The implications for dispersed ownership structure vs. large shareholders on company performance in the US

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Abstract

This research gives an overview of some results and methodologies from several studies and analyses the implications between two types of ownership structure; 1) Dispersed ownership and 2) a group of large shareholders on company performance. The focus in this research relies on large US companies at the past 20 years in the industry market. All conclusions are drawn and valid only for US large companies. It is concluded that ownership concentration is an endogenous variable, what must be explained by specific firm characteristics. Large firms in US with a high R&D level, high risk environment and high competition may be more beneficial with dispersed ownership.

Contents

This bachelor thesis is organized in a structured and logically way into several sections. Section 2 summarizes theory about the separation between ownership and control, measurements and some definitions. Section 3 gives an overview of results from previous and recent researches of ownership structure on company performance. Section 4 analyses firm characteristics that may influence ownership concentration. Section 5 gives a summary and some conclusions.

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Subject & Research question

In exchange-listed corporations, ownership and control are usually separated (with the exception of managerial ownership). This leads to conflicts of interest between shareholders and the managers who run a company (Andres, 2008). There is a lot of literature about the relationship between ownership structure and company performance. This literature explains that ownership structure has important implications for company performance (Pedersen and Thomsen, 2000). An example is the dispersed ownership structure. 'When the shareholders are too dispersed to enforce value maximization, corporate assets may be deployed to benefit managers rather than shareholders' by Morck, et al. (1988). The benefits of these managers, like shirking and perquisite-taking, reduces the value of the company.

The literature shows that there are differences in the definitions, measurements and theories for ownership structure. Therefore it is important to trace out my research carefully. My research will focus on two types of ownership structure; 1) Dispersed ownership structure and 2) a group of large shareholders in US. 'Dispersed ownership structure in US means that there is no individual or group with either the voting power or the incentive to exercise control and enforce profit maximization', by Leech and Leahy (1991). The fraction of shares of one shareholder is below 5% of the shares in the whole company. As a consequence dispersed ownership is typified with low ownership concentration. Characteristics of dispersed ownership are the separation of risk over more shareholders and the specialization by the management (Thomsen and Pedersen, 1999).

In a US company with 'large shareholders', there is a group who hold a sizable fraction of all voting shares. The fraction of shares of one large shareholder is above 5% of the shares of the whole company, because this implies significant voting power over the company (Zeckhouser and pound, 1990). As a consequence a group of large shareholders is typified with high ownership concentration. The power to control the management is a characteristic of large shareholders. My research will focus on large companies in the US at the past 20 years in the industry market.

I formulated the following research question:
What are the implications of dispersed ownership structure vs. large shareholders on company performance in the US?

Relevances & Expected results

Interesting questions can be made about the relationship between ownership structure and company performance. Why care about differences in ownership structure? Who benefits and who loses? If one type of ownership structure shows the best results, why do we not see that type everywhere? What are the methods to measure ownership structure on company performance? Research of ownership structure on company performance gives answers of these questions. I write a literature review about several theories and researches in the US industry market at the past 20 years. After that, I consider firm characteristics that may influence ownership concentration. These firm characteristics may create benefits for dispersed ownership and/or a group of large shareholders.

It is a relevant research, because there is no literature review in the US industry market about this traced topic. I compare dispersed ownership with a group of large shareholders and try to give implications on company performance. In many papers the measuring of company performance is done with Tobin's Q. However, in my research I give different types of measures and definitions. I also describe important firm characteristics that influence ownership structure and describe them with reflection to dispersed ownership and a group of large shareholders. This research is interesting for stakeholders in the US industry market, because I give advantages and disadvantages of two types of ownership structure. These stakeholders can create benefits or losses which I describe in my research. It is also a good research for students, teachers or other people who wants to investigate this topic further.

Old literature, Berle and Means (1991), argue that shareholders wants to maximize profits, but their managers have incentives to act in own interests. 'Consequently, ownership structure is expected to affect company performance directly, because of the positive effect incentives to increase profits', by Sánchez-Ballesta and García-Meca (2007). Large shareholders are monitoring the managers, what helps to increase the performance of the company. Of course, there are a lot influences excluded in above described case, but my general expectation is that there are implications for dispersed ownership and large shareholders on company performance.

Section 2 - Theory

The most important stakeholders in my research are small shareholders, large shareholders and management. First, I describe the relationship between the stakeholders with the agency theory. The agency theory issues with the association of the separation between ownership and control (Jensen and Meckling, 1976). I apply the agency theory to companies with dispersed ownership and large shareholders. In the second paragraph, I describe the separation between ownership and control with corporate governance and apply it for US. An important component by the board of directors is monitoring, which I describe in paragraph 2.3. Then I define the industry market with and without unique and specific assets. At the end of the section, I give definitions and measurements of ownership and company performance. The conclusions and assumptions are drawn and valid only for US large companies.

2.1 Agency theory

Many large companies in the US are owned by shareholders, but are run by the management. This is an agency relationship where the shareholder and management are respectively the principal and agent. This separation between ownership and control creates different types of behavior. The shareholders want to maximize profit for their company. If managers and shareholders are both utility maximizers, there is a good reason that managers are not always act in the same interest as the shareholders. Syed, et al. (2010) argue that 'The shareholders need assurance that the management will run the company in a manner that serves and protects their interest, while the management has their own personal interest'. This conflict of interest lead to agency cost for the company. A shareholder can limit the gap between interests by creating incentives for the management to maximize profit. In addition, they could give managers a compensation (bonding cost) to act in their interest. This bonding cost can be a bonus or an equity stake in the firm. Shareholders also monitor the management to limit the aberrant interest. However, it is impossible that the management make optimal decisions, at zero cost from the shareholders viewpoint. The agency costs are described as the sum of bonding costs, monitoring costs and a residual loss from decision making (Jensen and Meckling, 1976).

2.1.1 Agency theory and Dispersed ownership

'Dispersed ownership' is known as 100% small shareholders. The fraction of voting shares of one shareholder is below 5% of the whole company. 'Small shareholders miss the incentive or contractual mechanisms to connect the interests of managers with those of shareholders', as stressed by Laeven and Levine (2008). Consequently, the management team exert the power over company's decision making and make decisions that act in own interest. An example to do this is to divert corporate resources for private gain (Laeven and Levine, 2008). Summarized, there is a vertical agency problem between the small shareholders and the management team.

2.1.2 Agency theory and Large shareholders

In a group of large shareholders, every shareholder has voting shares above 5% of the whole company. The large shareholders create incentives or monitoring the management to limit the gap between interests. So, the agency problem between large shareholders and management is reduced. However, there is arising an agency problem between the large shareholders. 'The controlling owner may expropriate private benefits at the expense of other shareholders', as stressed by Shleifer and Vishny (1986) ;(Laeven and Levine, 2008). 'Ownership above a certain level may lead to entrenchment of owner-managers that expropriate the wealth of minority shareholders', from Pedersen and Thomsen (2000). Summarized, there is a horizontal agency problem between the dominant shareholder and the smaller shareholder.

2.2 Corporate Governance

'Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected', as stressed by John & Senbet, (1998). Corporate governance reduces the impact of problems of ownership and control. An example is the reducing of agency problems that are arising between stakeholders. The principal approach of corporate governance is that the shareholders choose the board of directors. The board of directors, at their turn, must select the top management for the company. An important task of the board of directors is monitoring the management on behalf of the shareholders, to reduce agency costs (John & senbet, 1998). The monitoring process is an important component, which I describe in paragraph 2.3. If the board fails to reduce the agency cost, the company's stock price decreased. Low stock prices lead, as a consequence, to takeovers.

‘The market for corporate control will then limits the agency costs of existing management via unfriendly takeovers’ by Zimmerman (2011).

Corporate governance has vertical and horizontal dimensions (see figure 1). An assumption in the vertical dimension is that there are no influential large shareholders with voting shares above 5% of the whole company. The focus of the vertical dimension is that the senior managers act in own interest and not maximizing value for the company. The vertical dimension is typified with small shareholders and dispersed ownership (figure 1, left side). The horizontal dimension acts between dominant and dispersed shareholders (figure 1, right side). In this case there are large shareholders with voting shares above 5% of the whole company. ‘The horizontal focus is on preventing or minimizing the shifts in value from dispersed outsiders to controlling inside shareholders’ by Roe (2008).

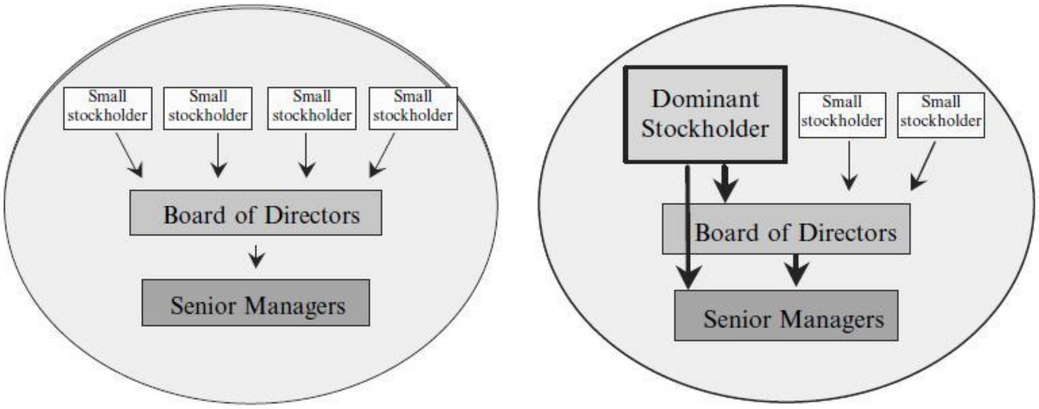
Small stockholder
Small stockholder
Small stockholder
Small stockholder
Board of Directors
Senior Managers
Dominant Stockholder
Small stockholder
Small stockholder
Board of Directors
Senior Managers

Figure 1 Vertical governance: Dispersed ownership Horizontal governance: controlling dominant stockholder vs. small stockholder
Source: *Roe (2008)*

The US economy has a different system of corporate governance than, for example, the Europe economy. These economies differ in the relative strength of influence exercised by the stakeholders over corporate insiders and management (Syed, et al., 2010). The US corporate governance is typified with high investor protection. High investor protection leads to a decrease in the private benefits that a dominant shareholder may extract at the expense of minority shareholders (Thomsen, et al., 2006). As a consequence, high investor protection reduces horizontal problems.

Large US companies are typified by vertical problems and dispersed ownership. To solve these vertical problems, US companies use board of directors. The last years, the composition of the board in US is typified with a majority of outside independent directors. Recent literature is different of the effectiveness of independent directors and other characteristics, like board size. 'But the trend is clear, independent outside directors have increased as a portion of the board and dominate important committees', as stressed by Roe (2008).

Due to well-known scandals in the US, like Enron and WorldCom, some important rules of corporate governance set in the Sarbanes-Oxley law in 2002. These rules involve for example the control and reliability on information in the company.

2.3 Monitoring

So, it is concluded that small shareholders have not enough power for monitoring the management. On the contrary, large shareholders do have the power for monitoring. The large shareholders want that managers act in their interest and maximize profit for the company. So, the large shareholders want to change the actions of the managers. As said in paragraph 2.1, the board of directors plays an important role in monitoring the management. 'Distant shareholders lack information and neither can run the company, nor understand the business in deep sense', as said by Roe (2008). So actually, the board chooses and monitors the management.

They can do this by monitoring self-serving behavior and by monitoring performance slanting of the management. A description from zeckhouser and pound (1990) of self-serving behavior, also called shirking, is that 'management work not as hard as they should'. The management team wants to indicate a good performance for the company and the shareholders. The behavior of camouflage a less good performance is called performance slanting. There are other approaches to reduce the problem that managers act in own interest. Zeckhouser and pound (1990) describe the approaches as follow: 'Shareholders push incentives for managers toward longer-term performance and improving the information flow'. Incentives on longer-term performance, for example future stock price, create an assurance that managers act in the interest of shareholders. Improving the information flow improves efficiency for a company, but also increases the expenses. The quality of information available to shareholders and directors is important. If shareholders and directors have the information and knowledge about the company, management can't create benefits for their own at the cost of owners. Shareholders and directors with important knowledge discover in an early state, that management act in own interest. If shareholders and directors haven't the information and knowledge about the company, management can create benefits for their own at the cost of the shareholders and directors, without them knowing. Through the available information, directors and shareholders also find out how good management performs in reality, what gives them incentives to reward or punish the management.

The question remains whether the presence of large shareholders improves company performance (Thomsen, et al., 2006). In an open information structure monitoring the management is easier than in a closed information structure. In open information structure there is no gap of knowledge and information between owners and management. On the contrary, in closed information structure there is a gap between information and knowledge. This situation is described for the industry market in the next paragraph.

2.4 Industry market

I distinguish firms operating in two types of industries. The first type is the industry where capital and investment is highly firm specific. An example of this type is the computer industry. In this industry the research and development activity is on a high level. Consequently, it is difficult for large shareholders to monitor the management, because of the specific knowledge and decision making. Firms with unique and specific assets have frequently a closed information structure (Zeckhouser and pound, 1990).

The second type is the industry where capital an investment is not highly firm specific. An example of this type is the metal industry. The research and development activity is on a low level. Consequently, it is easier for large shareholders to monitor the management in this type of industry, because the large shareholders have the information and knowledge for decision making. Firms without unique and specific assets have frequently an open information structure.

2.5 Ownership structure and company performance

A lot of researches have analyzed the relationship of ownership structure and company performance. The definitions of dispersed ownership and large shareholders are given. There are determinants that have an effect on these types of ownership structure. Therefore it is important to declare these determinants. Demsetz & Lehn (1985) and Leech & Leahy (1991) give their attention to the following forces: size, control potential and systematic regulation of the company.

Size is measured by the quantity of assets and sales. The control potential is defined on the power of the shareholders to monitor the management. Systematic regulation deals with the mechanisms to restrict behavior of some stakeholders, like the high investor protection in the US.

The definitions and measurements of the company performance in recent literature are divergent. The wordbook 'Van Dale' defines company performance as; 'The general accomplishment or achievement of an enterprise'. A research of Thomsen, et al. (2006) defined company performance as 'the current stock market value of the firm'. Syed, et al. (2010) put their attention on the profitability and market value of the company's shares. In their research, they use Marris Rato, Tobin's Q, Return On Investment (ROI), Return On Equity (ROE) and some other indicators of company performance. They quantifying performance of the company by market and accounting based measures. Market based measures of company performance are the Marris Ratio and Tobin's Q. Accounting based measures of company performance are ROI and ROE. The marris ratio is 'a permanent valuation indicator of choices of the firm, of the management and of strategic perspectives' by Syed, et al. (2010).

The marris ratio is defined as the market value of equity divide by book value of equity. When the marris ratio is on a high level, the firm is capable to create value for the firm. From Morck, et al. (1988), 'Tobin's Q is equal to firm's market value, defined as the sum of the actual market value of common stock and estimated market values of preferred stock and debt'. When the company has valuable intangible assets, in addition to physical assets, Tobin's Q is on a high level. Tobin's Q is also a measure for corporate quality or corporate opportunities. ROE and ROI are basic ratios for measure company performance. In literature there are some critics about using these measures, because the use of net profit includes non-operating elements. As an example, ROI uses amortization which is a non-operating element. EBITDA may be a better measure, because it excludes non-operating elements like taxes, depreciation and amortization. ROI is defined by: (net result + interest) divide by (equity + Total debt and ROE by: net profit divide by equity minus book value (Syed, et al., 2010). Zeckhouser and pound (1990) measures corporate performance by earning/price ratios. The reason for calculate E/P ratios is that there are no assumptions about asset value in the formula. Another benefit is that E/P indicate expected earnings growth rate.

Section 3 – Empirical Evidence

With reflection to the large literature, the relationship between ownership and company performance is complex and uncertain (Thomsen, et al. 2006). There is a lot of empirical research done, with many different methodologies and models. I describe important previous and recent studies in the US and try to form some implications and conclusions.

3.1 Previous research

A study from Demsetz and Lehn (1985) investigate the effect of ownership structure on company performance. They use the ownership structure of 511 large US companies. The characteristics for measure ownership structure are firm size, instability of profit rate and the kind of industry. They consider ownership structure as an endogenous variable. Endogenous variables must be explained within the model. On the contrary, exogenous variables are from outside the model. They use a linear regression of profit rate on shares owned by the five largest shareholders. As result, they find no significant relationship between ownership structure and profit rate. One interpretation of this result may be that ownership concentration does not affect company performance (Holderness, 2003). A second argument by Demsetz and Lehn (1985) is that ‘the optimal ownership level of a company varies in ways that is consistent with value maximization and that firms are at their optimal level’.

Morck, et al. (1988) ‘investigate the relationship between management ownership and market valuation of the firm, as a measure of Tobin’s Q’. They use a cross-section of 371 large companies. Ownership is described as inside defined by the ‘shareholdings of the board of directors’. The characteristics who may have affect on ownership and Tobin’s Q include R&D, advertising, leverage of the firm, size of the firm and some industry dummies. They ignore ownership structure as an endogenous variable and use Tobin’s Q and accounting profit rate as measures for company performance. Such as previous study, they found no significant relationship. However, they find a piecewise relationship between Tobin’s Q and insider ownership. ‘Tobin’s Q rises as board ownership increases from 0% to 5%, falls as ownership rises further to 25%, and then continues to rise, although slowly, beyond 25%’ by Morck, et al. (1988). An explanation of the non-linear relationship by Morck, et al. (1988) is that ‘the increase of Tobin’s Q with ownership reflects the convergence of interests between managers and shareholders, while the decline reflects entrenchment of the management team’. Above 25%

ownership, they argue that ‘the entrenchment effects decline and become minimal, what may lead to a slowly rise in Tobin’s Q’.

Himmelberg, et al. (1999) use a fixed panel of 300 firms and explains the model by firm characteristics. They control for unobserved heterogeneities and investigate managerial ownership on company performance. The firm characteristics who may have affect on managerial ownership are firm size, capital intensity, cash flow, R&D intensity, advertising intensity and gross investment rates (Himmelberg, et al., 1999). The characteristics are used to control for moral hazard. Moral hazard deals with the gap and difference between interest of owners and managers. The measure of ownership structure is the shareholdings hold by insiders. The measure of company performance is done with Tobin’s Q. As a result, Himmelberg, et al. (1999) found that ‘a large fraction of the cross-sectional variation in managerial ownership is explained by unobserved firm heterogeneity’. If the firm characteristics are controlled, they find no significant relationship in changes of managerial ownership on Tobin’s Q.

3.2 Recent research

Demsetz and Villalonga (2001) investigate the impact of the ownership structure on company performance, with ownership as an endogenous variable. Ownership is measured by two groups, namely shareholdings of the five largest shareholders and fractions of shares hold by the management. Characteristics that may have effect on ownership are profit rate, advertising-to-sales ratio, R&D-to-sales ratio, fixed assets-to-sales ratio, market risk, firm-specific risk, ownership concentration, assets, debt-to-asset ratio and industry concentration. They use a 223-firm random sample of the originally section from Demsetz and Lehn (1985). With a simultaneous estimation of ownership, they find no significant effect on company performance (Tobin’s Q). A problem from these simultaneous estimations is the finding of exogenous characteristics that have an effect on ownership structure, but do not co-vary with company performance.

A more recent study, from Thomsen, et al. (2006), investigate the relationship between blockholder ownership and company performance. A blockholder is a shareholder who owns voting shares above 5% of the whole company. ‘Blockholder ownership is measured by the fraction of closely held shares of inside and outside owners, directors and other corporations’ by Thomsen, et al. (2006). Company performance is measured as firm value by Tobin’s Q and ROA.

They also measure firm value as a forward looking variable with the granger procedure. Firm characteristics in the model that may have an effect on ownership and/or performance are sales changes, firm size, sales/asset changes, equity/assets ratio changes and a system dummy that gives the difference between governance systems in investor protection. They make use of Granger procedure with addition of firm and time effects. A stressed by Thomsen, et al. (2006), ‘A Granger causality test is applied to investigate the causal relationship between blockholder ownership and firm performance as measured by Tobin’s Q and ROA’. The advantage of this procedure is that they filter out firm-specific heterogeneity that may have an effect on ownership and/or performance. They delete advertising, risk, profit volatility and some industry effects that may have effect on company performance and blockholder ownership with a ‘time-series cross sectional model’. Predictions with and without time and firm specific heterogeneity effects are made. ‘To ensure for the robustness of the results, estimations are presented that include additional control variables similar to those adopted by Demsetz and Villalonga (2001)’, by Thomsen, et al. (2006). They use data of 489 large US companies and comparing it with 276 large companies from EU in 1998. These large companies have all net sales and assets above 2 billion. As a result, they find no significant effect of blockholder ownership on company performance in US. In EU they find that blockholder ownership has a significant negative effect on company performance. One interpretation of this by Thomsen, et al. (2006) is that ‘blockholder owners in EU will maintain ownership levels in excess of the levels that maximize firm value to minority investors, because they also value the private benefits of control’.

Figure 2 summarize the methodology, measure of company performance, firm characteristics that influence company performance and/or ownership and findings of these previous literatures.

Methodology	***Measures of company performance***	***Firm characteristics***	***Findings***
Single regression	Accounting returns	Firm size, instability of profit rate and the kind of industry	No systematic relationship. *Demsetz and Lehn (1985),*
Single regression	Tobin's Q and accounting profit rates	R&D, advertising, leverage of the firm, size of the firm and industry dummies	Non-linear relationship. *Morck, Shleifer and Vishny (1988),*
Panel data	Tobin's Q	Firm size, capital intensity, cash flow, R&D intensity, advertising intensity and gross investment rates	No systematic relationship. *Himmelberg, Hubbard and Palia (1999)*
Simultaneous equation	Tobin's Q	Profit rate, advertising-to-sales ratio, R&D-to-sales ratio, fixed assets-to-sales ratio, market risk, firm-specific risk, ownership concentration, assets, debt-to-asset ratio and industry concentration.	No systematic relationship. *Demsetz and villalonga (2001)*
Granger procedure with time and firm effects	Tobin's Q, ROA	Sales changes, firm size, sales/asset changes, equity/assets ratio changes and a system dummy	No systematic relationship in US. Significant negative effect of high blockholder ownership on Tobin's Q and ROA. *Thomsen, Pedersen and Kvist (2006).*

Figure 2 – Results from previous and recent studies

A comprehensive conclusion from these empirical studies, with different methodologies and measures, is that there is no significant relationship between ownership structure and company performance in the US. Ownership structure is an endogenous variable that must be described within the model. Companies have ownership structure depending on their own needs and own determinants. In other words, the optimal ownership structure is already adopted in ways that is consistent with value maximization for the company. Differences in ownership structure across companies are described by the difference in needs and circumstances of the contracting environment (Demsetz and Villalonga, 2001).

Section 4 – Firm characteristics

There is no significant relationship between ownership and company performance. It is concluded that ownership depends on firm specific characteristics and on the contracting environment. The purpose of this section, with reflection to theory of section 2, is to investigate firm characteristics that may benefit a US company by having dispersed ownership or a group of large shareholders. The characteristics I considered are firm size, industry and R&D, risky and volatile environment, competition, regulation and years and time.
My focus in this research is on large US companies in the industry sector for the past 20 years.

4.1 Firm size

The size of firms varies within and among industries. Previous and recent empirical studies investigate firm size as a control variable on US ownership concentration. Demsetz and Lehn (1985) and Himmelberg, et al. (1999) concluded that there is a negative effect of firm size on ownership concentration. In other words, a large firm has more dispersed ownership and a small firm is more concentrated with a few shareholders. A simple interpretation of this effect is that it is very costly to obtain a large portion of shares in a large firm, what leads to more dispersed ownership.

An interpretation for an increase in managerial ownership in large firms is that the agency costs can be greater than in small firms. To reduce this agency costs, shareholders create incentives that management act in the same interest. The shareholders can give managers an equity stake, what leads to an increase of managerial ownership. 'In addition, large firms are likely to employ better skilled managers, who are consequence wealthier, suggesting a higher level of managerial ownership' as said by Himmelberg, et al. (1999).

A group of large shareholders in large firms want to diversify their portfolio with shares of different companies instead of one large stake in one company. Demsetz and Lehn (1985) argue if the value maximizing size of firms grows, than the risk averse weigh more heavily than the agency costs of the firm. Large shareholders reduce risk by diversifying their portfolio. They concluded that 'larger firms realize a lower overall cost with a more diffuse ownership structure'.

4.2 Industry and R&D

As said in section 2.4, I distinguish firms operating in two types of industries. The first one is the industry where capital and investment is highly firm specific. A company in this industry is typified with innovative products and high R&D.

With a closed information structure in this industry, there is a shareholder vs. management information problem. The management has the specific knowledge and information to drive the company and the shareholders haven't. In dispersed ownership or in a group of large shareholders, management can create benefits for their own that reduces the value of the company. An example of these by dispersed ownership is that management diverts corporate resources for private gain or makes choices that have a positive influence on the reward of their performance. It is difficult to monitor the management in this industry. The dispersed ownership doesn't have enough power to control the management. Large shareholders have the voting power to control, but doesn't have the specific knowledge or information to reduce the inefficiency. In this uncertain industry, shareholders create incentives for managers to act in same interest through equity shares. This leads to an increase in managerial ownership and a more dispersed ownership structure.

In an open information structure in this industry, there is no shareholder vs. management information problem. It is easier to monitor in this situation, because directors and shareholders have information and knowledge to control the management. It is unnecessary to monitor in this situation, because management will act in the interest of the company. If they don't act in same interest it will be noticed by directors, shareholders or the board, because everyone has knowledge and information. In addition of large firms and the risk avoiding behavior of managers, it is better to have a more dispersed ownership in an open information structure.

The second industry is the industry where capital an investment is not highly firm specific. A company in this industry is typified with low R&D. The problem of shareholder vs. management information asymmetry is reduced, because both parties have the knowledge and information over the company. Open and closed information structure is irrelevant, because everyone understands the company by its easiness. Consequently, it is unnecessary to monitor the management in this type of industry, to act in same interest. It will be noticed by directors, shareholders or the board, if management doesn't act in same interest as the company, because everyone has the information and knowledge. Again, firms may be more beneficial by having dispersed ownership.

4.3 Risky and volatile environment

Empirical researcg by Demsetz and Lehn (1985), Himmelberg, et al. (1999) and Demsetz and Villalonga (2001) investigate the influence of risk on US ownership concentration. They concluded that, when the environment is more volatile (more risk), it is more difficult for the board and shareholders to monitor the management. On the contrary, in a more stable environment is it easier to monitor (Grosfield, 2006).

Demsetz and Lehn (1985) and Himmelberg, et al. (1999) investigate the connection between managerial risk aversion and ownership concentration with idiosyncratic risk. The idiosyncratic risk is measured by the daily stock price standard deviation. They argue; 'because higher managerial ownership levels, ceteris paribus, imply less portfolio diversification for managers, the optimal contract involves a tradeoff between diversification and incentives for performance'. Firms with high idiosyncratic risk will have more risk avoiding management. Both managers and shareholder will reduce their own risk with higher portfolio diversification. As a consequence, high volatile firms will have a more dispersed ownership structure (Grosfield, 2006).

Low idiosyncratic risk (lower deviation of stock prices) will have lesser risk avoiding management. The shareholders and/or management want to have more shares in the company and have fewer incentives to sell their shares and give up private benefits. As a consequence, there may be more large shareholders with low idiosyncratic risk.

4.4 Competition

Jensen and Meckling (1976), focus their attention on competition in labor market between managers and on competition between companies. Competition between companies is most of the time measured by productive growth and innovation. In a market with high competition and easy entry barriers, Jensen and Meckling (1976) argue that 'the behavior of the individual managers that constitute the supply side of the product market is essentially routine and uninteresting and economists can confidently predict industry behavior without being explicitly concerned with the behavior of these individual managers'. Managers work hard in the interest of the company, because there are potential other managers. At that account, equity stakes as an incentive is unnecessary. In a market with more relaxed competition and hard entry barriers, Jensen and Meckling (1976) argue that the interest between operating managers and shareholders is separated. Equity stakes as an incentive to align interest may be more necessary, what leads to a more dispersed ownership structure.

4.5 Regulation (high investor protection)

As said in paragraph 2.1, the US corporate governance is typified with high investor protections. This regulation protects small shareholders from benefit taking large shareholders. Research of Thomsen, et al. (2006) explains how such governance systems have an effect on ownership concentration. They argue that 'in a legal system with lower levels of investor protection, like EU, large owners are less motivated to sell their shares and give up private benefits'. In such systems there may be more large owners than in systems with high investor protection. In a system with high investor protection, like US, small shareholders are protected from benefit taking actions from high shareholders. So, large shareholders in US may be more motivated to sell their shares and give up private gains, what leads to a more dispersed ownership structure.

Thomsen, et al. (2006) used a dummy variable (system) to test the difference between corporate governance systems in US and EU. As said in the literature section, they concluded a negative effect between large shareholders in EU and performance. In US they found no significant effect on performance. Unfortunately, it is not concluded that high investor protection in US lead to an increase in performance, but it may have affect on ownership concentration.

4.6 Years and time

The delineation in time in this research is for the past 20 years. Time variables or dummies are important in empirical studies, because they control for economic shocks that affect all companies. Systematic and important changes can be traced by this way. The range of years is important, because a larger range lead to more knowledge of the environment and the company. The more is known about company, the agency problems may become less important. 'It is therefore likely that ownership structure, which can be considered as an instrument of control and an answer to information asymmetries, will become more dispersed' as said by Grosfield (2006).

It is concluded that ownership concentration depends on firm specific characteristics and on the contract environment. The optimal ownership structure is already adopted in ways that is consistent with value maximization for the company. The firm characteristics I described have influence on ownership concentration and drive to an equilibrium of control and ownership. In a situation of large US firms, in an industry with high R&D, high risk, high competition and uncertainty it may be more beneficial to have dispersed ownership. Shareholders must create incentives for the management to act in same interest. Commonly, they make use of equity stakes as an incentive, what leads to managerial and more dispersed ownership.

Section 5 – Conclusion

My bachelor thesis investigates and reviews some existing theory and empirical evidence about the influence of the ownership structure on the company performance in US at the past 20 years. Corporate governance in US and the agency theory form the fundament of this research. I used two types of ownership structure, dispersed ownership and a group of large shareholders and tried to form some implications on company performance. It is concluded that there is no significant relationship between ownership structure and company performance. Ownership structure is an endogenous variable which must be described within the model. The optimal ownership structure is already adopted in a way that is consistent with value maximization for the company. I describe what companies benefit the most from having a group of large shareholders or dispersed ownership. The characteristics I considered are firm size, industry and R&D, risky and volatile environment, competition, regulation and years and time. Large firms in US with a high R&D level, high risk environment and high competition supports a more dispersed ownership structure.

Of course there are some limitations in my thesis. I consider only large firms, what leads to more dispersed ownership. The literature in section 3 supports the fact that large US companies in the industry market are typified with dispersed ownership. Research on small firms may also benefit and improve knowledge. Some recent literature investigates large and small firms on ownership concentration in US. Holderness (2009) who investigate small and large firms on ownership concentration, argue that ownership in US is to the contrary of dispersed ownership. Holderness (2009) concluded that 'among a representative sample of US firms, 96% of them have blockholders'. This study also compares ownership concentration of US firms with similar firms elsewhere. Holderness (2009) concluded that 'ownership concentration of US firms is similar to like-sized firms elsewhere'.

A strategy for future research may be to find important firm characteristics, which define ownership concentration in a traced environment. The impact of these characteristics on ownership concentration must be described in greater detail. Secondly, a dynamic structural model of firm variables and characteristics must be designed. The measures of the variables must represent the variables and they must be reliable and accurate. For example, there may be better measures of company performance than Tobin's Q.

The literature on ownership structure, control and company performance will continue to grow and will let us understand the contracting environment of the firm in a better way.

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