

## CONTROLLING SHAREHOLDERS, PERFORMANCE AND RISK TAKING OF TUNISIAN'S LISTED FIRMS

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### Abstract

We investigate the effects of ownership structure, as an internal control mechanism of agency problem, on corporate governance. We focused specially on the impact of the size, number and type of blockholders on the performance and the risk-taking of the Tunisian listed companies during the period 2001-2004. The descriptive analysis highlights, absence of ownership-control discrepancy, high ownership concentration, low management stock-ownership and the presence of two or three large blockholders with significant difference of the block share size between the first and the other controlling shareholders. The main result of our study indicates that the presence of controlling shareholders affect performance and risk-taking and play an important role in corporate governance. However, we assume that the control contest of the leading shareholder is not conclusive but indicate a form of coalition and agreement effect to share private benefits.

**Keywords:** Corporate governance, ownership structure, large shareholder, control contests, performance, risk-taking

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### 1. Introduction

In modern firms and as postulated by Berle and Means [1932], a conflict of interest is opposing manager and dispersed shareholders, supporting hypothetically a negative impact on firm performance. Internal control mechanisms could lead managers to meet organizational goals<sup>138</sup>. Several empirical studies focused on resolution mechanisms of agency problem and report that ownership concentration, reduce managerial discretion and affect positively the performance. By controlling manager's opportunistic behavior, large shareholders also contribute to create value through a positive influence on the firm risk-taking behavior. In contrast, efficiency hypothesis of, capital market (Fama [1980]), managerial labour market, product market (Hart [1983]) and market for corporate control (Jensen and Ruback [1983]), support the non-existence of relationship between performance and ownership structure. Likewise, Demsetz and Lehn [1985] found no significant effect of ownership concentration on accounting profitability by taking into consideration that ownership structure may be endogenous and that it may in particular be influenced by company performance (Loderer and Martin [1997]; Cho [1998]; Himmelberg, Hubbard and Palia [1999]; Demsetz and Villalonga [2001]). Pedersen and Thomsen [2003] provide evidence for an interaction

between the level of business performance and the ownership structure. The theoretical predictions and empirical observations are very controversial.

We investigate the ownership structure effects, as an internal control mechanism of agency problem, on corporate governance. Our main research question focuses on the effect of size, number and type of blockholders on performance and risk-taking of the Tunisian listed companies. We hypothetically support the fact that controlling shareholders could play an important role in corporate governance. They could impose discipline to the managers and contributes, through the contestability mechanisms, to limit the extraction of private benefits and the expropriation of minority shareholders. We use data on all Tunisian listed companies during 2001-2004. We use ownership stake as a measure of control because of the absence, for Tunisian listed companies, of dual class share structures, stock pyramids, and cross-ownership ties. So there is no discrepancy between ownership and control. The descriptive analysis provide evidence for a high ownership concentration, low management stock-ownership and the presence of two or three large blockholders with significant difference of the block share size between the first and the other controlling shareholders. The main results of our study indicate a positive impact of the presence of foreign and institutional investors on the market performance. In addition, firms controlled by foreign and/or institutional shareholders exhibit significantly higher risk-taking behavior. We further find that government

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<sup>138</sup>Mikkelsen and Partch [1989], Davis and Thompson [1994], Himmelberg et al. [1999], Morck et al. [1988]...

ownership generates negative and significant financial performance. Lastly, our results provide evidence that an increasing number of controlling shareholders affects significantly and negatively both the financial and the market performance and generate high level of risk-taking. We assume that the control contests of the leading shareholder are not conclusive but indicate a form of coalition and agreement effect to share private benefits.

The article is organized as follows: Section 2 presents the theoretical and empirical framework about the impact of ownership structure on performance and risk-taking of the firm. Section 3 details methodology and presents the results. Section 4 concludes this work.

## 2. Related literature

In literature, the relationship between ownership structure, performance and firm risk-taking remains controversial. This area of research contributes to isolate the pure corporate governance effects of the ownership structure as an internal control mechanism of agency problem (Jensen and Meckling [1976]). We present hereafter the literature review about the impact of ownership structure, in terms of concentration, composition and control contest, on performance and risk-taking of the firm.

### 2.1. Ownership structure and firm performance

Both in the U.S. and the UK, corporate ownership is dispersed. In contrast, a high ownership concentration is observed in continental Europe, Japan and Canada. In emerging economies, ownership is highly concentrated with activist shareholders in corporate governance (Kang and Shiudasani [1995]). La Porta et al. [1998] provide evidence that the level of legal protection of shareholders' interests would be higher for countries of common law versus civil law ones. Weak legal protection of minority shareholders generates ownership concentration and expropriation risk. According to several studies, ownership concentration could play an important role in corporate governance by limiting the extraction of private benefits at the expense of minority shareholders.

**2.1.1. Large shareholders and private benefits<sup>139</sup>:** Shleifer and Vishny [1986] and Agrawal and Mandelker [1990] underline a high level of management discretion in companies with dispersed ownership and argue that controlling shareholders contribute to reduce management private benefits<sup>140</sup>.

Bloch and Hege [2001] support that large shareholder specific competences<sup>141</sup> contribute to reduce management discretion cost, and permit to develop the company's strategy. In literature<sup>142</sup>, several works investigate the conflict between large and small shareholders and suggest the existence of private benefits or "tunneling" problems which means resources transfer to the controlling shareholders (Johnson et al. [2000]) at the expense of minority shareholders (Bebchuk [1999], Bennedsen and Wolfenzon [2000]). These works assume that the proportion of listed companies with a controlling shareholder depends on the size and the nature of private benefits (Grossman and Hart [1988]).

**2.1.2. Control contests and firm performance:** The number of large shareholders may have an important role in the optimal monitoring (Bolton and Von Thaden [1998], Pagano and Roel [1998], Bloch and Hege [2001]) but also in the expropriation of the minority (Gomes and Novaes [2001]). Moreover, the presence of a multiple large shareholders with different competence of control and conflicting interests, makes agreement difficult (Gutiérrez and Tribó [2004]). Bloch and Hege [2001] stipulate that large shareholders differ in their ability to implement strategies and create value. They differ also in the relative size of their blocks which generate different cost of control effort. According to these authors, control contest by the second large shareholder, through "disagreement effect", contribute to limit the extraction of private benefits by a disciplinary effect on the leading shareholder. Control is contestable when the first large shareholder could not increase the extraction of private benefits without losing control. Interestingly, Bloch and Hege [2001] argue that contestability of control, and not ownership concentration, should determine firm performance. The authors provide evidence that the presence of two large shareholders with equally shares is optimal when the level of private benefits is high. Rossetto and Dhillon [2007] find that the presence of a second large shareholder contributes, through the voting power, to mitigate the conflicts of interests and leads company to more risky and profitable projects. In contrast, Bolton and Von Thadden [1998], Maury and Pajuste [2005] and Laeven and Levine [2007] indicate a negative relationship between performance and the balance of power between the first and the second large shareholder. This effect is due to the risk of coalition or "agreement effect".

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they may act in a *risk-averse* rather than a shareholder value-maximizing.

<sup>141</sup> *Jensen and Meckling [1976]* distinguish between *inside shareholders* who participate in the decision-making process and *outside shareholders* with no direct role in the management of the firm.

<sup>142</sup> See Zingales [1995], Dyck and Zingales [2004], Hanouna et al. [2001]...

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<sup>139</sup> Several studies propose multiple measures of private benefits such as the block premium, the average return difference between non-voting shares and voting shares...

<sup>140</sup> Kane (1985) and Benston et al. (1986) report that if managers' wealth is in nondiversifiable human capital form,

### 2.1.3. Ownership concentration, type of large shareholders and firm performance:

Several studies report that the identity (the type) of the controlling shareholder, in terms of competence and monitoring effort, permits a disciplinary effect on managers. With respect to family firms, and according to Claessens et al. [2000] and Faccio and Lang [2002], the high level of family ownership in some countries<sup>143</sup> has an impact on performance and that of conflict of interest with the minority. Daily and Dollinger [1992] and Anderson and Reeb [2003] have shown that the performance of family firms is on average better than the other types of control. Regarding the impact management ownership, several research points out that it reduces conflicts of interests which increases the shareholder value, corroborating the alignment hypothesis. However, management ownership with power voting mitigates the effect of the disciplinary role of controlling shareholder (Paquerot [1997]) and permits to prevent the hostile takeover process (Mikkelsen and Partch [1989]). Others support the fact that management ownership level is endogenous. Morck et al. [1988] argue that firms' performance increases with higher managerial ownership, but that, after a point, managers become entrenched with private benefits at the expense of outside shareholders. In order to align the shareholders interests with those of managers, Jensen [1986] assume that the level of managerial ownership must be high when the free cash flows are important.

With respect to the effect of the presence of institutional investors<sup>144</sup>, as controlling shareholders on firm value, the literature report controversial empirical results. Jensen [1993] hypothesize that activist institutional investors are able to play a decisive role in corporate governance. This type of controlling shareholder monitors manager performance, influences the target businesses piloting through an information asymmetry position and privileged access to information, giving them a real power control<sup>145</sup>. McConnell and Servaes [1990] find a positive relation between institutional shareholdings and Tobin's Q and attribute this finding to improved corporate monitoring at higher levels of institutional ownership. Del Guercio and Hawkins [1999] find the same impact on firm market value. Zaabar [2005] tests the effect of monitoring competence of institutional investors on European markets. The author finds a positive and significant impact on performance when two largest shareholders are financial institutions. In contrast, various studies provide evidence on the *endogenous* nature of the interrelation among the

presence of institutional investors and the performance. Lastly, state ownership stake constitutes another type of shareholding that influence the firm performance. Specifically in emergent countries, Alexander and Charreaux [2003] indicate that the state, as a controlling shareholder, exercise inefficient control and monitoring and may cause a conflicts of interests with other shareholders. In the same vein, Chiou and Lin [2005] and Qi et al. [2000] provide evidence of a negative and significant relationship between the state ownership stake and the firm value in Taiwan and China. In contrast, Gursoy and Aydogan [2002] indicate, in Turkey, a positive and significant relationship between the market performance and state ownership stake.

### 2.2. Ownership structure and firm risk-taking

Empirically, dynamic analysis of ownership structure explains changes in firm risk-taking behavior. The latter constitutes a significant determinant of asset structure (Stulz [1982]). A weak literature focused on this relationship, but overall, there is a strong evidence for a positive and significant relationship between ownership structure and level of firm risk-taking. Downs and Sommer [1999] show that management ownership affects positively and significantly the risk level. Several studies<sup>146</sup> based on the entrenchment theory, provide contrasted responses and stress that the level of the firm risk-taking depends on the size of management ownership. Thus, according to Amihud and Lev [1981] and Brailsford et al. [2002], a high level of management ownership could not provide incentive to firm risk taking. With low ownership stake, manager affects positively the firm risk-taking (Wright et al. [1996], Brailsford et al. [2002]). Recent literature examines the impact of the presence of institutional investors on firm risk-taking and concludes that, as outside shareholders, they do not influence the company risk. In contrast, and as insider shareholders, their presence in the capital has a positive and significant influence on the firm risk-taking behavior. In such case, institutional investors have motives to invest on growth opportunities which create value<sup>147</sup>. Regarding the family ownership, Anderson and Reeb [2003] and Daily and Dollinger [2002] provide strong evidence that family companies have a low level of risk-taking. The study of Gursoy and Aydogan [2002] in the Turkish context provides similar results and also shows that firms controlled by the state have a high level of risk. With respect to the blockholder size and the level of ownership concentration, Attig et al. [2002] find that large shareholder pursue a risk-taking behavior. Similarly,

<sup>143</sup> Claessens et al [2000] showed that 2/3 of firms in East Asia are controlled by a single family shareholder. According to Faccio and Lang, [2002], 49,3% of continental Europe companies are family controlled firms.

<sup>144</sup> Private and public pension funds, mutual funds, banks, insurances...

<sup>145</sup> See Davis and Thompson [1994], Xu and Wang [1997] and McConnell and Servaes [1995].

<sup>146</sup> See. Chen et al [1998].

<sup>147</sup> See Barclay and Holderness [1991], McConnell and Servaes [1990], Mikkelsen and Ruback [1985,1991] and Saunders et al. [1990].

Shleifer and Vishny [1986] and Hansen and Hill [1991] argue that blockholders are able, through their voting power, to influence the firm risk-taking behavior which could contribute to increase the share value. In addition, and according to Hill and Snell [1988], the controlling shareholders encourage firm risk-taking in order to take advantage from growth opportunities and to expropriate outsiders. Saunders et al. [1990] underline that the level of risk is higher in banks with controlling shareholders than in dispersed

ownership banks. In contrast, the empirical results of Gadhoun and Ayadi [2003] study indicate that the firm risk is negatively correlated with the level ownership concentration and that this relationship is not linear.

With regard to the existing theoretical and empirical research, table 1 presents the following prescriptions about the impact of ownership structure on performance and risk taking:

**Table 1.** Theoretical prescriptions

Independent variables	Dependent variable		
	Performance	Risk	
	Expected sign		
Ownership composition	Manager	(+)	(+)
	Family	(+)	(-)
	Institutionnels investors	(+)	(+)
	State	(-)	(+)
	Foreign investors	(+)	(+)
Ownership concentration	Size of ownership stake	(+)	(+)
	Number of large shareholders	(?)	(?)

### 3. Methodology and results

This study analyzes the impact of ownership structure on performance and risk-taking of Tunisian firms. We use ownership stake as a measure of control because of the absence, for Tunisian listed companies, of dual class share structures, stock pyramids, and cross-ownership ties. So there is no discrepancy between ownership and control. Three models are specified to regress performance and risk<sup>148</sup> on ownership structure variables. We assume that ownership structure constitutes an internal governance mechanism, economically efficient in the Tunisian context.

#### 3.1. Sample selection and data

Our sample includes all companies (41 companies) listed on “Bourse des Valeurs Mobilières de Tunis (BVMT)”. We use a panel data analytic model over the period 2001 to 2004 (205 observations). The financial, market and ownership structure data are available from the “Conseil des Marchés Financiers (CMF)”. The following table presents the descriptive statistics of the study sample.

Table 2 reports that ownership structure of Tunisian listed companies is highly concentrated since the three largest shareholders hold approximately 58.7% of the capital while small shareholders hold 37, 4%. The first largest shareholder holds on average 41% of the capital, the second 12.3% and the third

5.1% of the capital. The state is still present in approximately 25% of listed companies. In addition, foreign institutional and family investors hold a significant ownership stake. In contrast, manager ownership stake is very weak (0.9% on average). The number of controlling shareholders varies between 0 and 4 with a preponderance of firms with 2 or 3 controlling shareholders. In addition, 80.5% of firms have more than one controlling shareholder. Finally, these statistics show positive financial performance and indicate that more than half of the Tunisian firms have a high level of growth opportunities (“Glamour firms”). The risk level remains low for most of them.

#### 3.2. Multivariate analysis: Model and results

We specified three models to test successively the effect of, ownership concentration, control contest and type of shareholders on the performance and the risk-taking of Tunisian listed companies. We use a panel data analytic model with individual effects. The Hausman<sup>149</sup> test indicates a fixed effects<sup>150</sup> specification for the dependent variables ROA and ROE. This test indicates a random effects<sup>151</sup>

<sup>149</sup> We use STATA 8.0 analysis software.

<sup>150</sup> Prob.>chi2 is between 0.00 and 0.028 for the 3 models with ROA as a dependent variable. Prob.>chi2 equal 0.00 for the 3 models with ROE as a dependent variable.

<sup>151</sup> Prob.>chi2 is between 0.86 and 0.91 for the 3 models with MTB as a dependent variable. Prob.>chi2 is between 0.67 and 0.71 for the 3 models with TOTRISK as a dependent variable.

<sup>148</sup> We use capital market measures of firm risk as in Amihud and Lev [1981].

specification for the dependent variables MTB and TOTRISK.

**3.2.1. Ownership composition, performance and risk taking of the firm.** Table 3 indicates

successively, the relationship between ownership composition and performance and that between ownership composition and the risk-taking of the Tunisian companies. We expose hereafter the empirical results from the different tests.

**Table 2.** Descriptive Statistics

The variables STR, II, FAM, STATE, MO : represent respectively the ownership of foreign investors, institutional investors, family, state and managers, LS1, LS2, LS3 : : represent respectively the ownership stake held by the first, the second and the third largest shareholder, Σ3LS : represent the ownership stake held by the three largest shareholders, MIN : represent the ownership stake held by small shareholders, NBL5 : represents the number of large shareholders and MLS: dummy variable (=1 if the number of large shareholders > 1 and 0 otherwise). «ROA»: Return on assets, «ROE»: Return on equity, MTB: Market to Book value. «TOTRISK»: total risk of the firm measured by the standard deviation of the return.

	STR	II	FAM	MO	STATE	LS1	LS2	LS3	Σ3LS	MIN	NBL5	MLS	ROA	ROE	MTB	TOTRISK
Mean	13,50%	15,20%	11,10%	0,90%	11,50%	41,30%	12,30%	5,10%	58,70%	37,40%	2,31	0,8	5.12%	8.78%	1.05	2.64%
Std Dev.	19,20%	19,60%	26,20%	3,50%	19,80%	18,00%	8,80%	4,50%	18,00%	17,20%	0,88	0,37	6.03%	12.16%	0.63	0.99%
Max	64,20%	79,60%	41,40%	18,00%	70,50%	82,60%	39,00%	15,00%	92,60%	79,20%	4	1	26.43%	44.82	4.16	5.20%
Min	0,00%	0,00%	0,00%	0,00%	0,00%	7,10%	0,00%	0,00%	16,80%	1,70%	0,5	0	-7.03%	-32.86	0.33	1.26%
Median	5,00%	4,20%	0,00%	0,00%	0,00%	39,10%	10,80%	5,30%	60,00%	33,80%	2,25	1	3.74%	9.49%	0.90	2.33%

<b>Performance</b>	<b>= f(Control variables ; Ownership composition variables)</b>
<b>Risk</b>	<b>= f(Control variables ; Ownership composition variables)</b>

**Table 3.** Ownership composition effect: Multivariate analysis

Dependent variables are represented by: «ROA»: Return on assets, «ROE»: Return on equity, MTB: Market to Book value. «TOTRISK»: total risk of the firm measured by the standard deviation of the return. Independent variables are represented by: STR, II, FAM, STATE, MO represent respectively the ownership of foreign investors, institutional investors, family, state and managers. The Control variables are measured by: SIZE: Naturel Logarithm of sales, LEVERAGE: Total debts divided by total assets, GROWTH: activity growth rate which indicate the operational risk through the relation with the performance.

Independent variables	Ownership composition & performance			Ownership composition & risk	
	Dependent variables			TOTRISK	
	ROA	ROE	MTB		
Control variables	SIZE	0.003 (0.517)	0.0342 (2.480)***	0.0667 (1.018)	-0.0029 (-2.47)***
	GROWTH	0.047 (5.523)***	0.084 (3.303)**	-0.0098 (-0.110)	-0.0124 (-3.51)***
	LEVERAGE	-0.084 (-4.007)***	-0.141 (-2.569)**	-0.3981 (-1.764)*	-0.0049 (-0.97)
Ownership composition variables	STR	-0.020 (-0.468)	0.097 (1.097)	1.1164 (2.298)***	0.0103 (1.66)*
	II	-0.021 (-0.706)	-0.156 (-2.060)**	0.8165 (2.472)***	0.0145 (2.21)**
	MO	0.096 (0.405)	-0.119 (-0.245)	0.377 (0.141)	-0.0164 (-0.46)
	FAM	0.001 (0.054)	-0.002 (-0.166)	-0.0888 (-1.427)	0.00219 (0.92)
	STATE	-0.053 (-1.379)	-0.216 (-2.477)***	-0.388 (0.158)	-0.0009 (-0.13)
Nb. of obs	205	205	205	205	
Fisher	0.00	0.00	0.00	0.00	
Durbin Watson	2.18	2.21	2.24	2.57	

\*\*\*, \*\*, \* Significant respectively at the 0.10, 0.05 and 0.01 level. Source: own calculations.

Table 3 indicates a positive and significant effect of the presence of institutional investors (II) on the market performance (MTB) but negative effect on the financial performance (ROE). The market anticipates positive effects of the monitoring role of the II. We underline similar results in emerging markets: Xu and Wang [1997] and Chiou and Lin [2005] in Taiwan and China, Omri [2002] in Tunisia. Following privatization, the Tunisian government, as a large shareholder of financial institutions (banks and insurances), try to provide incentives for them to invest in different industry sectors (code des sociétés commerciales [2000]). With a dual role as creditor and shareholder, financial institutions ensure monitoring activity and management discipline. This strategy contributes to better corporate governance which creates a positive perception by the financial market. In turn, foreign investors (STR), through their large ownership stake, affect positively and significantly the firm market performance. Here too, and following privatization, the Tunisian economic policy, try to attract foreign investors and capital to invest in different industry sectors through IPO mechanism. By investing in Tunisian privatized companies, foreign investors contribute to better know-how, managerial competence, technical and technological innovations. They often seek for Tunisian companies with growth opportunities which improve their operational

performance. We further find a positive and significant relationship between the ownership stake of institutional and foreign investors and the firm taking (TOTRISK). This finding is in line with those of Barclay and Holderness [1991], McConnell and Servaes [1990] and Mikkelsen and Ruback [1985.1991] but in contrast with Burkhart et al. [1997] who consider that the presence of blockholder "...constitutes ex-ante an expropriation threat that reduces managerial initiative and noncontractible investments." In addition, our findings indicate that the impact of both family (FAM) and management ownership (MO) on performance and risk is not significant. Lastly, we underline a negative and significant relationship between the state ownership and the financial performance which is in line with the results of Chiou and Lin [2005] and Qi et al. [2000] in Taiwan and China and contrary to those of Aydogan and Gursoy [2002] in Turkey.

**3.2.2. Ownership stake size, performance and risk taking of the firm.** Table 4 indicates successively, the relationship between ownership concentration and performance and that between ownership concentration and the risk-taking of the Tunisian companies. We expose hereafter the empirical results from the different tests.

<i>Performance</i>	= <i>f</i> (Control variables ; Ownership concentration variables)
<i>Risk</i>	= <i>f</i> (Control variables ; Ownership concentration variables)

**Table 4.** Ownership concentration effect: Multivariate analysis

Dependent variables are represented by: «ROA»: Return on assets, «ROE»: Return on equity, MTB: Market to Book value, «TOTRISK»: total risk of the firm measured by the standard deviation of the return. Independent variables are represented by: LS1 ownership stake held by the first largest shareholder, Σ3LS: represent the ownership stake held by the the three largest shareholders, MIN: represent the ownership stake held by diffuse shareholders, The Control variables are measured by: SIZE: Naturel Logarithm of sales, LEVERAGE: Total debts divided by total assets, GROWTH: activity growth rate which indicate the operational risk through the relation with the performance.

Independent variables	Ownership stake size & performance and risk			Ownership stake size & risk	
	Dependent variables				
	ROA	ROE	MTB	TOTRISK	
Control variables	SIZE	0.002 (0.464)	0.027 (2.073)**	0.0314 (0.482)	-0.0037 (-3.97)***
	GROWTH	0.0452 (5.312)***	0.082 (3.170)***	0.0046 (0.0049)	-0.011 (-3.12)***
	LEVERAGE	-0.089 (-4.29)***	-0.171 (-3.073)***	-0.316 (-1.364)	0.0007 (0.15)
Ownership concentration variables	LS1	-0.079 (-1.370)	-0.113 (-0.759)	-0.261 (-0.403)	0.0069 (0.71)
	Σ3LS	0.063 (0.648)	0.053 (0.198)	0.866 (0.806)	-0.021 (-1.28)
		0.017 (0.248)	0.134 (0.674)	0.382 (0.490)	-0.0413 (-2.82)***
	MIN				
Nb. of obs		205	205	205	205
Fisher		0.00	0.00	0.00	0.00
Durbin Watson		2.16	2.09	2.15	2.52

\*\*\*, \*\*, \* Significant respectively at the 0.10, 0.05 and 0.01 level. Source: own calculations.

Table 4 reports that the ownership concentration variables LS1 and Σ3LS do not affect the performance and the risk-taking of the firm. The preponderance of controlled firms at the expense of managerial firms can provide an explanation for this result. In addition, these tests show a negative and significant correlation between the ownership stakes of small shareholders (MIN) and the total risk of the company. In accordance with the theoretical prescriptions and the results of Saunders et al. [1990], Attig et al. [2002] and Hill and Snell [1988], small shareholders are associated with a

low risk-taking. This situation is characteristic of professional managers with risk-aversion behavior.

**3.2.3. Control contests, performance and risk-taking of the firm.** Table 5 presents successively, the relationship between the number of controlling shareholders and performance and that between the number of controlling shareholders and the risk-taking of the Tunisian companies. We present hereafter the empirical results from different tests.

$\begin{aligned} \text{Performance} &= f(\text{Control variables ; Control contests Variables}) \\ \text{Risk} &= f(\text{Control variables ; ; Control contests Variables}) \end{aligned}$
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**Table 5.** Multiple large shareholders and contest control: Multivariate analysis

Dependent variables are represented by: «ROA»: Return on assets, «ROE»: Return on equity, MTB: Market to Book value, «TOTRISK»: total risk of the firm measured by the standard deviation of the return. Independent variables are represented by: LS1, LS2 and LS3 represent respectively the ownership stake held by the first, the second and the third largest shareholder, NBS: Number of large shareholders and MLS: dummy variable (=1 if the number of large shareholders > 1 and 0 otherwise). The Control variables are measured by: SIZE: Naturel Logarithm of sales, LEVERAGE: Total debts divided by total assets, GROWTH: activity growth rate which indicate the operational risk through the relation with the performance.

Independent variables	Control contests & performance			Control contests & risk	
	Dependent variables				
	ROA	ROE	MTB	TOTRISK	
Control variables	SIZE	0.0010 (0.18)	0.02 (1.53)	0.012 (0.184)	-0.0029 (-3.007)***
	GROWTH	0.0461 (5.39)***	0.083 (3.26)***	0.002 (0.025)	-0.0101 (-2.93)***
	LEVERAGE	-0.088 (-4.16)***	-0.164 (-2.89)***	-0.365 (-1.566)	0.001 (0.22)
	LS1	-0.031 (-0.81)	-0.156 (-1.68)*	0.363 (0.855)	0.0189 (2.97)***
Control contests variables	LS2	0.087 (1.08)	0.0476 (0.237)	0.073 (0.082)	0.0227 (1.69)*
	LS3	0.074 (0.63)	0.042 (0.0237)	2.477 (1.944)**	0.005 (0.17)
	NBS	-0.012 (-1.67)*	-0.048 (-2.18)**	-0.184 (-2.128)**	0.0047 (2.29)***
	MLS	0.0048 (0.27)	0.037 (0.763)	0.198 (1.002)	-0.0055 (-1.379)
Nb. of obs	205	205	205	205	
Fisher	0.00	0.00	0.00	0.00	
Durbin Watson	2.17	1.97	2.21	2.52	

\*\*\*, \*\*, \* Significant respectively at the 0.10, 0.05 and 0.01 level. Source: own calculations.

The presence of the first controlling shareholder (LS1) affects positively and significantly the firm risk-taking with a negative and significant impact on financial performance. Their presence seems exacerbating private benefits<sup>152</sup>. The presence of a second large shareholder (LS2) leads to a high firm risk-taking but does not affect the performance. The weak balance of power between the first and the second large shareholder may provide an explanation

of this result. While these results are consistent with those of Aydogan and Gursoy [2002], they contrast with those of Bloch and Hege [2001] and Dhillon and Rossetto [2007] who assume the control contests of the second controlling shareholder. The third controlling shareholder (LS3) affects significantly and positively the market performance but not the firm risk taking. This result, in line with that of Maury and Pajuste [2002], seems indicating that the market anticipates a positive effects of the control contests to discipline the first largest shareholder. LS2 and LS3 affect differently the performance and the risk-taking of the

<sup>152</sup> Cf. Zingales [1995], Dyck and Zingales [2004], Hanouna et al. [2001].

firm. This result is contrary to that of Zaabar [2005] which highlights some complementary monitoring between the large shareholders in European companies. Our study also shows that an increasing number of controlling shareholders (NBS) affects significantly and negatively both the financial and the market performance and generate high level of risk-taking. Thus, this suggests a risk of controlling coalitions and agreement effect to share private benefits (Bennedsen and Wolfenzon [2000], Gomes and Novaes, [2001]) which generate negative performance and a higher risk of the firm (Hansen and Hill [1991], Attig et al. [2002]). All these empirical results do not sufficiently highlights control contests mechanism as investigated by Maury and Pajuste [2001, 2005]. The important ownership of the first large shareholder compared to that of the other controlling shareholders (see descriptive statistics) signal a less significant role to contest the control power of the first large shareholder and to impose a disciplinary effect. Interestingly, and as presented above, Bloch and Hege [2001] argue that the presence of two large shareholders with equally shares is optimal when the level of private benefits is high.

### Conclusions and implications

We analyze the impact of ownership structure on the performance and risk-taking of the Tunisian companies. We assume that large controlling shareholders could play an important role in corporate governance. They could impose discipline to the managers and contributes, through the contestability of control mechanisms, to limit the extraction of private benefits and the expropriation of minority shareholders. With respect to the effect of the owner's type on firm performance and risk, foreign and institutional investors affect positively and significantly the market performance and the risk-taking of the firm. According to literature, and as an inside shareholders, institutional and foreign investors play an important role in corporate governance in emergent countries. Their control power and risk-taking behavior is much stronger than the family or state controlling shareholder. With a dual role as creditor and shareholder, financial institutions ensure monitoring activity and management discipline. This strategy contributes to better governance and generates a positive perception by the financial market. In addition, and following privatization, the Tunisian economic policy try to attract foreign investors and capital to be involved in different industry sectors. Foreign investors often seek for Tunisian privatized companies with growth opportunities, to improve their operational performance. The negative and significant relationship, between the state ownership and the financial performance confirms this fact. Moreover, we find insignificant impact of both family and management ownership on performance. We further find the non-existence of blockholder's size effect,

probably due to the high concentration of the Tunisian company's ownership. Our results also indicate that the impact of the presence of the second large shareholder do not impact the firm performance which indicate that the control contests of the leading shareholder's power do not operate. Nevertheless, the performance is positively and significantly explained by the presence of a third controlling shareholder who ensure partially, a control contest effect. Then, our results indicate a positive and significant impact of the presence of the first and/or the second controlling shareholder on the firm risk-taking. Lastly, we find that an increasing number of controlling shareholders affects significantly and negatively both the financial and the market performance and generate high level of risk-taking. Taken as a whole, and with respect to our research question, we confirm that the presence of controlling shareholder affects performance and risk-taking of the Tunisian listed companies and plays an important role in corporate governance. However, we assume that the control contests of the leading shareholder are not conclusive but indicate a risk of coalition and agreement effect to share private benefits.

Overall, our findings are in line with those of emerging countries research (Turkey, Taiwan, China ...) which presents a similar economic policy, industrial organization and ownership structure. However, the high level of ownership concentration of most Tunisian listed companies and the presence of the state as a leading shareholder in some of them gives contrasted results. The other limitation is that this work could take into consideration a specification of the ownership structure as endogenous variables. Finally, these results may indicate that internal mechanisms control of agency problems is interrelated. As an area for future research, the issue of contestability control power can be studied through the optimal stake of controlling shareholder and the optimal number of large blockholders whose monitoring ability and competences are heterogeneous. In such case, it would be interesting to investigate the question of managerial hubris problem and other type of behavioral biases.

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