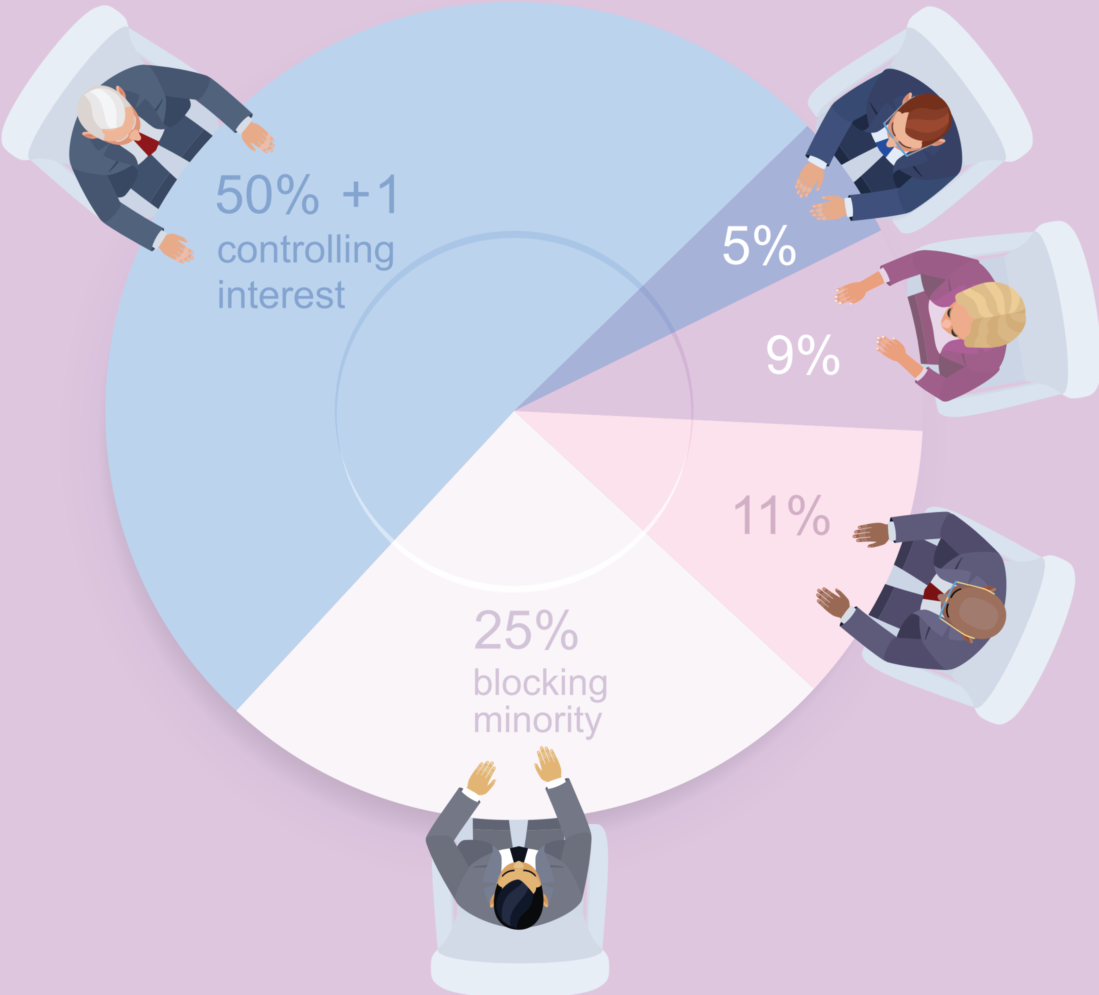
Thomas Schmidheiny
Centre for Family Enterprise

Family Businesses:
Promoters' Skin in the Game 2001-2017



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White Paper
June 2018

Thomas Schmidheiny Centre for Family Enterprise
Indian School of Business

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Nupur Pavan Bang, Sougata Ray, Kavil Ramachandran, and Anierudh Vishwanathan

1. Introduction

Family businesses survived and grew through the era of the 'Licence Raj'. However, in the post-independent India. it was widely assumed that family businesses would not be able to adapt to the paradigm shift in the strategy, operations, structure and resource allocation brought about by the liberalizationpolicies of 1991 and beyond[1]. While many family businesses failed to rise to the occasion, the Indian economy witnessed a new generation of highly competent family businesses that established themselves as significant players. Also, many old family business groups rejuvenated themselves to remain competitive and moved to leadership positions in their respective industries. Of course, many withered away in the competitive heat generated by the process (Bang, Ray & Ramachandran, 2017). In essence, family businesses in India prospered in the era of liberalization and contributed significantly towards employment generation, gross domestic product, social welfare activities and to the exchequer.

To better understand family businesses in India and their evolution post liberalization, the Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business has undertaken a series of studies. The first study in the series was published in July 2017, "Family Businesses: The emerging landscape - 1990-2015". The study systematically traced the collective trends exhibited by family businesses and other ownership categories like the state-owned enterprises and the multinational companies, on various parameters of performance.This publication, "Family Businesses: Promoters' Skin in the Game- 2001-2017" is the second White Paper in this series focusing on ownership.

Significance of Ownership – Brief Insights from Literature

Corporate ownership pattern has been an area of interest to owners, investors, policy-makers and academicians since long. Ownership patterns are known to have an impact on the strategic priorities of the firm (Daily & Thompson, 1994), decision making processes (Kaur & Gill, 2009), performance (Demsetz & Lehn, 1985), governance and even the reason for existence of a firm in few cases. For example, state owned enterprises (SOEs) in India were incorporated due to the policies of the government post-independence in 1947 that stressed on self-sufficiency (Sanders, 1977). Apart from creating value to shareholders, SOEs also have social welfare and employment generation as important objectives.

Agency theory (Jensen & Meckling, 1976) posits that due to the owner and manager being the same person in companies with high promoter shareholding, agency cost would be lower in family

[1] The strategic response, Business Today, January 07, 1998, http://www.businesstoday.in/magazine/cover-story/indias-business-houses/story/16696.html

firms. Researchers have since found a positive correlation with performance owing to reduced agency costs and greater incentive to take decisions that benefit the firm in the long run (Miller, Breton-Miller, Lester, & Cannella, 2007; Andres, 2008) in the case of family firms. Promoters, with what is called “skin-in-the-game”, have a considerable investment in the firm both financially as well as emotionally (Astrachan & Jaskiewicz, 2008). On the contrary, high shareholding by promoters might also act as a negative signal on the prospects of shareholder value. while very high promoter stake might result in expropriation of minority shareholders’ rights or tunneling of firm wealth for personal gains resulting in principal-principal agency costs (Kowalewski, Talavera, & Stetsyuk, 2010).

Promoter shareholding has a positive impact on top executive compensation (Chakrabarti, Subramanian, Yadav, & Yadav, 2011) yet, if the owner and manager are not the same, conflict in the interests of owner and manager and severe information asymmetry may arise due to separation of equity ownership and management (Attig, Fong, Gadhoum, & Lang, 2006). There may be a negative effect on performance since promoters with significant influence on the board can impede minority shareholder protection (Jameson, Prevost, & Puthenpurackal, 2014).

Lower promoter stake increases principal-agent costs. Therefore, other ownership categories like Other business group firms (OBGFs) and standalone Non-family firms (NFs) that have widely distributed shareholding, may exhibit better corporate governance mechanisms to prevent principal-agent issues (Jameson, Prevost, & Puthenpurackal, 2014). Shareholding pattern also influences the investment preferences of retail and institutional investors and acts as an indicator of the liquidity of the firm. Firms with highly dispersed shareholding have higher float available, thereby improving liquidity.

Strategic choices like those of research and development expenditure, investment in long term capital intensive projects and internationalization are contingent upon shareholding by foreign institutional ownership (Ray, Mondal, & Ramachandran, 2018). On the contrary, higher promoter stake reduces the company’s inclination towards internationalization (Yurtoglu, 2000). Institutional shareholding also impacts the dividends paid (both amount and time of declaration) by the firm depending on the horizon of their shareholding (Amin, Dutta, Saadi, & Vora, 2015).

This study provides insights into the ownership pattern of family firms in comparison to the non-family firms and also explores the heterogeneity within family firms. Our analysis proves that a pattern of declining stake of promoters in BSE 500 companies, as shown by some prior analysis, is not true for all categories of firms[2,3]. The analysis of BSE500 firms does not give a true picture as BSE500 excluded most of the standalone family firms that are smaller in size.

The rest of the study is structured as follows: Section 2 describes the data; Section 3 analyses the broad trends in promoters’ shareholdings; Section 4 analyses the different categories of promoter shareholders for family firms, Section 5 analyses the non-promoters’ shareholdings and Section 6 concludes and discusses the implications from the study.

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[2] http://www.business-standard.com/article/markets/promoter-holding-in-listed-firms-at-16-year-low-117073100993_1.html

[3] https://twitter.com/FinanceGuruNo1/status/892067758891876356

2. Data and its Description

In the context of the importance of shareholding pattern to the strategic choices and processes of a firm, we study the shareholding pattern of 4,615 firms listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) of India. While we intended to study the patterns since 1991, as in the previous study by the Centre, data on the shareholding pattern was available from 2001 onwards only. Further, for fine-grained analysis, the data was available from 2007 onwards. Constrained by the availability of data, this study presents and analyses the trends in equity ownership by various classes of shareholders for the period 2001-2017 (and 2007-2017) across different ownership categories.

Listed firms in India were required by the Securities and Exchange Board of India (SEBI) to disclose the promoter group and non-promoters shareholding as per the SEBI (Disclosure & Investor Protection) Guidelines, 2000 and the Equity Listing Agreement[4]. Clause 35 of the Listing Agreement was revised to include disclosure of various other details of shareholding pattern to the stock exchanges on a quarterly basis[5]. SEBI further classified promoters into Indian and foreign. Indian promoters can be an individual, a Hindu Undivided Family, corporations, financial institutions and banks, the government or others. Similarly, foreign promoters can be non-resident Indians, foreign citizen individuals, corporate bodies, institutions, qualified foreign investors or others.

The revised format of disclosure of "shares held by promoter and promoter group" and "shares held by public" as per the template in Appendix 1 became effective from quarter ending June 30, 2006. Hence, this study analyses the broad pattern of promoter and non-promoter shareholding for the period 2001-2017 and detailed shareholding pattern is analysed from financial year ending March 31, 2007.

The Thomas Schmidheiny Centre for Family Enterprise classified firms listed on BSE and NSE into family and non-family on the basis of a minimum ownership of 20% equity shares by the family members and management control or succession/business continuity[6].The family firms were further classified into Family Business Group Firms (FBGF) and Standalone Family Firms (SFF) and the non-family firms into State-owned enterprises (SOEs), Multinational subsidiaries (MNCs), Other Business group affiliated firms (OBGFs) and Standalone non-family firms (NFFs)[7].

Our sample comprised of 4,615 firms with 90% of them being family firms of which 64% were SFFs (Exhibit 1). SFFs emerged as the largest ownership category post liberalization (in terms of number of firms). MNCs and SOEs formed majority of the non-family firms in the sample. NFs and OBGFs formed just about 2.2% of the total sample (Table 1).

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[4] https://www.sebi.gov.in/legal/circulars/may-2001/non-promoter-holding-on-a-continuous-basis-and-minimum-number-of-shareholders_18023.html

[5] SEBI/CFD/DIL/LA/2006/13/4

[6] Refer to the white paper "Family Businesses: The emerging landscape- 1990-2015" for a detailed description of the methodology used to classify the firms; http://www.isb.edu/sites/default/files/WP-FB-The-Emerging-Landscape_0_0.pdf and Appendix 2

[7] For a detailed description of SOEs, BGs and MNCs see Chakrabarti & Ray (2016) and Appendix 3.

Exhibit 1: Distribution of Firms in the Sample

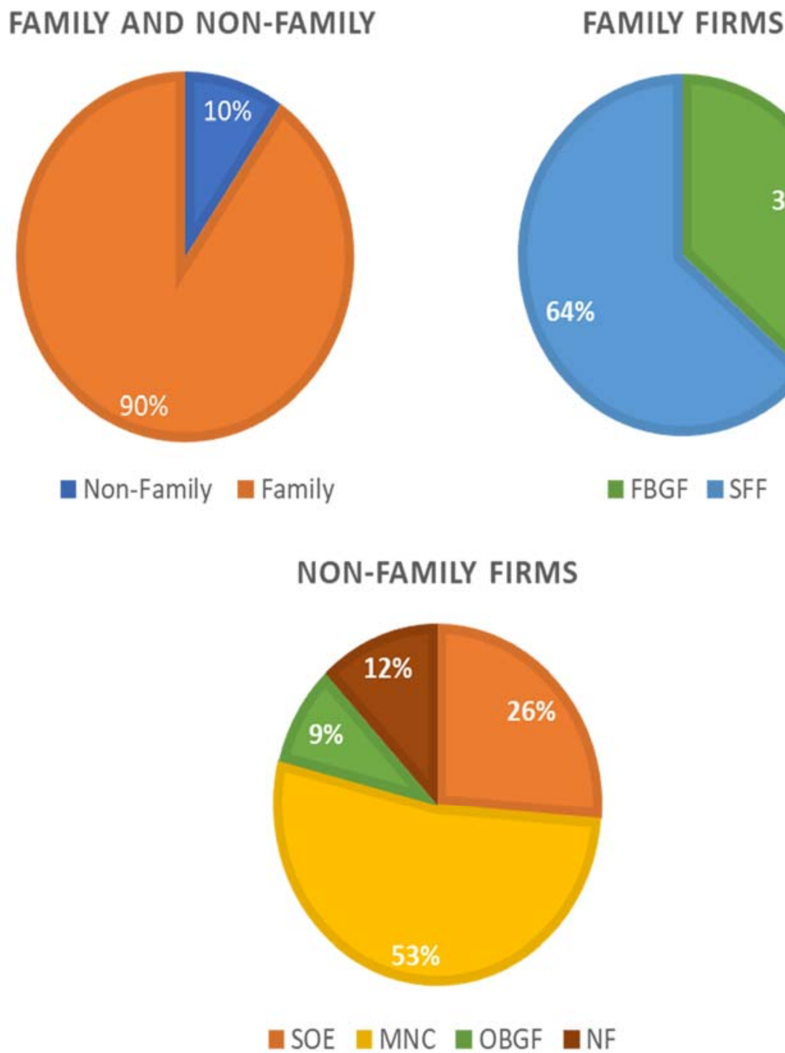
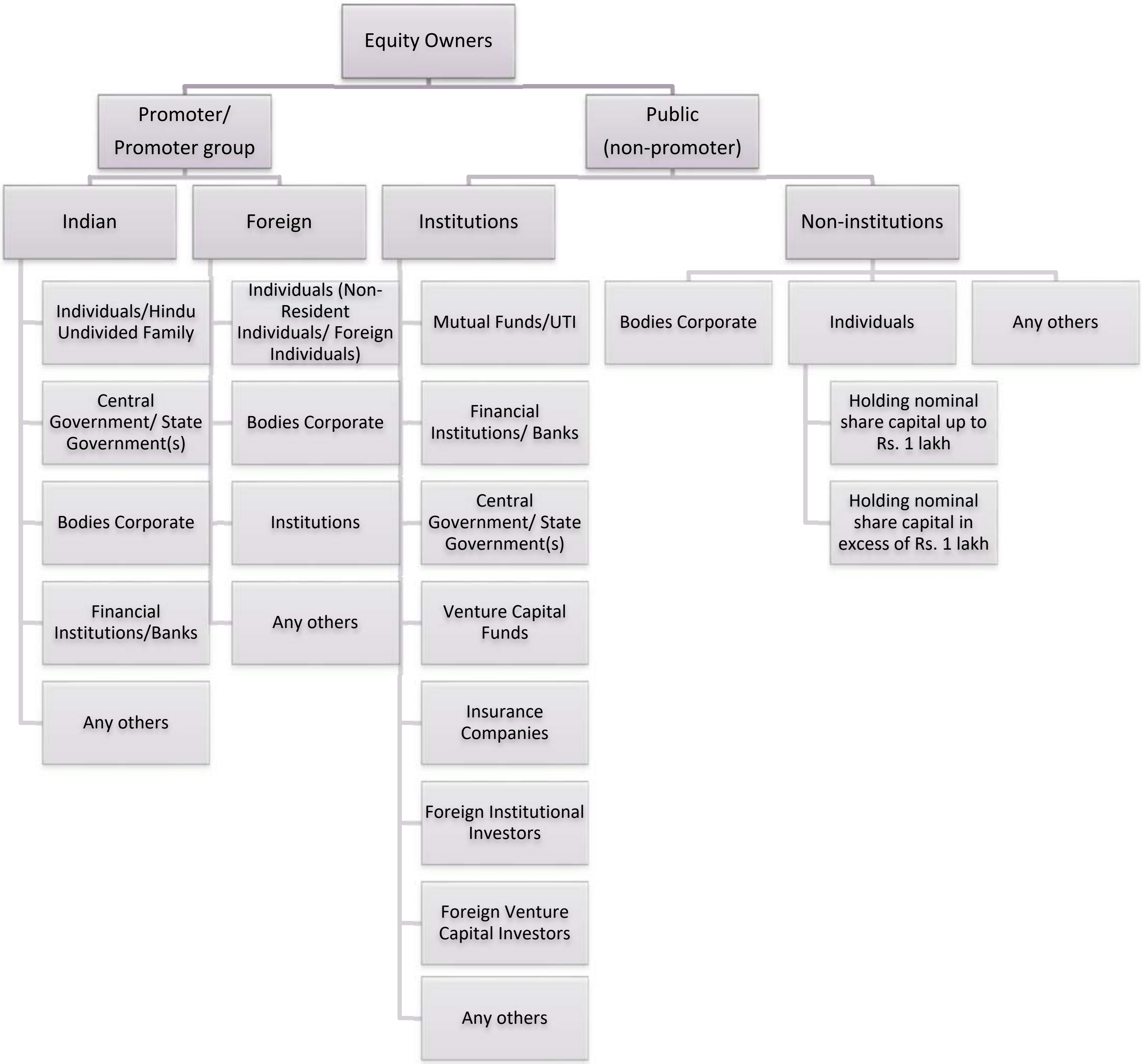


Table 1: Category wise distribution of companies

Ownership Categories	**Number of Firms**
Family Business Group Firms (FBGF)	1520
Standalone Family Firm (SFF)	2653
Multinational Companies (MNC)	233
State Owned Enterprises (SOE)	116
Non-Family Standalone Firm (NF)	53
Other Business Group Firms (OBGF)	40
Grand Total	**4615**

The data on shareholding is submitted by the companies to the exchanges and is compiled by Prowess database, Centre for Monitoring Indian Economy (CMIE). We obtained the data for shareholding from the Prowess DX database of CMIE. The shareholders are categorized as promoter and public (non-promoter). Promoter and Non-promoter shareholders are then further categorized into various sub-categories (Exhibit 2). Definition of each class of shareholders is given in Appendix 4.

Exhibit 2: Different Classes of Shareholders

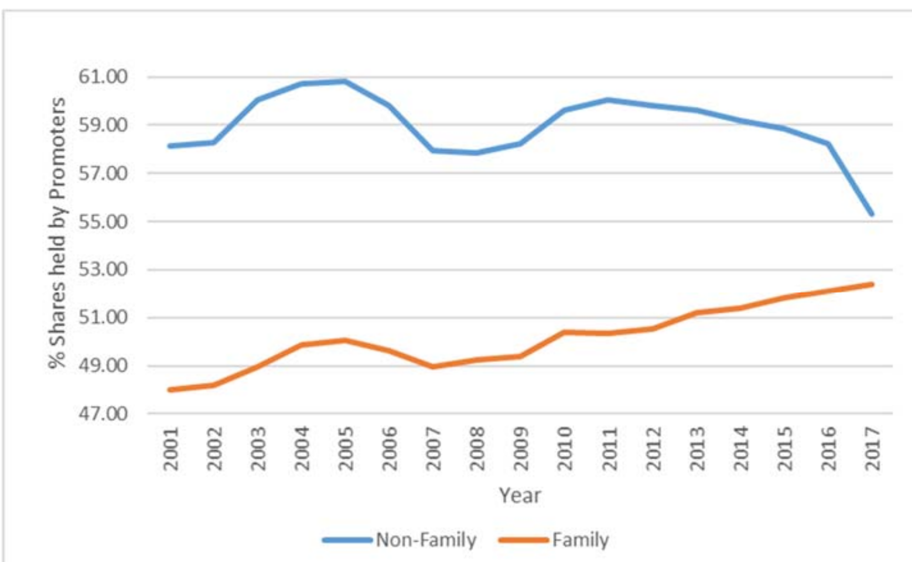


3. Promoters' Shareholdings

In a seminal paper in the Journal of Finance, Porta, Lopez-De-Silanes and Shleifer (1999) found that the principal owner types for listed corporations are families and the State. They further showed that countries with good shareholder protection have a higher number of widely held firms while countries where shareholder protection is weak, family controlled and state-controlled firms are more in number.

It is therefore not surprising that in India, we find family controlled firms more in number compared to other categories. Lack of a strong legal framework to protect minority shareholding (Porta, Lopez-De-Silanes, & Shleifer, 1999) and other institutional voids make concentrated ownerships natural in India. While the concentration of promoters' shareholding is decreasing in non-family firms, it is increasing in the family firms (Exhibit 3a). By steadily increasing their shareholding in the firm, the promoters of family firms were signaling their growing confidence in the potential of their company, thereby instilling confidence among the investors[8]. Higher promoter shareholding with adequate representation on the company board could ensure increased accountability among the owner-managers of the company. In some ways, this addresses the concern about non-family executives providing minimal returns to shareholders while cornering most of the increased wealth to themselves through salaries and perks, as argued by Demsetz, (1983). The promoters also help to maintain a relation between the firm and external parties like government organizations, policy makers, banks and financiers due to high personal stake in the firm (Richter & Chakraborty, 2015).

Exhibit 3a: Promoters' Shareholding in %

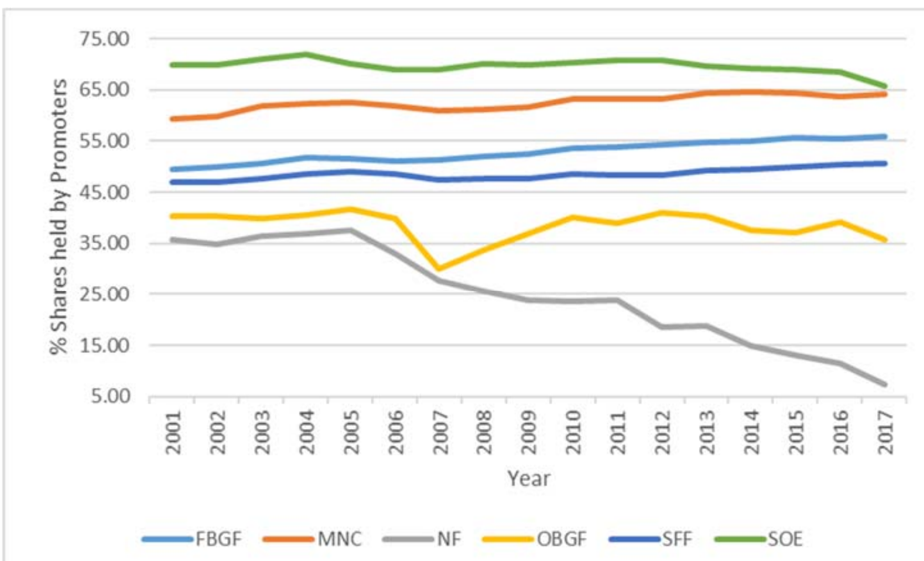


[8] https://economictimes.indiatimes.com/markets/stocks/news/promoters-raise-holdings-in-companies-as-stocks-turn-cheap-should-you-buy/articleshow/55611593.cms

Both FBGFs and SFFs have consistently increased their stake in the family business (Exhibit 3b). Spurts of shareholding increases followed bearish phases in the stock markets like the dot com bubble bust of 2001 and the financial crisis of 2007-08. Strengthening their shareholding in the firm helps the families retain control, gives them greater authority and freedom to run the firm as per their beliefs and ward off any unwanted take over bids. It is interesting to note that in a few cases, the promoters go to the extent of pledging their existing shares to finance the acquisition of more shares from the open market to increase their stake in the company (Bang, Sonti, & Thirumalai, 2011).

Promoters of non-family firms have steadily reduced their stake in the firms. However, MNCs were an exception (Exhibit 3b). MNCs being subsidiaries of foreign companies have significantly large foreign promoter shareholding and they have increased their stake in their Indian subsidiary, probably indicating their belief in the 'India story'. In addition, low interest rates in most developed nations aided acquisition of further shares in India. State-owned enterprises are typically held by the Central or the State governments and have very high concentration of promoter ownership. The promoter stake in the SOEs has been steadily falling over the past decade. This is in line with the policies of the successive governments in India to divest their holding in the SOEs for multiple reasons including generation of additional revenue for the government, improving the efficiency of management of the firm, and promoting growth, competition and discipline in the SOEs.

Exhibit 3b: Promoter Shareholding in %



As expected, OBGFs and NFs have low promoter shareholding since they are primarily promoted by financial institutions and banks, and have widely dispersed ownership. The NFs have seen maximum sell off of promoter stake during the period 2001-2017. NFs are widely held corporations with financial institutions, private equity, venture capital firms and high net worth individuals making equity investments in an entity. The original promoters of NFs dilute their equity over a period to fund the growth requirements of the firm and also to fund their other investments. Most such non-promoter investers have a limited investment horizon. Such firms may also witness the original promoters exiting especially when strategic investors increase their stakes.

4. Rising Trend of Holding Shares Through Companies

Concentrated shareholding by family members, either directly or indirectly, is common among family firms. In FBGFs, the preferred mode to hold shares is through other holding companies, while in SFFs the family members prefer to hold shares directly as individuals or Hindu Undivided Family (HUF) (Exhibit 4a). In the case of FBGFs, multiple companies of the same group are listed on the stock exchange. Holding companies and cross holdings by other group firms are the largest shareholders in the firms. Holding companies or trusts that hold shares of all companies on behalf of the family members enable better resource allocation, control, realization of synergies and tax planning within all group level firms and better management of ownership, inheritance and payouts at the family level. It also enables the family to professionalize each of the firm while the family maintains a bird's eye view at the group level. Many of the FBGFs have evolved to the next stage of professionalization where it is important to separate ownership from the management.

Individuals and HUFs are the largest shareholders in case of standalone firms. SFFs are younger with less complex structures both at the family and the business front. As they grow the complexities of inheritance, succession and growth would force them too to adopt better structures of ownership. Entry of the next generation into the business and more interest in the business by the extended family with better performance and increased scale would point towards a need to streamline ownership and be prepared for future structure, governance and professionalization needs of the firm. Therefore, we see a gradual increase in shareholding through companies even in the case of SFFs.

Exhibit 4a: Promoter Shareholdings through Companies vs Individuals or HUF- FBGF vs SFF

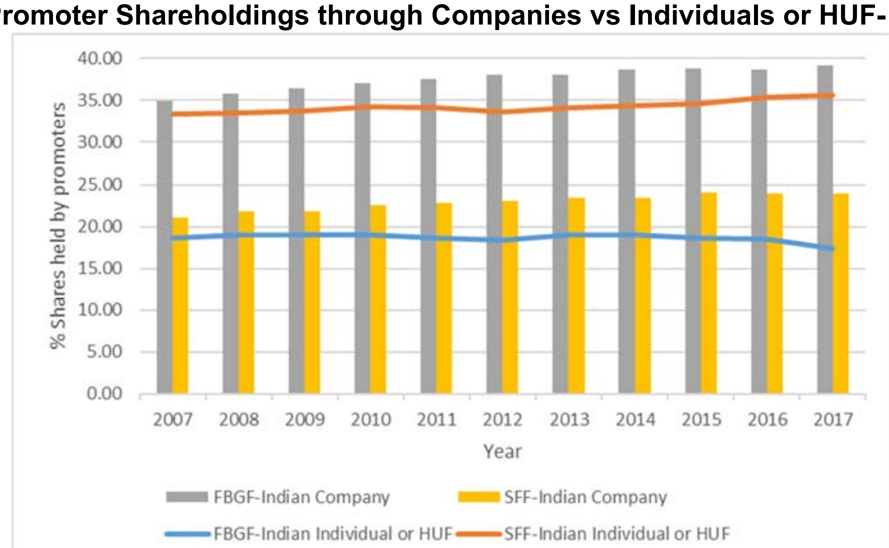


Exhibit 4b looks at the shareholding of other categories of shareholders in FBGFs and SFFs. The Government does not invest much in the family firms barring a few public private partnerships. Their stake has gone down further during the period under study for both FBGFs and SFFs. As part of the efforts to divest its stake in private listed companies (both family and non-family), the government has been offering its shares for sale to meet their fiscal deficit and revenue targets.

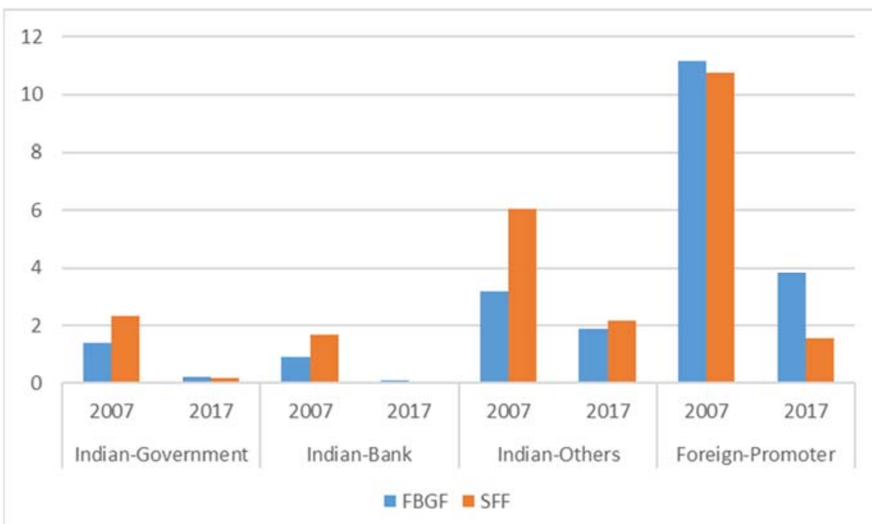
Shareholding of banks in both FBGFs and SFFs has been very small and has further decreased. Banks play an important role in the functioning of a firm through their representation on the board.

They are seen as the defendant of minority shareholders (Franks & Mayer, 2001). With decrease in stake of Banks in family firms, the banks may no longer be able to hold on to their seats on the board of the firms, thereby, losing their influence in the firms. Though many family firms have significant debt. In the light of the recent Non-Performing Assets (NPA) troubles of the Indian banks, retaining or negotiating seats on the boards of the firms to nominate their own representatives can be considered seriously when extending debt.

"Others" typically comprises of friends of the family members or small stakes held by companies where the family members seem to have some influence. Many of the shareholders in the "others" category have the same surname as the family promoters or belong to the same community. We observe high percentage of shareholding by others in the case of SFFs. This hints at the preference of SFFs to raise funds through friends and acquaintances from the same community. It enables the family to maintain control over the functioning of the company while raising funds at the same time. Over time, the stake of others has also decreased in both FBGFs and SFFs.

Foreign promoters comprise foreign individuals, foreign corporate bodies and foreign institutions that are promoters of the company. The Indian family firms seem to be wary of bringing in foreign partners as it is often accompanied by loss of family dominance in the firm's operations (Pant & Pattanayak, 2007). Foreign shareholders often bring with them high quality managerial and technological expertise (Bong, Hee, & Christopher, 2011) and reputation. They also tend to accelerate the process of professionalization.

Exhibit 4b: Other Promoters- FBGF and SFF



Overall, the 'home bias' theory which postulates that investors prefer to invest in their home country and have a smaller proportion of foreign assets in their portfolio than what may be optimal seems to be at work for the family firms in our sample (Lewis, 1999). Foreign promoters prefer to invest in FBGFs over SFFs. The decline in foreign promoters stake is larger for SFFs. This could be due to the tendency of foreign investors to invest in larger firms with better governance and less information asymmetry (Kang & Stulz, 1997). FBGFs, by virtue of being older, larger and better governed (Bang et. al., 2017), on an average, may be more attractive for the foreign investors.

5. Non-Promoters' Shareholdings

Non-promoter or public shareholders include institutional shareholders such as mutual funds, insurance companies, banks, foreign institutional investors, venture capital funds and governments and non-institutional shareholders such as companies, retail and high-net worth investors and qualified foreign investors. Since these investors are non-promoters, they provide free-float and liquidity in the market and sometimes play a key role in the strategy and performance of the firm through representation on the board, if the shareholding is large enough.

Non-promoters hold less than 50 percent of the shares in both family and non-family firms on an average (100 percent minus promoters' shareholding as per exhibit 3a), in the firms in our sample. This makes disciplining the dominant shareholder, protecting the minority shareholders and prevention of governance abuses in the Indian firms an important concern for the regulators and investors (Varma, 1997). The role of non-promoter institutional block holders also becomes important as they have the wherewithal to keep a check on the promoters.

Declining Institutional Shareholding in Family Firms

Institutional shareholders increase liquidity, price informativeness and volatility of the market. Because of the size of their shareholding, institutional investors play an important role in keeping a check on the agency problems between the shareholders and the managers (Gillan & Starks, 2002). They often command board representations and help to make objective decisions by keeping the personal interests of the promoters and professional interests of the company separate; often acting as a liaison to alleviate the opposing viewpoints of minority and majority shareholders.

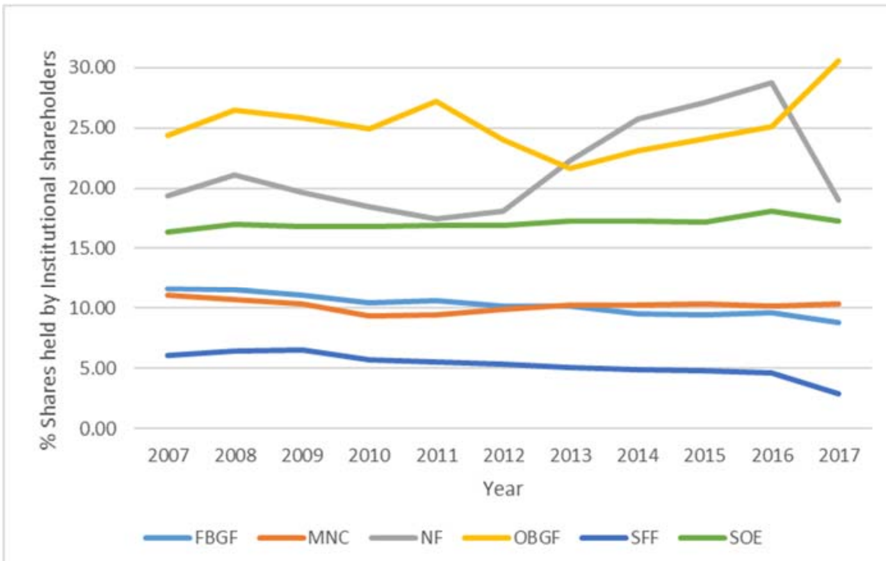
They bring in better corporate governance and financial knowledge in the decision making process, which indirectly affects the investment decisions of the firms (Bong, Hee, & Christopher, 2011). Presence of institutional shareholders helps to improve the firm's financial performance (Gürbüz, Aybars, & Kutlu, 2010). Institutional investors are attracted by strong financial performances and a positive future outlook (Ferreira & Matos, 2008). Institutional shareholding plays an important role in determining the shareholding preferences of individual investors. Instances of fraud decreases as institutional ownership increases (Sharma, 2004). It is therefore disheartening to see a declining institutional shareholding in family firms (Exhibit 5a).

Non-promoter institutional shareholding is lower in family firms when compared with non-family firms and it has decreased further between 2007 to 2017. As a block holder, institutional shareholders influence the governance and strategy of the firm; if they refrain from investing in family firms, the pursuit of governance will take longer. Institutional investment is inversely proportional to promoter's shareholding, especially in the case of family firms, higher preference is given to the firm where family ownership is lower (Prasanna, 2008).

Non-family firms in general have strong formal internal control mechanisms to keep the personal interests of managers out of the company's functioning (Daily & Bollinger, 1992). Consequently, the probability of a strong and independent corporate governance mechanism is greater for a non-family firm. Institutional investors have a strong preference for firms with good governance (Ferreira & Matos, 2008). Thus, we see higher institutional shareholding in NFs and OBGFs.

All Institutional shareholders (domestic or foreign) are known to prefer larger firms with greater recognition or visibility (Dahlquist & Robertsson, 2001). This could be the reason why we see greater institutional investment in OBGFs when compared to NFs and in FBGFs when compared to SFFs.

Exhibit 5a: Non-promoter- Institutional Shareholding



Reluctant Non-Institutional Shareholders

Traditionally, the participation of non-institutional investors in the Indian equity markets has been limited due to lack of awareness, low levels of financial inclusion and lack of trust in the market and its mechanisms due to recurring frauds and inefficiencies[9,10]. In fact, a report on household savings reported that even when households become richer, they prefer to shift their investments from Gold to Real estate, but not to financial assets like shares[11]. In the financial year 2017, gross financial savings accounted for 11.8% of the gross national disposable income (GNDI). Of this 11.8%, investment in shares and debentures accounted for just 1.2% of the GNDI.[12] Even this was an improvement over the previous years.

Most non-promoter non-institutional shareholders are very dispersed, have smaller stakes in the firms and don't play any significant role in either the running of the firm or its governance (Brickley, Lease, & SmithJr, 1988). However, they are important to provide liquidity and immediacy in the

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9 https://www.moneylife.in/article/increasing-retail-investor-base-sebi-has-a-tough-job-ahead/16977.html

10 https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/HFCRA28D0415E2144A009112DD314ECF5C07.PDF

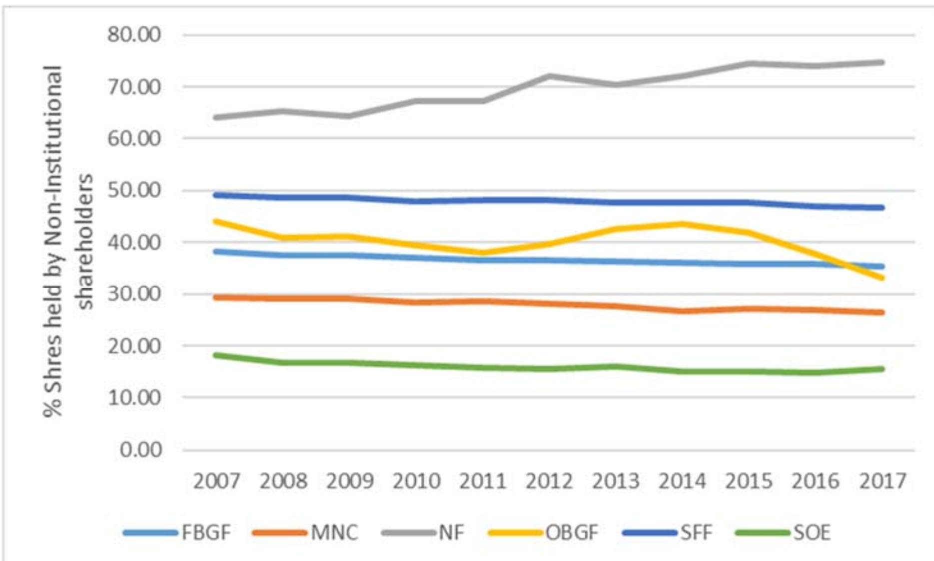
11 Ibid.

12 https://www.livemint.com/Money/Ul265fDYN4dzjlajhNmYmJ/Demonetisation-has-pushed-households-towards-financial-savin.html

markets, especially during the times when institutional liquidity is constrained, such as during the financial crisis (Kelley & Tetlock, 2013; Barrot, Kaniel, & Sraer, 2016).

NFs have the highest percent of non-promoter non-institutional shareholding (Exhibit 5b). NFs have high institutional holdings, high liquidity and better governance mechanisms that in turn attracts the non-institutional investors. SOEs have the lowest percent of non-institutional investors as their reputation is that of being inefficient (Bartel & Harrison, 2005). FBGFs and SFFs have fairly large non-institutional shareholdings. On deep diving, we find that the average shareholding as indicated by Exhibit 5b may be skewed due to outliers. SEBI required non-promoter non-institutional shareholders to be classified as investors who invest in excess of Rs 1 lakh in the shares of a firm and investors with investments of upto Rs 1 lakh until financial year 2016. We explore this data further for FBGFs and SFFs in the following paragraphs.

Exhibit 5b: Non-Promoter Non-Institutional Shareholding



Except NFs, our study shows a decline in the shareholding of non-promoter non-institutional shareholders. It suggests that investors' preferences might have further shifted to alternative asset classes like real estate, gold, and fixed deposits or they might be investing through institutional investors like the mutual funds. Most of the decline is due to small investors with upto than Rs1 Lakh worth of shares (Exhibit 5c). These small investors have reduced their holdings across all ownership categories. This may be due to the lack of disposable income in the hands of small investors. Also, such investors are typically the last-in in a bull market and end up buying at a very high price and selling cheap when the market starts to stumble. Repeated such experiences make them wary of the market[13].

In the case of family firms, more so in SFFs, we find a large number of firms that report a very large percentage of shares being held by non-promoter non institutional shareholders (Exhibit 5d). On checking the websites of some of these companies, it is clear that these are family owned and controlled firms. Moreover, for many of them, the number of such investors remains constant

[13] https://www.forbes.com/sites/rickferri/2014/06/12/the-problem-with-market-timing/#380aff3f433c

quarter after quarter. That is a very unlikely scenario in the case of small investors and leaves a lot to speculation.

It is also notable that the average shareholding of small investors in SFFs is more than in FBGFs. It could be because of larger number of companies that are skewed towards very high percentage of shares held by small investors or due to SFFs being smaller and growing at a much faster rate than the FBGFs provide more lure to the retail investors who are looking to make a quick buck hoping to stumble upon a multi-bagger.

Exhibit 5c: Non-Promoter Non-Institutional Shareholding upto Rs1 Lakh

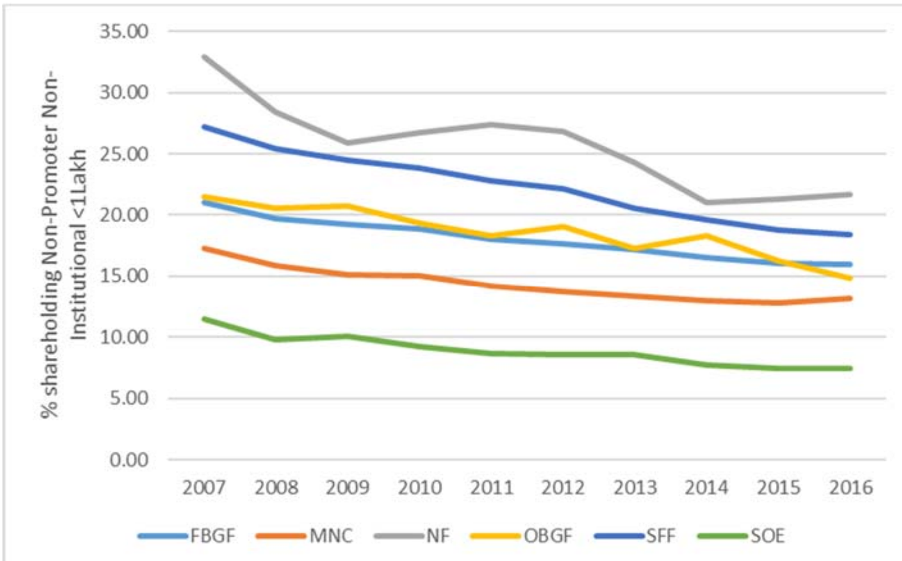
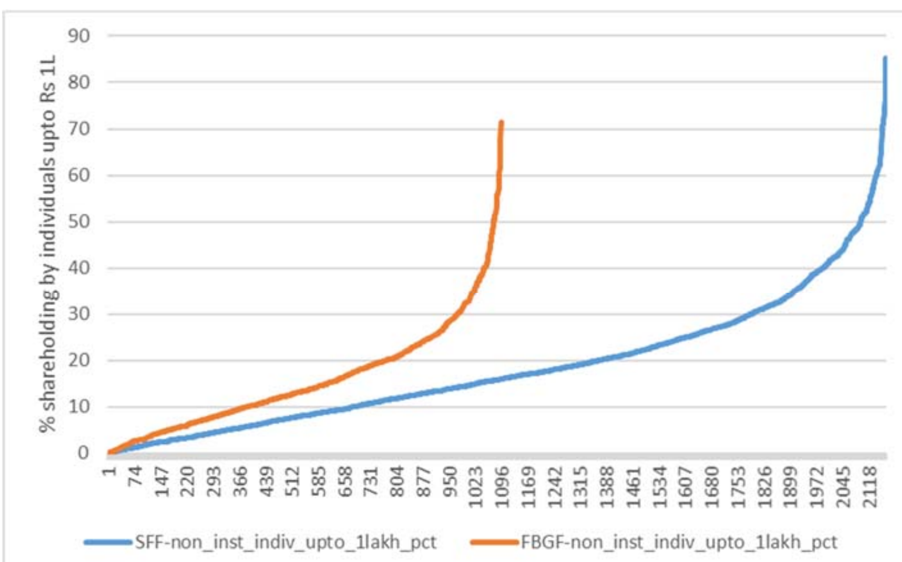
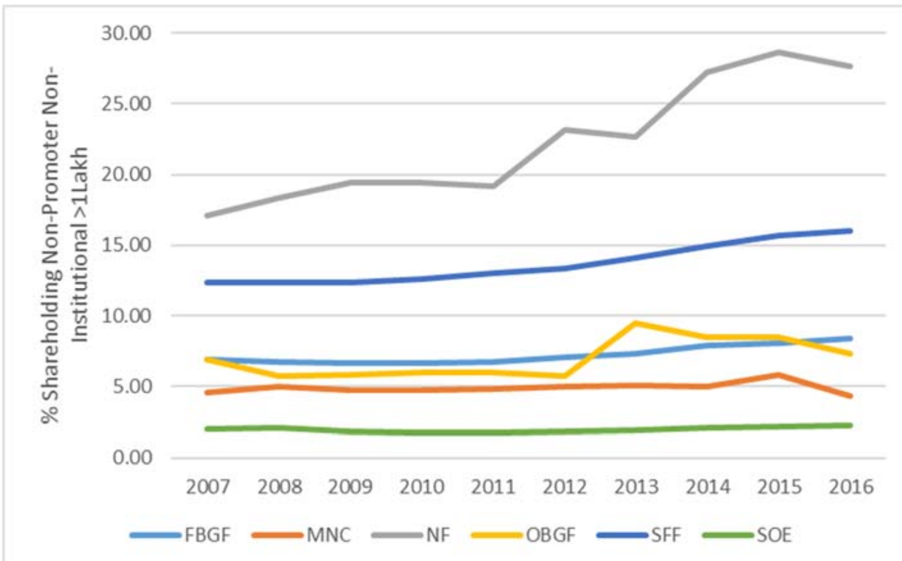


Exhibit 5d: Distribution of Non-Promoter Non-Institutional Shareholding upto Rs1 Lakh FBGF vs SFF (fy 2016 only)



The second set of non-promoter non-institutional shareholders are those that hold shares in excess of Rs1 Lakh. We are calling this group the High Networth Individuals (HNIs) here. The bracket of high networth individuals (HNIs) is increasing in the country as a result of which, people are taking long term positions using the surplus money that they might have. According to the Asia Pacific Wealth Report of 2017 prepared by Capgemini, millionaires in India are growing at the rate of 10% in comparison to the average annual growth rate of 8.2%. India is now third in Asia when it comes to millionaires after Japan and China. This is indicative of the higher investment capacity of this group, which is rightly evident from their trends of shareholding (Exhibit 5e).

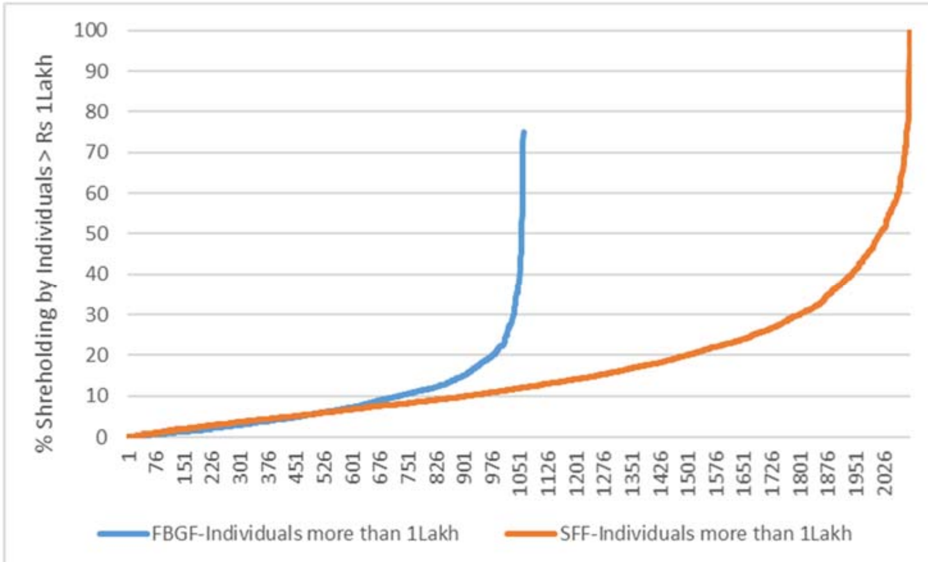
Exhibit 5e: Non-Promoter Non-Institutional Shareholding > Rs1 Lakh



It can be speculated that election of National Democratic Alliance (NDA) in 2014 instilled confidence among the HNI’s that aggressive economic reforms might be implemented after years of slack and policy paralysis. Initiatives like Make in India, Skill India, Digital India and Startup India aided to keep the investor’s motivation positive. We observe that SFFs have a steeper increase in HNI shareholding than the FBGFs. We posit two possible reasons for this trend. Firstly, SFF’s are younger firms (Bang et. al., 2017), which might be in their emerging stage and offer higher returns thereby attracting investors who might want to grow their wealth over the long run. Secondly, value of equity for the SFF’s may also be lower than that of FBGF’s, which would be within the purchasing power of the investors.

As in the case of investors with shareholding worth less than Rs1 Lakh, a large number of FBGFs and SFFs reported very high percentage of shareholding by HNIs too, there by skewing the overall averages for FBGFs and SFFs (Exhibit 5f). In a few cases, we find that the names of shareholders disclosed by the company under this category, has the same surname as the promoters or surnames from the same community.

Exhibit 5f: Distribution of Non-Promoter Non-Institutional Shareholding > Rs1 Lakh FBGF vs SFF (fy 2016 only)



SEBI has taken numerous measure to increase retail participation in the stock market. Few of them being the introduction of a 35% quota in 2012 on the total number of shares in an IPO for the retail individual investors and grading of Initial Public Offering (IPO) introduced in 2007 aimed at reducing the information asymmetry among the retail investors. Various initiatives for financial inclusion, including the Jan Dhan Yojna of the government, and financial education have been undertaken by SEBI, NGOs, Companies under their CSR activities and the government. Yet, the participation of individual investors has been on the decline. There is a clear need to ramp up the efforts to create awareness and improve the securities related knowledge among the people.

6. Conclusions and Implications

Ownership structure of a firm would offer interesting insights into the strategic priorities of the promoter, governance practices and firm performance. In India, where 90% of the listed firms are family owned, the implications of the holding patterns are important for both investors and policy makers. This paper has attempted to give a bird's eye view of the shareholding pattern of listed Indian firms.

We found that promoters of family firms have increased their stake in their companies over the last decade, while SOEs, OBGFs and NFs have witnessed a decline in promoter shareholding. This not only reinforces the preeminent role of family controlled businesses but also the emerging trend in entrepreneurship and growth investments. It seems to imply that the engine of growth of Indian businesses will not be dependent on overseas or other promoter categories . Instead, promoters of family firms will continue to play a major role. There has to be special policy initiatives to improve their capabilities for further transformation through changes in their governance standards, approaches to professionalization and better growth strategies.

Holding companies are found to be the preferred vehicle of shareholding for the FBGFs while the SFFs prefer to hold shares directly as individuals or HUF. Conceptually, this makes a lot of sense as it enables groups to leverage their resources across multiple investment avenues and portfolio reallocation. The holding company model is also recommended to keep business groups together and aligned under a single leadership.

Higher promoter institutional shareholding in the business groups in comparison to standalone firms is an indicator of their trust in them both in terms of their inherent financial capabilities, and also possible superior corporate governance mechanism. Group firms also have higher percentage of foreign promoter shareholding and higher investment by non-promoter non-institutional high net worth individuals.

The importance of governance, brand-image, goodwill, size and visibility are reflected in the shareholding pattern of SFFs. Institutional investors remain skeptical about investing in SFFs where the companies are younger, relatively unknown, mostly owned and managed by the family members and are yet to professionalize in most cases. Organised shareholding is controlled by institutional investors globally. If they do not invest in SFFs they will find it difficult to raise further funds through the capital markets. It will have long term implications for the performance of the firm. SFFs need to up the game in governance to motivate the institutional investors to invest in them.

There are positives associated with better corporate governance mechanisms in the presence of dispersed shareholders in OBGFs and NFs, yet, there is also a possibility that company may go ahead with risky investments which may ultimately have adverse effects on shareholder value thereby affecting the non-institutional investors the most.

Non-institutional investors in family firms form the bulk of non-promoter shareholding. HNI's have increased their stake in family firms but smaller investors have been drifting away. Also, there is need for the regulator to closely scrutinize the shareholders in this category to ensure that the law is obeyed in spirit and not just in letter. The shares held by this category of investors are considered to be free-floating shares. But if they are held by proxies of promoters, the free-float is reduced and hence liquidity goes down.

Concentrated ownership in the hands of a family, as is the case for most family firms in India, would result in alignment of interest between the owners and the managers resulting in lower agency costs and long-term vision and strategy for the firm. Concentrated shareholding would naturally make it important for the family to be more interested in tapping opportunities and grow the business. However, concentrated shareholding results in horizontal agency conflicts between majority shareholders and minority shareholders. One of the general complaints about Indian family businesses is that promoter families tend to assume that the companies belong to them and they have the right to take any decision that they think is in the best interest of the businesses. Such an attitude has been criticized for their poor governance practices by various key stakeholders. Naturally, lack of transparency is associated with concentrated shareholding. Tunneling can happen through the interrelated firms where the promoters have significant shareholding. These worries can be alleviated through robust corporate governance mechanisms and putting in place a truly independent board. The recent policy changes in the light of the Uday Kotak Committee recommendations are welcome initiatives to curtail the negative effects of concentrated shareholding of families in business.

In conclusion, the ownership pattern of listed businesses in India is fairly concentrated, especially in the case of family firms, SOEs and MNCs. While this has significant positive effects, there is also a need to keep close vigil on their governance practices. Some of the recent incidents such as large scale presence of non-performing assets and promoter-institutional collusions to divert public funds call for developing closer and more transparent governance mechanisms in the country. This is critical for the benefit of creating and sustaining healthy family businesses.

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Appendix 1: Clause 35- Shareholding Pattern Formats

Statement Showing Shareholding Pattern

Table (I)(a)

Category code	Category of Shareholder	Number of Shareholders	Total no. of shares	Number of shares held in dematerialized form	Total shareholding as a % of total number of shares		Shares Pledged or otherwise encumbered	
					As a % of (A+B)[1]	As a % of (A+B+C)	Number of shares	As a %
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)= (VIII)/(IV)*100
(A)	**Shareholding of Promoter and Promoter**							
1	**Indian**							
(a)	Individuals/ Hindu Undivided Family							
(b)	Central Government/ State Government(s)							
(c)	Bodies Corporate							
(d)	Financial Institutions/ Banks							
(e)	Any Others(Specify)							
(e-i)								
(e-ii)								
	Sub Total(A)(1)							
2	**Foreign**							
a	Individuals (Non-Residents Individuals/ Foreign Individuals)							
b	Bodies Corporate							
c	Institutions							
d	Qualified Foreign Investor							
e	Any Others(Specify)							
e-i								
e-ii								
	Sub Total(A)(2)							
	Total Shareholding of Promoter and Promoter Group (A)= (A)(1)+(A)(2)							
(B)	**Public shareholding**							
1	**Institutions**							
(a)	Mutual Funds/ UTI							
(b)	Financial Institutions / Banks							
(c)	Central Government/ State Government(s)							
(d)	Venture Capital Funds							
(e)	Insurance Companies							
(f)	Foreign Institutional Investors							
(g)	Foreign Venture Capital Investors							
(h)	Qualified Foreign Investor							
(i)	Any Other (specify)							
(i-ii)								
(i-ii)								
	Sub-Total (B)(1)							
B 2	**Non-institutions**							
(a)	Bodies Corporate							
(b)	Individuals							
I	Individuals -i. Individual shareholders holding nominal share capital up to Rs 1 lakh							
II	ii. Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.							
(c)	Qualified Foreign Investor							
(d)	Any Other (specify)							
(d-i)								
(d-ii)								
	Sub-Total (B)(2)							
(B)	**Total Public Shareholding (B)= (B)(1)+(B)(2)**							
	TOTAL (A)+(B)							
(C)	**Shares held by Custodians and against which Depository Receipts have been issued**							
1	Promoter and Promoter Group							
2	Public							
	Sub-Total (C)							
	GRAND TOTAL (A)+(B)+(C)							

Source: https://www.bseindia.com/static/about/Clause_35_Shareholding_Pattern.aspx

Appendix 2: Identification of Family Firms

In the literature, family businesses are generally classified on the basis of ownership, management and succession or business continuity. In the family business literature, 79 percent of the studies used ownership, 53 percent used management control, 28 percent used directorship, 15 percent used self-identification, 9 percent used multiple generations and 7 percent used intra-family succession intention, as the criteria to define a family firm (Machek, Kolouchová, & Hnilica, 2015).

The Thomas Schmidheiny Centre for Family enterprise, Indian School of Business, identifies a firm as family firm if the first condition of significant ownership is met and any one of the other two conditions are met:

a. An equity ownership above 20 percent by family members or family controlled firms as on date (2016) or the last shareholding data available. The cutoff of 20 percent was deemed to be appropriate as it has been found that individuals/families are able to control companies with much lower shareholdings due to large number of other shareholders that are widely scattered or financial institutions as shareholders that are not interested in the management of the company (Bagchi A. , 1967) [14].

b. Family member as chairman of the board, or two or more family members[15] in the board of the firm. Once it was established that a Family has more than 20 percent shareholding in a company, it was determined if the family also exerts management control on the company. Wherever the Chairman of the Board, the Chief Executive Officer (CEO), the Managing Director, or a person in the board of directors was also a promoter and member of the family holding more than 20 percent stake in the company, that company was considered to be a Family Business.

In cases where the information about the Board of Directors was not available or it was difficult to determine whether the individual is a family member or not, the Annual Report of the company and the website, especially the History section and the Team/Management/Leadership sections, was explored to gain clarity.

c. Multiple generations or multiple members of same generations, actively involved in business. If a classification could not be arrived at through conditions (a) and (b), then the website of the company, along with search on the internet to get more information about the company was explored. If steps (a) and (b) satisfactorily classify a company as family, then step (c) was not performed. But if there was ambiguity in step (b), as there were companies where a family owned more than 20 percent shares, but the company was managed by a non-family CEO or Managing Director, in such cases, whether the stake of the company was being passed on from one generation to the other and the members of the family were involved in the company as owners, even if it was not in a leadership role, was checked for.

The above criteria have been primarily used to classify companies into Family and Non-Family businesses.

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[14] No significant changes were observed when the ownership cutoff was relaxed to 15 percent or increased to 25 percent.

[15] Family members were many times identified using the 'surname' matching approach when any conclusive evidence of relationship was not available. See (Machek, Kolouchová, & Hnilica, 2015) for a primer on the approach.

Appendix 3: Ownership classifications

Businesses in India are characterized by many differing ownership structures. Prior literature on BGs does not distinguish between family and non-family business groups. Similarly, the prior literature on family businesses either focus on business groups or family firms irrespective of whether they are a part of a group or not. BG affiliated firms are usually bound together by various multiple ties such as common ownership, directors, products, financial, or interpersonal ties. Moreover, there is typically a core entity or dominant coalition, offering common administrative or financial control, or managerial coordination among the member firms (Granovetter, 2005). We believe that the family firms that are not affiliated to any business group will behave differently than the group affiliated ones.

SOEs or public sector undertakings as they are commonly referred to in India, are legal entities that are created by the government in order to partake in commercial activities on the government's behalf. It can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities. Examples include Indian Oil, NTPC, ONGC, Coal India etc.

MNCs are firms that have entered India through foreign direct investment. These firms make investments through which they acquire a substantial controlling interest in a domestic firm or set up a subsidiary in a foreign country (Markusen, 1995). Examples include Nestle, Cadbury, Microsoft, etc.

Other Business group affiliated firms (OBGFs)- One key characteristic of Business Groups in the literature is 'kinship' amongst top management. Business groups affiliated family businesses are therefore BGs in the true sense and have been classified as Family Business group firms (FBGFs) in this study. The other firms that meet the criteria of business group affiliated firms to a large extent but the top management in the various affiliated firms are not related in any way have the 'kinship' that a family has missing. They are hence classified separately as OBGFs. Examples are the ICICI Group, IVRCL Group, Larsen and Toubro Group, among others.

BG affiliated firms which were SOEs or MNCs were classified under SOEs and MNCs, not under OBGFs. For example, the companies under the State Bank of India group would be a part of SOEs.

Standalone non-family firms (NFFs) form the remaining set of firms in the dataset. These firms are usually characterized by distributed ownership and a high degree of professionalization. Examples include Infosys, ITC, Global Trust Bank Ltd. etc.

SFFs are family firms that are not part of a business group.

Appendix 4: Definition of various classes of promoter and non-promoter shareholders as per Prowess database

Shareholder Category	**Definition**
Promoter	Indian and foreign companies/ individuals, and groups of like-minded individuals. SEBI definition: - "the person or persons who are in control of the company, directly or indirectly, whether as shareholder/ director/ person or persons named as promoters in any document of securities offer to the public or existing shareholders or shareholding pattern, disclosed by the company under the provisions of the Listing Agreement".
Non-Promoter	Investors who are not classified as promoters of the company. For example: institutional and non-institutional non-promoter investors.
Indian Promoter	Indian individuals, Hindu Undivided Families, Central and State governments, corporate bodies, financial institutions and banks that are promoters of the company.
Foreign Promoter	Foreign individuals, foreign corporate bodies, foreign institutions that are promoters of the company.
Indian Promoter Bank	Institutions that provide financial services like asset management companies, insurance companies, etc. that are promoters of the company.
Government Promoter	Central and state government/s that are promoters of the company.
Hindu Undivided Family (HUF)	According to Hindu law, Hindu Undivided Family consists of all persons lineally descended from a common ancestor, including wives and unmarried daughters.
Company Promoter	An organization or group of persons that act as an entity that are promoters of the company. For example: associations, trusts, partnerships or any other type of entity.
Others (Promoter)	Indian promoters who cannot be classified as Indian individuals/ HUF/ Central and State government/ corporate bodies/ financial institutions and banks.
Institutional Shareholder	Financial institutions (mutual funds, banks, insurance companies, foreign institutional investors and venture capital funds) and governments that are promoters of the company.
Non-Institutional Non-Promoter Investor	Shareholders who are not classified as institutions. For example: corporate bodies and individual investors.
Individual Investor with Share Value <1Lakh	Individual non-promoter investors with a share capital of up to Rs. 1 lakh.
Individual Investor with Share Value >1Lakh	Individual non-promoter investors with share capital exceeding Rs. 1 lakh.

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The Centre has been generously funded with support from Thomas Schmidheiny, Founder and Chairman of Spectrum Value Management, Ltd, Switzerland.

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