CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

SECTION 2

COMPOSITION OF BLOCKHOLDERS IN PUBLICLY TRADED FIRMS

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Abstract

The outside blockholder has become an important agent in the corporate governance literature in the United States. Understanding how his monitoring role changes as economic circumstances deteriorate is rarely considered. In this study, we examine whether the number of certain types of blockholders, as well as their ownership concentrations, will increase during recessions. By categorizing blockholders by type: affiliated, outside, employee (through Employee Stock Ownership Plans), non-officer director, and officer director, we are able to track how blockholder composition changed within firms when the economy moved from expansion in 1999 to recession in 2001. Using nonparametric tests, we show that the number of outside blockholders and their ownership stake go up during the recessionary period examined. This suggests a more important monitoring role for the outside blockholder when the economy worsens. Though we do not find a statistically significant change overall in the average number of blockholders or the total percentage of shares held across the firms in our sample for the other blockholder types when the economy moves from expansion to recession, we do see noteworthy changes in the behavior of the affiliated and ESOP blockholder at specific ownership concentration levels when the economy shifts.

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1. INTRODUCTION

Blockholders, shareholders that own at least a 5% share of a publicly traded company, are significant stakeholders that may serve as good monitors for the other, more dispersed shareholders (Shleifer & Vishny, 1986). There is some debate in the literature on corporate governance as to whether these significant investors share the same investment time horizon as the average common stockholder or if they tend to vote with their feet, or at least, can threaten to exit, acting on better market information than possessed by the typical small shareholder (Admati & Pfleiderer, 2009; Bates, et al., 2015; Bharath, et al., 2013). In order to be able to characterize the mechanisms behind good corporate governance, we need a better understanding of the motivations behind blockholder behavior and this requires a better understanding of the types of blockholders operating in publicly traded firms today. While a significant amount of research has been done on blockholder composition in the American corporation, not a lot has considered the evolution of that composition across time. This paper will examine whether the number of certain types of blockholders, as well as their ownership concentrations, will increase during recessions. We consider that evolution for several types of blockholder--affiliated, outside, ESOP, non-officer director, and officer—across changing business conditions between 1996 and 2001. We seek a better understanding of the role different blockholder types may play in the mitigation of the agency problem.

The ownership pattern of large shareholders over time matters because of the signal it sends to the rest of the market. Will certain blockholder types act more in concert with shareholder value than others? A number of institutional investors may own blocks in corporations, but if their interests are affiliated with those of the firm, the institutional investor may not provide the critical monitoring desired by small shareholders. The outside blockholder—a mutual fund, foundation, or pension plan—who is less influenced by managerial

decisions will be a better watchdog than the bank or the insurance company seeking to do business with the firm (Brickley, et al., 1988; Shivdasani, 1993). The interaction of governance factors inherent in actor characteristics and incentives is more complicated than first glance might suggest, but if the investor can distinguish among blockholder types and their likely behavior, he might gain better insight into the corporate governance structure at work.

We find that type of blockholder is an important characteristic for who remains invested when economic conditions worsen. The outside blockholder increases in number and in ownership stake in a statistically significant way during a downturn, while insiders do not seem to alter their ownership patterns. Whereas the other blockholder types do not alter their patterns of ownership in a significant manner overall, there is some movement downwards for specific ownership levels that seems interesting. Although we can only see changes in the pattern of blockholding over time in this paper, and can't distinguish among the motivations for that change, this examination is a worthy one because it further parses out important factors in the agency relationship. Because different types of blockholders have different impacts on corporate governance (Edmans, 2014; Clifford and Lindsey, *forthcoming*), it is good to know what economic factors lead to changes in the structure of ownership.

The paper proceeds as follows: section 2 discusses the previous literature. Section 3 explains the hypotheses to be tested. Section 4 details the data and the methodology we employed. Look to section 5 for an examination of the empirical results. Finally, section 6 concludes by summarizing our findings, situating them within other research, and understanding the implications for companies, regulators, and investors.

2. LITERATURE REVIEW

In seminal work on the agency problem and its implications, we learned that there is a tradeoff within corporate governance between monitoring and liquidity; ownership concentration and the capital market are substitute mechanisms for controlling managerial behavior (Jensen and Meckling, 1976; Coffee, 1991; Bhide, 1993; Holmstrom and Triole, 1993; Kahn and Winton, 1998; Edmans, et al., 2013). Monitoring manager behavior is one way to mitigate the agency problem, but the costs of doing so for the small shareholder may be greater than the benefits, creating a free-rider problem especially where ownership is generally dispersed (Grossman and Hart (1980). Shleifer and Vishny (1986) argued that the large shareholder has the potential to act as monitor of the firm thereby defusing the principal agent problem for small shareholders. But does the owner of a large block of shares in practice willingly assume this role or have the same incentives and time horizon? Because the empirical evidence is so mixed, researchers continue to search for evidence that clarifies the role of the blockholder in corporate governance.

Many have considered whether having blockholders with share ownership translates into better corporate governance, expanded monitoring, or improved operating performance and firm value (Maury & Pajuste, 2005; Konijn, et al., 2011; Becker, et al., 2011; McCahery, et al., 2016). There is some evidence that block ownership can provide a substitute for compensation in governance (Mehran, 1995; Ryan and Wiggins, 2001), but the motivation of the large shareholder may not always be aligned with long term investment horizons (Gaspar et al., 2005).

Other studies accept the growing presence of the large shareholder and focus on his role in a firm's decision making (See Demsetz & Lehn (1985), Holderness and Sheehan (1988), and Ang et al. (2000) for early contributions). Singh and Davidson (2003) expand the Ang et al. analysis to large firms, finding that incentivizing the manager lowers agency costs more than monitoring through an outside blockholder. However, Chen et al. (2007) show that blockholder benefits of monitoring increase with ownership percentage, investment time horizon, and institutional independence.

There are a few ways researchers postulate that governance can be improved by the presence of the blockholder. It certainly looks like the large shareholder that owns more than 5% of the shares in a publicly traded corporation will often be able to sell their shares at a premium, which suggests that there are significant private benefits to blockholding (Barclay & Holderness, 1989). The informational advantage of the blockholder allows him to incorporate firm-specific information and this is what gets captured in the stock price (Brockman & Yan, 2009; Edmans, 2009). Having a representative on the board may be important in this monitoring role, however. A firm with a blockholder board member is more likely to see a change in the control of the firm than a firm with outside blockholders and no board membership (Mikkelson & Partch, 1989).

Parrino et al. (2003) would argue that when company performance flags, it is easier for the blockholder to sell his shares, thereby "voting with his feet." Maug (1998), in investigating the pros and cons of a liquid market for company shares, argues against the existence of such a tradeoff because a more liquid market means that additional shares are actually easier for the institutional investor to obtain. Admati & Pfleiderer (2009) model the large shareholder's threat of exit as passive activism, where the manager becomes less likely to take value-reducing actions, but also less likely to engage in costly, value enhancing ones as well when the threat of exit is credible. The threat of exit is enough to add some managerial discipline and act as a substitute for blockholder activism (Edmans, 2009; Bharath, et al., 2013).

Different types of holders may have different effects on measures of good governance. The identity of the blockholder is likely to be very important for determining activism (Edmans, 2014; Clifford & Lindsey, forthcoming). Denis et al. (1997) found that the chance of a significant managerial change was greater the higher the proportion of outside blockholders and lower the greater the presence of inside blockholders. The role of the outside blockholder in situations of possible takeover can also be viewed by considering the abnormal portfolio return earned with a strategy of buying promising takeover targets and shorting

doubtful ones. Cremers and Nair (2005) discovered a 10-15% abnormal return using this strategy only where outside blockholding was high.

Beyond the initial distinction of insiders versus outsiders, it can be useful to identify active blockholders from inactive ones, or affiliated versus business-pressure insensitive. One pension fund, CalPERS, has been identified as a very active large shareholder and Smith (1996) found that 72% of the publicly traded firms targeted by CalPERS did make governance changes as a result of the investment. Brockman and Yan (2009) find a strong relationship between block ownership and firm-specific return whether the blockholder is an insider or an outsider, but nothing for the ESOP, which is viewed as affiliated, but inactive (p.309). Operating performance is actually better for a firm where the block shareholders are not also seeking a future business relationship (Cornett et al., 2004). Using panel data, Cronqvist and Fahlenbrach (2008) find that blockholders make a significant contribution to many areas of corporate policy and are notably different from one another. Still Konijn et al. (2011) argue that the existence of many, smaller blockholders within the same firm lowers operating performance.

Some evidence suggests that ownership and governance structure may vary with changing economic conditions. If blockholder types specialize in different roles within the structure of governance, it might be interesting to know if different business conditions might attract participation of different blockholders. Kaya and Lumpkin (2014) argue that the number of blockholders and the ownership percentage held go up during business cycle's expansionary periods. Not so surprisingly, Hermalin & Weisbach (1988) found three significant factors for changes in governance: poor firm performance, CEO turnover, and changes in product markets, and hence, the expertise needed to support those products. Finally, Kole and Lehn (1997) look at the ways that governance structures adapt to deregulation. Their base case is airlines (they have a more thorough paper on this) but they also look at the telecommunications and the health industries as places where these forces are operating too. Denis & Sarin (1999) look for patterns in ownership structure and board composition for a sample of publicly traded firms over a ten-year period of time. They found that 65% of their sample experienced a significant change in either ownership structure or board composition for the time period and these changes were not reversed after three years. Very often, these significant changes are preceded by fundamental changes in business conditions for the firm in question and significant managerial changes, share price concerns, and corporate control threats were often factors in the changes observed (p. 189).

3. HYPOTHESES

We add to the discussion of blockholder composition in the United States stock market by considering the presence and prevalence of various blockholders during good and poor business conditions. Here, we seek to understand the pattern and dispersion of the different blockholder types within a firm as the economic environment changes. When does a certain blockholder type become a more important component in the ownership structure of a firm? We test three hypotheses:

Hypothesis 1: In the United States stock market, the number of outside blockholders and their ownership stake increases during times of recession.

This hypothesis is related to whether the big institutional investors are timing the market or not. If outside blockholder presence waxes and wanes with business conditions, it might suggest a limited general interest in corporate governance. The outside blockholder may become an even more important source of monitoring when business conditions become less welcoming, and may increase ownership stake to reflect the increased importance of their role. We expect to see both the number of outside blockholders and their ownership stake rising in bad conditions when the potential value added to the firm is greater.

Hypothesis 2: The number of non-officer director blockholders and officer blockholders, as well as their ownership concentrations, will increase during recessions.

The inside blockholder has staked a lot in the success of the firm. There is every incentive for these actors to signal their increased belief in the future of the company and/or to adjust compensation packages towards future cash flows by increasing their ownership percentage held in the face of tougher economic circumstances, if the insider believes the future is bright. These leaders are the risk takers in the firm, making the important decisions, and possessing the insider knowledge necessary for understanding future prospects. The capital market actively seeks confirmation of a promising tomorrow through insider holdings today. There is therefore a strong incentive for the directors on the board to invest more in the firm during tough times. Because the public understands that members of the board and company officers have better company information than the public, such actions can be viewed as signals for future positive returns.

Additionally, when the market value of the firm falls relative to its book value, the threat of takeover by the capital market becomes a bigger threat to the insiders. To confirm control, it becomes advantageous to have a bigger ownership stake. It seems likely that the number of inside blockholders and the percentage of shares held by them will increase as a signal of their belief in the long term profitability of the firm.

Hypothesis 3: The number of affiliated and ESOP blockholders and their ownership concentration goes down in recessionary cycles.

These last two blockholder types do not have the same incentives within the firm as the outside and inside blockholders. The affiliated blockholder is likely to realize that repeated business dealings decrease under adverse business circumstances, as opportunities for growth slow. When the present value of future cash flows fall, so will the number and ownership concentration of affiliated blockholders. They will neither have the same access to relevant information as the insiders nor will they possess the skills or resources necessary for effective investment monitoring that the outside blockholder is apt to have.

Employees in an ESOP will be seeking to diversify their risk of loss during a recession. When the company is not doing well, the chances for job loss increase, and it simply does not make sense to increase uncertainty by increasing ownership stake under such conditions. Remember the average employee does not make the decisions that direct the strategy and the future for the company. Each operates one part of a larger engine and is therefore less likely to have control of future firm-wide decisions. The expected behavioral response for employees is to reduce ownership stake when business conditions are poor.

4. DATA AND METHODOLOGY

We use the data set from Dlugosz, *et al.* (2006) to identify how the composition of blockholding changes over the 1996-2001 period. The data set represents a standardized, cleaned version of the information usually downloaded from *Compact Disclosure*, which tends to contain many mistakes and biases when left on its own. Because the identity of the blockholder is a fairly recent topic of academic research, good data are available over very limited periods of time. It becomes important to stress that any conclusions must be considered tentative until additional data are available. Nonetheless, using the clean data that are readily available is a worthy exercise. In total, there were 7,649 blockholder observations during that period for 1,913 individual companies.

Table 1 shows our sample of firms over the 1996-2001 period segmented across time and categorized into expansion and contraction observations.

Table 1. Sample firms over time

Panel A							
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**All**
All	1,130	1,046	1,510	1,387	1,336	1,240	7,649
Panel B							
	Expansion		**Recession**		**All**		
All	6,409		1,240		7,649		

Panel A shows the number of firm observations in each year, while Panel B shows the number of firm observations across the expansionary (1996-2000) and the recessionary (2001) time periods. This particular categorization stems from the National Bureau of Economic Research classifying the March 2001-November 2001 period as a recession. Because our data is annual, we designate the entire year 2001 as a recessionary period.

Table 2 summarizes the number of observations by blockholder type per firm across the expansionary (1996-2000) and the recessionary (2001) periods. We have identified five types of blockholder in our sample of firms: affiliated, outside, Employee Stock Ownership Plan (ESOP), non-officer director, and officer. So, the first line of Table 2 shows that the average number of affiliated blockholders per firm during economic expansion was 0.136 and fell to 0.132 in the recession of 2001. The ***all*** column shows the average number of affiliated blockholders per firm across the entire time period, 1996-2001. Similarly, on the second line of Table 2, the average ownership stake of the affiliated blockholder per firm went from 2.308% during the expansionary period to 2.138% during the recession. Over the entire time period, the average percentage ownership stake by affiliated blockholders among the total sample of firm observations was 2.28%.

Table 2. Type of shareholders across business cycles

	Expansion	**Recession**	**All**
Number of Affiliated Shareholders	0.136	0.132	0.135
% Held by Affiliated Block.	2.308	2.138	2.281
Number of Outside Blockholders	1.803	1.970	1.830
% Held by Outside Blockholders	16.568	18.015	16.802
Number of ESOP Shareholder	0.101	0.095	0.100
% Held by ESOP Block.	1.086	1.029	1.077
Number of Non-Officer Directors shareholders	0.111	0.107	0.110
% Held by Non-Officer Director Block.	1.276	1.285	1.278
Number of Officer Shareholders	0.188	0.198	0.190
% Held by Officer Block	2.548	2.550	2.548
N	6,409	1,240	7,649

Each blockholder type can be understood in the same way as the affiliated blockholder discussed above. The blockholder type that emerges as important in Table 2 above is the outside blockholder. The average number of outside blockholders per firm rose in recessionary times from 1.803 to 1.970. The percentage ownership held by the outside blockholder also rose from 16.568% to 18.015% in the recession of 2001. Noticeably, the number of each type and the percentage stake held is much smaller than the outside blockholder for our sample of observations. Even though the affiliated, ESOP, and both types of insider shareholder types do qualify as blockholders—each owns at least a 5% ownership stake in his respective company—none really exhibits the prevalence or pervasiveness of the outside blockholder over our sample time period.

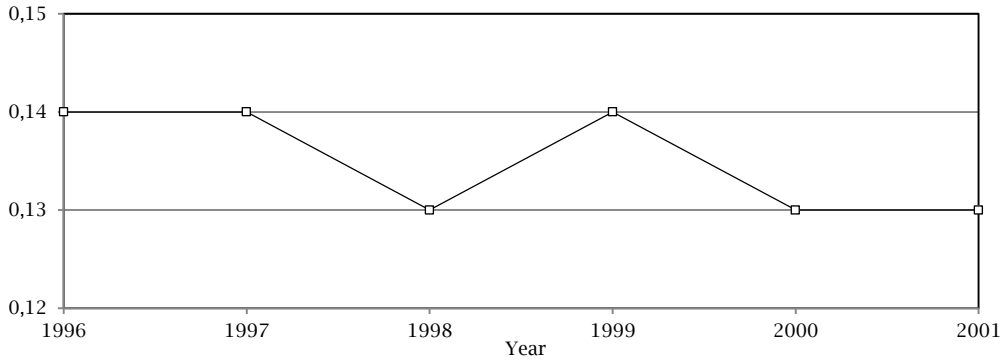
In the next section, we show the number of shareholders in each category type and total percentage ownership over time classified according to blockholder stake. First, we show the trend in the

number of blockholders and the percentage ownership of blockholders for each type in graphical form. Then, we show these trends in tabular form and compare them to the business conditions during the same period (1996-2001). Are the trends in the number of blockholders and the percentage sum of blockholder ownership similar to the trends in the business condition levels? Finally, we run nonparametric tests to see if the differences are statistically significant.

5. EMPIRICAL RESULTS

Graphically, we can examine the pattern of shareholder composition across time. Figure 1 below shows what happens to the average number of affiliated blockholders per firm over the sample time period.

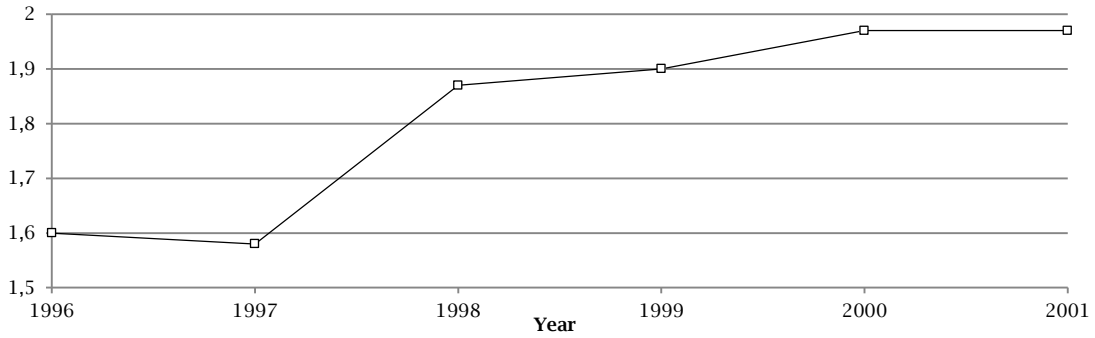
Figure 1. Number of Affiliated Blockholders



As is clear in the graph above, the number of affiliated blockholders per firm falls in 1998, rises in 1999 and then falls again in 2000. The trend is not a consistent one.

Of course the pattern of blockholding that stands out is the trend in the average number of outside blockholders per firm over time. Figure 2 shows an uptrend in the number of outside blockholders from 1997 through 2000, with no noticeable loss in the period of recession.

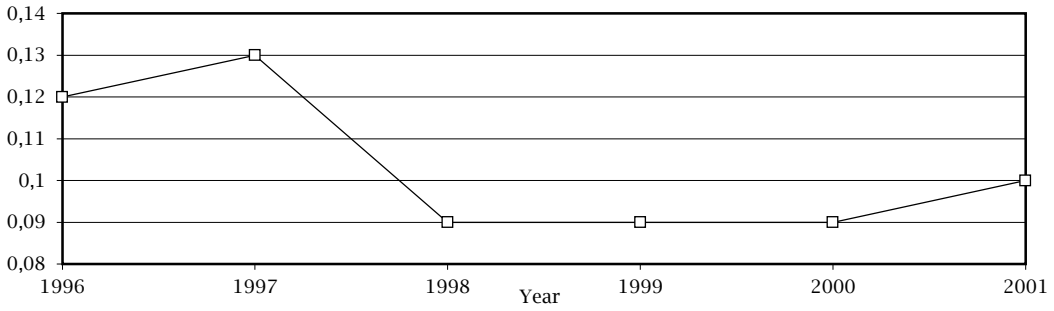
Figure 2. Number of Outside Blockholders



Our main question in this paper is what happens to shareholder composition in terms of the number and percentage of ownership held during positive and negative business conditions. Here it looks like the outside blockholder increases his participation in firm ownership as the expansion evolves and that he does not noticeably reduce his exposure over the recessionary period.

The pattern we see for the number of outside blockholders, however, is not apparent for the remaining shareholder types. As can be seen in Figures 3-5, ESOP, non-officer, and officer types all show a drop in the average number of blockholders per firm over time. Interestingly, in Figure 3, the "number of ESOP shareholders" peaks in 1997, then drops from 1998-2000, only to rise slightly in 2001. The fact that the number of ESOP shareholders is well below one across the sample period would indicate that a number of the firms in this sample did not have an ESOP in place for their employees; the popularity of these plans appears to have dropped after 1997.

Figure 3. Number of ESOP Blockholders



Figures 4 and 5 show a fairly similar trend for the average number of blockholders in the director role per firm once the recession hits in 2001. Both the non-officer director and the officer types show a drop in the average number per firm in the last period of the sample. The early pattern of participation for non-officer directors shows a steady increase throughout the expansionary period, while there is a slight drop in officer shareholders during 1997, as shown in Figure 5 below.

Figure 4. Number of Non-Officer Director Blockholders

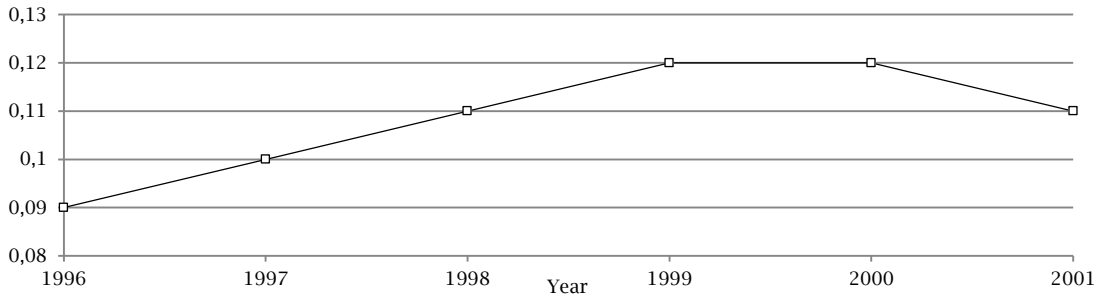
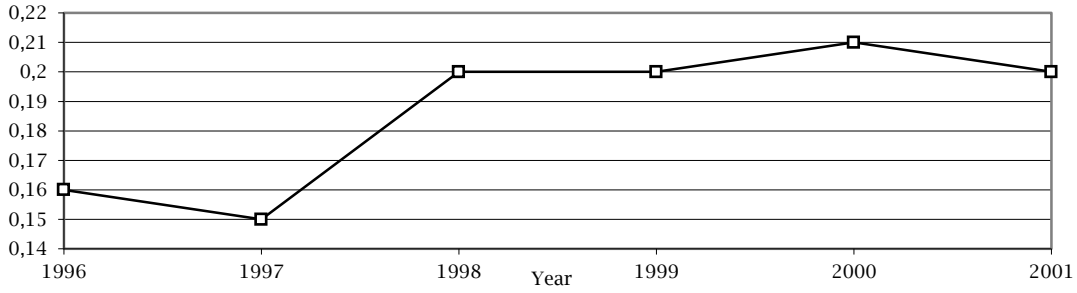


Figure 5. Number of Officer Blockholders



In general, as the market advances, there are more inside blockholders per firm and also the share of blockholding in each firm is higher. When the business cycle begins to decline, however, so does blockholder participation in most instances. Except for the number of outside blockholders, participation in share ownership falls overall for each identifiable shareholder type when the economy moves from a period of expansion to recession.

The real question becomes whether the changes in the composition of share ownership are significant across time as the economy moves into recession. To investigate this, we utilize non-parametric tests to see if the differences are statistically significant.

In table 3, we run Wilcoxon tests in order to understand how the "number of affiliated shareholders" changes across the expansionary and the recessionary periods. Our tests show that, for the full sample (denoted All) of affiliated blockholders, although there were fewer shareholders per firm during the recessionary period (i.e. 2001) compared to the expansionary period (1996-2000), the change was not a statistically significant one for the sample overall (statistical significance at 73.6%).

Table 3. Comparison of Affiliated Blockholders Across Business Cycles

Panel A. Number of Affiliated Blockholders			
	Expansion	**Recession**	**Wilcoxon**
All	0.136	0.132	0.736
5%-10%	0.072	0.072	1.000
10%-15%	0.107	0.105	0.835
15%-25%	0.100	0.043	0.005
25%-50%	0.177	0.181	0.955
>50%	0.385	0.386	0.774
Panel B. Percentage Held by All Affiliated Blockholders			
	Expansion	**Recession**	**Wilcoxon**
All	2.31	2.14	0.688
5%-10%	0.487	0.558	0.929
10%-15%	0.897	0.940	0.816
15%-25%	0.987	0.412	0.005
25%-50%	3.053	2.765	0.9135
>50%	10.187	8.731	0.985

The extension of panel A and panel B to ownership concentration levels will provide a sense of the distribution of blockholder type across increasing levels of block ownership. Thus, for the affiliated blockholder in Panel A, you can see that he is fairly evenly distributed between levels of ownership, though his presence is a little lower on average, at .072 than at higher ownership levels.

When we breakdown the affiliated blockholder sample into ownership concentration, the only statistically significant change (at the .5% level) is for the affiliated blockholder that owns between 15% and 25% of the shares in their respective firms. Here, the average number of affiliated blockholders with this particular stake level (Panel A) fell from .1 to .043 over the entire sample. The affiliated blockholder may vote with his feet during difficult economic downturns though the change is not statistically significant at lower or higher levels. The percentage of shares held by the affiliated blockholder (Panel B) at the 15%-25% ownership level also drops precipitously. This drop is statistically significant at the .5% level of statistical significance. It is possible that at lower levels of ownership, the affiliates do not hold enough to make much of a difference. At the higher levels of ownership, they hold enough to exert significant influence. Here, in this middle range, though, the affiliates hold enough to be concerned but not enough to influence decisions, so they sell off some of their holdings. Whatever the motivation, at this level of ownership stake, the affiliated shareholder votes with his feet. Note that this is the only level of affiliated blockholding in line with hypothesis 3 above.

Table 4 shows that the outside blockholders in the sample overall do increase in number and in percentage held in a statistically significant way. The average number of outside blockholders goes up as the economy moves into recession (Panel A), from 1.803 to 1.970 with a statistical significance level of .1%. Further the percentage of shares held by the outside blockholder changes in a statistically significant manner (Panel B), rising from an average of 16.568% to 18.015% when the economy moved from one of expansion to contraction. The distribution of the outside blockholder is not even; it increases as the ownership concentration level increases.

Table 4. Comparison of Outside Blockholders Across Business Cycles

Panel A. Number of Outside Blockholders			
	Expansion	**Recession**	**Wilcoxon**
All	1.803	1.970	0.001
5%-10%	0.724	0.804	0.047
10%-15%	1.227	1.218	0.780
15%-25%	1.921	1.992	0.238
25%-50%	2.726	2.882	0.058
>50%	2.931	3.197	0.125
Panel B. Percentage Held by All Outside Blockholders			
	Expansion	**Recession**	**Wilcoxon**
All	16.568	18.015	0.001
5%-10%	5.067	5.507	0.375
10%-15%	9.067	9.168	0.848
15%-25%	15.489	16.095	0.238
25%-50%	24.670	26.089	0.044
>50%	38.250	38.085	0.943

Two levels of ownership concentration are statistically significant within the outside blockholder category. For outside blockholders with a relatively lower ownership concentration, between 5%-10%, the number of blockholders goes from .724 to .804 with a level of significance at 4.7%. Then, at a much higher concentration level, 25%-50%, the number of outside blockholders increases in a statistically significant way at a level of significance of 5.8%. Percentage of shares held also significantly changes during a recession at the 25%-50% ownership concentration level. With this sample outside blockholders increase their ownership stakes during more difficult economic times.

For the sample overall, ESOPs do not play a statistically significant role when business conditions change as table 5 demonstrates. Although ESOP blockholders are evenly dispersed

across ownership concentration levels--just about the same number of ESOP blockholders appear across ownership concentration levels--the average number and the magnitude of total shares held across all firms in the sample is much lower than the outside blockholder.

What stands out sharply for the ESOP blockholder is the lack of loyalty to the company during recession for the lowest level of blockholder status. At the 5%-10% ownership concentration level, the number of firms with ESOPs drops from an average of .113 to .043 across the entire sample. This is statistically significant at the 1.3% level of significance. The percentage held by ESOP shareholders also drops during the recession, from .816% to .326% of the total shares in the sample. This is a statistically significant decrease at a level of 1.4%. For ESOPs with a relatively low blockholder stake, recessionary times are correlated with a sell off of shares in such plans. Perhaps the ESOP at this block level is not so well established and the firm, in an effort to cut costs, cuts back on employee benefits. This is the only level of blockholding where hypothesis three is supported with respect to the ESOP type.

It is worth noting that in Table 6 and 7, neither the change in the number nor the change in percentage of shares held is statistically significant overall, or within any category of ownership concentration.

Table 5. Comparison of ESOP Blockholders Across Business Cycles

Panel A. Number of ESOP Blockholders			
	Expansion	Recession	Wilcoxon
All	0.101	0.095	0.647
5%-10%	0.113	0.043	0.013
10%-15%	0.144	0.188	0.160
15%-25%	0.139	0.122	0.444
25%-50%	0.104	0.111	0.466
>50%	0.075	0.061	0.670
Panel B. Percentage Held by All ESOP Blockholders			
	Expansion	Recession	Wilcoxon
All	1.086	1.029	0.650
5%-10%	0.816	0.326	0.014
10%-15%	1.224	1.530	0.180
15%-25%	1.400	1.179	0.416
25%-50%	1.346	1.336	0.496
>50%	1.120	1.155	0.680

Directors with shares, whether they be officers or not, do not appear to make statistically significant changes in their number or shares held given changing business conditions. Given this, we do not find support for hypothesis 2.

Table 6. Comparison of Non-Officer Director Blockholders Across Business Cycles

	Expansion	**Recession**	**Wilcoxon**
All	0.111	0.107	0.759
5%-10%	0.047	0.029	0.350
10%-15%	0.069	0.053	0.579
15%-25%	0.072	0.087	0.581
25%-50%	0.187	0.160	0.280
>50%	0.225	0.235	0.735
	Expansion	**Recession**	**Wilcoxon**
All	1.276	1.285	0.803
5%-10%	0.310	0.209	0.360
10%-15%	0.510	0.396	0.578
15%-25%	0.656	0.787	0.580
25%-50%	2.102	1.727	0.302
>50%	3.837	4.303	0.691

Table 7. Comparison of Officer Blockholders Across Business Cycles

	Expansion	**Recession**	**Wilcoxon**
All	0.188	0.198	0.340
5%-10%	0.044	0.051	0.734
10%-15%	0.101	0.113	0.987
15%-25%	0.128	0.150	0.415
25%-50%	0.301	0.274	0.277
>50%	0.493	0.508	0.257
	Expansion	**Recession**	**Wilcoxon**
All	2.548	2.550	0.433
5%-10%	0.324	0.405	0.717
10%-15%	0.917	0.808	0.922
15%-25%	1.299	1.487	0.412
25%-50%	3.974	3.182	0.141
>50%	9.000	9.462	0.255

6. CONCLUSION

This study seeks to recognize patterns in the composition of block ownership over expansionary and recessionary time periods. Our premise is that different types of blockholders will have incentives that guide their behavior when business conditions change. We hypothesize that on average both outside and insider blockholder presence and prevalence will increase, but that affiliated and ESOP blockholder investment will decrease during recessionary episodes. An informational advantage and decision-making power are likely to be important in the correlations between blockholder type and general business conditions in the United States between 1996 and 2001.

Our tests strongly support the idea that the number of outside blockholders and the percentage of shares owned by them is higher when the National Bureau of Economic Research indicates a recession. This statistically significant relationship does not hold, however, when considering the pattern of ownership behavior of non-officer director and officer director investment. Despite the issues of corporate control that might be strong in an economic downturn, inside block ownership does not alter in a statistically significant way over our sample. Finally, while affiliated and ESOP blockholding does not change in a statistically significant way for the sample overall, there are two notable changes at the 15%-25% blockholding level for affiliated, and 5%-10% blockholding level for ESOPs. In both of these categories, we found that the number of blockholders and the percentage of shares held falls in statistically significant ways, as we hypothesized. Yet this hypothesis does not hold for the other levels of block ownership.

Our work contributes to the literature on blockholding by showing that the identity of the blockholders within a firm may provide an important signal when business conditions change. Because the outside blockholder does appear to increase ownership stake during tough times on average, monitoring is likely to increase for those firms. Small shareholders might see signalling in such behavior. During tough economic times, a sell-off by an outside blockholder is not the norm and might indicate an expected poor return in the future. At the same time a small investor should not expect to see big changes in insider block ownership. So when there are big changes, this might signal something about future expectations.

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