A Contrarian View of Ownership Concentration in the United States and Around the World

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March 14, 2005

Abstract

I offer evidence for the first time on the extent of large shareholders at a representative sample of U.S. firms. 93% of these firms have blockholders who in aggregate own 35% of the common stock. I compare these to firms in other countries and find that by some measures U.S. ownership is more concentrated. This finding and other evidence presented are inconsistent with the theory that concentrated ownership is a response to weak legal protections for shareholders. The reason seems to be that large shareholders are typically managers, not monitors. This is consistent with the essence of private property.

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I. Introduction

There is widespread agreement that the ownership of public corporations in the U.S. is less concentrated than it is outside of the U.S. As Denis and McConnell (2003, p. 18) summarize, "a number of conclusions can be drawn from the international literature on the ownership of publicly traded firms. First, ownership is, on average, significantly more concentrated in non-U.S. countries than it is in the U.S." Roe (1994, p. 186) notes that "concentrated blocks … are only uncommon here in America." And Franks, Mayer, and Rossi (2004, pp. 1, 34) call the "exceptionally dispersed ownership" of U.S. (and U.K.) companies "one of the best-established stylized facts about corporate ownership."

Three theories have been advanced to explain this difference, all of which rely on legal differences between the U.S. and other countries. Roe (1994) and Black (1990) see the roots of diffuse ownership in various U.S. laws that discourage large-block ownership. The second theory, developed by Zingales (1995), Bebchuk (1999), and Shleifer and Wolfenzon (2002) is that ownership will be relatively diffuse when the private benefits of control are smaller; private benefits will be smaller when shareholders have the legal right, such as they have do in the U.S., to attack the excessive consumption of private benefits by large shareholders. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) develop a theory that has almost the opposite reasoning. They propose that when the law is weak, a large shareholder is needed to monitor management. Given that the U.S. has among the best legal protections for shareholders, they maintain that it also follows that the U.S. has among the most diffuse ownership. It is this theory among the three that has the broadest acceptance.

There is a vast empirical literature on the ownership of U.S. firms. But most of this literature addresses managerial stock ownership. Relatively little of it addresses ownership

by large-percentage shareholders ("large shareholders" or "blockholders"), which differs from managerial ownership to the extent that large shareholders are not directors or officers. Most of the relatively few empirical papers on blockholders focus on specific roles, such as Gilson (1990) who examines blockholders in bankrupt companies, or on specific types of firms, such as Holderness and Sheehan (1988) who examine majority shareholders.[1]

The paucity of board empirical studies of large shareholders means that fundamental facts about ownership concentration in the U.S. are unknown. In particular, we do not know what fraction of public corporations has blockholders or how much of a firm blockholders typically own. Given these gaps in our knowledge, it is surprising that there is such widespread agreement that ownership of public corporations in the U.S. is less concentrated than it is outside of the U.S.

I present (hand collected) data for first time on block ownership at a representative sample of Compustat- and CRSP-listed firms. I find that 93% of such firms have shareholders who own at least 5% of the firm's stock. More firms have majority blockholders (10%) than have no blockholders (7%). Blockholders in aggregate own approximately 35% of the common stock, and this includes firms without blockholders.

These findings raise doubts about whether ownership in the U.S. is less concentrated than elsewhere. I compare the U.S. firms with 7,842 firms from 22 European and East Asian countries. I find that by some measures ownership is more concentrated in the U.S. When I examine the data on a country-by-country basis, the U.S. falls in the middle of the distribution. These conclusions hold both when I examine the raw data and when I control for firm-level determinants of ownership concentration, including size.

Given that 93% of U.S. firms have blockholders; that ownership concentration in the U.S. is similar to what it is in other countries; and that the U.S. has among the strongest

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[1] La Porta, Lopez-de-Silanes, and Shleifer (1999) also note the paucity of empirical studies on large shareholders. In contrast, there are more theoretical papers on blockholders, including Shleifer and Vishny (1986), Grossman and Hart (1988), Harris and Raviv (1988), Bebchuk (1994, 1999), and Burkat, Gromb, and Panunzi (1997, 1998).

legal protections for shareholders; we must question the theory that concentrated ownership is a response to weak legal protections for shareholders. In the second half of the paper I investigate this theory. Unlike previous studies, I control for firm-level determinants of ownership concentration, and I disaggregate the legal indices used by others into their component parts. I find no consistent relation between legal protections for shareholders and ownership concentration.

The apparent lack of relation between ownership concentration and legal protections for shareholders makes sense. We should not expect blockholders to monitor managers, when the law is weak or otherwise, because typically blockholders are the managers. It also makes sense that corporate ownership in the U.S. and around the world is so concentrated. A defining characteristic of private property is that owners manage.

II. Ownership Concentration Around the World

A. Ownership Concentration in the United States

The best way to assess ownership concentration at public corporations, short of examining the universe of firms which would be impractical for data collection reasons detailed below, is through a random sample of firms. A random sample allows us to draw inferences about the population of publicly traded firms in general. For example, a random sample enables us to determine the extent to which public firms have large shareholders, how often those shareholders are active in firm management, and how the frequency of both varies with firm size. The latter consideration will be important for international comparisons as U.S. firms tend to be larger than non-U.S. firms.

To generate a random sample of U.S. firms, I start with all firms listed on the March 1995 disk of Compact Disclosure. I select 1995 because it is the approximate date of the international data bases on block ownership that are used later in the paper. I use Compact Disclosure because it lists all firms traded on the NYSE, Amex, and NASDAQ. I select one of the first ten firms listed in Compact Disclosure's alphabetical listing of firms at random; I then select every tenth firm thereafter. This produces a list of 336 firms. I exclude no type of firm; some of the eventual sample firms, consequently, are financial and utilities. I also

include firms with dual classes of common stock and in such cases differentiate between cash-flow rights and voting rights.

One reason for the paucity of broad empirical studies of large shareholders in United States corporations is that reliable data on block ownership must be hand collected. Electronic database are known to be unreliable for this information.[2] It is necessary to read proxies to cure problems with double counting block ownership (for instance, attributing the same block both to a husband and a wife), including preferred stock as common stock, and ignoring large blocks that are reported not in the customary ownership table but instead only noted in text.[3]

I am able to obtain proxies for 317 of the 336 firms from LaserDisclosure, the SEC's Edgar database, or Lexis-Nexis's EdgarPlus database. These 317 firms constitute the core sample of U.S. firms in this paper. Financial data on the firms is obtained from CRSP and Compustat. (All firms with proxies have data on CRSP and Compustat.) The sample firms range widely, from such large, well-known firms as American Express and McDonald's to smaller firms like Eagle Hardware & Garden (a west coast chain of stores) and Falcon Products (a manufacturer of commercial furniture). Most of the proxies are from early 1995 (typically February or March), but a few are from late 1994 or later in 1995. I use financial data from December 31, 1994.

The sample firms have average and median book value of assets and market capitalizations that are statistically indistinguishable from the equivalent figures for all

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[2] Dlugosz, Fahlenbrach, Gompers, and Metrick (2004) and Perez-Gonzalez (2003) detail the problems with electronic databases for ownership of large-percentage shareholders. Both papers, like this paper, use data on large-block ownership that is hand collected from proxies. Neither paper, however, uses a sample that is representative of the population of public firms in general. Dlugosz et al start with a database of large firms that are covered by a shareholder action group, the Investor Responsibility Research Center. They then exclude firms with dual-class stock. Perez-Gonzalez only looks at firms with individual large-block shareholders. He does not consider firms with other types of blockholders.

[3] Thus, data on block ownership derived from electronic databases, notably Disclosure which is now owned by Thomson Financial, are not to be trusted. Becht (2001) uses this source and finds that 44% of the NYSE and NASDAQ firms have no blockholders. This is a far cry from the 7% that I find. Even Dlugosz, Fahlenbrach, Gompers, and Metrick (2004) who have a non-random sample of large firms find that only 15% of their firms have no blockholders. Their data, like my data but in contrast to Becht's data, is hand collected.

firms listed on the merged CRSP/Compustat database maintained by WRDS at the University of Pennsylvania. Thus, the sample of U.S. firms used in this paper appears to be representative of the larger population of CRSP- and Compustat-listed firms.

I follow a number of rules in collecting ownership data from the proxies.[4] First, I collect data only on the ownership of shareholders who own at least 5% of the common stock as this is the level at which public disclosure is legally mandated. Infrequently, firms report data on shareholders who own less than 5% of the stock; I ignore this information. Second, I aggregate ownership only for members of the same immediate family and then only for block ownership. Thus for example, if a mother owns 15% of a firm and her son owns 10% of the firm, I record this as 25% ownership. On the other hand, if a mother owns 15% of a firm and her son owns 4% of the firm, I do not aggregate ownership because the son is not a blockholder under my definition. I would record only 15% ownership in this case.

I considered but ultimately rejected determining the ownership of entities that own large-percentage blocks. In other words, I collect first-level ownership data. Therefore, if a corporation owns a 30% block, I record it simply as a 30% blockholder. One reason I do not determine the ownership of blockholding entities is that many are private, and thus it is not possible to determine their ownership. Collecting first-level ownership data follows the practice of some papers, such as La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) and La Porta, Lopez-de-Silanes, and Shleifer (forthcoming), but not other papers, such as Lins (2003) (who reports second-level ownership).

When a firm has dual class voting stock, I report data on the voting rights, not the cash flow rights. This is a limited issue with U.S. firms as only 5% of the sample has dual class stock; the percent is considerably higher with non-U.S. companies. I record the number of identified representatives each such blockholder has on the board of directors. Here I rely exclusively on information reported in proxies. Lastly, I record the stock ownership of directors and officers. This is not limited to the 5% threshold, but I include such ownership

[4] All data was checked twice to ensure accuracy.

in the blockholder total only to the extent that the ownership of an individual director or officer meets the 5% threshold.

Table 1 presents summary statistics on block ownership and inside ownership at the sample firms.[5] To my knowledge, this is the first time these basic summary statistics on block ownership have been reported in the literature. The table starts with the most expansive measure of ownership concentration and proceeds to the narrowest measure.

Table 1 goes here

The top panel of Table 1 reports that as a group, directors, officers, and blockholders own approximately 40% of the common stock of a randomly selected, CRSP- and Compustat- listed corporation. This figure includes firms with no blockholders counted as zero ownership.[6] (Often blockholders or their representatives are also directors. This figure avoids double counting them, as do all other figures in the paper.) To the extent that one believes that corporate decisions are influenced by corporate insiders and large shareholders, this is perhaps the appropriate ownership measure. Such a measure, however, is not available for foreign firms, so it is not used in the rest of the paper.

The next panel of Table 1 contains the summary statistic that is the focus of this paper: the aggregate stock ownership of all blockholders. On average the large shareholders in a firm collectively own 36.9% (median 34.3%) of the common stock; this figure includes those firms without blockholders counted as zero block ownership.

The next panel presents summary statistics on the stock ownership of directors and officers. These data come directly from the summary statistic provided in most proxies. (In the few instances when a proxy does not have a summary statistic, I compute one.) Unlike

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[5] To avoid contaminating the sample with firms that are on the verge of going private or are effectively privately held, I delete any firm in which blockholders own more than 95% of the stock. Results remain qualitatively the same if I do not make this adjustment.

[6] When we consider only firms with blockholders, 44% of the stock is owned by directors, officers, or blockholders.

the situation with blockholder ownership data, Anderson and Lee (1997) find that Compact Disclosure (an electronic database) accurately replicates from proxies the summary statistic on directors and officers' stock ownership. The relative ease of obtaining this data is undoubtedly one reason why there has been far more empirical research on inside ownership than on block ownership.

Table 1 also shows that blockholder ownership is not inside ownership. The two would be roughly congruent if blockholders always served as directors or had representatives on the board, but this is not the case. The bottom panel of Table 1 reports the stock ownership of the largest shareholder in a firm. This figure, in contrast to the other figures in the table, includes only firms with blockholders. When a firm has at least one large shareholder, the average (median) size of the largest block is 24.5% (16.6%). More firms have majority blockholders (10%) than have no blockholders (7%).

B. Comparison of Ownership Concentration at U.S. and Non-U.S. Firms

The best way to compare these data with non-U.S. firms would be through a random sample of non-U.S. firms. Unfortunately, reliable data on large shareholders at non-U.S. firm would also have to be hand collected as electronic databases, notably Thomson Financial Worldscope which is widely used for international research, are unreliable when it comes to large-block holdings. Fortunately, the authors of two published studies have generously made available to me their large-block ownership databases. Although their samples are not random, they are large and in some instances include a sizeable portion of a country's publicly traded firms. The two databases collectively include 7,842 firms from 22 European and East Asian countries.[7] The countries range from large, developed economies such as the UK and Japan to smaller, developing economies, such as Malaysia and Thailand.

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[7] Faccio and Lang (2002) contains data on block ownership at 5,232 corporations in 13 Western European countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Claessens, Djankov, and Lang (2000) has data on block ownership at 2,980 corporations from nine East Asia countries: Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

Ownership data from these sources seems generally comparable with what I have collected for U.S. firms. Ownership data from all three sources are hand collected to help ensure accuracy. All three sources include firms that have no blockholders, something which will be important for determining when firms have blockholders. All three sources adjust for dual-class voting stock by distinguishing voting rights from cash-flow rights. (U.S. firms have dual-class stock less often than do non-U.S. firms.) Following the practice in this area, I focus exclusively on voting rights. All three sources report blockholders at the 5% and greater level. (Occasionally, the other two sources include large shareholders who own less than 5% of the voting stock. I ignore these shareholders in my analyses.)

There are some differences among the three data sources, however. The data come from different years, ranging from 1995 to 1999 depending on the country. This should not be a serious problem as ownership concentration tends to be relatively stable over short periods of time. When I use financial data, it is from the appropriate year and then adjusted to the end of 1994 using the GNP Deflator Index.

Figure 1 compares the aggregate ownership of the blockholders in non-U.S. firms with the same measure for U.S. firms. This figure is the key empirical finding in the paper.

Figure 1 goes here

Figure 1 shows that blockholders in the U.S. typically own slightly *more* of the common stock than do blockholders in foreign firms. This finding is inconsistent with the widely held belief that ownership in the U.S. is more diffuse than it is in other countries. One must be circumspect, however, in drawing this or any conclusion from Figure 1 because firms from the two sources may not be comparable. For example, the U.S. sample is a random sample; the non-U.S. sample is not random. The non-U.S. sample contains firms from 22 countries, with some countries being more represented. For instance, there are over 1,000 Japanese firms but only 95 Austrian firms. (Of course, one could counter that this is as it should be because there are more Japanese firms than Austrian firms.) U.S. capital markets are more developed than other countries' capital markets, and this suggests that different types of firms might be publicly held in different countries. And perhaps most obviously,

the firms may be of different sizes, and there is long-standing evidence (for example, Herman 1981 and Demsetz and Lehn 1985) of an inverse relation between firm size and ownership concentration. Figure 1, thus, may be the starting point of an analysis of ownership concentration around the world, but it should not be the ending point.

C. A Closer Examination of Ownership Concentration Around the World

The most obvious step to ensure that we are comparing at least roughly similar firms across countries is to control for firm-specific determinants of block ownership. Perhaps the differences reflected in Figure 1 are driven not by country-specific factors, such as the law, but by firm-specific factors, such as the size or industries of the sample firms. This adjustment is not a straightforward task, however, because we know little of what determines ownership structure, in general, and large-block (as opposed to managerial) stock ownership, in specific. Moreover, it is possible that the determinants of block ownership vary across countries. Nevertheless, some adjustments must be made so that we are comparing at least roughly equivalent firms across countries. I look to existing studies for guidance in the choice of these control variables. (A detailed description of all variables used in the paper is found in Table 2.)

Size. There are two explanations for the well-documented negative relation between fractional stock ownership and firm size. First, wealth constraints limit fractional investments as firms become larger. Second, blockholders are able to accomplish less as firms become bigger. I use the (natural log) market value of a firm's equity to control for firm size. In robustness tests, I use sales and total market value (market value of equity plus book value of debt) as alternative measures of firm size. (I use both the unaltered numbers and their natural logs.)

Age. There is less agreement on other firm-level determinants of block ownership. One factor suggested by Holderness, Kroszner, & Sheehan (1999) for U.S. firms and Franks, Mayer, and Rossi (2004) for U.K. firms is that ownership concentration declines with firm age. This appears to be driven by company founders selling their stakes piecemeal over time for diversification reasons or by companies issuing equity, often for acquisitions, and thereby diluting the ownership of existing shareholders. Given that the U.S. appears to

have more active IPO and acquisition markets than most countries, this is a potentially important control factor. I use the natural log of years since incorporation. For a robustness test I use years since incorporation.

Volatility. Two explanations have been advanced for why stock volatility might affect ownership concentration. Himmelberg, Hubbard, and Palia (1999) look at volatility in light of risk aversion. Because large shareholders may be under-diversified as a result of their block ownership, the optimal level of block ownership should decline, ceteris paribus, as volatility increases. Demsetz and Lehn (1985) take a different tact. They propose that the greater is the instability of a firm's environment, the more difficult it is for outsiders to monitor management, and the greater are the benefits of having insiders own substantial amounts of stock. In the analyses below I use the volatility of a firm's weekly stock price over the previous 12 months.

Industry. It is possible that ownership concentration varies by industry. Demsetz and Lehn (1985) find that utilities and financial firms have less concentrated ownership; conversely, they find that media firms have more concentrated ownership. I use the same three dummy variables below; I use the Fama-French five and thirty-eight industry classifications as robust checks.

Scope for discretionary spending. Finally, Himmelberg, Hubbard, and Palia (p. 364, 1999) propose that "to the extent that investments in fixed capital are observable and more easily monitored, firms with a greater concentration of fixed or 'hard' capital in their outputs will generally have a lower optimal level of managerial ownership." I use three of their measures of discretionary spending, capital-to-sales ratio, capital-expenditure-to-capital ratio, and operating-income-to sales ratio (also called free cash flow). (I do not use their other two measures, which involved R&D expenditures and advertising expenditures, as these data are often not available for non-U.S. firms.) Himmelberg, Hubbard, and Palia find that the first measure is negatively associated with inside ownership, but the other two measures are positively associated with inside ownership.

Dependent variable. Existing theories of block ownership offer little guidance on the proper measure of ownership concentration. Should we focus just on the ownership of the

largest shareholder, or should we focus on the ownership of all large shareholders? At what fractional ownership does stock ownership become relevant? We simply do not know the answers to these basic questions.

In most analyses I use two alternative measures of ownership concentration, the aggregate stock ownership of all blockholders (which is the data portrayed in Figure 1) and a dummy variable that takes the value of one if the firm has at least one blockholder and zero otherwise. I choose these two measures in part because others have used them and in part because they span block ownership. The aggregate ownership of all blockholders is a broad measure that includes all of the stock of all of the large shareholders. The dummy variable is a narrow measure in that it measures only whether a firm has a large shareholder. I experiment with other measures of ownership concentration, such as firms having 20% block ownership (or alternatively a 20% blockholder), and the results seldom vary qualitatively.

Table 2 goes here

There are two ways to measure aggregate block ownership: the raw figure (that is to say the fraction of the stock owned by large shareholders) or its logistic transformation. The logistic transformation because it is unbounded is superior on statistical grounds for OLS analysis. On the other hand, it is no more normally distributed than the raw figure, and the transformed results are difficult to interpret. This is will important for determining whether any differences in ownership concentration are potentially economically significant. I conduct all analyses alternatively using the two aggregate measures of block ownership. Because the results are qualitatively the same, I report only the findings from the unadjusted ownership figures as they are easier to interpret.

U.S. versus the world. Table 3 reports that once I control for the determinants of block ownership, blockholders still appear to be more frequent and hold a greater percent of the common stock in U.S. corporations than in non-U.S. corporations. In all analyses the coefficient on the dummy variable that identifies U.S. firms is positive, and it is statistically significant in four of the six specifications. It seems that U.S. firms have about 8% greater

block ownership than do their foreign counterparts once we control for what researchers have identified as the firm-level determinants of block ownership. Likewise, the conditional probability for an American firm having a blockholder (not reported) range from 93% for both of the first two logits to 89% for the third logit (which contains all of the control variables). The conditional probability for a non-U.S. firm having a blockholder (likewise not reported) is approximately 86% for all three specifications.

Table 3 goes here

U.S. versus individual countries. Table 3 groups all non-U.S. firms together. In fact, the non-U.S. firms come from 22 different countries. Figure 2 presents country averages for both the aggregate ownership of blockholders and the percent of firms having blockholders. We see that the U.S. has more concentrated ownership than some countries, the UK for instance, approximately the same concentration as other countries, Finland for instance, and less concentrated ownership than yet other countries, Thailand for instance.

Figure 2 goes here

Table 4 reports how the ownership in the various sample countries compares to that in the U.S. conditional on firm size. (Thus, they follow regressions 2 and 5 in Table 3.) I report these comparisons because there is general agreement that firm size is important across countries. Thus for example, a UK firm on average has 16.97% less block ownership than an equivalent sized U.S. firm. At the same time, a UK firm on average is 15% less likely to have a blockholder compared with an equivalent sized U.S. firm. We see in Table 4 that ten countries have (statistically) significantly greater aggregate block ownership, six countries have significantly less aggregate block ownership, and the remaining six countries have block ownership that is statistically indistinguishable from the U.S. Firms in seven countries are more likely to have blockholders; firms in eleven countries are less likely to have blockholders; and firms in the remaining four sample countries have statistically indistinguishable incidents of blockholders. These patterns continue when I replicate all

Table 3 analyses, which include the full array of firm-specific controls, using country dummies instead of a U.S. dummy (not reported).

Table 4 goes here

Looking at this body of evidence, I draw two broad conclusions, one on ownership concentration in the U.S., the other on ownership concentration internationally. There seems to be a split of opinion on the applicable of the Berle and Means's model of dispersed stock ownership for U.S. firms. Those who write on ownership concentration often note that the view has limited applicability because many U.S. firms have large shareholders (for example, Holderness, Kroszner, and Sheehan (1999) or La Porta, Lopez-de-Silanes, and Shleifer (1999)). Others, to the contrary, believe that the "ownership of large public corporations in the United States … is pretty simple: …ownership is dispersed." Brealey, Myers, and Allen (2006, p. 950) Given that 93% of CRSP- and Compustat- listed firms have large shareholders and these shareholders on average own 35% of the stock (Table 1), it seems clear now that in the U.S. the Berle and Means view of dispersed ownership is the exception, not the rule. Even two-thirds of the firms in the top decile of market capitalization have blockholders.

Although there might be a split of opinion on the applicability of the Berle and Means model in the U.S., there seems to be general agreement that ownership of U.S. firms is less concentrated than non-U.S. firms. (Please see representative quotes at the beginning of the paper.) The evidence portrayed in Figures 1 and 2 and analyzed in Tables 3 and 4, to the contrary, shows that by some measures ownership is more concentrated in the U.S. than in other countries. On a country-by-country basis, the U.S. is in the middle of the distribution. It appears that the ownership concentration of public corporations in the U.S. is nothing out of the ordinary.

III. Do Blockholders Substitute for Weak Legal Protections?

A. Country-Specific and Firm-Specific Determinants of Ownership Concentration

Given that 93% of U.S. firms have blockholders and that the U.S. has among the strongest legal protections for shareholders, we must question the theory that concentrated ownership is a response to weak legal protections for shareholders. On the other hand, there is considerable variation in ownership concentration across countries. When I regress ownership on country dummy variables (Table 4 without controlling for firm size), the country-fixed effects explain approximately 30% of the cross sectional variation in aggregate block ownership and approximately 9% of the cross-sectional variation in the probability that a firm has a blockholder.

The theory that ownership concentration is a response to poor legal protections for shareholders rests mainly on two hugely influential papers, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (henceforth LLSV) (1998) and La Porta, Lopez-de-Silanes and Shleifer (henceforth LLS) (1999). LLS (forthcoming) also document a negative relation between ownership concentration and legal protections for shareholders, in this case securities laws. Below I conduct analyses using their actual legal variables but find little systematic evidence that ownership concentration is negatively associated with these laws. There are, however, several major differences between their approach and my approach.[8]

The dependent variable used by LLSV and LLS is invariably an average ownership concentration figure for a country, typically the average ownership of the top three

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[8] LLSV (1998), as well as LLS (forthcoming) which employs the same sample, uses ownership data from 45 nations, ranging from developed nations like the United Kingdom and Japan, to smaller, less developed countries such as Sri Lanka and Columbia. For each country they consider the ownership of the ten largest (by market capitalization), publicly traded, non-financial firms. LLS (1999) study the ownership of the 20 largest firms in 27 wealthy countries, including the US. In some analyses they examine 10 medium-sized firms from most of these countries. They do not examine aggregate block ownership but instead use a dummy value that takes the value of one if a firm has at least a 20% blockholder (some tests alternatively use a 10% figure) and zero otherwise. My sample encompasses 23 countries (the countries listed in Table 4 plus Portugal which is not included there as I lack data on market capitalization); all of my countries are in LLSV (1998), but four (Indonesia, Malaysia, Philippines, Taiwan, and Thailand) are not in LLS (1999). Their samples include several nations that I do not have, such as Canada, Israel, and Greece among others. All samples include the United States. My sample includes over 8,000 firms. LLSV (1998) and LLS (1998) have between 840 and approximately 250 firm observations depending on the paper and the analysis.

shareholders in the ten largest firms in a country. In contrast, I use firm-level observations, typically the aggregate stock owned by all blockholders within a firm. LLSV and LLS's use of an average ownership figure for a country makes sense if all determinants of ownership concentration are country-specific, such as a country's laws or its per capita gross domestic product. But if there were only country-specific determinants, all firms with a country would have the same ownership concentration. This obviously is not the case. The within-country ownership data used in this paper ranges from a standard deviation of 9.5% for Singapore to 28.1% for Germany.

The within-country spreads can not be explained solely by legal factors because all firms in a given country face the same laws.[9] The question becomes whether the differences in ownership concentration across countries reflect only firm-specific factors or whether they also reflect country-specific factors. Consider the U.S. and Ireland. The U.S. has average block ownership of 35% (although some U.S. firms have diffuse ownership), but Ireland has average block ownership of only 14% (although some Irish firms have concentrated ownership). Is this difference in average ownership solely a result of different types of firms being public in the two countries (perhaps the U.S. firms are younger or the Irish firms larger), or does the difference also reflect differences in U.S. and Irish law? Note that the reasoning is not symmetric. Country-specific factors can not be the exclusive determinants of ownership concentration because of the spread in both countries. The key difference is that country-specific factors, by definition, affect all firms within a country equally, whereas the firm-specific factors are likely to vary both within a country and possibly across countries. Therefore, we must control for firm-specific determinants if we are to understand the impact, if any, of the law on ownership concentration.

LLS (1999, p. 474) acknowledge the importance of firm-specific determinants of ownership concentration when they write that a sample of the largest firms within a country "runs into the objection that the largest companies in some countries are much

[9] If all firms within a country do not face the same laws, then we need different legal measures for the same country.

larger than the largest companies in other countries. This is a particularly serious issue for a study of ownership because larger companies presumably have less of block ownership, and hence we should be careful that our measures of block ownership do not simply proxy for size." LLSV (1998) and LLS (forthcoming), however, do not control for size or any other firm-level determinant of ownership concentration. LLS (1999), in contrast, control for size (but only for size) by replicating some analyses using "the smallest 10 firms in each country with market capitalization of common equity of at least $500 million." It appears, however, that these ten control firms from the U.S. at least are not very representative of the ownership concentration of such sized firms.[10] This is an understandable complication from using a small sample.

I control for firm-level determinants of ownership concentration by using the control variables listed in Table 3. Once I do this, it is no longer possible to use an average ownership concentration figure for a country as the unit of analysis because it removes all within-country variation. To use a country average would impose artificial clustering.[11] My approach is the customary one of using firm-level observations as the dependent variable and including a variety of firm-level and country-level controls. Demsetz and Lehn (1985) use this approach (without the country-level controls) to analyze the determinants of ownership concentration, and Dyck and Zingales (2004) use it to analyze control premia. It is also the approach LLSV (2000) use to study dividend policy and LLSV (2002) use to

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[10] Specifically, in my random sample, which appears to be representative of CRSP- and Compustat-listed firms, 78% of the approximately same-sized firms ($500 million to $600 million) have at least a 10% shareholder; their sample only has 50%. Likewise, in my sample, 28% of the same-sized firms have at least a 20% blockholder but only 10% of their $500 million firms have such a blockholder. It is also interesting to note that by this latter measure, LLS's sample of the 20 largest firms in the US has more concentrated ownership than their 10 medium-sized firms.

[11] To regress average ownership concentration on average firm characteristics (such as size) would be an ecological study, which tend to overstate relations and can even erroneously change the sign of a relation. As Freedman (2004) summarizes, "it is all too easy to draw incorrect conclusions from aggregate data." LLSV (1998), LLS (1999), and LLS (forthcoming) do not use these firm-level controls, so do they do not conduct ecological analyses. They do, however, use average figures for all of their dependent variables, so their R^2, which often exceed 50% and at times approach 80%, are likely to be overstated. In contrast, LLSV (2002) use firm-specific observations to study Tobin's q and get R^2 in the range of only 7%. For a brief summary of the problem with using averages as dependent variables, see Freedman, Pisani, Purves (1998). For more detailed analyses, see Greenland and Robins (1994) or Freedman (2004).

study Tobin's *q*. It is unclear why they also do not use this approach to study ownership concentration, which like dividend policy and Tobin's *q*, is likely to be affected by both firm-specific and country-specific factors.

B. What Laws and How to Measure Them?

There are an almost endless number of laws that could affect shareholders' ability to constrain management; therefore there are an almost endless number of laws that could affect ownership concentration. To keep this a manageable task, I limit my analysis, and hence my conclusions, to those specific laws that LLSV (1998) and LLS (1999, forthcoming) find are associated with ownership concentration. These laws fall into three categories: shareholders' rights to sue directors (anti-director rights); laws mandating aspects of disclosure when firms issue equity (disclosure standards); and laws establishing liability standards for shareholders to sue those issuing fraudulent securities (liability standards).

Anti-director rights. LLSV (1998) propose that the ability of shareholders to sue directors for breach of fiduciary obligations and other malfeasances will affect ownership concentration. They develop an index to measure these rights, also used in LLS (1999), LLS (forthcoming), which consists of six components: whether shareholders may vote by mail; whether shareholders are required to deposit their shares prior to a shareholder's meeting; whether cumulative voting is allowed; whether an oppressed minorities' mechanism exists; whether shareholders have preemptive rights for new securities issues; and the minimum percent of outstanding shares required to call a special meeting of the shareholders. (Please see Table 2 for more detailed descriptions of all three indices and their components.)

LLSV (1998) and LLS (1999) present evidence showing that ownership concentration is inversely associated with the anti-director index. In other words, when shareholders have few rights to sue directors, ownership tends to be more concentrated. They interpret this as substitution from legal constraints on management to blockholder constraints on management. LLS (forthcoming) also examine the importance of anti-director rights, but conclude that disclosure standards and liability standards that facilitate private enforcement of securities laws tend to be more important than anti-director rights.

Disclosure standards. The second group of legal factors concerns securities laws disclosure requirements. The rationale for examining these laws is that strong disclosure requirements should facilitate the enforcement of securities laws (and presumably other laws) either by aggrieved investors or by public officials. LLS (forthcoming) develop a disclosure index which consists of six components, all relating to the prospectus for an initial public offering: whether firms must deliver the prospectus to potential investors; whether firms must disclose the compensation of directors and key officers; whether firms must disclose their equity ownership structure; whether firms must disclose the equity ownership of insiders; whether firms must report unusual business transactions; and whether firms must disclose transactions between the firm and its director, officers, or large shareholders.

Liability standards index. The last group of laws pertains to the liability standards applicable for those issuing securities. LLS (forthcoming) suggest these laws are pivotal to the private enforcement of securities laws. Thus, the disclosure index and the liability standards index jointly determine the private enforcement of securities laws. The liability standards index consists of the liability standard for the firm itself; for its directors; for its distributors (investment banks); and for its accountants. As with the disclosure index, LLS find a negative relation between this index and ownership concentration.

Some legal scholars, notably Pistor, Raiser, and Gelfer (2000), have been critical of LLSV and LLS's choice of laws. These critics, however, are examining the impact of laws on the development of financial systems; it is unclear if their criticisms also apply to ownership concentration. They conclude that for the development of financial systems strong legal institutions are more important than favorable laws for shareholders. Pistor, Raiser, and Gelfer (2000) develop alternative indices they claim better explain the ability of firms in transition economies to raise capital. I do not use their indices as none of my countries are transition economies. They do, however, stress the importance of the rule of law, which I do consider in my regressions.

To index or not to index? We must decide whether to use the indices themselves or their components. Existing analyses invariably use the indices, and this is not limited to LLSV

and LLS, as seen in Dyck and Zingales (2004) and Franks, Mayer, and Rossi (2004). The advantage of an index is that it simplifies an analysis. The question, however, is whether it is appropriate to combine the individual components together with equal weights, which is basically what the indices do. (Please see Table 2 for detailed descriptions of all three indices.) This would seem to require that all of the components in an index have approximately the same impact on ownership concentration.[12]

Tables 5a analyzes the anti-director index and its components. The top panel is a simple regression of block ownership on the index. We see that the coefficient on the index is negative and statistically significant. It also appears to be economically significant. A one point increase in the index (the index runs from zero to six) is associated with a 6.3 percentage point decline in the stock ownership of large shareholders. This is consistent with the theory that blockholders are more prevalent when legal protections for shareholders are weak.

Tables 5a, 5b, and 5c go here

When we examine the individual components of the anti-director index in the bottom two panels of Table 5a, however, a different picture emerges. First, most of the coefficients of the components are insignificant.[13] Second, the sign of the components' coefficients vary. In the middle panel, for example, which contains the actual components (as opposed to a dummy variable for one of the components), only three of the components are negative as is the index itself. The other three components are positive, suggesting that ownership

[12] Another assumption would seem to be an absence of covariance among the components of the index. I do not address this assumption as the assumption of equal weight, as we shall see directly, is not satisfied.

[13] Because of collinearity among some of the variables in each of the three indices, I alternatively run each variable in a separate regression and generally find qualitatively the same results. In addition, I examine the correlations between block ownership and the individual legal doctrines. In most instances, the correlation coefficients have the same sign as the regression coefficients. Specifically, five of the six anti-director components have the same signs in both analyses; four of the six disclosure index components have the same sign in both analyses; and three of the four components in the liability standard have the same sign in both analyses.

concentration increases with these particular rights of shareholders to sue directors. Third, an F test rejects the hypothesis that all coefficients have the same value, which would appear to be a necessary condition for an equal-weighted index. The bottom panel is the same as the middle panel except that the votes required to call a special shareholders' meeting is converted to a dummy variable that takes the value of one if it is at or below the median. This dummy variable is what is used in the index. Now the component goes from being positive and marginally significant to being negative and significant.

Table 5b contains a similar analysis of the disclosure index, and Table 5c contains an analysis of the liability standard index. These tables likewise cast doubt on these two indices, at least for the purposes of analyzing ownership concentration. For instance, the disclosure index is negative and marginally significant, yet four of its six components are positive. The size of the components varies from –31 to 15. Two components of the liability standard are statistically significant, one is positive and the other negative. Although the magnitudes of these two components are roughly equal, the proper way to include them in an index would seem to be to add one and subtract the other. Instead, the liability standard index adds the two. The index also averages the liability standards for the issuer and the directors to generate a new measure which, in turn, is used in the index. The two standards seem to have equal weight (although one has a larger standard error); each also has approximately the same weight as another component in the index, the liability standard applicable to the distributor. Yet that component is used unaltered in the index, while the other two, similar-weight coefficients are effectively halved by using their average. No explanation is offered for this change in weights.

Thus, there is a possibility that the indices may provide a misleading impression of the relation between the law and ownership concentration.[14] Accordingly, I use the individual

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[14] I replicate the preceding analyses when possible using only LLSV's data. I find there, as well, that some of the components have different signs from their actual indices and are usually statistically insignificant, although the indices themselves are invariably negative and significant. The anti-director index is the most pronounced example. Although the index itself is negatively associated with their ownership measure, the average ownership of the three largest shareholders in the ten largest firms within a country, only three of the six components of the index are also negative. Coefficients on only two of these components

(footnote continues next page …)

components of the indices. An added benefit of this approach is that we will obtain information about the impact of specific legal doctrines.

C. Ownership Concentration and Legal Doctrines

Before additional analyses, we should note that Tables 5a, 5b, and 5c offer little support for any relation, positive or negative, between these laws and ownership concentration. Looking at the second panel of each table, there are 16 separate laws. Half of the laws have positive coefficients and half have negative coefficients. In turn, half of the positive coefficients are statistically significant, and half of the negative coefficients are statistically significant.

I now conduct a series of increasing broad regressions: from regressions using only the laws as explanatory variables, to adding country-specific controls, finally to adding firm-specific controls. The country-specific controls, the log of GDP per capita and the efficiency of the judiciary, are those used by several researchers, including LLSV and LLS. The firm-specific controls are those in Table 3. In all regressions, the dependent variable is the percent of stock held by blockholders. I replicate all analyses using the logistic transformation of this variable; Tobit regressions of both block ownership and its logistic transformation with censoring at zero (or its logistic equivalent); and a logit analysis in which the dependent variable takes a value of one if a firm has a blockholder and zero otherwise. The results do not change qualitatively; although I lose a large number of observations with the logit analyses as in some countries all sample firms have blockholders.

Table 6 goes here

I find similar patterns in Table 6 as in Tables 5a, 5b, and 5c. Once I control for other factors that are likely to affect ownership concentration, I find that approximately half of

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are significant; one is positive and one negative. Moreover, an F test rejects the hypothesis that all of the individual components of the index have the same value (p-value 0.04).

the laws have negative coefficients, which is consistent with the hypothesis that blockholders substitute for weak legal protections, and approximately half of the laws have positive coefficients, which of course is inconsistent with the hypothesis. In the broadest regression which includes both country-specific and firm-specific controls (the last regression in Table 6), seven of the laws have negative coefficients and nine of the laws have positive coefficients.[15] Moreover, the sign of many of the components changes with the specification, suggesting that any relation with ownership concentration is not robust. Finally, the variable measuring the efficiency of the judiciary invariably has a positive coefficient and in most specifications is statistically significant (not reported).

These overall results also hold when I use the legal indices instead of the components. In other words, my results are not conditional on disaggregating the legal indices. Consider the anti-director index. When I regress block ownership or its transformation on the full set of across-country and within-country control variables of Table 6, the coefficient on the anti-director index is insignificant (p-value of 0.42 in the first case, 0.22 in the second case). The disclosure index, in contrast, which is insignificant when standing alone, is positive and significant when country-wide and firm-specific control variable are included in both the OLS and logit regressions. And the coefficient on the liability standard index is slightly positive (0.03) and insignificant (p-value 0.99) when it is included in an OLS regression with the country- and firm-specific controls.

Civil law. Finally, I investigate the impact of the civil law tradition on ownership concentration because it is possible that the laws I have been analyzing are endogenous. Specifically, it is feasible that blockholders, who are likely to have both wealth and political power, lobby successfully for laws that entrench them but harm smaller shareholders.[16]

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[15] This particular regression does not control for firm age. By excluding firm age, I gain 2,299 observations. Moreover, the exclusion of firm age makes it feasible to calculate robust standard errors that are clustered by country. When I run this regression with firm age but without clustered standard errors, the overall result remains the same as what is reported in the table: about half of the legal coefficients are positive and half are negative.

[16] Rajan and Zingales (2003), although not addressing ownership concentration, present evidence that over the past century interest groups in various countries have opposed financial development in an effort to foreclose potential competition.

One way others address this possibility is to divide firms into civil and common law traditions. Firms have little choice over these traditions, having been historically determined, and the traditions tend to be correlated with legal protections for shareholders (common law countries generally have better protections). LLS (1999) find that civil law countries tend to have significantly more concentrated stock ownership. Their interpretation is that the weaker protections for shareholders in civil law countries cause a substitution into blockholders for monitoring purposes.

Table 7 goes here

We see in Table 7 that the sign of the (dummy) civil law dummy coefficient changes with the specification. It is significant in only three of the specifications, being positive in two and negative in one. Turning to the magnitude of the effect, the one negatively statistically significant result suggests that the civil tradition reduces block ownership by about 11 percent points. The two logit regressions with significant coefficients suggest that the odds of a civil-tradition firm having a blockholder is 1.4 (second logit) to 2.9 (third logit) greater than the odds for a non-civil law firm (based on not reported logistic regression). Therefore, the evidence is mixed on the relation between ownership concentration and the civil law tradition.

Overall assessment. There are two possible interpretations of Table 6 and Table 7. One is that many of these particular laws influence ownership concentration. Some laws, such as allowing proxy voting by mail, tend to reduce concentration, while at the same time other laws, such as requiring that prospectuses disclose managerial compensation, tend to increase concentration. The alternative interpretation is that there is no robust relation between ownership concentration and these laws. Through chance, some of the laws are positively correlated with ownership concentration while others are negatively correlated. The former interpretation requires a complicated theory of the interaction of specific laws and ownership concentration that does not exist. Until such a theory is developed, the reasonable interpretation seems to be that there is no systematic relation between these specific laws and ownership concentration.

IV. Blockholders as Monitors or Blockholders as Managers?

Why does ownership concentration apparently vary little with the legal protections for shareholders? To answer this question, it is helpful to turn to the paper that originally proposed that large shareholders can protect smaller shareholders, Shleifer and Vishny (1986). In that seminal paper they show how a shareholder holding a large-percentage block of stock has both the incentives and the voting power to monitor management, thereby ameliorating the free-rider problems that smaller shareholders face in monitoring management (Grossman and Hart 1980). A key assumption of their analysis, and one that is often over-looked, is that the "firm is owned by one large shareholder, *who does not participate in management*, and a fringe of small ones" (Shleifer and Vishny 1986, p. 463, emphasis added).

The assumption of non-participation of blockholders in management is crucial because it means that the blockholder feels the wealth effects of his corporate actions only through the value of his stock and not through any private benefits (Barclay and Holderness 1989). If the blockholder can secure pecuniary private benefits, he may not a protector for other shareholders but a problem. Although being involved in management need not be a condition for a blockholder to receive private benefits, Hwang (2004) presents evidence that premiums on trades of large-percentage blocks of stock, which are presumed to proxy for private benefits anticipated by the block purchaser, increase rapidly as the probability of the block purchaser becoming an officer increases.

Most blockholders, however, do not appear to be monitors in the spirit of Shleifer and Vishny (1986). Their analysis seems to envision something along the following: a shareholder who sits on the board (to lower the costs monitoring, directors have the exclusive rights to hire and fire top management), but is not part of the management team (hard to monitor yourself), and owns significantly more stock than does the chief executive officer (to be able to constrain the chief executive officer if necessary). But the confluence of these conditions seldom happens. For example, in only 17% of my U.S. firms is there a CEO who owns a relatively small fraction of the stock, say 5% or less; with a blockholder who

owns a relatively large fraction of the stock, say 20% or more; and the blockholder is also on the board.[17] Although these levels are obviously arbitrary, the point remains that the monitoring blockholder appears to be relatively rare. In the U.S. most blockholders are either managers or not on the board of directors.[18] Outside of the U.S. LLS (1999, p. 511) report that firms "are run not by professional managers without equity ownership who are unaccountable to shareholders, but by controlling shareholders."

It is also informative to consider some recent corporate scandals around the world. In the United States the Rigas family controlled 60% of the votes at Adelphia Communications and occupied five of nine directorships. Several members of the family were convicted of large-scale thefts from the company. In Italy Parmalat declared bankruptcy after its 51% shareholder admitted looting nine billion euros from the firm. And in Bulgaria Atanasov (forthcoming) documents that large shareholders expropriated 85% of the value of a substantial number of public firms. The common thread in all of these examples is that the party who looted the firm was both a large shareholder and a manager.[19]

Although the prevalent view is that when the law is weak ownership tends to be concentrated, there is some inconsistent evidence. Franks, Mayer, and Rossi (2004) study the evolution of ownership concentration in the UK since 1900 in light of the anti-director, disclosure, and liability standards indices of LLSV and LLS. They find that in 1900 many UK firms had dispersed ownership even though shareholders at that time had few rights to sue directors. They also find the introduction of a variety of shareholder rights after World War II had little effect on ownership concentration.

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[17] This number could overstate any monitoring as more than half of these blockholders (29 out of 49) are non-individuals, such as corporations or mutual funds, which may have their own agency problems that impede their effective monitoring of other firms.

[18] It is hard to support the view that "the empirical reality is that a person who is a professional member of the management team hardly ever holds enough stock to make him one of the five most important shareholders of a corporation." Demsetz and Villalonga (2001), p. 251. In my US sample, the CEO is the largest shareholder in fully one-third of all firms.

[19] Some researchers "use the term 'tunneling' narrowly to refer to the transfer of resources out of a company to its controlling shareholder (who is typically also a top manager)." Johnson, La Porta, Lopez-de-Silanes, and Shleifer (2000). The authors note that "the emerging markets crisis of 1997-1998 offers many instances of looting of firms by their controlling shareholders."

We should not expect most blockholders to monitor management—typically, blockholders *are* the managers.[20] Monitoring implies an external constraint. This is not to say that their block ownership provides no incentives. Clearly it does. But we should not expect large shareholders to constrain themselves on behalf of smaller shareholders (Holderness and Sheehan 2000). Thus, the lack of a relation between ownership concentration and legal protections for shareholders is not surprising.

V. Conclusion

In this paper I analyze large-percentage common stock ownership at public corporations. This has been a surprisingly neglected topic, at least from an empirical perspective, because reliable data on block ownership must be hand collected. I analyze such data from 8,159 corporations from the U.S. and 22 European and East Asian countries. Three major conclusions emerge, all of which to varying degrees challenge accepted views.

First, the Berle and Means view of dispersed ownership is inappropriate even when applied to the U.S. Among a representative sample of CRSP- and Compustat-listed firms, 93% have a blockholder who owns at least five percent of the common stock. Blockholders in aggregate own approximately 35% of the stock within a firm, and this figure includes firms without blockholders. Dispersed stock ownership is the exception, not the rule, even among larger firms. For instance, 80% of the firms in the top quartile of market capitalization have blockholders, who in aggregate own 22% of the stock.

Second, ownership in the U.S. is by some measures more concentrated than elsewhere. On a country-by-country basis, the U.S. falls in the middle of the distribution, whether measured by the aggregate stock ownership of large shareholders or by the percent of firms having large shareholders. These findings hold both for the raw ownership data and when I control for firm-specific factors that are known to affect ownership concentration.

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[20] Moreover, if shareholders in general lack legal rights, there is no reason to expect large shareholders to be able to enforce these nonexistent rights. In contrast, in Shleifer and Vishny (1986) shareholders implicitly have the legal rights to stop managerial malfeasance. What the shareholders lack is the incentives to exercise these rights due to free-rider problems. That is why the large-percentage holdings of a large shareholder are so important.

Third, in contrast to other researchers, I find no systematic relation between ownership concentration and legal protections for shareholders. Unlike earlier studies, I use firm observations instead of country averages to measure ownership concentration, and I control for firm-specific factors that are known to affect ownership concentration, such as firm size and industry. The lack of a relation between ownership concentration and legal protections for shareholders is inconsistent with the widely held theory that concentrated ownership is a response to weak legal protections for shareholders. There is no reason to expect blockholders to monitor managers, when the law is weak or otherwise, because in most firms the top managers are large shareholders.

The findings in this paper suggest several avenues for future research. In the interests of brevity, I will mention only two. Although ownership concentration may not be significantly different between the U.S. and other countries, there are other aspects of ownership structure that do appear to be significantly different. For instance, the U.S. with its more developed financial markets has several types of blockholders, notably mutual funds and hedge funds, that are infrequent in other countries. Press reports since the construction of the U.S. sample used here suggest that hedge funds are rapidly increasing their large-percentage holdings and becoming increasingly active in corporate affairs.[21] An analysis of these emerging blockholders could yield insights into what the future holds for the ownership structure of public corporations, certainly in the U.S. and possibly in other countries.

A second issue worthy of future research concerns the role played by blockholders. Most blockholders are managers, and this makes sense in a market economy. A considerably smaller group of blockholders are monitors in the sense of being directors but not officers. This also makes sense. But some blockholders are neither directors nor officers. What role do these blockholders play? Are they simply holding what they perceive to be under-valued securities, or do they have other motives? If so, what are benefits to the

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[21] For instance, "Circuit City Rejects Takeover Bid, Won't Consider Any Other Offers," *Wall Street Journal*, March 8, 2005, p. A8; "Long & Short: All in One Basket: a $100 Million 'Bad Day,'" *Wall Street Journal*, March 2, 2005, p. C1.

blockholder from holding an under-diversified position and what are the effects for the firm?

Perhaps the most interesting—and potentially far-reaching—finding in this paper is how ubiquitous large-block shareholders are in the U.S. and around the world. To understand this phenomenon, it is instructive to turn to the research that first examined ownership concentration in the modern public corporation, Berle and Means (1932). Their analysis consists of two parts, an analysis of the essential property rights of a market economy and data showing a separation of ownership from management. Their work is best known for the data, but their property-rights analysis tells us why they were so concerned with what they saw in the data. Berle and Means understood that an essential characteristic of private property is that the same person who has the decision rights over an asset also bears most of the wealth effects of exercising those decision rights. It is this collocation of decision rights and wealth effects which provides both the incentive and the feasibility for value maximization. Berle and Means (1932) appropriately call collocation the "atom of property" and view it as "the very foundation on which the economic order of the past three centuries has rested."[22]

Berle and Means were correct in concluding that the total separation of ownership from management would "destroy the very foundation on which the economic order of the past three centuries has rested." In fact, the total separation of ownership from management would destroy private property as they, or we, know it. They present data which they interpret as showing that this "dispersion in the ownership of separate enterprises … has already proceeded far, it is rapidly increasing, and appears to be an inevitable development."[23] On the last point, in retrospect they were wrong. Private property, that is the market economy, is more resilient than they imagined. Many forces have evolved to ensure that corporate managers bear at least some of the wealth effects of their actions. The evidence presented in this paper shows that large-block ownership has played a major role

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[22] Berle and Means (1932) pp. 7-8.

[23] Holderness (2003).

in this evolution. It is nothing more, or nothing less, than a return to the fundamental reality of private property. Owners manage. And on this account, the U.S. is no different than the rest of the world.

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Table 1

Summary statistics on the common stock ownership of blockholders, directors, and officers at 317 randomly selected, CRSP- and Compustat-listed firms. Blockholders are those shareholders that own at least five percent of the common stock. The first three panels include firms with no blockholders counted as zero ownership. The last panel includes only those 294 firms (93% of the sample) that have blockholders. Data comes from 1994 or (mostly) 1995 proxy statements.

Ownership of Blockholders, Directors, and Officers

Average Ownership	41.4%
Median Ownership	40.8 %
SD of Ownership	22.8%
Maximum Ownership	95.8%
Minimum Ownership	< 1%

Ownership of Blockholders

Average Ownership	36.9%
Median Ownership	34.3%
SD of Ownership	22.7%
Maximum Ownership	94.8%
Minimum Ownership	0

Ownership of Directors and Officers

Average Ownership	22.5%
Median Ownership	16.0%
SD of Ownership	21.1%
Maximum Ownership	87.1%
Minimum Ownership	< 1%

Ownership of Largest Shareholder

Average Ownership	24.5%
Median Ownership	16.6%
SD of Ownership	18.5%
Maximum Ownership	84.1%
Minimum Ownership	< 5%
Percent of Firms with Blockholders	93%

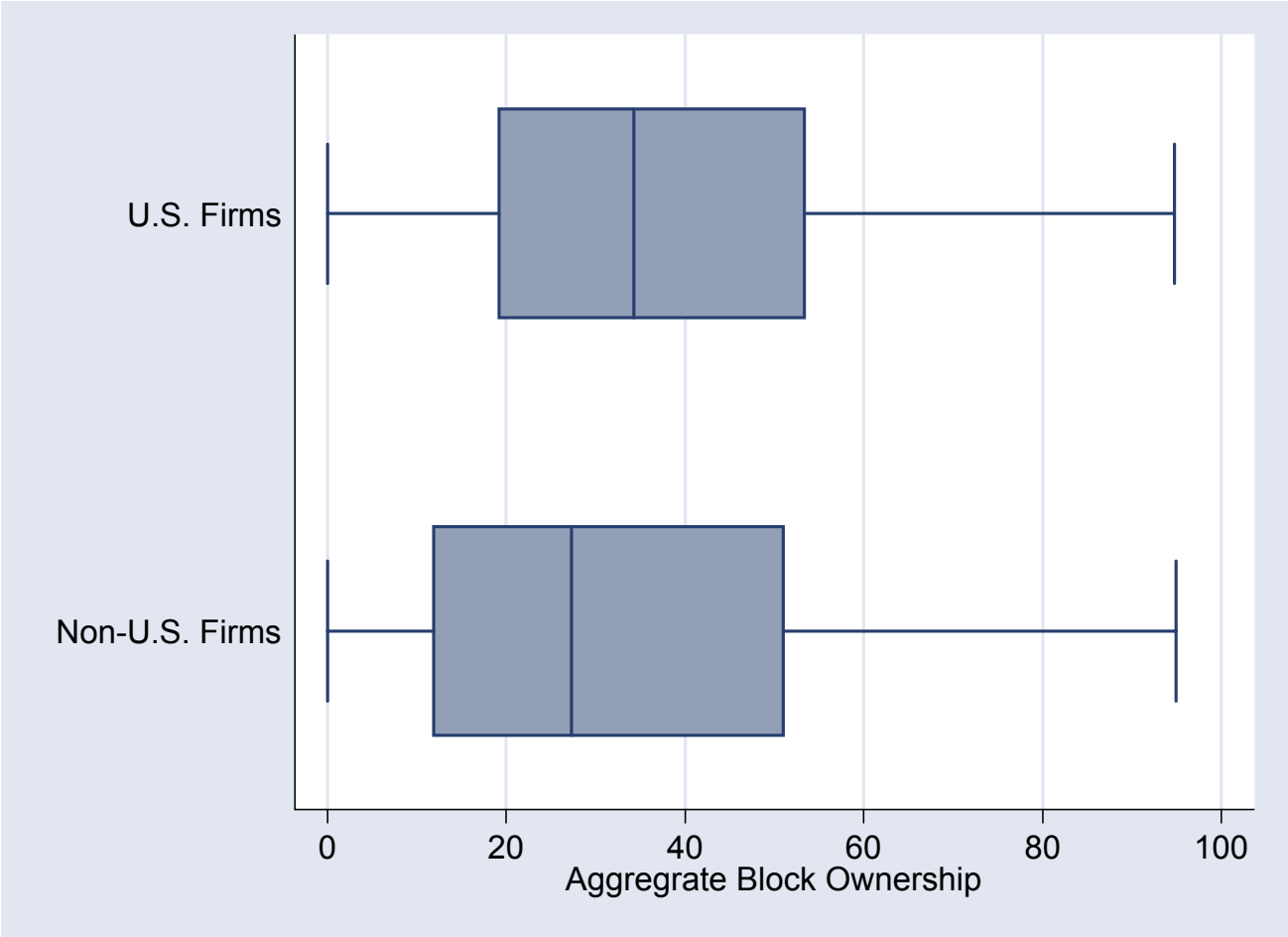

Figure 1. Comparison of large-block ownership at United States and non-United States public corporations. Block ownership is the aggregate ownership of all shareholders who own at least 5% of the common stock. 93% of the United States firms and 85% of the non-United States firms have at least one such blockholder. If a firm has no blockholders, the firm is included at zero block ownership. The thin black line represents median block ownership. Beginning and end of the shaded boxes represent the 25% and 75% figures, respectively. The ends of the whiskers represent the minimum and maximum block ownership. United States ownership data is from a random sample of 317 CRSP and Compustat listed corporations and comes from 1994 or (mostly) 1995 proxy statements. Non-U.S. ownership data encompasses 7,842 firms from 22 countries and comes from the data sets used in Claessens, Djankov, and Lang (2000) and Faccio and Lang (2002).

Table 2

Description of Firm-Level Variables

Variable	Description	Source
Block Ownership	Aggregate percent stock ownership of all shareholders who own at least 5% of the stock ("blockholder"). When a firm has dual class voting stock, voting percent is used. When a firm has no blockholders, the firm is included at zero ownership.	For U.S. firms: hand collected from annual proxy statements late 1994 or (mostly) 1995. For non-U.S. firms: Faccio and Lang (2002) for European companies; Claessens, Djankov, and Lang (2000) for East Asian Companies.
Firm has Blockholder	Dummy variable that equals one if a firm has at least one shareholder who owns at least 5% of the stock and zero otherwise.	Same as above.
Firm Size (log)	The natural log of the market value of the firm's equity.	For U.S. firms: CRSP/Compustat Merged Database maintained by WRDS at the University of Pennsylvania. For non-U.S. firms: Thomson Financial Datastream.
Age of Firm (log)	The natural log of the number of years since incorporation.	Same as above.
PPE/Sales	The ratio of tangible, long-term assets (property, plant, and equipment) to sales.	Same as above.
CapX/PPE	The ratio of capital expenditures to the stock of long-term assets (property, plant, and equipment).	Same as above.
Free Cash Flow	The ratio of operating income to sales. Only non-negative ratios are used.	Same as above.
Volatility	Standard deviation of firm's weekly stock price over the previous 12 months.	Datastream.
Financial Dummy	A dummy variable that takes the value of one if the firm's primary SIC code is between 6,000 and 6,999 (inclusive) and zero otherwise.	For U.S. firms: CRSP/Compustat Merged Database. For non-U.S. firms: Thomson Financial Datastream.
Utility Dummy	A dummy variable that takes the value of one if the firm's primary SIC code is between 4,900 and 4,999 (inclusive) and zero otherwise.	Same as above.
Media Dummy	A dummy variable that takes the value of one if the firm's primary SIC code is between 2,700 and 2,799 (inclusive) or between 4,830 and 4,899 (inclusive) and zero otherwise.	Same as above.

Table 2 (continued)

Description of Legal Variables

Variable	Description	Source
Proxy by Mail Allowed	"Equals one if the company law or commercial code allows shareholder to mail their proxy vote to the firm, and zero otherwise."	La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) and La Porta, Lopez-de-Silanes, and Shleifer (forthcoming).
Cumulative Voting for Directors	"Equals one if the company law or commercial code allows shareholder to cast all their votes for one candidate standing for election to the board of directors (cumulative voting) or if the company law or commercial code allows a mechanism of proportional representation in the board by which minority interests may name a proportional number of directors to the board, and zero otherwise."	Same as above.
Minority Appraisal	"Equals one if the company law or commercial code grants minority shareholder either a judicial venue to challenge the decisions of management or of the assembly or the right to step out of the company by requiring the company to purchase their shares when they object to certain fundamental changes, such as mergers, assets dispositions, and changes in the articles of incorporations. The variable equals zero otherwise. Minority shareholders are defined as those shareholders who own 10 percent of share capital or less."	Same as above.
% Votes to Call Extraordinary Meeting	"The minimum percentage of ownership of share capital that entitles a shareholder to call for an extraordinary shareholders' meeting; it ranges from 1 to 33 percent."	Same as above.
Preemptive Rights for New Issues	"Equals one when the company law or commercial code grants shareholders the first opportunity to buy new issues of stock, and this right can be waived only by a shareholders' vote; equals zero otherwise."	Same as above.

Table 2 (continued)

Description of Legal Variables (continued)

Shares Not Blocked Before Meeting	"Equals one if the company law or commercial code does not allow firms to require that shareholders deposit their shares prior to a general shareholders meeting, thus preventing them from selling those shares for a number of days, and zero otherwise."	La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) and La Porta, Lopez-de-Silanes, and Shleifer (forthcoming).
Anti-Director Index	"This index of Anti-director rights is formed by adding one when: (1) the country allows shareholders to mail their proxy vote; (2) shareholders are not required to deposit their shares prior to the General Shareholders' Meeting; (3) cumulative voting or proportional representation of minorities on the board of directors is allowed; (4) an oppressed minorities mechanism is in place; (5) the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders' Meeting is less than or equal to ten percent (the sample median); or (6) when shareholders have preemptive rights that can only be waved by a shareholders meeting. The range for the index is from zero to six."	Same as above.
Prospectus Required	"Equals one if the law prohibits selling securities that are going to be listed on the largest stock exchange of the country without delivering a prospectus to potential investors; equals zero otherwise."	La Porta, Lopez-de-Silanes, and Shleifer (forthcoming)

Table 2 (continued)

Description of Legal Variables (continued)

Compensation Disclosure Required	"An index of prospectus disclosure requirements regarding the compensation of directors and key officers. Equals one if the law or the listing rules require that the compensation of each director and key officer be reported in the prospectus of a newly-listed firm; equals one-half if only the aggregate compensation of directors and key officers must be reported in the prospectus of a newly-listed firm; equals zero when there is no requirement to disclose the compensation of directors and key officers in the prospectus for a newly-listed firm."	La Porta, Lopez-de-Silanes, and Shleifer (forthcoming)
Ownership Disclosure Required	"An index of disclosure requirements regarding the Issuer's equity ownership structure. Equals one if the law or the listing rules require disclosing the name and ownership stake of each shareholder who, directly or indirectly, controls ten percent or more of the Issuer's voting securities; equals one-half if reporting requirements for the Issuer's 10% shareholders do not include indirect ownership or if only their aggregate ownership needs to be disclosed; equals zero when the law does not require disclosing the name and ownership stake of the Issuer's 10% shareholders. No distinction is drawn between large-shareholder reporting requirements imposed on firms and those imposed on large shareholders themselves."	Same as above.
Inside Ownership Disclosure Required	"An index of prospectus disclosure requirements regarding the equity ownership of the Issuer's shares by its directors and key officers. Equals one if the law or the listing rules require that the ownership of the Issuer's shares by each of its director and key officers be disclosed in the prospectus; equals one-half if only the aggregate number of the Issuer's shares owned	Same as above.

	by its directors and key officers must be disclosed in the prospectus; equals zero when the ownership of Issuer's shares by its directors and key officers need not be disclosed in the prospectus."	
Contract Disclosure Required	"An index of prospectus disclosure requirements regarding the Issuer's contracts outside the ordinary course of business. Equals one if the law or the listing rules require that the terms of material contracts made by the Issuer outside the ordinary course of its business be disclosed in the prospectus; equals one-half if the terms of only some material contracts made outside the ordinary course of business must be disclosed; equals zero otherwise."	Same as above.
Transaction Disclosure Required	"An index of the prospectus disclosure requirements regarding transaction between the Issuer and its directors, officers, and/or large shareholders (i.e., "related parties"). Equals one if the law or the listing rules require that all transactions in which related parties have, or will have, an interest be disclosed in the prospectus; equals one-half if only some transactions between the Issuer and related parties must be disclosed in the prospectus; equals zero if transactions between the Issuer and related parties need not be disclosed in the prospectus."	Same as above.
Disclosure Index	"The index of disclosure equals the arithmetic mean of: (1) Prospect; (2) Compensation; (3) Shareholders; (4) Inside ownership; (5) Contracts Irregular; (6) and Transactions."	La Porta, Lopez-de-Silanes, and Shleifer (forthcoming)
Liability Standard for Directors	"Index of the procedural difficulty in recovering losses from directors of the Issuer in a civil liability case for losses due to misleading statements in the prospectus. The liability standard applicable to directors of the issuer equals one when investors are only required to prove that the prospectus contains a misleading statement. Equals two-thirds when investors must also prove that they relied on the prospectus and/or that their loss was	Same as above.

	caused by the misleading statement. Equals one-third when investors must also prove that the director acted with negligence. Equals zero if restitution from directors is either unavailable or the liability standard is intent or gross negligence."	
Liability Standard for Issuer	"Index of the procedural difficulty in recovering losses from the Issuer in a civil liability case for losses due to misleading statements in the prospectus. The liability standard applicable to Issuers equals one when investors are only required to prove that the prospectus contains a misleading statement. Equals two-thirds when investors must also prove that they relied on the prospectus and/or that their loss was caused by the misleading statement. Equals one-third when investors must also prove that the Issuer or its directors or officers acted with negligence. Equals zero if restitution from Issuers is either unavailable or the liability standard is intent or gross negligence."	Same as above.
Liability standard for the issuer and its directors	Arithmetic average of Liability Standard for Directors and Liability Standard for Issuer.	Same as above.
Liability Standard for Distributors	"Index of the procedural difficulty in recovering losses from the Distributor in a civil liability case for losses due to misleading statements in the prospectus. Equals one when investors are only required to prove that the prospectus contains a misleading statement. Equals two-thirds when investors must also prove that they relied on the prospectus and/or that their loss was caused by the misleading statement. Equals one-third when investors must also prove that the Distributor acted with negligence. Equals zero if restitution from the Distributor is either unavailable or the liability standard is intent or gross negligence."	Same as above.
Liability Standard for Accountants	"Index of the procedural difficulty in recovering losses from the Accountant in a civil liability case for losses due to	Same as above.

	misleading statements in the audited financial information accompanying the prospectus. Equals one when investors are only required to prove that the audited financial information accompanying the prospectus contains a misleading statement. Equals two-thirds when investors must also prove that they relied on the prospectus and/or that their loss was caused by the misleading accounting information. Equals one-third when investors must also prove that the Accountant acted with negligence. Equals zero if restitution from the Accountant is either unavailable or the liability standard is intent or gross negligence."	
Liability Standard Index	"The index of liability standards equals the arithmetic mean of: (1) Liability standard for the issuer and its directors; (2) Liability standard for the distributor; and (3) Liability standard for the accountant."	Same as above.

Table 2 (continued)

Description of Country-Level Control Variables

Variable	Description	Source
GNP Per Capita (Log)	"Logarithmic of per capita Gross Domestic Product (in US dollars)."	La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998).
Efficiency of Judiciary	"Assessment of the 'efficiency and integrity of the legal environment as it affects business, particularly foreign firms' produced by the country risk rating agency International Country Risk (ICR). It may be "taken to represent investors' assessment of conditions in the country in question." Average between 1980 and 1983. Scale from 0 to 10, with lower scores representing lower efficiency levels. "	La Porta, Lopez-de-Silanes, and Shleifer (forthcoming).

Table 3

Regression analysis of the common stock ownership of blockholders at U.S. and non-U.S. firms. Blockholders are those shareholders that own at least five percent of the common stock. The first three regressions are logit regressions in which the dependent variable is one if the firm has a blockholder and zero otherwise. The last three regressions are OLS in which the dependent variable is the fraction of the common stock held by blockholders. The U.S. firms are randomly selected CRSP- and Compustat-listed firms. The foreign firms come from 22 different countries. Variables are defined in Table 2. (*p*-values are reported in parentheses and are calculated using standard errors that are both robust and clustered by country.)

	Firm Has Blockholder	Firm Has Blockholder	Firm Has Blockholder	Block Ownership	Block Ownership	Block Ownership
U.S. Dummy	**0.82**	**0.72**	**0.86**	**4.60**	**5.20**	**8.20**
	(< 0.01)	**(< 0.01)**	**(0.05)**	**(0.34)**	**(0.27)**	**(0.09)**
Firm Size (Log)		-0.15	-0.28		-2.78	-1.92
		(< 0.01)	(< 0.01)		(0.01)	(< 0.01)
Age of Firm (Log)			-0.07			-2.52
			(0.39)			(0.08)
PPE/Sales			-0.03			-0.44
			(0.12)			(0.09)
CapX/PPE			0.11			0.58
			(0.66)			(0.03)
Free Cash Flow			1.34			20.07
			(0.14)			(< 0.01)
Volatility			0.10			0.73
			(0.04)			(< 0.01)
Financial Dummy			-0.73			-5.42
			(< 0.01)			(0.03)
Utility Dummy			0.75			5.66
			(< 0.01)			(0.05)
Media Dummy			0.57			0.52
			(< 0.01)			(0.77)
Constant	1.77	2.70	1.97	32.32	45.25	40.33
	(< 0.01)	(< 0.01)	(< 0.01)	(< 0.01)	(< 0.01)	(< 0.01)
R^2	< 0.01	0.02	0.07	< 0.01	0.05	0.09
Observations	8,159	6,356	2,479	8,159	6,356	2,479

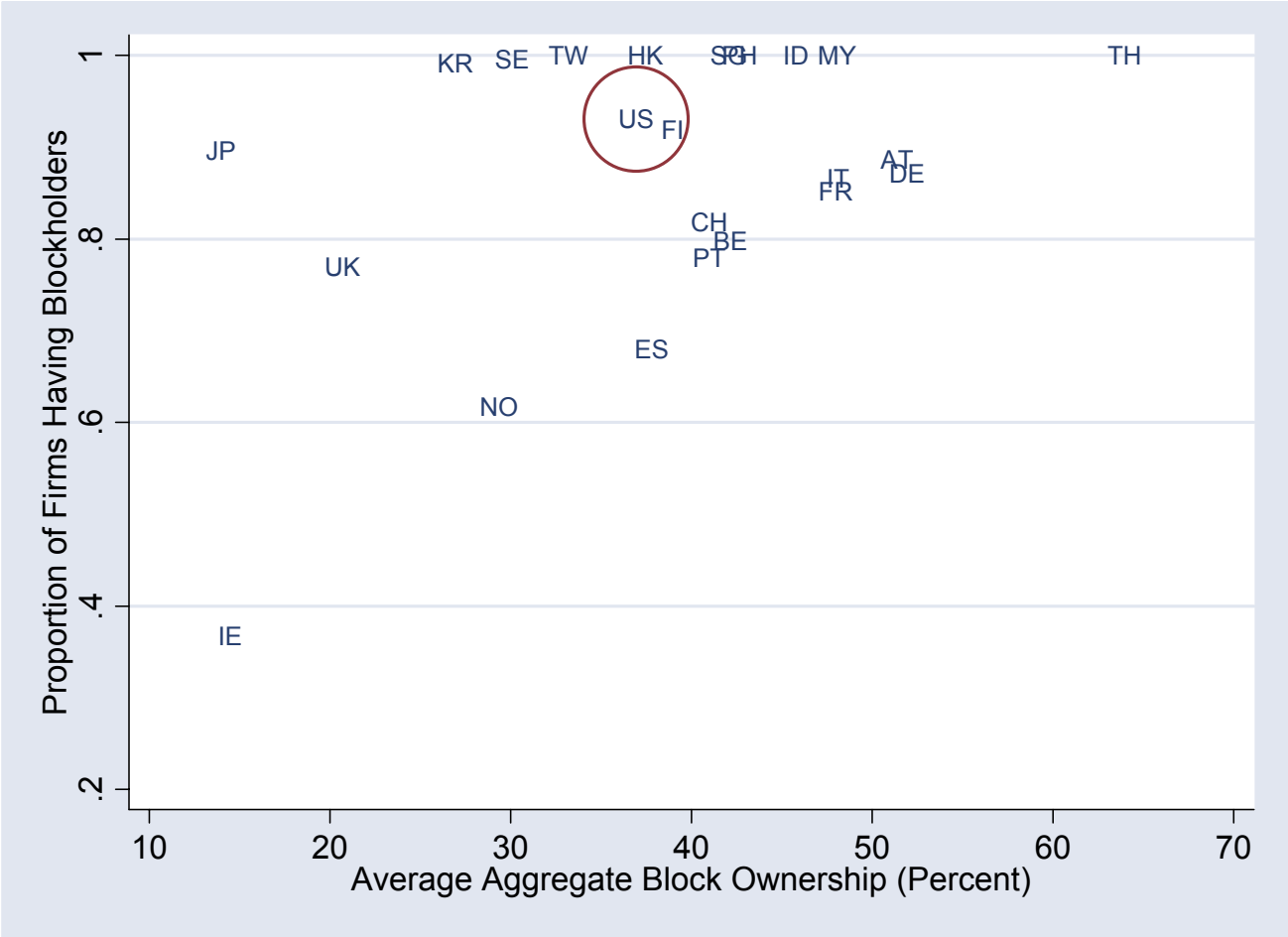

Figure 2. Scatter diagram of large-block ownership at public corporations in the United States and 22 other countries. X-axis is the country average of the aggregate common stock ownership of all shareholders in a firm who own at least 5% of the common stock. If a firm has no blockholders, the firm is included in the country average at zero. Y-axis is the percent of firms within a given country that have at least one blockholder. Blockholders are those shareholders who own at least five percent of the common stock. The scatter point for the United States is circled. United States ownership data is from a random sample of 317 CRSP and Compustat listed corporations and comes from 1994 or (mostly) 1995 proxy statements. Non-U.S. ownership data encompasses 7,842 firms from 22 countries and comes from the data sets used in Faccio and Lang (2002) and Claessens, Djankov, and Lang (2000). Country abbreviations are: U.S. (United States of America), AT (Austria), BE (Belgium), CH (Switzerland), DE (Germany), ES (Spain), FI (Finland), FR (France), HK (Hong Kong), ID (Indonesia), IE (Ireland), IT (Italy), JP (Japan), KR (South Korea), MY (Malaysia), NO (Norway), PH (Philippines), PT (Portugal), SE (Sweden), SG (Singapore), TH (Thailand), TW (Taiwan), UK (United Kingdom).

Table 4

Comparison of the block ownership at U.S. and non-U.S. firms. All comparisons are to U.S. firms and are conditional on firm size (log of market value of equity). United States ownership data is from a random sample of 317 CRSP and Compustat listed corporations and comes from 1994 and (mostly) 1995 proxy statements. Non-U.S. ownership data encompasses 6,033 firms from 22 countries and comes from the data sets used in Faccio and Lang (2002) and Claessens, Djankov, and Lang (2000). *** represents *p*-value of less than 0.01, ** represents *p*-value of 0.01 to 0.05 (inclusive), * represents *p*-value of 0.05 to 0.10 (inclusive).

	Difference in Probability Firm Has Blockholder Relative to U.S. Firms Conditional on Firm Size which for the U.S. is 0.93	Difference in Block Ownership Relative to U.S. Firms Conditional on Firm Size which for the U.S. is 47%
Austria	–0.05**	12.50***
Belgium	–0.11***	5.08*
Finland	–0.01*	0.78
France	–0.08***	10.40***
Germany	–0.07***	13.40***
Hong Kong	0.07***	0.86
Indonesia	0.07***	8.19***
Ireland	–0.46***	-22.74***
Italy	–0.06***	10.80***
Japan	–0.04**	-21.21***
Malaysia	0.07***	13.40***
Norway	–0.29***	-8.87***
Philippines	0.07***	4.91**
Singapore	0.07***	6.02***
South Korea	0.06**	-10.34***
Spain	–0.31***	-4.15
Sweden	0.06***	-8.14***
Switzerland	–0.13***	3.46
Taiwan	0.07***	-2.13
Thailand	0.07***	25.53***
UK	–0.15***	-16.97***

Table 5a

Regression analyses using an index of anti-director rights (top panel) versus using the components of the index (middle panel). The bottom panel is the same as the middle panel except that the voting variable is replaced by a dummy variable which equals one if the variable is equal to or below its median figure. This dummy variable is used in the index. The dependent variable in all regressions is the fraction of the common stock in a firm held by blockholders. All other variables are defined in Table 2. There are 8,159 observations in all regressions. All standard errors and resulting *p*-values are both robust and clustered by country. The R^2 of the first regression is 0.12; the R^2 of the second regression is 0.19; and the R^2 of the third regression is 0.19

Index	Coefficient	Standard Error	*p*-value
Anti-director Index	-6.34	1.33	< 0.01

Components of Index	Coefficient	Standard Error	*p*-value
Proxy Voting by Mail	-3.01	5.40	0.58
Cumulative Voting for Directors	1.34	5.40	0.80
Minority Appraisal	-12.06	4.45	0.01
Votes to Call Extraordinary Meeting, Percent	105.34	62.38	0.10
Preemptive Rights for New Issues	0.93	4.43	0.83
Shares Not Blocked Before Meeting	-10.31	3.74	0.01
p-value of F test that coefficients of all independent variables have the same value = 0.07			

Components of Index	Coefficient	Standard Error	*p*-value
Proxy Voting by Mail	-7.03	5.34	0.20
Cumulative Voting for Directors	3.59	5.27	0.50
Minority Appraisal	-11.08	4.71	0.02
Votes to Call Extraordinary Meeting, Dummy	-15.22	6.92	0.03
Preemptive Rights for New Issues	-1.60	4.23	0.70
Shares Not Blocked Before Meeting	-14.20	4.53	< 0.01
p-value of F test that coefficients of all independent variables have the same value = 0.08			

Table 5b

Regression analyses using an index of disclosure requirements (top panel) versus using the components of the index (bottom panel). Dependent variable in both regressions is the fraction of the common stock in a firm held by blockholders. All other variables are defined in Table 2. There are 8,159 observations in both regressions. All standard errors and resulting *p*-values are both robust and clustered by country. The R^2 of the first regression is 0.03; the R^2 of the second regression is 0.16.

Index	Coefficient	Standard Error	*p*-value
Disclosure Index	-25.01	15.27	0.11

Components of Index	Coefficient	Standard Error	*p*-value
Prospectus Required	12.57	5.72	0.03
Compensation Disclosure Required	15.30	6.60	0.03
Ownership Disclosure Required	-6.15	5.33	0.26
Inside Ownership Disclosure Required	5.84	12.92	0.65
Contract Disclosure Required	-31.24	12.01	0.01
Transaction Disclosure Required	6.94	14.30	0.63
p-value of F test that coefficients of all independent variables have the same value			< 0.01

Table 5c

Regression analyses using an index of liability standards (top panel) versus using the components of the index (bottom panel). Dependent variable in both regressions is the fraction of the common stock in a firm held by blockholders. All other variables are defined in Table 2. There are 8,159 observations in both regressions. All standard errors and resulting *p*-values are both robust and clustered by country. The R^2 of the first regression is 0.09; the R^2 of the second regression is 0.13; the R^2 of the third regression is also 0.13

Index	Coefficient	Standard Error	*p*-value
Liability Standard Index	-31.81	9.85	< 0.01

Components of Index	Coefficient	Standard Error	*p*-value
Liability Standard for Issuer	25.62	4.73	< 0.01
Liability Standard for Directors	-23.70	17.17	0.18
Liability Standard for Distributors	-23.78	8.16	< 0.01
Liability Standard for Accountants	-5.57	7.21	0.44
p-value of F test that coefficients of all independent variables have the same value			< 0.01

Components of Index	Coefficient	Standard Error	*p*-value
Average of Standards for Issuers and Directors	26.11	7.07	< 0.01
Liability Standard for Distributors	-24.55	8.25	< 0.01
Liability Standard for Accountants	-27.54	7.84	< 0.01
p-value of F test that coefficients of all independent variables have the same value			< 0.01

Table 6

Regression analyses of aggregate block ownership in a firm on various legal protections for shareholders. Variables are defined in Table 2. The legal protections are group by indices developed by LLSV (1998) and LLS (forthcoming). Firms are from the U.S. and 22 other countries. (*p*-values are reported in parentheses and are calculated using standard errors that are both robust and clustered by country.)

Proxy Voting by Mail (Anti-Director Index)	-5.74	-5.10	-5.77
	(0.04)	(0.00)	(0.00)
Cumulative Voting for Directors	-7.51	-2.43	-2.86
	(0.06)	(0.40)	(0.42)
Minority Appraisal	-24.05	-27.73	-24.62
	(0.00)	(0.00)	(0.00)
% Votes to Call Extraordinary Meeting	-42.87	-18.73	10.43
	(0.38)	(0.56)	(0.80)
Preemptive Rights for New Issues	2.14	3.22	1.85
	(0.42)	(0.20)	(0.54)
Shares Not Blocked Before Meeting	-7.15	-14.90	-15.88
	(0.10)	(0.00)	(0.00)
Prospectus Required (Disclosure Index)	18.61	17.62	18.06
	(0.00)	(0.00)	(0.00)
Compensation Disclosure Required	9.21	7.57	5.68
	(0.04)	(0.04)	(0.07)
Ownership Disclosure Required	10.17	10.17	5.94
	(0.02)	(0.00)	(0.08)
Inside Ownership Disclosure Required	29.68	27.37	24.62
	(0.00)	(0.00)	(0.00)
Contract Disclosure Required	-34.10	-30.04	-23.31
	(0.00)	(0.00)	(0.00)
Transaction Disclosure Required	39.32	33.53	24.34
	(0.05)	(0.01)	(0.08)
Liability Standard for Issuer (Liability Index)	19.16	21.22	24.78
	(0.21)	(0.13)	(0.10)
Liability Standard for Directors	-4.84	-9.93	-19.16
	(0.85)	(0.67)	(0.41)
Liability Standard for Distributors	2.54	12.89	11.36
	(0.86)	(0.34)	(0.45)
Liability Standard for Accountants	-10.48	-13.80	-7.27
	(0.51)	(0.37)	(0.64)
Controls Included			
None	X		
GNP Per Capita, Efficiency Judiciary		X	X
All Firm Level Variables (except age), Table 3			X
R^2	0.28	0.29	0.33
Observations	8,040	8,040	4,213

Table 7

Regression analysis of the common stock ownership of blockholders in civil and non-civil law countries. Civil dummy takes a value of one if the country has a civil law tradition and zero otherwise. Blockholders are those shareholders that own at least five percent of the common stock. The first three regressions are logit regressions in which the dependent variable is one if the firm has a blockholder and zero otherwise. The last three regressions are OLS in which the dependent variable is the fraction of the common stock held by blockholders. The U.S. firms are randomly selected CRSP- and Compustat-listed firms. The foreign firms come from 22 different countries. Variables are defined in Table 2. (*p*-values are reported in parentheses and are calculated using standard errors that are both robust and clustered by country.)

	Firm Has Block-holder	Firm Has Block-holder	Firm Has Block-holder	Block Owner-ship	Block Owner-ship	Block Owner-ship
Civil Law Dummy	**0.18**	**1.06**	**1.40**	**5.01**	**–0.28**	**–11.53**
	(0.69)	**(0.08)**	**(0.09)**	**(0.56)**	**(0.97)**	**(0.04)**
Controls Included						
None	X			X		
GNP Per Capita, Efficiency Judiciary		X	X		X	X
All Firm Level Variables, Table 3			X			X
R^2	< 0.01	0.03	0.12	< 0.01	0.08	0.20
Observations	8,159	8,159	2,479	8,159	8,159	2,479