

# Does ownership structure affect value? A panel data analysis for the Spanish market

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## Abstract

This paper analyzes the influence of ownership structure on firm value. We find a non-significant relationship between the ownership of large blockholders and firm value. We also find a positive effect of the degree of control with regard to firm value. Endogenous treatment of these variables then reveals a positive effect for the ownership by major shareholders on firm value, although the opposite relationship is not significant; and a positive effect of the degree of control on Tobin's  $Q$  and vice versa. A positive effect is seen when the major shareholders are individuals.

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## 1. Introduction

Since at least the 1930s, with the works of Berle and Means (1932) and Coase (1937), economists have been interested in the effects of separation between ownership and control of corporate enterprises. The different objectives of the investors, who provide the financing, and the firm managers and directors, who run the company, generate issues known as agency

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problems. Corporate governance research examines the mechanisms investors use to control companies so as to minimize these problems.

The mechanisms investors can use to align insiders (managers and directors) interests with their own are usually divided into two types: external and internal. External mechanisms include, for example, the market for corporate control and product and factor markets. Examples of internal mechanisms are management compensation systems, insider ownership, and ownership concentration. External strategies are particularly important in Anglo-Saxon culture and legal systems that experience dispersed ownership structures. Internal mechanisms are prevalent in other kinds of markets, including Spain.

We analyze a context that is radically different from circumstances in the U.S., where investors are little involved in running publicly owned companies and are concerned mainly with the value and risk of their portfolios. This is not the norm in most European countries, including Spain, where ownership structures are highly concentrated, and major shareholders presumably have considerable incentive to oversee managers. Another difference between the U.S. and Europe is a low percentage of institutional investor shareholdings in continental European economies. Financial institutions are prominent among the European institutional.

Our study presents new evidence on the corporate ownership structure as a mechanism of corporate governance in Spain. First, we examine the influence of major shareholders on firm value, in terms of different variables, with special attention to non-linear and piecewise relationships. We believe we are the first to apply the [Morck, Shleifer, and Vishny \(1988\)](#) methodology proposed to the Spanish market.

Second, we analyze the impact of the degree of control, as measured by the [Cubbin and Leech \(1983\)](#) index, in Tobin's  $Q$ . This analysis is again a first in the Spanish market. We also examine the influence of the type of major investor on the value of the firm.

Finally, we evaluate possible endogeneity between the value of the firm and ownership concentration and the degree of control. This is a useful contribution to the literature, as we are not aware of any other study, at least in the Spanish market, of the endogeneity of major shareholder ownership and the degree of control.<sup>1</sup>

Our results offer evidence of a non-significant relationship between the ownership of shareholders holding large blocks and firm value. The degree of control has a significant positive influence on firm value. The presence of an individual or family investor as the major shareholder also has a favorable influence on the value of the firm.

In the study of the endogeneity of influences, a two-stage least squares methodology indicates, first, that ownership concentrated among shareholders with significant holdings has a positive influence on the value of the firm. The direction of the influence does not seem to be from the value of the firm toward the shareholder concentration. This result is contrary to the non-significant relationship obtained by simple panel data regression. Second, there is evidence of a positive reciprocal relationship between the degree of control and Tobin's  $Q$ .

The rest of the paper is structured in four sections. We first describe data selection and the characteristics of the sample (Section 2). The influence of ownership concentration, the degree of control, and the characteristics of the major shareholders on firm value is examined in Section 3. Section 4 assesses the endogeneity of ownership of shareholders holding large blocks, on the

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<sup>1</sup> The influence of board of directors on firm value is the subject of extensive research in the Spanish market, so we do not examine this point. Some recent Spanish evidence can be found in [Fernández, Gómez, and Fernández \(1998\)](#), [López and Rodríguez \(2001\)](#), and [Mínguez and Martín \(2003\)](#).

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