. [2000, p. 92], Faccio/Lang [2002, p. 366], and La Porta et al. [1999, pp. 23-25].