CORPORATE OWNERSHIP PATTERNS IN DEVELOPING COUNTRIES

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Abstract

This paper examines the effect of firm-, industry-, and country-level factors on corporate ownership pattern within the context of six African countries. Based on theory, we develop multi-dimensional models and examine data pertaining to 377 non-financial firms across a time period of 15 years using a battery of econometric procedures. In the sample countries, ownership concentration and/or block shareholding increases with firm level debt maturity structure, industry regulation, and perceived level of corruption in a country and its real GDP per capita. We also find ownership concentration and/or block shareholding decreases with firm level basic capital structure, firm size, and orientation of the financial system of a country. Our findings signify the role that information asymmetries, agency conflicts, and institutional pressures play in the determination of corporate ownership patterns in developing countries. The findings have practical implications for the investment community in assessing ownership patterns of companies listed in developing countries. Furthermore, the results spark insights that are potentially useful to enhance corporate governance institutions in developing countries.

Keywords: Corporate Ownership Structure, Developing Countries, Agency Conflicts, Information Asymmetries, Institutions

1. INTRODUCTION

The debate on ownership structure features prominently in economic theory of organizations (Demsetz and Lehn, 1985) ever since the works of Berle and Means (1933) and Veblen (1924). This preponderance of interest on the subject is partly driven by the impact that ownership structure has on economic growth, financial development, corporate governance and countries' ability to gain from global financial integration (Stulz, 2005). It is also because of the role that ownership structure plays in mitigating agency problems especially in developing economies. Nonetheless, there has not been a universal theory that explains ownership patterns across countries. We rather note the emergence of multiple theories ranging from politics (Roe, 2000) to law (Gilson, 2006; Hansmann, 1996), to economics (Demsetz and Lehn, 1985) to finance (Shleifer and Vishny, 1997, 1986) and to culture and sociology (Maurice and Sorge, 2000; Sorge, 1981) that attempt to explain corporate ownership patterns. Along this line, Hoskisson, Eden, Lau & Wright (2000), Elst (2004), and Richter and Weiss (2013) observe that ownership structures are usually explained by several variables arising from transaction cost, agency, resource dependence, and institutional considerations.

Thomsen and Pedersen (1998) report a highly significant "nation effect" attributable to institutional and macroeconomic factors in explaining disparities in ownership patterns across 12 European countries. Likewise, both Richter and Weiss (2013) and Aguilera, De Castro & Cladera (2011) observe that institutional factors explain cross-country variations in ownership concentrations. Similar cross-country comparisons of ownership patterns are found in Gugler, Mueller & Yurtoglu (2008), Wei and Zhang (2008) and Munisi, Hermes & Randoy (2014). However, the empirical results are mixed and often difficult to interpret. Moreover, still very little is understood about corporate ownership patterns in developing countries where the legal and market institutions render enforcement of agency contracts more costly and problematic (Wright, Filatotchev, Hoskisson & Peng, 2005). Certainly, there is not enough evidence on how theories formulated for firms operating in major developed markets could be applied to firms outside these markets and in countries with different institutional and legal environments. The present study attempts to fill the void in the literature by examining the association between several firm-, industry-, and country-level factors and corporate ownership structure within the context of developing countries.

Our empirical analyses focused 15-year (1996-2010) data pertaining to 377 non-financial firms. We find that firm level debt maturity structure, industry regulation, and perceived level of corruption in a country and its real GDP per capita are positively associated with measures of corporate ownership structure. We also find evidence that firm level basic capital structure, firm size, and orientation of the financial system of a country are negatively associated with measures of corporate ownership structure. Our findings signify the role that information asymmetries, agency conflicts, and institutional pressures play in the determination of corporate ownership patterns in developing

countries. The findings also have practical implications for the investment community in assessing ownership patterns of companies listed in developing countries. Furthermore, the results spark insights that are potentially useful to enhance corporate governance institutions in developing countries.

The contributions of this paper are threefold. Firstly, unlike previous works on the subject, the paper examines the role of firm-, industry-, and country-level factors in the determination of ownership patterns from multiple theoretical perspectives. Second, by studying the determinants of ownership structure in economies that are typically epitomized by less developed capital markets, higher agency and information asymmetry costs and weaker protection of investor rights, it contributes to the more fundamental theoretical and policy debate about the effectiveness of transplanting corporate governance models to developing economies. Third, although many authors acknowledge that corporate ownership structure and capital structure could be used as substitute tools in corporate governance, most empirical works fail to model the two variables jointly. The only exception to our knowledge in this respect is Pindado and Torre (2006) who demonstrate that Swedish firms use ownership and basic capital structure decisions as substitutes in mitigating agency conflicts. We contend that studies that explicitly recognize the substitutability between governance mechanisms have the potential to advance our understanding of corporate governance.

The reminder of the paper proceeds as follows. Section 2 discusses the literature related to corporate ownership structure and its determinants. Section 3 presents the empirical framework. Section 4 presents the findings and the discussions thereof. Section 5 concludes.

2. LITERATURE REVIEW

2.1. Theories of ownership structure

The literature identifies that corporate ownership patterns are usually explained by firm-, industry-, and country-specific factors drawn based on institutional, agency, and information asymmetry considerations. According to institutional theory, "the role of institutions in an economy is to reduce transaction and information costs through reduction of uncertainty and establishment of stable structures that facilitates interaction" (Hoskisson et al., 2000). Several authors derive slight variations of this theory to explain corporate ownership. For instance, some invoke "political institutions" (Roe, 2000, 1991), while others examine legal institutions (La Porta et al., 1999, 1998; Shleifer and Vishny, 1986; Shleifer and Vishny, 1997; Desender, Aguilera, Crespi and Garcia-Cestona, 2012; Knyazeva et al., 2013). Still within the same theory, others (DiMaggio and Powell, 1983; Maurice and Sorge, 2000; Sorge, 1981) use "social and cultural institutions" to explain organisational decisions.

Agency theory, on the other hand, contends that there is an optimal way to structure ownership relations for a given set of activities; in addition, it views ownership structure as an efficient solution to risk allocation and incentive problems. The theory considers ownership as a governance tool that could be used to reduce managerial agency problems in firms (see Fama and Jensen, 1983; Williamson, 1985; Jensen and Meckling, 1976; Demsetz and Lehn, 1985; Arslan, 2006; among others). We contend that market and legal institutions are not only less developed but also vary across developing countries, thus, creating a more fertile ground for opportunistic behaviour by agents and making the enforcement of contracts more costly and problematic. And, agency theory predicts the probability that a firm will have concentrated ownership and block shareholding increases when and where a controlling shareholder finds it easier to take advantage of outside or minority shareholders (Helwege, Pirinsky & Stulz, 2007).

Information asymmetry theory contends that the extent to which insiders know more about a firm's value than does the rest of the world would affect a firm's choice of governance (Cai, Qian & Liu, 2009). The literature suggests that the private benefits of control are low when problems of information asymmetry are low. For example, Maug (2001) and Subrahmanyam and Titman (1999) point out that it becomes advantageous for firms to have more dispersed ownership, when information from outside the firm becomes more important to managerial decision making. Thus, more dispersed ownership becomes more advantageous when the informational advantage of insiders becomes less important. We would, therefore, conjecture that firms would have diffused ownership as more is known about them (Helwege et al., 2007).

2.2. Firm-specific characteristics and ownership patterns

Jensen (1986) suggests that debt, through the demand it puts on firm's free cash flow, may be used to reduce managerial agency problems since it constrains managers by requiring them to meet interest payments or face the likelihood of losing their job in case of bankruptcy and/or poor performance. Likewise, the shorter the maturity of a borrower's debt, the more likely that it would need to contact a lender for continuous renewal of its debt (e.g., Petersen and Rajan, 1995), and hence, the lender can more effectively monitor the borrower (e.g., Stulz, 1990). As such, Pindado and Torre (2006) and others argue that a firm's leverage and debt maturity provide some monitoring of managers that otherwise would have come from concentrated ownership or large block shareholding. Thus, agency theory postulates an inverse relationship between leverage (LEV) and debt maturity structure (D_STR), in the one hand, and measures of ownership structure, on the other.

In the same vein, agency theory concurs that higher levels of firm level investment tend to create greater opportunities for managerial discretion (Jensen, 1986; Farooque, 2010). Thus, we posit that firms with higher levels of investment (INVST) are likely to have concentrated ownership [and large block shareholders] in order to curb opportunistic behaviour by managers. On the contrary, the argument on the effect of firm performance (PRFT) on ownership structure is not straight forward. While Pindado and Torre (2006) argue that owners

of firms with higher profit performance are likely to prefer to hold a larger fraction of their firm's shares to take advantage of future performance, Demsetz (1983) contends that there should be no systematic relationship between ownership patterns and firm performance.

Larger firms are likely to be better known as they are likely to have been around longer, likely to receive better attention from market analysts and regulators, and likely to have established and time-tested disclosure practices (Rajan and Zingales, 1995; Diamond and Verrecchia, 1991; Harris, 1994). Thus, larger firms are likely to have lesser information asymmetry problems and hence tend to have a reduced need for concentrated ownership or large block shareholders who would engage in monitoring. Fama and Jensen (1983) conjecture that large companies have more diffused ownership than smaller ones as the former are likely to benefit relatively more from risk sharing through ownership diversification. Likewise, Demsetz and Lehn (1985), Prowse (1992) and Lamba and Stapledon (2001) argue that the larger the firm, the larger the amount that has to be invested in the firm for any given fraction of equity. Thus, considering the constraints on controlling shareholder's wealth, they submit that the likelihood for block shareholding and/or concentrated ownership is a decreasing function of its size (SIZE) and age (AGE).

Both Bolton and Thadden (1998) and Kahn and Winton (1998) suggest that more volatile earnings (VOL) by a firm may mean that the cost of block or concentrated shareholding exceeds its benefit. It follows from this argument that instability in a firm's earnings is likely to lead to a diffused ownership. On the contrary, Demsetz and Lehn (1985) contend that the value of monitoring management increases with firm-specific risk, because managerial performance is harder to measure in a noisy environment. Hence, based on this this latter view, volatile earnings should give rise to more concentrated ownership structures.

With respect to growth opportunities (GRW), Smith and Watts (1992) argue that managers of high growth firms have superior knowledge about their firm's investment opportunity set, and a better knowledge of the expected future cash flows from their firm's existing assets than the rest of the world. Thus, firms with better growth opportunities are likely to have higher problems of information asymmetry which in turn lead to concentrated ownership and/or large block shareholding. On the other hand, the greater a company's growth prospects are the greater is its need for external finance; and the greater is its need for external finance, the more likely the firm is to have diffused ownership structure as such firms are likely to frequent going to the capital markets. This conjecture is reinforced by agency theory which suggests that high-growth firms are likely to have lesser agency problems as they tend to have lower free cash flow (Jensen, 1986).

Aguilera and Jackson (2003) identify three categories of shareholders – institutional investors, strategic blockholders and private investors – and show that shareholders in each category pursue different goals or interests in a firm. According to them, institutional investors aim at maximizing market value of shares, and hence, focus on portfolio diversification. On the other hand, strategic blockholders and private investors pursue non-financial goals such as control rights. These authors's view is corroborated in Bortolotti and Faccio (2009), Dittmann, Maug & Schneider (2010), Aguilera et al., (2011) and Coplan, Yoshikawa, Hikino & Del Biro (2011). Thus, based on this typology, it appears that institutional investors are less likely to concentrate large amounts of shares in one single firm in comparison to strategic blockholders and private investors. Nonetheless, Gillan and Starks (2003) submit that transmission of information about the firm to financial markets is among the roles of institutional investors. And, for such monitoring to be credible, the institutional investor needs to hold enough shares to mitigate the "free-rider" problem. This latter view implies that institutional investors (I_OWN) are more likely to have concentrated ownership and hence, are likely to be large block shareholders.

2.3. Industry characteristics and ownership structure

Corporate governance literature conjectures that there is inter-industry variation in ownership structure as firms in similar industries are influenced by a common set of forces. For instance, Putterman (1993) suggests that inter-industry differences in information asymmetries, risks, personal utility of ownership and externalities may lead to inter-industry differences in ownership patterns. Likewise, Pedersen and Thomsen (1999b) remark that variations in underlying factors such as firm size, asset turnover, earnings volatility, and industry growth are likely to cause inter-industry variation in ownership structure. In a similar vein, while Bebchuk (1999) alludes to inter-industry disparity in private benefits of control while Hansmann (1988) cites transaction costs to explain inter-industry differences in ownership structures.

Demsetz and Lin (1985) argue that ownership concentration of media firms and sports clubs should be higher as control in such firms may entail higher 'intrinsic value.' These authors contend that bigger ownership stakes, in the absence of regulation, ensure higher power of control for owners. Regulation (REG), however, restricts the options available to owners and renders the benefits of majority ownership less attractive, and thus, renders block shareholding less valuable. It may in addition provide some subsidized monitoring of management by regulators, thereby reducing the need for shareholders themselves to engage in monitoring. Demsetz and Lehn (1985), thus, conclude that fewer owners will acquire block shareholding, which leads to decreased ownership concentration. Elst (2004) and Bebchuk (1999) further argue that industry effect varies between countries as there are cross-country variations in institutional conditions for the respective industries.

2.4. Country characteristics and ownership structure

In the present work, we argue that the level of corruption (CRPT) in a country plays a considerable role in shaping corporate ownership pattern in that country for several reasons. Firstly, in countries

marred with corruption where contract enforcement and property rights are compromised and regulation of capital markets is inefficient, minority shareholders will have no incentives to allocate financial resources on capital markets (Dyck and Zingales, 2004; Nenova, 2003). Conversely, in such environments, a large blockholder may have the incentive to increase its control position to strengthen its power toward other economic agents such as banks and the government to increase the shareholder's opportunities for economic payoffs. For example, Young, Peng, Ahlstrom, Bruton & Jiang (2008) suggest that in an environment where institutions are weak, large shareholders tend to use relational ties, government contacts and other informal mechanisms to achieve their interests. Secondly, corruption leads to instability in business environment and in such an environment managerial behaviour becomes more crucial in affecting firm performance and shareholders' monitoring has a role to ensure that managers are following and prepared to deal with external conditions. Therefore, the owners' profit potential from exercising control is higher in an environment where uncertainty is larger; and this uncertainty in turn should lead to a preference for more concentrated ownership. Thus, we postulate that higher level of corruption leads to more concentrated ownership and block shareholding.

In *market-dominated financial systems,* households invest in companies' publicly issued equities leaving the role of monitoring to institutional investors and other shareholders. On the other hand, in *bank-dominated financial systems,* banks are the key financial institutions mobilizing deposits from households and channelling them to firms. Aguilera and Jackson (2003) and Pedersen and Thomsen (1997) suggest that bank financing encourages concentration of corporate ownership structure as bank financing entails close capital monitoring and contingent control of firms. On the other hand, financing through stock markets encourages diffused ownership as shareholders make investments primarily to pursue financial goals; they hold control of the firm by having the option to exit if the firm no longer fulfils their goals. Pedersen and Thomsen (1997) also forward that firms in well-developed stock markets (FIN_STR) are more likely to go public and tend to have a diversified ownership citing the possibility that cost of capital is likely to be lower in such markets.

3. EMPIRICAL FRAMEWORK

3.1. The data

The present study focused on firms drawn from selected African countries including Botswana, Egypt, Ghana, Kenya, South Africa, and Tunisia for two reasons. Firstly, they are all African countries where the literature on corporate ownership patterns is limited and where legal institutions and macroeconomic conditions vary markedly. This diversity offers a good prospect for assessing the role of institutions and macroeconomic conditions on corporate ownership. Secondly, the deficiencies of the external governance mechanisms such as the market for corporate control, legal and financial institutions, the absence of separation of powers

and the rule of law, and the widespread situation of state capture by organized groups, offer an interesting opportunity to investigate the role of institutional variables on ownership patterns.

The firm-specific data were extracted from annual reports of listed firms available in the OSIRIS database of the Bureau DIJK. We started with all the firms listed in all of the 17 functioning stock exchanges of African countries that had data in the database as at February 2012. We required that countries in our sample should have at least 10 listed firms. We dropped firms in the financial industry (US SIC code 6000~) as the ownership pattern in the financial industry is different from those in other industries and is influenced by factors other than those that influence the ownership patterns of non-financial firms. We used US SIC industry codes reported in the OSIRIS database to determine whether a firm is in a regulated industry or not. We adjusted differences in fiscal years of firms such that if the date of preparation of financial statements for a firm is on or before June 30, its year was stamped as one-year prior to its fiscal year and if a firm's fiscal year is after June 30, that same year was stamped as the firm's fiscal years. The final dataset comprised of 15-year data (1996-2010) pertaining to 377 non-financial firms. Data on country level variables were collected from the World Bank's website.

3.2. Measurement of variables

3.2.1 Dependent variables

The empirical literature measures ownership patterns using two dimensions: ownership distribution and composition of shareholders. The distribution of ownership may vary from single shareholder to a crowd of [minority] shareholders. Likewise, the composition of shareholders may include insiders and outsiders; active and passive shareholders; and institutional investors, strategic blockholders and private investors. While the first dimension measures the degree of concentration of ownership, the latter focuses on the identity of shareholders (Moerland, 1995). This study adopts aspects of the first dimension mainly due to availability, integrity and sufficiency of data for the type of analysis used in the present study.

In measuring the first dimension, existing studies use the percentage of shares owned by the most important shareholders of the firm. For instance, while La Porta et al. (1999, 1997) use the percentage of shares owned by the largest *three* shareholders, Demsetz and Lehn (1985), Elst (2004) and Farooque (2010) use the percentage owned by up to the largest *20* shareholders. However, increasing the number of shareholders taken into account (e.g., using five shareholders instead of 15 or 20) in the calculation of ownership concentration does not enhance, but rather decrease, the precision of the measure of ownership concentration (Elst, 2004; Richter and Weiss, 2013). Thus, in the subsequent analysis, pursuant to precedence (e.g., Prowse, 1992; Richter and Weiss, 2013; and others), we rely on a measure of ownership concentration that takes *five* shareholders into account [CON_5]. Other measures used to proxy the distribution of ownership patterns focus on the presence (or

absence) of large block shareholders and assign dummy variables with a value of 1 if the percentage of share owned by a certain number of shareholders exceed a predetermined threshold, otherwise zero (Demsetz and Lehn, 1985; Elst, 2004). Since the current accounting standards consider a 20 percent ownership as "significant interest", we tabulated only results based on a 20 percent threshold [BLOCK_20].

3.2.2 Independent variables

As noted earlier, the literature was gleaned to identify several firm-, industry-, and country-level factors that affect ownership structure of a firm. Table 1 below presents the definition of all variables in the study.

Table 1. Definition of Variables

CON_5	Percentage of direct shares owned by the five largest shareholders of a firm.
BLOCK_20	A value of 1 if the percentage of shares owned by the largest shareholder is greater than 20 percent of the total shares outstanding; otherwise 0.
LEV	The ratio of total liabilities to total assets.
D_STR	The ratio of non-current liabilities to total liabilities.
DIV	The ratio of cash dividend paid to total assets.
INVST	The ratio of sum of the annual change in tangible fixed assets and depreciation, depletion, amortization and impairment to total asset.
I_OWN	A value of 1 if the largest shareholder is an institutional investor; 0 otherwise.
SIZE	The natural logarithm of annual sales of a firm.
AGE	The natural logarithm of the number of years since a firm floated its first IPO.
GRW	The first difference of natural logarithm of sales.
VOL	The absolute value of first difference of log of profit after tax of a firm.
REG	A value of 1 if firm is in a regulated industry, 0 otherwise
PRFT	The ratio earnings before interest and tax to total assets of a firm.
CRPT	The the reverse of "control of corruption" governance index constructed by the World Bank.
FIN_STR	Aggregate financial structure index constructed by Levine (2002).
GDP	The log of GDP per capita in $US from the World Development Indicators.

3.3 Model specification

We use the two dimensions of corporate ownership pattern identified in the literature review section to measure the dependent variable. Due to differences in the nature of data needed for the two dimensions of corporate ownership, we specify two separate models: one explaining ownership concentration (Equation 1), the other explaining the presence (or absence) of a block shareholder (Equation 2). That is,

$$CON_i = \beta_0 + Z_{it}^a \beta_a + Z_t^b \beta_b + v_i + \varepsilon_i \qquad (1)$$

$$P(Blockholder = 1|Z) = \frac{exp\,(Z\beta)}{1 + exp\,(Z\beta)} \qquad (2)$$

where CON_i denotes ownership concentration of a firm as measured by the percentage of shares owned by the five largest shareholders (CON_5); Z_{it}^a denotes a vector of firm and industry level variables (i.e., LEV, D_STR, DIV, INVST, I_OWN, SIZE, AGE, GRW, VOL, REG, and PRFT) and β_a is a column vector containing the corresponding coefficients; Z_t^b refers to a vector of country level variables including CRPT, FIN_STR and GDP and β_b is a column vector controlling the corresponding coefficients; and $P(Blockholder = 1|Z)$ is the probability that a firm's largest shareholder would have 20 percent share-ownership or more (BLOCK_20) conditioned on the

realization of Z, where Z represents a vector of explanatory variables outlined above and β is the corresponding coefficient vector.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

4.1.1 The Sample

We report the sample coverage by country (see Tables 2). The representativeness of sample firms varies across countries. In some countries almost 65 percent of listed firms (e.g., Kenya and South Africa) are included in the sample while in others only 27 percent of the total listed firms (e.g., Egypt) are included. While the level of coverage of our sample within a country may reflect the fact that OSIRIS has uneven coverage of firms, our results should be interpreted with the understanding that firms listed in stock exchanges tend to be the larger companies in an economy. The fact that a lion's share of firms in our sample comes from South Africa is reflective of the fact that Johannesburg Securities Exchange in South Africa has about 90 percent of the combined market capitalization of the entire continent (Yartey and Adjasi, 2007)).

Table 2. The Composition of the Sample

Country	Number of firms in the sample	Number of firms in the sample/total number of firms listed	Percentage of firms in the sample
Botswana	10	0.48	2.65
Ghana	19	0.54	5.04
Kenya	36	0.65	9.55
South Africa	231	0.64	61.27
Tunisia	26	0.46	6.90
Egypt	55	0.26	14.59
Total	**377**	**N/A**	**100.00**

Note: Total number of firms = Number of firms listed in national stock exchanges as at December 2010 (Source: World Development Indicators).

4.1.2 Preliminary results

Prior studies on corporate ownership document those firms in emerging countries exhibit higher levels of ownership concentration compared to those in developed countries (Classens and Yurtoglu, 2013). Thus, we assess whether corporate ownership concentration levels in our sample countries are comparable with those for emerging economies reported in Classens and Yurtoglu (2013). Table 3 presents the descriptive statistics and we note that there is a striking variation in corporate ownership patterns across our sample countries. For instance, while the average percentage of shares owned by the *five* largest shareholders (*CON_5*) is 59.2 percent, it spans from a low average of 26.7 percent in Ghana to a high average of 89.4 percent in Tunisia. Un-tabulated results show that *CON_1* (i.e., percentage of shares owned by the largest shareholder), in all of our sample countries, is much higher than the 5 percent, 7 percent, 19 percent, and 22 percent reported respectively for the U.S., Japan, South Korea and Germany (Classens and Yurtoglu, 2013). However, except for Egypt, *CON_1* is far lesser than those reported for Hong Kong (44.7 percent), Indonesia (48.2 percent), Malaysia (43 percent), Singapore (58 percent), and a sample of five Latin American countries (53 per cent). In an unreported result, we observe that CON_1 for Egypt is on the higher end of the ownership concentration spectrum (i.e., 51.2 percent) and is comparable to those reported for most Latin American countries (Classens and Yurtoglu, 2013).

The results also reveal inter-firm variations in ownership concentration in each sample country as evidenced by the wide gaps between the minimum and maximum ownership concentration figures. For example, *CON_5* spanned from a low of 26.8 percent to a high of 68.0 percent in Botswana, from a low of 26.8 percent to a high of 71.1 percent in Ghana, from a low of 26.8 percent to a high of 83.7 percent in Kenya, and from a low of 26.8 percent to a high of 89.4 percent in South Africa. While cross-country variations suggest that country level contextual factors might be at play, the observed within country variations suggest that firm- and industry-level variables may explain disparities in ownership patterns.

Table 3 (BLOCK_20 Column) provides a summary of the prevalence of block shareholding in the sample countries. It indicates that *circa* 60.5 percent of sample companies had their largest shareholder own 20 percent or more of outstanding shares and 51 percent had their largest shareholder own 25 percent or more of their outstanding shares. Furthermore, the prevalence of block shareholding in our sample countries is higher than those reported for large publicly traded firms in Australia (35 percent), Canada (40 percent), Ireland (35 percent), Japan (10 percent), the U.K. (0 percent), the U.S.A (20 per cent), France (40 percent), Germany (50 percent), South Korea (45 percent) and Switzerland (40 percent) in La Porta et al. (1999). However, we also note that block shareholding is less prevalent in our sample countries than those reported for Argentina (100 percent), Hong Kong (90 percent), Singapore (85 percent), Belgium (95 percent), Greece (90 percent), Israel (95 percent), Mexico (100 percent), Indonesia (*circa* 90 percent), Columbia (*circa* 93 percent) and Portugal (90 percent) in La

Porta et al. (1999) and Classens and Yurtoglu (2013). In addition, the percentage of firms with a controlling shareholder is the highest in Tunisia (i.e., 86.6 percent of the sample firms from Tunisia had controlling shareholders) while it is the lowest in South Africa (i.e., 57.3 percent of the sample firms from South Africa had controlling shareholders)[3]. These figures show the disparity in the prevalence (or lack thereof) of widely owned firms across the African continent. The cross-country differences in block shareholding could probably be attributed to the cross-country disparity in the institutional and macroeconomic conditions of the sample countries.

4.1.3 Correlation Analysis

To gain an insight into how corporate ownership patterns are correlated with firm and country characteristics, we compute Pearson correlation coefficients between variables. The results in Table 4, consistent with financial theory, suggest that firm-specific factors, legal and financial institutions, and the macroeconomic environment in a country potentially influence firm level ownership patterns. In particular, the correlation matrix shows that *CON_5* is negatively correlated with *LEV* and *SIZE* while it is positively correlated with *AGE*. The correlation matrix also reveals that *CON_5* is positively associated with *CRPT* while it is negatively associated with *FIN_STR* and *GDP*. Finally, we note that correlation coefficients between the *CRPT*, *FIN_STR*, and *GDP* variables are very high suggesting that the models might suffer from problems of multicollinearity. To keep the estimation problem tractable and avoid problems of multicollinearity, we develop slightly different specifications of the models by excluding highly correlated variables.

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[3] *A firm, within the context of this study, is said to have a controlling shareholding if a shareholder's direct voting rights exceed 20 per cent. Widely held companies are those without controlling shareholder.*

Table 3. Descriptive Statistics

Country	LEV	D-STR	SIZE	VOL	PRFT	GRW	CRPT	FIN_STR	GDP	AGE	DIV	INVST	CON_5	BLOCK_20
Botswana	0.375	0.222	11.361	0.204	0.111	0.103	1.603	-0.055	8.607	2.565	0.000	0.000	62.400	
	0.171	0.000	9.318	-3.795	0.000	-1.819	1.245	-0.055	8.027	0.693	0.000	0.000	26.750	44.44
	0.732	0.788	14.459	3.197	0.251	2.671	3.475	-0.055	8.910	2.773	0.141	0.398	68.000	
Ghana	0.538	0.089	10.133	0.292	0.111	0.213	2.520	0.543	6.989	2.773	0.000	0.000	26.750	
	0.171	0.000	4.963	-3.540	0.000	-6.837	2.411	0.543	5.560	1.609	0.000	0.000	26.750	32.79
	0.774	0.788	14.456	3.546	0.251	1.568	2.874	0.543	7.157	3.091	0.417	0.476	71.130	
Kenya	0.467	0.429	15.079	0.181	0.097	0.111	3.452	-0.107	6.423	2.708	0.000	0.000	70.640	
	0.171	0.000	9.306	-2.029	0.000	-1.467	3.307	-0.107	5.990	0.693	0.000	0.000	26.750	69.74
	0.774	0.788	18.717	2.752	0.251	1.237	3.555	-0.107	6.660	3.178	0.257	0.554	83.670	
South Africa	0.513	0.290	13.995	0.188	0.109	0.117	2.109	0.555	8.563	2.639	0.000	0.000	57.055	
	0.171	0.000	2.197	-4.202	0.000	-6.983	1.741	0.555	7.800	0.693	0.000	0.000	26.750	47.24
	0.774	0.788	19.132	3.961	0.251	9.728	2.500	0.555	8.892	3.434	0.294	0.820	89.370	
Tunisia	0.480	0.247	10.736	0.041	0.081	0.064	2.560	-0.222	8.077	2.773	0.000	0.000	89.370	
	0.171	0.000	8.066	-2.113	0.000	-0.981	1.951	-0.222	7.717	1.609	0.000	0.000	32.410	86.57
	0.774	0.744	14.037	1.853	0.230	1.048	2.683	-0.222	8.377	3.091	0.313	0.387	89.370	
Egypt	0.455	0.081	12.381	0.104	0.112	0.101	3.032	-0.235	7.260	2.833	0.000	0.000	76.365	
	0.171	0.000	4.094	-4.643	0.000	-6.972	2.500	-0.235	6.977	0.000	0.000	0.000	26.750	62.69
	0.774	0.788	16.149	4.568	0.251	6.799	3.214	-0.235	7.900	2.996	0.529	0.840	89.370	
Total	0.498	0.243	13.743	0.157	0.104	0.114	2.387	0.543	8.013	2.708	0.000	0.000	59.160	
	0.171	0.000	2.197	-6.737	0.000	-8.912	1.245	-0.235	5.560	0.000	0.000	0.000	26.750	51.07
	0.774	0.788	20.641	4.685	0.251	9.728	3.822	0.555	8.936	3.434	0.821	0.840	89.370	

Note: Except BLOCK_20 column which presents the percentage of firms whose largest shareholders own at least 20 percent of the shares, figures in the first rows refer to the median values whereas those in the second and third rows refer to the minimum and maximum values.

Table 4. Correlation Matrix

	LEV [1]	D_STR [2]	SIZE [3]	VOL [4]	PRFT [5]	GRW [6]	CRPT [7]	FIN_STR [8]	GDP [9]	DIV [10]	INVST [11]	AGE [12]	CON_5 [13]
[1]	1.000												
[2]	0.028 *	1.000											
[3]	0.193 *	0.125 *	1.000										
[4]	0.005	-0.011	0.005	1.000									
[5]	-0.182 *	-0.099 *	0.211 *	0.261 *	1.000								
[6]	0.039 *	-0.026 *	0.126 *	0.308 *	0.137 *	1.000							
[7]	-0.037 *	-0.093 *	0.170 *	-0.015	0.017	-0.013	1.000						
[8]	0.114 *	0.094 *	0.027 *	0.016	0.055 *	0.013	-0.683 *	1.000					
[9]	0.081 *	0.096 *	-0.090 *	-0.002	-0.026 *	0.007	-0.821 *	0.607 *	1.000				
[10]	0.148 *	0.063 *	-0.019	0.077 *	-0.091 *	0.033	0.123 *	-0.045	-0.126 *	1.000			
[11]	0.016	0.155 *	-0.007	0.057 *	-0.045 *	0.149 *	0.058 *	-0.042 *	-0.062 *	0.341 *	1.000		
[12]	-0.066 *	0.020	0.083 *	0.023	0.016	-0.003	-0.153 *	-0.069 *	-0.079 *	0.001	-0.023	1.000	
[13]	-0.040 *	-0.011	-0.063 *	-0.023	0.032	-0.038	0.171 *	-0.283 *	-0.090 *	-0.007	0.001	0.108 *	1.000

*Note: coefficients significantly different from zero at 10%, 5%, and 1% levels are marked *, **, and ***.*

Table 5. Determinants of Ownership Concentration

	CON_5	CON_5	CON_5
LEV	-0.980 **	-0.567 *	-0.722 **
	(0.324)	(0.264)	(0.279)
D_STR	0.124	0.168	0.074
	(0.257)	(0.196)	(0.209)
DIV	-0.178	0.004	-0.008
	(0.483)	(0.322)	(0.348)
INVST	0.256	0.074	0.138
	(0.351)	(0.229)	(0.248)
IOWN	0.513 ***	0.461 ***	0.469 ***
	(0.127)	(0.123)	(0.126)
SIZE	0.054	0.044	0.033
	(0.032)	(0.027)	(0.029)
AGE	0.325 ***	0.311 ***	0.332 ***
	(0.09)	(0.087)	(0.089)
GRW	0.009	0.000	0.001
	(0.037)	(0.025)	(0.027)
VOL	-0.026	-0.015	-0.020
	(0.038)	(0.025)	(0.027)
REG	0.784 ***	0.734 ***	0.813 ***
	(0.208)	(0.195)	(0.201)
PRFT	1.550 *	0.776	0.889
	(0.678)	(0.499)	(0.533)
CRPT	0.153		
	(0.141)		
FIN_STR		-0.824 ***	
		(0.228)	
GDP			0.055
			(0.085)
Constant	-1.620 **	-0.795 *	-1.450
	(0.549)	(0.386)	(0.769)
N	230	230	230
Chi-square	79.01 ***	82.86 ***	67.93 ***

*Noted: The table presents GLS estimates of Equation 1. Coefficients significantly different from zero at 10%, 5% and 1% level are marked *, ** and ***, respectively. Robust standard errors are in brackets. The Chi-2 test statistic refers to the null hypothesis that all coefficients of the independent variables are jointly equal to zero.*

4.2 Regression Results

The results in Table 5 indicate that firms with higher leverage (*LEV*) tend to have less concentrated ownership (*CON_5*). This evidence is in sync with agency theory which suggests that firms use capital structure as a substitute governance mechanism in monitoring opportunistic behaviour by managers. It is also in line with similar findings reported in Pindado and Torre (2006). Consistent with the monitoring role of institutional investors, we find that firms whose largest shareholder is also an institutional investor (*IOWN*) are more likely to have more concentrated ownership (*CON_5*) than those whose largest shareholder is a non-institutional investor (see Tables 5). This suggests that institutional investors in our sample firms may have abandoned their traditional "passive shareholder" role and have become more "active" participants in the governance of their corporate holdings. Gillan and Starks (2000) observes similar evolution in the role of institutional investors within the context of the U. S. A. In contrast to our expectation, the evidence shows that the length of time that has lapsed since a firm floated its firs IPO (*AGE*) is positively associated with ownership concentration (*CON_5*) independent of how the latter is measured. This could be attributable to the pattern that older companies in Africa are held as family-owned businesses whose ownership tends to be concentrated in the hands of particular families and have colonial legacies.

Contrary to Demsetz and Lehn's (1985) argument that industry regulation reduces the incentives for bigger ownership stakes, and hence leads to diffused ownership, our results show that sample firms operating in regulated industries are likely to have concentrated ownership patterns (see Table 5). This finding, however, meshes with Elst's (2004) argument that the effect of industry regulation on ownership pattern is not monolithic but, rather, is a function of the governance systems and the structure of institutions. Thus, our interpretation of this finding is that the relatively high level of corruption that we observe in the sample countries might have rendered industry regulation in those countries inefficient and ineffective and that industry regulation did no longer restrain owners from vying for bigger ownership stakes, which in turn could lead to diffused ownership patterns.

A perusal of Table 5 also reveals that countries with market dominated financial systems tend to have firms with less concentrated ownership structure. This finding is consistent with Aguilera and Jackson (2003) and Pedersen and Thomsen (1997) who contend that bank financing encourages concentration of ownership as bank financing entails close capital monitoring and contingent control of firms. It is also in line with the argument that financing through stock markets encourages diffused ownership as shareholders make investments primarily to pursue financial goals; they hold control of the firm by having the option to exit if the firm no longer fulfils their goals.

Table 6. Determinants of the Presence (or absence) of Block Shareholders

	BLOCK_20	BLOCK_20	BLOCK_20
LEV	-0.511	-0.259	-0.387
	(0.896)	(0.88)	(0.884)
	[-0.117]	[-0.059]	[-0.089]
D_STR	1.970 *	2.720 ***	1.650 *
	(0.808)	(0.795)	(0.765)
	[0.452]	[0.615]	[0.377]
DIV	-1.370	-0.957	-1.580
	(1.95)	(1.95)	(1.99)
	[-0.313]	[-0.217]	[-0.361]
INVST	0.035	-0.351	0.346
	(1.48)	(1.48)	(1.49)
	[0.008]	[-0.079]	[0.079]
IOWN	0.719 *	0.841 **	0.722 *
	(0.289)	(0.29)	(0.288)
	[0.159]	[0.183]	[0.16]
SIZE	-0.088	-0.038	-0.115
	(0.082)	(0.084)	(0.082)
	[-0.02]	[-0.009]	[-0.026]
AGE	0.295	0.167	0.354
	(0.199)	(0.211)	(0.202)
	[0.067]	[0.038]	[0.081]
GRW	0.080	0.103	0.070
	(0.125)	(0.132)	(0.122)
	[0.018]	[0.023]	[0.016]
VOL	0.166	0.238	0.146
	(0.188)	(0.199)	(0.186)
	[0.038]	[0.054]	[0.033]
REG	1.280 *	1.200	1.400 *
	(0.612)	(0.623)	(0.651)
	[0.233]	[0.219]	[0.248]
PRFT	2.390	2.500	2.300
	(2.06)	(2.12)	(2.03)
	[0.547]	[0.57]	[0.526]
CRPT	0.057		
	(0.345)		
	[0.013]		
FIN_STR		-1.740 ***	
		(0.482)	
		[-0.394]	
GDP			0.289

			(0.206)
			[0.066]
Constant	-0.055	-0.025	-2.05
	(1.31)	(0.96)	(1.79)
N	289	289	289
Chi-square	24.63 **	35.52 ***	26.33 ***

Note: The Table presents LOGIT estimates of Equation 2. Presented in first rows are the natural logarithms of odds ratio $[L = ln(\frac{P_i}{1-P_i})]$, robust standard errors are in parenthesis.

Our results in Table 6 indicate that the odds of a firm in our sample having a block shareholder with controlling ownership interest in the firm increases as the firm's debts take longer to mature (*D_STR*). Consistent with the relationship reported for *LEV* and *CON_5* in Table 5, this finding corroborates the agency view that firms use debt maturity structure as a substitute governance mechanism to curb opportunist managerial tendencies. In sync with the monitoring role of institutional investors, we find that firms whose largest shareholder is also an institutional investor are more likely to have block shareholding (i.e., *Block_20)* than those whose largest shareholder is a non-institutional investor (Table 6). This corroborates our findings reported in Table 5 above. Like our results in Table 5, we find that sample firms operating in regulated industries are more likely to have block shareholders than those operating in non-regulated industries (see Table 6). Finally, we observe that the odds of a firm operating in *bank-dominated* financial systems having a controlling block shareholder are significantly higher than is the case for those operating in *market-dominated* financial systems. This is in line with the result we reported in Table 5.

5. CONCLUSIONS

The interplays that we find between capital structure and debt maturity structure, on the one hand, and corporate ownership patterns, on the other, signify the role that agency conflicts play in shaping corporate ownership, and thus, corporate governance in developing countries. The positive relationship between ownership by institutional investors (IOWN) and the likelihood of a firm being controlled by a block shareholder or have a concentrated ownership structure suggest that institutional investors in the sample firms may have abandoned their traditional "passive shareholder" role and become more "active" participants in monitoring their corporations. Our interpretation of the respective relationships between industry regulations and orientation of the financial system as independent variables and block shareholding and/or ownership concentration as dependent variables is that institutional contexts within which a firm operates matters in the determination of corporate ownership patterns in developing countries.

Moerland (1995) suggested that examining the composition or type of shareholders would provide additional insight into corporate ownership patterns. However, limited availability of data on corporate ownership patterns on the African continent meant that we limit our investigation to ownership distribution alone. Future studies that cover larger samples and also composition/type of shareholders may shed further light into our understanding of corporate ownership patterns and governance systems in developing countries.

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