Asian Academy of Management Journal, Vol. 29, No. 2, 91–108, 2024

THE IMPACT OF PROMOTER ON FIRM VALUE: EVIDENCE FROM EMERGING ECONOMIES

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Published online: 30 October 2024

To cite this article: Sasidharan, A., Sukumaran, R., & Jose, S. (2024). The impact of promoter on firm value: Evidence from emerging economies. *Asian Academy of Management Journal*, *29*(2), 91–108. https://doi.org/10.21315/aamj2024.29.2.4

To link to this article: https://doi.org/10.21315/aamj2024.29.2.4

ABSTRACT

Using panel regression on a sample of 1,532 firms listed on the National Stock Exchange (NSE) of India and 450 firms in the Shanghai Stock Exchange (SSE) of China, this study examines the impact of promoter ownership on firm value. We find that promoter have positive impact on firm value in China while it is inversely related to India due to the entrenchment effect or opportunistic behaviour of the promoter. We provide evidence that the opportunistic behaviour of the promoter can be reduced only through monitoring by the corporate governance mechanisms such as board of directors. We contribute to the existing literature on corporate governance and corporate finance by examining the link between promoter ownership and firm value. Our results help the regulators and policy makers to formulate a regulation that reduces the opportunistic behaviour of promoters.

Keywords: corporate governance, promoter ownership, firm value, agency theory, emerging economies

INTRODUCTION

The importance of good corporate governance in managing issues like ownership and board composition, as well as its impact on financial results are critical. There exist several capitalist systems in India like family, bank, state, and shareholder capitalism. The basic goal of all these institutions is to provide just and balanced reward system to their stakeholders. Financial scandal happened in the recent past like Enron, WorldCom, Satyam, and AIG have increased its prominence. Hence, there is a need to examine how promoter ownership affects firm value. Outsider shareholdings have been the focus of previous research on ownership structure and firm value (Demsetz & Villalonga, 2001; Ghalke et al., 2022). Prior studies on promoter ownership and firm value considered the endogeneity issues between the promoter holdings and performance of the firms (Goel et al., 2022). When the activities are monitored by the owners themselves, managerial decisions will improve (Shleifer & Vishny, 1997). Other studies have indicated that large stockholders are always favoured over minority shareholders (Fama & Jensen, 1985; La Porta et al., 1999; Morck et al., 1988). Financial scandals have boosted not just the demand for the study that examines the impact of corporate governance, but also the desire for research on remedial actions to prevent future financial scandals.

In mixed economies like India, where various forms of ownership patterns coexist, exploitation of minority shareholders interest by the majority shareholder is a widespread practice. There exist three form of business organisations in India. The first form of company is a public sector unit (PSU), in which the government owns most of the stock, and the ordinary investor owns minority ownership, typically less than 20%. The second category includes multinational corporations (MNCs), in which the foreign parent company is the majority shareholder. Indian business group constitute the third category, where promoters are the mainstream shareholders (due to significant shareholding by friends and relatives), minority shareholders hold a large portion of the stock, government-owned financial institutions own some of the stock, and the public owns only a small portion of the stock. The "separation of ownership and control," a basic and fundamental presumption in agency theory, is now being questioned and challenged all over the world, notably in the wake of the Enron and Parmalat instances. The subject of agency theory is getting attention, especially in the United States, which is highly praised for market-based governance (La Porta et al., 1999; Mishra et al., 2021; Rana, 2021). The exploitation and unwarranted discretion over the capital of minority shareholders by the majority shareholders is a global issue, but in India, we see that minority shareholders have very little protection against the unfavourable actions of the majority shareholders, who also have a lot of power on the board of directors. One of the main reasons for the establishment of the new Companies Act, 2013 in India was to protect investors. One of the most common questions about board characteristics is whether ownership and board composition have any (positive or negative) impact on firm performance. Various studies on the subject have been undertaken all around the world, with mixed findings (Mishra & Kapil, 2017). To address this research gap, board composition and ownership should be studied more frequently over time and in relation to more board characteristics. This study will examine the impact of the composition of the shareholders on the financial performance of the company.

Emerging economies adopted a plan to privatise their state-owned economies in the 1990s. The privatisation volume in emergent economies increased from USD8 billion in 1990 to approximately USD65 billion in 1997 (Dharwadkar et al., 2000). The state retains a certain percentage of ownership post-privatisation. After privatisation, the newly diversified ownership structure makes corporate governance an important issue in emerging economies. The new ownership structure generates the traditional principal agency problem, in which officials seek to maximise their private interests rather than the owners. To solve this issue, it is necessary to design effective incentive and/or control mechanisms to regulate management behaviour. In India, the state's equity ownership is still considerably lower than that of large and small firm promoters. Since the promotor is the major shareholder in India, the element of succession planning plays an important role. In China, the government controls most firms in strategically significant industries. This ownership structure is unlikely to undergo substantial change soon because the state does not appear to be interested in selling its controlling stakes in most key sectors. The influence of the state on Chinese firms may hinder their ability to adopt western standards of corporate governance quickly. China and India are perceived differently by global investors. China is viewed as the world's foremost manufacturer and the fastest growing consumer market. In contrast, India is the world's largest business process and information technology services provider and a consumer market with longer term potential (Kearney, 2004). In China, foreign direct investment is predominantly capital-intensive, while in India, it is skill-intensive.

The corporate governance reforms in India and China, which are based on Anglo-American principles, have become more similar (Majumdar, 2020). Both nations are engaged in fierce competition for capital and goods. Both nations have concentrated ownership, stronger protection for minority shareholders, increasing customisation of corporate constitutional documents, enhanced disclosure, higher expectations of board committees, and greater responsibilities for executive directors. In these countries, promoters frequently want greater control and voting rights than their shareholdings entitle them to increase their company position. In other words, their control rights significantly outweigh their economic interests in the firm.

In India and China, since the prevalence of family businesses is high, promoters play a crucial role in firms. According to the Disclosure and Investor Protection Guidelines, 2000 (DIP Guidelines) of the Securities and Exchange Board of India (SEBI) and Securities Exchange Commission Guidelines of China in 2002, the promoters have sufficient control over the company under their shareholding and management rights. Promoters exert substantial power and influence on the board and management of the company in critical strategic decisions due to their position and control. According to La Porta et al. (1999), concentrated ownership provides them significant voting rights, control over management, and the ability to promote their own interests. Under these conditions, they may encourage policies that benefit them while affecting firm performance. Shleifer and Vishny (1986; 1988) argue that the presence of a dominant large shareholder or group might strengthen their controlling power, resulting in lower agency costs and resulting in higher firm performance. La Porta et al. (1998; 1999) find that controlling shareholders exist in countries with weak legal and institutional protection for investors. High ownership concentration may result in a greater alignment effect (Jensen & Meckling, 1976). Promoters may be strongly motivated to pursue a value-maximising goal due to this influence. According to Jensen and Meckling (1976), agency conflict decreases as managerial ownership levels increase, which improves firm performance. Previous research has looked at the impact of diverse groups owning Indian and Chinese firms, but none of these studies make any specific reference to the impact of promoter ownership on firm performance (Kumar & Singh, 2013; Pandey & Sahu, 2021; Sarkar & Sarkar, 2000). However, Salerka (2005) examined the impact of insider ownership on firm value and found a curvilinear relationship, demonstrating that it reduces until insider ownership is around 45%, at which point it begins to increase. In a time of economic hardship, understanding how promoter ownership affects company performance may be of utmost importance. They are the individuals best suited to make any crucial strategic choice to enhance performance. As a result, significant promoter ownership during this time may improve firm performance. Hence, this study examines the impact of promoter ownership on firm value in India and China, where the presence of the family business is high.

Our research contributes to the existing literature on corporate governance and firm value in several ways; first, we have focused on impact of promoter ownership on firm value in emerging economies such as India and China. This comparison of two economies will help the future researchers to understand the ownership pattern that exist in these countries. Second, most ownership and firm value research is focused on companies from the west and European world. However, according to La Porta et al. (1999), both a country's legal and regulatory policies are important in understanding ownership systems. So, our study tries to bridge this gap exist in the literature. Third, we contribute to the agency theory and resource dependence theory by stating that due to the agency conflict promoter ownership is having negative impact on firm value in India while in China promoter exists as a provider of various resources to the firms hence, they have positive impact on firm value.

A promoter is an individual with a vested interest in the success of a business. This could be a company shareholder or an investor who has invested in the company's equity. In India since most of the business are family business promoter is the family member who has majority stake in the firm. Whereas, in China the promoter is the state owned economy (SOE). We find that promoter has a positive impact on firm value in China while it is inversely related to India due to the agency conflict.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Concentrated Ownership and Agency Problem

The competing interests of principals and agents are the focus of agency theory. Jensen and Meckling (1976) model of agency costs and ownership structure hold a central attention to the literature on corporate governance. It shows the fundamental conflict between self-interested managers and owners, when the former manager run the firm while bearing the majority of the wealth implications. The original model of Jensen and Meckling (1976) exemplifies this by demonstrating how lower management stakes lead to increases in non-monetary expenditure by managers since they do not completely internalise the costs. Prior studies find that large shareholders are better monitors of management than small shareholders because they absorb a higher portion of the monitoring expenses and have enough voting power to influence business choices (Pandey & Sahu, 2021). To lower agency costs, a variety of additional approaches that either align the interests of managers and owners or limit management freedom have been proposed.

Apart from the agency costs created by managers, there are differing perspectives on the function of ownership structure in organisations. Prior studies have claimed that owners with a large ownership stake may utilise their position to get private benefits that other shareholders do not have such benefits might include, for example, consumption of the firm's goods, asset extraction, or takeover resistance for insiders and under-pricing which is the stock market practices of listing an initial public offering (IPO) at a price below its actual value. When a new stock ends its first day of trading above its IPO price, it is considered underpriced (Barclay &

Holderness, 1991; Bebchuk & Roe, 1999). If these advantages negatively impact business performance, greater ownership concentration, whether by outsiders or insiders, may actually harm the firm's performance. In emerging economies, the concentration of ownership in the hands of families is a key characteristic of corporate governance. Controlling owners in India and China are affluent families who employ control pyramids and cross-shareholdings to exert influence over management. Since 2001, all listed firms in India have to comply with Clause 35 of the Listing Agreement to reveal their ownership structure. Furthermore, as a result new regulations made by the Securities and Exchange Commission in 2008, all Chinese companies are now compelled to disclose in financial statements the shares held by the controlling owners. In India, the Clause 35 requires disclosure of two types of owners; promoters and non-promoters. Promoters are either people or corporate entities that possess a majority of the stock. If the promoters are persons, they are the firm's directors and family (Manna et al., 2020). Non-promoters are non-controlling stakeholders, who are divided into investors, corporate organisations, and public investors. Domestic institutional investors and foreign institutional investors are the two types of institutional investors. Banks and financial institutions in the United States, investment companies, insurance firms, and investment firms are examples of domestic institutional investors. Venture capitalists and Indian companies enrolled outside of India are examples of corporate bodies. Prior studies in the literature have focused on institutional investors, ignoring relationship between capital structure in the form of stocks held by large promoters. The existence of concentrated ownership in these countries is due to the civil law tradition combined with low shareholder protection. Weak investor protection allows majority shareholders to engage in their assets because the cost of sacrificing diversification is low (Altaf & Ahmad, 2019). Enterprises face agency issues as a result of weak corporate governance, which helps the promoters to obtain control of the company. As a result, the resources of the company are being taken at the expense of the minority owners. Different methods to ownership structure that impact business performance have been exposed in the literature (Demsetz & Villalonga, 2001; Karpoff et al., 1996). Demsetz and Lehn (1985) recognised ownership concentration and identity, while Mintzberg (1983) identified involvement as a component of ownership structure. Ownership involvement refers to the owners' level of influence, whereas ownership concentration refers to the percentage of shares held by equity shareholders (Demsetz & Lehn, 1985). The identification of the owners is concerned with whether they are insiders or outsiders. Promoter ownership means that a private party's ownership rights in a company are significantly concentrated in the hands of a specific individual. Individuals may make decisions that adds firm value. Insider control, according to Chee et al. (2017), may lower business value if used for personal benefit rather than a shared advantage.

Concentrated Ownership and Firm Value

The promoter has more control rights than cash flow rights under the pyramidal ownership structure (Claessens et al., 2002). Minority shareholders may have a conflict of interest due to the promoters' considerable control rights (Pandey & Sahu, 2019; 2021). Controlling shareholders have the ability to extract resources from the companies they own through self-dealing. Such transactions include asset sales, CEO pay, and business opportunity expropriation (Ryngaert & Thomas, 2007). Chee et al. (2017) discover that promoters have a detrimental effect on company value in family firms as compared to non-family businesses due to the promoter's excessive control over the firm. According to Ryngaert and Thomas (2007), these transactions may have a negative impact on firm value, particularly in emerging economies with inadequate investor protection. For two reasons, dominant owners' expropriation may be supported in emerging economies such as India and China (Pandey & Sahu, 2019). For instance, these are political economies having regulatory gaps that allow for rent-seeking and expropriation (Manna et al., 2020). Although promoters are required to disclose transactions, such information is not always recorded by the firm's internal controls, allowing promoters to take advantage of the firm's resources. Prior studies on the influence of promoter holdings on firm value provide inconclusive evidence (Sarkar & Sarkar, 2012). This equivocal evidence may be owing to the possibility of reverse causality between managerial ownership and firm value, as well as the fact that the samples used by these studies are dominated by concentrated ownership. Since tunnelling is more prevalent in India due to the absence of effective corporate governance mechanisms or strong legal protection of minority shareholders, previous research demonstrates a negative relationship between promoter ownership and firm value (Bhuiyan & Roudaki, 2018; Srinivasan, 2013). Indian markets are distinguished by their concentration of ownership, lack of transparency, and poor quality of information disclosure. Thenmozhi et al. (2019) demonstrate that firms controlled by family business groups use the distinction between voting rights and financial flow rights to expropriate other shareholders. Due to tradability constraints, controlling shareholders may forego profitable investments and issue high dividends to obtain cash flow in a short period, and firms controlled by business groups are more likely to engage in tunnelling of funds. Hence, we hypothesise that:

H1: Promoters have negative impact on firm value in India.

The presence of family ownership is advantageous for both affiliated and standalone enterprises (Anderson & Reeb, 2003; Ghalke et al., 2022; Michiels et al., 2022). First, family ownership persists from generation to generation and as such, has a long-term business perspective. Second, families are politically well connected and frequently receive government benefits unavailable to other proprietors. Thirdly, the families are revered by many because of their illustrious history and the numerous social, religious, and charitable endeavours in which the family owners are frequently involved. Lastly, most Chinese people view a product from a family-owned business/SOE as an indicator of quality (Fehre & Weber, 2019). Promoters may be encouraged to improve the interests of their family members through related sales, lending, borrowing, and loan guarantees, which may have an impact on business value. As a result, we propose that:

H2: Promoters have positive impact on firm value in China.

DATA AND METHODOLOGY

Data

Our sample is an unbalanced panel of all listed enterprises from the National Stock Exchange (NSE) of India and Shanghai Stock Exchange (SSE) of China from 2013 to 2017. For Indian firms, we have collected the data from Centre for Monitoring Indian Economy (CMIE) Prowess database, while for Chinese firms, we used Bloomberg. After excluding firms that had not reported information about promoters or had missing data, our final sample consisted of 5,324 firm-year observations covering 1,532 firms for India and 4,241 firm-year observations covering 450 firms for China. To eliminate the effect of outliers, we winsorised all continuous variables at the 1st and 99th percentiles. Furthermore, we examined the impact of promoters on firm value using Tobin's Q as our dependent variable. Tobin's Q was computed as a ratio of market value of equity plus the book value of debt to total assets. One of the explanatory variables is the promoter ownership measured by using the percentage of shares held by the promoter.

Methodology

Since we have both cross section and time series data, we have selected panel regression for our analysis. Using panel regression, we adjusted for firm-specific, time-invariant, unobserved heterogeneity in the data. To control for external events, we have used industry and time fixed effects. The Hausman specification was used to determine whether a fixed effects model was appropriate for our analysis. Since the value of Hausman test is significant, we have selected fixed effect panel regression for our study. We included year and industry dummies in the study to account for industry and time-related effects. We used following model to examine the impact of promoter ownership on firm value.

$$TQ_{it} = \alpha_0+\beta_1 Size_{it}+ \beta_2 Leverage_{it}+ \beta_3\, Cash\ flow_{\ it}+ \beta_4\, Age_{it} + \beta_6 DIVI_{it}+ \beta_7\, BS_{it} + \beta_8 PROMO_{it} + U_i+ V_t+ \varepsilon_{it} \quad (1)$$

Where TQ is the Tobin's Q measured by using market value of equity plus book value of debt to total assets. Size is the natural logarithm of total assets. Cash flow (CFLOW) is the profit after tax to total assets. Age is the age of the firm since its incorporation. Dividend (DIVI) is the total of dividend paid to total assets. Board size (BS) is the number of directors in the board and promoter (PROMO) is the percentage of shares held by the promoter. The terms U_i+ V_t+ ε_{it} represents the industry fixed effects, time fixed effects, and error term respectively.

RESULTS AND DISCUSSION

Descriptive Statistics and Correlation Matrix

The descriptive statistics and correlation matrices of the important variables are shown in Tables 1 and 2. The average promoter value in India is 0.631%, while it is 0.89% in China. Promoter ownership is higher in China than in India. The average Tobin's value for India is 4.46, while it is 1.1 for China. India has an average board size of 8.89 and China has an average board size of 9.22. Size has a mean value of 8.52 in India and 8.64 in China, respectively. India's average leverage is 0.307 while China's is 0.86, showing that China is more reliant on external financiers who charge high interest rates. The results reported in the correlation matrix shows that promoter ownership in China is positively related to Tobin's Q but negatively related to firm value in India.

Table 1
Descriptive statistics of India

Variable	Obs	Mean	Std.Dev	Minimum	Maximum
TQ	14,740	4.6291	2.02314	0.1864	6.9741
Size	14,740	8.5288	1.8939	2.486	13.494
Leve	14,740	0.3073	0.2166	0.0324	0.4856
C_flow	14,740	0.2991	1.3239	0	0.5321
Age	14,740	0.2148	0.0365	0.025	0.253
Divi	14,740	0.0013	0.003	0.001	0.00231
BS	14,740	8.8967	3.4069	0	12
Promo	14,740	0.6361	0.2628	0	1

Note: Each variable reports number of observations, mean, and standard deviation. The sample period is from 2006–2017

Table 2
Correlation matrix of India

Variable	TQ	Size	Leve	C_flow	Age	Divi	BS	Promo
TQ	1							
Size	–0.3428*	1						
Leve	0.0462*	–0.0490*	1					
C_flow	–0.0277*	0.0436*	–0.003	1				
Age	–0.0274*	0.0409*	–0.1334*	0.0206*	1			
Divi	–0.0623*	0.1099*	–0.1635*	0.0214*	0.1566*	1		
BS	0.0089	0.0065	–0.0047	–0.0037	0.0035	0.005	1	
Promo	–0.1350*	0.2729*	–0.1068*	0.0368*	0.0390*	0.0721*	–0.0153	1

Note: The sample period is from 2006–2017; *significance at 1% level

Table 3
Descriptive statistics of China

Variable	Obs	Mean	Std.Dev	Minimum	Maximum
TQ	1,398	1.1024	0.0049	0.0215	0.3965
Size	1,398	8.6428	1.4756	1.4987	10.732
Leve	1,398	0.0866	0.107	0	0.1489
C_flow	1,398	0.0332	0.0553	0	0.0256
Age	1,398	0.0027	0.0065	0	0.05445
Divi	1,398	0.0051	0.0097	0	0.04545
BS	1,398	9.2259	2.969	0	14
Promo	1,398	0.8906	0.2236	0	1

Note: Each variable reports number of observations, mean, and standard deviation. The sample period is from 2006–2017

Table 4
Correlation matrix of China

Variable	TQ	Size	Leve	C_flow	Age	Divi	BS	Promo
TQ	1							
Size	–0.4117*	1	1					
Leve	–0.1407*	–0.1407*	0.3845*	1				
C_flow	–0.1918*	–0.1918*	0.2836*	0.0525*	1			
Age	–0.0117	–0.0117	0.0555*	–0.1371*	0.0028	1		

(*Continued on next page*)

Table 4: (*Continued*)

Variable	TQ	Size	Leve	C_flow	Age	Divi	BS	Promo
Divi	–0.0993*	–0.0993*	0.1992*	–0.0240*	0.4041*	0.1942*	1	
BS	–0.0895*	–0.0895*	0.1098*	0.0041	–0.0075	–0.0428	0.0267	0.1144*
Promo	0.0051*	0.0051	0.0142	–0.0041	–0.0223	0.027	0.0142	1

Note: The sample period is from 2006–2017; *significance at 1% level

Impact of Promoter Holdings on Firm Value

The impact of promoter ownership on firm value is shown in Table 5. The findings show that in China, promoter ownership has positive impact on firm value which is consistent with resource dependence theory implying that promoter exists as a resource provider to the firms. Their experience and skills help the firms in obtaining resources from outside. In India, promoter ownership has negative impact on firm value indicating that the promoter receives an unfair advantage through exploiting the firm's resources as a result of agency conflict, resulting in a fall in firm value. The difference in the result is that the government still controls China's most prominent firms. In contrast, Indian firms are owned by promoters and their families. However, neither of these systems is regarded as the foundation of corporate governance standards in China or India. Emerging economies like China and India might need to develop and use different corporate governance standards than more developed economies. In India, board size has a favourable impact on firm value, which is consistent with agency theory, but in China, it has the opposite effect.

Table 5
The effect of promoter holdings on firm value

	China			India		
	Panel A			Panel B		
Variables	(1) TQ	(2) TQ	(3) TQ	(4) TQ	(5) TQ	(6) TQ
Size	–0.0013***	–0.0013***	–0.0014***	–1.9958***	–1.9962***	–1.9354***
	(–32.04)	(–13.71)	(–13.75)	(–43.45)	(–43.46)	(–40.67)
Leve	0.0008	0.0013	0.0013	1.3093***	1.3114***	1.1445***
	(1.54)	(1.00)	(1.07)	(3.22)	(3.23)	(2.81)
C_flow	–0.0075***	–0.0066**	–0.0064**	–0.1038	–0.1034	–0.0934
	(–6.96)	(–2.55)	(–2.49)	(–1.59)	(–1.58)	(–1.43)
Age	0.0080	0.0240	0.0238	–2.0895	–2.0975	–1.9126
	(0.95)	(1.16)	(1.15)	(–0.87)	(–0.87)	(–0.79)

(*Continued on next page*)

Table 5: (*Continued*)

	China			India		
	Panel A			Panel B		
Variables	(1) TQ	(2) TQ	(3) TQ	(4) TQ	(5) TQ	(6) TQ
Divi	0.0064	–0.0004	–0.0006	–2.9435**	–3.0913**	–0.6950**
	(1.04)	(–0.03)	(–0.04)	(–2.47)	(–2.47)	(–2.33)
BS		–0.0002*	–0.0002*		0.0372	0.0576**
		(–1.78)	(–1.75)		(1.47)	(2.14)
Promo			0.0016**			–1.7389***
			(2.10)			(–5.07)
Constant	0.0139***	0.0148***	0.0143***	1.4056***	2.0775***	2.6306***
	(4.99)	(8.81)	(5.81)	(5.42)	(3.94)	(3.50)
R-Square	0.28	0.29	0.30	0.42	0.44	0.46
No. of Observations	1398	1398	1398	14740	14740	14740
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES
F-Statistics (Prob)	0.017	0.019	0.022	0.025	0.031	0.033

Notes: The effect of promoter holdings on firm value are reported in this Table. Panel A reports the results of China and Panel B reports the results of India. Model 1 and 4 reports the results of control variables. Model 2 and 5 reports the results of board size. Model 3 and 6 reports the results of promoter holdings. All regressions accounts for industry and year effects. *t* – statistics are reported in the brackets. *, **, *** denotes the significance at the 10%, 5%, and 1%, respectively.

Robustness Check

Due to the omission of unobserved company-specific effects and simultaneity concerns between ownership variables and firm value, using other approaches, such as ordinary least squares (OLS), is unable to tackle the endogeneity problem that arises. Using instrument variables (2SLS) in panel data models within a single equation framework would only lessen the endogeneity problem that can appropriately tackle the simultaneity problem, and the efficacy of the mitigation has to rely on the quality of the instrument variables. Hence, we use instrumental variable (IV) approach to manage the endogeneity bias relating to promoter ownership and firm value. We employed the lag value of the independent variable as an IV similar to Reeb and Zhao (2013). Our results are consistent with baseline results, i.e., when a company is owned by a single stakeholder, information asymmetry and agency costs are decreased, resulting in better corporate management and increased profitability for the company. The findings are consistent with Berle and Means' (1932) findings, which stated that concentrated ownership must have a positive impact on business value since it lowers the conflict of interest between families and experts. According to Demsetz (1985), ownership concentration is the product of current and prospective shareholders' decisions, and as a result, it should affect the company's value. Anderson and Reeb (2003) studied the Standard & Poor's 500 index and discovered that family businesses outperform non-family businesses in terms of market performance and profitability.

Table 6
Robustness checks on impact of promoter ownership on firm value

	Panel A	Panel B
	China	India
Variables	ROA	ROA
Size	–0.0001	–0.0013***
	(–1.34)	(–5.80)
Leve	0.0006	–0.1008***
	(0.57)	(–5.54)
C_flow	0.0015	0.0012***
	(0.71)	(3.85)
Age	0.0346**	0.4986***
	(2.00)	(–4.33)
Divi	–0.0163	2.0225***
	(–1.37)	–4.14
BS	–0.0003***	–0.002
	(–2.66)	(–1.02)
Promo	0.1005**	–0.0044***
	(1.95)	(–2.65)
Constant	1.0016***	–0.0021
	(3.80)	(–0.39)
R-Squared	0.28	0.32
No: of observations	1,068	12,121

Notes: ROA= Return on assets; This Table reports the robustness result of impact of promoter holdings on firm performance. Panel A reports the results of China and Panel B reports the results of India. All regressions accounts for industry and year effects. *t* – statistics are reported in the brackets. *, **, *** denotes the significance at the 10%, 5%, and 1%, respectively.

CONCLUSION

This study examines the impact of ownership on firm value by using the sample of firms listed in NSE of India and SSE of China. Since the ownership of these two countries are concentrated on the hands of the promoters the results of this study have an impact of the decisions taken by the regulators. We find that promoters add value to the firms in China due to the alignment effect while it is inversely related to firm value in India due to the opportunistic behaviour of promoter. These findings support resource dependence theory and agency theory, respectively. Owing to concentrated ownership, the greatest agency problem in corporate governance worldwide is the expropriation of minority investors by dominating shareholders. It has been demonstrated, theoretically and practically, that the tunnelling behaviour of controlling shareholders in India is motivated by the private benefits of control generated in the process of separating ownership and management of a company. As a result, controlling owners will utilise a wide variety of intricate ultimate controlling structures and tunnelling tactics to achieve private benefits. Our research demonstrates that when there are high levels of ownership in a company, the largest shareholders tend to become more entrenched and engage in tunnelling activities to pursue private benefits rather than maximise the value of the company. However, in China's public limited companies, the firm's board of directors is often controlled by the largest owners. As a result, other significant shareholders' monitoring and deterrent functions against choices that do not maximise value are fairly restricted. In light of this, the relevant authorities should initiate rules to govern board composition and the recruitment of additional independent directors. This study is beneficial to investors and regulators in a variety of ways: Regulators may evaluate agency issues in promoter-owned businesses, and suitable policies may be developed to protect minority shareholders. Our findings are consistent with the theoretical inferences made by (La Porta et al., 1999; La Porta et al., 1998), who postulated that the effectiveness of the law that protects investors in publicly traded companies is inversely proportional to the degree to which ownership is concentrated. In terms of their practical implications, this explains why investors in emerging economies desire to protect their investment by raising their voting right in a company. This is because of the laws that protect their investment. Therefore, this provides a practical explanation for why companies in emerging economies have large levels of concentrated ownership.

Limitations and Directions for Future Research

Our study has some limitations: First, this study is limited to the Indian and Chinese contexts. Due to the non-availability of data, we cannot conduct the studies for other developed and emerging economies. Second, this uses Tobin's Q as a measure of firm performance. Due to non-availability of data, we can't consider other measure of firm performance. Third, this study uses only promoter holdings as a corporate governance mechanism. There are other mechanisms such as CEO duality. Future studies can consider these variables while studying the relationship between promoter ownership and firm value. Fourth, we have used quantitative data for our study, even though we have controlled for unobserved heterogeneity in the data, future studies can consider changes in interest rate, impact of financial crisis and Covid-19 while examining the impact of promoter holdings on firm performance. Future studies can consider growth prospects metrics such as sales growth rate.

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