當　代　會　計
第十四卷第一期
民國一〇二年五月
頁 1-31

Journal of Contemporary Accounting
Vol. 14 No. 1, May 2013
PP. 1-31

機構投資人與「影子」公司治理：以歐洲企業為例

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摘要：本研究延伸過去文獻，欲瞭解在絕對大股東具控制權且無實質干涉管理決策時，歐洲企業之績效如何被第二大股東所影響。本研究從ORBIS蒐集奧地利、比利時、法國、德國、荷蘭、西班牙與葡萄牙之公開發行公司資料。在控制公司規模、行業別與國家別後，發現若歐洲企業之絕對大股東為機構投資人，其第二大股東或影子股東（shadow owner）與公司績效具顯著關聯。而影子股東是否為其他企業之第二大股東、銀行或家族/個體，會影響此統計關聯的方向與顯著性。本研究為首篇以實證證據解釋，當絕對大股東為機構投資人時，股權結構對企業績效之影響。本研究對投資人深具參考價值，可幫助了解機構投資人外之股權類型及其運作方式之重要性，尤其影子股東持股已然成為企業績效之主要影響因素。

關鍵詞：絕對大股東、股權結構、績效衡量、影子股東

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101年09月收稿
102年03月接受
二審接受

Journal of Contemporary Accounting
Vol. 14 No. 1, May 2013
PP. 1-31

Institutional Passivity and "Shadow" Corporate Governance: European Evidence

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Abstract: This study seeks to extend the literature on how a Continental European firm's performance is impacted by the second largest investor when its dominant owner has a capacity to control but is not actually involved in its management. Using data gathered from ORBIS for publicly-traded firms from Austria, Belgium, France, Germany, the Netherlands, Spain and Portugal, and controlling for firm size, industrial sector and country-specific factors, we find statistical support for a relationship between ownership of the second largest or shadow owner and performance for firms in which an institutional investor was the dominant owner. This statistical relationship varied in direction and significance depending on whether the shadow owner was a block (another corporation), bank or family/individual. The findings in this study represent first time evidence to explain the seemingly unrelated association between CE firm performance and ownership share when an institution is the largest owner. The findings also speak to investors about the importance of identifying the type of owner filling the control vacuum left by the institutional owner, and how for each of these ownership types, the share of the shadow owner now becomes the main link with firm performance.

Keywords: dominant owner, ownership, performance measures, shadow owner

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Submitted September 2012
Accepted March 2013
After 2 rounds of review

I. Introduction

The corporate ownership landscape in CE is commonly populated by organizations wherein one or a small group of owners hold the largest number of shares (dominant ownership) (Krivogorsky and Burton, 2012). It is said that dominant ownership leads to control of the company (Gugler, Mueller, Yurtoglu, and Zulehner, 2003; Thomsen and Pedersen, 2000; Thomsen, Pedersen, and Kvist, 2006). The notion of control, however, has various meanings. One of the key elements in the debate on the meaning of control is the distinction between exercising *actual control* and the *capacity* (*ability*) *to control*, which does not require the holder to actually exercise control.

The distinction between the capacity to control and actual control has become more important in CE since the European Union (EU) began promoting increased shareholding. As a result, CE countries began regulatory reformations[1] intended to transform the relational investor-based markets into markets similar to those found in the United States. The intent is to create a competitive market environment in EU countries where firm ownership can be easily and actively traded. As a result, the nature of traditional economic structures (e.g., bank-oriented in Germany and Austria; state-oriented in France and Spain) has undergone significant, although not uniform transformation across all EU member states.

For a variety of reasons, a shareholder having the power to govern, or the capacity to control, may delegate the control function instead of actively managing the controlled entity. It is possible that passive management or management through agents produces different financial results than active, hands on management. Therefore, the decision an owner makes on whether to exercise control can affect agency costs and impact a firm's performance. In this regard, the findings in this study represent first time evidence to explain the seemingly unrelated association between CE firm performance and ownership share when an institution as the largest owner remains passive. This explanation is particularly important given the expanded influence of institutional investors on global markets. The findings also speak to investors about the importance of identifying the type

[1] In March 2006, the European Parliament agreed upon the first reading on the Commission's proposal for Directive IP/04/1334 meant to make it easier for public companies across the EU to take certain measures affecting the size, structure and ownership of their capital. This proposed Directive amended the parts of the 1976 Second Company Law Directive covering the formation, maintenance and alteration of capital. The purpose of the legislation was to reform European markets so that Continental European firms could reap the benefits of operating in an expanded area having similar labor law without concern for borders or currency issues. The reform gave investors more incentives and access to EU capital markets. The proposal resulted in passing Directive 2007/36/EC of the European Parliament and of the Council on the exercise of certain rights of shareholders in listed companies.

of owner filling the control vacuum left by the institutional owner, and how for each of these ownership types, the share of the shadow owner now becomes the main link with firm performance.

Empirical evidence is mixed on the abilities, incentives and effectiveness of relational institutional investors in corporate monitoring activities. Hartzell and Starks (2003) find evidence that institutional investors serve a monitoring role in executive compensation contracts. They report a positive association between institutional ownership concentration and pay-for-performance of a firm's executives, and a negative association between institutional ownership concentration and excess salary for these executives. Chung, Firth, and Kim (2002) also report that when institutions own a large percentage of a firm's equity, discretionary accruals are used less, resulting in lower levels of opportunistic earnings management. Contrary findings, however, are reported by Renneboog (2000) suggesting the passiveness of institutional investors.

The usefulness of the investors' activism has been a contested subject by academics for years (Kahan and Rock, 2007; Bushee, Jung, and Miller, 2009). Activism has been regarded by some scholars as irrelevant and even harmful to many shareholders; to others, shareholder activism is relevant and beneficial. In support of their latter case, researchers offer an interesting finding related to the incentives and effectiveness of institutions when institutional investors have a business relationship with a firm. For example, Pound (1988) argues that institutional owners having a business relationship with a firm (e.g., banks and insurance companies) tend to help entrenched management of a firm; Brickley, Lease, and Smith (1988) note that institutions are likely to act passively and "go along" with management decisions, and Payne, Millar, and Glezen (1996) find that institutions lean towards voting in favor of management anti-takeover amendment proposals. Institutional owners with no business relationship with a firm (e.g., pension and mutual funds), as Brickley et al. (1988) and Payne et al. (1996) claim, cast more proxy votes against management's recommendations.

Activism by institutional investors can be private and public, with public activism most visible in the U.S. (Black, 1998; Karpoff, 1999; Kahan and Rock, 2007). The efficacy and appropriateness of both types of activism by institutions is a matter of debate because when activism is conducted "behind the scenes" through private negotiations, it is difficult to measure, and thus, its effectiveness in promoting change is indeterminable (Santella, Baffi, Drago, and Latucca, 2008). Moreover, as previously mentioned, if an institutional owner has a business relationship with a firm, it may be reluctant to engage in even private activism against management for fear of economic retaliation.

Black (1998, p. 654) summarizes the landscape of activism by large institutional owners in the U.S. as follows: "A small number of American institutional investors, mostly public pension plans, spend a trivial amount of money on overt activism efforts. They don't conduct proxy fights, and rarely try to elect their own candidates to the board of directors. Legal rules, agency costs with the institutions, information costs, collective action problems, and limited institutional competence are all plausible partial explanations for this relative lack of activity. The current available evidence, taken as a whole, is consistent with the proposition that the institutions achieve the effects on firm performance that one might expect from this level of effort – namely, not much."

One possible outcome of a largest institutional investor being passive is the creation of a potential for an extra agency problems by opening the door for another large owner to take so called "effective control" over a company's management by impacting investing and operating activities. To shed light on what happens to firms' performance when a second largest owner fills the vacuum left by dominant institutional owner, we used 2008 data from ORBIS (Bureau van Dijk Electronic Publishing (BvDEP), which contains ownership structures of publicly-traded corporations from seven CE countries: Austria, Belgium, France, Germany, the Netherlands, Spain and Portugal. From a sample of 287 public-traded firms we first determined that no significant relationship exists between ownership and performance after controlling for size, industry, market and country-specific characteristics. Consistent with the results reported by Bushee et al. (2009) and Krivogorsky and Burton (2012) for a sample of firms owned by institutions, this finding confirms the passive role of institutional investors. In an attempt to discover if other relational owners have an impact on the level of performance, we tested whether there was a statistical association between ownership share of the second largest investor in a firm (which we call the "shadow" owner[2]) and its performance. In addition, to take into account the possible disparity in the interests among different types of second largest owners, we divided the sample into sub-samples by the type of a firm's second largest investor. Using the definition of Thomsen and Pederson (2000), these categories of ownership types were blocks (nonfinancial and nonbank corporations), individuals/ families and banks.

[2] The idea of "shadow" ownership was first suggested by Gomes and Novaes (1999). They argue that the presence of a second large owner is an effective monitoring device because these owners likely represent a threat to the largest owner if a coalition is not formed. Gomes and Novaes (2005) go on to develop a decision theoretic model of the relationship between first and "shadow" owners and derive possible outcomes stemming from this relationship. Finally, Gadhoum (2006) empirically examines the potential monitoring role of a "shadow" owner for a sample of Canadian firms. He finds that a "shadow" owner, acting to weaken the channels that lead to expropriation role by a dominant owner, is not effective in Canada.

In the sub-sample where a block is a “shadow” owner (107 observations) we found only marginal support for the relationship between the ownership of a block and a firm’s performance. This seems to indicate that when a block is the “shadow” owner of a firm, it does little to impact a firm’s returns, and, as a result, isn’t likely to fill the vacuum created by a dominant institutional owner.

For 98 firms in our sample for which the “shadow” owner is a family or individual, a statistically significant negative relationship between ownership and performance was found. We feel this negative relationship is consistent with the motivation of the prototypical “shadow” owner who personally benefits from the arrangement. That is, families/individuals as “shadow” owners may be benefiting by avoiding risk and perhaps through asset expropriation, while at the same time, avoiding the responsibility for the subpar performance level of a firm.

For our final sample of 45 firms having a bank as the “shadow” owner, we found statistical support for a positive relationship between ownership and performance. Additionally, this analysis produced evidence on the relative impact of ownership on the performance metrics. Specifically, the coefficient on return on shareholders’ funds is over seven times the coefficient on return on assets. We feel this difference in the magnitude of coefficients may be attributable to the relatively high level of bank debt carried by firms in which a bank is the “shadow” owner.

We believe these findings represent first time evidence to explain the seemingly unrelated association between CE firm performance and ownership share when an institution is the largest owner. The findings also suggest the importance of identifying the type of owner filling the control vacuum left by the institutional owner, and how for each of these types, ownership share of the shadow owner is now related to firm performance.

The remainder of this paper is organized as follows. Section two develops the research hypotheses, and section three defines the variables employed. The fourth section of the paper describes the data used, and the fifth section reports and evaluates the results. Finally, conclusions are offered in the last section of the paper.

II. Hypotheses Development

This section of the paper lays out the overarching hypotheses. We conjecture that when a dominant owner is passive, the “shadow” owner assumes its role by exercising effective control (i.e., impacts a firm’s performance). To test this idea, we use two sets of hypotheses. First we test whether an institution with the capacity to control a firm has an

impact on a firm's performance. Then a second set of hypotheses is laid out to provide insights into the relationship between "shadow" ownership and performance for the different types of owners.

Institutions as the Dominant Owners with the Capacity to Control.

Institutions (financial companies other than banks) have been identified in the previous literature as passive relational owners with no significant impact on a firm's performance. Per European Corporate Governance Principles,[3] to be considered an active controlling owner[4] an investor should meet two criteria: first, it should take on the role of monitoring the actions of a firm's top management in directing that firm's financial and operating policies; and second, it should obtain benefits from the controlled firm. Thus, it can reasonably be assumed that an active controlling owner should have an impact on a firm's performance.

Much has been written on the topic of the identification and evaluation of the effect of variations in institutional ownership on firm performance. Unfortunately, even as this stream of literature has broadened and produced more consistent findings, definitive answers to questions regarding the effectiveness of large institutional stakeholders in solving agency problems and enhancing a firm's performance have remained elusive. Working hypotheses from the last decade have changed rapidly, but more in response to external events, such as adoption of the Sarbanes-Oxley Act in the U.S. or changes in the European Union's Eight Directive, than to developments in the discourse.

Prior studies conducted in the U.S., which directly examined the relationship between institutional ownership and firm performance, have generally produced mixed results. Earlier research supporting the existence of this relationship comes from McConnell and Servaes (1990). They report that there is a positive relation between firm value and institutional ownership. Later studies including Chaganti and Damanpour (1991) and Lowenstein (1991) find scant evidence of a correlation between institutional ownership and firm performance. Jennings (2004) confirms these findings by reporting little empirical support for the hypothesis that institutions undertake monitoring to improve a firm's quality and valuation. Finally, the study by Seifert, Gonenc, and Wright (2005) is unable to detect a consistent relationship between the influences of institutional investors on firm performance across countries.

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[3] OECD Corporate Governance Principles, April 22, 2004, Part I, Section II (F).

[4] The "relational investor" system found mainly in the code law countries of Continental European is characterized by thin trading of non-controlling stakes in firms. A common facet of this system is to have significant equity holdings by institutions, families, and other companies in firms. Moreover, firms within a relational investor system normally have close ties with banks, and, in some cases, with government.

In Europe, the importance of institutional activism has lately been supported by intensified attention from a variety of European economic organizations, resulting in activism being manifested in new pronouncements and regulations. For example, the OECD[5] Corporate Governance Principles of April 22, 2004, explicitly refers to the importance of institutional investor activism (Part One, Section II (F)), advocating for an optimal degree of investor activism to obtain positive financial returns and company growth (Part Two, Section II, F). Despite the efforts of these organizations, a study by the OECD (2007) found institutional investors in Europe to be engaged in so called "parallel" behavior, mimicking each other's decisions and actions, and thereby undermining the ability of an institutional investor to monitor effectively. As some European studies suggest (Santella et al., 2008), conflicts of interest might discourage institutional investors from direct involvement in the firm's decision-making process, thereby dissipating what is believed to be the main advantage of relational investor system; namely, reduced agency conflict. Thus, we hypothesize the following:

Hypothesis 1: When an institution is the dominant owner of a firm, the level of an institution's ownership is unrelated to a firm's performance.

Relational Owners with Effective Control

The following sections address the relationship between the second largest investor ownership and the firms' performance. The types of owners tested are blocks (other corporations), banks and families/individuals.

Block Ownership

Cross-corporate concentrated shareholding is a distinctive feature of the CE corporate governance landscape. Cross holding across the national borders is a common practice, which dis-incentivizes a block from being directly involved in the decision-making process of the firms it owns[6] (Gordon, 2008). In the case when a block owner controls several firms, however, some directly and others from the "shadows," a block owner can channel resources from shadow firms to firms owned directly (Thomsen, Pedersen, and Kvist, 2006). For example, by following certain transfer pricing policies, the tax burden of a highly profitable firm in the pool can be mitigated. Although this kind of action may serve a legitimate business purpose, it modifies the incentive scheme

[5] Organization for Economic Co-operation and Development.

[6] To encourage stakeholder activism, the Shareholder Rights Directive was adopted by the Council and the European Parliament in July, 2007, with the stated purpose of reducing the costs of proxy voting by removing the legal obstacles to distant voting the proxy resource.

related to the monitoring providing a starting point for the expropriation of shareholder value of a firm run from the "shadows" by a block shareholder (Conac, Enriques, and Gelter, 2007; Renneboog, 2000). The above arguments support the following hypothesis:

Hypothesis 2: When a block is a "shadow" owner, the level of a block's ownership is related to a firm's performance.

Family/Individual Ownership

Family/individual ownership often manifests itself in the double role of family members or individuals being both owners and top managers of a firm. In contrast to a hands-off approach mostly exercised by institutions, the dual role of the family/individual owner is typically much more interventional and could be considered as being more participative in the decision-making activities of a firm. For example, Maug (1996) finds that individuals and members of a family are often reluctant to give up control because they choose to make human capital investments in the firm. This, coupled with the fact that family or individual owners are relatively wealthy, may cause the firm to have a long-term focus on risk aversion and survival. Also, some scholars suggest that given the size of a family's or individual's investment in a company, it is in their best interest to monitor a firm's managers and make sure they perform well (Goergen, 2007; Correlia da Salva, Georgen, and Renneboog, 2004). Further, family and individual owners may derive private benefits from running a firm, which come at the expense of the minority investors (Fama and Jensen, 1985; La Porta, Lopes-de-Salines, Shleifer, and Vishny, 1998). On the basis of family or individual activism in both owning and managing a firm, their focus on long-term survival, risk aversion and expropriation we hypothesize that:

Hypothesis 3: When a family or an individual is the "shadow" owner of a firm, the level of a family's or an individual's ownership is related to a firm's performance.

Bank Ownership

Although bank ownership is illegal in the U.S. and avoided in the U.K., it plays an important role in CE countries. The ability of banks to collect information about customers and their role in negotiating loans gives them a special opportunity to affect internal corporate governance mechanisms. In some CE countries, control of firms by banks is obtained through a confluence of circumstances. First, banks are the custodians of shares entrusted to them by clients. With written authorization, they can vote these shares. Second, in countries with a high bank concentration ratio, banks have worked to

strengthen the debt market and weaken the equity market. This has resulted in an inactive takeover market, where banks serve as the principal monitor of management operations. And third, when banks hold both debt and equity of the firm, expected default costs can be reduced. Moreover, by holding both debt and equity a bank's awareness of the overall cash flow to either set of claimants is further heightened.[7] Accordingly, we propose the following hypothesis:

Hypothesis 4: When a bank is the "shadow" owner of a firm, the level of a bank's ownership is related to a firm's performance.

III. Variables in the Model

To test our hypotheses, we draw on three sets of variables.[8] The first set of variables measures (1) the degree of the institutional investor ownership concentration when it is defined as the dominant owner,[9] and (2) the ownership concentration of each of our second largest owner types[10] defined as the "shadow" owner. This second set of variables is comprised of accounting-based performance measures. Finally, the third set of variables drawn upon is intended to control for country-specific, market, size and industry effects.[11]

Ownership Concentration

The level of the ownership concentration is measured by the percentage of a firm's voting stock owned directly by an institution-dominant owner, and second largest owner such as block, family/individual or bank.

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[7] This claim is applicable, however, only when a bank holds proportionate claims of all securities of a firm.

[8] A detailed description of all variables is presented in the Appendix.

[9] By using the dominant owner concept, we attempt to embrace the literature on the congruence of voting and cash flow rights, and the European laws impacting this congruence. Because the European Union's Directive on large shareholdings (88/627/EEC) is not supported by an efficient enforcement mechanism, meaningful cross-country analysis is limited. As identified in European Association of Security Exchange Dealer's "Corporate Governance Principles and Recommendations," cash flow rights in CE firms are widely dispersed and initial shareholders use one of a variety of legal mechanisms (e.g., non-voting stock, trust company certificates, voting rights restrictions) to retain or lock-in control of these firms. Generally the dominant owner of a firm is defined as the entity that controls an absolute majority (i.e., over 50 percent) of the voting rights, or holds enough voting rights to have *de facto* control.

[10] The "shadow" owner is defined as the owner with second largest percentage of the voting shares.

[11] Correlation statistics for the set of independent variables of the firms in the entire sample showed no significant multicollinearity.

Accounting-based Performance Measures

Chosen as the dependent variables are the accounting-based performance measures of return on assets (*ROA*) and return on shareholders' funds (*ROSF*).[12] These performance measures are used because in CE, the book value of balance sheet items is more value-relevant than earnings, and the efficiency of funds employed is particularly important due to a well-developed credit market (Black and White, 2003). The use of accounting-based financial ratios has certain advantages and limitations over market measures such as Tobin's Q. Among them is that accounting-based performance measures aren't affected by "market moods," as well as they don't suffer from anticipation problem.

Accounting-based performance measures at not without their limitations. Among these limitations is that total assets on a firm's balance sheet are recorded at historical cost, while income is recorded at current dollars; and that accounting-based performance measures are affected by conventions for valuing assets and revenue. Also, IFRS (International Financial Reporting Standard) is being used only for consolidation purposes of the individual accounts of companies in CE, which continue to be prepared according to national GAAPs. The latter limitations, however, have diminished significantly because for consolidation working papers, all accounts are first adjusted to their initial positions using eliminating and adjusting journal entries, and then, only after revaluation, write-off and necessary adjustments are made to all accounts, consolidated. This approach weakens the cumulative effect of differences in country-specific GAAPs, and improves financial statement comparability when applied consistently over several years. Thus, because accounting numbers are now calculated uniformly, firms can be pooled across countries to increase sample size and mitigate effects from atypical national industry compositions.

Control Variables

Four categories of control variables are included in our empirical tests. These categories are intended to control for differences in performance because of the legal system of the country in which a firm is incorporated, the market on which a firm trades, a firm's industry and, finally, its relative size. Table 1 shows values of the control variables for each country in our sample.

[12]Return on assets measures a company's earnings in relation to all of the resources it had at its disposal. It is calculated as *ROA* = profit/total assets. Return on shareholders' funds shows the overall efficiency of a firm in employing ordinary shareholders' resources. It is calculated as *ROSF* = profit/(share capital + reserves).

Table 1 Country Specific Factors

Factor	Austria	Belgium	France	Germany	Netherlands	Spain	Portugal
German Legal Origin	Yes	No	No	Yes	No	No	No
Importance of Equity Market	3.00	11.60	9.80	5.20	19.00	7.00	6.30
Market Liquidity Ratio	0.45	0.54	0.85	0.62	0.46	0.83	0.67
Quality of Investor Protection	2.20	5.30	5.00	4.70	5.00	5.00	3.80
Disclosure Index	3.00	4.00	5.00	6.00	5.00	5.00	4.00

This table reports the country of origin factors for firms in our sample. If a firm's country of origin commercial/company law has German legal roots, a dummy variable is set at 1 (other roots = 0). The importance of the equity market was measured by the mean rank across three variables: (1) the ratio of the aggregate stock market capitalization held by minorities to gross national product, (2) the number domestically listed firms relative to the population, and (3) the number of IPO's relative to the population. To account for market trading differences in a country, a market liquidity ratio is included. The quality of investor protection (*QIP*) laws explains cross-country differences in the size of the banking sector and the level of stock market development. To account for varying degrees of disclosure regulations in the different countries, a disclosure index is also included.

Legal origin

La Porta et al. (1998) show legal origin (*GLO*) is important variable in explaining a country's laws on creditors' and shareholders' rights. Doupnik and Salter (1993) identify an empirical chain running from legal origin to investor protection laws to financial development. Accordingly, to capture legal origin a dummy variable is constructed. This variable indicates whether a country's commercial/company law has German legal origins.

La Porta, Lopes-de-Salines, and Shleifer (1997) and Levine (1998, 1999, 2002) claim the quality of investor protection (*QIP*) laws goes a long way towards explaining cross-country differences in the size of the banking sector and the level of stock market development,[13] thus impacting a firm's returns.

[13]Beck, Demirguc-Kunt, and Levine (2003) indicate countries with low levels of stock market development tend to have less adaptable legal systems as defined by the degree to which case law and principles of equity (rather than simply statutory law) are accepted foundations of legal decisions. They also find that French legal origin countries have less politically independent judiciaries as defined by the degree of tenure of Supreme Court judges and their jurisdiction over cases involving the government.

Market environment

Numerous studies suggest that foreign companies self-selecting to be cross-listed on U.S. or U.K. exchanges are more apt to adopt American ways of doing business and tend to be more transparent in their reporting practices. To account for varying degrees of disclosure regulations in different countries, a disclosure index (*DI*) is included as a control variable. Related research finds that firms cross-listed on American public markets enjoy an increase in share price around the time of their listing announcement (Lang, Lins, and Miller, 2003), and the market reaction is stronger the more a firm commits to the U.S. regulatory structure. To control for possible differential effects related to the primary exchange on which a firm is listed, a dummy variable is added (*PSE*). This dummy variable takes on the value of 0 if a U.S. or U.K. stock exchange is identified as the primary stock exchange for a firm and 1 if a firm's primary stock exchange is located in CE. To control for differences in the importance of a firm's equity market (*IEM*), the index by Leuz, Nanda, and Woysocki (2003) is used. This index, constructed by La Porta et al. (1997), measures the importance of an equity market by aggregating the mean rank across three variables.[14]

Some commentators (Black, 1990; Roe, 1994) argue that it is precisely the highly liquid nature of U.S. markets[15] that makes it difficult to provide incentives to large shareholders to monitor a firm's financial position closely. It is believed that a system of dominated ownership sacrifices liquidity, but enhances supervision; whereas dispersed ownership enhances liquidity but sacrifices supervision (Shleifer and Vishny, 1986). It is also argued that controlling shareholder systems will be characterized by weak equity markets -- too much liquidity tied up in control blocks -- and by large differences in the value of controlling and minority blocks as a result of private benefit extraction by the controlling shareholder. Accordingly, a market liquidity ratio (*MLR*) obtained from the International Monetary Fund is added as a control variable.

Industry

Several studies (Demsetz and Lehn, 1985; Nickel, Nicolitsas, and Dryden, 1997; Li and Simerly, 1998; Giroud and Mueller, 2007) find that due to the differences in the intensity of competition and industry maturity, agency problems as they affect

[14]The three variables were the ratio of the aggregate stock market capitalization held by minorities to gross national product, the number of domestically listed firms relative to the population and the number of initial program offerings relative to the population. Each number was ranked such that higher score indicates greater importance of the stock market.

[15]Enhanced liquidity in secondary markets is considered to be a benefit of dispersed ownership.

profitability, growth and cash flow may be more or less severe in certain industries. To control for possible differential industry effects on accounting performance, we control for industrial sectors[16] using a two-digit Standard Industrial Classification (SIC code).

Firm size

The importance of controlling for firm size stems from the results of research by Stigler (1958) and Fama and French (1995), who document that small firms have, on average, lower earnings scaled by book value of equity than large firms. To control for possible size affects, a variable *SIZE* is is also included in our statistical analysis. It is computed as the logarithm of the total book value of the firm assets, denominated in Euros.

IV. The Data

To test our hypotheses we use 2008 data from ORBIS (Bureau van Dijk Electronic Publishing (BvDEP)), which contains ownership structures of publicly-traded corporations from seven CE countries: Austria, Belgium, France, Germany, the Netherlands, Spain and Portugal. After excluding companies with missing data and all financial and insurance companies with SIC code starting with 6 (keeping only real estate companies), the final sample consisted of 287 firms. The relatively modest size of our sample is due to the fact that insurance companies and mutual funds seldom hold the largest voting stake in other CE firms.[17]

Panel A of Table 2 reports the country origin of firms for which an institution is the largest or dominant owner. Approximately 23 percent of these firms are German, 33 percent are French and almost 20 percent are Dutch. In our sample, blocks are the predominant “shadow” ownership type followed by family/individual. These ownership types comprise 37 percent and 34 percent of the sample. In the sub-sample where a block is a “shadow” owner, 26 percent of the companies are German, and about 22 percent are either French or Dutch. In the sub-sample where family/individual is a shadow owner, 60 percent of the firms are French and 21 percent are German. Among firms where a bank is the “shadow” owner all firms distributed almost equally among the countries of origin. Finally, we also were able to identify a sub-set of firms with no second largest owner.[18]

[16]These five industrial sectors are: manufacturing – sector D with two-digit standard industrial classification (SIC) codes of 20-39; transportation, communications, electric, gas and sanitary industries – sector E with SIC codes of 40-49; retail trade – sector G with SIC codes of 50-59; finance, insurance and real estate – sector H with SIC codes of 60-67; and services – sector I with SIC codes of 70-87.
[17]This is consistent with findings of Van der Elst (2008).
[18]No shadow owner means that no other than institution ownership type is listed.

Most of those firms are Dutch (43 percent of the sample), followed by German firms (27 percent of the sample).

Table 2 Country of Origin and Ownership Type

Panel A: Firms by Country and "Shadow" Ownership Type

Country	Block	Bank	Family/Individual	No "Shadow"	Total
Austria	5	6	4	0	15
Belgium	12	7	4	3	26
France	23	6	59	8	96
Germany	28	5	21	10	64
Netherlands	24	7	9	16	56
Spain	13	9	1	0	23
Portugal	2	5	0	0	7
Total	107	45	98	37	287

Panel B: Firms by Industrial Sector and "Shadow" Ownership Type

Sectors	Block	Bank	Family/Individual	No "Shadow"	Total
D(20-39)	56	20	46	15	137
E(40-49)	14	14	8	2	38
G(50-59)	7	0	8	2	17
H(60-67)	13	4	10	14	41
I(70-87)	17	7	26	4	54
Total	107	45	98	37	287

This table provides data on institutional ownership by country and industrial sector. Panel A presents the number of firms in which an institution is the dominant owner by second largest owner type for the Continental European countries of Belgium, France, Germany, the Netherlands and Spain. A block is a nonbank, nonfinancial institution corporation. Family/individual is a group of persons or person. No "shadow" owner indicates a firm which has a dominant institutional owner but no other type of ownership with an ownership share of more than 5%. Panel B presents the number of firms by largest owner type for the five industrial sectors of manufacturing – sector D with two-digit standard industrial classification (SIC) codes of 20-39; transportation, communications, electric, gas and sanitary industries – sector E with SIC codes of 40-49; retail trade – sector G with SIC codes of 50-59; finance, insurance and real estate – sector H with SIC codes of 60-67; and services sector I with SIC codes of 70-87.

Panel B of Table 2 provides the industry composition of the sample firms. Almost half of the sample comes from the manufacturing sector (47 percent), with the next highest percentage of firms falling into the services sector (21 percent of the sample).

Table 3 presents the descriptive statistics on the ownership and return measures. Panel A of Table 3 reports that the dominant ownership ranges from 5 to 99 percent, with

a mean of about 42 percent and an average return on shareholders' funds (*ROSF*) and assets (*ROA*) of approximately 14.9 percent and 4.5 percent, respectively. We note that both return measures have extremely wide ranges consistent with the findings of Goergen (2007).

Panel B of Table 3 presents the descriptive statistics for the sub-sample of firms with no "shadow" owner. The average return measures are somewhat higher for this subsample of 37 firms, and the mean for ownership concentration here not only crosses the threshold for majority total control but is also higher than for the overall sample (50 versus 47 percent). This denotes the difference in average returns accompanied by a concomitant change in average ownership concentration, suggesting that institutional investor's gain in the total control (with an ownership level above 50 percent) coincides with an increase in the level of company performance.

Panel C of Table 3 reports that 107 firms from our sample have a block as their second largest owner with average ownership concentration being 16.5 percent. For these firms the average return on shareholders' funds and assets is 14.8 and 5.0 percent, respectively, which is comparatively of a magnitude similar to the overall sample but lower than the no "shadow" owner sub-sample.

Only 45 firms have a bank as the "shadow" owner (Table 3, Panel D). For the firms in this sub-sample, average ownership concentration is about the same as for the firms where a block is the "shadow" owner. Of a particular note is that despite the similarity of an average ownership concentration between banks and blocks, we find large differences in the average return on shareholders measures for these two sub-samples. Specifically, firms where a bank is a "shadow" owner seem to outperform those where a block is the second largest owner when performance is measured by return on shareholders' funds (16.1 versus 14.8 percent), but perform almost the same when return on assets is the performance metric (4.6 versus 5.0 percent). This dissimilarity in performance of companies with the two different types of "shadow" owner across measurement metrics is the subject of further discussion in the next section of the paper.

Panel E of Table 3 presents descriptive statistics on the last of our "shadow" owner types. Ninety-eight firms have a family/individual as their second largest owner. For these firms the average family/individual ownership tended to be higher than the average block or bank ownership (i.e., almost 23 percent). Average returns for this sub-sample are the lowest among all "shadow" ownership types. Average returns on shareholders' funds and assets are 9.1 and 3.3 percent, respectively. These results are consistent with the idea that family/individuals when being concentrated owners have a tendency to extract personal benefits from the companies owned.

Table 3 Descriptive Statistics on Performance and Ownership

	N	Min	Max	Mean	SD
Panel A: Institution's Performance and Ownership					
ROSF	287	-177.2	65.8	14.86	52.9
ROA	287	-80.0	68.26	4.5	12.83
Institutional owner ship percentage	287	5.01	99.1	42.2	23.1
Panel B: Sub-Sample with no "Shadow" Owner					
ROSF	37	-107.3	88.1	19.1	29.1
ROA	37	-23.6	24.7	7.1	8.9
Institutional owner ship percentage	37	5.01	99.1	50.3	33.0
Panel C: Sub-Sample, where "Shadow" Owner is a Block (other company)					
ROSF	107	176.7	67.1	14.8	51.2
ROA	107	-2.3	71.2	5.0	12.1
Block owner ship percentage	107	5	43.0	16.5	7.1
Panel D: Sub-Sample, where "Shadow" Owner is a Bank					
ROSF	45	-39.7	42.1	16.1	17.8
ROA	45	-29.1	10.1	4.6	9.6
Bank	45	7.1	30.0	15.7	6.1
Panel E: Sub-Sample, where "Shadow" Owner is a Family/Individual					
ROSF	98	-110.2	68.7	9.1	35.6
ROA	98	-76.8	35.9	3.3	17.9
Family/Individual percentage	98	5.0	45.0	22.9	12.6

This table provides descriptive statistics on performance measures and percentage of ownership. Performance measures are return on shareholders' funds (*ROSF*) and return on assets (*ROA*). An institution is a nonbank corporation. A block is a nonbank, nonfinancial institution corporation. Family/individual is a group of persons or person. No "shadow" owner indicates a firm which has a dominant institutional owner but no other type of ownership with an ownership share of more than 5%. Panel A provides the number of observations, the minimum value, the maximum value, the mean, and the standard deviation on the return variables and ownership percentage of the dominant institutional owner sample. Panel B provides the same descriptive statistics when the dominant owner is an institution and no other dominant owner exists for a firm. Panels C, D, and E provide the same descriptive statistics when the dominant owner of a firm is an institution and the "shadow" owner is a block, bank and family/individual, respectively.

V. Results

An ordinary least-squares regression (with robust standard errors) is employed to test the hypotheses. To control for possible differential and significant confounding effects related to a "shadow" owner, first we run a regression using the entire sample of 287 firms and then a subsample of 37 firms with no "shadow" owner (Panels A and B of Table 4).

We report no statistically significant association between the ownership concentration of the dominant institutional investor and either return measure,[19] which we believe confirms our premise about the typical degree of institutional owner involvement discussed earlier in the paper. And, as opined then, this lack of institutional

Table 4 Relationship between Institution Ownership Percentage and Returns

Panel A: Institution Ownership Percentage and Returns

	Returns	
Variable	*ROA*	*ROSF*
Intercept	0.024	-0.038
Percentage	-0.023	0.019
Size	0.47***	0.356**
German Legal Origin	-0.560	-0.186***
Market Liquidity Ratio	-0.094	-0.287***
Quality of Investors Protection	-0.430	-0.459***
Disclosure Index	0.471**	0.510***
Importance of Equity Market	0.014	0.16***
Primary Stock Exchange	0.37	0.21
Industry	0.012	0.017
Growth	0.047**	0.015**
Number of Observations	287	287
Adjusted R^2	18.7%	43.1%
F-statistic	3.91**	14.2***

[19]Some studies (McConnell and Servaes, 1990) have found a nonlinear relationship between firm value and managerial ownership. To test if a non-monotonic relation between the ownership percentages and performance existed for our data set, we estimated piecewise linear regressions for the relationship between two profitability ratios and ownership to find the points of the abrupt changes in the behavior of this relationship. The results of the tests performed for each dominant owner (except banks) did not provide any support for the idea that the nature of the relation between the level of ownership and company's performance changes from positive to negative as the level of the ownership changes.

Table 4 Relationship between Institution Ownership Percentage and Returns (Continued)

Panel B: Sub-Sample with no "Shadow" Owner

	Returns	
Variable	*ROA*	*ROSF*
Intercept	0.057	-0.041
Percentage	-0.064	0.147
Size	0.47***	0.233***
German Legal Origin	-0.081	-0.439***
Market Liquidity Ratio	0.483	-0.291***
Quality of Investors Protection	0.170	-0.179**
Disclosure Index	0.047*	0.361**
Importance of Equity Market	0.011	-0.291***
Primary Stock Exchange	0.41	0.31
Industry	0.073	0.11
Growth	0.014**	0.057***
Number of Observations	37	37
Adjusted R^2	18%	41.3%
F-statistic	5.6**	11.1***

This table presents the results of regressing percentage of a firm owned by dominant institution that does not have a "shadow" owner and the control variables against return on assets (*ROA*) and return on shareholders' funds (*ROSF*). An OLS regression was employed. For each independent variable its coefficient is given. If a coefficient is not significant, it does not have an asterisk. Percentage is the ownership share of a firm by the dominant institutional owner.

involvement may present an opportunity for other types of relational owners to run a firm from the "shadows." Accordingly, the remainder of this section of the paper introduces empirical evidence as to what happens to the performance of these firms when they may have been operated by "shadow" owners.

Other interesting results include significant association between size and both profitability measures, which is consistent with previous findings. Also, all control variables associated with the sophistication of equity market are significantly associated with *ROSF*. For example, *IEM* (importance of the equity market) has a positive and significant association with *ROSF*, suggesting that a higher *ROSF* exists in the countries with better developed market institutions; and *QIP* (quality of investor protection) and *MLR* (market liquidity ratio) are inversely and significantly associated with *ROSF*,

suggesting that a lower *ROSF* is present in countries with stronger protection of minority interest and less liquid markets.

Statistical support ($\rho \leq 0.05$) for a positive relationship between ownership and performance is found in the sub-sample of 37 firms where a bank is a "shadow" owner. Also of note is a large positive association between the performance and the size of a firm, and perhaps more importantly, the significant negative association between the returns and *QIP* and *GLO* (German legal origin).[20] In this regard, we conjecture that higher levels of disclosure and the level of minority investor protection afforded by the German legal system explicitly and implicitly impose restrictions on the actions of a bank as a "shadow" owner.

For the *ROSF*, the control variables such as an *IEM* and *MLR* are found to have statistically significantly negative coefficients. We believe this finding reflects the fact that banks prefer to work in environments with a stronger, better developed debt market. The results for association between *QIP* and *ROSF* are consistent with those of the whole sample. The indicative difference in the reported coefficients *ROSF* and *ROA* (Panel A, Table 5) leads us to analyze this issue further. A plausible explanation for this finding is that banks lean heavily on their debt share to run a firm from the "shadows." In accord with this conjecture, footnote to Panel A of Table 5 provides evidence that the average bank debt-to-equity ratio for firms in which a bank is the "shadow" owner is 8.4. This compares to bank debt-to-equity ratios of 4.1 and 1.1 for firms in which the "shadow" owner is a family/individual and block, respectively.[21]

Panel B of Table 5 presents the regression results for a sub-sample of 98 firms for which an individual or a family is the "shadow" owner. A strong negative relationship between family/individual ownership and returns is consistent with either an argument that firms run by families/individuals tend to have a long-term focus on risk aversion and survival, or are being used to derive private benefits by the family/individuals at the expense of other owners.[22] We also report significant negative coefficients for the level of disclosure (*DL*) and the German legal origin (*GLO*), which also appears to be consistent with what is expected of an owner who is likely to gain from private benefits.[23]

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[20]Germany and Austria are the two countries in our sample that have laws of German legal origin.

[21]For firms not having a "shadow" owner the average bank debt-to-equity ratio was 2.1.

[22]Freedom to make long-term investments often means that the pursuit of growth or private benefits extraction comes at the cost of a suboptimal rate of return on investment. It implies that equity capital providers in a relational system settle for a lower rate of return than in a market system. Hubbard and Love (2000) suggest that the level of private benefit extractions differs among different types of controlling shareholders - extraction is lower when the controlling shareholder's stock is widely held, as opposed to family owned, and when the divergence between level of control and owned equity is smaller.

[23]The poor performance is considered as the amount of private control benefits (*PCB*) enjoyed by large owners at the expense of firm value. Here we find evidence for *PCB* in German firms (Kirchmaier and Grant, 2006) and German firms controlled by families (Eharhardt and Nowak (2003)).

Table 5 Relationship between "Shadow" Ownership and Performance Measures

Panel A: Institution Dominant and Bank "Shadow" Ownership and Returns[24]

	Returns	
Variable	*ROA*	*ROSF*
Intercept	0.28	0.97*
Percentage	0.017**	0.12**
Size	0.48*	0.10***
German Legal Origin	-0.013**	-0.019***
Market Liquidity Ratio	-0.30	-0.179**
Quality of Investors Protection	-0.17	-0.21***
Disclosure Index	-0.089**	-0.076**
Importance of Equity Market	-0.290	-0.246**
Primary Stock Exchange	0.017	0.23
Industry	0.001	0.011
Growth	0.27**	0.19**
Number of Observations	45	45
Adjusted R^2	37%	11%
F statistic	7.13***	14.36***

For a sub-sample of 107 firms, panel C of Table 5 reports only marginal support for the relationship between the block ownership (i.e., nonfinancial, nonbank corporation) as the "shadow" owner and a firm's returns. Of the control measures, the important of the equity market variable (*IEM*) has a positive significant association with both returns. It suggests that sophistication of equity market has a positive impact with a company's performance, especially in the situation of elevated agency threat related to the fact that a block, being a company itself, has an internal agency conflict accompanied by an agency conflict between an owner and a company. Also, the results for *QIP* in this sub-sample are consistent with the results for the whole sample and the sub-sample where a bank is a

[24]Long-term bank debt/shareholders' funds ratio for "shadow" owner.

"Shadow" owner	LTBD Ratio
Family/Individual	4.1
Block	1.1
Bank	8.4
No "shadow" owner	2.1

Above table gives descriptive statistics on the average long-term bank debt to shareholder's funds ratio for firms with different types of "shadow" owners. No "shadow" owner indicates a firm which has a dominant institutional owner but no other type of ownership with an ownership share of more than 5%.

Table 5 Relationship between "Shadow" Ownership and Performance Measures (Continued)

Panel B: Institution Dominant and Family/Individual "Shadow" Ownership and Returns

	Returns	
Variable	*ROA*	*ROSF*
Intercept	0.27	0.41*
Percentage	-0.297**	-0.149***
Size	0.089**	0.026***
German Legal Origin	-0.08	-0.18***
Market Liquidity Ratio	-0.011	-0.076
Quality of Investors Protection	0.23	0.17**
Disclosure Index	-0.12**	-0.05**
Importance of Equity Market	0.071	0.057
Primary Stock Exchange	0.091	0.11
Industry	0.16	0.21
Growth	0.10**	0.19**
Number of Observations	98	98
Adjusted R^2	14%	32%
F-statistic	7.79***	7.24***

Panel B presents the results of regressing percentage of a firm owned by dominant institution that does not have a "shadow" owner and the control variables against return on assets (*ROA*) and return on shareholders' funds (*ROSF*). An OLS was employed. The coefficient for each independent and control variable is given along with its level of significance. If a coefficient is significant, its level of significance is indicated by*, **, *** representing the 0.10 level, 0.05 level, and 0.01 level, respectively, using a two-tailed test based on the Student's t test for means. If a coefficient is not significant, it does not have an asterisk. Level of the institutional ownership.

"shadow" owner, (i.e., *QIP* is strongly negatively associated with both returns). Additionally of important note is that as initially expected, *GROWTH* is significantly associated with returns consistently for all tests.

A robustness test was also conducted to assess if the results may have been inadvertently influenced by the large number of observations of companies from one country.[25] For tests with and without subsamples of French, German or Dutch companies we report qualitatively similar results in terms of variable significance, sign and value.

[25]We thank a reviewer for this suggestion.

Table 5 Relationship between "Shadow" Ownership and Performance Measures (Continued)

Panel C: Institution Dominant and Block "Shadow" Ownership and Returns

	Returns	
Variable	*ROA*	*ROSF*
Intercept	-0.09	-0.31
"Shadow" ownership	-0.112*	-0.18*
Size	0.046	0.071
German Legal Origin	-0.180**	-0.357**
Market Liquidity Ratio	-0.341	-0.291
Quality of Investors Protection	-0.217**	-0.369**
Disclosure Index	0.088	0.051
Importance of Equity Market	0.046***	0.032**
Primary Stock Exchange	0.318	0.202
Industry	0.096	0.071
Growth	0.079**	0.056**
Number of Observations	107	107
Adjusted R^2	47.1%	48%
F statistic	6.71***	6.1***

Panel C presents the results of regressing percentage of a firm owned by the second dominant shareholder (if there is one) and the control variables against return on assets (*ROA*) and return on shareholders' funds (*ROSF*). OLS was employed. The coefficient for each independent and control variable is given along with its level of significance. If a coefficient is significant, its level of significance is indicated by*, **, *** representing the 0.10 level, 0.05 level, and 0.01 level, respectively, using a two-tailed test based on the Student's t test for means. "Shadow" ownership is the second dominant or "shadow" owner level of ownership. Size is the log of total assets (in Euros) of the firm. If a firm's country of origin commercial/company law has German legal roots, a dummy variable is set to 1 (other roots = 0). To account for varying degrees of disclosure regulations in the different countries, a disclosure index is included. To account for market trading differences in a country, a market liquidity ratio is included. And finally, a scaled variable is included that represents the importance of the equity market in obtaining funds for a firm. The importance of the equity market was measured by the mean rank across three variables: (1) the ratio of the aggregate stock market capitalization held by minorities to gross national product, (2) the number domestically listed firms relative to the population, and (3) the number of IPO's relative to the population. Each number was ranked such that higher score indicates greater importance of the stock market. The last three values of each panel in the panels of the table report the number of firms in the sample, the adjusted fit of the regression (R^2), and the F-statistic.

VI. Conclusions

This paper's primary objective was to investigate the outcomes of different types of second largest owners when they use their capacity to control a firm in which the dominant owner is an institution. For a sample of 287 publicly traded firms from the seven CE countries of Austria, Belgium, France, Germany, the Netherlands, Spain and Portugal, this objective was accomplished by first determining that after controlling for size, industry, market and country-specific characteristics of a firm, there was not a significant relationship between institutional ownership share and firm performance. These results are consistent with extent literature about the reluctance of institutional investors to undertake activism against firms which they own. This passivism may be due to two reasons. First, because of a business relationship with a firm, institutional investors may feel compelled to vote with management, even though such behavior runs contrary to their fiduciary interests. Second, the distinct role of trade unions and employees in Europe (i.e., they are often off boards) has always been a contributing source of low institutional activism.

With the passivity of a dominant institutional owner established, attention was then directed towards assessing the outcomes of different types of second largest, or what we call "shadow" owners. After constructing three separate sub-samples of different types of shadow owners, the ownership share of the shadow owner was substituted for the ownership share of the institutional owner and the analysis was repeated for each sub-sample.

For the sub-sample of 45 firms where a bank is the shadow owner, we find statistical support for a positive relationship between ownership and performance. What is particularly interesting here is difference in the relative impact that bank ownership has on the performance metrics, manifesting itself in large difference between the coefficients on *ROA* and *ROSF*. We believe this difference in the magnitude of coefficients may at least be partially attributable to the relatively high level of bank debt carried by the firms in which a bank is the shadow owner.

For 98 firms in the sub-sample where the shadow owner is a family/individual, we find a statistically significant negative relationship between the level of the ownership and performance. We feel this result is consistent with the motivation of the prototypical shadow owner to acquire private benefits by avoiding risk and perhaps through asset expropriation. Our empirical results also suggest that in countries with less-developed stock markets, there is less ability to diversify risk and thus a lower opportunity cost of control (Pagano, 1993). The benefit of control comes from the ability of owners to use

corporate resources for their private advantage, and therefore, in countries with weaker investor protection, less disclosure, and a less independent press, the private benefits of control are larger (Dyck and Zingales, 2004). Finally, especially when families are shadow owners, this effect on private benefits may be multiplicative because of the long-standing tradition in CE of families retaining generational control of firms (Frank, Mayer, Volpin, and Wagner, 2008).

For our final sub-sample of 107 firms we find only marginal support for the relationship between the percentage of the ownership of a block as the shadow owner and a firm's performance. This seems to indicate that when a block is the shadow owner, it does little to fill the vacuum created by a dominant institutional owner. As previous studies (Kahan and Rock, 2007) suggest, blocks as relational owners only modestly profit from activism due to their portfolio diversification, so that even ordinary conflicts of interest are likely to dissuade them from pursuing an activist strategy.

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Appendix

Variables used in the Tests

INDEPENDENT VARIABLES:

Ownership Concentration:

Dominant owner:
Institutional ownership - percentage of shares held by institution (mutual funds, pension funds and trusts as a percent of total stock outstanding in 2008 fiscal years end), when institution is a largest (dominant) owner.

"Shadow" owner:
Block ownership - percentage of shares held by a company (blockholder), when a company is the second largest owner.

Family/Individual ownership - percentage of shares held by a family/individual, when a family/individual is the second largest owner.

Bank ownership - percentage of shares held by a bank, when a bank is the second largest owner.

DEPENDENT VARIABLES:

Return on assets measures is calculated as *ROA* = profit/total assets.
Return on shareholders' funds is calculated as *ROSF* = profit/(share capital + reserves).

CONTROL VARIABLES:

LO ＝German Legal Origin = 1, 0 - otherwise

QIP ＝Quality of Investor Protection (source www.doingbusiness.org)

DI ＝Disclosure Index (source www.doingbusiness.org)

PSE ＝Primary Stock Exchange = 1 if it is Continental European and 0 if it is US/UK

IEM ＝Importance of Equity Market (Leuz, et. al., 2003)

SIZE ＝The logarithm of a company's total assets

INDUSTRY＝T3 digit SIC code is used to identify the industry of a company

GROWTH = The difference in average percentage change in total assets for two subsequent years (from 2007 to 2008)

MLR = Market Liquidity Ratio (source doingbusiness.org)