

## **Insider Ownership, Corporate Governance and Corporate Performance**

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Insider ownership reflects the governance problem arising due to variance in the cash flow and control rights such ownership entails. Insider ownership is normally defined as managerial ownership without any distinction between manager-owner and owner-manager. We believe that without taking due care of this distinction any generalization of prior conclusions relating insider ownership with performance particularly in the Indian context will not be meaningful. An attempt is made to study this anomaly by examining the role of insider ownership on the performance of the firm in the Indian context within the framework of changing external environment.

The difference may arise due to various factors like the nature & level of ownership, the return horizon, source & magnitude of investment of owner-managers as opposed to manager-owners. The nature of ownership is a very crucial factor in defining the insider's behavior. It has already been mentioned that in case of manager-owner its more of a post facto incentive mechanism as opposed to the ownership rights purchased by the owner-manager. This would alter the risk profile of an owner-manager as compared to a manager-owner. The level of ownership also varies significantly between these two categories. It might be anywhere between 0-10% and rarely above 30% in case of manager owners, in the latter it can be anywhere between 1 and 100%. The level of ownership defines the control exercised by the owner-manager and hence is normally higher than a manager-owner.

It is intuitive to assume a variance in the return horizon between these two categories of insiders. The owner-managers return horizon is driven by considerations like transfer of wealth to the next generation whereas the manager-owner's horizon would be limited more by the length and security of his tenure. Given the above it would be reasonable to expect that any appropriation behavior by these two categories of insiders for a given level of ownership would not be similar in nature.

Other than the above any appropriation behavior will also be driven by the source and magnitude of investment by the owner-managers. Other than the financial outlay which differentiates the two types of insiders, the percentage of the wealth of the insider invested in the firm would also impact his behavior. This would be independent of the owner-manager's holding and would be driven by other considerations. This aspect would further complicate things when we consider the fact that in most cases the insider would source his investment not only from his savings but augment it from soliciting investment from family members, relatives and friends before approaching outside investors both debt and equity.

Combining this with weak market and institutional mechanisms distinctly biased towards owner-managers, assumption of dissimilarity in the functioning of governance mechanisms would be natural. It would also be reasonable to assume that the result of any study examining the relationship between insider ownership and performance of the firm in the Indian context might not be in consonance with similar studies in other countries.