A THEORETICAL BACKGROUND OF OWNERSHIP PATTERNS AND CORPORATE GOVERNANCE THEORIES

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ABSTRACT
This paper is aimed to throw light on ownership patterns prevailing in India and theories of corporate governance. Ownership pattern plays a very important role in every organisation. It reveals the way an organisation has raised capital to fund its organisation. This paper discloses the ownership pattern that companies have to follow and disclose to SEBI, Stock exchanges and in Annual reports. Corporate governance is the set of rules and regulations that an organisation follows to be transparent. SEBI discloses the corporate governance norms that the companies have to follow and disclose in their annual reports. Previous studies have highlighted the theories on corporate governance and revealed how these theories are applicable for organisations. The theories have evolved from agency to transaction cost to social contract theory thereby stating the role of management towards shareholders and stakeholders. India has witnessed many scams which emphasises that a study to be carried out for ownership patterns and corporate governance. Thus, ownership patterns are studied along with corporate governance theories in this paper.
Keywords: Ownership pattern, shareholding pattern, corporate governance, agency cost theory, political theory.

Introduction

A company needs finance which is sourced by either equity or debt. These decisions of getting funds and allocation of resources are taken by the management of the company. Hence, decision making in a company is derived majorly from the management that controls the organisation. When sourcing and allocating resources, role of the board of directors, acting as the shareholders' agents, is crucial. They are the one who decide how to get projects and generate profits in an organisation.

Hence, shareholders are dependent on the Board of Directors for their profits that are generated and distributed in an organisation. This decision making at a higher level is important for guiding the organisation. These decisions provide long term benefit to all the stakeholders of an organisation. It thus becomes important and necessary to understand the ownership structure that prevails in an organisation.

The shareholder that holds majority shares is responsible for taking decision in an organisation. Hence, if majority of the shares are held by promoters, then they play a key role in taking strategic decisions. When the promoters hold majority of shares then a smaller number of shares are available in the secondary market. This can be one of the reasons for insider trading/ pledging of shares by the promoters as can be seen in the case of Sun Pharmaceuticals (2018).

These events highlight the need to understand what type of ownership pattern an organisation is having? Who holds the majority shares? Who is responsible for taking strategic decisions in an organisation? Looking at the importance of this issue SEBI under its clause 31 of Listing agreement has given a format for all the companies to display the shareholding pattern in an organisation.

Literature Review

Corporate Governance is of prime importance for companies as transparency and accountability of corporate governance will help the companies in getting shareholder's trust. (Wan Fauziah (2012). SEBI revises the corporate governance norms as per global standards. Thus, foreign investments, opening up of the economy, globalisation has gradually led to the adoption of corporate governance norms in the world (Banerji, 2017). It is observed that norms issued by SEBI for shareholding pattern are difficult for private companies to follow. Even the introduction of independent directors has severe implications on the companies. (KS Clapati Rao, 2006). Similarly, family businesses in Thailand faced many problems in adapting to the new norms issued as per western countries. Thus, norms issued should be such that helps the businesses to adapt to the changing norms and thrive simultaneously (Suehiro, 2001). Corporate governance is concerned with social, legal and political environment in which a company operates (Yusoff (2012). Thus, it is important to have clarity in the norms by the government on corporate governance practices as this will limit the evil intensions of people within the company (Aspan, 2017).

The Board of Directors being important decision makers in any organisation, they monitor the effective functioning of the organisation and help make resources available thereby leading to better firm performance (Ricci ,2019). Corporate Governance and financial performance have witnessed mixed results wherein, negative relation between variables of corporate governance like CEO Chair and Tobin's Q and positive with ROA. Similarly, Board size, no. of meetings and age have positive relation with Tobin's Q., Large board size and more meetings enhance market performance. (Arora,2012). Promoter shareholding dominates Indian industries, making it imperative to give new dimension to corporate governance. (Jeet ,2018). Relating the three components corporate governance, ownership patterns and firm performance it is seen that all corporate governance variables have no significant impact on determining ownership pattern, financial leverage has negative impact on Ownership pattern and Roe influences ownership pattern (Jeet D. 2018). Disclosures and transparency are of importance in an organisation. Thus, risk disclosure, corporate governance, and the ownership patterns of the firms have no meaningful relationships. (Dobler 2018).

Thus, corporate governance definitions and theories have witnessed involvement of involvement of insiders for stealing the profit and channelising it towards people known to them and overpaying managers (Yusoff.(2012). With the involvement of new theories on corporate governance there has been a shift from focusing on profits to sustainability and social environment and green tax model (Sulaiman, Bidin et. al 2020)

Thus, the evolution of theories on Corporate Governance makes it important to study and focus on different aspects affecting and focusing on the societal aspects along with profitability. The paper will further focus on the theories of corporate governance and ownership patterns prevailing in India.

Objectives of the study

1. To study the Ownership patterns in India.
2. To study the concepts and theories related to corporate governance.

Research Methodology:

To carry out the research secondary data has been used. Hence the research design is descriptive in nature. The data is collected from websites, research papers, news articles and various management articles. The research paper is further divided into three parts first being theories of ownership patterns, second being theories on corporate governance followed by conclusion.

Theoretical Background

Ownership patterns:

This is the shareholding pattern of an organisation. Every company has a different shareholding pattern but it becomes difficult for an investor to understand the shareholding pattern if shown in different formats. Hence to bring uniformity Companies are required by SEBI (Securities Exchange Board of India) regulation 31 of the SEBI (Listing Obligations and Disclosure requirements) Regulations, 2015, to publish their shareholding pattern in a specific manner, which is as follows:

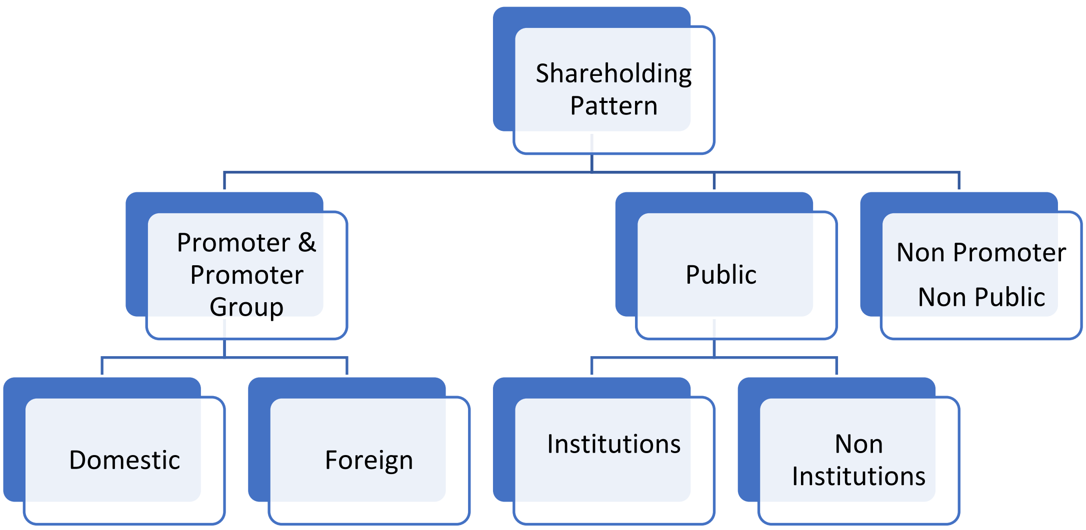

Figure 1: Ownership Patterns
Source: Self-Created

i. Promoter and Promoter Group: This includes Promoters/ People who have founded the company, any group companies and family of promoters.

- Domestic: This comprises Indian promoters, who can be private citizens, corporate entities, government agencies, or banks and financial institutions.
- Foreign Promoters: This group includes NRIs, foreigners, foreign businesses, and institutions that are qualified foreign investors.

Re classification of promoter is allowed if any promoter is changed from the above category t persons acting in concert provided an open offer is given in the public.

ii. Public: This includes the number of shares that are floated in the share market. This includes:

- Institutions: These include financial institutions including banks and mutual fund companies, as well as the government, venture capital funds, insurance companies, qualified foreign institutions, foreign institutional investors, and venture capital funds.
- Non-Institutions: This category comprises businesses, people, trusts, clearing members, NRIs, and custodians (for foreign depository receipts).

iii. Non-Promoter Non-public: This includes all the shareholders that do not fall in the above categories like shares issued to employee trust, persons acting in concert and custodians/ depository participants.

The ownership patterns discussed above play a key role in decision making in an organisation. SEBI has now enforced companies to have minimum of 25% public shareholding and remaining can be help by other entities (like promoters and non promoter- non-public). Thus, this has given enough freedom to corporates to make decisions directed by the promoters of the organisations. Moreover, it is important to note that shareholding pattern is the one that determines how systems are set and followed by the organisations. Though there is promoter holding pattern prevailing in Indian organisations it is important that decisions are taken in the best interest of all the stakeholders and timely information is made available to them to gain their confidence.

Corporate Governance and its Theories

A collection of interactions between a company's management, board, shareholders, and other stakeholders is known as corporate governance. Additionally, corporate governance offers the framework through which the company's goals are established, along with the ways in which those goals are to be achieved and performance is to be monitored. – OECD Principles.

Hence it plays a very important in governing and directing an organisation. There are various theories which describe the relationship between stakeholders of an organisation. These theories are as following:

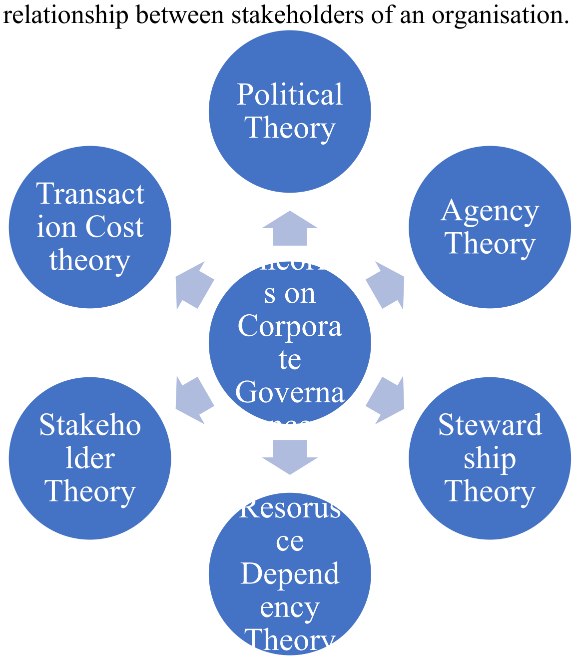

Figure 2: Theories of Corporate Governance
Source: Self-Created

I. Agency Theory

Agency Theory defines the relationship between agents (management) and principals(shareholders). The principals expect the agents to work in their interest to maximise profits. Agents and principals have difference in self-interest and perception of many aspects which leads to conflict. Agency theory was introduced as a separation from ownership and control (Bhimani,2008).

Hence history have always shown a conflicting interest of agents and principals, where principals are interested towards. The principals are of the opinion that incentives and performance should be linked whereas the agents prefer to have a fixed pay. It is important to understand how to bring the interest of the agents to work in the best interest of the shareholders. Though many discussions take place throughout the world but corporate governance has been of keen interest. The relationship between agents and shareholders can be elaborated with the help of following diagram.

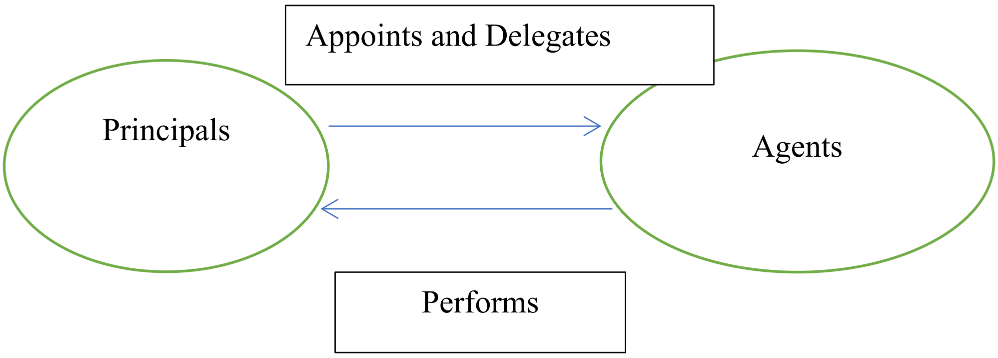

Figure3: Agency Theory

Adapted from Abdullah H. (2009) (https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=886dc63d287375c54f5143225243a5edecdd bf59)

II. Stewardship Theory

This theory states that stewards protect and help in shareholder wealth maximisation by increasing firm performance. Stewards are the management who will invest in projects that will provide maximum returns to the company. This idea places more emphasis on staff arrangements and giving stewards the freedom to act in the shareholders' best interests. This theory propagates that managers are the key behind a company's success hence they will work in the best interest of the firm to maximise returns to the shareholders. This theory can be further elaborated with the help of following diagram:

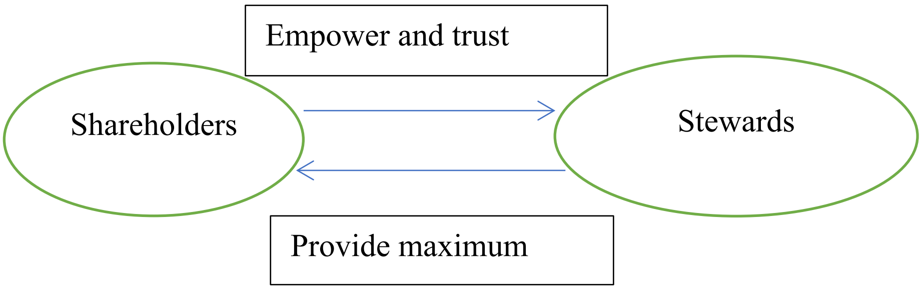

Figure: 4 Stewardship Theory

Adopted from Abdullah H. (2009) (https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=886dc63d287375c54f5143225243a5edecdd bf59)

III. Stakeholder Theory

This theory states that managers work for profit maximisation of the firm which is beneficial to all the stakeholders but not related only to shareholders as mentioned by agency theory. Hence managers are responsible for a host of stakeholders and not only shareholders of an organisation. This theory thus emphasises that firms should play an instrumental role in contributing towards the benefit of the society. The stakeholders of an organisation are as following:

Figure 5: Stakeholders in an organisation

Adapted from (Abdullah H (2009)
(https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=886dc63d2873
75c54f5143225243a5edecddbf59)
The stakeholder’s theory can be shown as following:

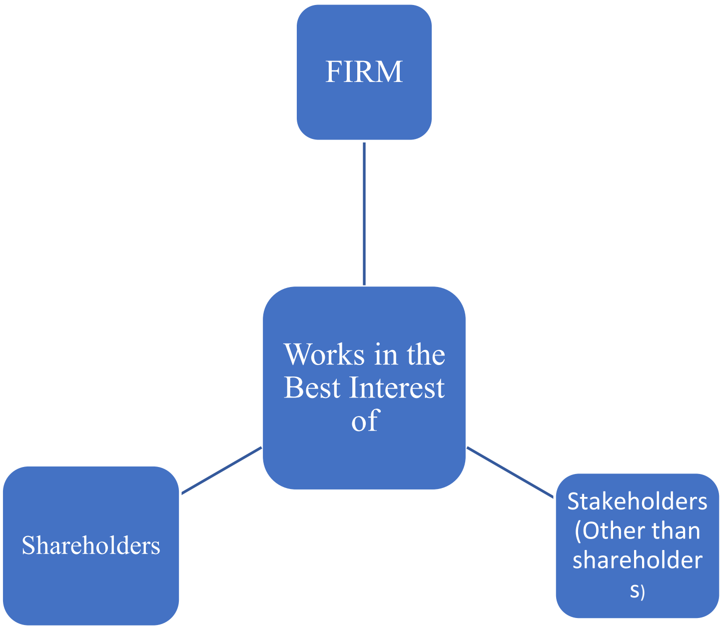

Figure 6: Stakeholders Theory
Source: Self-Created

Thus, this theory provides a better picture by focusing more on benefits of stakeholders as a whole and emphasises that firms should be a good corporate citizen who will contribute towards betterment of the society.

IV. Resource Dependency Theory
This theory states the role of directors in bring the needed resources/ expertise to the firm through their contacts with the external environment. This theory highlights the important role that directors play in increasing efficiency in the firm through specialised skills/ knowledge/ expertise. According to Hillman, Canella and Paetzold (2000) Directors provide the company with resources like knowledge, expertise, connections to important stakeholders like suppliers, purchasers, public policy makers, and social groups as well as legitimacy.

Directors are the key decision makers hence there should be an appropriate size of the Board of Directors, it should be neither too less nor too large (Geoff et.al 2003).

Directors in a firm can be divided into four categories such as Insiders (Executive Director), Business Experts (Non-executive Director), Support Specialist (Independent Director) and Community influential. First category includes directors that are responsible for making strategic decisions in an organisation. Second are those that include current and former directors plus directors of the other organisations that provide expert advice to the firm for strategic decision making. Third are specialists in various fields like banks, legal servicespublic relations experts etc. that provide specialised expert advice. Fourth are members of faculty, political leaders or leaders of social and community organisation.

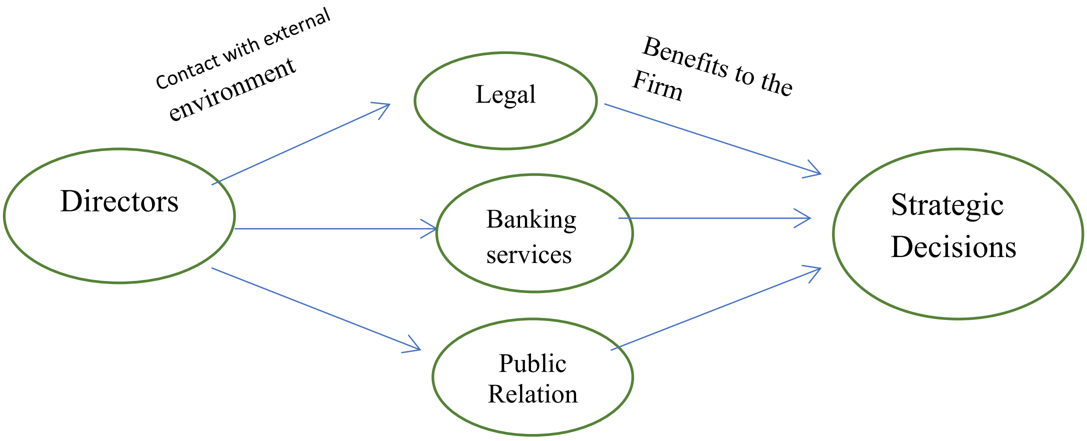

Figure 7: Resource Dependency Theory
Source: Self-Created

V. **Transaction Cost Theory:**
This theory states that the firm in itself helps in determining the price and production as the firm becomes large in determining the allocation of resources. According to this idea, there are numerous individuals with diverse viewpoints within an organisation, and managers take use of these differences to further their own interests. (Williamson,1996). Hence this theory suggests that for approving projects managers are the one who take projects that are beneficial in their interest.

VI. Political Theory: This theory brings in the voting power in the picture. It emphasises use of voting power in making important decisions in an organisation. This theory says that the power, profits of managers is determined based on government's favour. Hence there is a government intervention in determination of corporate governance framework. In India there are various laws imposed from time to time determining the disclosures to be made for government in corporate governance. Hence it plays a vital role in corporate governance. As a result, there is an entrance of politics into the governance structure or firms' mechanism (Hawley and Williams, 1996).

Conclusion:
This paper has tried to bring a focus on the different ownership patterns and corporate governance theories. Ownership pattern goes beyond numbers in revealing how strategic decisions are taken in an organisation. In India particularly it is observed that majority of the firms are owned by promoters or promoter group, hence majority of the companies gets classified as closely held companies.

It is important that investors look closely at ownership patterns to understand the type of organisation. In past it has been observed that institutions in which there is majority institutional holding possess good corporate governance practices.

Very few studies in India have taken place that reveal about the ownership pattern and corporate governance relationship. Hence, there is a need to examine the role of ownership patterns and corporate governance practices adopted by the companies in Indian context. India has witnessed cases like Satyam Computers (2008), PNB Scam (2018), IL&FS case (2018), Sun Pharmaceuticals (2017-18) that draws attention towards poor corporate governance norms followed by companies. Hence, it's imperative to understand the ownership patterns in India and corporate governance theories impacting an organisation. This paper lists down the theories on corporate governance and ownership Patterns disclosure as mandated by SEBI. But governance in itself can't be measured by a particular theory. It's a mix of theories that define corporate governance. Laying down the rules is not important; it is important that they are followed by corporates for the benefit of the society.

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