

STRUCTURES OF OWNERSHIP AND CONTROL IN SPANISH FIRMS BETWEEN 1997 AND 2006

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Abstract

When approaching the study of how financial systems carry out their role in the control of the good governance of enterprises, many articles of research have centred on the analysis of the ownership structure of these firms. Attempts have been made to see if differences exist, in the nature and degree of concentration of ownership, in the level of pressure and control exercised over the managers and the repercussion of all this on the manner of managing the business. The intention of our research article is to shed light on the development of the structures of ownership and control in Spanish enterprises between 1997 and 2006, and their possible influence on the results of these enterprises.

Keywords: Corporate Governance, Ownership Structure, Spain

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This research Project has been financed by the Department for Innovation and the Society of Information of the Local Government of Guipúzcoa and the European Union.

1. Introduction

One of the most important concerns of economists throughout the ages has been the process of economic growth, its sources, and the policies which support it. In the traditional approach to this topic, although the variables concerned and the perspectives of analysis adopted are both numerous and very different, on very few occasions has economic growth been linked to the development of the financial system. Just as Pampillón (2000) points out, Schumpeter, for example, underlines the role played by the financial system in the expansion of technological innovation, and Bagehot analyses its influence on the industrialisation of England.

However, in the last few years the panorama has changed notably. The financial system, its configuration and degree of development, have changed from playing a secondary role to being key factors for the economic growth of a country, and, as a consequence, they have been studied by a large number of economists (Mato, 1990 and 1993; Raimond, Maroto and Melle, 1999; Thakor, 1996; Schmidt and Tyrell, 1997; Sollow, 1998; and Pampillón, 2000, among others).

Considering the financial system as the grouping of mediating institutions, markets and active

financiers, all these authors agree that the financial system fulfills, at least, two basic functions.

- To channel savings towards investments with the expected highest profitability.
- To control the good governance in the administration of the enterprises' financial resources.

Referring to the first of these functions, one can expect that the financial system will obtain an effective and efficient distribution of the financial resources, bearing in mind the existing alternatives of investment and their possibilities of gaining profits. Maroto (1993), for example, highlights the fact that the financial system is the source of the financial resources which facilitate the development of the firms' activity and, at the same time, is the framework for the valuation of its equities and performance. In consequence, he concludes that the financial structure of the firm and the characteristics of the financial system in which the companies carry out their activity, cannot be separated.

Numerous studies (Rajan and Zingales, 1995; González, 1997; Mato, 1990; Morck, Nakuma and Shivdasani, 2000; Brailsford, Oliver and Pua, 2002; Salas, 2002; Tong and Ning, 2004; and Joeever, 2005; among others) have analysed the relationship between the financial structure of the firms, its cost, the degree of access to the different financial sources needed to carry out their investment projects and the results

obtained. These studies have also considered the influence of some significant variables such as size, age or the ownership structure of the firms analysed.

As far as the second of these functions is concerned, the financial system is obliged to exert control over the different economic agents that receive financial resources, in order to avoid an inefficient and imprudent management of these resources. In this way, if the main function of the financial system is the efficient assignment of the financial resources at a macroeconomic level, this second function emphasizes the need for the same financial system to watch over the adequate administration of the financial resources at microeconomic level.

The concern for this second function arises, above all, from the progressive separation between ownership and control of the firm, and of the consequent breaking of links between the interests of the firm's managers and the objective of maximizing the benefits sought after by the shareholders. An efficient financial system is that which manages to have the institutional and organisational mechanisms needed to resolve the possible conflicts of interest which could arise from the different agents which interact with the business (shareholders, managers, suppliers, commercial and financial creditors, etc.). Berle and Means (1932) were the first to analyse these topics and stressed the importance of the agency problems within the modern corporations. In the same sense, authors such as Salas (2002)²² underline the need to establish mechanisms to improve the transparency of company's information in order to facilitate the external control of the firm's managers.

In this field, many of the studies have focussed on analysis of the ownership structure of the firms, on the degree of pressure and control exerted over the managers according to the nature and degree of ownership concentration, and the influence of all this in the investment and financing decisions, and the firm's performance (Mato, 1990; Paterson, 2001; Salas, 2002; Walt, Ingle and Diack, 2002; Crespi and García, 2002; Evans, Evans and Loh, 2002; Jones and Danbolt, 2003; Alvar and Mendes, 2004; Bauer, Guenster and Otten, 2004, among others).

On analysing the existing relationship between the ownership structure of the firms and their performance, Shleifer and Vishny (1986), Leach and Leahy (1991), Prouse (1992), Maher and Anderson (1999), Welch (2003), and many other authors,

²² In this study, the author highlights the importance of good regulation in this respect and points out that the theory of agency allows us to understand the way in which asymmetrical information and the conflict of interests between investors and managers could affect the production possibilities of the enterprise. In this way, he defines the costs of agency as the distance between the production possibilities that technology offers to the company and that which it achieves, given the existing restrictions on information.

associate a higher degree of ownership concentration with a greater possibility of monitoring managers and, in consequence, with a higher probability of obtaining a better performance.

Other authors, such as, Prouse (1992), Morck, Nakamura and Shivdanasi (2000), Cuervo, Fernández and Gómez (2002), Salas (2002), Douma, George and Kabir (2003), Morck and Yeung (2003), Tong and Ning (2004) among others, centre their attention on how the different types of majority shareholders (banks, individuals and families, non-financial corporations, foreign firms, etc.) influence over two fundamental aspects: 1) the way of managing the business and, in consequence, the results obtained; and 2) the different capability of monitoring managers according to the their ownership stakes. These authors underline the important role that banks and other credit firms can play supervising and monitoring firm's managers, given that they can carry out this function both in their role as shareholders and also as creditors of the firm. Besides, their presence as shareholders of a company may be a facilitating element to obtain additional financial resources. Douma, George and Kabir (2003) have detected a positive correlation between the presence of financial firms in the ownership of the firms and their results in the short term. At the same time, they have observed that the presence of other non-financial firms with a relevant block of shares normally has a long term effect and can play an important role in the supervision and control of the management.

Finally, it is worth pointing out that family businesses have also been the object of numerous pieces of research (Morck and Yeung, 2003) as a consequence of the importance of this type of firms in our business world. Within this field of research, in this work, we have focussed our attention on the analysis of the ownership structure of Spanish companies and, at the same time, its influence on their performance, differentiating the companies according to their activity sector and size. The data available has permitted us to offer a good picture to these topics for the years 1997, 2001, 2003 and 2006.

2. Objectives

The main objective of this study is to research and analyse the evolution of the ownership structures and control of Spanish enterprises between 1997 and 2006 and its influence on their performance. This general objective will be made more explicit in the following specific objectives:

- To analyse the ownership structure in Spanish firms and its evolution during the last decade.
- To study whether the different types of shareholders have different investment strategies, channelling their investments to companies of certain activity sectors or size.
- To analyse the nature of both the majority and the predominant shareholders in Spanish companies, and, at the same time, its evolution from 1997 to 2006.

• To analyse the relationship between the nature of the majority shareholder and the performance of the companies studied in 1997, 2001 and 2003.

3. Database: approach and coverage

To research the objectives of this study we have used the SABI database elaborated by Informa S.A - Bureau Van Dick. Nowadays, this database offers financial accounts and ownership information about a large number of Spanish firms that deposit this information in the Spanish Central Mercantile Register²³. All the limited companies and private limited companies have the obligation to deposit their financial accounts in this registry every year. Therefore, the database does not include the companies that have not the obligation to deposit their accounts there (for example, private individuals).

3.1 Approach and codification of the database

It has been necessary to codify all the shareholders information according to their nature. Although for the year 2006, the registers of shareholders are already codified by SABI, we have codified manually all the shareholders for 1997, 2001 and 2003. It is important to point out that we have centred our attention on those shareholders which offer details of the amount of their stakes, since this is an essential data for our present research. Besides, only the information about shareholders of companies which figure as “active” in the database has been codified. We have codified shareholders according to the next classification: Domestic banks and other credit firms; Individuals and families; Non-financial domestic firms; Foreign firms; State; Non-bank financial institutions; Others.

Once the registers of the shareholders have been codified, for each participating business, we have calculated the percentage of capital which is controlled by each of the seven types of shareholders identified. For each company we have created seven new fields in which we compile the details of the proportion of capital which is controlled by: 1. Domestic banks and other credit firms; 2. Individuals and families; 3. Non-financial domestic firms; 4. Foreign firms; 5. State; 6. Non-bank financial institutions; 7. Others.

²³ For further information please consult the RD 1784/1996 of 19th July which ratifies the Regulations of the Mercantile Register in the following sections: TITLE II OF THE INSCRIPTION OF THE BUSINESS DEALERS AND THEIR ACTIONS, CHAPTER I. GENERAL DISPOSITIONS. Article 81. Subjects and actions which are obliged to be registered. CHAPTER III. OF THE DEPOSITING AND PUBLICATION OF THE ANNUAL ACCOUNTS. SECTION I.OF THE PRESENTATION AND DEPOSITING OF THE ANNUAL ACCOUNTS. Article 365. Obligations of the presentation of annual accounts.

A new variable has also been created for each company which we have denominated as “Type of predominance”. With this variable we have classified the firms according to the predominant type of shareholder in their ownership structure. We have considered that a type of shareholder is predominant when it controls more than 50% of total equity. It is important to underline that behind the percentage of capital that a specific type of shareholder controls, there may exist several stakes of different shareholders of the same nature. For example, in a company where individuals and families are the predominant shareholders, it is possible that there exist different shareholders, all of them classified as individuals and families, that together as a whole control more than 50% of total equity of the firm.

To codify this variable, to the seven previous codes we have added the following:

- Two types of shareholders own 50% of the total equities each.
- None controls 50% of the total equities .
- There are no available data.

We have also classified the firms according to the nature of the majority shareholder who controls more than 50% of the total equities, since this indicates that this particular shareholder controls the company.

On the other hand, the enterprises with shareholders information have been classified according to the number of employees, distinguishing the following levels of employment:

- Between 1 and 9 employees.
- Between 10 and 19 employees.
- Between 20 and 49 employees.
- Between 50 and 249 employees.
- Between 250 and 999 employees.
- More than 999 employees.

For those enterprises which have not offered the data of their number of employees in the register corresponding to the enterprise, we have attempted to complete this data by checking their financial accounts which also contain this information. To carry out this consultation, we began by the financial accounts nearest in time in order to obtain the most up-to-date data possible. Despite this, in one group of important enterprises, it has not been possible to find out the number of employees.

Before beginning the process of calculating the performance ratios, it has been necessary to prepare the data of financial accounts which the database SABI offers. Of the various options which the database offers, we have made use of the financial accounts of the simplified model since it is the model which offers the best coverage of data. Although the normal or mixed models of financial accounts offer a greater detail of the different sections of the balance sheet and the profit and loss account, they contain data of a considerably lesser number of firms than those which offer data in the simplified model.

In the same way, it has been necessary to unify the monetary units in which the financial accounts of

the different years have been expressed, since, for example, in the database of 1997 the figures are expressed in millions of pesetas, in the year 2003 in thousands of euros and in 2006 in euros.

After the preparation of the database, we have also calculated the following performance ratios for the different years:

- Return on Assets (R.O.A.) = *Earnings before interests and taxes/ Total assets*
- Return on Equity (R.O.E.) = *Net income/ Equity*

After calculating these ratios, we have excluded of our performance analyses all the firms with negative equity in order to avoid atypical values of ROE. In addition, we have excluded the firms that showed extreme values in ROA and ROE ratios (we have excluded all the firms where ROA and ROE values are more than two standard deviations away from their average value).

3.2 Coverage of the data and profile of the firms

Table 1. Coverage of the SABI database

	1997	2001	2003	2006
Number of firms included in SABI	182.667	194.076	577.239	939.757
Number of firms included in DIRCE (excluding individuals)	n.a.	994.052	1.118.616	1.383.267
Coverage	n.a.	19,5%	51,6%	67,9%

Now, we offer the profile of the firms, contained in SABI, that we are going to analyse in our research (we will indicate in each case, and in brackets, the tables in the annexe which contain the data we are presenting).

• **Legal status** (see Annexe Table 1). In 2006, 85,4% of the existing companies were limited companies, whilst the public limited companies represent 13,3% of the total. On the other hand, the proportion of firms which have other legal status (cooperatives, associations, etc.) is most reduced (1,3%). It is noteworthy that the prominence of public limited companies has decreased between 1997 and 2006, whilst parallel to this the importance of limited companies has increased over the same period.

• **Size** (Table 2). Size is one data which is not always provided by the business. In fact, in 1997 almost half of the firms had not released this information, whilst in 2006 this number went down to 14%. For this reason, at the moment of studying this characteristic, instead of basing ourselves on the percentages calculated over the total of the businesses present in each year's database, we will base our work on the calculations concerning the businesses which have given information about their employee numbers. With this in mind, in 2006, the firms with less than 10 employees represented 77,3% of the Spanish enterprises who furnished us with the data concerning size, whilst the enterprises with between 10 and 19 employees represented 12,2%, which indicates that the remaining 10,5% are businesses with more than 20 employees. The importance of the group made up of the smaller sized companies (1-9

employees) has grown yearly whilst that of the rest of the groups has suffered a slow decrease. The explanation for this evolution could be found both in the fact that the number of firms of a smaller size, in relative terms, has increased, and the number of small firms which deposit their accounts in the Mercantile Register has also increased. In our opinion, this could also be due to the incorporation of a higher number of smaller sized firms in the SABI database when this amplified its capacity in an important way on passing from CD support to DVD with the larger possibilities of storage that this implies. 2001 appears as a peculiar year since the percentage of smaller sized firms was reduced in an important way and the firms of other size took on a greater prominence. The explanation for this could be that 2001 was for SABI a transition year in which they were preparing to pass from CD to DVD and the inclusion in the database of the larger firms took first priority.

• **Activity Sector** (Table 3). In 2006 the great relevance of the service sector stands out from the others. The enterprises dedicated to commerce, repairs and other services represent almost 70% of the total. On analysing the evolution over the last decade, our attention was drawn to the relative greater presence of firms of the primary sector, and at the same time, that the percentage of industrial businesses declined notably yet in construction there was a slight upward move. The relative importance of "Commerce and repairs" firms, after a certain growth between 1997 and 2001, experienced a clear decline between 2003 and 2006 which contrasts with the important increase of the businesses in the "Other services" sector due,

above all, to the increase of companies dedicated to estate agency and renting activities, and also, to services rendered to other companies. To conclude, we can say that the average profile of the firms analysed in 2006 corresponds to that of a limited company, whose activity is carried out in the service sector and which has between 1 and 9 employees. This profile is very similar to the average firm in 1997, except for the fact that, then, the difference between the proportion of limited companies and public limited companies was smaller and, at the same time, we had a minor difference between the percentage of industrial sector and the service sector firms.

4. Ownership and control structures (1997-2006)

This section is organized according to the proposed objectives. In the first part we analyse Spanish firms ownership structure. In the second part we deep on the study trying to discover the investment preferences of the different types of shareholders, taking into account the activity sector and the size of the participated firms. In the third part we analyse the relevance of each type of shareholder from a double perspective: first, taking into account, the nature of majority shareholder (who controls more than 50% of equity); and, second, considering the nature of the predominant type of shareholder (once shares have been grouped for each type of shareholders). Finally, in the fourth part, we focus on the relationship between the nature of the majority shareholder and the firm's performance, in order to determine whether the nature of owners has a negative or positive effect on the results achieved by the company.

4.1 Description of ownership structure

In this section we focus on the study of ownership structure from a global perspective, according to the following aspects:

- The number of firms participated by each type of shareholder and the percentage over all firms.
- The average and standard deviation of share stakes of each type of shareholder in firms.
- The average participation on equity owned by each type of shareholder.

4.1.1 Number of firms participated

Figure 1 (Table 4 of the annexe²⁴) shows that individuals and families are the most frequent type of shareholder in our firms. In 2006 they are present in the ownership structure of more than 72% of Spanish

firms. The second position is for non-financial domestic firms which participate in 21,2% of firms, followed by foreign firms (3,9%) and non-bank financial institutions (1,3%).

In addition, we observe that there have been slight variations in the ownership structure of firms from 1997 to 2006, although it has not changed the relative importance of each type of shareholders in this period. On one hand, the participation of individuals and families has gone down slightly (from 73,6% to 72,1%). In the same way, the proportion of firms participated by foreign firms (from 4,4% to 3,9%), banks (from 1% to 0,7%), state (from 0,6% to 0,5%) and non-bank financial institutions (from 1,6% to 1,3%) has declined slightly. On the other hand, there has been a noticeable increase in the proportion of firms participated by other non-financial Spanish firms (from 18,7% in 1997 to 21,2% in 2006).

4.1.2 Average share stake

Figure 2 (Table 5 of the annexe) shows that the average share stake of all types of shareholders is high (as much as the standard deviation related to this average) and that it has increased from 1997 to 2006.

However, we observe different patterns among the different types of shareholders. In 2006, foreign firms show the largest average stake (78,4%), followed by non-financial domestic firms (61,4%), state (54,4%) and individuals and families (50,6%). The remaining types of shareholders have average share stakes of less than 50% -non-bank financial institutions (45,5%), banks (43,6%) and "others" (32,6%)-. In all cases, except for the group "others", it is observed an increase in the average share stake between 1997 and 2006. It will be interesting to contrast these data with that relative to majority shareholders and predominant type of shareholders, in order to determine whether these percentages mean a larger concentration of power, and, in consequence, control over the managers in Spanish firms.

4.1.3 Percentage of total equities owned

If we analyse the proportion of total equities controlled by the different types of shareholders in the Spanish firms, Figure 3 (Table 6) shows that in 2006 almost 50% is owned by other non-financial Spanish firms, 20% by foreign firms and 17% is owned by individuals and families. The other types of shareholders (non-bank financial institutions, banks, state and others) own the remaining 14% of total equity. Between 1997 and 2006, without taking into account the atypical variations observed between 1997 and 2001, stands out the growth of the proportion of equity held by nonfinancial domestic firms (from 46,8% to 48,1%), non-bank financial institutions (from 3,4% to 6,9%) and individuals and families (from 15,8% to 16,8%). On the other hand, there has been a decrease in the proportion of equity owned by banks (from 6,9% to 4,4%) and state (from 5,9% to 3,1%).

²⁴ The analysis of data included on Table 4 has to consider that firms are owned by different types of shareholders, and due to that, the total number of firms does not match with the figures compiled in each of the columns.

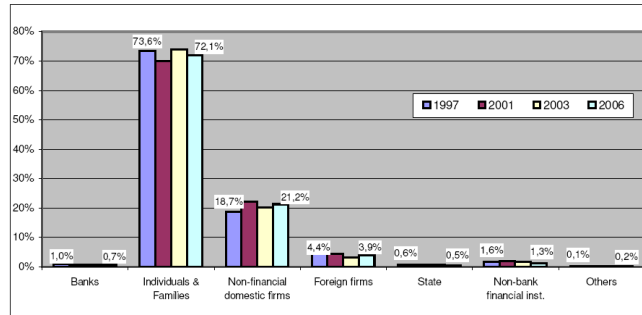


Figure 1. Percentage of firms participated by each type of shareholder

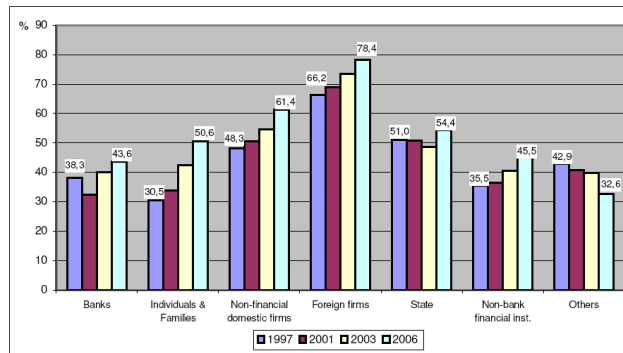


Figure 2. Average share stake of each type of shareholder

Finally, the percentage of total equity controlled by foreign firms has hardly changed between 1997 and 2006 (from 20,6% to 20,4%).

In summary, if we would have to underline the main key features of the ownership structure of the sample of Spanish firms analysed we would say that in 2006:

- Foreign firms own 20,4% of the total equity of Spanish firms, concentrate their participations in a small number of firms (3,9%), and hold very large stakes in these firms (78,3% on average).

- Non-financial Spanish firms own 48,1% of total equity, on average hold quite large share stakes (61,4%), and take part in the ownership of 21,2% of the firms.

- Individuals and families are present in a very large proportion of firms (72,1%), although their average stake (50,6%) is lower than that hold by the two previous shareholders. Besides, they only own the 16,8% of total equity, and consequently it seems that they hold their participations especially in small firms.

- Finally, the presence of non-bank financial institutions, banks and state in the ownership structure of Spanish firms is scarce. They participate as shareholders in 2,6% of the analysed firms, their average stake is between 43% and 50%, and they own the 14,4% of total equity. Therefore, it seems that they hold their stakes especially in large sized firms.

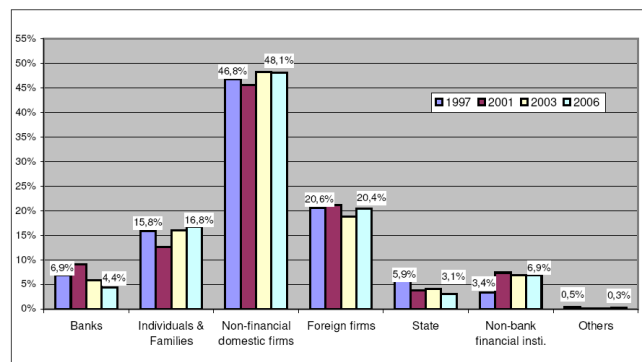


Figure 3. Proportion of total equities owned by each type of shareholder

4.2 Ownership structure and sectors

In this section we focus on the degree of attraction of each sector for the different types of shareholders and the differences among them. To achieve our aim, we have calculated a sector bias-index to show the investment tendency of the different types of shareholders on each sector for 1997 and 2006 (Table 7 and Figures 4 and 5).

Algebraically this sector bias-index has been defined as follows:

$$\text{Sector bias-index} = \frac{x_i / X_T}{y_i / Y_T}$$

where:

- x_i denotes the equity owned by the type of shareholder X in i-sector companies.
- X_T denotes the total equities owned by the type of shareholder X.
- y_i represents the total equities invested in i-sector companies.
- Y_T represents the total equities invested in all sectors companies.

When this ratio is larger than one it means that the type of shareholder under analysis is investing in the considered sector a proportion of resources superior to the importance of that sector in the global portfolio of firms. In contrast, if this ratio is below one it means that the weight of this specific sector in the shareholder's portfolio is below this sector's weight in total firms' portfolio.

The analysis of this ratio shows that:

- Non-financial domestic firms are close to the average in almost all sectors, even though we detect a greater interest for the construction sector and a lesser interest for that of commerce and repairs. In 1997 the situation was similar, but, at that moment, the industry sector stood out as positive and the primary sector negative.

-Commerce and repairs, and industry are the two sectors in which foreign firms are specially interested in 2006. Their investment in the primary sector and in construction is quite a lot less than the average. Their situation in 2006 is fairly similar to that of 1997.

-Individuals and families stand out because of their interest in the primary sector and the construction sectors, especially the first, hardly considered by the rest of shareholders. Commerce and repairs firms attract them in an important way. The picture of 1997 is very similar to that of 2006 except for the growth of their importance in the primary sector.

-The primary sector has been the great loser in the investment portfolio of non-bank financial institutions. Whereas in 1997 was a clear option for this sector, in 2006 what stands out is their lack of interest in it as in the rest of sectors with the exception of "other services".

-In 2006, banks focus clearly on firms whose activity is "other services", showing in the rest of sectors an interest smaller than the average. In 1997, the construction sector was one of their strongest options.

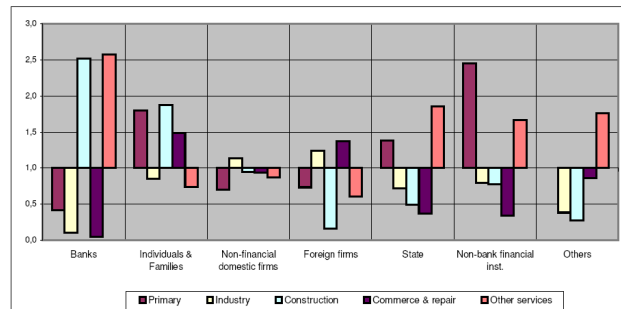


Figure 4. Shareholders' portfolio sector bias-index, 1997

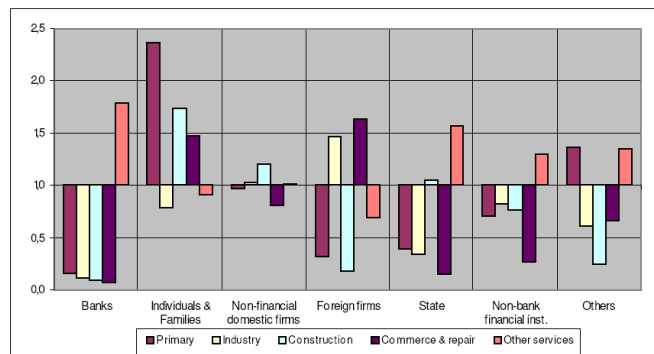


Figure 5. Shareholders' portfolio sector bias-index, 2006

-Similarly to non-bank financial institutions, in the analysed period, the state investments portfolio has underweighted primary sector, industry and commerce and repairs companies. Simultaneously, construction companies have been overweighted in this portfolio.

4.3 Ownership structure and firm's size

In this section we study the relationship between the firm's size and their ownership structure, in order to detect the investment preferences of the different types of shareholders.

Following the same idea of the previous section, we have defined a new size bias-index to show the investment strategy of the different types of shareholders on each firm's size range for 1997 and 2006 (Table 8 and Figures 6 and 7). Algebraically this size bias-index has been defined as follows:

$$\text{Size bias-index} = \frac{x_i / X_T}{y_i / Y_T}$$

where:

- x_i denotes the equity owned by the type of shareholder X in i-size range companies.
- X_T denotes the total amount of equity owned by the type of shareholder X.
- y_i represents the total equities invested in i-size range companies.
- Y_T represents the total equities invested in all sectors companies.

When this ratio is larger than one it means that the type of shareholder under analysis is investing in the considered firm's size range a proportion of resources superior to the importance of that size range in the global portfolio of firms. In contrast, if this ratio is below one it means that shareholders underweight this specific firm's size range in their portfolio.

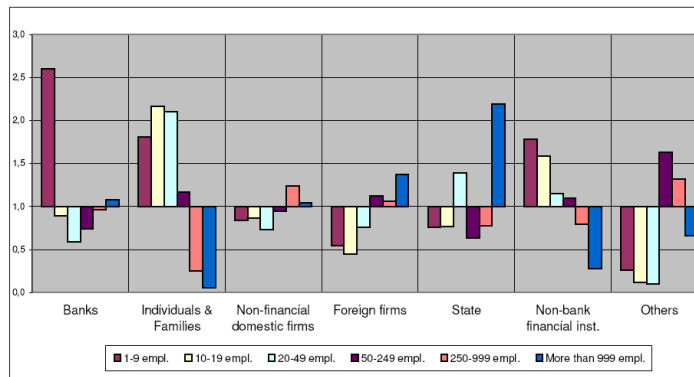


Figure 6. Shareholders' portfolio size bias-index, 1997

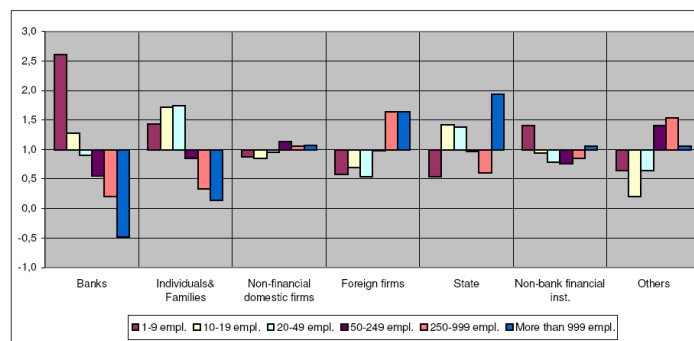


Figure 7. Shareholders' portfolio size bias-index, 2006

Furthermore, it is important to notice that some firms do not provide information about the number of employees. Consequently, we have decided to focus exclusively on those firms who offer the employment data, that is, 51,9% of all the firms analysed in 1997 (67,19% of total equity) and 85,8% in 2006 (92,90% of total equity).

The analysis of these data leads us to the following conclusions about the relationship existing

among the ownership structure of Spanish firms and their size:

-Especially in 2006, the investments of non-financial domestic firms are shared out among companies of different sizes according to the weight of each size ranges in the economy. However, we observe a slight tendency to overweight the largest firms in their investment portfolios, although this tendency softens up in 2006.

-Foreign companies show a clear preference for the medium-large sized firms and underweight the smaller firms. Besides, their interest in large companies has grown up from 1997 to 2006.

-Individuals and families overweight small firms and underweight medium and large firms in their investment portfolio. However, they have significantly balanced their investment portfolio between 1997 and 2006.

-Although in 1997 non-bank financial institutions focus their share holdings especially in small-medium sized firms, in 2006 they show a more balanced investment portfolio. Nonetheless, they maintain their preference for small firms.

-In the time period analysed, banks maintain a clear preference for small sized companies. It is important to highlight that, between 1997 and 2006, banks underweight significantly their share holdings in large corporations (those with more than 999 employees).

-The pattern of the state share holdings is difficult to define. We observe a clear preference for large sized companies, especially in 1997, and less interest in small firms.

4.4 The control of Spanish firms

In order to know who is behind the control of Spanish firms, we have analysed the following two aspects:

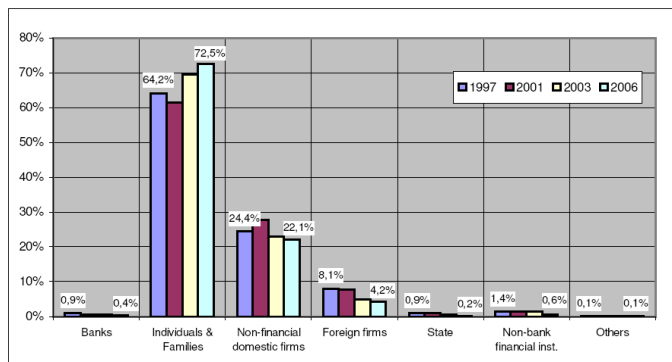


Figure 8. Proportion of firms where predominates each type of shareholder

If we analyse the average number of shareholders that hold each type of predominant position (Figure 9) we observe that in 2006 it varies from 1,28 in companies where foreign firms and non-bank financial institutions are the predominant shareholders to 1,86 in companies where individuals and families are the predominant block holders. Although considering all the companies as a whole, the average number of predominant shareholders has decreased from 1,62 in 1997 to 1,22 in 2006, there have been different evolutions depending on the nature of the predominant shareholder. The decrease from 3 to 1,86 in the average number of different individuals and families needed to give them predominance in one company is the most significant variation from 1997

-The nature of the predominant type of shareholder. We have considered that a type of shareholder is predominant in a company when it controls more than 50% of its total equity. Besides, we have computed the average number of shareholders involved behind each type of predominant shareholder (Table 9 of the annex) and have analysed the proportion of firms in which a specific type of shareholder is predominant in the set of companies he participates (Table 10 of the annex).

-The nature of the majority shareholder who owns more than 50% of total equity. (Table 11 of the annex).

4.4.1 The nature of the predominant type of shareholder

According to our data (Figure 8), in 2006 individuals and families are the predominant type of shareholder in 72,5% of the analysed Spanish firms. In second place, we observe that nonfinancial domestic firms are the predominant shareholders in 22,1% of firms and, far behind, foreign firms predominate in 4,2% of firms. Furthermore, little change is observed during the period analysed: an increase in the proportion of firms with a predominance of individuals and families in their ownership structure (from 64,2% in 1997 to 72,5% in 2006) and a decrease of this proportion in the rest of the cases.

to 2006. This shows that ownership concentration degree has grown up in this type of firms. However, the average number of different stakes maintained by the state in companies where he is the predominant shareholder, has grown up from 1,33 in 1997 to 1,84 in 2006. For the rest of the firms, this variation has been quite small. In order to analyse the frequency in which the different types of shareholders hold this predominant position when they participate in the ownership of firms, for each type of shareholder we have computed the proportion of firms in which this situation happens (Figure 10, Table 10).

According to this data, in 1997 individuals and families have, along with non-bank financial institutions and banks, the smallest percentages of

predominance among participated firms. On the other hand, when foreign firms hold their stakes in other companies they became the dominant type of shareholder in 63,7% of the participated firms. This proportion reduces to 50,7% and 45,4% when the shareholders are the state and non-financial domestic firms, respectively. This scene changes considerably in 2006. We notice an important growth (from 30,4% in 1997 to 48,2% in 2006) in the proportion of firms that, being participated by individuals and families, are dominated by this type of shareholder. The same happens with the proportion of firms where non-

financial domestic firms (varies from 45,4% in 1997 to 49,8% in 2006) or non-bank financial institutions (varies from 29,7% to 31,5%) play a predominant role. In contrast, in the same period the proportion of firms where, being shareholders, they hold a predominant position has decreased in the case of foreign firms (from 63,7% to 51,9%), state (from 50,7% to 46,7%) and banks (from 33,4% to 25%). So, dominance has displaced from foreign firms, banks and state towards, above all, individuals and families, who seem to have undergone an important ownership concentration process in the analysed period.

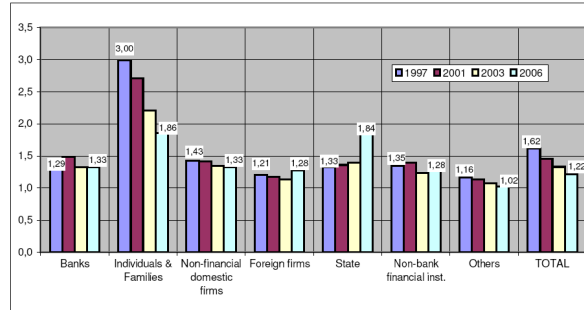


Figure 9. Average number of shareholders behind each type of predominance

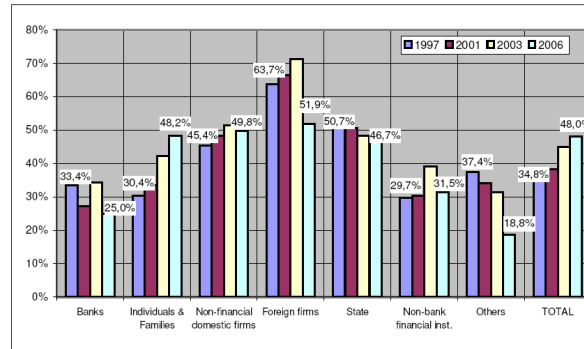


Figure 10. Proportion of participated firms where each type of shareholder is predominant

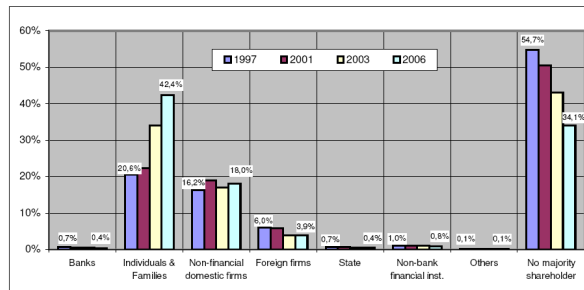


Figure 11. Nature of the majority shareholder

4.4.2 The nature of the majority shareholder

In this section we look deeper into the idea of control and focus on the analysis of those firms with a

majority shareholder who, owning more than 50% of total equity, can exert real control over the owned firm. Figure 11 (Table 11) shows the nature of the

majority shareholder in the analysed set of companies between 1997 and 2006.

From 1997 to 2006 we observe an important decrease in the proportion of firms without a majority shareholder (from 54,7% to 34,1%) and a significant increase in the proportion of firms controlled by individuals and families (from 20,6% to 42,4%). Furthermore, we notice a slight increase in the proportion of firms controlled by other non-financial domestic firms (from 16,2% to 18%) and a decrease in the percentage of firms controlled by foreign firms (from 6% to 3,9%). The proportion of firms controlled by the rest types of shareholders remains stable in the considered period. Therefore, we conclude that there has been an important concentration process in the ownership structures of the analysed Spanish firms between 1997 and 2006, increasing considerably the proportion of firms controlled by individuals and families. However, in 2006 more than one third of the firms do not have a majority shareholder.

4.5 Ownership structure and performance

In this section, we analyse the relationship between the ownership structure and performance of Spanish companies between 1997 and 2006. To do this, we have calculated the average ROA and ROE on firms grouped according to: 1) the nature of the predominant type of shareholders; and 2) the nature of the majority shareholder, for 1997, 2001 and 2003 (we still do not have the data for 2006), in order to study whether firm's ownership and control structures matter on their performance. The results we have obtained in these analysis have been quite similar (Tables 12 and 13). We have observed that there are no big differences, related to ROA and ROE, on firms grouped depending on the nature of either the predominant type of shareholders or the majority shareholder. For this reason, in this section we will present only the results related to the analysis of the relationship between the nature of the majority shareholder and firm's performance.

The analysis of these data (Figures 12-13) shows significant differences on performance depending on who is the majority shareholder in the ownership

structure of the company. In summary, these are the main conclusions:

-Between 1997 and 2003, and considering all the analysed firms (including those that do not have a majority shareholder), ROA decreases from 8,7% to 6,7%, while ROE decreases from 12,5% to 6,4%.

-If we attend the relationship between ROA and the different types of majority shareholders, we observe that in 1997 bank-controlled firms show the best performance (15,2%), followed by companies controlled by non-bank financial institutions (8,9%), foreign firms (8,7%), individuals and families (8,6%), and nonfinancial domestic firms (8,5%). State-owned companies show the worst performance (2,6%).

-In 2003, ROA gets worse for all companies, but with different intensity depending on who is the majority shareholder: bank-owned firms continue being the best firms (14%), followed by companies owned by foreign firms (7,6%), non-financial domestic firms (7,4%), non-bank financial firms (7,3%) and individuals and families (7,0%). Therefore, between 1997 and 2003, the Spanish companies controlled by foreign firms and non-financial domestic firms improve their relative position according to this ratio (although their average ROA decreases), whilst those firms controlled by non-bank financial institutions and individuals and families do the contrary. Once again, state-owned companies show the worst performance ratio.

-In 1997, firms controlled by banks show the best ROE ratio (20,9%), followed by those companies where individuals and families (12,6%), non-financial domestic firms (9,6%), foreign firms (9%) and non-bank financial firms are the majority shareholders. State-owned firms show, on average, a negative ROE (-1,7%).

-Between 1997 and 2003, we observe a general and significant decrease in ROE ratio of all types of firms. In 2003, family-controlled firms show the best performance ratio (8%), followed by bank-owned companies (5,4%) and firms controlled by other nonfinancial Spanish firms (0,2%). The rest of the companies controlled by other types of shareholders show a negative value of ROE in 2003.

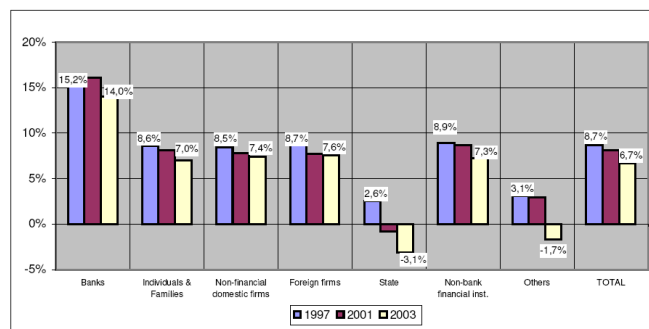


Figure 12. Majority shareholder and ROA

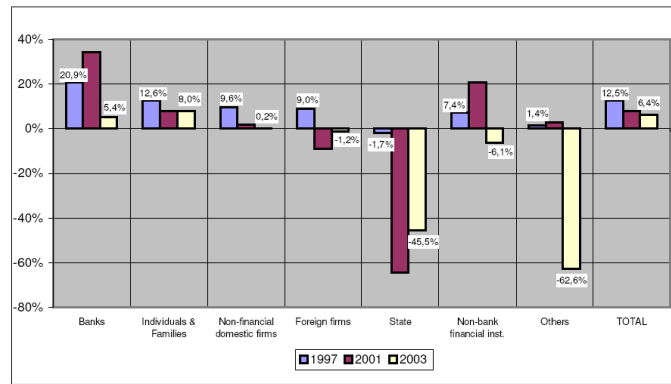


Figure 13. Majority shareholder and ROE

-If we compare ROA and ROE ratios, in 1997 we notice that ROE is larger than ROA in those firms controlled by banks, individuals and families, non-financial domestic firms and foreign firms, while is smaller in companies owned by the state and nonbank financial institutions. Six years later, in 2003, ROE is smaller than ROA in all companies except for family-owned firms.

5. Conclusions

Due to the fact that our aim was to analyse the evolution of ownership and control structures of Spanish firms between 1997 and 2006, and their possible influence on performance, we highlight the following conclusions of our study:

-Individuals and families play an important role in the ownership and control structures of Spanish firms. They participate in the biggest number of firms, although their average presence is not the most important, and seem to be focused on small firms. Non-financial domestic firms and foreign companies tend to concentrate their investment in a more reduced number of firms (notably greater in the case of the nonfinancial domestic firms) in which their presence clearly makes up the majority (especially in the case of foreign firms). Finally, the presence of non-bank financial institutions, banks and state is scarce as a whole. Their average share participation is reduced, and they own, in 2003, approximately 14,4 % of total equity. There seems to be a predominant participation in large sized firms. In the evolution from 1997 to 2006, it stands out an important increase in the average stake of all types of shareholders and a decrease in the percentage of firms participated by banks, state and non-bank financial institutions. Their place has been taken by non-financial domestic firms and individuals and families who increase simultaneously their average share stakes and the proportion of equities controlled in Spanish firms. It is important to highlight the growing importance of these inter-companies share holdings because in 2006 represent 48,1% of total equity of Spanish firms.

-Referring to the activity sectors, in 2006, important differences are observed. Foreign firms' investment interests are focused on industry, commerce and repair, whilst individuals and families show a preference for primary sector and construction. Banks, non-bank financial institutions and state maintain their holdings in the "other services" sector. Furthermore, non-financial Spanish firms maintain a balanced investment option in practically all the activity sectors, although with a certain predilection for firms in the construction sector.

-As far as size is concerned, in 2006, the investment interests vary depending on the type of shareholders. Foreign firms stand out for their preference for large sized firms, contrary to banks and individuals and families, who focus on small sized firms. No particular preferences are observed on other shareholders like non-financial domestic firms, state and non-bank financial institutions.

-From 1997 to 2006, it stands out an important movement of dominance from foreign firms, banks and state towards, above all, individuals and families. It is perceived an important increase in the concentration of ownership in, specially, those controlled by individuals and families, and to a lesser extent, by non-financial domestic firms. Thus, in 2006, individuals and families control the largest proportion of Spanish firms (although these firms represent only 16,8% of total equity), followed, at a certain distance, by non-financial domestic firms (their holdings represent almost half of total equity of Spanish firms). In relative terms, the percentage of firms controlled by other shareholders decreases.

-Finally, as far as the relationship between the nature of the majority shareholder and firm's performance is concerned, significant differences can be appreciated -in 1997 and, especially, in 2003-, both in the values of ROA and ROE. Companies controlled by banks and individuals and families show the best overall performance, while stateowned companies stand out for their poor outcome. In addition, it is important to highlight that ROA and ROE performance ratios get worse during the

analysed period. Besides, while in 1997 ROE is larger than ROA in firms controlled by banks, individuals and families, non-financial domestic firms and foreign firms, in 2003 only family-owned firms maintain this situation.

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Appendices

Table 1. Legal status of Spanish firms

Legal status	Legal status of Spanish firms							
	1997		2001		2003		2006	
	Firms	%	Firms	%	Firms	%	Firms	%
Associations	221	0.12%	552	0.28%	2.913	0.55%	3.356	0.39%
Cooperatives	725	0.40%	1.978	1.02%	6.289	1.19%	7.201	0.84%
Public limited companies	76.040	41.63%	67.467	34.76%	105.863	19.99%	114.565	13.32%
Limited companies	105.590	57.80%	123.973	63.88%	414.203	78.23%	734.407	85.42%
Others	91	0.05%	106	0.05%	217	0.04%	247	0.03%
TOTAL	182.667	100%	194.076	100%	529.485	100%	859.776	100%

Table 2. Size of Spanish firms

Employees	Size of Spanish firms							
	1997		2001		2003		2006	
	Firms	%	Firms	%	Firms	%	Firms	%
n.a.	87.830	48,08%	73.801	38,03%	145.677	27,51%	122.147	14,21%
1 – 9	55.988	30,65%	52.639	27,12%	260.095	49,12%	570.119	66,31%
10 – 19	17.935	9,82%	28.869	14,88%	63.108	11,92%	89.708	10,43%
20 – 49	13.737	7,52%	24.343	12,54%	41.229	7,79%	54.774	6,37%
50 – 249	5.983	3,28%	12.059	6,21%	16.682	3,15%	19.990	2,33%
249 – 499	996	0,55%	1.976	1,02%	2.239	0,42%	2.518	0,29%
More than 500	198	0,11%	389	0,20%	455	0,09%	523	0,06%
TOTAL	182.667	100%	194.076	100%	529.485	100%	859.779	100%

Table 3. Activity sector of Spanish firms

Description	Activity sector of Spanish firms							
	1997		2001		2003		2006	
	Firms	%	Firms	%	Firms	%	Firms	%
Primary	2.560	1,81%	3.222	1,70%	12.014	2,36%	20.295	2,40%
Industry	35.911	25,37%	47.922	25,30%	92.802	18,26%	121.452	14,36%
Construction	17.307	12,23%	23.710	12,52%	68.789	13,53%	117.171	13,85%
Commerce & repairs	46.180	32,62%	67.650	35,71%	142.067	27,95%	207.617	24,54%
Others services	39.606	27,98%	46.938	24,78%	192.676	37,90%	379.340	44,85%
TOTAL	141.564	100%	189.442	100%	508.348	100%	845.875	100%

Table 4. Firms participated by each type of shareholders

Type of shareholders	Firms participated by each type of shareholders							
	1997		2001		2003		2006	
	Firms	%	Firms	%	Firms	%	Firms	%
Banks	1.080	0,95%	1.003	0,84%	1.833	0,72%	2.709	0,74%
Individuals & Families	83.624	73,56%	83.691	70,09%	186.971	73,89%	263.728	72,10%
Non-financial domestic firms	21.274	18,71%	26.315	22,04%	50.715	20,04%	77.703	21,24%
Foreign firms	5.023	4,42%	5.251	4,40%	7.727	3,05%	14.277	3,90%
State	706	0,62%	864	0,72%	1.539	0,61%	1.846	0,50%
Non-bank financial institutions	1.853	1,63%	2.155	1,80%	4.017	1,59%	4.876	1,33%
Others	115	0,10%	132	0,11%	248	0,10%	660	0,18%
TOTAL	113.675	100%	119.411	100%	253.050	100%	365.799	100%

Table 5

Type of shareholder	Share stakes											
	1997			2001			2003			2006		
	Average	Stand. Dev.	%	Average	Stand. Dev.	%	Average	Stand. Dev.	%	Average	Stand. Dev.	%
Banks	38,25	40,64	38,06	32,41	38,06	40,42	40,00	40,42	43,60	40,51	36,58	
Individuals & Families	30,51	26,12	28,66	33,72	28,66	42,48	33,21	33,21	50,62	36,67	34,04	
Non-financial domestic firms	48,26	35,88	36,87	50,57	36,87	54,73	36,78	36,78	61,39	36,67	34,04	
Foreign firms	66,24	37,85	37,41	68,89	37,41	73,55	36,37	36,37	78,37	34,04	41,56	
State	51,03	39,61	39,91	50,81	39,91	48,62	40,93	40,93	54,36	39,29	37,96	
Non-bank financial institutions	35,50	37,04	37,26	36,56	37,26	40,57	37,95	37,95	45,50	32,63	37,96	
Others	42,94	40,54	37,49	40,65	37,49	39,81	37,17	37,17	32,63	37,96	37,96	

Table 6

Type of shareholder	Total equity owned by each type of shareholders											
	1997			2001			2003			2006		
	Equity (euros)	%	%	Equity (euros)	%	%	Equity (euros)	%	%	Equity (euros)	%	%
Banks	5.572.069.411 €	6,93%	9,09%	24.889.765.250 €	9,09%	5,85%	19.553.663.810 €	5,85%	17.186.806.276 €	4,42%	4,42%	
Individuals & Families	12.744.948.230 €	15,85%	12,72%	34.832.008.301 €	12,72%	16,07%	53.760.468.369 €	16,07%	65.335.094.979 €	16,81%	16,81%	
Non-financial domestic firms	37.656.485.318 €	46,83%	45,67%	125.110.225.424 €	45,67%	48,21%	161.254.286.562 €	48,21%	186.983.231.586 €	48,10%	48,10%	
Foreign firms	16.555.785.947 €	20,59%	21,13%	57.887.448.510 €	21,13%	18,77%	62.778.711.070 €	18,77%	79.316.933.280 €	20,41%	20,41%	
State	4.750.336.849 €	5,91%	3,78%	10.359.459.153 €	3,78%	4,04%	13.526.836.422 €	4,04%	11.906.461.874 €	3,06%	3,06%	
Non-bank financial institutions	2.745.933.354 €	3,41%	7,41%	20.304.179.050 €	7,41%	6,90%	23.065.038.405 €	6,90%	26.811.107.199 €	6,90%	6,90%	
Others	388.252.010 €	0,48%	0,20%	538.615.280 €	0,20%	0,16%	542.000.663 €	0,16%	1.159.951.241 €	0,30%	0,30%	
TOTAL	80.413.811.121 €	100%	100%	273.921.700.968 €	100%	100%	334.481.005.302 €	100%	388.699.586.434 €	100%	100%	

Table 7

Sector	Shareholders' portfolio sector bias-index													
	Banks		Individuals & Families		Non-financial domestic firms		Foreign firms		State		Non-bank financial inst.		Others	
	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006
Primary	0.41	0.16	1.79	2.36	0.70	0.97	0.73	0.31	1.38	0.40	2.45	0.71	9.02	1.36
Industry	0.11	0.11	0.85	0.78	1.13	1.03	1.24	1.47	0.72	0.34	0.79	0.82	0.38	0.61
Construction	2.52	0.09	1.87	1.74	0.95	1.21	0.16	0.18	0.49	1.05	0.78	0.77	0.27	0.25
Commerce & Repair	0.05	0.07	1.49	1.48	0.94	0.81	1.37	1.64	0.37	0.14	0.34	0.27	0.86	0.67
Others services	2.57	1.79	0.74	0.91	0.87	1.01	0.61	0.68	1.85	1.57	1.66	1.29	1.76	1.35

Table 8

Size	Shareholders' portfolio size bias-index													
	Banks		Individuals & Families		Non-financial domestic firms		Foreign firms		State		Non-bank financial inst.		Others	
	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006	Index 1997	Index 2006
1 - 9 employees	2.60	2.62	1.81	1.44	0.84	0.88	0.55	0.57	0.76	0.54	1.79	1.41	0.26	0.65
10 - 19 employees	0.89	1.27	2.17	1.72	0.87	0.85	0.45	0.69	0.77	1.43	1.59	0.93	0.12	0.20
20 - 49 employees	0.59	0.91	2.10	1.74	0.73	0.96	0.76	0.54	1.39	1.37	1.15	0.78	0.10	0.65
50 - 249 employees	0.74	0.55	1.17	0.85	0.94	1.13	1.12	0.98	0.63	0.97	1.10	0.76	1.63	1.41
249 - 499 employees	0.97	0.21	0.25	0.33	1.24	1.06	1.07	1.64	0.78	0.61	0.79	0.85	1.32	1.54
More than 500 employees	1.08	-0.48	0.05	0.15	1.05	1.07	1.38	1.65	2.19	1.93	0.28	1.06	0.66	1.05

Table 9
Nature of the predominant type of shareholder

Type of shareholder	1997			2001			2003			2006		
	Firms	%	Average	Firms	%	Average	Firms	%	Average	Firms	%	Average
Banks	361	0.91%	1.29	273	0.60%	1.48	642	0.56%	1.33	724	0.41%	1.33
Individuals & Families	25,398	64.19%	3.00	28,017	61.42%	2.71	79,076	69.56%	2.21	127,216	71.4%	1.86
Non-financial domestic firms	9,659	24.41%	1.43	12,695	27.83%	1.42	26,284	23.12%	1.35	40,259	22.59%	1.33
Foreign firms	3,198	8.08%	1.21	3,496	7.66%	1.17	5,513	4.85%	1.14	7,448	4.18%	1.28
State	358	0.90%	1.33	437	0.96%	1.36	735	0.65%	1.40	862	0.48%	1.84
Non-bank financial inst.	550	1.39%	1.35	654	1.43%	1.40	1,357	1.19%	1.23	1,535	0.86%	1.28
Others	43	0.11%	1.16	45	0.10%	1.13	78	0.07%	1.08	135	0.08%	1.02
TOTAL	39,567	100%	1.62	45,617	100%	1.46	113,685	100%	1.33	178,179	100%	1.22

Table 10

Type of shareholder	1997			2001			2003			2006		
	Participated	Under predominance	Ratio	Participated	Under predominance	Ratio	Participated	Under predominance	Ratio	Participated	Under predominance	Ratio
Banks	1,080	361	33.43%	1,003	273	27.22%	1,833	642	35.02%	2,709	724	26.73%
Individuals & Families	83,624	25,398	30.37%	83,691	28,017	33.48%	186,971	79,076	42.29%	263,728	127,216	48.24%
Non-financial domestic firms	21,274	9,659	45.40%	26,315	12,695	48.24%	50,715	26,284	51.83%	77,703	40,259	51.81%
Foreign firms	5,023	3,198	63.67%	5,251	3,496	66.58%	7,727	5,513	71.35%	14,277	7,448	52.17%
State	706	358	50.71%	864	437	50.58%	1,539	735	47.76%	1,846	862	46.70%
Non-bank financial inst.	1,853	550	29.68%	2,155	654	30.35%	4,017	1,357	33.78%	4,876	1,535	31.48%
Others	115	43	37.39%	132	45	34.09%	248	78	31.45%	660	135	20.45%
TOTAL	113,675	39,567	34.81%	119,411	45,617	38.20%	253,050	113,685	44.93%	365,799	178,179	48.71%

Table 11

Type of shareholder	Nature of majority shareholders							
	1997		2001		2003		2006	
	Firms	%	Firms	%	Firms	%	Firms	%
Banks	341	0.67%	250	0.43%	599	0.44%	784	0.36%
Individuals & Families	10471	20.58%	12934	22.35%	46178	34.00%	92432	42.36%
Non-financial domestic firms	8264	16.23%	11018	19.04%	23120	17.03%	39311	18.02%
Foreign firms	3074	6.04%	3393	5.86%	5377	3.96%	8452	3.87%
State	336	0.66%	411	0.71%	684	0.50%	915	0.42%
Non-bank financial inst.	518	1.02%	623	1.08%	1283	0.94%	1721	0.79%
Others	42	0.08%	42	0.07%	76	0.06%	172	0.08%
No majority shareholder	27837	54.71%	29205	50.46%	58481	43.06%	74396	34.10%
TOTAL	50,879	100%	57,876	100%	135,798	100%	218,183	100%

Table 12

Predominant type of shareholder	ROA						ROE		
	1997		2003		1997		2001		2003
Banks	0.15	0.14	0.13	0.21	0.33	0.33	0.33	0.08	
Individuals & Families	0.08	-0.03	-0.16	0.15	-0.05	-0.05	0.25	2.25	
Non-financial domestic firms	0.07	0.06	-0.07	0.11	-0.16	-0.16	0.25	2.25	
Foreign firms	0.06	0.06	0.00	0.09	-0.54	-0.54	0.27	0.27	
State	0.03	-0.14	-0.06	0.20	0.69	1.37	1.37	1.37	
Non-bank financial inst.	0.08	0.07	0.05	0.10	0.25	0.18	0.18	0.18	
Others	0.03	0.03	-0.01	0.04	0.13	-0.57	-0.57	-0.57	
TOTAL	0.08	0.05	-0.43	0.15	-0.45	0.19	0.19	0.19	

Table 13

Majority shareholder	ROA						ROE		
	1997		2003		1997		2001		2003
Banks	0.15	0.15	0.13	0.22	0.37	0.37	0.06	0.06	
Individuals & Families	0.08	-0.14	-0.29	0.14	-0.30	-0.30	0.44	0.44	
Non-financial domestic firms	0.07	0.06	-0.07	0.10	-0.18	-0.18	1.64	1.64	
Foreign firms	0.06	0.06	0.00	0.08	-0.56	-0.56	0.27	0.27	
State	0.03	-0.12	-0.05	0.21	0.74	-0.15	-0.15	-0.15	
Non-bank financial inst.	0.09	0.07	0.06	0.11	0.25	0.25	0.25	0.25	
Others	0.03	0.03	-0.02	0.01	0.03	-0.59	-0.59	-0.59	
TOTAL	0.08	0.04	-0.43	0.15	-0.45	0.19	0.19	0.19	