WP/11/2014

NSE WORKING PAPER

Ownership Trends in Corporate India (2001–2011): Evidence and implications

Bala N. Balasubramanian and Anand Ramaswamy

January 2014

NSE Working Paper

Ownership Trends in Corporate India (2001–2011): Evidence and implications

Prepared by Bala N. Balasubramanian and Anand Ramaswamy*

January 2014

Abstract

The first decade of the new millennium saw dramatic changes in the ownership patterns in major listed corporations in India. Two developments were striking: promoters, especially in the domestic private sector, bolstered up their holdings to ensure continued entrenchment; and institutional investors significantly increased their holdings, especially in the private sector management-controlled companies segment. In both cases, these increases were achieved at the cost of retail non-institutional shareholders, whose holdings correspondingly recorded a steep fall. This paper documents this evidence, seeks to identify their underlying rationale, and assesses their implications for corporate equity investment and governance in the country.

* Bala N. Balasubramanian is an Adjunct Professor at the Indian Institute of Management Ahmedabad, and the Founding and Former Chair and the current Advisor of the Centre for Corporate Governance and Citizenship at the Indian Institute of Management Bangalore, where Anand Ramaswamy was a Research Associate. The authors acknowledge with gratitude the valuable comments of the anonymous referee. The views expressed in the paper are those of the authors and do not necessarily reflect the opinion of the National Stock Exchange of India Ltd. The author can be contacted at bala4391@gmail.com.

Ownership Trends in Corporate India (2001–2011): Evidence and implications

1. Introduction

Globally, the corporation as a preferred business format for large and/or risky ventures has come to stay. Societies around the world (represented by their governments) have facilitated and encouraged the growth of corporations as instruments of their own wellbeing and competitive advantage among the comity of nations. As vehicles of private enterprise and personal enrichment, corporations can be at cross purposes with societal expectations of how they are to be run, especially in terms of their positive contributions and negative externalities of operation. Ownership and control of corporations under the watchful stewardship and surveillance of their boards have significant influence in shaping corporate behaviour as well as the equitable management of relationships among themselves, the society and communities they serve, and the governments of the countries they operate in.

This paper tracks the movements in corporate ownership among the top companies in India in the first decade of the new millennium and moving forward into the second decade. It describes the changing political and regulatory environment driving ownership patterns in tandem. The paper is organised as follows: section 2 provides a brief overview of the development of the corporate format of business organisations globally and especially in India; section 3 describes the sample and its categorisation for analysis, the methodology, and other background information; section 4 sets out the findings and interpretations; and the conclusions are presented in section 5.[1]

2. Corporations and their Evolution in India

Looking back at the evolutionary history of the corporation as it is known today, one could discern at least three major defining developments. The first was the artificial creation of the corporate entity by a legal sleight of hand, followed by the introduction of limited liability, the acceptance of the corporations' right to invest in and hold stock of another corporation, and the shift from democratic to plutocratic voting rights, moving away from one vote per *shareholder* to one vote per *share*, and then to even more skewed differential voting rights.

The second was the emergence of the publicly traded corporation, representing a paradigm shift in the way a business could be scaled up, where owners of a slice of the corporation (represented by the proportion of shares held) neither had claims to the property (net of liabilities) of their company in kind nor the obligation to be permanently wedded to their shareholdings—they could exit by selling or otherwise disposing their shares. As Berle and Means (1932, pp. vii–viii) pointed out some eighty years ago, this development transformed significant proportions of the nation's industrial wealth from essentially individual ownership to corporate ownership,

[1] Since this is an abridged version of the original paper, the detailed Annexure containing the comprehensive set of statistical exhibits is not included in this version.

changing the lives of property owners and workers in the process; in fact, changing the very concepts of property ownership, ushering in virtually a new format of economic organisation.

The third defining element in modern corporate governance was the development of the corporate board itself and the definition of its role, responsibility, and accountability. Undoubtedly, the board is 'elected' by the shareholders (usually by the dominant shareholders or the executive management, depending on the country's ownership patterns); but once the board is elected, it is virtually its own arbiter in all matters relating to the company. With the demise[2] of the active, small-time entrepreneurial investor-manager and the ascent of the generally passive absentee[3] shareholders in the corporate format of business, executive management took over that function, subject to the supervision and oversight of the board. Influential legal scholars such as Berle (1931), Dodd (1932), Stout (2002, 2012), Bebchuk (2005, 2006), Bainbridge (2002, 2005), and Strine, Jr. (2006), among others have debated the pros and cons of greater shareholder involvement in corporate decision making. As of now, however, absentee shareholders in many jurisdictions have to be satisfied largely with their (theoretical) right of having a say in the election of the directors to the board; thereafter, all they can do is hope their interests would be fairly protected. Indian shareholders, however, are comparatively better off than most of their Western compatriots in that they have superior legal rights, especially with the legislative and regulatory reforms in 2013,[4] although these rights are often neutralised by the dominant shareholders' voting power and the general indifference of institutional shareholders.

Shareholder primacy is impacted variously by the ownership structures of the corporation. Dominant ownership—that includes but does not necessarily require majority holdings—is widely prevalent around the world, including India (with the exception of the U.S. and the U.K.). However, this can be a double-edged sword—owners with long-term interests in the company can offer stability and proprietary oversight to ensure efficiencies, but can also potentially inflict costs of extraction of private benefits of control to the exclusion of other shareholders. The managerial model of the corporation prevalent in the U.S. and the U.K., with dispersed ownership, while avoiding the demerits of the dominant ownership, can and often does exhibit agency costs arising from fundamental non-congruence between shareholder and manager interests. These are generally manifested in the form of unconscionable executive compensation, bonuses, and severance terms, besides the use of corporate funds and resources for personal aggrandisement, self-seeking philanthropy, overly risky business practices, leveraged buyouts, and manipulative gains on stock options through creative earnings management, self-dealings, and so on. A desirable model that would incorporate the positives and eschew the negatives of either form of ownership is a theoretical possibility, but in reality, barring miniscule exceptions, it is hard to come by.

Within the confines of the modern-day corporation, both accountability as well as responsibility are heavily impacted by ownership. Ownership structure can also mediate firm strategy and behaviour (Wright et al., 1996) and can influence boardroom dynamics and stakeholder

[2] This is true especially in the context of large-scale, high-risk enterprises; small- and medium-scale entrepreneurs continue to thrive elsewhere and constitute a very substantial part of the Indian economy and business.

[3] This is a term that we use to denote all those shareholders who are not associated with the operational control of the corporation, in preference to the general usage of 'minority' shareholders, since this category often happens to be the majority in several corporations.

[4] A review of these improvements and their impact on good governance is available in Balasubramanian (2013).

management (Goodstein and Boecker, 1991), executive compensation (David et al., 1998; Balasubramanian et al., 2013), and R&D investment (Baysinger, Kosnik and Turk, 1991). Thus, an understanding of ownership patterns and trends can lead us to a more nuanced understanding of corporate behaviour and its predictability.

2.1 Ownership Trends around the World

Academic research on corporate ownership has often been dominated by studies focused on the U.S. and the U.K., both of which have predominantly dispersed ownership structures. Studies by La Porta et al. (1999) of other economies and more recently by Aguilera et al. (2011) of firms in emerging markets have found concentrated ownership as a general pattern in most of the other world economies. The former study, which included firms from 27 developed countries, concluded that only 30% of the firms showed dispersed ownership (La Porta et al., 1999). In this study, Japan was identified as having dispersed ownership because direct ownership in the country was not higher than 20% (the study's cut-off criterion). However, in effect, the country qualified as a concentrated ownership geography because of the predominant inter-corporate holdings. Aguilera et al. (2011) also found significant ownership concentration in the form of holdings by corporate bodies, individuals, or the state in their study of corporations in South America.

2.2 Ownership Patterns in India

Corporate ownership in India is predominantly concentrated in the hands of domestic individuals and promoter groups, multinational parents, or the state. Much of the family and other domestic holdings could be traced back to the days of the British Managing Agencies (Balasubramanian, 2010, pp. 359–365), arguably unique to India, which enabled essentially British merchants and some Indian businessmen to spawn and nurture different enterprises that eventually grew into giant corporations in their own right. Many of these agencies were acquired by Indian groups when their British owners chose to depart from India when the country attained independence in 1947. The Indian state became the other major dominant shareholder in a number of large corporations when as part of national policy, state-owned enterprises were set up to reach commanding heights in the Indian economy; many of these are now publicly traded corporations as a result of the government's privatisation initiatives. The third group responsible for concentrated ownership in the country is the foreign multinational sector—many international corporations identified India along with China as the future economic power engines of the world and have set up shop in the country. With several sectors of the economy gradually opening up for foreign participation, this sector may grow substantially in the near future.

While the focus of this paper is the larger publicly traded companies, it would be helpful to recognise the phenomenal growth in the overall corporate sector in the last half-century. Exhibit 1 lays the growth of the corporate sector in India from the time the monumental legislation on company law was enacted in 1956 (in the decade following political independence) until 2011. Of this huge population, the listed segment is of course very small in number but significant in value: 1657 companies were listed on the National Stock Exchange (NSE) as of September 2012, with a market capitalisation of INR 64,31,658 crores (USD 1.18 trillion). The much older Bombay Stock Exchange (BSE)—in fact, it was the first Asian stock exchange—had a listed company population of over 5000 companies in 2012 with a market capitalisation of INR

58,30,000 crores (USD 1.06 trillion). Given that about 60,000 unlisted public companies would be virtually wholly managed by the promoters, the other absentee shareholders in those companies (although admittedly fewer in number because of the lack of public participation) would pretty much be in a similar situation as the absentee shareholders in their listed counterparts, with the added vulnerability of no regulatory supervision or rigorous disclosure requirements other than what the company legislation imposes upon them.[5] This continues to remain a vast unexplored segment in terms of academic research.

Exhibit 1: The Corporate Sector in India: 1957–2011

31 March	Limited by Shares			Unlimited Liability Companies	Companies Limited by Guarantee	Foreign Companies
	Government Companies	Non-Government Companies	Total Companies			
1957	74	29283	29357	-	1364	551
1961	142	26007	26149	-	1169	569
1971	314	30008	30322	-	1270	543
1981	851	61863	62714	176	1478	300
1991	1167	223285	224452	317	2117	489
2001	1266	567834	569100	461	2918	1141
2011*	1316	713239	714555	437	3600	3127
*Public	988	58658	59646			
*Private	328	654581	654909			
Listed Companies			NSE 1657 BSE 5000+			

Source: Table 2.4 and XI (pp. 18, 87), 55th Annual Report on the Working & Administration of the Companies Act, 1956: Year ended 31 March 2011; Ministry of Corporate Affairs, Government of India; Listed companies from the websites of the respective stock exchanges.

2.2.1 Concentrated *vs.* Dispersed Ownership

The classical agency problem of separation of ownership and control (Fama, 1980) is commonly associated with dispersed ownership. In India, where the norm is concentrated ownership in the hands of promoters, horizontal agency or agency type-II problems (Morck and Yeung, 2003; Roe, 2004) are more prevalent. Issues such as board composition, board monitoring, director independence, risk management, communication, disclosure practices, and so on must all be seen in this context.

2.2.2 Voting Rights: Democratic vs. Plutocratic

Voting rights are an index of the efficacy of ownership rights. These can be plutocratic (with one vote per share) or democratic (with equal voting rights irrespective of the number of shares held); in some cases, it can be a combination of the two, which Alexander Hamilton (1790) referred to as the prudent mean (or *regressive voting* as it is sometimes called). A further

[5] The Companies Act, 2013 seeks to bring about a change in this position with several good governance practices being made applicable to unlisted public companies as well, depending on their size (paid-up capital, sales revenue, net worth, number of shareholders) and financing pattern (extent of borrowings from financial institutions, banks, and through debentures and public deposits).

distortion is introduced with leveraged rights, with some shares being more equal than the others and commanding a higher voting impact than warranted by the single share.

In the early nineteenth century, when business law followed common law, voting rights were based on the principle of suffrage rather than on the principle of property. This largely stemmed from the view that the corporation was a social entity and from the fear that plutocratic voting rights would tilt the balance of power unnaturally in favour of a few and mighty. As capitalism became the dominant force and ownership became dispersed, plutocratic voting rights were entrenched in the U.S. towards the latter half of the nineteenth century (Dunlavy, 2006). Corporations in Germany, Britain, and France also began to adopt the one vote-one share principle. In India, the one vote per share principle mimicked the law in Britain, with provisions for differential rights with the state's approval. However, to this day, it is not uncommon to have a simple show of hands at a shareholders' meeting while voting on a proposal, making it a democratic process at least in the ceremonial sense, since a poll (with plutocracy in full operation) must be granted if required by any shareholder. In terms of the effectiveness of the principles, neither system's superiority (democratic or plutocratic) has been established. Some countries such as the U.S. have both these systems, with large names such as Berkshire Hathaway and Google having dual class shares.

In a study commissioned by the Association of British Insurers covering the FTSE 300 (ABI, 2005), Belgium and Denmark found evidence mostly supporting plutocratic voting, with 88% of the companies in Britain applying the one share-one vote principle. Countries such as the Netherlands, Sweden, and France had in excess of 60% of their companies listed on the FTSE with multiple voting rights, clearly an oligarchic rather than a democratic principle. In India, company legislation had prohibited the issue of shares with differential voting rights until the end of the twentieth century; the law was then amended to permit them, though this practice is still not very common. The Companies Act, 2013 continues with this concept with some stringent conditions, including a cap of 25% of the total equity for such shares with differential voting rights.[6]

2.3 Inter-Corporate Ownership: Pyramids and Groups

The acceptance of the principle that corporations may own shares in other corporate entities was to have a monumental influence on the development and growth of what we now know as corporate groups and conglomerates. This was to be the harbinger of giant corporate entities in terms of their ultimate control over the assets and resources of the total group without necessarily having to invest corresponding risk capital to acquire those economic interests. With a series of layers of holding and subsidiary or affiliate companies, often with just majority control at each level, corporate pyramids were created, with individuals, families, or managerial clusters at the top of the pyramid being catapulted into positions wielding enormous control rights with comparatively little cash flow rights.[7]

The subsidiaries and affiliates were useful (especially in the case of multinational corporations) as instruments for de-risking (since each incorporated entity was deemed to be a standalone legal

[6] Proposed Rule 4.2.

[7] The Companies Act, 2013, Section 186 (1) limits the scope of such investments by prescribing a maximum of two layers of such investment subsidiaries.

entity, with their liabilities often contained within themselves and not passing through to the parent entities, barring a few exceptions where this corporate veil could be done away with), for tax saving and currency management (creatively managing profits, transferring to stronger currency and lower taxes geographies, and so on), and also for genuine business strategy reasons, or to comply with local government requirements. Besides, there were also tax and other advantages in independent legal entities in the case of existing businesses or geographies, or for getting into joint ventures and other such structural devices.

In the context of the present study, the relevance and importance of corporate groups are immense. They offer a fertile ground for potential tunnelling by their controlling owners and managers through the transfer of resources, profits, cash, and even opportunities between firms in which their cash flow rights vary (Bertrand et al., 2000), Such abusive related-party transactions take the form of interest-free loans and advances, inter-corporate deposits, and the purchase and sale of goods and services at rates disadvantageous to the company where the group's cash flow interests are lower than those of the other parties. For instance, an OECD study (2012, p. 91) of related-party transactions of the top 50 companies indicated that some transactions accounted for more than 20% of the net worth of these companies. The scale of such transactions is indeed a significant indicator of how individual company operations are routed through related group entities, with potential rent extraction for the controlling shareholders.

2.4 Board Interlocks

Interlocking directorates occur where a director on one company also sits on the board of another company, thus bringing both companies together in a network of relationships. Interlocks could also occur indirectly—when a director of a company (A) sits on the boards of two other companies (B and C), the latter two companies would be deemed to be interlocked indirectly, although none of the other directors of B or C may be sitting on the boards of the other company. Groups often offer more than adequate scope for interlocks between and among their own companies, in addition to interlocks with other companies. Concentrated ownership structures, with their proclivity to disproportionately large access to control rights in corporations, encourage board interlocks not only within groups but also among other similarly owned large enterprises. Thus, it has been found that 6% of the total director population on the boards of NSE listed companies controlled 66% of the total NSE market capitalisation in 2010 (Balasubramanian et al., 2011). Barring a handful of professional executives, most of the directors in this 6% belonged to or were affiliated with corporations with concentrated ownership structures.

Interlocks have both good as well as bad aspects, justifying their comparison with cholesterol! On the positive side, they help the transfer of good practices and offer win-win advice to both the companies; on the negative side, they can stifle competition and share business intelligence that is otherwise not easily available. In the case of group interlocks, it is conceivable that the companies with better cash flow rights to the controlling promoters may benefit at the cost of others where their rights are poorer.

3. Ownership of Indian Corporations

A time series analysis of the ownership structures in corporate India in the first decade of this millennium is presented in this section. The sample for this study and the methodologies used for sourcing, validating, and analysing the data as well the subsets of sample companies for a fuller understanding of the trends and their underlying rationale are first described.

The primary data was sourced from the National Stock Exchange (NSE) and was related to the years ended 31 December, 2001 to 2011. The National Stock Exchange (NSE) formed in 1992, has in a short time become India's largest stock exchange, bigger than its much older counterpart, the Bombay Stock Exchange (BSE). Its pioneering use of technology offered the markets a transparent trading platform for all listed securities and transformed stock trading from a location-dependent operation to a nationwide footprint where parties can buy and sell securities from anywhere in the country where technology access is available. The NSE operates two prominent indices— the Nifty 50 and the CNX 100.Three sample sets were used: (i) the top fifty companies making up the Nifty 50 index; (ii) the next fifty companies forming the Nifty Junior index; and (iii) the hundred companies in both these subsets, making up the NSE-CNX 100 index. These are further detailed below. The main purpose of this classification was to separately identify the trends in the second set of fifty generally smaller companies in the CNX 100 index without them being swamped by the first set of fifty larger companies.

a) **S&P CNX Nifty 50**
First constituted in April 1996, companies in the Nifty 50 have nearly two-thirds market capitalisation (on a free-float basis)[8] of all the stocks listed on the NSE. At present, it has representation from 11 different sectors and various types of management control.

b) **Nifty Junior**
This index was formed in early 2007. It represents the second fifty most liquid stocks after those in the CNX Nifty. The companies in Nifty Junior represent 16 sectors.

c) **CNX 100**
This index was formed in early 2003. It is a combination of the Nifty 50 and the Nifty Junior. The companies in the CNX 100 index account for 16 sectors and have a combined market capitalisation close to 80% of the total market capitalisation (adopting the free-float methodology) of all NSE-listed companies.

3.1 Time Frame

A decade-plus time frame (eminently reasonable for a time series study) was chosen principally for the following three reasons.

- The economic liberalisation measures initiated in 1991 (and even earlier on a relatively lower key) were further strengthened in the years that followed and began to stabilise around

[8] Free-float comprises the proportion of companies' equity that is available for trading. By definition, it excludes promoters' holdings that are deemed illiquid and are not available for public trading. The current regulatory requirement stipulates that a minimum of 25% of the company's equity should be available for trading to maintain its listed status, but there may be several companies that are yet to fully comply.

the turn of the century. International interest in India began to grow, especially with global majors like GE identifying India and China as the future engines of economic growth. The increased broad-based interest in corporate stocks that was unleashed (following the implementation of the Foreign Exchange Regulation Act) in the 1970s and 80s by the market entry of innumerable multinationals already operating in India on a limited scale was further cemented and catapulted by the "equity cult" that was spreading across the country. A major share of credit for this is due to the pioneering and innovative entrepreneur, Dhirubhai Ambani of Reliance Industries.[9] Foreign direct investment in Indian ventures steadily increased as a consequence of on-going policy relaxations on higher foreign shareholding limits in many sectors. Moreover, as part of the government's disinvestment programmes, many public sector corporations including banks were listed on stock exchanges, boosting both available securities as well as their active trading, with Indian and foreign institutional investors (FIIs) contributing handsomely. The country had also shed its antagonistic posture against private sector businesses and was willing to openly live with the concentration of economic power in the hands of business houses, a concept that was anathema in the decades following political independence. Globalisation initiatives led to the recognition of the needs for corporate consolidation through mergers and acquisitions, inevitably bringing in their wake issues of contestability of corporate control. The first decade of the new millennium thus offered a rich timeframe to explore ownership trends in companies accounting for a sizable slice of market capitalisation.

- The reporting and disclosure norms for listed corporations had been substantially improved together with significant prescriptive improvements in the governance of listed corporations, effected through their listing agreements with stock exchanges. These substantially enhanced the availability and richness of detail of authentic information from the company filings with respective stock exchanges. For example, without the ownership data by categories available now in company filings, a study of this nature and on this scale would have been extremely difficult and time consuming, if not virtually impossible to pursue.
- Corporate ownership and hence control in India is predominantly concentrated in the hands of a few (sponsors or promoters), unlike in the U.S. and the U.K. Further, in many countries, there has been a very visible movement away from retail or individual shareholders and towards institutional investors such as pension funds and mutual funds. The insurance and mutual funds sector had been a state monopoly for the Life Insurance Corporation and Unit Trust of India for most of the post-independence decades until private sector entities were allowed entry at the turn of the century. This, together with the advent of FIIs in the Indian capital market following the gradual economic liberalisation beginning in 1991, enabled multiple institutions to invest and participate in the Indian corporate sector. Having reached a measure of stability over the years, their presence and operation in the chosen time frame would help identify whether and to what extent such a trend towards institutional investors away from retail investors was discernible in the publicly traded Indian corporate sector.

[9] Between 1980 and 1985, the number of Indians owning shares increased from less than a million to about 4 million. The number of shareholders in Reliance Industries alone rose to more than a million by 1985 (McDonald 1998, p.56).

3.2 Data Review and Validation

First, the list of companies forming the Nifty 50 and CNX 100 indices over a period of 11 years (2001–2011) was obtained from the NSE archives. The CNX 100 index did not exist prior to 2004. Therefore, the Nifty 50 and the Nifty Junior indices were combined to arrive at a list of 100 companies (in line with the methodology followed by the NSE) for the years 2001–2004. Ownership data was obtained primarily from the NSE based on company filings as of December 31 each year. There were some gaps in the data, especially in some of the earlier years of the study time frame. There were also instances where the year-on-year changes were striking. In such cases, information from multiple other sources—Prowess database, Capitaline database, and company websites—was used to validate the datasets. Although ownership data was available in both absolute numbers as well as percentages, only the latter figures were used for processing and analysis since this study's objectives were to ascertain the proportions of equity holding by different categories of shareholders, to determine the trends in ownership, and to explore their underlying circumstances (to the extent possible).

Size-wise, the sample covered 189 companies that had been part of the Nifty 50 and CNX 100 indices at some time or the other during the study time frame. Membership of the index list is not permanent, and hence, the composition changes from time to time. This explains the additional 89 companies compared to the normative size of 100 on the index at any time. Only 20 and 29 companies had continuously been on the Nifty 50 and CNX 100 indices, respectively, during the entire time frame of the study.

3.3 Classification of Companies

For the purpose of our analysis, the sample companies were classified under four categories based on the type of ownership and control as described below. Exhibit 2 presents our grouping of the sample companies.

Domestic Private Sector Companies

These are companies that are substantially (but not necessarily majority) owned and controlled by India-based groups, individuals, or families. These holdings are classified as "promoter-owned" according to definitions prescribed by the Securities and Exchange Board of India (SEBI) and adopted in company filings with stock exchanges, and include holdings by associates disclosed as acting in concert with the promoters.

Foreign Private Sector Companies

This category comprises firms that are controlled by foreign-based groups or holding companies, including those controlled by foreign-based Indian families and individuals, and acting in concert. Subsidiaries and affiliates controlled by multinational corporations form part of this group.

Government-Owned Companies

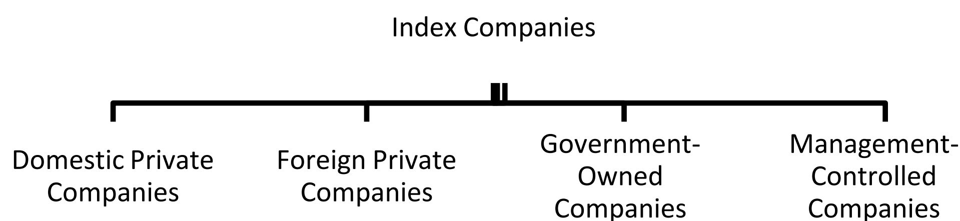
This category comprises firms that have the central government or state governments as the majority shareholder. Also included are firms where majority shareholding rests with a

government-controlled institutional entity such as the Reserve Bank of India (in the case of the State Bank of India). The classification is based on respective company filings and descriptions.

Management-Controlled Companies (Dispersed Shareholdings)

These companies comprise entities with no identifiable controlling promoters as described in their filings. Shareholders in these companies are institutional investors and retail investors with no role to play in the operational management and control of the companies.[10]

Exhibit 2: Types of Companies



3.4 Classification of Shareholders

The data was also analysed under the four major categories of shareholders in the sample companies, namely, promoters, institutional investors, non-institutional investors, and government. The SEBI guidelines define promoters as individuals or companies owning more than 20% in the equity capital of the company. For the present study, promoters could be Indian, foreign, or the government. If the promoter was the central government or a state government, this shareholding was classified as government. Thus, while promoter shareholding can appear across domestic private companies, foreign private companies, and (to an insignificant extent) management-controlled companies, government shareholding is relevant only in government-owned companies. Institutional investors (both domestic as well as foreign), mutual funds, venture capital funds, and so on can figure across all the four categories of companies. Similarly, non-institutional shareholding consisting of corporate bodies, individual shareholders, non-resident Indians (NRIs), and foreign nationals can appear across all the company categories.

Exhibit 3: Classification of Share Ownership

Ownership Type	Domestic Private Company	Foreign Private Company	Government-Owned Company	Management-Controlled Company
Promoter	*	*		*
Government			*	
Institutional	*	*	*	*
Non-institutional	*	*	*	*

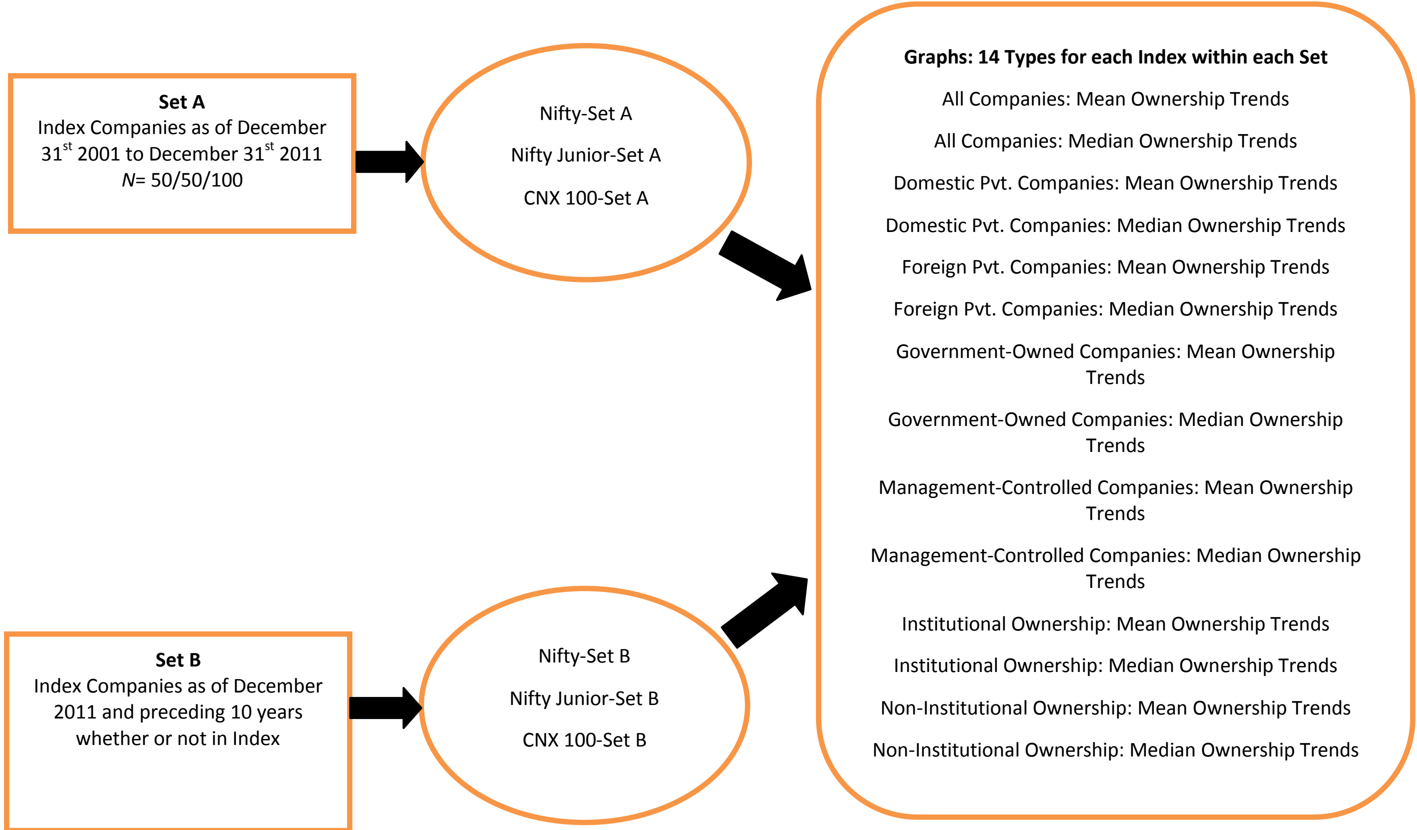
[10] In some of these companies (for example, Larsen & Toubro), there were very small proportions of holdings classified as promoters' holdings, probably representing the residual remnants that originally belonged to the promoters; however, they were not material enough to control the company.

The statistical analyses that follow were structured as follows:

- The first slicing of the data was done according to the profile of the companies and the data was divided into two subsets: the first category (Set A) comprised companies in the respective indices on 31 December each year; the second category (Set B) comprised companies that were in the respective indices as of 31 December 2011 tracked over the time period 2001–2011 (since some of these companies were not listed in the early years, the number of companies add up to 50 for the Nifty 50 and the Nifty Junior indices and 100 for the CNX 100 index only in the later years). The first category was meant to gauge the ownership status with respect to each year's index population; the findings in this category would be influenced not only by changes in continuing companies but also by the ownership patterns of incoming and outgoing companies. The second category was meant to ascertain ownership movements in balanced sets of companies, in order to discern historical trends in changes over the study period without being affected by changes attributable to incoming and outgoing companies.
- Within these two broad sets, the second slicing was based on the indices they were part of: Nifty 50, Nifty Junior, and CNX 100. This was done to ascertain the changing patterns separately in these three index groups.
- The third slicing was done to derive for each of these six data sets (the first slicing of two multiplied by the second slicing of three) the summaries of ownership movements in 14 categories comprising the mean and the median statistics with respect to the total sample in the category, the four company classifications (domestic private, foreign private, government-owned, and management-controlled), and the two investor categories (institutional and non-institutional retail).[11] A schematic of this analytical structure is presented in Exhibit 4.

[11] A total of (2*3*14) 84 exhibits (graphics and tables) are included in the Annexure (which is not part of this abridged version).

- **Exhibit 4: Schematic of Analytics Structure**



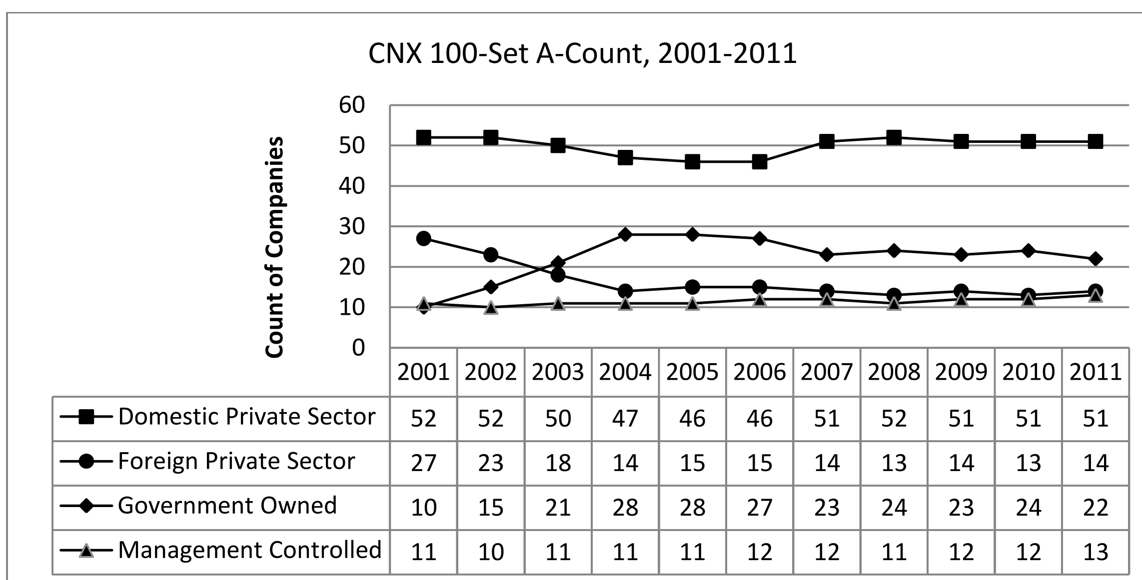
4. Analysis and Observations

This section outlines the key findings and observations of this study. The subsequent discussion is based only on the median statistics, given the general problems of outliers vitiating arithmetical averages in such analyses. We first deal with the Set A companies that were part of the Nifty 50 and CNX 100 each year (hence, a disparate panel of companies); then we deal with the Set B companies (those in the Nifty 50 and CNX 100 as of 2011) and their respective data for the preceding ten years (hence, a balanced panel of companies).

Set A: Index Companies at Each Year-end

- The composition profile of the index companies recorded a major structural shift during the study time frame. In the Nifty 50, government companies moved up from 7 in 2001 to 10 in 2001, with a decline in foreign private companies from 11 in 2001 to 8 in 2011. In the larger CNX 100 index, this pattern was even more pronounced with government companies going up from 10 to 22 and foreign companies declining from 27 to 14 between 2001 and 2011. This escalating predominance of government companies has huge implications for the protection of absentee shareholders' interests, given the government's disclosed powers to inflict costs on their controlled companies in public interest.[12]

Exhibit 5a: Count of Companies in CNX 100 (Set A)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Domestic Private Sector	52	52	50	47	46	46	51	52	51	51	51
Foreign Private Sector	27	23	18	14	15	15	14	13	14	13	14
Government Owned	10	15	21	28	28	27	23	24	23	24	22
Management Controlled	11	10	11	11	11	12	12	11	12	12	13

[12] The Coal India Ltd. case (*sub judice*) is a recent example where absentee shareholders have taken umbrage to government directives that are prejudicial to their interests.

Exhibit 5b: Count of Companies in Nifty 50 (Set A)

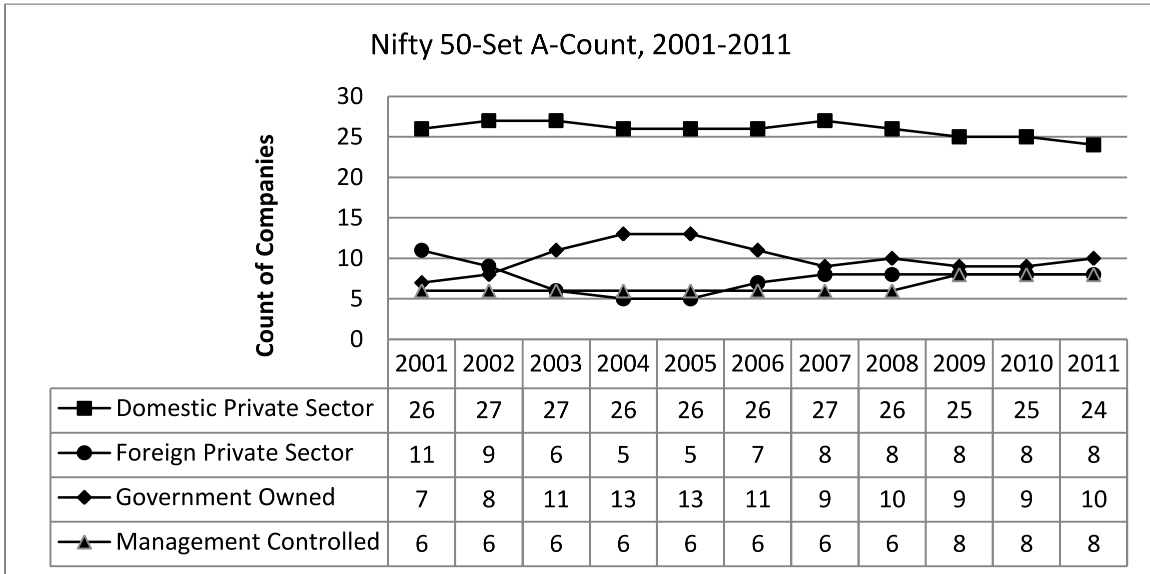
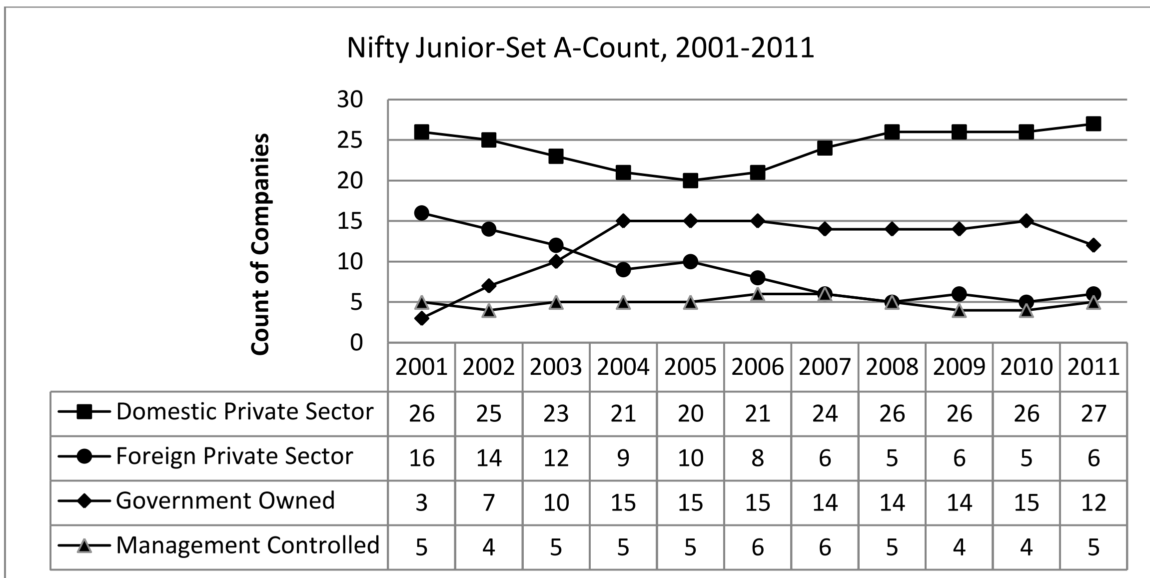


Exhibit 5c: Count of Companies in Nifty Junior (Set A)



- There is empirical confirmation of the predominance of concentrated ownership and control in corporate India. Moreover, the extent of such concentration over the years was increasing. Thus, although out of the Nifty 50 companies, the number of dominant ownership entities (domestic, foreign, and government) had gone down to 42 in 2011 from 44 in 2001, the median holdings of controlling shareholders had gone up to 56.24 % in 2011 from 42.94 % in 2001. In the larger CNX 100 sample, the number of such companies remained unchanged at 86; median promoter holdings had gone up from 48.83 % in 2001 to 54.21 % in 2011. The entry of new companies (some with higher promoter holdings) into the index cluster possibly contributed to the escalation in promoter ownership. For

example, the entry into the Nifty 50 of three additional government companies with significant promoter ownership would reflect in the overall Nifty 50 median promoter ownership numbers. Besides, some reclassifications of holdings from the institutional to the government category in the earlier years would also have the same effect.[13]

- Domestic private companies as a class did escalate their promoter holdings substantially over the period—median holdings in the Nifty 50 went up from 28.50% in 2001 to 46.80% in 2011; in Nifty Junior, median holdings went up from 36.67% in 2001 to 45.98% in 2011; and in CNX 100, median holdings went up from 32.08% to 46.75%. One implication could be that given the more relaxed political and regulatory attitude towards control contestability, these companies had to gradually bolster their holdings as a defence against possible unsolicited takeover attempts.
- Foreign-controlled companies in the Nifty 50 (although three less in number in 2011 compared to that in 2001) actually recorded an increase in promoter ownership from 51% in 2001 to 53.36% in 2011. On the other hand, such companies in the Nifty Junior showed a decrease from 52.82% in 2001 to 51.00% in 2011, thus neutralising the effect on the corresponding numbers in the CNX 100, with the median numbers remaining virtually unchanged: 51.01% in 2001 and 51.76% in 2011.
- Non-institutional retail shareholdings recorded a steep decline during the study period (in line with the experiences elsewhere in the developed world). In the Nifty 50 panel, the median holding fell to 16.15% in 2011 from 28.82 % in 2001. The Nifty Junior companies recorded an even greater decline—from 31.21% in 2001 to 15.88% in 2011.The CNX 100 group reflected this trend, with the median numbers falling from 30.29% in 2001 to 15.96% in 2011.
- Not all of this migration, however, was to institutional shareholdings, which remained virtually unchanged at 30.15% in 2001 and 30.31% in 2011. Within the two groups though, there were significant differences between the Nifty 50 and the Nifty Junior companies. The median numbers in Nifty 50 were 30.15% in 2001 and 30.31% in 2011. The Nifty Junior companies, on the other hand, recorded a different trend with the median numbers increasing from 16.57 in 2001 to 27.58 in 2011. This would seem natural since the promoters in Nifty Junior companies overall did not feel the necessity to increase their holdings, already being at comfortable levels.
- The migration of non-institutional shareholdings in case of domestic private companies revealed a similar trend. In the Nifty 50 group, median institutional shareholdings recorded little change: 33.04% in 2001 and 30.77% in 2011, confirming the absorption of the migration from non-institutional shareholding, much of it through buybacks (with promoters not participating) and in some cases, through open offers following acquisitions.[14] However, in the case of the Nifty Junior companies, median institutional holdings shot up from 15.25% in 2001 to 28.07% in 2011.

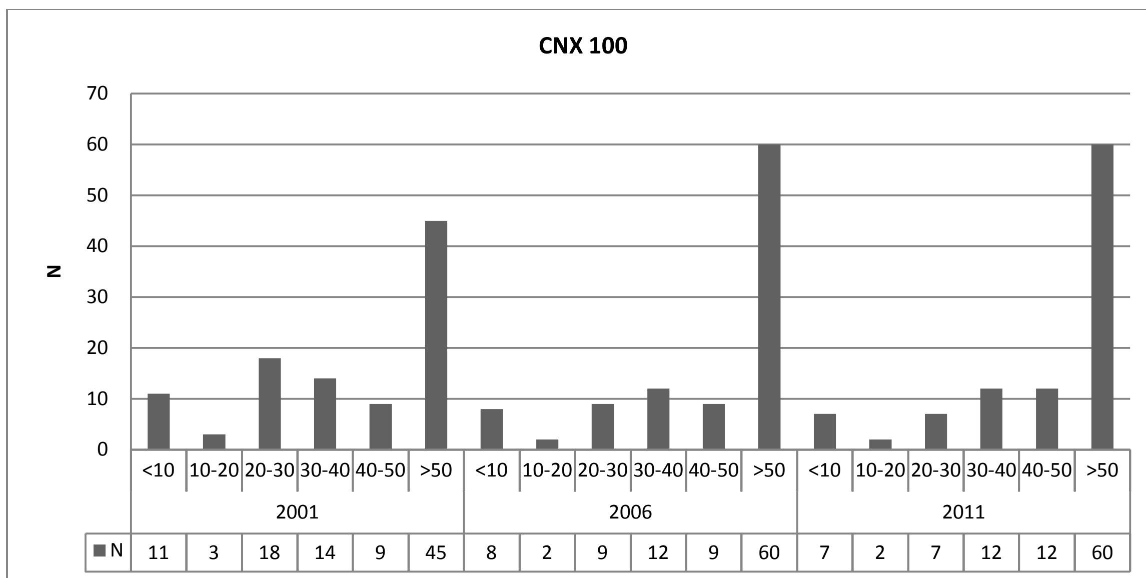
[13] For instance, holdings in Kochi Refineries and the State Bank of India held by other government-owned entities such as Bharat Petroleum and the Reserve Bank of India, respectively, were rightly reclassified as government holdings in later years.

[14] For instance, Aditya Birla Nuvo offered share buybacks to increase holdings from 39% (2007) to 50% (2011).

- The churn in the Nifty Junior companies during this period also likely influenced these statistics. For instance, included in this churn was a substantial reduction in foreign companies through de-listing and preferential allotments; the corresponding increase of government companies replacing them could have affected both the promoter as well as the non-institutional retail shareholdings.[15]

Exhibits 6a–6c: Frequency Distribution of Promoter/Government Holding in All Index Companies

Exhibit 6a: Frequency Distribution of Promoter/Government Companies in CNX 100



	2001						2006						2011					
	<10	10-20	20-30	30-40	40-50	>50	<10	10-20	20-30	30-40	40-50	>50	<10	10-20	20-30	30-40	40-50	>50
N	11	3	18	14	9	45	8	2	9	12	9	60	7	2	7	12	12	60

[15] The government companies in the sample grew from 10 in 2001 to 22 in 2011. The mean promoter holdings went from 60% to 67% within this period.

Exhibit 6b: Frequency Distribution of Promoter/Government Companies in Nifty 50

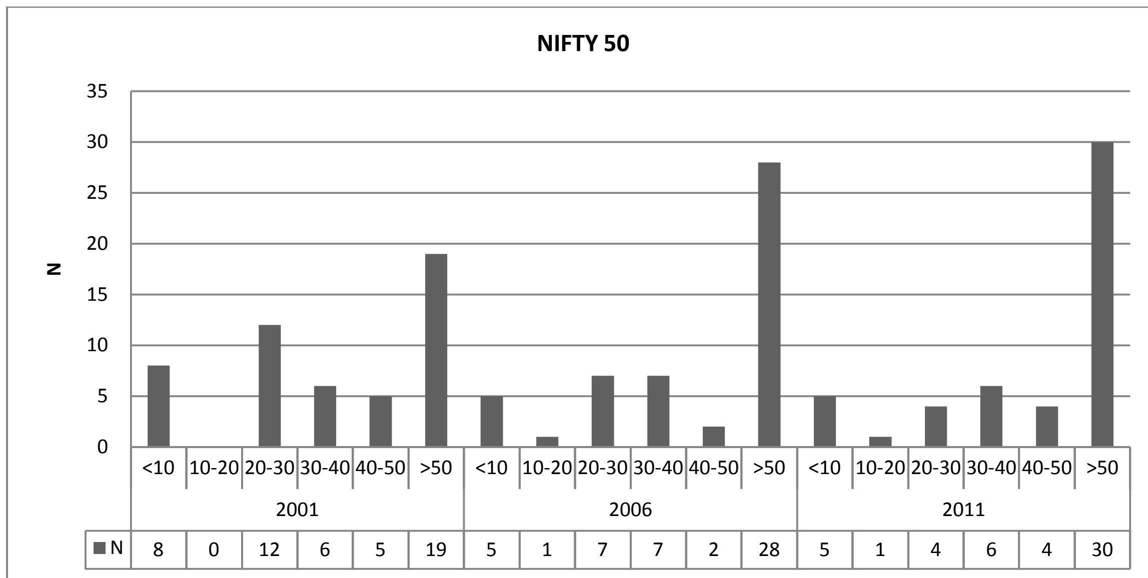
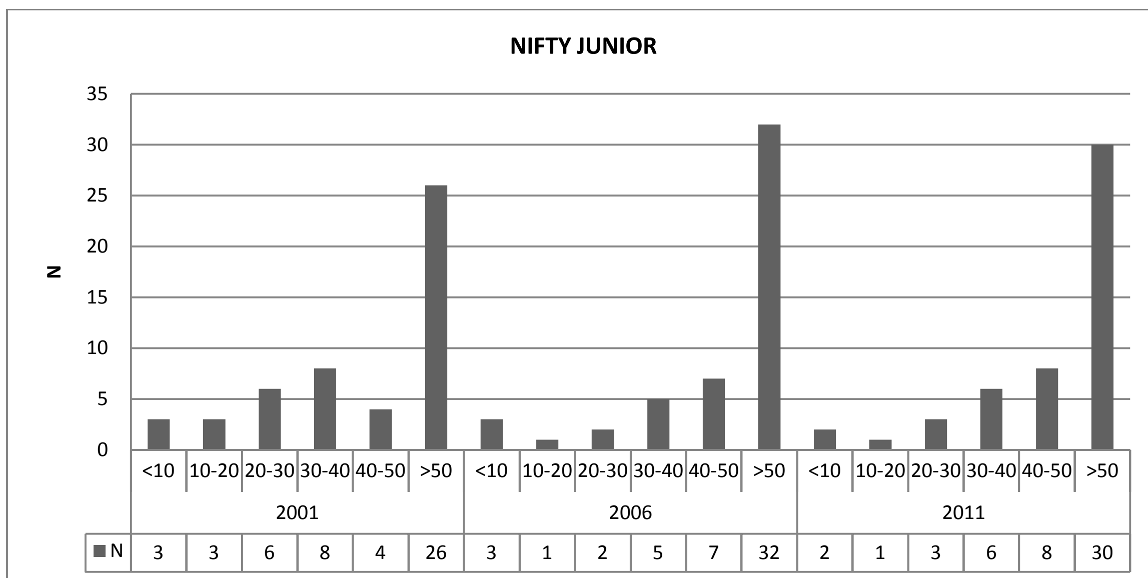


Exhibit 6c: Frequency Distribution of Promoter/Government Companies in Nifty Junior

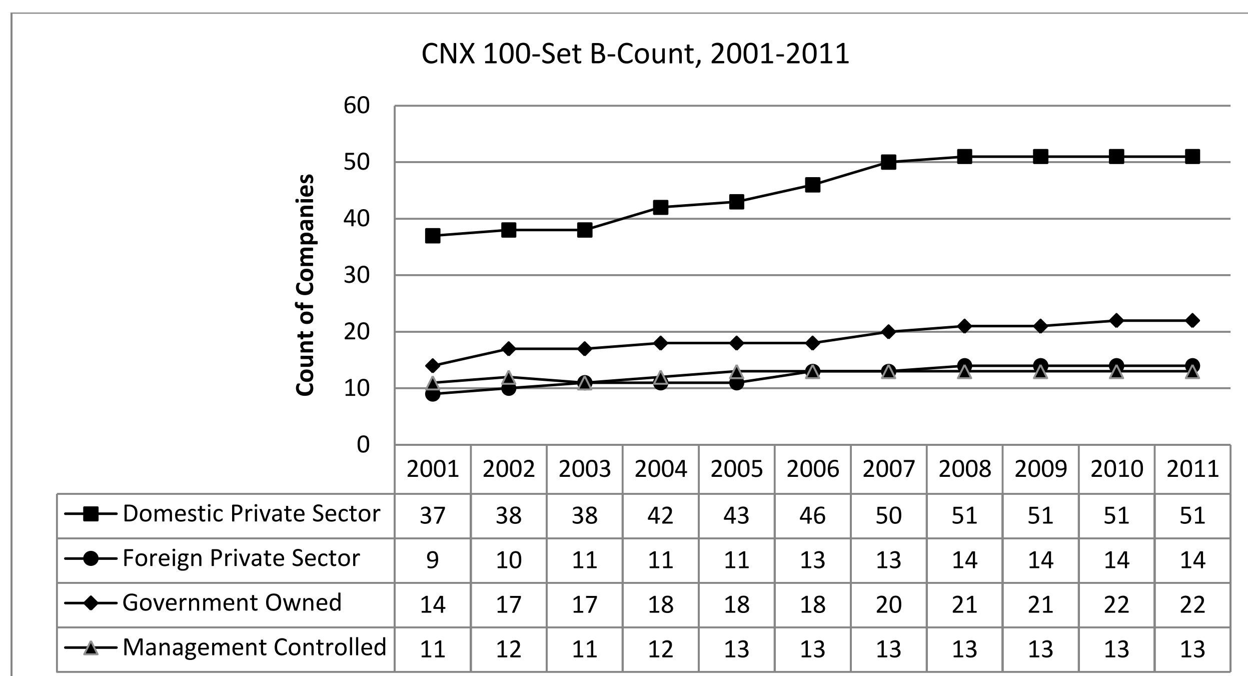


- The simple frequency distribution of promoter holdings in the index companies shows that companies with promoter holdings > 50% increased in all three indices between 2001 and 2011. Within the CNX 100 index, 45 companies had promoter holdings in excess of 50%. This increased to 60 companies in 2006 and 2011. Within the Nifty 50 companies, this number went up from 19 in 2001 to 28 in 2006 and 30 in 2011. With reference to the Nifty Junior companies, the number of companies with more than 50% promoter holdings was 26 in 2001, which went up to 32 in 2006 and 30 in 2011. The absolute increase between 2001 and 2011 in the number of companies with more than 50% promoter holdings proves that promoter holdings increased over the 10-year period.

Set B: Index Companies in 2011 over Ten Preceding Years

- As noted earlier, this set comprised a uniform panel of companies (based on index companies in 2011) involving the data from the previous 10 years. This profile was helpful in tracking the structural changes in individual companies over time and ascertaining the trends in the Nifty 50, Nifty Junior, and CNX 100 indices. The key findings (again based on median data) are discussed below.
- In terms of composition, this set had 51 companies in the domestic private group, 14 in the foreign private group, 22 in the government-owned group, and 13 in the management-controlled group in the CNX 100 index in the base year 2011. The profile should have remained unchanged in all the years since the same company history was what was being tracked. In practice however, there were two exceptions where through acquisitions, domestic private companies were reclassified as foreign private companies.[16] Another point to be noted is that all the companies listed in 2011 had not been listed in 2001. As a result, *the N values increased over the years, finally reaching 100 in 2010.*

Exhibit 7a: Count of Companies in the CNX 100 (Set B)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Domestic Private Sector	37	38	38	42	43	46	50	51	51	51	51
Foreign Private Sector	9	10	11	11	11	13	13	14	14	14	14
Government Owned	14	17	17	18	18	18	20	21	21	22	22
Management Controlled	11	12	11	12	13	13	13	13	13	13	13

[16] These two companies were Ambuja Cements (2006) and Ranbaxy Laboratories (2008), following acquisition by Holcim and Daiichi Sankyo, respectively.

Exhibit 7b: Count of Companies in the Nifty 50 (Set B)

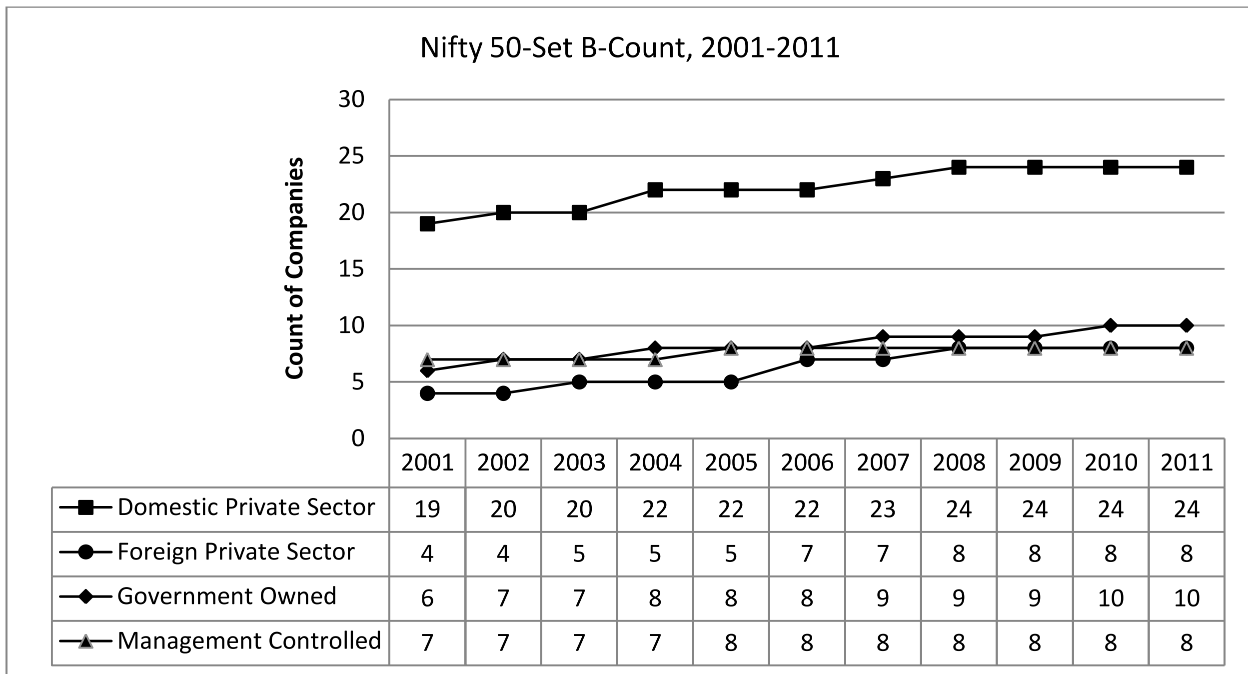
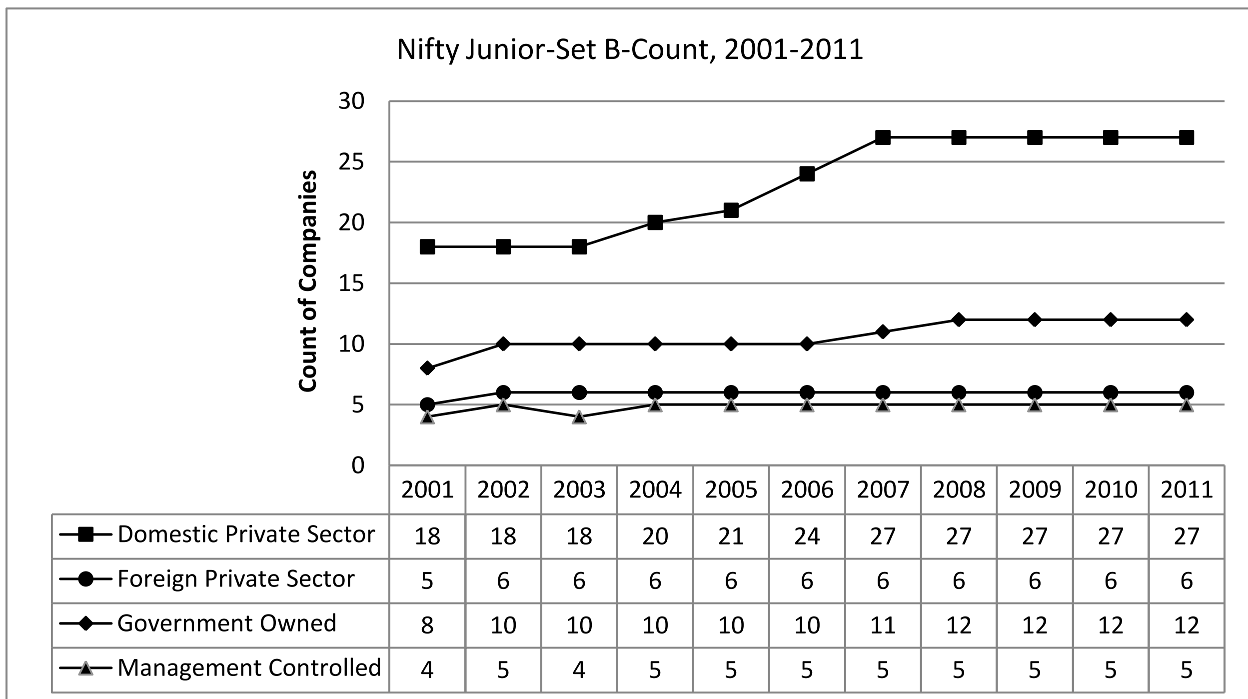


Exhibit 7c: Count of Companies in the Nifty Junior (Set B)



- Promoter ownership registered steep increases in the Nifty 50 set, from 25.99% in 2001 to 38.19% in 2011 and in the CNX 100 set, from 30.53% in 2001 to 41.69% in 2011. In the Nifty Junior companies however, there was little change: from 42.41% in 2001 down to 42.06% in 2011. As noted in the Set A discussion, these Nifty Junior companies that started

with a fairly comfortable promoter holding, perhaps had little pressure to increase their holding as a takeover defence.

- Within the Nifty 50 group, the promoters of domestic private companies hiked their median holdings steeply from 26.41% in 2001 to 46.80% in 2011.[17] The Nifty Junior group of domestic private companies, on the other hand, recorded only a modest increase, with their median promoter holdings going up from 42.51% in 2001 to 45.98% in 2011, tempering the corresponding numbers in the entire CNX 100 group to an increase from 32.55% in 2001 to 46.75% in 2011.
- Non-institutional holdings in this set saw a major decline, with the median holdings in the CNX 100 falling from 28.71% in 2001 to 15.95% in 2011; within this, the Nifty 50 companies[18] virtually halved their median non-institutional holdings from 32.25% in 2001 to 16.14% in 2011, while in the Nifty Junior group, the fall was less severe from 25.58% in 2001 to 15.88% in 2011. Within this, the decline of domestic private companies was more severe in the Nifty 50 than in the Nifty Junior—median non-institutional shareholdings in the Nifty 50 fell from 33.54% in 2001 to 19.33% in 2011, while in the Nifty Junior, they fell from 31.09% to 20.07%. As in the case of the Set A companies, much of this migration was to bolster the promoters' shareholdings in the Nifty 50 group while a substantial part went to institutional investors in the Nifty Junior group.
- Foreign companies as a group in this set saw negligible movement in promoter holdings during the study period. Non-institutional shareholdings, however, recorded a steep decline in Nifty 50 where they fell from 30.36% in 2001 to 15.68% in 2011, while the fall in Nifty Junior was much more modest, from 17.31% in 2001 to 16.24% in 2011, leading to combined CNX 100 numbers of 25.58% in 2001 and 16.09% in 2011. Much of these released holdings were picked up by institutional shareholders, with some part being absorbed by the promoters mostly through open offer purchases following acquisitions.[19]
- Government companies in this set witnessed some significant migrations from non-institutional to institutional shareholders, largely in the Nifty Junior group: from 18.33% in 2001 to 10.71% in 2011 in the non-institutional category, and from 12.39% in 2001 to 25.20% in 2011 in the institutional category.[20]
- The 13 management-controlled companies in this set witnessed a steep escalation in institutional holdings, from 35.22% in 2001 to 51.09 % in 2011, with a corresponding decline in non-institutional shareholdings. While eight such companies in the Nifty 50 witnessed a steep increase in this category from 40.88% in 2001 to 53.25% in 2011, the

[17] For example, companies such as Jindal Steel and Power Limited and Hero Motor Corporation saw an increase in promoter holdings by as much as 25% between the years 2001 and 2011.

[18] For instance, non-institutional holdings in ACC Limited fell by 39% and slightly more than 50% in the case of Jindal Steel and Power Limited between the years 2001 and 2011.

[19] For example, institutional holdings in the Kotak Mahindra Bank increased by 30% while those in HCL Technologies increased by nearly 18%.

[20] For instance, Andhra Bank and the Bank of India saw more than 20% increase in institutional holdings while the non-institutional holdings in these companies went down by 13% and 11%, respectively.

escalation in five such companies in the Nifty Junior was staggering, from 7.95% in 2001 to 42.42% in 2011.[21]

Exhibits 8a–8c: Frequency Distribution of Promoter/Government Holding in All Index Companies

Exhibit 8a: Frequency Distribution of Promoter/Government Companies in CNX 100

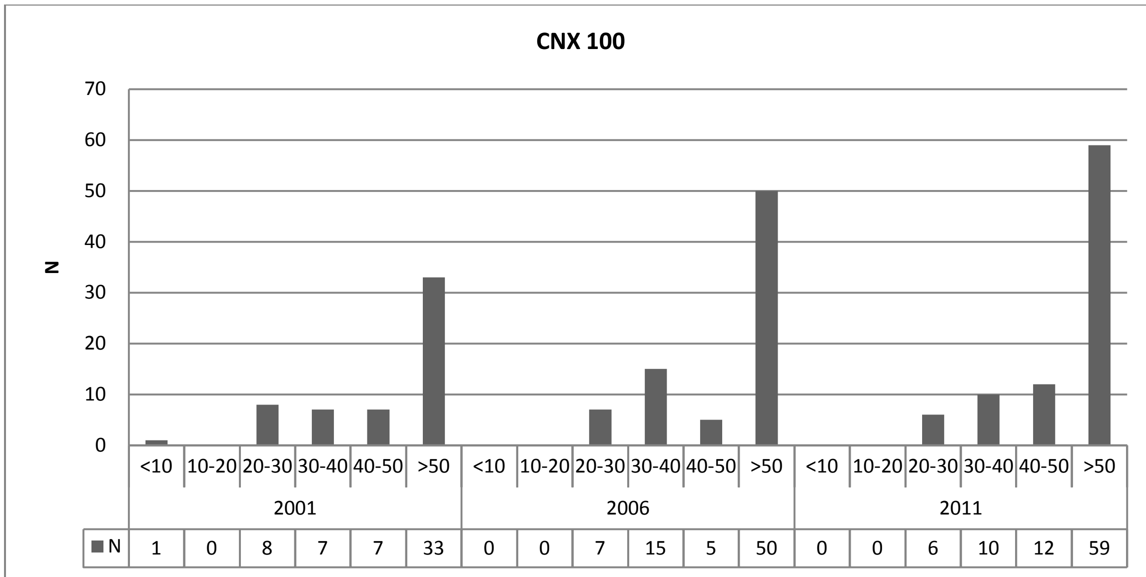
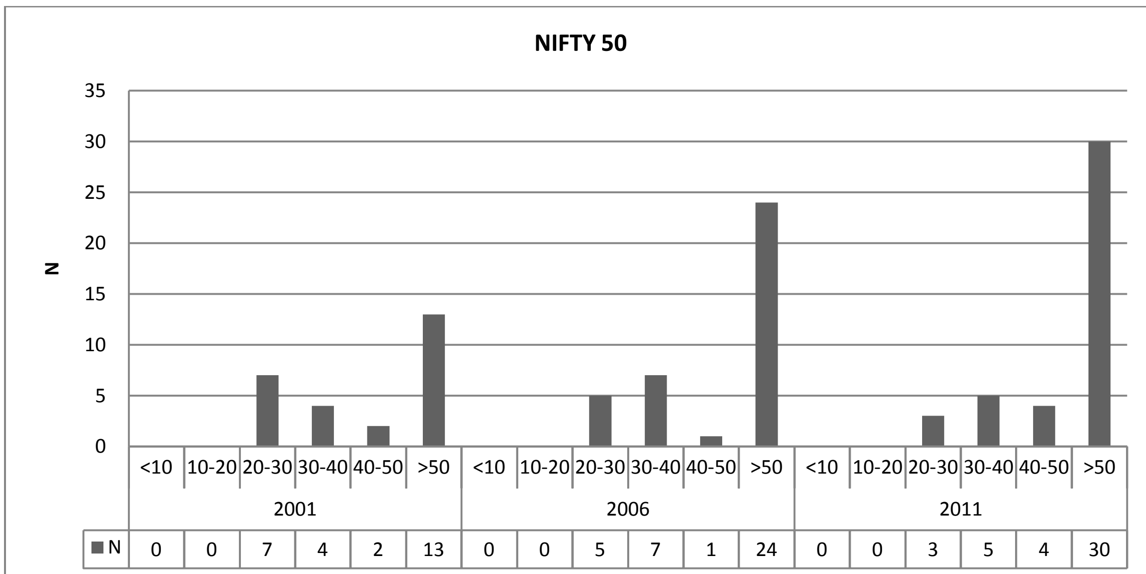
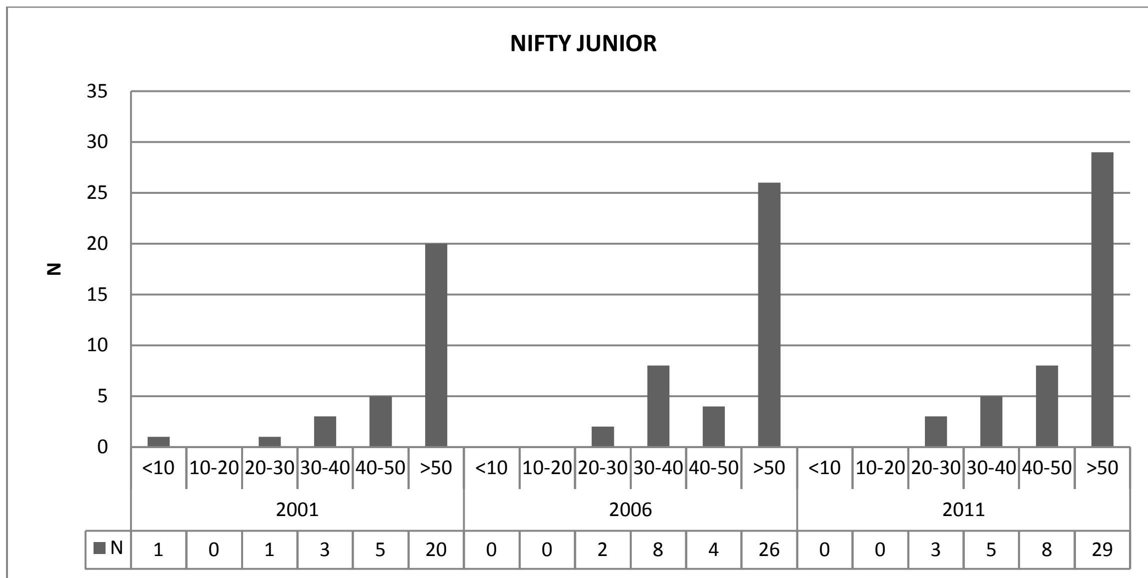


Exhibit 8b: Frequency Distribution of Promoter/Government Companies in Nifty 50



[21] Federal Bank, IndusInd Bank, and MphasiS saw drops in excess of 40% in their non-institutional shareholdings.

Exhibit 8c: Frequency Distribution of Promoter/Government Companies in Nifty Junior



- As in the case of Set A, the number of companies with more than 50% promoter shareholding increased in the period 2001–2011. While the increase was not as dramatic as in Set A (since not all promoter companies listed in 2011 were listed in 2001), these graphs indicate once again that promoters had been increasing their stakes and that promoter-led companies had begun to dominate the indices.

4.1 Possible Motivations for Enhancing Entrenchment

While a detailed discussion of the motives of the promoters in India for strengthening their entrenchment in companies is beyond the scope of this study, a few potential causes could be ventured based on the observed pattern of increases. Three possible reasons are briefly considered here: first, as a takeover defence mechanism; second, as attractive investments, especially in the absence of alternative avenues; and third, as a measure of using equity (without too much dilution of promoters' extant holdings) to attract and retain employees, vendors, and even customers. In discussing these possibilities, it would be useful to track the annual changes over the study period set out in Exhibit 9. We restrict this analysis to the Set B companies since the time series movements in the same companies are likely to be more instructive compared to disparate company sets each year (as would be the case in Set A).

Exhibit 9: Promoters' Annual Shareholding (%) in Set B Companies—Domestic Promoter-Controlled Companies (2001–2011)

Year	Nifty 50			Nifty Junior			CNX 100		
	n	Holding %	Year-on-Year Change %	*n*	Holding %	Year-on-Year Change %	*n*	Holding %	Year-on-Year Change %
2001	19	26.41	-	18	42.51	-	37	32.55	-
2002	20	29.78	**12.76**	18	42.54	0.07	38	37.32	**14.65**
2003	20	31.61	**6.15**	18	40.22	**-5.45**	38	37.21	-0.29
2004	22	32.98	4.33	20	41.45	3.06	42	39.39	**5.86**
2005	22	35.01	**6.16**	21	39.48	-4.75	43	38.61	-1.98
2006	22	35.01	0.00	24	40.85	3.47	46	39.87	3.26
2007	23	42.69	**21.94**	27	44.32	**8.49**	50	43.65	**9.48**
2008	24	46.50	**8.92**	27	44.18	-0.32	51	45.92	**5.20**
2009	24	45.99	-1.10	27	46.06	4.26	51	46.06	0.30
2010	24	45.54	-0.98	27	46.96	1.95	51	45.61	-0.98
2011	24	46.80	2.77	27	45.98	-2.09	51	46.75	2.50

There were two clear 2-year periods (2002–2003 and 2007–2008) that stood out when the enhancements in promoter holdings were significant (defined for this purpose as 5% or more over the previous year). Which of the three possible drivers mentioned above (if at all any) explain the actual enhancement in promoter holdings is an interesting area for further detailed research.

4.1 Entrenchment as a Defence Mechanism

Ever since Swraj Paul's unsuccessful attempts in the 1980s (Paul, 1998) to wrest control of Escorts and DCM from the incumbent Nanda and Bharat Ram families, respectively (whose shareholdings were in single digits), corporate India's promoter groups were conscious of the need to raise their share ownership to respectable levels to justify their control claims. Undoubtedly, political patronage and the avowed government's desire to protect domestic industries from predatory takeovers from overseas did help the promoter families to retain their hold on their companies; however, time was clearly running out. The need to entrench themselves against potential takeover bids by enhancing their shareholdings was keenly felt by the promoter groups; using a variety of means, the objective was gradually accomplished.

Concurrently, government policies of economic liberalisation largely since 1991 and the opening up of opportunities for globalisation also pushed promoter groups towards enhancing their holdings to defend themselves in any contest for corporate control. Concomitantly, regulatory initiatives dealing with the substantial acquisition of shares in companies intended to protect the interests of absentee shareholders were also put in place, making "fair prices" for the acquired shares and the disclosure of relevant details obligatory. This meant that promoter entrenchment had to be pursued using reasonably transparent, fair, and orderly processes.

Contest for Control: Ground realities

A preliminary study of the number of takeover instances in the last two decades makes for interesting reading and indicates that the promoters' fears of takeover—hostile or otherwise—were not entirely unfounded. During the decade 1990–1999, available data indicates that the numbers were quite low, ranging from 1 in 1993 to 43 in 1997. From 2000 onwards, these numbers gradually doubled, reaching 88 in 2003 and 2005, and peaking at 104 in 2006. From 2007 onwards, there was a downward trend in the reported numbers to around 30 until 2011. Of course, not all these restructurings were in the sample companies in this study, but relating as they do to the listed population of companies, they do indicate the reality of potential contests for control, encouraging promoters to raise their holdings.

4.2 Equity Enhancement as a Parking and Trading Mechanism

Promoters with investible cash surpluses may choose to buy into their own companies' equity, especially if alternative profitable investment options are not available. There may be an added incentive to adopt this route if the stock prices are seen to be attractive (a judgement promoters are better positioned to assess, since they are in operational control) with a view to booking profits when the stock prices move up. There are some major constraints in following this route. For instance, this may come dangerously close to potential insider trading if carried out during prohibited periods, and may also attract disclosure requirements if done on a material scale. A preliminary scrutiny of the stock index movements and promoter holdings changes during the study period did not reveal any strong linkages between the two (Exhibit 10); more investigative research would be necessary to conclusively establish or rule out any such relationship.

Exhibit 10: Year-on-Year Variations in NSE Nifty 50 and Nifty Junior Index Numbers and Median Promoter Shareholdings (2001–2011)

Year-end (March)	NSE-CNX Nifty 50			NSE Nifty Junior		
	Index	Year-on-Year Variation %	Promoter Median Shareholding Variation Year-on-Year % (December)	Index	Year-on-Year Variation %	Promoter Median Shareholding Variation Year-on-Year % (December)
2001	1148	**-24.87**		1602	**-56.66**	
2002	1130	1.60	**12.76**	1567	2.18	0.07
2003	978	-13.4	**6.15**	1260	**-24.37**	**-5.45**
2004	1772	**81.18**	4.33	3392	16.92	3.06
2005	2036	14.88	**6.16**	4275	**26.00**	-4.75
2006	3403	**67.40**	0.00	6412	**49.99**	3.47
2007	3822	12.31	**21.94**	6878	7.27	**8.49**
2008	4735	**23.89**	**8.92**	7976	15.96	-0.32
2009	3021	**-36.20**	-1.10	4346	**-45.64**	4.26
2010	5249	**73.80**	-0.98	10774	**148.48**	1.95
2011	5834	11.10	2.77	11280	4.70	-2.09

Source: Index data from NSE Fact Book annual editions.

4.3 Equity Build-up to Countervail Dilution

The last two decades also saw the use of company equity to promote business interests. For example, equity was required to provide employee stock option schemes; equity was offered to potential vendors and customers to buy their loyalty and to protect and grow their relationships with the company; equity was also used to 'capture' decision-making or decision-influencing

executives at customers to enlist their support, other things being equal. All these meant that the companies' equity base had to move up with the consequential dilution of promoters' percentage holdings. If such equity allocations were made out of the promoters' existing holdings, the results were the same, probably even more significantly. One possible way to protect their own holding proportions was to buy more equity from the market in small tranches so as not to attract any regulatory obligations or to buy back some equity with companies' funds with promoters not participating.

One way or the other, these (and perhaps some other) reasons may have contributed to the sustained effort that has gone in to increase promoters' shareholdings in their companies over the recent decades, as evidenced by the findings of this study.

5. Conclusion

Concentrated ownership and control is the predominant shareholding pattern in India. Over the 11-year study period from December 2001–December 2011, controlling shareholders further entrenched themselves by substantially increasing their holdings, especially in the Nifty 50 domestic companies (from 26.41% in 2001 to 46.80% in 2011) while strengthening their already large holdings in the Nifty Junior domestic companies (from 42.51% in 2001 to 45.98% in 2011).

In line with the trends in other developed markets, non-institutional retail shareholdings were on the wane in the country. During the study period, they declined substantially from 28.71% in 2001 to 15.95% in 2011. In the Nifty 50 companies, much of these holdings were picked up by the promoters in the domestic private sector companies to boost their entrenchment and as a defence against hostile takeovers. In the Nifty Junior companies where promoters already had entrenched themselves, institutional shareholders absorbed most of the holdings released by non-institutional shareholders.

Foreign companies in this study strengthened their entrenchment, with median holdings running over 50% right through. Government policy changes that opened up several business sectors for majority foreign direct investment could have been a contributing factor for the decline in the number of listed companies.

Government-owned companies in this sample witnessed a decline in non-institutional share holdings over the study period, with institutional holdings showing corresponding increases.

In the case of management-controlled companies in this sample, institutional investors increased their holdings from 35.22% in 2001 to 51.09% in 2011, at the expense of non-institutional shareholdings that correspondingly went down from 40.31% in 2001 to 36.26% in 2011. Management-controlled companies in the Nifty Junior group saw extraordinary escalations in institutional holdings, from7.95% in 2001 to 42.42% in 2011.

Overall, institutional investors increased their holdings (from 25.69% in 2001 to 29.49% in 2011), with Nifty Junior companies being the preferred target for such increases (from 18.98% in 2001 to 27.58% in 2011).

Implications for Governance

These trends in corporate ownership structures have several important implications for corporations and their governance as well as for investors not in operational control. Some of the more important consequences are discussed below.

On the positive side, the foremost benefit is that such entrenched ownership and control will offer strategic stability and longer-term sustainability, especially in the case of family-controlled entities. They also offer prospects of more efficient and cost-effective management, the fruits of which would largely flow down to the bottom line. There would be greater and closer managerial surveillance to pre-empt leakages at operational levels. The entrepreneurial drive to grasp business opportunities as they arise and convert them to profits is rarely as effective in non-family managerial structures that usually tend to get bogged down with ritualistic bureaucracy.

On the other hand, such entrenchment and control offers immense potential to the owners/controllers for tunnelling and personal enrichment at the expense of absentee shareholders. Expropriation of profits and wealth that rightly belong to absentee shareholders (as much as to those shareholders in operational control) in proportion to their shareholdings is a distinct possibility, usually manifested through abusive related-party transactions, overly exorbitant executive compensation to the promoters and their kin, usurpation of corporate opportunities for personal or family advantage, and so on.

As a consequence, corporations with such ownership structures require competent, independent, and trustworthy boards to protect the interests of absentee shareholders. However, installing and sustaining such effective boards for rigorous oversight and surveillance in corporations with such concentrated ownership and control is perhaps the most challenging task. Populating their boards with independent directors and providing an open and transparent environment that would encourage the due discharge of their duties are most likely to be influenced by the presence of such strong owners and controllers. Director independence could be further compromised by excessive remuneration and the offer of other perquisites and lucrative opportunities to the non-executive directors. This is a major challenge posed by such ownership structures.

The implications for management-controlled companies are no less daunting, albeit for different reasons. Just because the managers are not substantial owners, the risk of their indulging in similar tunnelling initiatives is no less important. Such companies' boards and directors would likely need to be even more vigilant since such structures come with the negatives of concentrated ownership and control structures, often without the positives that family-controlled entities bring to the table.

Growing institutional investor holdings, again, can be a mixed blessing. They can help improve investee companies' governance through meaningful engagement and also use the voting clout to pre-empt any abusive initiatives perceived as not being in the interests of absentee shareholders. On the other hand, unscrupulous controllers may find it convenient to canvas support from the fewer institutional investors, directly or through their masters. Good stewardship practices both in-house and in investee companies may minimise the risks of the latter.

As has been noted before, some long overdue regulatory measures are on the anvil and more would be required. Some key measures—notably, the restraint on promoters voting on

resolutions where they stand to benefit—have already been initiated through legislation and regulation; their impact will depend on speedy and effective compliance monitoring.

On the flip side, regulation is only a partial deterrent and good governance in true stewardship spirit can only come about with a wholehearted buy-in of best practices in the larger interests of the company and all its shareholders, whether controllers or absentees.

Exhibit 11: Summary Statistics—Index Composition and Market Capitalisation (INR Crore)

S. No	Item	Nifty 50	Nifty Junior	CNX 100
1	Total number of companies in the indices for one or more years during 2001–2011	86	103	189
2	Companies recurring every year in the respective indices during 2001–2011	20	4	29*
3	Market capitalisation: 2001	285,000	28,500	313,500
4	Total NSE market capitalisation (785 listed companies)	552,900		
5	As % of NSE market capitalisation: 2001	51.55%	5.15%	56.70%
6	Free-float** market capitalisation: 2011	1,405,066	247,531	1,652,597
7	Total NSE market capitalisation: 2011	5,232,273		
8	As % of NSE market capitalisation (1657 listed companies)	26.85%	4.73%	31.58%

*This is greater than the sum of Nifty 50 and Nifty Junior because it would include companies that were in one or the other of those indices for part of the study period but were together in all the years in the CNX 100.
**Free-float methodology was adopted since 2009.

Exhibit 12: Summary Statistics—Ownership Data

	Index	Nifty 50		Nifty Junior		CNX 100	
S. No	Statistic/Year	2001	2011	2001	2011	2001	2011
Set A: Promoter Companies Only							
1	Mean: Promoter Ownership	37.61	49.57	47.58	47.26	42.85	48.40
2	Median: Promoter Ownership	35.38	49.87	50.94	47.65	42.20	48.51
3	Mean: Institutional Ownership	29.88	27.46	16.86	29.35	23.37	28.44
4	Median: Institutional Ownership	29.07	27.81	16.04	26.95	22.95	27.09
5	Mean: Government Ownership	43.06	70.13	41.13	63.94	42.48	66.75
6	Median: Government Ownership	56.25	68.57	57.17	65.50	56.71	65.87
7	Mean: Non-Institutional Ownership	29.26	15.87	34.38	16.30	31.82	16.09
8	Median: Non-Institutional Ownership	26.21	14.45	30.98	15.81	28.46	14.89

	Index	Nifty 50		Nifty Junior		CNX 100	
S. No	Statistic/Year	2001	2011	2001	2011	2001	2011
Set A: All Companies							
9	Set A: Mean Promoter Ownership	29.49	39.66	41.29	38.98	35.51	36.69
10	Set A: Median Promoter Ownership	28.59	46.24	45.12	42.06	35.77	41.69
11	Set A: Mean Institutional Ownership	31.83	32.47	18.38	30.81	25.17	31.64
12	Set A: Median Institutional Ownership	30.15	30.31	16.57	27.58	24.75	29.50
13	Set A: Mean Government Ownership	43.06	70.13	41.13	63.94	42.48	66.75
14	Set A: Median Government Ownership	56.25	68.57	57.17	65.50	56.71	65.87
15	Set A: Mean Non-Institutional Ownership	31.15	18.38	34.66	17.94	32.89	18.16
16	Set A: Median Non-Institutional Ownership	28.82	16.15	31.21	15.88	30.29	15.96
Set B: Promoter Companies Only							
17	Mean: Promoter Ownership	37.55	49.57	44.99	47.26	41.27	48.40
18	Median: Promoter Ownership	32.08	49.86	48.83	47.65	40.62	48.51
19	Mean: Institutional Ownership	27.48	27.46	20.44	29.35	23.84	28.44
20	Median: Institutional Ownership	28.95	27.81	21.89	26.96	25.61	27.10
21	Mean: Government Ownership	61.87	70.13	59.30	63.94	60.40	66.75
22	Median: Government Ownership	67.53	68.57	66.44	65.49	67.01	65.86
23	Mean: Non-Institutional Ownership	28.44	15.86	27.51	16.30	27.96	16.09
24	Median: Non-Institutional Ownership	31.50	14.45	24.75	15.81	26.04	14.89
Set B: All Companies							
25	Set B: Mean Promoter Ownership	27.94	34.65	37.32	38.98	32.22	36.69
26	Set B: Median Promoter Ownership	25.99	38.19	42.41	42.06	30.53	41.69
27	Set B: Mean Institutional Ownership	29.61	32.47	20.51	30.81	25.12	31.64
28	Set B: Median Institutional Ownership	31.01	30.31	18.98	27.58	25.69	29.49
29	Set B: Mean Government Ownership	61.87	70.13	59.30	63.94	60.40	66.75
30	Set B: Median Government Ownership	67.53	68.57	66.44	65.49	67.01	65.86
31	Set B: Mean Non-Institutional Ownership	30.15	18.38	29.90	17.94	30.03	18.16
32	Set B: Median Non-Institutional Ownership	32.25	16.14	25.58	15.88	28.71	15.95

References

Aguilera, R., Kabbach de Castro, L., Lee, J., and You, J. (2011). Corporate Governance in Emerging Markets. In G. Morgan and R. Whitley (Ed.), *Capitalisms and Capitalism in the 21st Century*. Oxford: Oxford University Press.

ABI. (2005). *Application of the One Share-One Vote Principle in Europe*. Association of British Insurers–Deminor Rating. http://va.issproxy.com/resourcecenter/publications/European_General_Reports/ABI_DEMINOR_full%20report.pdf (Last accessed on 15 November, 2013).

Bainbridge, S.M. (2002). Director Primacy: The means and ends of corporate governance. *Research Paper no. 02–06.* University of California School of Law.

Bainbridge, S.M. (2005). Director Primacy and Shareholder Disempowerment. *Law & Economics Research Paper no. 05–25.* University of California, Los Angeles School of Law.

Balasubramanian, N. (2010). *Corporate Governance and Stewardship: Emerging role and responsibilities of corporate boards and directors*. New Delhi: Tata McGraw Hill.

Balasubramanian, N. (2013). Strengthening Corporate Governance in India: A review of legislative and regulatory initiatives in 2013. *Indian Institute of Management Ahmedabad Working Paper*. Indian Institute of Management Bangalore, Centre for Corporate Governance and Stewardship (Forthcoming).

Balasubramanian, N., Barua, S.K., and Karthik, D. (2013). Corporate Governance Issues in Executive Compensation: The Indian experience (2008–2012). *Research Paper*. National Stock Exchange of India, Mumbai; Indian Institute of Management Bangalore, Centre for Corporate Governance and Citizenship, Bangalore; Indian Institute of Management Ahmedabad (Forthcoming).

Baysinger, B.D., Kosnik, R.D., and Turk, T.A. (1991). Effects of Board and Ownership Structure on Corporate R&D Strategy. *Academy Of Management Journal*, 34(1), pp. 205–214.

Bebchuk, L.A. (2005). The Case for Increasing Shareholder Power. *Harvard Law Review*, Vol. 118, pp. 833–917.

Bebchuk, L.A. (2006). Letting Shareholders Set the Rules. *Harvard Law Review*, Vol. 119, pp. 1784–1813.

Berle, A.A. (1931). Corporate Powers as Powers in Trust. *Harvard Law Review*, Vol. 44, No. 7, pp. 1049–1074.

Berle, A.A., and Means, G. (1932). *The Modern Corporation and Private Property* (1967 revision). New York: Harcourt, Brace & World, Inc.

David, P., Kochhar, R., and Levitas, E. (1998). Research Notes: The effect of institutional investors on the level and mix of CEO compensation. *Academy of Management Journal*, 41(2), pp. 200–208.

Dodd, E.M. (1932). For Whom Are Corporate Managers Trustees? *Harvard Law Review*, 45(7), pp. 1145–1163.

Dunlavy, C.A. (2006). Social Conceptions of the Corporation: Insights from the history of shareholder voting rights. *Washington and Lee Law Review*, Vol. 63, p. 1347. http://scholarlycommons.law.wlu.edu/wlulr/vol63/iss4/4 (Last accessed on 15 November, 2013).

Goodstein, J., and Boeker, W. (1991). Turbulence at the Top: A new perspective on governance structure changes and strategic change. *Academy of Management Journal*, 34(2), pp. 306–330.

La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (1999). Corporate Ownership around the World. *Journal of Finance*, 54(2), pp. 471–517.

McDonald, H. (1998). *The Polyester Prince: The rise of Dhirubhai Ambani* (1st ed.) St Leonards, NSW: Allen and Unwin.

Morck, R., and Yeung, B. (2003). Agency Problems in Large Family Business Groups. *Entrepreneurship Theory and Practice*, 27, pp, 367–382.

OECD. (2012). *Related Party Transactions and Minority Shareholder Rights*, OECD Publishing.

Paul, S. (1998). *Beyond Boundaries: A memoir*. New Delhi: Penguin.

Roe, M.J. (2004). The Institutions of Corporate Governance. *Discussion Paper Series*. Paper 488, Harvard Law School John M. Olin Center for Law, Economics and Business.

Stout, L.A. (2002). Bad And Not So Bad Arguments for Shareholder Primacy. *Southern California Law Review*, Vol. 75, pp. 1189–1209.

Stout, L.A. (2012). New Thinking on Shareholder Primacy. *Accounting, Economics, and Law: A Convivium*, 2(2), pp. 1–23; ISSN (Online) 2152–2820.

Strine, Jr., L.E. (2006). Towards a True Corporate Republic: A traditionalist response to Lucian's solution for improving corporate America. *Harvard Law and Economics Discussion Paper*, No. 541.

Wright, P., Ferris, S.P., Sarin, A., and Awasthi, V. (1996). Impact of Corporate Insider, Blockholder, and Institutional Equity Ownership On Firm Risk Taking. *Academy of Management Journal,* 39(2), pp. 441–463.