DO MARKET PARTICIPANTS PERCEIVE BLOCKHOLDERS' POWER AND PREFERENCES? LOCUS OF CONTROL, PREFERENCE HETEROGENEITY, AND FIRM VALUATION IN THE SWISS CONTEXT

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Abstract

This study relies on preference heterogeneity and locus of control research to hypothesize about the impact of control types on firm valuation. We investigate whether market participants discriminate between control types when making investment decisions. Our empirical results of Swiss data suggest that control types represent discrete governance contexts with a unique set of conditions each related to a different level of principal-principal agency costs. Specifically, we find that firms with family ownership and professional management are valued more highly relative to other control configurations and that owners can use board and share structures to signal good governance. Our study thus provides support for a psychological and socio-political perspective of principal-principal conflicts of interests and expropriation of minority investors.

Keywords: Owner Types, Locus of Control, Preference Heterogeneity, Market Valuation, Principal-Principal Agency Costs

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Current research on shareholder behavior agrees that different types of large shareholders (e.g. family owners, external institutional investors, large individual shareholders) have heterogeneous preferences (e.g. David et al., 2010, Fiss and Zajac, 2004, Hoskisson et al., 2002, Palmer and Barber, 2001): blockholders differ in their investment horizons (e.g. Bushee, 1998), their risk dispositions (e.g. Hoskisson et al., 2002), their inclination to assume control in companies (e.g. Kang and Sorensen, 1999), and their level of bonding and attachment to the firm (e.g. David et al., 2010, Gomez-Mejia et al., 2011, Wasserman, 2006). However, while most scholars agree that those in control over large corporation use their power to realize their preferences little is known about the evaluation of this behavior by market participants and the advantages and disadvantages thereof to minority investors. Research on expropriation of minority investors assumes that the pursuit of private benefits of control necessarily translates into principal-principal agency costs, lower market valuation and thus disadvantages to minority shareholders (e.g. Cheung et al., 2006, Claessens and Djankov, 2002, Cronqvist and Nilsson, 2003, Durnev and Kim, 2005, Giannetti and Simonov, 2006, La Porta et al., 2002, Lins, 2003, Ward and Filatotchev, 2010, Young et al., 2008). Yet these works by and large rooted in financial economics assume homogenous preferences across types of large shareholders and argue that if large shareholders get the chance to consume private benefits they will do so which will necessarily be at the expense of minority investors. As a result, most extant research focuses on developing economies where minority investor protection is poor and where the regulatory context allows for expropriating behavior by large blockholders.

In this paper, we take the idea of shareholder preference heterogeneity seriously to argue that not all private benefits translate into principal-principal agency costs and disadvantages for minority shareholders (Holderness, 2003). Instead, we purport large shareholders' differing investment horizons and levels of attachment to the firm have both positive and negative effects from the point of view of minority investors. Consequently, contingent upon the configuration of power in firms (i.e. control type) and the governance devices in place minority investors may incur both gains and losses. This is important because failure to take blockholders' power and preference heterogeneity

into account may obscure our assessment of interest alignment between large and small shareholders and may result in flawed recommendations at both the firm and the system level of corporate governance. We thus advance a behavioral theory of principal-principal conflicts of interest and stress the importance of socio-political and psychological factors decisive for blockholder behavior. In line with recent research on market valuation, we hold that market participants are adept in evaluating control types and the quality of governance devices installed (Durnev and Kim, 2005, Giannetti and Simonov, 2006, Leuz et al., 2010) and that they, therefore, penalize and reward companies differently contingent upon the unique governance configurations in place.

We contribute to extant research on corporate ownership and shareholder behavior in at least four important ways: Firstly, we go beyond mere description of large shareholders' preference heterogeneity to consider how it impacts principal-principal agency costs and advantages and disadvantages to minority investors. By bringing market valuation to the fore, we provide evidence of external assessment of large blockholders' power and preference heterogeneity. Second, by invoking the concept of control type we go beyond individual ownership and leadership variables and investigate how market participants perceive firms in terms of their unique governance configurations. Thirdly, in contrast to most research that tends to focus on each type of large blockholder separately our study allows for an assessment of the *relative* differences across ownership and control configurations thus allowing for a direct comparison of management-, family- and externally controlled firms as perceived by market participants. Finally, we also contribute to research on expropriation as we shift the focus of the – undoubtedly important – external constraints on the consumption of private benefits (e.g. corporate law, politics, informal institutions) to the equally important psychological and socio-political factors driving blockholder behavior. These factors, we argue, are particularly important in contexts with a reasonable level of minority shareholder protection. With our investigation into Swiss companies we thus stimulate research on expropriation of minority investors in developed economies.

In the sections to follow, we first draw on preference heterogeneity and locus of control research to hypothesize about market valuations of control types, the role of boards, and dual class shares. Subsequently, we present our method, data and results section before, finally, discussing the implications of our study for research on corporate ownership and shareholder behavior.

1. Theory Development

1.1. Control Types, Preference Heterogeneity and Market Valuation

At the heart of our argument are control types viewed as discrete governance contexts each with a different configuration of ownership and leadership. Control types were first invoked by Mc Eachern (1977) who was interested in understanding where the locus of control lies in companies. They were further developed by Salancik and Pfeffer (1980) who strived at determining the extent to which management is insulated from environmental pressures depending on which party has power in firms. According to Salancik and Pfeffer power is a "relational concept" and "ownership can be used to support or oppose management depending on how it is concentrated and used" (1980: 655). Thus one party has power to the extent that the other does not. Moreover, the more concentrated ownership is the more potent potential support or opposition. So, for example, if management has power, shareholders lack it; if the dominant blockholder has power, other shareholders lack it (as does management). The locus of control thus lies with management or some type of large shareholder.

An operationalization of control types entails categorizing companies into management controlled, family-controlled, and externally controlled companies (Mc Eachern, 1977). We extend this typology and distinguish between directly and indirectly controlled family firms: We denote those firms as directly controlled family firms where the largest shareholder is a family and the CEO is a member of this family. By contrast, we refer to indirectly controlled family firms where the largest shareholder is a family but the CEO is a professional manager (Allen and Panian, 1982).

Table 1. Control types

Management Control	Direct Family Control	Indirect Family Control	External Control
Dispersed ownership, professional management	Large family owner, family management	Large family owner, professional management	Large external shareholder, professional management

Depending on whether ownership is concentrated or dispersed and on whether the largest shareholder is a family or an external blockholder the locus of control shifts towards the

CEO, the family or to the large external shareholder. Numerous works investigating differences across control types find that control types have important implications for core issues in corporate governance (Allen and Panian, 1982, Daily and Dollinger, 1992, Finkelstein and Hambrick, 1989, Gomez-Mejia et al., 1987, Salancik and Pfeffer, 1980, Werner et al., 2005).

Control types determine which party has the power to realize his/her interests in the firm. The varying nature of shareholders' interests is captured by the concept of preference heterogeneity (Hoskisson et al., 2002). Preference heterogeneity concerns owners' objectives, risk disposition, investment horizons and bonding and attachment to the firm. For example, some types of large shareholders seem not to prioritize shareholder value over other objectives (e.g. Thomsen and Pedersen, 2000), have distinct investment horizons and appetite for short-term financial returns (Connelly et al., 2010, Hoskisson et al., 2002, Tihanyi et al., 2003) as well as differing levels of bonding and attachment to the firm. Particularly family owners who derive a sense of identity, psychological ownership and emotional value from their ownership position and whose sense ownership transcends the purely financial nature of their shareholdings are prone to put maximization of shareholder value in the second place (David et al., 2010, Fiss and Zajac, 2004, Gomez-Mejia et al., 2011, Pedersen and Thomsen, 1997, Wasserman, 2006).

Preference heterogeneity across control types come with both advantages and disadvantages to minority investors. Disadvantages accrue when dominant owners (or managers) pursue non-value maximizing objectives such as internal growth at the expense of cash flows (Thomsen and Pedersen, 2000) or when they develop too great a tolerance for short term performance declines. Advantages, on the other hand, accrue when dominant owners use their power to shield and protect the organization including all its members. Take the attached and involved family owners, as an example: because these owners derive a sense of identity from being owners, being in control and retaining control over their firms for them is a private benefit in its own right even if it comes with financial costs and emotional strain (see Zellweger and Astrachan, 2008). We can thus conclude, that control types represent discrete governance contexts with unique power and preference configurations that sum up to a different level principal-principal agency costs and, hence, advantages and disadvantages for minority investors.

We agree with extant research on expropriation which holds that market participants anticipate the advantage and disadvantages that come with blockholdings. Thus when power is concentrated in the hands of a party whose interests and preferences are highly incongruent with those of minority shareholders market participants will penalize these companies with lower market valuation (Claessens et al., 1999, Fan and Wong, 2002, Lemmon and Lins, 2003). However, the party in control may adopt control devices (board composition, dual class shares) that signal their willingness to share control with outsiders, protect organizational members and comply to standards of good governance. We follow Westphal and Zajac (1998) who contend that under uncertainty markets react to symbols of compliance: When there is uncertainty about agency costs and conflicts of interest large shareholders can push for mechanisms that signal good governance thereby reducing uncertainty about their motives and preferences (see Certo et al., 2001, Certo, 2003, Deutsch and Ross, 2003). In line with a number of more recent works, we thus expect market participants to appreciate the quality of governance devices installed for disciplining the parties in control resulting in a higher valuation of these companies (Durnev and Kim, 2005, Giannetti and Simonov, 2006, Leuz et al., 2010).

To sum up, we maintain that because control types project differing levels of agency costs, they are likely to be associated with differing market valuation and differing levels of discount to firm value. Companies can attenuate external perceptions of agency costs and poor valuation by adopting governance devices that signal their commitment to good governance and protection of all stakeholders including minority investors. In what follows, we examine each control type separately. We evaluate each with respect to principal-principal agency costs and conflicts of interest from the point of view of market participants.

1.2 Hypotheses

Management Controlled Firms. In companies with widely dispersed ownership structure with no large shareholder at the helm, the control lies with management and disadvantages to shareholders may arise from self-serving behavior by managers. Managers with no particular ties to the firm oftentimes focus on realizing their personal objectives and on furthering their careers. As Hart (1995) summarizes, managers "may overpay themselves and give themselves extravagant perks; they may carry out unprofitable but power-enhancing investments; they may seek to entrench themselves. In addition, managers may have goals that are more benign but that are still inconsistent with value maximization. They may be reluctant to lay off workers that are no longer productive. Or they may believe that they are the best people to run the company when in fact they are not." Extant research finds management controlled firms to be

associated with higher levels of executive compensation and, at the same time, lower pay-performance-sensitivity (Finkelstein and Hambrick, 1989, Werner et al., 2005). In addition, management control may lead to risk aversion, strategic myopia and decisions that are incongruent with value maximization. For instance, acquisition announcements that benefits managers instead of shareholders are found to result in negative excess returns (Kroll et al., 1997). Therefore, is seems reasonable to conclude that given conflicts of interests investors will be wary of unconstrained managerial control and are unlikely to associate this control type with high levels of agency costs and thus lower overall benefits for shareholders.

Externally Controlled Firms. Concentrated ownership in the hands of a large external shareholder may be a viable mechanism for curbing managerial abuse of control (Admati et al., 1994, Shleifer and Vishny, 1986). Large external shareholders such as institutional investors have more congruent interests with minority investors than have managers. Given their low levels of emotional attachment to the firm and their moderately long to short investment horizons these shareholders will prioritize financial objectives and increasing the value of their investments. At the same time, their large shareholdings provide them with enough incentives to overcome free-riding problems and engage in monitoring and activism (Admati et al., 1994). However, their primary focus on pecuniary benefits may, if such an opportunity arises, incent them to engage in self-serving behavior at the expense of the firm and other shareholders (e.g. La Porta et al., 2000). In addition, external shareholders typically face higher information asymmetries than, for example, family owners and are less well informed about managerial ability and effort than the latter (David et al., 2010). These arguments suggest that minority shareholders face as many advantages as drawbacks when control resides in external shareholders.

Family Controlled Firms. Compared to external shareholders, family owners due to their long-term commitment, their attachment, and their psychological bonding with the firm are better informed about the companies' activities. Moreover, because of the general moral and social proximity, family members have deeper knowledge about each other's motivation and capabilities, as well as better opportunities to monitor each other (Sirmon and Hitt, 2003). In addition, because family members derive a sense of identity from owning the firm much of their private benefits will be of non-pecuniary nature: because of their psychological ownership these shareholders are not only interested in increasing their financial wealth but are also eager to preserve their socio-emotional wealth (Gomez-Mejia et al., 2011, Gómez-Mejía et al., 2007). This emotional value from ownership induces positive entrenchment and loyalty to the firm and incents these owners to stick to their firm even in the event of performance declines (Astrachan and Jaskiewicz, 2008, Gómez-Mejía et al., 2007, Zellweger and Astrachan, 2008). Family owners' loyalty and increased commitment often help rather than hurt minority shareholders. In fact, family businesses have been lauded as organizations that invest in enduring relationships and are more concerned with family reputation and legacy: they are likely to take a stewardship view of managing family business assets, resulting in a more equitable and ethically laudable conduct vis-à-vis all stakeholders, including minority shareholders (Dyer and Whetten, 2006, Habbershon and Williams, 1999, Sirmon and Hitt, 2003).

Yet family control comes with a number of drawbacks: On one hand, family controlled firms are exposed to self-control problems as family owners may become territorial about "their" firms (Schulze et al., 2003, Schulze et al., 2001, Villalonga and Amit, 2006). The increased commitment, emotional investment and loyalty to the firm may lead to erroneous beliefs about being the only party who rightfully can decide over the deployment of the company's assets. Moreover, high levels of attachment may come with risk aversion incenting family owners to pursue conservative resource allocation decisions that, from the point of view of minority investors, are financially disadvantageous (Gómez-Mejía et al., 2007). Directly controlled family firms have also been criticized for their creating of internal labor markets and for appointing less competent offspring and family members to key positions in firms (Schulze et al., 2003). As a result, in family firms agency costs depend primarily on family owners' selection of management thus emphasizing the importance to distinguish between directly and indirectly controlled family firms. In contrast to directly controlled family firms, family owners in indirectly controlled family firms by hiring competent professional managers can signal to the market that they put the company first and then family obligations and loyalties. This suggests that the "ideal" family firm should control the firm indirectly, via ownership while appointing professional managers. Such a governance context would ensure that the family could monitor and imbue all decisions with the key family values that provide advantages of family ownership while, at the same time, shifting excessive control away from the family. On the other hand, the actual operational managers can then be hired from the market, where the family has a choice of a wider pool of managers. From the point of view of relationship with management and the governance devices at play, the advantage of indirect family control lies in relational, more trust-based governance which is

found to decrease self-serving behavior by the "controlees" (Ghoshal and Moran, 1996).

As a result, providing dual advantage of better monitoring and family ownership and vision, the above arguments suggest that indirect family control would be the most highly valued control type compared to other types.

Hypothesis 1. Indirect family control of the firm will be associated with higher market valuation than the other control types.

Boards of Directors. So far we have argued that control types may be associated with advantages and disadvantages for minority investors. Yeh and Woidke (2005) argue that when both advantages and disadvantages exist or are difficult to determine for minority shareholders, board composition is an important instrument for signaling commitment to good governance. When there is uncertainty about shareholder motives and preferences and the prevalence of principal-principal conflicts of interest shareholders may use boards to resolve this ambiguity. More specifically, they may accumulate more control by assuring that they are highly represented on corporate boards relative to the other board members. Just as managers may influence board composition by supporting the appointment of members who are compliant to them (Hermalin and Weisbach, 1998, Shivdasani and Yermack, 1999) so can shareholders install boards and appoint board members who serve their needs (Yeh and Woidtke, 2005). Alternatively, they can use board composition to signal fair treatment of minority shareholders by pushing for more functional and professional diversity and minority shareholder representation on boards. As empirical research demonstrates, board characteristics matter for firm valuation (Certo et al., 2001, Certo, 2003, Deutsch and Ross, 2003). Therefore, control types where the most powerful party populates the board with his/her own representatives and concentrates control in his/her own hands is likely to be assessed critically by market. We expect this effect to be most severe in those control types where high levels of agency costs and expropriation behavior is expected: While we expect that market participants will, in general, be discontent with high levels of family member representation on the board, we expect it to be viewed as particularly harmful in directly controlled family firms *relative* to other control types. In directly controlled family firms, where ownership and management coincide a lot of power is concentrated in the hands of the family. Concentrated family power through family owner dominance on the board is likely to increase market participants' fear of principal-principal agency costs and conflicts of interest. We, therefore, expect family owner representation in indirectly controlled family firms to be associated with higher market valuation than family owner representation in directly controlled firms. Thus we suggest:

Hypothesis 2a: High levels of family owner representation on the board will be associated with higher market valuation of indirectly controlled family firms as compared to directly controlled family firms (and the other control types).

A somewhat different picture is expected in the event of high levels of external shareholder representation on corporate boards. Similar to family shareholders, large external shareholders may impact board appointments and install boards that serve their needs. However, while family owner representation, in general, is likely to be viewed as a signal of family owners' negative entrenchment, the presence of large external shareholders on board is more likely to be viewed as a signal of increased monitoring and commitment to shareholder value. After all, large external shareholders are more likely to have interests that are congruent with those of minority investors than do family owners. At the same time, boards composed and structured so as to concentrate control in the hands of large shareholders may, at best, be perceived as superfluous given blockholder monitoring and have no effect on market valuation (see Walsh and Seward, 1990); at the worst, they may raise suspicion of too much leeway for blockholders to consume private benefits at the expense of minority shareholders thus creating principal-principal conflicts of interest. As a result, we expect high levels of large external shareholders on the board to be assessed positively by market participants in those instances where expropriation expectation is higher, namely in directly controlled family firms. Therefore, we conjecture:

Hypothesis 2b: High levels of external shareholder representation on the board will be associated with higher market valuation of directly controlled family firms as compared to the other control types.

Dual Class Shares. Beside board representation, another source of shareholder excess control is dual class shares. Dual class shares create a wedge between cash flow and control rights and provide blockholders with more voting power than what is proportional to their investments. Traditionally, dual class shares have been viewed as instruments of expropriation: a large wedge between cash flow and control rights renders diversion of company resources attractive because large shareholders internalize only a minority fraction of the negative corporate valuation consequences that follow such behavior (Grossman and Hart, 1988, Harris and Raviv, 1988). However, some have argued that dual class shares may also be instruments for protecting the company's assets ultimately benefiting minority shareholders. As an

example, in the Swiss context where, traditionally, a large wedge between cash flow and control rights was found (see La Porta et al., 1999) a unification of shares was not found to result in noticeable change in market capitalization. This relatively moderate reaction to the abandonment of dual class shares seems to buttress the argument of a number of local observers who claim that the separation of cash flow from control rights is not the reason why dual class shares are introduced. Rather, the dual class structure is used as an instrument allowing firm owners to raise capital without substantial loss of control (e.g. Von der Crone and Plaksen, 2010). In this view, by adopting dual class shares the owner is able to protect his/her business and business philosophy, fend off raiders and takeover attempts and cushion the firm against external pressures towards strategic myopia and short-termism (Boot et al., 2006, Burkart and Lee, 2008, Chemmanur and Jiao, 2006). In a way, these assertions are in line with the work of Bergström and Rydqvist (1990) on dual class shares in Sweden. The authors find that large shareholders own much more equity than required for control. Hence while the common model holds that expropriation is highest when owners make the lowest possible financial investment necessary for retaining control, shareholders seem to invest more than they would need if they intended to abuse of their power. It follows that dual class shares can indeed be a means for retaining control and protecting company assets.

This would suggest that the purpose of dual class shares depends on shareholder preferences and, hence, that it varies across control types. If market participants perceive such preference heterogeneity we assume that their reactions to dual class shares too will differ across control types. While we expect that market participants will, in general, penalize the adoption of dual class shares in all firms, we expect such penalties to be less severe in the event of indirectly controlled family firms relative to other control types. Therefore, we hypothesize:

Hypotheses 3: Dual class shares will be associated with lower penalties to firm value (i.e. higher market valuation) of those control types (i.e. indirectly controlled family firms) where lower levels of principal-principal conflicts and thus expropriation behavior is anticipated.

2. A Note on the Swiss Context

For our empirical investigation we concentrated on Swiss companies. Given the high levels of ownership concentration and diversity of owner types, the Swiss context lends itself for the purpose of our study: Switzerland is both a host to a number of large multinationals with widely dispersed ownership (such as Nestlé, Novartis and ABB) and the home of many mid-sized companies oftentimes under family control. In addition, Swiss companies also attract capital from foreign individual and institutional blockholders suggestive of the attractiveness of this capital market from the point of view of external investors.

According to a widely cited study by La Porta and colleagues (1999), Switzerland has a remarkably liquid stock market embodied by a higher proportion of widely held firms. At the same time, family firms too enjoy great popularity: The number of family firms among the top twenty companies was in line with the international sample average indicative of the peculiarity of Swiss context where relatively high levels of ownership dispersion co-occur with a large number of family firms. Table 2 provides information on the ownership structure of the companies in our sample.

Table 2. Percentage of sample firms across control types

	Direct Family Control	Indirect Family Control	External Control	*Sum Concentrated*	Management Control
2000	13.43	15.67	62.69	*91.79*	8.21
2001	11.76	18.30	60.13	*90.20*	9.80
2002	10.98	18.90	64.02	*93.90*	6.10
2003	8.67	20.23	63.58	*92.49*	7.51
2004	10.98	18.50	62.43	*91.91*	8.09
2005	10.47	16.28	64.53	*91.28*	8.72
Average	*11.05*	*17.98*	*62.90*	*91.93*	*8.07*

Even though La Porta et al. (1999) classified Switzerland within the poor minority shareholder protection sample, they report neither pyramidal structures nor cross-shareholdings for Swiss firms. Yet to this day dual class shares are prevalent in the Swiss context. Since 1999, however, many rules related to minority shareholder protection have changed: Presumably because of external pressures and number of high-profile domestic scams (e.g. AluSuisse; Von Roll; Omni Holding) the financial market regulation has experienced improvements in terms of transparency and reporting. In accounting,

among other things, the True and Fair View Principle was enacted eliminating the practice of keeping hidden cash reserves, along with the obligation to provide consolidated reports, introduce notes to the annual accounts and report holdings of own shares and the respective reserves (Cotting and Boemle, 2000). Observers note that reporting has become focused towards serving the needs of external investors rather than managers and that the overall levels of disclosure, transparency and compliance have improved markedly (Cotting and Boemle, 2000). However, even though they have been debated frequently among Swiss politicians and regulators, dual class shares have not been banned from the Swiss corporate landscape and Swiss firms still enjoy the freedom to introduce multiple classes of shares. In our 2000-2006-panel of 1080 companies 54.9% of directly controlled family firms issued dual class shares representing approximately the double of the number found for indirectly controlled family firms (27.1%) and externally controlled firms (21.1%).

Finally, a special note must be made with respect to corporate boards: Swiss companies enjoy considerable freedom in regard of how to structure their boards. Although they are legally free to install a one tier board with executive and non-executive directors being grouped in one and the same governing body, Swiss companies typically exhibit a two tier board system composed of supervisory board (Verwaltungsrat) and general management (Geschäftsleitung). Traditionally, the supervisory board has been composed predominantly of independent outside directors although the incidence of CEO duality, that is, the combination of CEO and chairman into one position, still occurs despite the fact this practice is adopted somewhat less frequently in recent times.

3. Data and Methodology

3.1. Data and Sample

Our sample consists of an unbalanced panel of the top 180 companies in terms of market capitalization listed at the SIX Swiss Exchange (Zurich) during the period of 2000 and 2005. We opted for the top 180 companies in order to obtain as large a number of companies as possible while at the same time limiting the number of small caps that would have skewed our sample towards very young firms and firms with a very peculiar ownership structure. Given their peculiar business model and governance structure pure investment trusts and a number of financial institutions were excluded from the analysis. Due to control changes, mergers and mortality over the period under investigation we ended up with a sample of 736 (model 1 and 4) and 704 (model 2 and 3) firms for which complete data was available.

As for the source of our data, share price and number of shares outstanding, company performance data (return index), industry variables (SIC codes) and company size data (total assets, sales) were drawn from Thomson One Banker Data Base. Ownership data (size of shareholdings, shareholder types, and dual class shares) were hand-collected from the companies' annual reports and cross-checked with the official information on the website of the Swiss Exchange. Data on board composition and structure was hand-collected from the companies' annual reports and web pages.

3.2. Dependent Variable

In order to investigate market valuation across control types we use Tobin's Q (market-to-book-ratio). Tobin's Q, defined as the ratio of a company's market value and its total assets is a widely used measure for investigating (anticipated) expropriation from minority shareholders (e.g. Barclay and Holderness, 1991, Claessens et al., 1999, McConnell and Servaes, 1990, Morck et al., 1988, Zingales, 1995). When Tobin's Q is less than one, it means that the market value of the company is less than the total asset value, indicating that the company is undervalued. Likewise, when Tobin's Q is more than one, it indicates that the market value is higher than the total asset value and that the company might be overvalued. Using Tobin's Q as a measure of expropriation is based on the assumption that market participants anticipate self-serving behavior by powerful shareholders and that this, in turn, has a depressing effect on the company's share price and, consequently, its market value (Claessens et al., 1999, Fan and Wong, 2002, Lemmon and Lins, 2003).

3.3. Independent Variables

Our main independent variable is control type. Control type is a categorical variable and is operationalized so as to capture the identity of the party that has the biggest say over the deployment of the company's assets (e.g. management, family owner, external shareholder): In the event of concentrated ownership the party with the biggest say would be the investor with the highest number of voting rights; By contrast in the event of dispersed ownership when no shareholder holds more than 5% of the shares we assumed management to have relatively unconstrained control. As mentioned previously, our sample is made up of 11.05% directly controlled family firms, 17.98% indirectly controlled family firms, 8.07% management controlled firms, and 62.90% externally controlled firms.

Control types are a fairly popular and re-occurring measure of a firm's ownership structure (see Allen and Panian, 1982, Daily and Dollinger,

1992, Finkelstein and Hambrick, 1989, Gomez-Mejia et al., 1987, Kroll et al., 1997, Mc Eachern, 1977, Salancik and Pfeffer, 1980, Werner et al., 2005). Using control types offers the advantage of a straightforward operationalization of owners' power and preference heterogeneity because it captures the identities of the most prominent and maximally distinct parties that can potentially have a say in firms. Very much in line with the traditional discussion on the advantages and drawbacks of ownership concentration, our control typology juxtaposes the entrepreneurial firm where ownership and control resides with a single party (Jensen and Meckling, 1976), the firm with a dispersed ownership structure where management and control are separated (Berle and Means, 1932), and the firm with an ownership structure concentrated in the hands of an external party (Shleifer and Vishny, 1986).

Even though we do have data on the size of the largest shareholder (voting rights) and even though we include this measure in our models, for reasons of direct comparability we opted for operationalizing "control type" as a categorical variable: A categorical outcome variable shows how the explanatory variables impact the outcome *relative* to a reference category. We use direct family control as our reference category; that is we investigate the effect of control type (and other explanatory variables) on market valuation relative to directly controlled family firms. We chose direct family control – the control type where ownership and management coincides – as our reference category because in the traditional discussion on agency costs it embodies the classical notion of the entrepreneurial firm (Jensen and Meckling, 1976).

Beyond control types, we operationalized and measured shareholder representation on the board by dividing 1) the sum of family representatives and 2) large shareholders on the board by the total number of directors in each company i.e. by board size. Thus for board representation we use two different variables and differentiate between family member and large shareholder representation. Finally, we used a dummy variable indicating whether a firm had introduced dual class shares or not. While, initially, we were eager to follow earlier studies and calculate the wedge between control and cash flow rights we refrained from doing so because the data was unreliable and rather obscure.

3.4. Control Variables

We controlled for the size of the largest shareholders in terms of voting rights; for CEO duality, which denotes the situation when the CEO and the chairman of the board is the same person; for industry (following Cleassens et al. (1999) we used 1 digit SIC codes because of low variance for more fine-grained categories); for company size which we operationalized as the natural logarithm of sales; and for company performance. We use return index as a performance measure (Conyon, 1998, Conyon and Florou, 2002) defined as the 12-month stock return assuming that dividends are reinvested[1]. Since the figure provided by an index is per se meaningless we use the change in the index relative to its previous year level by calculating the ratio of return index at time t+1 over return index a time t.

Analysis

We used a multiple regression framework to examine the relationship between control types and market valuation. More specifically, because our sample consists of an unbalanced panel and because market valuation varies over firm and year we ran a panel data model using feasible generalized least squares regressions (FGLS). We base our choice on the basic assumptions of regression analysis (Verbeek, 2008, Wooldridge, 2009). In regression analysis all factors not included in the model as independent variables (regressors) that affect the dependent variable are included in the error term. It follows that the error term consists of random factors, which are independent and identically distributed over observations or, in our case, firms. The error term consists of a firm specific component that does not vary over time and a remaining component that is assumed to be uncorrelated over time. Error terms are assumed to be homoscedastic with no autocorrelation. As a result, all the correlation of the error term over time is attributed to the firm specific component. This implies that there might be autocorrelation in the error terms. For our data, we confirmed the existence of heteroscedasticity using the Breusch – Pagan / Cook-Weisberg test [2] (chi2(1) = 444.25 p=0.000). This suggests using methods that allow for flexibility (see Breusch and Pagan, 1979). We therefore decided to run a panel data model using feasible generalized least squares regressions (FGLS) correcting for heteroscedasticity and error autocorrelation.

In panel regression methods the between estimator exploits the differences between individuals and discards the time series information in the data set. The within-estimator (fixed effect estimator) exploits the differences within the firms.

[1] The formula employed by Datastream is the following:
$RI_t = RI_{t-1} * (P_{it} / Pi_{t-1}) * (1+DY_t)$, where
RI_t = the RI at time t
RI_{t-1} = the RI at time t-1
PI_t = the Price Index at time t
PI_{t-1} = the Price Index at time t-1
DY_t = the gross dividend yield at time t

[2] The Breusch-Pagan / Cook-Weisberg test tests the null hypothesis that there is homoscedasticity (that the error variances are all equal). A large chi-square indicates that heteroscedasticity is present.

The FGLS estimator is the optimal combination of the within-estimator and the between-estimator; and is therefore more efficient than either of these two estimators (Wooldridge, 2002).

In model 1 we investigated direct effects; in model 2, 3 and 4 interaction effects between different control types and specific explanatory variables (e.g. ratio of family members on board and indirect family control) are used to extract differences between control types.

4. Results

Table 3 provides descriptive statistics for all variables. Table 4 reports results of our regression analysis of the impact of control types, shareholder representation and dual class shares on the firms' market value.

We first note that in line with what's commonly reported in studies on expropriation of minority investors, ownership concentration or shareholdings by the largest shareholder have a negative and significant effect on market value in all our models. Moreover, in all models large firms (operationalized as the logarithm of sales) are associated with lower market valuation than smaller firms. This indicates that size of the firm is negatively and significantly related to firm value. Finally, in all models a number of SIC codes are highly significant suggesting important and systematic differences in firm valuation across industries.

Table 3. Correlation matrix and descriptive statistics for the main variables

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Tobin's Q	0.93	1.351	1.000										
2. Direct Family Control	0.11	0.312	0.103***	1.000									
3. Indirect Family Control	0.18	0.385	0.212***	-0.165***	1.000								
4. Management Control	0.08	0.272	-0.089**	-0.104***	-0.139***	1.000							
5. External Control	0.63	0.483	-0.189***	-0.457***	-0.612***	-0.386***	1.000						
6. Ratio of External Shareholders on Board (share ratio)	0.18	0.213	-0.121***	-0.090***	-0.037	-0.242***	0.226***	1.000				1	
7. Direct family control x share ratio	0.01	0.066	0.140***	0.572***	-0.088***	-0.058*	-0.253***	0.157***	1.000				
8. Indirect family control x share ratio	0.03	0.097	0.041	-0.101***	0.655***	-0.093***	-0.402***	0.235***	-0.058	1.000			
9. Management control x share ratio	0.00	0.013	-0.063*	-0.034	-0.047	0.331***	-0.135***	-0.027	-0.019	-0.031	1.000		
10. External control x share ratio	0.14	0.210	-0.182***	-0.222***	-0.307***	-0.204***	0.500***	0.855***	-0.127***	-0.201***	-0.067**	1.000	
11. Founder family ratio	0.06	0.121	0.254***	0.435***	0.293***	-0.152***	-0.415***	-0.200***	0.074**	0.161***	-0.052	-0.296***	1.000
12. Direct family control x founder family ratio	0.02	0.086	0.030	0.765***	-0.118***	-0.078**	-0.339***	-0.145***	0.193***	-0.077**	-0.026	-0.170***	0.629***
13. Indirect family control x founder family ratio	0.02	0.077	0.224***	-0.106***	0.689***	-0.097***	-0.423***	-0.047	-0.061*	0.403***	-0.032	-0.212***	0.534***
14. Management control x founder family ratio	0.00	0.005	.0.000***	-0.011	-0.015	0.108***	-0.044	-0.029	-0.006	-0.010	-0.003	-0.022	0.022
15. External control x founder family ratio	0.02	0.062	0.158***	-0.083	-0.116***	-0.077**	0.188***	-0.129***	-0.048	-0.076**	-0.025	-0.079**	0.416***
16. Dual class shares	0.24	0.425	-0.123***	0.208***	0.042	-0.139***	-0.088***	0.137***	-0.039	0.089***	-0.055	0.113***	0.140***
17. Direct family control x dual class shares	0.05	0.224	0.063*	0.680***	-0.111***	-0.070**	-0.308***	-0.140***	0.094***	-0.064*	-0.022	-0.141***	0.377***
18. Indirect family control x dual class shares	0.05	0.218	-0.056	-0.080**	0.486***	-0.068**	-0.298***	0.014	-0.045	0.406***	-0.024	-0.157***	0.101***
19. Management control x dual class shares	0.00	0.056	-0.030	-0.020	-0.026	0.188***	-0.073**	-0.050	-0.011	-0.017	-0.006	-0.038	-0.030
20. Externally control x dual class shares	0.13	0.337	-0.152	-0.135	-0.183	-0.115	0.298***	0.256***	-0.074	-0.117	-0.039	0.337***	-0.115

			***	***	***	***				***			***
21. CEO duality	0.20	0.398	0.077**	0.287***	-0.085***	0.006	-0.118***	-0.037	0.161***	-0.072**	0.008	-0.055	0.131***
22. Log Sale	6.64	1.856	-0.042	-0.132***	0.002	0.154***	-0.008	-0.204***	-0.049	-0.085**	-0.043	-0.149***	-0.175***
23. Return Index	722.27	1487.260	0.281***	0.152***	-0.061*	0.156***	-0.133***	-0.036	0.156***	-0.065*	0.157***	-0.060*	-0.003
24. Return on Assets	4.25	8.037	0.323***	0.024	0.128***	-0.086**	-0.068**	-0.019	-0.005	0.047	-0.069**	-0.035	0.098***
25. Sh1	33.82	25.660	-0.104***	0.125***	0.129***	-0.388***	0.035	0.376***	0.021	0.093***	-0.129***	0.339***	0.041

Variables	12	13	14	15	16	17	18	19	20	21	22	23	24
12. Direct family control x founder family ratio	1.000												
13. Indirect family control x founder family ratio	-0.081**	1.000											
14. Management control x founder family ratio	-0.009	-0.011	1.000										
15. External control x founder family ratio	-0.064*	-0.080**	-0.008	1.000									
16. Dual class shares	0.190***	0.014	-0.018	-0.007	1.000								
17. Direct family control x dual class shares	0.628***	-0.067	-0.007	-0.053	0.425***	1.000							
18. Indirect family control x dual class shares	-0.060*	0.276***	-0.008	-0.059*	0.411***	-0.054*	1.000						
19. Management control x dual class shares	-0.015	-0.018	-0.002	-0.014	0.100***	-0.013	-0.013	1.000					
20. Externally control x dual class shares	-0.098***	-0.123***	-0.013	0.065*	0.697***	-0.092***	-0.089***	-0.022	1.000				
21. CEO duality	0.301***	-0.079**	-0.017	-0.057*	0.096***	0.260***	0.018	0.019	-0.062*	1.000			
22. Log Sale	-0.124***	-0.077**	-0.087**	-0.072**	0.067**	-0.029	0.080**	0.126***	0.030	0.092	1.000		
23. Return Index	0.105***	-0.061*	0.000***	-0.053	0.116***	0.270***	0.000	0.022	-0.036	0.168***	0.268***	1.000	
24. Return on Assets	0.015	0.150***	-0.194***	-0.008	0.030	0.106***	0.007	-0.019	-0.033	0.039	0.146***	0.120***	1.000
25. Sh1	0.075**	0.088***	-0.043	-0.130***	0.427***	0.194***	0.219***	-0.073**	0.279***	-0.018	-0.076**	0.023	0.053

Table 4. Cross-sectional time-series FGLS regression – dependent variable: tobin's Q

Variables	Model 1 Control Types	Model 2 External Shareholder Representation	Model 3 Family Member Representation	Model 4 Dual Class Shares
Indirect Family Control	0.120*	0.704***	-0.152*	0.285
	(0.073)	(0.102)	(0.082)	(0.177)
Management Control	-0.197**	-0.069	-0.450***	-0.421***
	(0.079)	(0.075)	(0.096)	(0.150)
External Control	-0.09	0.047	-0.369***	-0.276*
	(0.067)	(0.063)	(0.088)	(0.143)
Ratio of External Shareholders on Board		1.178***		
		(0.291)		
Ratio External Shareholders on Board x Indirect Family Control		-2.562***		
		(0.409)		
Ratio External Shareholders on Board x Management Control		-5.83		
		(4.041)		
Ratio External Shareholders on Board x External Control		-1.382***		
		(0.295)		
Ratio of Family Members on Board			-0.939**	
			(0.377)	
Ratio Family Members on Board x Indirect Family Control			2.867***	
			(0.619)	

Ratio Family Members on Board x External Control			2.350***	
			(0.656)	
Ratio of Family Members on Board x Management Control				
Dual Class Shares				-0.443***
				(0.157)
Dual Class Shares x Indirect Family Control				-0.295
				(0.184)
Dual Class Shares x External Control				0.423**
				(0.192)
Dual Class Shares x Management Control				0.341**
				(0.160)
Shareholdings by Largest Shareholder	-0.005***	-0.005***	-0.003***	-0.003***
	(0.001)	(0.001)	(0.001)	(0.001)
CEO duality	-0.059*	-0.061**	-0.026	-0.042
	(0.033)	(0.029)	(0.029)	(0.031)
Log Sales	-0.159***	-0.161***	-0.134***	-0.135***
	(0.014)	(0.014)	(0.013)	(0.013)
Return Index	0.000***	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
SIC Code 2a	0.587***	0.536***	0.535***	0.664***
	(0.106)	(0.093)	(0.100)	(0.076)
SIC Code 3a	0.286***	0.272***	0.231***	0.364***
	(0.081)	(0.083)	(0.071)	(0.076)
SIC Code 5a	-0.174**	-0.207***	-0.201**	-0.003
	(0.081)	(0.08)	(0.079)	(0.057)
SIC Code 6a	-0.605***	-0.546***	-0.587***	-0.486***
	(0.065)	(0.066)	(0.062)	(0.055)
SIC Code 7a	0.677***	0.589***	0.546***	0.810***
	(0.121)	(0.140)	(0.119)	(0.110)
Constant	1.906***	1.825***	1.902***	1.771***
	(0.136)	(0.140)	(0.151)	(0.180)
No of Observations	736	704	704	736
Wald chi2(12)	1310.78***	1027.99***	1215.39***	1693.68***

***p<.01; **p<.05; *p<.10; standard errors are in brackets; a: only significant SIC Codes are reported

Model 1 presents the results pertinent to our first hypothesis. In *hypothesis 1* we postulated that market participants will value indirectly controlled family firms higher than the other control types. Our results largely confirm hypothesis 1: Relative to our reference category of directly controlled family firms indirectly controlled family firms exhibit the highest market valuations compared to the other two control types. The coefficient for indirect family control is positive (0.120) albeit marginally significant (p<.10); the coefficient for management control (-0.197) is negative and significant (p<.05); and the coefficient for external control (-0.09) is negative yet insignificant.

We ran t-test to check for differences between control types; our results show that indirect family controlled firms are significantly different from management controlled (t=6.22; p=0.000) and externally controlled firms (t=-17.90; p=0.000). Moreover, our t-test also shows significant differences between management controlled and externally controlled firms (t=-26.72; p=0.000). Thus our regression results provide support for hypothesis 1.

Models 2 and 3 test how market participants assess large shareholders' board representation across control types. In hypothesis 2a (model 3) we expected a high ratio of family members on the board to be associated with higher market valuation in indirectly controlled family firms as compared to directly controlled family firms. Our results support our hypothesis: As reported in model 3, a higher ratio of family owners on the board of directors has, in general, a significantly negative effect on firm value: the coefficient for the direct effect is negative (-0.939) and significant (p<0.05). However, when we interact family owner representation with control types we find that in indirectly controlled family firms relative to directly controlled family firms owner representation has a positive (2.867) and significant (p<0.01) impact on firm valuation. Moreover, the coefficient for interaction term of family representation and indirect family control is larger (2.867, p<0.00) than the interaction term of family representation and external control (2.350, p<0.01) supporting our conjecture of a positive perception of family owners on boards of professionally managed firms relative to directly controlled family firms. This means that one unit or one family member more on the board will increase Tobin's Q more in an indirect family controlled firm than in the externally controlled firm relative to directly controlled firms. Thus having family members on board is more effective in an indirectly controlled family than in an externally controlled family. The

effect of family member representation on the board of directly controlled family firms is negative. (The coefficient for the interaction term of owner representation and management control is dropped because family representation on board is not occurring in these firms). Like previously, t-tests confirmed that all control types are significantly different from each other.

In hypothesis 2b, we postulated that a high ratio of external shareholders on board will be associated with higher market valuation of directly controlled family firms as compared to the other control types. Our results in model 2, show that contrary to family owner representation on board, external shareholders on board are, in general, positively associated with firm valuation. The coefficient for the ratio of large shareholders on the board relative to board size is positive (1.178) and highly significant ($p<0.01$). Relative to directly controlled family firms, a high ratio of large shareholders on the board has a negative effect on firm valuation in all control types. The coefficient of indirectly controlled family firms and ratio of external shareholder on board is the largest among the three: it is negative (-2.562) and significant ($p<0.001$); the coefficient of externally controlled firms and ratio of external shareholder on board is also negative (-1.382) and significant ($p<0.001$); and the coefficient of management controlled firms and ratio of external shareholder on board is negative (-2.562) albeit insignificant. In other words, in indirect family controlled firms, management controlled firms and externally controlled firms an additional external shareholder has a negative effect on Tobin's Q relative to our reference category which is the directly controlled family firm. This effect is largest in the case of a management controlled firm (-4.652) and smallest in the externally controlled firm (-0.204). An additional external shareholder leads to a lower Tobin's Q in indirectly controlled firms (-1.384). As for the effect of large shareholders on the board of management controlled firms, the finding is contrary to our expectations as we would have expected large external shareholder representatives given their monitoring role to have a positive effect on market value. T-tests confirm that all control types are significantly different from each other. We can thus report hypothesis 2b as supported.

In hypothesis 3, we conjectured that dual class shares will be associated with higher market valuation of those control types (i.e. indirectly controlled family firms) where lower levels of principal-principal conflicts and thus expropriation behavior is anticipated. Model 4 shows that dual class shares have a negative (-0.443) and significant ($p<0.001$) direct effect on firm valuation. When we interact the use of dual class shares with our control types we find that relative to directly controlled family firms dual class shares in both externally controlled (0.423) and management controlled firms (0.341) have a positive and significant ($p<0.05$ for both) effect on firm value. However, contrary to our expectations, the interaction effect between dual class shares and indirectly controlled family firms is negative and insignificant. Our t-tests show that all control types are significantly different from each other. In sum thus, our results do not support our hypothesis 3.

5. Discussion and Conclusions

In this study we offer a more nuanced view of shareholder types and ownership heterogeneity in regard of market valuation and expropriation of minority investors. Expropriation, referred to as blockholders' pursuit of private benefits at the expense of minority investors is reflected in anticipated conflicts of interest between large and minority shareholders and hence market valuation. We show that market participants perceive preference heterogeneity and that they discriminate between motives underlying monitoring and involvement by different types of large shareholders. As a result, market participants seem adept at assessing the nature of large shareholders' private benefits and, hence, the advantages and disadvantages that arise from large shareholders' preference heterogeneity.

Moreover, contrary to much previous research that differentiates simply between family and non-family firms, we offer a more fine-grained assessment of the control and power distribution in firms as it relates to market valuation. As our study demonstrates, market participants appreciate family monitoring and values (Hypothesis 1) but only to the extent that power does not reside exclusively with family owners but is distributed among family owners, (professional) managers and/or other large shareholders (Hypothesis 2a). The same expectation of balanced control and power seems to apply to large external shareholders: The presence of a large number of external shareholders on corporate boards is valued highly by market participants in directly controlled family firms presumably because in these firms large shareholders exercise an important monitoring role. When it comes to externally controlled firms, however, a large number of external shareholders on the board seem to be perceived as an excessive accumulation of power by these shareholders commensurate with high levels of principal-principal agency costs and conflicts of interest (Hypothesis 2b). We, finally, also offer a more nuanced assessment of dual class shares – an instrument often perceived as harmful to minority investors. While, contrary to our expectations, dual class shares in the hands of all family owners are perceived negatively by market participants, dual class shares in the hands of external shareholders are associated with higher

market valuation relative to our reference category. Our findings suggest that dual class shares and a bigger say by external shareholders is valued more highly relative to family owners (Hypothesis 3).

Our study has several implications for extant research: First, from the point of view of expropriation from minority investors we show that socio-political and psychological factors are equally important as external constraints on large blockholder behavior such as corporate law and regulation. We thus introduce the idea of variability of preferences in addition to variability of constraints. In contexts with a reasonable level of minority shareholder protection – such as in Switzerland – heterogeneity of large shareholders' preferences plays a decisive role in the extent to which large shareholder behavior will harm minority investors.

Second, our study has important implications for family business research: A few notable exceptions notwithstanding (Anderson and Reeb, 2003, Anderson and Reeb, 2004), much research on family business tends to either over- (e.g. Gomez-Mejia et al., 2011) or underemphasize the advantages of family business (Schulze et al., 2001). By invoking control types and by pointing at the importance of locus of control in firms, we show that market participants do not classify firms in family vs. non-family businesses. Instead, in the eyes of market participants the boon and bane of family business depends on the extent to which family owners' control is constrained by other governance mechanisms. Moreover, in contrast to much research that investigates family firms and non-family firms separately, our study, juxtaposes family firms and other types of firms (externally controlled and those with no large blockholder at the helm). In doing so, we are able to put family business into perspective and to carve out the *relative* differences of family vs. non-family firms.

Finally, our study is also relevant for research on ownership heterogeneity (Hoskisson et al., 2002): We not only provide evidence of how preferences heterogeneity is perceived by market participants but our findings also suggest that ownership concentration is not always perceived to be a viable governance mechanism not even when ownership is concentrated in the hands of external shareholders. Thus, offer an external assessment of ownership heterogeneity in terms of market valuation.

From the point of view of practitioners, our study has important implications for regulators and regulation destined at curbing investor opportunism and principal-principal conflicts of interest. In contrast to current regulatory efforts (particularly in the European context) destined at eliminating the means that convey power to blockholders our study points at the fact that ownership concentration and, potentially also dual class shares are not *per se* perceived as harmful by market participants. Instead, market participants seem to have a more nuanced view of shareholders and the ways shareholders assume control in companies. In a way, thus, our results are in line with (Kunz, 2002) who finds that unification of dual class shares and simplification of the capital structure are not noticeably appreciated by market participants.

While we did our best to conduct this investigation as diligently as possible, our study – like most others – has a number of limitations. First, while we followed leading studies in our choice of market valuation measure (Tobin's Q) (e.g. Barclay and Holderness, 1991, Claessens et al., 1999, McConnell and Servaes, 1990, Morck et al., 1988, Zingales, 1995), it is an indirect measure for expropriation. A more precise assessment of expropriation from minority shareholders – beyond mere market valuation – would require using a direct measure of expropriation. Second, given data constraints in the form of number of observation per control type category we use a somewhat broad operationalization of "external control". While we have considered the idea to use a more fine-grained classification scheme for shareholders at length, we came to the conclusion that in this first juxtaposition of firms the original concept and operationalization of control types as suggested by Mc Eachern (1977) is best suitable for what we set out to investigate. Finally, our study has the limitation of being set in a specific institutional and cultural context, limiting generalizability of our results. However, we believe that the context is representative of many countries in the European context with a reasonable level of minority shareholder protection.

Future research could extend our research using a more fine-grained measure of "external control". Furthermore, while we have addressed ourselves to study the largest blockholder (assuming that market participants mentally classify companies with an eye on the largest blockholder), in many contexts firms have more than one blockholder. Future research could investigate the interplay between blockholders and assess how market participants perceive power and control of various types of large blockholders in one firm. Last but not least, contexts cannot only be compared in terms of hard law and minority shareholder protection rights but also in terms of ownership heterogeneity. One rationale future research could explore is the interplay between informal institutions (as prevalent in a given context) (Ward and Filatotchev, 2010, Young et al., 2008) and shareholders' preferences. Chances are high that informal institutions impact what both dominant blockholders and market participants' view as rightful and appropriate behavior in a given context.

Overall, our study extends the conversation on the effect of differing treatment of minority shareholders by different control types in the context of specific governance mechanisms on firm value (as anticipated by the market). In doing so, we integrate perspectives both from ownership heterogeneity as well as corporate governance.

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