

PROMOTER OWNERSHIP, INSTITUTIONAL OWNERSHIP, AND FIRM PERFORMANCE

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Abstract

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The study aims to examine the relationship between ownership structure and firm performance. We have analyzed the data of 113 firms with 565 observations from 2013 to 2017 using the fixed panel data estimation approach. A subsample analysis has been employed by dividing the data based on firm size, board size, and firm age to test the robustness of the analysis. Results indicate a positive impact of domestic promoters, foreign promoters, and institutional shareholders on firm performance, whereas non-institutional shareholders bear an inverse relationship with performance. It has implications for regulators and policymakers responsible for formulating ownership structure policies in light of ongoing regulatory reforms.

Keywords: Corporate Governance, Firm Performance, Foreign Promoters, Institutional Shareholders, Ownership Structure, Promoter

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1. INTRODUCTION

The ownership structure is one of the most crucial corporate governance (CG) frameworks and components. Researchers have been examining how equity ownership affects a firm's value for many years. Extant literature suggests two opposing theories for assessing the relationship between ownership structure and performance based on the effect of direct shareholder monitoring on performance. One school of thought holds that when management prioritizes the interests of all shareholders, ownership, and performance are

strongly correlated, in contrast, the entrenchment hypothesis contends that when concentrated owners prioritize their own interests, ownership and performance are negatively correlated (Morck et al., 1988; McConnell & Servaes, 1990). So, due to the presence of dominant shareholders, minority shareholders won't have much impact on this. One problem that firms encounter is the conflicting interests of the majority and minority shareholders (Mang'anyi, 2011). The agency cost is the price for this paradox (Abedalqader et al., 2016; Aguilera et al., 2018). Although it has a significant impact on the agency problem, the ownership structure is what

really determines how the agency theory functions. Further, investors perceive a high CG company as more reliable and better performing (Wijethilake et al., 2015).

We argue that placing a greater percentage of shareholdings in the hands of insiders (domestic promoters) will reduce agency conflict between managers and owners and, as a result, improve performance. The improved performance is either because the insiders will then have more incentive to oversee the managers or, as is more likely in the context of India because they will then be involved in making strategic and managerial decisions for the firms. In contrast, weak corporate governance practices and higher ownership concentration could result in agency disputes and the expropriation of small or minority shareholders by large or majority shareholders, such as promoters and families (Villalonga & Amit, 2006; Young et al., 2008). In general, foreign ownership is thought to improve a company's performance, particularly in developing countries. The idea is supported by the fact that foreign investments give access to certain specific resources, including corporate governance methods, managerial skills, technology, and access to foreign markets. The interaction effect of foreign firms encourages effectiveness and thus improves firm performance. However, foreign investors are inherently at a disadvantage to domestic investors due to a lack of knowledge and expertise in the local financial and legal environment. Since domestic financing is scarce in many developing countries, including India, economic liberalization was required to allow foreign investors (corporate and/or institutions) to invest in domestic companies. Even though it may not make up the majority of the ownership structure, foreign ownership is regarded as a crucial component of the firm's ownership structure in emerging markets (Douma et al. 2006). Foreign promoters typically invest in industries that are closely related to their core business. This makes it possible for them to use their relevant experience and technical know-how in their current line of work. Therefore, the purpose of this study is to investigate how ownership structure affects the financial performance of Indian listed companies.

The current study provides evidence of the importance of ownership structure on the performance of Indian listed companies in response to the research gap and relevance of this issue. We have considered studying Indian-listed companies for a number of reasons. First, in contrast to previous research, which has used Tobin's Q, stock ownership, or returns on assets (ROA) as performance indicators, the current study looks at the impact of ownership structure on return on capital employed (ROCE) and return on net worth (RONW). Second, this study looks at the moderating effect of firm-specific traits on the association between ownership structure and firm performance in India, including firm size, firm age, and board size. Third, the ownership structure provisions under the Companies Act 2013 underwent a significant change. Like when an unlisted company makes a public offering, the promoters must contribute at least 20% of the capital after the issuance. The promoter's stake must represent

less than 20% of the post-issue capital after the offer for sale. The promoters must either guarantee post-issue ownership of at least 20% of the post-issue capital or participate in the proposed issue to the extent of 20% in the case of public offerings by listed companies. The promoter's contribution in the case of a composite offering by a listed company shall be, at the promoter's option, either 20% of the planned public offering or 20% of the post-issue capital. The minimum promoter contribution in the case of a public capital offering is fixed for three years. If the promoter's participation in the planned offering of an unlisted company exceeds the statutory minimum contribution, the excess contribution is locked for three years. Any individual who holds more than 5% of the voting or shares capital of a company is required to disclose his/her total stake in that corporation. Any person who acquires shares or voting rights which, when added to the shares or voting rights he/she already owns, would give him/her more than five percent (5%), ten percent (10%), fourteen percent (14%), fifty-four percent (54%), or seventy-four percent (74%) of the shares or voting rights. How many shares or voting rights he/she owns must be made known to the company and stock exchanges. There is no legal requirement for minimum promoter group holdings, but the Securities and Exchange Board of India (SEBI) requires a minimum of 25% public investment in public limited companies. We argue that the legal changes made in relation to the promoter's shareholding after the passage of the Indian Companies Act 2013, may have an effect on firm performance. The impact of ownership structure on the performance of Indian listed companies is, therefore, examined in this study in light of the recent legal reforms that were started after the enactment of the new Indian Companies Act 2013, which were initiated in the earlier studies.

We are motivated to investigate the effect of ownership structure on the performance of the Indian listed companies as a result of the legal provisions regarding ownership structure in the Indian context. We find that domestic promoters, foreign promoters, and institutional shareholders have a positive impact on firm performance using a sample of 113 Indian listed companies on the Bombay Stock Exchange (BSE) from 2012-2013 to 2016-2017, whereas non-institutional shareholders have a negative impact on performance. We add to the body of knowledge as, following the enactment of the Indian Companies Act 2013, fewer studies have been conducted in the Indian context regarding the effect of ownership structure on Indian listed companies. To test the validity of the analysis, the data were divided based on the firm size, board size, and firm age. We conclude that the performance of Indian firms is influenced by their ownership structure.

The remaining sections of the study are structured as follows. The literature on domestic promoters, foreign promoters, institutional and non-institutional ownership, as well as their impacts on firm performance, is examined in Section 2. The data and research methodology are described in Section 3. The results and discussion are presented in Section 4, and the study's summary and conclusion are provided in Section 5.

2. LITERATURE REVIEW

The structure of a company's ownership significantly impacts its performance. This section examines the literature on the relationship between diverse ownership structures and firm performance.

2.1. Domestic promoter ownership

A promoter¹ is a person who is involved in the establishment and organization of a business. According to Article 69 of Chapter I of the Companies Act 2013, "a 'promoter' is a person who (a) has been named as such in a prospectus or is identified by the company in the annual return referred to in Section 92; or (b) has control over the affairs of the company, directly or indirectly, whether as a shareholder, director, or otherwise; or (c) the board of directors of the company is used to acting in accordance with whose advice, directions, or instructions, provided that nothing in sub-clause (c) applies to a person acting only in a professional capacity". In this study, the promoters may be either domestic² or foreign promoters.

The agency theory predicts the mixed impact of large promoter shareholdings on firm performance. It postulates that owners and managers may reduce agency costs due to enhanced monitoring power (Anderson & Reeb, 2003). It aids in the resolution of free rider issues caused by dispersed ownership. They are more concerned with the firm's long-term viability because of their significant investment in the company (Chami, 2001; Gálik & James, 1999) and, eventually, profitability. Jensen and Meckling (1976) claim that high ownership concentration can result in more alignment effects and give promoters a strong motivation to pursue value-maximizing objectives. However, La Porta et al. (1998) advocated for controlling shareholders (such as promoter groups) in countries with poor investor protection. Promoters may expropriate minority shareholders if their stakes exceed a specific threshold, reducing the firm's worth (Kakani et al., 2006; Sahu & Manna, 2013; Ohadi et al., 2014; Richter & Chakraborty, 2015). The minority shareholders may incur more agency costs due to a higher promoter stake (Burkart et al., 2002; Faccio & Lang, 2002). In terms of family businesses (promoter control), India is the second-largest nation in the world, with pyramiding and tunneling effects (Chakrabarti, 2005). This grants promoters enough influence over the company's management and board of directors and the power to affect key strategic decisions. According to La Porta et al. (1999), a single group that owns most voting and management rights might pursue its interests due to concentrated ownership. Thus, the value of firms and their performance may decline due to the entrenchment effect (Demsetz, 1983). Holderness et al. (1999) and Dahya and McConnell (2005) claim that promoter

ownership and firm value are not linearly related (Han & Suk, 1998; Lauterbach & Vaninsky, 1999). However, promoter ownership has proven to be a boon in times of financial distress since they have the authority to make any critical strategic decision that may affect the company's performance (Salerka, 2005). Since the findings are mixed, we develop our first hypothesis.

H1: All else equal, domestic promoter ownership impacts firm performance.

2.2. Foreign promoter ownership

Corporate governance standards are expected to improve with increased foreign ownership and performance (Shahwan, 2014). When investing in another country's economy, foreign investors aim for a high return on their investment. They ensure effective monitoring of management in order to prevent managerial expropriation. These investors might be from countries with the best CG practices and want to bring those standards to the countries where they invest. This would call for increased transparency and disclosure in financial reporting and thus, enhance the CG system in the host nation. Studies regarding foreign ownership's impact on firm performance in both developed and emerging economies have yielded mixed results. Earlier researchers (Grant, 1987; Caves, 1996; Gregory & McCorriston, 2005; Boardman et al., 1997; Jin & Qian, 1998; Goethals & Ooghe, 1997; Douma et al., 2006; Khawar, 2003; Aydin et al., 2007) have revealed a positive association between foreign ownership and firm performance. According to Barbosa and Louri (2005), multinational firms outperform their local counterparts and have several advantages, including financial, governance, marketing, and product differentiation, and the ability to take advantage of economies of scale. Blomstrom and Sjöholm (1999) demonstrate that foreign ownership increases labor productivity after controlling for the impact of minor and large shareholdings. Isik et al. (2004) suggest that foreign-owned banks perform better than local banks due to operational technology advancements. On the other hand, Kim and Lyn (1990) claim that firms having foreign promoter ownership perform worse than those with domestic ownership. Foreign companies may pay higher wages, which could lower productivity (Driffield & Girma, 2003). Furthermore, multinational company performance declines when the effects of capital intensity and size are controlled, suggesting that the superior performance of foreign-held firms is a result of their high capital intensity and huge size. Konings et al. (2001) investigated the effects of foreign direct investment (FDI) on corporate productivity in developing nations and found a negative relationship between performance and foreign ownership. Additionally, Grover et al. (2014) examined the Chinese market: they found that when foreign ownership increases, the efficiency, and profitability of the firms increase but then decline at the optimal point, suggesting that certain domestic control should be there to optimize financial performance. Hence, we propose the following hypothesis:

H2: All else equal, foreign promoter ownership impacts firm performance.

¹ There is no statutory requirement for minimum promoter group holdings. SEBI regulations call for a minimum of 25% public shareholding. As per rule 19A of the Securities Contracts (Regulations) Rules, 1957, every listed company is required to maintain a minimum 25% public shareholding. Promoters must own at least 20% of the company's post-issue paid-up capital during the initial floatation of the company, and there must be a 3-year lock-in period after which reduction of promoter stake is permitted.

² The resident shareholders consist of domestic retail shareholders, institutional shareholders, and domestic promoters. The legal provisions applied to both promoter shareholding and retail shareholding are distinct.

2.3. Institutional and non-institutional ownership

Institutional ownership encourages adopting robust corporate governance practices and protecting the shareholder interests in companies (Tornyeva & Werekko, 2012; Tahir, 2015; Chen et al., 2008; Cornett et al., 2007). Compared to non-institutional shareholders, institutional shareholders are more likely to participate in and influence management decisions since they possess a significant portion of the equity in the companies (Brickley et al., 1998). In terms of corporate governance, they might have adopted a more effective monitoring function (Hakimah et al., 2019) and thus influence firm performance (Chaganti & Damanpour, 1991). Extant literature has witnessed mixed evidence regarding the relationship between institutional investors and firms' performance. On one hand, institutional shareholders constantly track the performance of companies by exercising their expertise, voting rights, and control over management to influence corporate decisions (Wei & Varela, 2003). This reduces information asymmetry and agency issues (Shleifer & Vishny, 1997). They may invest money or use their connections for firm success (McConnell & Servaes, 1990; Smith, 1996). On the other hand, institutional investors are viewed as short-term traders who seek speculative short-term trading profits based on information advantages (David & Kochhar, 1996) to meet their portfolio needs (Elyasiani & Jia, 2010). Therefore, the weak relationship between firm performance and institutional ownership raises the possibility that institutional investors could harm productivity (Duggal & Millar, 1999; Woitke, 2002; Ferreira & Matos, 2008; Elyasiani & Jia, 2010; Charfeddine & Elmarzougui, 2010; Musallam et al., 2018). They may collaborate with management and overlook managerial dishonesty to exploit minority investors and hamper company performance.

Non-institutional ownership refers to shares held by small and individual shareholders who, compared to large institutional shareholders, cannot exercise their ownership rights, resulting in higher monitoring agency fees and being dispersed. They are constantly looking for opportunities to invest in potential businesses to maintain their market position due to inefficiencies in control in the framework of cross-shareholdings or shareholder commitments (Soufeljil et al., 2016). Therefore, increasing non-institutional shareholding may harm the company's performance (Dwivedi & Jain, 2005; Soufeljil et al., 2016; Alsedrah & Hacine Gherbi, 2021). Hence, we frame the following hypotheses.

H3: All else equal, institutional ownership affects firm performance.

H4: Non-institutional ownership is negatively related to firm performance.

3. RESEARCH METHODOLOGY

3.1. Variables

3.1.1. Firm performance

We employed *ROA*, *ROCE*, and *RONW* as firm performance measures, as in prior studies (Gupta &

Mahakud, 2020a, 2020b). *ROA* is calculated as the ratio of net income to total assets, which determines how effectively a company uses its assets to generate revenue. *ROCE* determines how well a company uses its capital to generate profit. A greater ratio indicates a company's successful growth. *RONW* is the rate of return on the resources provided by the shareholders. It shows how much equity shareholders have invested in earnings per rupee. Investors prefer a company with a high *RONW* because it demonstrates the company's ability to profitably utilize its capital (see Table 1 for variable definitions).

3.1.2. Ownership structure

Ownership structure includes: 1) domestic promoters which is the percentage of shares held by Indian promoters; 2) foreign promoters refers to the percentage of shares held by foreign promoters; 3) institutional ownership is the percentage of shares held by institutional shareholders; and 4) non-institutional shareholdings is the percentage of shares held by the non-institutional shareholders in the company (see Table 1).

3.1.3. Control variables

We have used four control variables in the study: firm size, firm age, leverage, and sales growth (Core et al., 1999; Gillan et al., 2003). Firm size has been measured as the natural log of the firm's total assets (Bhagat & Bolton, 2008). Larger organizations may get more funding and attract highly skilled labor as they can adapt more innovative and efficient organizational practices (Amatori et al., 2013). The larger firms may have a higher market influence which may enable them to set higher prices and thus generate more revenue (Pervan et al., 2012) and better performance (Gadzo & Asiamah, 2018; Majumdar & Nagarajan, 1997). On the other hand, large firms experience increased agency costs, administrative procedures, and managerial costs (Stiroh & Rumble, 2006; Pasiouras & Kosmidou, 2007; Lee, 2009; Amato & Burson, 2007), which may be detrimental to firm performance. Though younger firms have a higher likelihood of expanding than older ones (*FAGE*), they are more sensitive to "liabilities of newness", which can include a variety of poorly understood variables that could fail (Gibrat, 1931; Stinchcombe, 1965). Due to the "inertia effects", younger firms may find it challenging to adapt swiftly to changing business environments (Barron et al., 1994). With the increasing age, the companies may foster the required expertise (Coad et al., 2013), resulting in reduced plant failure (Dunne et al., 1989) and enhanced diversity (Campa & Kedia, 2002; Villalonga, 2004). Over time, the cost of capital (Hadlock & Pierce, 2010) and investor uncertainty are reduced, making stock returns more predictable (Pastor & Veronesi, 2003; Chakraborty et al., 2022; Gupta et al., 2022). Consequently, their performance improves due to consistent growth in productivity, profit, and assets (Coad et al., 2013; Osunsan, 2015; Akben Selçuk, 2016). Further, the agency cost theory suggests that there may be a positive relationship between leverage and company performance.

The company's performance improved since the return was higher than the average interest rate on leverage (Robb et al., 2009). In addition to serving as a tax shelter, leverage can be used to discipline management (DeAngelo & Masulis, 1980). According to Jensen (1986), it is an indicator of a company's profitability, suggesting a positive relationship between leverage and financial performance (Tripathy & Shaik, 2020; Gadzo & Asiamah, 2018; Detthamrong et al., 2017; Sukhtankar, 2016; Murigu, 2014). However, the organization might be in a high-risk zone with adverse effects if it crosses the threshold (Ren et al., 2019; Ibhagui & Olokoyo, 2018; Lin & Chang, 2011; Cheng et al., 2010; Gill et al., 2009). Additionally, sales growth aids investment planning, indicates consumer demand for a company's goods, and improves the operation of the business (Mak & Kusnadi, 2005). Large assets and rapid sales growth can boost a company's performance (Ren et al., 2019). However, companies might compromise on quality to increase sales, which may have a negative long-term impact, including losing clients and revenue (Brush et al., 2000). Hence, we employ sales growth to control the firm performance (Deloof, 2003; Gupta et al., 2021a).

3.2. Data

We targeted the top 200 companies listed on the BSE based on their market capitalization. It constitutes about 80 percent of the total market capitalization of all the companies listed on BSE. Banks were excluded because they are subject to different governance norms under the Indian Companies Act 2013, and firms with missing data were excluded since estimating them is challenging. Finally, we generated a panel data sample of 113 companies with 565 observations. Table 2 presented a summary of the industries represented by the sample firms. The table reveals that the industrial sectors represented in the study are fairly distributed, with the exception of the banking and finance industry groups that were omitted from the analysis as stated above. The study runs from 2012-2013 to 2016-2017. The information about ownership structure was gathered by hand from annual reports and the company's websites. The financial data was compiled using the CME ProwessIQ and Bloomberg database. Data were divided into different subsets for our robustness study based on firm size, board size, and firm age. In addition, we performed a robustness test using the GMM approach to estimate the suggested model.

Table 1. Variables description

Variables	Operationalization	Predicted sign	Source
<i>Dependent variables (Firm performance)</i>			
ROA	Net profit / Total assets		Bloomberg
ROCE	Earnings before interest and taxes / (Total assets - Current liabilities)		Bloomberg
RONW	Net profit / Total equity		Bloomberg
<i>Independent variables (Ownership structure)</i>			
Domestic promoters (DMST)	Percentage of shares held by Indian promoters in the company	+/-	Annual report
Foreign promoters (FRGN)	Percentage of shares held by foreign promoters in the company	+/-	Annual report
Institutional ownership (INST)	Percentage of institutional shareholding in the company	+/-	Annual report
Non-institutional ownership (NINST)	Percentage of non-institutional shareholding in the company	-	Annual report
<i>Control variables</i>			
FAGE	Age of the firm up to 2017 since its incorporation year		ProwessIQ
LEV	Debt-to-equity ratio		ProwessIQ
FS	Natural log of total assets		ProwessIQ
SG	Sales growth = (Present value of sales - past value of sales) / past value of sales		ProwessIQ

Table 2. Number and proportion of firms by industry classification

Industry	Number	Percentage
Automobile and textile	13	11.50
Drugs and health care	11	9.73
Finance services and others	10	8.85
Oil, gas, and refinery	10	8.85
Consumer products and tobacco	9	7.96
Steel and metals	9	7.96
IT	8	7.08
Cement, paints, and varnishes	8	7.08
Electrical machinery, tires and tubes, and transport services	7	6.20
Electricity and telecommunication services	5	4.44
Engineering, construction, and allied activities	4	3.54
Machinery and industrial equipment	4	3.54
Chemicals	2	1.77
Media-broadcasting	2	1.77
Others	11	9.73
Total	113	100

Table 3 shows a summary of the performance and ownership structure variables. The sample firms' mean ROA, ROCE, and RONW are 10.46, 16.08, and 19.59, respectively. The majority of the owners (47.91%) are domestic promoters. Foreign promoter shareholdings account for 6.82% of the company's promoter ownership. Institutional and non-institutional shareholdings are respectively 29.60% and 15.37%.

Since the correlation coefficients are relatively small, and the majority of the coefficients are statistically insignificant, the correlation matrix in Table 3 reduces the possibility of multicollinearity. Furthermore, the explanatory variables' variance inflation factor (VIF) was less than 5, indicating no multicollinearity. Domestic promoters, foreign promoters, and institutional shareholders are positively correlated with firm performance, while non-institutional shareholdings have a negative correlation. Overall, the correlation matrix indicates that the data has a low risk of multicollinearity issues.

Table 3. Descriptive statistics and correlation matrix of all the variables used in this analysis

Variables	N	Mean	ROA	ROCE	RONW	DMST	FRGN	INST	NINST	FAGE	FS	LEV	SG
ROA	565	10.46	1										
ROCE	565	16.08	0.883*	1									
RONW	565	19.59	0.836*	0.934*	1								
DMST (%)	565	47.91	0.023	0.047	0.066	1							
FRGN (%)	565	6.82	0.094*	0.179*	0.146*	-0.639*	1						
INST (%)	565	29.60	0.103*	0.121*	0.033	-0.548*	-0.114*	1					
NINST (%)	565	15.37	-0.066	-0.026	-0.045	-0.301*	-0.128*	-0.051	1				
FAGE	565	42.66	0.007	0.121*	0.084*	0.274*	0.177*	0.067	0.158*	1			
FS	565	11.87	-0.322*	-0.315*	-0.228*	-0.046	-0.103*	-0.221*	-0.087*	0.091*	1		
LEV	565	0.78	-0.357*	-0.327*	-0.139*	-0.036	-0.123*	-0.232*	-0.027	-0.173*	-0.414*	1	
SG	565	27.48	0.068	0.055	0.088*	0.028	0.004	0.085*	0.058	0.072	0.044	0.034	1

Note: * represents the 10% level of significance.

3.3. Models specification and estimation method

We have specified a panel model as follows,

$$FP_{it} = \alpha_i + \beta_1 DMST_{it} + \beta_2 FRGN_{it} + \beta_3 INST_{it} + \beta_4 NINST_{it} + \beta_5 FAGE_{it} + \beta_6 FS_{it} + \beta_7 LEV_{it} + \beta_8 SG_{it} + \varepsilon_{it} \quad (1)$$

where, FP_{it} is firm performance indicators measured by ROA , $ROCE$, and $RONW$; ε_{it} is the disturbance term; i is the firm from 1 to 113; and t is the values of years from 2013 to 2017. The β parameters capture the possible effect of explanatory variables on firm performance indicators. The ownership structure variables are as follows: $DMST$ is domestic promoter ownership, $FRGN$ is foreign promoter ownership, $INST$ is institutional ownership, and $NINST$ is the non-institutional ownership, $FAGE$ is the firm age, FS is the firm size, LEV is the debt-to-equity ratio of the firm, SG is yearly growth in firm's sales (see Table 1).

Finally, all the firms' are divided based on firm size, board size, and firm age to examine the impact of different ownerships on firm performance.

4. RESULTS AND DISCUSSION

Table 4 shows the results of the panel data analysis of the impact of different ownership structures on firm performance. The Lagrange multiplier (LM) test and Hausman-test results show that fixed effect model estimation is suitable for this study. The p-value of F-statistics, which is significant at a 1% level, indicates the fitness of the model. The amount of variation explained by explanatory variables that influence the dependent variable is also shown in the adjusted R^2 .

4.1. Whole sample

Domestic promoter ownership has a positive and significant relationship with firm performance. This supports Chami (2001) and Gálík and James (1999), who claim that domestic promoters are concerned about increased firm performance because they invested money in the firm's incorporation. They keep track of the company's actions, save agency costs, and make more money. This finding also implies that as managers' equity ownership grows, their interests become increasingly aligned with those of outside investors. The impact of foreign promoter ownership on performance is also beneficial but the impact is less as compared to domestic promoters. The finding suggests a proportionate mix of both domestic and foreign promoters in order to reap the optimum benefits of

assuming a linear relationship between firm-specific parameters, ownership structure variables, and firm performance:

both types of shareholders. This confirms that through effective monitoring and the ability to take advantage of economies of scale, foreign investors strengthen the host country's corporate governance system and, thus, firm performance (Barbosa & Louri, 2005). Our findings also show that institutions favor firm performance, implying that institutional owners actively monitor management. They may utilize their voting power and influence managers to invest in long-term projects like research and development (R&D). This could lead to increased production and new product development, ultimately increasing investor value (Han & Suk, 1998). Non-institutional ownership has a negative impact on a firm's performance. This supports the finding of Dwivedi and Jain's (2002) that non-institutional shareholders have poor corporate control due to their fragmented shareholding performance. We find an appealing impact of age on the financial indicators of the enterprises for control variables, and we find it to be positive and substantial. It appears that mature companies are increasing their returns and market value. This may be due to the reputation they have developed over time, their adaptability to incorporate new technology, and their company diversification strategy for expansion. Company size significantly impacts $RONW$ and has a negative relationship with total firm performance. It implies that as a company's size increases, so does its performance (Gupta et al., 2021b; Gupta & Mahakud, 2021). But the companies are unable to profit from economies of scale. For all enterprises, the debt-equity ratio (LEV) has a negative association with performance. These findings align with those of Olokoyo (2013), who found that high levels of debt reduced business returns. Sales growth has a beneficial impact on company performance.

4.2. Large firms vs. small firms

The size of a company can influence its ownership structure. Promoter ownership has a more positive influence on small and medium-sized firms than on large firms (Chu, 2009; Carvalhal da Silva & Leal, 2006). When a company grows large enough, bureaucratic and formal methods are likely to take the place of informal/social ones (Kimberly, 1976). It

might affect the information advantages enjoyed by the firms dominated by the promoters and their competitive advantage may diminish as they expand in size (Galbraith, 1973). According to Kole (1995) and Chu (2009), firm size moderates the association between firms with high promoter ownership and performance. Hence, based on size, we have categorized the firms into large and small firms.

Table 5 shows the regression results of large and small firms. The findings demonstrate that the variables impact large firms more as compared to small firms. All the ownership structure variables negatively impact the performance of large firms. Other firm-specific variables such as firm size, age, leverage, and sales growth are consistent with the whole sample results.

Table 4. Random and fixed effect estimation results for the whole sample

Variables	Random effect model			Fixed effect model		
	ROA	ROCE	RONW	ROA	ROCE	RONW
DMST	0.269** 0.117	0.028** 0.011	0.555** 0.235	0.271** 0.131	0.523** 0.240	0.574** 0.265
FRGN	0.153** 0.019	0.527** 0.215	0.553** 0.238	0.067* 0.033	0.501** 0.244	0.570* 0.269
INST	0.171** 0.124	0.201** 0.023	0.581** 0.248	0.173** 0.039	0.218** 0.054	0.598** 0.280
NINST	-0.238** 0.118	-0.155** 0.011	-0.246** 0.035	-0.343** 0.132	-0.181** 0.042	-0.185** 0.066
FAGE	0.018** 0.007	0.169** 0.031	0.068** 0.033	0.015* 0.008	0.062* 0.033	0.158** 0.037
FS	-1.417*** 0.285	-2.689** 0.511	-2.755*** 0.567	-1.398*** 0.372	-2.318** 0.682	-2.076** 0.751
LEV	-1.401*** 0.236	-1.858*** 0.424	-0.423** 0.169	-1.516*** 0.270	-2.195*** 0.495	-0.603** 0.205
SG	0.002* 0.001	0.003*** 0.002	0.005** 0.002	0.002* 0.001	0.002** 0.001	0.004** 0.002
Constant	36.624** 12.769	45.176** 22.967	34.482 25.487	37.090** 14.374	43.664* 26.335	24.995 28.983
LM test	0.000	0.000	0.000	0.000	0.000	0.000
Hausman test	0.007	0.023	0.008	0.007	0.023	0.008
Industry dummy	yes	yes	yes	yes	yes	yes
Adjusted R ²	0.177	0.175	0.087	0.177	0.174	0.085

Note: We estimate all models controlling for heteroskedasticity and firm-level clustering. Standard errors are reported in parentheses. *, ** and *** show the 10%, 5% and 1% significance level respectively.

Table 5. Fixed effect estimation results for large and small firms

Variables	Large firms			Small firms		
	ROA	ROCE	RONW	ROA	ROCE	RONW
DMST	-0.511** 0.223	-0.712** 0.314	-0.779* 0.405	0.294 0.239	0.316 0.517	0.302 0.552
FRGN	-0.483** 0.232	-0.758** 0.327	-0.824* 0.421	0.252 0.241	0.190 0.520	0.201 0.556
INST	-0.538** 0.238	-0.741** 0.334	-0.839* 0.431	0.385 0.241	0.469 0.521	0.519 0.556
NINST	-0.580** 0.239	-0.615* 0.336	-0.794* 0.433	0.294 0.240	0.435 0.519	0.392 0.555
FAGE	-0.012 0.031	-0.012 0.043	-0.002 0.056	0.056** 0.027	0.239** 0.058	0.263** 0.061
FS	-4.890 3.452	-7.686 4.858	-8.060 6.266	-0.011 2.229	-4.398 4.813	-9.277* 5.143
LEV	-1.204*** 0.363	-1.893*** 0.511	-0.316** 0.059	-7.473* 1.124	-10.777* 2.428	-11.754* 2.594
SG	0.015** 0.007	0.016** 0.007	0.017** 0.009	0.002** 0.001	0.004** 0.002	0.002** 0.001
Constant	128.243** 52.703	170.622** 74.164	152.274 95.661	-18.320 32.630	23.166 70.463	75.516 75.292
Restricted F-test	F (37, 144) = 4.20 (0.000)	F (37, 144) = 4.51 (0.000)	F (37, 144) = 1.11 (0.000)	F (37, 144) = 17.04 (0.031)	F (37, 144) = 14.54 (0.045)	F (37, 144) = 19.68 (0.020)
LM test	0.002	0.001	0.001	0.012	0.031	0.002
Hausman test	0.017	0.031	0.018	0.004	0.033	0.001
Industry dummy	yes	yes	yes	yes	yes	yes
Adjusted R ²	0.293	0.292	0.312	0.554	0.554	0.622

Note: We estimate all models controlling for heteroskedasticity and firm-level clustering. Standard errors are reported in parentheses. *, ** and *** show the 10%, 5% and 1% significance level respectively.

4.3. Large board vs. small board firms

Shareholders have little power to affect management decisions unless they sit on the corporate board. However, they have the most influence over the board structure since they can use their voting power to choose board members (Rashid, 2020). It is believed that boards with large shareholder owners

have the power to direct management at will, which could be expensive for small shareholders and have a negative impact on the firm performance and perception of outside investors (La Porta et al., 1999; Wei & Varela, 2003). Further, large boards frequently struggle with disagreements over important decisions due to the limited time available for board meetings (Yermack, 1996). The issue is compounded

by the diverse viewpoints of the board of directors. According to Mak and Li (2001), there is a significant relationship between board size and corporate ownership. Additionally, Rashid (2020) confirmed that board size is positively associated with institutional ownership and foreign ownership. In line with these arguments, we divided the firms based on board sizes such as large board firms and small board firms to analyze the impact of ownership structure on firms with large and small

boards. Table 6 shows the regression results of firms with large and small boards. The findings demonstrate that domestic promoters and foreign investors have a negative impact on the performance of large corporations. We also find that institutional and non-institutional shareholders adversely affect the firm performance. Other industry-specific variables such as firm size, age, leverage, and sales growth are consistent with the whole sample results.

Table 6. Fixed effect estimation results for large and small boards

Variables	Large boards			Small boards		
	ROA	ROCE	RONW	ROA	ROCE	RONW
DMST	-0.585* 0.288	-0.147 0.416	-0.197 0.449	0.324 0.201	0.539 0.464	0.919 0.524
FRGN	-0.548** 0.289	-0.067 0.417	-0.116 0.450	0.301 0.207	0.541 0.479	0.896 0.540
INST	-0.689* 0.310	-0.176** 0.047	-0.815* 0.483	0.257 0.205	0.314 0.475	0.797 0.536
NINST	-0.663** 0.304	-0.888* 0.439	-0.387** 0.174	0.206 0.194	0.411 0.449	0.875 0.507
FAGE	0.015 0.034	0.037 0.049	0.024 0.053	0.047 0.033	0.341 0.078	0.335 0.088
FS	-1.830** 0.678	-3.076** 0.980	-3.386* 1.057	-0.758 0.603	-1.576 1.397	-0.456 1.577
LEV	-1.804** 0.792	-2.529** 1.144	-0.564* 0.234	-1.925** 0.538	-2.481* 1.247	-1.958* 1.008
SG	0.027** 0.008	0.039** 0.007	0.042** 0.012	0.002** 0.001	0.005** 0.002	0.003** 0.001
Constant	54.379 31.675	71.646 45.737	81.122 49.355	-9.555 20.391	-21.852 47.260	-73.436 53.355
Restricted F-test	F (37, 144) = 16.13 (0.012)	F (37, 144) = 18.17 (0.004)	F (37, 144) = 15.15 (0.008)	F (37, 144) = 17.30 (0.013)	F (37, 144) = 16.66 (0.024)	F (37, 144) = 19.36 (0.015)
LM test	0.031	0.004	0.002	0.012	0.023	0.001
Hausman test	0.001	0.004	0.007	0.008	0.009	0.005
Industry dummy	yes	yes	yes	yes	yes	yes
Adjusted R ²	0.663	0.710	0.655	0.686	0.638	0.681

Note: We estimate all models controlling for heteroskedasticity and firm-level clustering. Standard errors are reported in parentheses. *, ** and *** show the 10%, 5% and 1% significance level respectively.

Table 7. Fixed effect estimation results for old and young firms

Variables	Large boards			Small boards		
	ROA	ROCE	RONW	ROA	ROCE	RONW
DMST	0.212 0.177	0.327 0.435	0.539 0.514	-0.277** 0.116	-0.249* 0.106	-0.538** 0.241
FRGN	0.222 0.175	0.366 0.429	0.577 0.506	-0.541*** 0.135	-0.415* 0.192	-0.592* 0.279
INST	0.215 0.174	0.436 0.426	0.633 0.503	-0.221* 0.107	-0.292* 0.153	-0.467** 0.222
NINST	0.139 0.180	0.192 0.442	0.477 0.522	-0.204* 0.102	-0.223* 0.146	-0.401* 0.211
FAGE	0.691** 0.231	1.537** 0.563	1.821** 0.665	0.209 0.247	0.157 0.353	0.228 0.512
FS	4.944** 2.069	5.792** 2.070	1.683** 0.988	-1.662 1.498	-0.473 2.141	-2.869 3.109
LEV	-6.109** 1.096	-12.637** 2.686	-12.825** 3.173	-2.253** 0.676	-2.519** 0.967	-8.564** 1.404
SG	0.009** 0.004	0.018** 0.008	0.021** 0.009	0.0005** 0.0002	0.002** 0.001	0.002** 0.001
Constant	18.775 20.741	62.616 50.822	88.607 60.030	34.902 17.570	31.032 25.110	39.388 36.464
Restricted F-test	F (37, 144) = 20.72 (0.000)	F (37, 144) = 32.92 (0.000)	F (37, 144) = 25.85 (0.000)	F (37, 144) = 16.47 (0.000)	F (37, 144) = 13.57 (0.000)	F (37, 144) = 14.91 (0.000)
LM test	0.002	0.021	0.005	0.000	0.000	0.000
Hausman test	0.000	0.007	0.001	0.001	0.003	0.001
Industry dummy	yes	yes	yes	yes	yes	yes
Adjusted R ²	0.030	0.023	0.006	0.281	0.366	0.008

Note: We estimate all models controlling for heteroskedasticity and firm-level clustering. Standard errors are reported in parentheses. *, ** and *** show the 10%, 5% and 1% significance level respectively.

4.4. Old firms vs. young firms

The age of the firm can limit disparities in ownership structure. Older companies are more

likely to have a more dispersed ownership structure than younger companies (Dlugosz et al., 2006). A company's age affects foreign investors' decisions on domestic firms (Mallinguh et al., 2020). We separated the firms into old and young firms to

explore the effect of firm age on the relationship between ownership structure and firm performance. Table 7 shows the regression results of old and young firms. The result indicates that the ownership structure variables affect young firms' performance negatively. The larger firm size has a favorable effect on old firms. Higher leverage is not good for old as well as young firms. The findings are consistent with the whole sample results.

4.5. Generalized method of moments estimation results

Endogeneity may produce skewed and inconsistent estimators and lower confidence when making research-based inferences (Chenhall & Moers, 2007). Hence, in order to control the heteroskedasticity and autocorrelation problem between ownership structure and firm performance relationship, we employ a two-step generalised method of moments (GMM) (Blundell & Bond, 1998; Arellano & Bover, 1995; Tran & Le, 2017). By applying the first differences, the GMM addresses the issue of heterogeneity and eliminates the individual effect, resulting in unbiased results. Utilizing

the requirements of orthogonality between the lags in the independent variables of the models, it incorporates the lagged explanatory variables as instruments, allowing for additional instruments (Arellano & Bond, 1991). The Arellano-Bond test, the Sargan test, and the Wald test are applied to check the autocorrelation, over-identifying restrictions, and the joint significance of the estimated coefficients respectively. The Sargan test also validates the instruments. We use the AR (1) autoregressive process where output variable linearly depends on its own previous values whereas AR (2) process relies on the previous two values.

Table 8 shows the results of the system estimator regression. Domestic promoter shareholdings, foreign promoter shareholdings, and institutional shareholdings have a positive impact on performance, but non-institutional shareholdings have a negative impact. The impact of control variables is mostly consistent with the fixed effect estimation results. The overall results of GMM estimation validate the relationship between ownership structure and Indian firm performance and confirm the earlier fixed effect estimation results.

Table 8. GMM estimation results for the whole sample firms

Variables	ROA	ROCE	RONW
DMST	0.301** 0.119	0.194 ** 0.094	0.512** 0.251
FRGN	0.329** 0.121	0.375** 0.196	0.590** 0.258
INST	0.109 0.117	0.375* 0.203	0.581** 0.282
NINST	-0.084 0.119	-0.190 0.202	-0.528* 0.257
FAGE	0.005 0.016	0.071** 0.034	0.081** 0.039
FS	-1.292** 0.426	-2.320*** 0.658	-1.662 * 0.920
LEV	-1.617*** 0.424	-2.569*** 0.731	-1.069 0.771
SG	0.001** 0.0003	0.002** (0.001)	0.005*** 0.001
Constant	17.296 12.471	23.928 20.942	15.436 30.755
N	565	565	565
Number of firms	113	113	113
Wald-test (χ^2)	145.85 (0.000)	114.52 (0.000)	116.92 (0.000)
Sargan test (p-value)	5.1152 (0.4020)	1.8646 (0.8675)	1.5629 (0.9057)
AB test AR (1) (p-value)	3.4548 (0.1006)	3.1706 (0.2015)	3.3339 (0.2009)
AB test AR (2) (p-value)	0.3526 (0.7244)	0.5822 (0.5604)	0.5315 (0.5951)

Note: We estimate all models controlling for heteroskedasticity and firm-level clustering. Standard errors are reported in parentheses. *, ** and *** show the 10%, 5% and 1% significance level respectively.

5. CONCLUSION

We investigate whether the introduction of the new Indian Companies Act 2013 affects the ownership structure of listed Indian companies and their performance or not. We selected four ownership structural characteristics that appear to influence firm performance based on earlier research. We conclude that varied investors maintain a close eye on how firms operate, increase monitoring, and eventually improve firm performance. Earlier research backs up this claim, establishing a favorable association between alternative ownership forms and corporate success.

Using a sample of 113 Indian firms listed on the BSE from 2012-2013 to 2016-2017, we find that domestic promoters, foreign promoters, and institutional shareholders positively influence firm performance, whereas non-institutional shareholders have an inverse association with performance. We add to the literature since studies on the influence of ownership structure on Indian listed firms are rare after the enactment of the Indian Companies Act 2013. A subsample analysis is used to assess the robustness of the study by splitting the data based on firm size, board size, and firm age. Finally, our research has some implications. Our findings support the literature's contention that

domestic promoters, foreign promoters, and institutional shareholders enhance the firm performance. Findings suggest a good mix of domestic and foreign promoter shareholdings may lead to improved firm performance. The findings imply that policymakers should consider increasing the promoter's stake. Furthermore, our study provides evidence that ownership structure is essential for firm performance in India, as well as some improved insights that will aid the board of directors and policymakers in such a manner that it

improves efficiency and adds to overall performance. This study has several drawbacks as well. The data used in this study for analysis of the last five years. More exciting findings can be obtained with a more extensive dataset. Additionally, future researchers can also analyze the impact of different ownership variables on Tobin's Q or other performance measures. Finally, our studies demonstrate that a firm's ownership structure significantly influences its performance.

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